Motorola Solutions, Inc.
Form 10-K
February 13, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 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	36-1115800
(State of Incorporation)	(I.R.S. Employer Identification No.)

1303 East Algonquin Road, Schaumburg, Illinois 60196
(Address of principal executive offices)
(847) 576-5000
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 Par Value per Share	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No ý

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 ý 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 ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 ý

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 28, 2013 (the last business day of the Registrant’s most recently completed second quarter) was approximately $13.6 billion.

The number of shares of the registrant’s Common Stock, $.01 par value per share, outstanding as of January 31, 2014 was 253,865,362.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement to be delivered to stockholders in connection with its Annual Meeting of Stockholders to be held on May 5, 2014, are incorporated by reference into Part III.

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PART I

Throughout this 10-K report we “incorporate by reference” certain information in parts of other documents filed with the Securities and Exchange Commission (the “SEC”). The SEC allows us to disclose important information by referring to it in that manner. Please refer to such information.

We are making forward-looking statements in this report. In “Item 1A: Risk Factors” we discuss some of the risk factors that could cause actual results to differ materially from those stated in the forward-looking statements.

“Motorola Solutions” (which may be referred to as the “Company,” “we,” “us,” or “our”) means Motorola Solutions, Inc. or Motorola Solutions, Inc. and its subsidiaries, or one of our segments, as the context requires. MOTOROLA, MOTO, MOTOROLA SOLUTIONS and the Stylized M Logo, as well as iDEN are trademarks or registered trademarks of Motorola Trademark Holdings, LLC and are used under license.

Item 1: Business

General

We design, manufacture, and sell communications infrastructure, devices, system software and applications, and provide services associated with their use. Our products and services are designed to help our government and enterprise customers improve their operations through increased effectiveness and efficiency of their mobile workforce and can be found in a wide range of workplaces, from the retail floor to the warehouse floor, and from the small town police station to the most secure government offices.

We conduct our businesses globally and manage them by product lines. Our broad lines of products are categorized into two segments, which are:

Government: The Government segment includes public safety communications systems, professional and commercial two-way communication systems, and the devices, system software and applications that are associated with these products. Service revenues included in the Government segment are primarily those associated with the design, installation, maintenance and optimization of equipment for communication systems, as well as lifecycle management solutions and a portfolio of managed system services.

Enterprise: The Enterprise segment includes rugged and enterprise-grade mobile computers and tablets, laser/imaging/radio frequency identification (“RFID”) based data capture products, wireless local area network (“WLAN”) and integrated digital enhanced network (“iDEN”) infrastructure, software and applications that are associated with these products. Enterprise service revenues include maintenance, integration, and device and network management.

We were incorporated under the laws of the State of Delaware as the successor to an Illinois corporation, Motorola, Inc., organized in 1928. We changed our name from Motorola, Inc. to Motorola Solutions, Inc. on January 4, 2011.

Our principal executive offices are located at 1303 East Algonquin Road, Schaumburg, Illinois 60196.

Government Segment

The Government segment's products and services are sold to a wide range of customers, including government, public safety and first-responder agencies, municipalities and commercial and industrial customers who operate private communications networks and manage a mobile workforce. In 2013, the Government segment's net sales represented approximately 69% of Motorola Solutions’ consolidated net sales.

Our Industry, Products, and Services

The Government segment has the following principal product lines:

Public Safety Radio Systems: We offer an extensive portfolio of network infrastructure, devices, system software and applications, and provide services based on standards, including our "ASTRO" products, which meet the Association of Public-Safety Communications Officials Project 25 (“APCO P25”) standard, and our "Dimetra" products which meet the European Telecommunications Standards Institute (“ETSI”) Terrestrial Trunked Radio (“TETRA”) standard, as well as broadband technologies (Long-Term Evolution (“LTE”) and WiFi). In addition, we offer critical system software and applications and the ability to integrate application platforms in the public safety command center, including voice, computer aided dispatch, and multimedia, including video.

Professional & Commercial Radio Systems ("PCR"): We offer an extensive portfolio of radios and communication systems to enhance productivity and safety for mobile and field workers in the hospitality, education, manufacturing, transportation, utilities and retail industries. Our products offer a broad range of price points, functionality and form factors to meet varying customer needs. Our digital line of MOTOTRBO products meet the open Digital Mobile Radio ("DMR") standard developed by ETSI.

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Services: Services in this segment are comprised of integration and customization services, installation, and maintenance services for both public safety and private communications networks. Our lifecycle management services have been expanded to include: (i) offerings which maintain system operations via hardware and software maintenance, (ii) device management, (iii) migration assistance programs to ensure the customer system remains up-to-date on software and hardware, and (iv) full turn-key managed service agreements where we maintain and manage networks on the customers' behalf.

Our Strategy and Focus Areas

Our strategy in the Government segment is to partner with our customers to enable them to efficiently deliver reliable services through our innovative products and best-in-class services. We have a history of delivering these products and services by focusing on the following areas:

- Building technology that is second nature to the mission-critical user
- Building technology that improves productivity and safety
- Driving innovation and thought leadership
- Ensuring security and resiliency
- Providing ongoing support for customer investments
- Delivering complete solutions, comprised of infrastructure, devices, system software and applications, and services to solve complex communication needs

This focus provides us with the leadership position we have in our core products. We have demonstrated strong and consistent financial results by: (i) leading the ongoing migration to digital products, (ii) managing the public/private convergence of 700MHz public safety systems in the U.S. and digital dividend spectrum worldwide, (iii) continuing to innovate APCO P25, TETRA and DMR standards-based voice and data communication systems around the world, and (iv) enhancing our services offerings through network and application integration, and network and device management.

We believe we have the scale and global presence in the Government segment to continue to maintain a leadership position in our core products. We have over 10,000 systems deployed in over 130 countries around the world. These systems have a multi-year useful life to the customer. We believe many of our government and commercial customers globally have yet to replace aged analog communications networks with next generation digital systems that enable enhanced features and more efficient use of spectrum, providing us opportunities to help customers migrate to these digital systems.

New functionality and new markets continue to emerge in the industry which provide us opportunities for growth by enhancing the value we deliver as a full solutions vendor. Our Government segment pursues a growth strategy which includes: (i) the development of next-generation public safety solutions including devices, public safety LTE systems, and critical command center applications that include voice, data and video, (ii) development of new products for use in vertical market expansion, (iii) geographical penetration, and (iv) on-going refresh of our product portfolio.

Our investment in research and development ("R&D") for next generation public safety broadband networks based on the LTE standard is a reflection of our belief that LTE is an important next generation tool for our public safety and first-responder customers. We believe our expertise in both public and private mission critical and business critical networks makes us well-positioned to provide public safety LTE solutions. We are developing a robust public safety LTE product portfolio and pursuing FirstNet early adopters, as well as customers with access to spectrum. We are pursuing our international funnel of LTE solutions while the United States ("U.S.") completes its LTE implementation plan (see Regulatory Matters for further discussion).

We continue to pursue different geographies as part of our growth strategy. Geographical penetration is accelerated by our investments supporting: (i) different regional interfaces, (ii) different languages, (iii) tailored form factors, and (iv) unique feature sets.

Our Government segment growth strategy also includes the development of products and services for core-adjacent markets outside of the public safety and commercial markets we currently serve. A portion of our new product introductions in recent years include specialized products for the hospitality, mining, classified communications, military, transportation, education and utility vertical markets ("verticals").

Our Customers

We address the communication needs of government agencies, state and local public safety and first-responder agencies, and commercial and industrial customers who operate private communications networks and manage a mobile workforce. Our customers rely on us for the expertise, products and services we provide and trusting our years of innovation. By partnering with customers and observing how our products can help in their specific industries, we are able to enhance our customers' experience. We believe government and commercial customers globally are just beginning to experience the benefits of converged wireless communications, mobility and efficiencies realized through mobile broadband.

Our largest customer is the U.S. government (through multiple contracts with its various branches and agencies, including the armed services), which represented approximately 8% of the segment's net sales and 6% of the Company's net sales in 2013. The loss of this customer could have a material adverse effect on our revenue and earnings over several quarters, because some of our contracts with the U.S. government are long-term. All contracts with the U.S. government are subject to cancellation at the convenience of the U.S. government.

Net sales in North America continued to comprise a significant portion of the segment’s business, accounting for approximately 64% of the segment’s net sales in 2013 and approximately 63% in 2012.

Our sales model includes both direct sales by our in-house sales force, which tends to focus on our largest accounts, and sales through our channel partner program. Our channel partners include distributors, value added resellers and independent software vendors. Resellers and distributors each have their own sales organizations that complement and extend the reach of our sales force. With deep expertise in individual customers' operations, resellers and distributor are very effective in promoting sales of our product portfolio. The independent software vendors in our channel partner program offer customized applications that meet specific needs in the vertical markets we serve.

Our Competition

The markets in which we operate are highly competitive. Key competitive factors include: product performance, product features, product quality, availability, warranty, price, availability of vendor financing, quality and availability of service, company reputation and financial strength, partner community, and relationships with key customers. Our strong relationships with customers and partners, strong brand, technology leadership, breadth of portfolio, product performance and support position us well for success.

We experience widespread competition from a growing number of existing and new competitors, including large system integrators and manufacturers of private and public wireless network equipment and devices. Competitors include: Alcatel-Lucent, Cassidian, Harris, Hytera, Kenwood, Sepura and Tait.

Large system integrators, such as Northrop Grumman and Raytheon, are seeking to move further into the government customer space. We and our competitors may serve as subcontractors to large system integrators and are selected based on a number of competitive factors and customer requirements. Where favorable, we may partner with large system integrators to make available our portfolio of network infrastructure, devices, system software and applications and services.

Several other competitive factors may have an impact on our Government segment, including: evolving developments in the 700 MHz band, increasing investment by broadband and IP solution providers, and new low-tier vendors. As demand for fully integrated voice, data, and broadband systems continue, we may face additional competition from public telecommunications carriers and telecommunications equipment providers.

Enterprise Segment

The Enterprise segment's products and services are sold to a wide range of enterprise customers, including those in retail, hospitality, transportation and logistics, manufacturing, warehouse and distribution centers, energy and utilities, education and healthcare. In 2013, the Enterprise segment's net sales represented approximately 31% of Motorola Solutions' consolidated net sales.

Our Industry, Products and Services

The Enterprise segment has the following principal product lines:

Enterprise Mobile Computing: We design, manufacture, and sell rugged and enterprise-grade mobile computing products in a variety of specialized form factors for specific enterprise applications. These form factors include handheld mobile computers, gun handle mobile computers, tablets, vehicle mounted computers and wearable computers. These specialized computers are used in industrial applications (e.g. inventory management in warehouses and distribution centers), field mobility applications (e.g. field service, post and parcel, and direct store delivery) and customer facing applications (e.g. mobile point of sale and staff communication). Our product lines feature products based on both Microsoft and Android operating systems and support local-area and wide-area voice and/or data communications. Our mobile computing products often include barcode scanning, Global Positioning System (“GPS”) and RFID features. We also provide accessories and software applications to complement our mobile computers.

Data Capture: We produce a wide array of bar code scanners and RFID products for a variety of verticals. Our bar code scanning portfolio includes fixed, handheld and vehicle-mounted laser scanners and linear and area imagers. These devices can collect and wirelessly decode bar codes and transmit the resulting data to enterprise systems. Our RFID products include fixed, handheld and vehicle-mounted RFID readers. Our RFID product line is focused on passive ultra high frequency ("UHF") technology and complies with the electronic product code global Generation 2 UHF standard and similar standards around the world. We also provide accessories and software to complement our barcode scanners and RFID products.

WLAN: We bring wireless broadband capabilities and WLAN primarily to retail, transportation and logistics, and to hospitality enterprises through WLAN switches, controllers, and access points. Our WLAN solution is optimized for these enterprise needs, including an architecture which minimizes the information technology resources required in retail branches, indoor and outdoor access for distribution centers, and access points designed specifically for hospitality guest rooms.

iDEN: We design and deliver network infrastructure, software, and services supporting the iDen mobile communication technology. iDEN infrastructure provides integrated trunked radio, cellular telephone, and data services.

Services: Our Enterprise service offerings have historically been primarily related to product support. However, we have expanded our services offerings to also include network integration and network and device management, as well as mobility consulting.

Our Strategy

Our strategy in the Enterprise segment is to deliver technologies to empower the mobile worker, enable real-time asset visibility and engage the smart consumer. We invest in R&D to maintain technology leadership in key product technologies such as scanning and imaging engines. We also continuously invest in refreshing the technology and capabilities of our main product lines and in creating the next generation of category leading products. Our goal is to be able to offer the broadest product portfolios in this segment's verticals to help capture new customers and offer the best product alternatives to current customers in need of new products. We are also a global business and continuously work to increase our presence and position in the largest and fastest growing markets in the world. We believe that long-term growth opportunities exist within the Enterprise segment, as the global workforce continues to become more mobile and enterprise customers continue to focus on improving their workforce efficiency and productivity.

In our Enterprise Mobile Computing product group, we are expanding our devices portfolio to address the needs of an increasingly mobile workforce. We are also helping our customers navigate an industry transition in mobile operating systems by offering products with both Microsoft and Android operating systems. In addition, we offer our RhoMobile Suite, a set of development tools that help businesses write, integrate, deploy and manage applications on enterprise devices that work across platforms, from iOS and Android to Windows Mobile. In our Data Capture product group, we are investing in 2D imaging technology and products in order to be well positioned as the industry transitions from 1D laser based barcodes to 2D barcodes. We are also expanding our devices portfolio to address new markets, including bioptic and linear scanning and imaging. In our WLAN product group, we are investing in application and services to complement our portfolio of wireless infrastructure and device products in order to help our customers achieve their business objectives.

Our Customers

Our products and services are sold to a wide range of enterprise customers, principally those in retail, transportation and logistics, including warehouse and distribution centers, manufacturing, hospitality, energy and utilities, education and healthcare. These customers operate a large and diverse mobile workforce and are continuously focused on improving their operations through greater employee efficiency, greater asset visibility and superior customer service. Our product and services portfolio delivers attractive return on technology investment for our customers. In addition to serving our existing customers, we believe that we have opportunities to pursue profitable growth by deepening our reach across lesser served vertical markets. For example, our Psion acquisition in 2012 improved our position in industrial manufacturing, shipping yards, and cold chain.

Net sales in North America continued to comprise a significant portion of the segment’s business, accounting for approximately 44% of the segment’s net sales in 2013 and approximately 47% in 2012.

Our sales model includes both direct sales by our in-house sales force and sales through our channel partner program. Our channel partners include: distributors, value added resellers and independent software vendors. Resellers and distributors each have their own sales organizations that complement and extend the reach of our sales force. With deep expertise about specific customers' operations, resellers are very effective in promoting sales of our product portfolio. The independent software vendors in our channel partner program offer customized applications that meet specific needs in each vertical market we serve. Our Enterprise segment utilizes our channel partners more extensively than our Government segment, as the products of this segment generally support a broad range of applications.

Our Competition

The markets in which we operate are highly competitive. Economic pressure, growth of mobile workers worldwide, industry consolidation, business model evolution and technology shifts are creating opportunities for established and new competitors. Key competitive factors include product and services portfolio breadth, product performance, product and service availability and warranty, product and service quality, strength of company relationships with customers and partners, and company reputation. Our strong relationships with customers and partners, strong brand, history of innovation, product portfolio breadth, strong position in data capture technologies, superior product design and performance, and evolving services offerings, which allow our customers to outsource significant portions of their network management needs, position us well for success.

We experience widespread competition from a growing number of existing and new competitors, including present manufacturers of data capture devices, notebook computers and tablets, smart phones, cordless phones, and cellular/WLAN/wired infrastructure equipment. Competitors include: Apple, Aruba, Bluebird, Cisco, Datalogic, HP, Honeywell (which recently acquired Intermec), Panasonic, Ruckus and Samsung.

Other Information

Backlog

Our backlog includes all product and service orders that have been received and are believed to be firm. As of December 31, 2013 and December 31, 2012 our backlog was as follows:

	December 31	
(In millions)	2013	2012
Government	$5,383	$4,937
Enterprise	833	782
	$6,216	$5,719

Approximately 32% of the Government backlog and 75% of the Enterprise backlog is expected to be recognized as revenue during 2014. The forward-looking estimate of the firmness of such orders is subject to future events that may cause the amount recognized to change.

Research and Development

We continue to prioritize investments in R&D to expand and improve our portfolio of products through both new product introductions and continuous enhancements to our existing products. In the Government segment our R&D programs are focused on the development of: (i) new public safety devices and infrastructure, (ii) public safety broadband networks based on the LTE standard, (iii) critical command center applications that include voice, data and video, and (iv) the development of new products for use in vertical expansion. In the Enterprise segment our R&D programs are focused on: (i) the continuous expansion of our devices portfolio including products using both the Microsoft and Android operating systems, (ii) development of 2D imaging technology and products, (iii) expansion of our devices portfolio to address new markets including bioptic and linear scanning and imaging, and (iv) continued expansion of applications to complement our portfolio of wireless infrastructure and devices.

R&D expenditures were $1.1 billion in 2013 and 2012 and $1.0 billion in 2011. As of December 31, 2013, we had approximately 7,000 employees engaged in R&D activities. In addition, we engage in R&D activities with joint development and manufacturing partners and outsource certain activities to engineering firms to further supplement our internal spend.

Payment Terms

Payment terms vary worldwide, depending on the arrangement. Generally, contract payment terms range from 30 to 45 days from the invoice date within North America and typically do not exceed 90 days from the invoice date in regions outside of North America. A portion of the contracts within our Government segment include implementation milestones, such as delivery, installation and system acceptance, which generally take 30 to 180 days to complete. Invoicing the customer is dependent on completion of the milestone.

We generally do not grant extended payment terms. As required for competitive reasons, we may provide long-term financing in connection with equipment purchases. Financing may cover all or a portion of the purchase price.

Regulatory Matters

The use of wireless voice, data and video communications systems requires radio spectrum, which is regulated by government agencies throughout the world. In the U.S., the Federal Communications Commission (“FCC”) and the National Telecommunications and Information Administration (“NTIA”) regulate spectrum use by non-federal entities and federal entities, respectively. Similarly, countries around the world have one or more regulatory bodies that define and implement the rules for use of the radio spectrum, pursuant to their respective national laws and international coordination under the International Telecommunications Union (“ITU”). We manufacture and market products in spectrum bands already made available by regulatory bodies. These include voice and data infrastructure, mobile radios and portable or hand held devices. Consequently, our results could be positively or negatively affected by the rules and regulations adopted from time to time by the FCC, NTIA or regulatory agencies in other countries. Our products operate both on licensed and unlicensed spectrum. The availability of additional radio spectrum may provide new business opportunities, and consequently, the loss of available radio spectrum may result in the loss of business opportunities. Regulatory changes in current spectrum bands may also provide opportunities or may require modifications to some of our products so they can continue to be manufactured and marketed.

As television transmission and reception technology transitions from analog to more efficient digital modes, various countries around the world are examining, and in some cases already pursuing, the redevelopment of portions of the television spectrum. In the U.S., pursuant to federal legislation, analog television stations ceased operation in the broadcast television spectrum on June 12, 2009. As a result of this transition, 108 MHz of spectrum historically used for broadcast television, known as the 700MHz band, has been redeveloped and deployed for new uses (the so-called “digital dividend” spectrum), including broadband and narrowband wireless communications. The 700 MHz band spectrum is open nationwide and according to FCC records, over 193 public safety agencies throughout over 31 states have been deploying narrowband operations at 700 MHz and others are in the planning stages. These deployments create opportunities for our narrowband ASTRO solutions. For example, in August 2013, the Los Angeles Regional Interoperable Communications System Authority (LA-RICS) selected Motorola Solutions to develop a radio system that will provide mission critical communications for the region’s more than 34,000 law enforcement, fire service and health service professionals and more than 80 public safety agencies.

Thirty-four MHz of spectrum in the 700 MHz band is now allocated to support new public safety narrowband and broadband communications systems. This includes 24 MHz of spectrum previously allocated by the FCC and an additional ten MHz of spectrum (the “D block”) allocated in February 2012. The latter ten MHz allocation is the result of congressional action responding to public safety requests for additional broadband spectrum. The resulting law, Public Law 112-96, also identified up to $7 billion in funding for the nationwide public safety broadband network with $2 billion of that available near-term. Pursuant to this law, a governance structure and entity known as the First Responder Network Authority ("FirstNet") was established in August 2012 to manage deployment and operation of the network. Additional work, currently ongoing in FirstNet, is required to enable deployment of the nationwide public safety broadband network. During 2013, FirstNet released multiple Requests for Information ("RFI’s") seeking information concerning this initiative. In response, Motorola Solutions has provided input based on its experience in designing and deploying public safety communications systems. FirstNet and the FCC have also enabled the early deployment of broadband systems in several areas so that field experience can be gained regarding the benefits of broadband communications for public safety operations. In September 2012, the State of Texas received a Special Temporary Authorization ("STA") for deployment of 14 broadband sites in the Harris County area around Houston, and that authorization was extended through 2013 and they are currently in negotiations with Firstnet. The State of Texas and Harris County, with assistance from Motorola Solutions, have deployed broadband equipment and applications and successfully demonstrated the benefits such systems can bring to FirstNet and other officials. FirstNet also entered into a spectrum lease with LA-RICS, the State of New Mexico, the State of New Jersey, and Adams County, Pennsylvania, to enable early deployments of broadband equipment. Such early deployments would help speed interoperable broadband capabilities for first-responders and the experience gained regarding public safety broadband operation should benefit FirstNet in developing and implementing its plan to deploy the nationwide network. The planned implementation of a nationwide public safety network and any additional early deployments may also create opportunities for our broadband solutions.

In March 2012, Canada released a decision to allocate ten MHz of spectrum in the 700 MHz band for public safety broadband. Subsequently, in August 2012, Canada proposed that an additional and adjacent ten MHz also be allocated to public safety for broadband use. A decision on that additional ten MHz of spectrum is expected in 2014. If adopted, this would harmonize Canada's 700 MHz band plan with that in the U.S.

In June 2013, in Mexico, the Constitutional Reform in Telecommunications Law went into effect which requires the federal government to build a nationwide broadband network through a public-private partnership, using 90 MHz from the 700 MHz band. Deployment of this network is expected to start in 2014 and is targeted for completion by the end of 2018. It is anticipated that broadband for public safety will be part of this network. Currently, the government of Mexico is drafting regulations related to the implementation of this law.

Internationally, the ITU World Radio Conference ("WRC") was held in Geneva during the first quarter of 2012. During this conference, leaders from United Nations member countries considered a number of initiatives, including whether to allocate additional spectrum for commercial broadband use as well as whether to allocate spectrum dedicated for public safety broadband. The WRC agreed to consider spectrum for public safety broadband. Studies are underway to assess whether and how much spectrum is needed and to develop recommendations on where in the spectrum range the spectrum should be allocated (taking into account regional and global harmonization to the extent practicable). The issue made it onto the agenda for the next WRC in 2015. The result could be future allocations for dedicated broadband spectrum for public safety which will provide opportunities for us in the future. In addition, certain countries already have spectrum landscapes that would permit country administrations to allocate public safety spectrum today. A WRC initiative can spur individual countries to act sooner, which may also create opportunities for our broadband solutions in the nearer term.

Other Regulatory Matters

Some of our operations use substances regulated under various federal, state, local and international laws governing the environment and worker health and safety, including those governing the discharge of pollutants into the ground, air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Certain of our products are subject to various federal, state, local and international laws governing chemical substances in electronic products.

Intellectual Property Matters

Patent protection is important to our operations. We have a U.S. and international portfolio of patents relating to our products, systems and technologies, including research developments in radio frequency technology and circuits, wireless network technologies, over-the-air protocols, mission critical two-way radio communications and advanced data capture. We have filed patent applications in the U.S. Patent and Trademark Office, as well as in foreign patent offices.

We license some of our patents to third-parties, but licensing revenue is not significant. We are also licensed to use certain patents owned by others. Royalty and licensing fees vary from year to year and are subject to the terms of the agreements and sales volumes of the products subject to licenses. In addition, Motorola Solutions has a royalty free license under all of the patents and patent applications assigned to Motorola Mobility at the time of the separation of the two businesses in 2011 and will continue to enjoy the benefit of that license even with the acquisition of Motorola Mobility by Google and following the sale of those patents to Lenovo or others.

We actively participate in the development of standards for interoperable, mission-critical digital two-way radio systems. Our patents are used in various standards including APCO P25, ETSI, TETRA, DMR and digital private mobile radio ("dPMR"). We offer licenses to those patents on fair, reasonable and non-discriminatory terms.

Notwithstanding the transfer of patents to Motorola Mobility, the expiration of certain patents and the potential for increased competition for some of our products in the future, we believe that our patent portfolio will continue to provide us with a competitive advantage in our core product areas as well as provide leverage for future technologies. Furthermore, we believe we are not dependent upon a single patent or a few patents. Our success depends more upon our extensive know-how, innovative culture, technical leadership and marketing abilities. We do not rely primarily on patents or other intellectual property rights to protect or establish our market position; however, we will enforce our intellectual property rights in certain technologies when attempts to negotiate mutually agreeable licenses are not successful.

Patents and Trademarks

We seek to obtain patents and trademarks to protect our proprietary position whenever possible and practical. As of December 31, 2013, we owned approximately 6,600 patents in the U.S. and in foreign countries. As of December 31, 2013, we had approximately 2,400 U.S. and foreign patent applications pending. Foreign patents and patent applications are mostly counterparts of our U.S. patents. During 2013, we were granted 300 U.S. patents and 400 patents in other countries.

We no longer own certain logos and other trademarks, trade names and service marks, including MOTOROLA, MOTO, MOTOROLA SOLUTIONS and the Stylized M logo and all derivatives thereof (“Motorola Marks”) and we license the Motorola Marks from Motorola Mobility, which is currently owned by Google, but under contract to be sold to Lenovo.

Inventory, Raw Materials, Right of Return and Seasonality

Our practice is to carry reasonable amounts of inventory to meet customers' delivery requirements in a manner consistent with industry standards. We provide custom products which require the stocking of inventories and a large variety of piece parts and replacement parts in order to meet delivery and warranty requirements. To the extent suppliers' product life cycles are shorter than ours, stocking of lifetime buy inventories is required to meet long-term warranty and contractual requirements. In addition, replacement parts are stocked for delivery on customer demand within a short delivery cycle.

Availability of materials and components required is generally dependable; however, fluctuations in supply and market demand could cause selective shortages and affect our results of operations. We currently procure certain materials and components from single-source vendors. A material disruption from a single-source vendor may have a material adverse impact on our results of operations. If certain single-source suppliers were to become capacity constrained or insolvent, it could result in a reduction or interruption in supplies or an increase in the price of supplies and adversely impact our financial results.

Natural gas, electricity and, to a lesser extent, oil are the primary sources of energy for our manufacturing operations. Each of these resources is currently in adequate supply for our operations. The cost to operate our facilities and freight costs are dependent on world oil prices. Labor is generally available in reasonable proximity to our manufacturing facilities. Difficulties in obtaining any of the aforementioned resources or a significant cost increase could affect our financial results.

Generally, our contracts do not include a right of return, other than for standard warranty provisions; however, certain distributor partners within the commercial enterprise markets do maintain limited stock rotation rights. Due to buying customer patterns in the markets we serve, sales tend to be somewhat higher in the fourth quarter.

Environmental Quality

During 2013, compliance with U.S. federal, state and local, and foreign laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, did not have a material effect on our capital expenditures, earnings or competitive position.

Employees

At December 31, 2013, we had approximately 21,000 employees, compared to 22,000 employees at December 31, 2012.

Financial Information About Geographic Areas

The response to this section of Item 1 incorporates by reference Note 11, “Commitments and Contingencies” and Note 12, “Information by Segment and Geographic Region” of Part II, Item 8: Financial Statements and Supplementary Data of this document, the “Results of Operations—2013 Compared to 2012” and “Results of Operations—2012 Compared to 2011” sections of Part II, “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 1A: Risk Factors” of this document.

Financial Information About Segments

The response to this section of Item 1 incorporates by reference Note 12, “Information by Segment and Geographic Region,” of Part II, Item 8: Financial Statements and Supplementary Data of this document.

Available Information

We make available free of charge through our website, www.motorolasolutions.com/investors, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, other reports filed under the Securities Exchange Act of 1934 (“Exchange Act”) and all amendments to those reports simultaneously or as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Our reports are also available free of charge on the SEC’s website, www.sec.gov. Also available free of charge on our website are the following corporate governance documents:

- Motorola Solutions, Inc. Restated Certificate of Incorporation with Amendments
- Conformed Restated Certificate of Incorporation of Motorola Solutions, Inc. (amended Jan. 4, 2011)
- Certificate of Amendment to the Restated Certificate of Incorporation of Motorola, Inc. (effective Jan. 4, 2011)
- Certificate of Ownership and Merger of Motorola Name Change Corporation into Motorola, Inc. (effective Jan. 4, 2011)
- Motorola Solutions, Inc. Amended and Restated Bylaws
- Board Governance Guidelines
- Director Independence Guidelines
- Principles of Conduct for Members of the Motorola Solutions, Inc. Board of Directors
- Motorola Solutions Code of Business Conduct, which is applicable to all Motorola Solutions employees, including the principal executive officers, the principal financial officer and the controller (principal accounting officer)
- Audit Committee Charter
- Compensation and Leadership Committee Charter
- Governance and Nominating Committee Charter

All of our reports and corporate governance documents may also be obtained without charge by contacting Investor Relations, Motorola Solutions, Inc., Corporate Offices, 1303 East Algonquin Road, Schaumburg, Illinois 60196, E-mail: investors@motorolasolutions.com. Our Annual Report on Form 10-K and Definitive Proxy Statement may also be requested in hardcopy by clicking on “Printed Materials” at www.motorolasolutions.com/investors. Our Internet website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

Item 1A: Risk Factors

We wish to caution the reader that the following important risk factors, and those risk factors described elsewhere in this report or in our other Securities and Exchange Commission filings, could cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere. These risks are not presented in order of importance or probability of occurrence.

We continue to face a number of risks related to current global economic conditions, including low economic growth, relatively high levels of unemployment, risk of sovereign defaults, and unstable political conditions that have and could continue to unfavorably impact our business.

Global economic conditions continue to be challenging for government and enterprise communications markets, as economic growth in the U.S. and many other countries has remained low, unemployment rates have remained high, credit markets have remained tight for certain of our counterparties and corporate capital spending has been reduced. In addition, conflicts in the Middle East and elsewhere have created many economic and political uncertainties that have impacted worldwide markets. The length of time these adverse economic and political conditions may persist is unknown. These global economic and political conditions have impacted and could continue to impact our business in a number of ways, including:

•Requests by Customers for Vendor Financing by Motorola Solutions: Certain of our customers, particularly, but not limited to, those who purchase large infrastructure systems, request that their suppliers provide financing in connection with equipment purchases and/or the provision of solutions and services, particularly as the size and length of these types of contracts increases and as we increase our business in developing countries. Requests for vendor financing continue to increase in volume and scope, including in response to reduced tax revenue at the state and local government level and ongoing tightening of credit for certain enterprise customers. Motorola Solutions has continued to provide vendor financing to both our government and enterprise customers. We have been faced with and expect to continue to be faced with choosing between further increasing our level of vendor financing or potentially losing sales, as some of our competitors, particularly those in Asia, have been more willing to provide vendor financing to customers around the world, particularly customers in Africa and Latin America. To the extent we are unable to sell these receivables on terms acceptable to us we may retain exposure to the credit quality of our customers who we finance.

•Customers' Inability to Obtain Financing to Make Purchases from Motorola Solutions and/or Maintain Their Business: Some of our customers require substantial financing, including public financing or government grants, in order to fund their operations and make purchases from us. The inability of these customers to obtain sufficient credit or other funds to finance purchases of our products and services and/or to meet their payment obligations to us could have, and in some cases has had, a negative impact on our financial results. This risk will increase as the size and length of our contracts increases. In addition, if global economic conditions result in insolvencies for our customers, it will negatively impact our financial results.

•Challenges in Budgeting and Forecasting: It is difficult to estimate changes in various parts of the U.S. and world economy, including the markets in which we participate. Components of our budgeting and forecasting are dependent upon estimates of demand for our products, the prevailing economic uncertainties render estimates of future income and expenditures challenging.

•Potential Deferment or Cancellation of Purchases and Orders by Customers: Uncertainty about current and future global economic conditions may cause, and in some cases has caused businesses and in some cases governments to defer or cancel purchases in response to tighter credit and decreased cash availability and declining consumer confidence. If future demand for our products declines due to economic conditions, it will negatively impact our financial results.

Our success depends in part on our timely introduction of new products and technologies and our results can be impacted by the effectiveness of our significant investments in new products and technologies.

The markets for certain of our products are characterized by rapidly changing technologies and evolving industry standards. In addition, new technologies and new competitors continue to enter our markets at a faster pace than we have experienced in the past, resulting in increased competition from non-traditional suppliers, including manufacturers of consumer grade products for our enterprise business and public carriers for our government business. New products are expensive to develop and bring to market and additional complexities are added when this process is outsourced as we have done in many cases. Our success depends, in substantial part, on the timely and successful introduction of new products and upgrades of current products to comply with emerging industry standards, laws and regulations, and to address competing technological and product developments carried out by our competitors. The research and development of new, technologically-advanced products is a complex and uncertain process requiring high levels of innovation and investment, as well as the accurate anticipation of technology and market trends. Many of our products and systems are complex and we may experience delays in completing development and introducing new products or technologies in the future. We may focus our resources on technologies that do not become widely accepted or are not commercially viable or involve compliance obligations with additional areas of regulatory requirements.

Our results are subject to risks related to our significant investment in developing and introducing new products. These risks include among others: (i) difficulties and delays in the development, production, testing and marketing of products, particularly when such activities are done through the use of third-party joint developers; (ii) customer acceptance of products; (iii) the development of, approval of, and compliance with industry standards and regulatory requirements; (iv) the significant amount of resources we must devote to the development of new technologies; and (v) the ability to differentiate our products and compete with other companies in the same markets.

We are exposed to risks under large, multi-year system and solutions and services contracts that may negatively impact our business.

We enter into large, multi-year system and solutions and services contracts with large municipal, state, nation-wide government and enterprise customers. This exposes us to risks, including among others: (i) the technological risks, especially when the contracts involve new technology; (ii) financial risks, including the estimates inherent in projecting costs associated with large, long term contracts and the related impact on operating results; (iii) cyber security risk, especially in managed services contracts with enterprise and public safety customers that process personal data; and (iv) political risk, especially related to the contracts with government customers. In addition, multi-year awards from governmental customers may often only receive partial funding initially and may typically be cancelable on short notice with limited penalties. Recovery of front loaded capital expenditures in long-term managed services contracts with government and enterprise customers is dependent on the continued viability of such customers. The termination of funding for a government program or insolvency of managed services enterprise customers could result in a loss of anticipated future revenue attributable to that program, which could have an adverse impact on our profitability.

The expansion of our global solutions and services business creates new competitors and new and increased areas of risk that we have not been exposed to in the past and that we may not be able to properly assess or mitigate.

We plan to continue to expand our global solutions and services business by offering additional and expanded managed services for existing and new types of customers, such as designing, building, operating, managing and in some cases owning a public-safety system or other enterprise system. The offering of managed services involves the integration of multiple services, multiple vendors and multiple technologies, requiring that we partner with other solutions and services providers, often on multi-year projects. In some cases we must compete with a company in some business areas and cooperate with the same company in other business areas. From time to time such projects may require that we form a joint venture with our partners. Risks associated with expanding our managed services offerings include:

- We may be unable to recognize revenue from the sale of equipment in connection with managed services contracts for a period of time, which may be several years.
- We may be required to agree to specific performance metrics that meet the customer's requirement for network security, availability, reliability, maintenance and support and, in some cases, if these performance metrics are not met we may not be paid.
- The managed services business is one characterized by large subcontracting arrangements and we may not be able to obtain favorable contract terms or adequate indemnities or other protections from our subcontractors to adequately mitigate our risk to our customers.
- We are facing increasing competition from traditional system integrators and the defense industry as solutions and services contracts become larger and more complicated.
- Expansion will bring us into contact with new regulatory requirements and restrictions with which we will have to comply and may increase the costs and delay or limit the range of new solutions and services which we will be able to offer.

A portion of our business is dependent upon U.S. government contracts and grants, which are highly regulated and subject to oversight audits by U.S. government representatives and subject to cancellations. Such audits could result in adverse findings and negatively impact our business.

Our government business is subject to specific procurement regulations with numerous compliance requirements. These requirements, although customary in U.S. government contracting, increase our performance and compliance costs. These costs may increase in the future, thereby reducing our margins, which could have an adverse effect on our financial condition. Failure to comply with these regulations could lead to suspension or debarment from U.S. government contracting or subcontracting for a period of time, and the inability to receive future grants. Among the causes for debarment are violations of various laws, including those related to procurement integrity, export control, U.S. government security regulations, employment practices, protection of the environment, accuracy of records, proper recording of costs, foreign corruption and the False Claims Act.

Generally, U.S. government contracts and grants are subject to oversight audits by U.S. government representatives. Such audits could result in adjustments to our contracts or grants. Any costs found to be improperly allocated to a specific contract or grant may not be allowed, and such costs already reimbursed may have to be refunded. Future audits and adjustments, if required, may materially reduce our revenues or profits upon completion and final negotiation of audits. Negative audit findings could also result in investigations, termination of a contract or grant, forfeiture of profits or reimbursements, suspension of payments, fines and suspension or prohibition from doing business with the U.S. government. All contracts with the U.S. government are subject to cancellation at the convenience of the U.S. government.

In addition, contacts with government officials and participation in political activities are areas that are tightly controlled by federal, state and local laws. Failure to comply with these laws could cost us opportunities to seek certain government sales opportunities or even result in fines, prosecution, or debarment.

Government regulation of radio frequencies may limit the growth of public safety broadband systems or reduce barriers to entry for new competitors.

Radio frequencies are required to provide wireless services. The allocation of frequencies is regulated in the U.S. and other countries and limited spectrum space is allocated to wireless services and specifically to public safety users. The growth of public safety broadband communications systems may be affected: (i) by regulations relating to the access to allocated spectrum for public safety users, (ii) if adequate frequencies are not allocated, or (iii) if new technologies are not developed to better utilize the frequencies currently allocated for such use. Industry growth may also be affected by new licensing fees required to use frequencies.

The U.S. leads the world in allocating spectrum to enable wireless communications such as wireless local area network systems, such as WiFi, mesh technologies and wide area network systems, such as WiMAX and LTE. Other countries have also allocated spectrum to allow deployment of these and other technologies. This changing landscape may introduce new competition and new opportunities for us.

The Middle Class Tax Relief and Job Creation Act of 2012 (the “Legislation”) authorized an additional ten MHz of broadband spectrum for public safety use for a total of 20 MHz of contiguous broadband spectrum for public safety. In addition, public safety retained 14 MHz of the 700 MHz narrowband spectrum, subject to the FCC's authority to determine whether such spectrum should be authorized for future broadband use. The Legislation further provides for the establishment of a centralized governance model through an independent authority within NTIA designated as the “First Responder Network Authority” or “FirstNet” but allows for states to opt out of the plan to develop a nationwide public safety network and perform their own competitive procurements if certain criteria are met. States that opt out would still be eligible for funding and would also be allowed to generate revenue through leases to secondary users. Although the Legislation has been enacted, the implementation of a nationwide public safety network under FirstNet has been delayed and could be reduced significantly in scope due to: (i) complexities in the acquisition of a nationwide network, which involves regulatory requirements, (ii) writing of the specifications and statement of work, (iii) decision making on the system architecture or (iv) potential political opposition from certain states. Any such delays or changes in scope of the FirstNet initiative could negatively impact our ability to further develop and expand our public safety LTE business in the U.S. For example, FirstNet may define specifications for the nationwide network which make it impossible or impractical for commercial LTE infrastructure and equipment vendors to compete for contracts to build out the network. Furthermore, states may seek alternative means to deploy public safety LTE networks if a centralized architecture inhibits states' ability to operationally control its first-responder agencies.

We derive a portion of our revenue from government customers who award business through competitive bidding which can involve significant upfront costs and risks. This effort may not result in awards of business or we may fail to accurately estimate the costs to fulfill contracts awarded to us, which could have adverse consequences on our future profitability.

Many government customers, including most U.S. government customers, award business through a competitive bidding process, which results in greater competition and increased pricing pressure. The competitive bidding process involves significant cost and managerial time to prepare bids for contracts that may not be awarded to us. Even if we are awarded contracts, we may fail to accurately estimate the resources and costs required to fulfill a contract, or to solve problems with our subcontractors or suppliers, which could negatively impact the profitability of any contract award to us. In addition, following a contract award, we have experienced and may continue to experience significant expense or delay, contract modification or contract rescission as a result of customer delay or our competitors protesting or challenging contracts awarded to us in competitive bidding.

We enter into fixed-price contracts that could subject us to losses in the event we fail to properly estimate our costs.

We enter into a number of firm fixed-price contracts. If our initial cost estimates are incorrect, we can lose money on these contracts. Because many of these contracts involve new technologies and applications, require us to engage subcontractors and can last multiple years, unforeseen events, such as technological difficulties, fluctuations in the price of raw materials, problems with our subcontractors or suppliers and other cost overruns, can result in the contract pricing becoming less favorable or even unprofitable to us and have an adverse impact on our financial results. In addition, a significant increase in inflation rates could have an adverse impact on the profitability of longer-term contracts.

Over the last several years we have outsourced portions of certain business operations like IT, HR information systems, repair, distribution and engineering services and may outsource additional business operations which limits our control over these business operations and exposes us to additional risk as a result of the actions of our outsource partners.

As we outsource more of our business operations we are not able to directly control these activities. Our outsource partners may not prioritize our business over that of their other customers and they may not meet our desired level of service, cost reductions or other metrics. In some cases their actions may result in our being found to be in violation of laws or regulations like import or export regulations. As many of our outsource partners operate outside of the U.S., our outsourcing activity exposes us to information security vulnerabilities and increases our global risks. In addition, we are exposed to the financial viability of our outsource partners. Once a business activity is outsourced we may be contractually prohibited from or may not practically be able to bring such activity back within the Company or move it to another outsource partner. The actions of our outsource partners could result in reputational damage to us and could negatively impact our financial results.

We utilize the services of subcontractors to perform under many of our contracts and the inability of our subcontractors to perform in a timely and compliant manner could negatively impact our performance obligations as the prime contractor.

We engage subcontractors on many of our contracts and as we expand our global solutions and services business our use of subcontractors has and will continue to increase. Our subcontractors may further subcontract performance and may supply third-party products and software. We may have disputes with our subcontractors, including disputes regarding the quality and timeliness of work performed by the subcontractor or its subcontractors and the functionality, warranty and indemnities of products, software and services supplied by our subcontractor. We are not always successful in passing down customer requirements to our subcontractors, and thus in some cases may be required to absorb contractual risks from our customers without corresponding back-to-back coverage from our subcontractor. Our subcontractors may not be able to acquire or maintain the quality of the materials, components, subsystems and services they supply, or secure preferred warranty and indemnity coverage from their suppliers which might result in greater product returns, service problems, warranty claims and costs and regulatory compliance issues and could harm our business, financial condition and results of operations.

Many of our components and products, including software, are designed, developed and/or manufactured by third-parties and if such third-parties lack sufficient quality control, change the design of components or if there are significant changes in the financial or business condition of such third-parties, it may have a negative impact on our business.

We rely on third-parties to design, develop, and/or manufacture many of our components and finished products, as well as provide us with software necessary for the operation of those products and we may increase our reliance in such third-parties in the future. We could have difficulties fulfilling our orders and our sales and profits could decline if: (i) we are not able to engage such third-parties with the capabilities or capacities required by our business, (ii) such third-parties lack sufficient quality control and fail to deliver quality components, products, services or software on time and at reasonable prices or deliver products, services or software that do not meet regulatory or industry standards or requirements, (iii) if there are significant changes in the financial or business condition of such third-parties or (iv) if we have difficulties transitioning operations to such third-parties.

In addition, certain key component suppliers are reducing the expected lifetime of key components, in particular semiconductors, on some of our products which could result in the need for more frequent product redesigns on some products or higher last time buys.

Our employees, customers, suppliers and outsource partners are located throughout the world and, as a result, we face risks that other companies that are not global may not face.

Our customers and suppliers are located throughout the world. In 2013, more than 43 percent of our revenue was generated outside the U.S. In addition, we have a number of manufacturing, research and development, administrative and sales facilities outside the U.S. and more than 50% of our employees are employed outside the U.S. Most of our suppliers' operations are outside the U.S. and most of our products are manufactured outside the U.S.

Because we have sizeable sales and operations, including outsourcing and procurement arrangements, outside of the U.S., we have more complexity in our operations and are exposed to a unique set of global risks that could negatively impact sales or profitability, including but not limited to: (i) import/export regulations, tariffs, trade barriers and trade disputes, customs classifications and certifications, including but not limited to changes in classifications or errors or omissions related to such classifications and certifications; (ii) changes in U.S. and non-U.S. rules related to trade, environmental, health and safety, technical standards, consumer and intellectual property and consumer protection; (iii) longer payment cycles; (iv) tax issues, such as tax law changes, variations in tax laws from country to country and as compared to the U.S., obligations under tax incentive agreements, difficulties in repatriating cash generated or held abroad in a tax-efficient manner and difficulties in securing local country approvals for cash repatriations; (v) currency fluctuations; (vi) changes in foreign exchange regulations; (vii) challenges in collecting accounts receivable; (viii) cultural and language differences; (ix) employment regulations and local labor conditions; (x) difficulties protecting intellectual property in foreign countries; (xi) instability in economic or political conditions, including inflation, recession and actual or anticipated military or political conflicts; (xii) natural disasters; (xiii) public health issues or outbreaks; (xiv) changes in laws or regulations that negatively impact benefits being received by us or that require costly modifications in products sold or operations performed in such countries; and (xv) litigation in foreign court systems and foreign administrative proceedings.

Many of our products that are manufactured by us outside the U.S. are manufactured in Asia (primarily Malaysia) and Latin America (primarily Mexico). If manufacturing in these regions is disrupted, our overall capacity could be significantly reduced and sales or profitability could be negatively impacted.

We have a number of employees in and sell our products and services throughout the Middle East and our operations, as well as demand for our products and services could be negatively impacted by political conflicts and hostilities in this region. The potential for future unrest, terrorist attacks, increased global conflicts and the escalation of existing conflicts has created worldwide uncertainties that have negatively impacted, and may continue to negatively impact, demand for certain of our products.

We also are subject to risks that our operations could be conducted by our employees, contractors, representatives or agents in ways that violate the Foreign Corrupt Practices Act, the U.K. Bribery Act, or other similar anti-corruption laws. While we have policies and procedures to comply with these laws, our employees, contractors, representatives and agents may take actions that violate our policies. Any such violations could have a negative impact on our business. Moreover, we face additional risks that our anti-corruption policies and procedures may be violated by third-party sales representatives or other third-parties that help sell our products or provide other solutions and services, because such representatives or agents are not our employees and it may be more difficult to oversee their conduct.

We may not continue to have access to the capital markets for financing on acceptable terms and conditions, particularly if our credit ratings are downgraded.

From time to time we access the capital markets to obtain financing. Our access to the capital markets and the bank credit markets at acceptable terms and conditions are impacted by many factors, including: (i) our credit ratings, (ii) the liquidity of the overall capital markets, (iii) strength and credit availability in the banking markets, and (iv) the current state of the economy. There can be no assurances that we will continue to have access to the capital markets or bank credit markets on terms acceptable to us.

We are rated investment grade by all three national rating agencies. Any downward changes by the rating agencies to our credit rating may negatively impact the value and liquidity of both our debt and equity securities. Under certain circumstances, an increase in the interest rate payable by us under our revolving credit facility could result. In addition, a downgrade in our credit ratings could limit our ability to: access the capital markets or bank credit markets; provide performance bonds, bid bonds, standby letters of credit and surety bonds; hedge foreign exchange risk; fund our foreign affiliates; and sell receivables. A downgrade in our credit rating could also result in less favorable trade terms with suppliers. In addition, any downgrades in our credit ratings may affect our ability to obtain additional financing in the future and may affect the terms of any such financing. Any future disruptions, uncertainty or volatility in the capital markets may result in higher funding costs for us and adversely affect our ability to access funds and other credit related products. In addition, we may avoid taking actions that would otherwise benefit us or our stockholders, such as engaging in certain acquisitions or engaging in stock repurchases, that would negatively impact our credit rating.

Returns on pension and retirement plan assets and interest rate changes could affect our earnings and cash flow in future periods.

We have large underfunded pension obligations, in part resulting from the fact that we retained almost all of the U.S. pension liabilities and a major portion of our non-U.S. pension liabilities following our divestitures, including the distribution of Motorola Mobility and the sale of our Networks business. The funding position of our pension plans is

affected by the performance of the financial markets, particularly the equity and debt markets, and the interest rates used to calculate our pension obligations for funding and expense purposes. Minimum annual pension contributions are determined by government regulations and calculated based upon our pension funding status, interest rates, and other factors. If the financial markets perform poorly, we have been and could be required to make additional large contributions. The equity and debt markets can be volatile, and therefore our estimate of future contribution requirements can change dramatically in relatively short periods of time. Similarly, changes in interest rates can affect our contribution requirements. In volatile interest rate environments, the likelihood of material changes in the future minimum required contributions increases.
A significant amount of our international business is transacted in local currency and a large percentage of our cash and cash equivalents are held outside of the United States, which exposes us to risk relating to currency fluctuations, changes in foreign

exchange regulations and repatriation delays and costs, which could negatively impact our sales, profitability and financial flexibility.

We have sizeable sales and operations in our Europe and Africa, Asia and Middle East, and Latin America regions. A significant amount of this business is transacted in local currency. As a result, our financial performance is impacted by currency fluctuations. We are also experiencing increased pressure to agree to established currency conversion rates and cost of living adjustments as a result of foreign currency fluctuations.

A large percentage of our cash and cash equivalents is currently held outside the U.S., while many of our liabilities, such as our public debt, the majority of our pension liabilities and certain other cash payments, such as dividends and share repurchases, are payable in the U.S. While we regularly repatriate funds with minimal adverse financial impact, repatriation of some of the funds has been and could continue to be subject to delay for local country approvals and could have potential adverse tax consequences. In addition, foreign exchange regulations may limit our ability to convert or repatriate foreign currency. As a result of having a lower amount of the cash and cash equivalents in the U.S., our financial flexibility may be reduced.

Tax matters could have a negative impact on our financial condition and results of operations.

We are subject to income taxes in the U.S. and numerous foreign tax jurisdictions. Our provision for income taxes and cash tax liability may be negatively impacted by: (i) changes in the mix of earnings taxable in jurisdictions with different statutory tax rates, (ii) changes in tax laws and accounting principles, (iii) changes in the valuation of our deferred tax assets and liabilities, (iv) failure to meet commitments under tax incentive agreements, (v) discovery of new information during the course of tax return preparation, (vi) increases in nondeductible expenses, or (vii) difficulties in repatriating cash held abroad in a tax-efficient manner.

Tax audits may also negatively impact our financial condition and results of operations. We are subject to continued examination of our income tax returns, and tax authorities may disagree with our tax positions and assess additional tax. We regularly evaluate the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuing examinations will not have a negative impact on our future financial condition and operating results.

Failure of our suppliers, subcontractors, distributors, resellers and representatives to use acceptable legal or ethical business practices and adhere to our Supplier Code of Conduct could negatively impact our business.

It is our policy to require our suppliers, subcontractors, distributors, resellers, and third-party sales representatives (“TPSRs”) to operate in compliance with applicable laws, rules and regulations regarding working conditions, employment practices, environmental compliance, anti-corruption and trademark and copyright licensing. However, we do not control their labor and other business practices. If one of our suppliers, subcontractors, distributors, resellers, or TPSRs violates labor or other laws or implements labor or other business practices that are regarded as unethical, the shipment of finished products to us could be interrupted, orders could be canceled, relationships could be terminated and our reputation could be damaged. If one of our suppliers or subcontractors fails to procure necessary license rights to trademarks, copyrights or patents, legal action could be taken against us that could impact the salability of our products and expose us to financial obligations to a third-party. Any of these events could have a negative impact on our sales and results of operations.

We rely on third-party dealers, distributors, and retailers to sell many of our products.

In addition to our own sales force, we offer our products through a variety of third-party dealers, distributors and retailers. These third-parties may also market other products that compete with our products. Failure of one or more of our dealers, distributors or retailers to effectively promote our products could affect our ability to bring products to market and have a negative impact on our results of operations.

Some of these third-parties are smaller and more likely to be impacted by a significant decrease in available credit that could result from a weakness is the financial markets. If credit pressures or other financial difficulties result in insolvency for third-party dealers, distributors or retailers and we are unable to successfully transition end-customers to purchase our products from other third-parties or from us directly, it may cause, and in some cases has caused, a negative impact on our financial results.

Our future operating results depend on our ability to purchase a sufficient amount of materials, parts and components, as well as services and software to meet the demands of our customers and any disruption to our suppliers or significant increase in the price of supplies could have a negative impact on our results of operations.

Our ability to meet customers' demands depends, in part, on our ability to timely obtain an adequate delivery of quality materials, parts and components, as well as services and software from our suppliers. In addition, certain supplies are available only from a single source or limited sources and we may not be able to diversify sources in a timely manner. If demand for our products or services increases from our current expectations or if suppliers are unable to meet our demand for other reasons, including as a result of natural disasters or financial issues, we could experience an interruption in supplies or a significant increase in the price of supplies that could have a negative impact on our business. We have experienced shortages in the past that have negatively impacted our results of operations and may experience such shortages in the future. In addition, credit constraints at our suppliers could cause us to accelerate payment of accounts payable by us, impacting our cash flow.

We have seen and may continue to see increases in the price of certain supplies as we no longer qualify for certain volume discounts. In addition, our current contractual arrangements with certain suppliers may be cancelled or not extended by such suppliers and, therefore, not afford us with sufficient protection against a reduction or interruption in supplies. Moreover, in the event any of these suppliers breach their contracts with us, our legal remedies associated with such a breach may be insufficient to compensate us for any damages we may suffer.

If the quality of our products does not meet our customers' expectations or regulatory or industry standards, then our sales and operating earnings, and ultimately our reputation, could be negatively impacted.

Some of the products we sell may have quality issues resulting from the design or manufacture of the product, or from the software used in the product. Sometimes, these issues may be caused by components we purchase from other manufacturers or suppliers. Often these issues are identified prior to the shipment of the products and may cause delays in shipping products to customers, or even the cancellation of orders by customers. Sometimes, we discover quality issues in the products after they have been shipped to our customers, requiring us to resolve such issues in a timely manner that is the least disruptive to our customers. Such pre-shipment and post-shipment quality issues can have legal and financial ramifications, including: (i) delays in the recognition of revenue, loss of revenue or future orders, (ii) customer-imposed penalties on us for failure to meet contractual requirements, (iii) increased costs associated with repairing or replacing products, and (iv) a negative impact on our goodwill and brand name reputation. In some cases, if the quality issue affects the product's safety or regulatory compliance, then such a “defective” product may need to be “stop-shipped” or recalled. Depending on the nature of the defect and the number of products in the field, it could cause us to incur substantial recall costs, in addition to the costs associated with the potential loss of future orders and the damage to our goodwill or brand reputation. In addition, we may be required, under certain customer contracts, to pay damages for failed performance that might exceed the revenue that we receive from the contracts. Recalls involving regulatory non-compliance could also result in fines and additional costs. Finally, recalls could result in third-party litigation by persons or companies alleging harm or economic damage as a result or the use of the products.

We rely on complex and in some cases aging information technology systems and networks to operate our business. Any significant system or network disruption, including as a result of third-party attacks, could have a negative impact on our operations, sales and operating results.

We rely on the efficient and uninterrupted operation of complex information technology systems and networks, some of which are within the Company and some of which are outsourced. All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including but not limited to computer viruses, security breach, energy blackouts, natural disasters, terrorism, sabotage, war and telecommunication failures. As a provider of high technology emergency response systems and enterprise systems which process customer data, we face additional risk as a target of sophisticated attacks aimed at compromising our intellectual property and our customer information, referred to as advanced persistent threats. We are continuing to upgrade our information technology systems and plan future releases of our new platform in 2014 which, if defective or improperly installed or implemented may result in a business disruption. In addition, increased dependence on outsourced business processes requires that our IT systems communicate seamlessly with outsourced suppliers’ systems. Any disruption to either those outsourced systems, which are not under our direct management, or the communication links between Motorola Solutions and the outsourced supplier, may negatively impact our ability to manufacture, distribute, or repair products. We also currently rely on a number of older legacy information systems that are harder to maintain. A system failure or security breach could negatively impact our operations and financial results. We may incur additional costs to remedy the damages caused by these disruptions or security breaches.

There has been a sharp increase in laws in Europe, the U.S. and elsewhere, including important markets for our Company, like Australia, Malaysia, Singapore, Mexico and Colombia, imposing requirements for the handling of personal data, including data of employees, consumers and business contacts. There is a risk that failures in systems designed to protect private, personal or proprietary data held by us will allow such data to be disclosed to or misused by others, resulting in application of regulatory penalties, enforcement actions, remediation obligations and/or private litigation by parties whose data were improperly disclosed or misused. There is also a risk that our Company (directly or as the result of some third-party service provider we use) could be found to have failed to comply with the laws or regulations of some country regarding the collection, consent, handling, transfer, or disposal of such personal data, and therefore subject us to fines or other sanctions, as well as adverse reputational impact.

We face many risks relating to intellectual property rights.
Our business will be harmed if: (i) we, our customers and/or our suppliers are found to have infringed intellectual property rights of third-parties, (ii) the intellectual property indemnities in our supplier agreements are inadequate to cover damages and losses due to infringement of third-party intellectual property rights by supplier products, (iii) we are required to provide broad intellectual property indemnities to our customers, (iv) our intellectual property protection is inadequate to protect against threats of misappropriation from internal or external sources or otherwise inadequate to protect our proprietary rights, or (v) our competitors negotiate significantly more favorable terms for licensed intellectual property. We may be harmed if we are forced to make publicly available, under the relevant open-source licenses, certain internally developed software-related intellectual property as a result of either our use of open-source software code or the use of third-party software that contains open-source code.
Since our products are comprised of complex technology, much of which we acquire from suppliers through the purchase of components or licensing of software, we are often involved in or impacted by assertions, including both requests for licenses and litigation, regarding patent and other intellectual property rights. Third-parties have asserted, and in the future may assert, intellectual property infringement claims against us and against our customers and suppliers. These assertions against us, and our customers and suppliers have been increasing as the complexity of our products has increased. Many of these assertions are brought by non-practicing entities whose principle business model is to secure patent licensing-based revenue from product manufacturing companies. The patent holders often make broad and sweeping claims regarding the applicability of their patents to our products, seeking a percentage of sales as licenses fees, seeking injunctions to pressure us into taking a license, or a combination thereof. Defending claims may be expensive and divert the time and efforts of our management and employees. Increasingly, third-parties have sought broad injunctive relief which could limit our ability to sell our products in the U.S. or elsewhere with intellectual property subject to the claims. If we do not succeed in any such litigation, we could be required to expend significant resources to pay damages, develop non-infringing products or to obtain licenses to the intellectual property that is the subject of such litigation, each of which could have a negative impact on our financial results. However, we cannot be certain that any such licenses, if available at all, will be available to us on commercially reasonable terms. In some cases, we might be forced to stop delivering certain products if we or our customer or supplier are subject to a final injunction.
We attempt to negotiate favorable intellectual property indemnities with our suppliers for infringement of third-party intellectual property rights. However, there is no assurance that we will be successful in our negotiations or that a supplier's indemnity will cover all damages and losses suffered by us and our customers due to the infringing products or that a supplier will choose to accept a license or modify or replace its products with non-infringing products which would otherwise mitigate such damages and losses. Further, we may not be able to participate in intellectual property litigation involving a supplier and may not be able to influence any ultimate resolution or outcome that may negatively impact our sales if a court enters an injunction that enjoins the supplier's products or if the International Trade Commission issues an exclusionary order that blocks our products from importation into the U.S. Intellectual property disputes involving our suppliers have resulted in our involvement in International Trade Commission proceedings from time to time. These proceedings are costly and entail the risk that we will be subjected to a ban on the importation of our products into the U.S. solely as a result of our use of a supplier's components.
In addition, our customers increasingly demand that we indemnify them broadly from all damages and losses resulting from intellectual property litigation against them. These demands stem from the increasing trend of the non-practicing entities that engage in patent enforcement and litigation targeting the end users of our products. End users are targeted so the non-practicing entities can seek royalties and litigation judgments in proportion to the value of the use of our products, rather than in proportion to the cost of our products. Such demands can amount to many times the selling price of our products.
Our patent and other intellectual property rights are important competitive tools and may generate income under license agreements. We regard our intellectual property as proprietary and attempt to protect it with patents, copyrights, trademarks, trade secret laws, confidentiality agreements and other methods. We also generally restrict access to and distribution of our proprietary information. Despite these precautions, it may be possible for a

third-party to obtain and use our proprietary information or develop similar technology independently. In addition, effective patent, copyright, trademark and trade secret protection may be unavailable or limited in certain foreign countries. Unauthorized use of our intellectual property rights by third-parties and the cost of any litigation necessary to enforce our intellectual property rights could have a negative impact on our financial results.

As we expand our business, including through acquisitions, and compete with new competitors in new markets, the breadth and strength of our intellectual property portfolio in those new areas may not be as developed as in our longer-standing businesses. This may expose us to a heightened risk of litigation and other challenges from competitors in these new markets. Further, competitors may be able to negotiate significantly more favorable terms for licensed intellectual property than we are able to, which puts them at a competitive advantage. As our products become more like commercial products, through the adoption of industry-standard technologies, for instance, our intellectual property-related risks may increase.

We no longer own certain logos and other trademarks, trade names and service marks, including MOTOROLA, MOTO, MOTOROLA SOLUTIONS and the Stylized M logo and all derivatives and formatives thereof (“Motorola Marks”) and we license the Motorola Marks from Motorola Trademark Holdings, LLC (“MTH”), which is currently owned by Motorola Mobility, a subsidiary of Google and is under contract to be sold to Lenovo. Our joint use of the Motorola Marks could result in product and market confusion and negatively impact our ability to expand our business under the Motorola brand. In addition, if we do not comply with the terms of the license agreement we could lose our rights to the Motorola Marks. A change of control of Motorola Mobility, such as the sale to Lenovo, or bankruptcy of Motorola Mobility could result in an incompatible third-party owning the Motorola Marks.

We have a worldwide, perpetual and royalty-free license from MTH to use the Motorola Marks as part of our corporate name and in connection with the manufacture, sale, and marketing of our current products and services. The license of the Motorola Marks is important to us because of the reputation of the Motorola brand for our products and services. There are risks associated with both Motorola Mobility and the Company using the Motorola Marks and with this loss of ownership. As both Motorola Mobility and the Company will be using the Motorola Marks, confusion could arise in the market, including customer and investor confusion regarding the products offered by and the actions of the two companies. This risk could increase as both Motorola Mobility's and our products continue to converge. This risk could increase under Lenovo's control if they expand their use of the Motorola Marks. Also, any negative publicity associated with either company in the future could adversely affect the public image of the other. In addition because our license of the Motorola Marks will be limited to products and services within our specified fields of use, we will not be permitted to use the Motorola Marks in other fields of use without the approval of Motorola Mobility. We believe such an approval is not likely to be granted by Lenovo. In the event that we desire to expand our business into any other fields of use, we may need to do so with a brand other than the Motorola brand. Developing a brand as well-known and with as much brand equity as Motorola could take considerable time and expense. The risk of needing to develop a second brand increases as Motorola Mobility's and our products continue to converge and as our business expands into other fields of use. In addition, we could lose our rights to use the Motorola Marks if we do not comply with the terms of the license agreement. Such a loss could negatively affect our business, results of operations and financial condition. Furthermore, MTH has the right to license the brand to third-parties and either Motorola Mobility or licensed third-parties may use the brand in ways that make the brand less attractive for customers of Motorola Solutions, creating increased risk that Motorola Solutions may need to develop an alternate or additional brand. Motorola Mobility was acquired by Google in May 2012, which resulted in Google having effective control over the Motorola Marks. Google recently signed a contract to sell Motorola Mobility and the Motorola Marks to Lenovo. In 2013 Motorola Mobility modified certain Motorola Marks used by the Company. Motorola Mobility may require the Company to adopt the use of the modified Motorola Marks, which would result in the Company incurring the costs of rebranding.

Upon the closing of the sale of Motorola Mobility to Lenovo, Lenovo will gain control of the Motorola Marks. In addition, neither Motorola Mobility nor Google are prohibited, and Lenovo will not be prohibited, from selling the Motorola Marks. In the event of a liquidation of Motorola Mobility or the then owner of the Motorola Marks, it is possible that a bankruptcy court would permit the Motorola Marks to be assigned to a third-party. While our right to use the Motorola Marks under our license should continue in our specified field of use in such situations, it is possible that we could be party to a license arrangement with a third-party whose interests are incompatible with ours, thereby potentially making the license arrangement difficult to administer, and increasing the costs and risks associated with sharing the Motorola Marks. In addition, there is a risk that, in the event of a bankruptcy of Motorola Mobility or the then owner of the Motorola Marks, Motorola Mobility, the then owner or its bankruptcy trustee may attempt to reject the license, or a bankruptcy court may refuse to uphold the license or certain of its terms. Such a loss could negatively affect our business, results of operations and financial condition.

We have completed a number of large divestitures over the last several years and have ongoing potential liability associated with those transactions and the businesses we divested. We may complete future divestitures with similar risks.

Over the last several years we have spun-off or sold a number of businesses, including Motorola Mobility and our Networks business and we may divest other businesses in the future. In connection with many of our divestitures we remain liable for certain pre-closing liabilities associated with the divested business, such as pension liabilities, taxes, employment, environmental liabilities and litigation. In certain situations, such as our spin-off transactions, we may retain risk for pre-closing liabilities in the event of a liquidation or bankruptcy of the company we spun off, even if they assumed certain liabilities because they were incurred when they were part of the Company and a third-party may not have consented to the assumption. In addition, although we often assign contracts associated with the divested business to a buyer in a divestiture, often that assignment will be subject to the consent of the contractual counterparty, which may not be obtained or may be conditioned, resulting in the company remaining liable under the contract. In addition, in most of our divestitures we make representations and warranties and agree to covenants relating to the business divested. We remain liable for a period of time for breaches of representations, warranties and covenants and we also indemnify buyers in the event of such breaches and for other specific risks. Even though we establish reserves for any expected ongoing liability associated with divested businesses, those reserves may not be sufficient if unexpected liabilities arise and this could negatively impact our financial condition and future results of operations.

We may continue to make strategic acquisitions of other companies or businesses and these acquisitions introduce significant risks and uncertainties, including risks related to integrating the acquired businesses and achieving benefits from the acquisitions.
In order to position ourselves to take advantage of growth opportunities or to meet other strategic needs such as product or technology gaps, we have made, and expect to continue to make, strategic acquisitions that involve significant risks and uncertainties. These risks and uncertainties include: (i) the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner; (ii) the challenges in achieving strategic objectives, cost savings and other benefits from acquisitions; (iii) the risk that our markets do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in those markets; (iv) the potential loss of key employees of the acquired businesses; (v) the risk of diverting the attention of senior management from our operations; (vi) the risks of entering new markets in which we have limited experience; (vii) risks associated with integrating financial reporting and internal control systems; (viii) difficulties in integrating information technology systems and other business processes to accommodate the acquired businesses; and (ix) future impairments of goodwill of an acquired business. In particular, failure to achieve targeted cost and revenue synergies could negatively impact our business performance.
Certain acquisition candidates in the industries in which we participate may carry higher relative valuations (based on revenues, earnings, cash flow, or other relevant multiples) than we do. This is particularly evident in software and services businesses. Acquiring a business that has a higher relative valuation than Motorola Solutions may be dilutive to our earnings. In addition, we may not pursue opportunities that are highly dilutive to near-term earnings.
Key employees of acquired businesses may receive substantial value in connection with a transaction in the form of cash payments for their ownership interest, particularly in the case of founders, change-in-control agreements, acceleration of stock options and the lifting of restrictions on other equity-based compensation rights. To retain such employees and integrate the acquired business, we may offer additional retention incentives, but it may still be difficult to retain certain key employees.
We may be required to record additional goodwill or other long-lived asset impairment charges, which could result in additional significant charges to earnings.
Under generally accepted accounting principles, we review our long-lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is assessed for impairment at least annually. Factors that may be considered in assessing whether goodwill or intangible assets may not be recoverable include a decline in our stock price or market capitalization, reduced estimates of future cash flows and slower growth rates in our industry. No goodwill or long-lived assets impairment charges were recorded during 2013, 2012 or 2011. Declines in our stock price or reductions in our future cash flow estimates and future operating results may require us to record significant additional goodwill or other long-lived asset impairment charges in our financial statements in future periods, which could negatively impact our financial results.
Our success depends in part upon our ability to attract, retain and prepare succession plans for senior management and key employees.
The performance of our CEO, senior management and other key employees is critical to our success. If we are unable to retain talented, highly qualified senior management and other key employees or attract them when needed, it could negatively impact us. We rely on the experience of our senior management, who have specific knowledge relating to us and our industry that is difficult to replace and competition for management with experience in the communications industry is intense. A loss of the CEO, a member of senior management or key employee particularly to a competitor could also place us at a competitive disadvantage. Further, if we fail to adequately plan for the succession of our CEO, senior management and other key employees, the Company could be negatively impacted.
It may be difficult for us to recruit and retain the types of engineers and other highly-skilled employees that are necessary to remain competitive and layoffs of such skilled employees as a result of restructuring activities or cost reductions may benefit our competitors.
Competition for key technical personnel in high-technology industries is intense. We believe that our future success depends in large part on our continued ability to hire, assimilate, retain and leverage the skills of qualified engineers

and other highly-skilled personnel needed to develop successful new products. We may not be as successful as our competitors at recruiting, assimilating, retaining and utilizing these highly-skilled personnel. In addition, as we have restructured our operations we have, in some cases, had to layoff engineers and other highly skilled employees. If these employees were to go to work for our competitors it could have a negative impact on our business.

The unfavorable outcome of any pending or future litigation, arbitration or administrative action could have a material adverse effect on our financial condition or results of operations.

From time to time we are made a party to litigation, arbitration or administrative actions. Our financial results and reputation could be negatively impacted by unfavorable outcomes to any pending or future litigation or administrative actions, including those related to the Foreign Corrupt Practices Act and other anti-corruption laws. There can be no assurances as to the favorable outcome of any litigation or administrative proceedings. In addition, it can be very costly to defend litigation or administrative proceedings and these costs could negatively impact our financial results.

It is important that we are able to obtain many different types of insurance, and if we are not able to obtain insurance or we exhaust our coverage we are forced to retain the risk.

We have many types of insurance coverage and are also self-insured for some risks and obligations. While the cost and availability of most insurance is stable, there are still certain types and levels of insurance that remain difficult to obtain, such as professional liability insurance, which is expensive to obtain for the amount of coverage often requested by certain customers. As we grow our global solutions and services business we are being asked to obtain higher amounts of professional liability insurance, which could result in higher costs to do business. Natural disasters and certain risks arising from securities claims, professional liability and public liability are potential self-insured events that could negatively impact our financial results. In addition, while we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover all claims or liabilities, and we may be forced to bear substantial costs from an accident, incident or claim. In addition, businesses that Motorola Solutions has sold or spun off may be able to use insurance obtained by us for incidents occurring prior to the sale or spin-off of such business which could reduce the amount of insurance available to us.

Changes in our operations or sales outside the U.S. markets could result in lost benefits in impacted countries and increase our cost of doing business.

We have entered into various agreements with non-U.S. governments, agencies or similar organizations under which we receive certain benefits relating to its operations and/or sales in the jurisdiction. If our circumstances change, and operations or sales are not at levels originally anticipated, we may be at risk of having to reimburse benefits already granted, and losing some or all of these benefits and increasing our cost of doing business.

We are subject to a wide range of product regulatory and safety, consumer, worker safety and environmental laws.

Our operations and the products we manufacture and/or sell are subject to a wide range of product regulatory and safety, consumer, worker safety and environmental laws. Compliance with such existing or future laws could subject us to future costs or liabilities, impact our production capabilities, constrict our ability to sell, expand or acquire facilities, restrict what products and services we can offer, and generally impact our financial performance. Some of these laws are environmental and relate to the use, disposal, clean up of, and exposure to certain substances. For example, in the U.S., laws often require parties to fund remedial studies or actions regardless of fault and often times in response to action or omissions that were legal at the time they occurred. We continue to incur disposal costs and have ongoing remediation obligations. Changes to environmental laws or our discovery of additional obligations under these laws could have a negative impact on our financial performance.

Laws focused on: the energy efficiency of electronic products and accessories; recycling of both electronic products and packaging; reducing or eliminating certain hazardous substances in electronic products; and the transportation of batteries continue to expand significantly. Laws pertaining to accessibility features of electronic products, standardization of connectors and power supplies, the transportation of lithium-ion batteries and other aspects are also proliferating. There are also demanding and rapidly changing laws around the globe related to issues such as product safety, radio interference, radio frequency radiation exposure, medical related functionality, and consumer and social mandates pertaining to use of wireless or electronic equipment. These laws, and changes to these laws, could have a substantial impact on whether we can offer certain products, solutions and services, on product costs, and on what capabilities and characteristics our products or services can or must include.

These laws impact our products and negatively affect our ability to manufacture and sell products competitively. We expect these trends to continue. In addition, we anticipate that we will see increased demand to meet voluntary criteria related to reduction or elimination of certain constituents from products, increasing energy efficiency, and providing additional accessibility.

We may be unable to obtain components and parts that are verified to be Democratic Republic of Congo ("DRC") Conflict Free, which could result in a reputational damages if we disclose that our products include minerals that have been identified as “not found to be DRC conflict free” or if we disclose that we are unable to determine whether such minerals are included in our products.

The Dodd-Frank Wall Street Reform and Consumer Protection Act included disclosure requirements regarding the use of tin, tantalum, tungsten and gold (which are defined as “conflict minerals”) in our products and if the origin of these materials were from the DRC or an adjoining country. If the minerals originated from the DRC or an adjoining country then a company must disclose the measures it has taken to exercise due diligence and chain of custody to prevent the sourcing of such minerals that have been found to be financing conflict in the DRC. The final rules implementing these requirements were released in August 2012. The short implementation time frame may limit the pool of suppliers who can provide us verifiable DRC Conflict Free components and parts, particularly since our supply chain is complex. As a result, we may be required to publicly disclose that we are not currently able to determine if our products are DRC Conflict Free during the two year implementation period. After the end of such two year period, if the industry systems that we are relying on are not mature enough for us to make a definitive Conflict Free determination, we will have to declare our products as “not found to be DRC conflict free” and we may face reputational challenges with our customers, other stockholders and the activist community as a result.

We contributed a significant portfolio of intellectual property rights, including patents, to Motorola Mobility and we are unable to leverage these intellectual property rights as we did prior to the distribution of Motorola Mobility.

We contributed approximately 17,200 granted patents and approximately 8,000 pending patent applications worldwide to Motorola Mobility in connection with the distribution. Although we have a perpetual, royalty free license to these patents and other intellectual property rights, which survived the acquisition of Motorola Mobility by Google and will survive the acquisition of Motorola Mobility by Lenovo, we no longer own them. As a result we are unable to leverage these intellectual property rights for purposes of generating licensing revenue or entering into favorable licensing arrangements with third-parties. As a result we may incur increased license fees or litigation costs. Although we cannot predict the extent of such unanticipated costs, it is possible such costs could negatively impact our financial results.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

Motorola Solutions' principal executive offices are located at 1303 East Algonquin Road, Schaumburg, Illinois 60196. Motorola Solutions also operates manufacturing facilities and sales offices in other U.S. locations and in many other countries.

As of December 31, 2013, we owned 16 facilities (manufacturing, sales, service and office), 12 of which were located in North America and four of which were located in other countries. As of December 31, 2013, the Company leased 227 facilities, 97 of which were located in North and South America and 130 of which were located in other countries. As of December 31, 2013, we primarily utilized four major facilities for the manufacturing and distribution of our products, and these facilities were located in: Penang, Malaysia; Reynosa, Mexico; Schaumburg, Illinois; and Berlin, Germany.

We generally consider the productive capacity of the plants to be adequate and sufficient for our requirements. The extent of utilization of each manufacturing facility varies throughout the year.

In 2013, a substantial portion of our products were manufactured in facilities in Mexico and Malaysia. Approximately 33% of our manufacturing, based on volume, is done by a small number of non-affiliated electronics manufacturing suppliers and distribution and logistics services providers, most of which are outside the U.S. We rely on these third-party providers in order to enhance our ability to lower costs and deliver products that meet consumer demands. If manufacturing in Mexico, Malaysia, or by third-parties were disrupted, our overall productive capacity could be significantly reduced.

Item 3: Legal Proceedings

We are 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 our pending legal proceedings will not have a material adverse effect on our consolidated financial position, liquidity or results of operations. However, an unfavorable resolution could have a material adverse effect on our consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved, or in the periods in which more information obtained changes management's opinion of the ultimate disposition.

Item 4: Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Following are the persons who were the executive officers of Motorola Solutions, their ages, and their current titles and positions they have held during the last five years with the Company as of February 13, 2014:

Gregory Q. Brown; age 53; Chairman and Chief Executive Officer, since May 3, 2011; President and Chief Executive Officer from January 2011 to May 2011; Co-Chief Executive Officer, and Chief Executive Officer of Broadband Mobility Solutions business from August 2008 to January 2011.

Gino A. Bonanotte; age 49; Executive Vice President and Chief Financial Officer since November 13, 2013; Corporate Vice President and Acting Chief Financial Officer from August 2013 to November 2013; Corporate Vice President, Finance, Sales and Field Operations, from October 2012 to August 2013; Corporate Vice President, Finance, Product and Business Operations and Americas Field Operations from September 2010 to October 2012; Vice President, Finance, North America & Latin America Field Operations, Enterprise Mobility Solutions business from December 2009 to September 2010; and Vice President, Finance, North America, Government and Public Safety, Enterprise Mobility Solutions business from January 2009 to December 2009.

Michele A. Carlin; age 52; Senior Vice President, Human Resources and Communications since August 14, 2013; Senior Vice President, Human Resources from January 2011 to August 2013; Senior Vice President, Human Resources from November 2009 to January 2011; Corporate Vice President, Human Resources, Global Rewards and HR Shared Services from July 2008 to October 2009.

Eduardo F. Conrado; age 47; Senior Vice President, Marketing and IT since January 6, 2013; Senior Vice President, Chief Marketing Officer from January 2011 to January 2013; Senior Vice President and Chief Marketing Officer, Motorola Solutions business from September 2010 to January 2011; Senior Vice President, Chief Marketing Officer, Enterprise Mobility Solutions business and Home & Networks Mobility business from March 2009 to September 2010; Corporate Vice President, Marketing and Communications, Home and Networks Mobility business from December 2007 to March 2009.

Mark S. Hacker; age 42; Senior Vice President and General Counsel since June 17, 2013; Corporate Vice President, Law, Sales and Product Operations, International and Legal Operations from January 2013 to June 2013; Corporate Vice President, Law, Sales and Field Operations and Legal Operations from January 2012 to January 2013; Vice President, Sales and Field Operations and Legal Operations from November 2011 to January 2012; Vice President, Legal Operations and International Law from April 2011 to November 2011; Vice President, Law from September 2010 to April 2011; Vice President, Enterprise Mobility Solutions and Networks business, from August 2010 to September 2010; Vice President, Law, Networks business from April 2010 to August 2010; Vice President and Lead Counsel, Home and Networks Mobility business from March 2009 to April 2010.

Kelly S. Mark; age 42; Corporate Vice President, Strategy since July 25, 2011; Corporate Vice President, Strategy and Staff Operations, from January 2011 to July 2011; Corporate Vice President, Strategy, Motorola Solutions, from September 2010 to January 2011; Vice President, Chief of Staff, from January 2008 to September 2010.

Mark F. Moon; age 50; Executive Vice President and President, Sales and Product Operations since January 7, 2013; Executive Vice President, Sales and Field Operations from May 2011 to January 2013; Senior Vice President, Sales and Field Operations from January 2011 to May 2011; Senior Vice President, Sales and Field Operations, Motorola Solutions business from August 2010 to January 2011; Senior Vice President, Worldwide Field Operations, Enterprise Mobility Solutions business from April 2009 to August 2010; Senior Vice President, Government and Commercial Markets - Americas, ASTRO Product Management, Enterprise Mobility Solutions business from January 2008 to April 2009.

John K. Wozniak; age 42; Corporate Vice President and Chief Accounting Officer since November 3, 2009; Vice President and Assistant Controller from March 2008 to November 2009.

The above executive officers will serve as executive officers of Motorola Solutions until the regular meeting of the Board of Directors in May 2014 or until their respective successors are elected. There is no family relationship between any of the executive officers listed above.

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PART II
Item 5: Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Motorola Solutions' common stock is listed on the New York and Chicago Stock Exchanges. The number of stockholders of record of its common stock on January 31, 2014 was 44,962.
Information regarding securities authorized for issuance under equity compensation plans is incorporated by reference to the information under the caption "Equity Compensation Plan Information" of Motorola Solutions' Proxy Statement for the 2014 Annual Meeting of Stockholders. The remainder of the response to this Item incorporates by reference Note 16, "Quarterly and Other Financial Data (unaudited)" of the Notes to Consolidated Financial Statements appearing under "Item 8: Financial Statements and Supplementary Data.''
The following table provides information with respect to acquisitions by the Company of shares of its common stock during the quarter ended December 31, 2013.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share (1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Program (2)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Program (2)
9/29/13 to 10/25/13	224,656	$59.65	224,656	$2,104,836,994
10/26/13 to 11/22/13	2,398,560	$63.37	2,398,560	$1,952,843,005
11/23/13 to 12/31/13	2,992,530	$65.67	2,992,530	$1,756,316,182
Total	5,615,746	$64.45	5,615,746	

(1) Average price paid per share of common stock repurchased is the execution price, including commissions paid to brokers.

(2) Through actions taken on July 28, 2011, January 30, 2012, July 25, 2012, and July 22, 2013, the Board of Directors has authorized the Company to repurchase an aggregate amount of up to $7.0 billion of its outstanding shares of common stock (the "share repurchase program"). The share repurchase program does not have an expiration date.

PERFORMANCE GRAPH

The following graph compares the five-year cumulative total returns of Motorola Solutions, Inc., the S&P 500 Index and the S&P Communications Equipment Index.

This graph assumes $100 was invested in the stock or the Index on December 31, 2008 and reflects the payment of dividends, including the Company's distribution to its shareholders of one share of Motorola Mobility for every eight shares of its common stock on January 4, 2011. For purposes of this graph, the Motorola Mobility distribution is treated as a dividend of $26.46 per share (post the 1-for-7 reverse stock split announced on the same day, January 4, 2011) paid at the close of business January 4, 2011.

Item 6: Selected Financial Data
Motorola Solutions, Inc. and Subsidiaries
Five-Year Financial Summary

	Years Ended December 31				
(In millions, except per share amounts)	2013	2012	2011	2010	2009
Operating Results					
Net sales from products	$6,118	$6,363	$6,068	$5,616	$5,026
Net sales from services	2,578	2,335	2,135	2,001	1,921
Net sales	8,696	8,698	8,203	7,617	6,947
Costs of product sales	2,852	2,844	2,723	2,523	2,221
Costs of services sales	1,603	1,506	1,334	1,282	1,249
Costs of sales	4,455	4,350	4,057	3,805	3,470
Gross margin	4,241	4,348	4,146	3,812	3,477
Selling, general and administrative expenses	1,838	1,963	1,912	1,874	1,662
Research and development expenditures	1,055	1,075	1,035	1,037	993
Other charges	133	54	341	150	255
Operating earnings	1,215	1,256	858	751	567
Other income (expense):					
Interest expense, net	(113)	(66)	(74)	(129)	(133)
Gains on sales of investments and businesses, net	40	39	23	49	108
Other	3	(14)	(69)	(7)	91
Total other income (expense)	(70)	(41)	(120)	(87)	66
Earnings from continuing operations before income taxes	1,145	1,215	738	664	633
Income tax expense (benefit)	40	337	(3)	403	188
Earnings from continuing operations	1,105	878	741	261	445
Earnings (loss) from discontinued operations, net of tax	—	3	411	389	(473)
Net earnings (loss)	1,105	881	1,152	650	(28)
Less: Earnings (loss) attributable to noncontrolling interests	6	—	(6)	17	23
Net earnings (loss) attributable to Motorola Solutions, Inc.	$1,099	$881	$1,158	$633	$(51)
Amounts attributable to Motorola Solutions, Inc. common stockholders:					
Earnings from continuing operations, net of tax	$1,099	$878	$747	$244	$422
Earnings (loss) from discontinued operations, net of tax	—	3	411	389	(473)
Net earnings (loss)	$1,099	$881	$1,158	$633	$(51)
Per Share Data (in dollars)					
Diluted earnings from continuing operations per common share	$4.06	$2.95	$2.20	$0.72	$1.28
Diluted earnings (loss) per common share	4.06	2.96	3.41	1.87	(0.15)
	270.5	297.4	339.7	338.1	329.9

Diluted weighted average common shares outstanding (in millions)										
Dividends declared per share	$1.14		$0.96		$0.22		$—		$—	
Balance Sheet										
Total assets	$11,851		$12,679		$13,929		$25,577		$25,603	
Long-term debt	2,457		1,859		1,130		2,098		3,258	
Total debt	2,461		1,863		1,535		2,703		3,794	
Total stockholders' equity	3,689		3,290		5,274		10,987		9,883	
Other Data										
Capital expenditures	$191		$187		$186		$192		$136	
% of sales	2.2	%	2.1	%	2.3	%	2.5	%	2.0	%
Research and development expenditures	$1,055		$1,075		$1,035		$1,037		$993	
% of sales	12.1	%	12.4	%	12.6	%	13.6	%	14.3	%
Year-end employment (in thousands)	21		22		23		51		53	

Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations
The following is a discussion and analysis of our financial position and results of operations for each of the three years in the period ended December 31, 2013. This commentary should be read in conjunction with our consolidated financial statements and the notes thereto appearing under “Item 8: Financial Statements and Supplementary Data.”
Executive Overview
What businesses are we in?
We conduct our businesses globally and manage them by product lines. Our broad lines of products are categorized into two segments, which are:
Government: The Government segment includes public safety communications systems, professional and commercial two-way communication systems, and the devices, system software and applications that are associated with these products. Service revenues included in the Government segment are primarily those associated with the design, installation, maintenance and optimization of equipment for communication systems, as well as lifecycle management solutions and a portfolio of managed system services.
Enterprise: The Enterprise segment includes rugged and enterprise-grade mobile computers and tablets, laser/imaging/radio frequency identification (“RFID”) based data capture products, wireless local area network (“WLAN”) and integrated digital enhanced network (“iDEN”) infrastructure, software and applications that are associated with these products. Enterprise service revenues include maintenance, integration, and device and network management.
Change in Presentation
As of January 1, 2013, we restructured our regions by aligning the Middle East go-to-market team with Asia Pacific. Accordingly, we now report net sales for the following four geographic regions: North America; Latin America; Europe and Africa ("EA"); and Asia Pacific and Middle East ("APME"). We have updated all periods presented to reflect this change in presentation.
What were our 2013 financial results?

- Net sales were $8.7 billion in both 2013 and 2012.
- Operating earnings were $1.2 billion in 2013, compared to $1.3 billion in 2012. Operating margin was 14.0% of net sales in 2013, compared to 14.4% of net sales in 2012.
- Earnings from continuing operations were $1.1 billion, or $4.06 per diluted common share, including a $1.25 tax benefit, in 2013, compared to $878 million, or $2.95 per diluted common share, in 2012.
- Cash from operating activities was $944 million in 2013, compared to $1.1 billion in 2012.
- We provided $1.7 billion in cash to shareholders through share repurchases and $292 million in cash dividends during 2013.
- We issued $600 million of 3.50% senior notes due 2023 in the first quarter of 2013.

What were the financial results for our two segments in 2013?

- In the Government segment: Net sales were $6.0 billion in 2013, an increase of $41 million, or 1%, compared to $6.0 billion in 2012. On a geographic basis, net sales increased in North America, Latin America and EA and declined in APME compared to 2012. Operating earnings were $979 million in 2013, compared to $965 million in 2012. Operating margin improved in 2013 to 16.2% from 16.1% in 2012.
- In the Enterprise segment: Net sales were $2.7 billion in 2013, a decrease of $43 million, or 2%, compared to $2.7 billion in 2012. On a geographic basis, net sales declined in North America and Latin America and increased in EA and APME, compared to 2012. Operating earnings were $236 million in 2013, compared to $291 million in 2012. Operating margin decreased in 2013 to 8.9% from 10.7% in 2012.

What were our major accomplishments in 2013?

- In our Government segment: Sales, operating earnings, and operating margins increased as compared to 2012. We saw strong growth in infrastructure and services in both our ASTRO and TETRA product lines, driven by one of our best “large deal” years in our history with anticipated deployments leading to long-term revenue streams over multiple-year rollouts. One of these large deals was our first public safety LTE contract with a country outside the U.S.

While our PCR product line revenues declined in 2013, coming off a record year driven by narrowbanding in 2012, we’ve expanded the portfolio to include several digital radio platforms, complete with multi-site coverage. We also acquired Twisted Pair Solutions during the fourth quarter, which further extends our MOTOTRBO radio to commercial smartphone device users as well. One of the key long-term growth drivers for the PCR market is the majority of the 40 million radios deployed in the global market that are still analog technology. We are leading that transition to digital with the most comprehensive portfolio in the PCR market.

In 2013, we made progress expanding our services business and, in particular, lifecycle management contracts. These agreements provide customers with the ability to stay current on the latest software versions with routine upgrades. We have signed almost 200 of these agreements over the past three years. These contracts tend to be long in duration, with approximately 40% of the new ASTRO agreements we signed this year to be completed over at least ten years.

We had one of our best years in TETRA in EA, driven by the continued expansion of our infrastructure footprint with this mission-critical standard. We signed a number of large deals including: (i) a multi-year support contract for Airwave's Critical Communications Network, one of the largest TETRA networks in the world, delivering voice and data services to the UK's emergency services and (ii) a $187 million public safety contract with Libya to provide country-wide coverage.

- In our Enterprise segment: The core product lines stabilized and returned to growth over the second half of the year as we grew backlog and saw increased spending in the industry. Our focus this year has been on improving the business operationally and financially, with a stronger portfolio with investments in the Android operating platform and new devices. As Android has emerged, we are well positioned with a truly enterprise-grade portfolio, complete with our own Motorola Extensions product to enhance, integrate and secure the Android operating system. We have four new models running on the current version of Android and our MC67 is available on both Windows and Android.

We began to see traction at the end of the year within our expansion portfolio, including the MC40, SB1 and MP6000 as deals move from trial to adoption. In addition, we continue to launch innovative products in our core verticals such as the DS4800 in retail and the VC70 for manufacturing and warehouse operations. We have also made progress in building out our managed services capabilities with mobility lifecycle management, as we help customers streamline deployment, optimize performance and manage their environment.

Looking Forward

In the Government segment, we feel we are well positioned for 2014 with strong backlog and solid demand from state and local governments and many international markets. We believe that while regulatory mandates to improve spectrum efficiency have encouraged some of our U.S. customers to upgrade, our new product introductions and expanded solutions portfolio will continue to be a driver for growth across our U.S. and international markets, as customers will continue to invest in our next-generation systems with the assurance that new radios with enhanced features remain interoperable and backward-compatible.

In addition to our investment in our radio communication systems, we have been investing in R&D for next generation public safety. Private public safety broadband networks based on the LTE standard are an important next generation tool for our first-responder customers, and we believe our expertise in both public and private networks makes us uniquely qualified to provide LTE solutions. During 2013, we experienced delays in public safety LTE opportunities and the deployment of LTE networks due to the finalization of standards. We now expect to see an increase in public safety LTE revenues beginning in 2015 and beyond, led initially by international deployments.

We're driving growth in verticals beyond public safety. We've secured contracts with energy and utility customers and expect this trend to continue in 2014. We continue to make tailored investments for vertical expansion. For example, new features within the ASTRO product portfolio include special alerts for the mining market and enhanced data for meter reading capabilities to serve the utilities market.

Our government customer base is composed of thousands of customers, predominantly at the U.S. state and local level with various funding sources. These customers are at different stages of network evolution and aging in a long cycle business. We believe the fundamentals for our business and customer base provide a significant degree of resiliency for this segment as we continue to see strength within the international government market and U.S. state and local governments.

While we saw declines for full year 2013 in the Enterprise segment due to delayed spend by our customers as they continued to address a challenging macroeconomic environment, prioritized funding for cloud and ERP maintenance, and encountered some uncertainty around operating system roadmaps, we saw increased spending and growth in the second half of 2013. We have experienced strong customer engagements that lead us to believe customers will continue to invest in our mobile computing, data capture, and WLAN technologies, which yield high return on investment and enable real-time information to their workforce. In addition, we believe IT hardware spending trends will be more favorable during 2014.

We believe we are well positioned to provide our customers with choices when it comes to operating systems. Our investments in software enable enables our partners and customers to write and port applications to multiple operating systems. This applies to various enterprise environments, including devices on Microsoft with Windows Embedded 8, Android, and at the web-browser level, HTML5. Outside of our investment in mobile computing, we continue to invest in new products across the Enterprise portfolio that serve many existing customers, but address market opportunities that are new to us.

For our iDEN business, as our existing contractual service arrangements wind down, we expect to see a continued step-down in revenues over the next three years, with the most significant decline expected in 2014.

We remain committed to employing disciplined financial policies, achieving our financial plan, and optimizing our capital structure in a way that is reflective of our ability to generate solid operating cash flow and prioritize targeted investments in the business. In 2014, we expect to continue the quarterly dividends that were initiated in 2011 and intend to continue to invest organically in capital expenditures. We will also evaluate our acquisition opportunities along with the opportunities to return capital to shareholders via share repurchases. As of December 31, 2013, we had approximately $1.8 billion of authority available for repurchases.

Results of Operations

	Years ended December 31					
(Dollars in millions, except per share amounts)	2013	% of Sales **	2012	% of Sales **	2011	% of Sales **
Net sales from products	$6,118		$6,363		$6,068	
Net sales from services	2,578		2,335		2,135	
Net sales	8,696		8,698		8,203	
Costs of product sales	2,852	46.6 %	2,844	44.7 %	2,723	44.9 %
Costs of services sales	1,603	62.2 %	1,506	64.5 %	1,334	62.5 %
Costs of sales	4,455	51.2 %	4,350	50.0 %	4,057	49.5 %
Gross margin	4,241	48.8 %	4,348	50.0 %	4,146	50.5 %
Selling, general and administrative expenses	1,838	21.1 %	1,963	22.6 %	1,912	23.3 %
Research and development expenditures	1,055	12.1 %	1,075	12.4 %	1,035	12.6 %
Other charges	133	1.5 %	54	0.6 %	341	4.2 %
Operating earnings	1,215	14.0 %	1,256	14.4 %	858	10.5 %
Other income (expense):						
Interest expense, net	(113)	(1.3)%	(66)	(0.8)%	(74)	(0.9)%
Gains on sales of investments and businesses, net	40	0.5 %	39	0.4 %	23	0.3 %
Other	3	— %	(14)	(0.2)%	(69)	(0.8)%
Total other expense	(70)	(0.8)%	(41)	(0.5)%	(120)	(1.5)%
Earnings from continuing operations before income taxes	1,145	13.2 %	1,215	14.0 %	738	9.0 %
Income tax expense (benefit)	40	0.5 %	337	3.9 %	(3)	— %
Earnings from continuing operations	1,105	12.7 %	878	10.1 %	741	9.0 %
Less: Earnings (loss) attributable to noncontrolling interests	6	0.1 %	—	— %	(6)	(0.1)%
Earnings from continuing operations*	1,099	12.6 %	878	10.1 %	747	9.1 %
Earnings from discontinued operations, net of tax	—	— %	3	— %	411	5.0 %
Net earnings*	$1,099	12.6 %	$881	10.1 %	$1,158	14.1 %
Earnings per common share:						
Continuing operations	$4.06		$2.95		$2.20	
Discontinued operations	—		0.01		1.21	
	$4.06		$2.96		$3.41	

* Amounts attributable to Motorola Solutions, Inc. common shareholders.

** Percentages may not add due to rounding.

Geographic market sales measured by the locale of the end customer as a percent of total net sales for 2013, 2012 and 2011 are as follows:

Geographic Market Sales by Locale of End Customer

	2013		2012		2011	
North America	57	%	58	%	57	%
Latin America	8	%	8	%	9	%
EA	21	%	20	%	20	%
APME	14	%	14	%	14	%
	100	%	100	%	100	%

Results of Operations—2013 Compared to 2012

Net Sales

Net sales were $8.7 billion in both 2013 and 2012. The flat net sales reflect: (i) a $41 million, or 1% increase in net sales in the Government segment driven by growth in our infrastructure and deployment services, and (ii) a $43 million, or 2% decrease in net sales in the Enterprise segment driven by the anticipated decline in iDEN infrastructure sales, partially offset by incremental net sales due to the acquisition of Psion.

Gross Margin

Gross margin was $4.2 billion, or 48.8% of net sales in 2013, compared to $4.3 billion, or 50.0% of net sales, in 2012. The decrease in gross margin percentage was driven primarily by: (i) a mix change in the Government segment where infrastructure and deployment services growth was offset by radio declines, (ii) lower iDEN sales, which typically have higher margins, and (iii) higher Psion sales in its first full year since being acquired in the fourth quarter of 2012, which typically have lower margins than other core product lines in the Enterprise segment.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses decreased 6% to $1.8 billion, or 21.1% of net sales in 2013, compared to $2.0 billion, or 22.6% of net sales in 2012. The decrease in SG&A is primarily driven by: (i) a number of structural cost improvements, (ii) decrease in variable compensation expenses, and (iii) a decrease in defined benefit expenses, partially offset by incremental expenses related to the Psion acquisition.

Research and Development Expenditures

R&D expenditures decreased 2% to $1.1 billion, or 12.1% of net sales in 2013, compared to $1.1 billion, or 12.4% of net sales in 2012. The decrease in R&D expenditures is primarily due to: (i) reduced compensation expenses and (ii) reduced iDEN expenses within the Enterprise segment, partially offset by incremental expenses relating to the Psion acquisition.

Other Charges

We recorded net charges of $133 million in Other charges in 2013, compared to net charges of $54 million in 2012. The charges in 2013 included: (i) $107 million of net reorganization of business charges and (ii) $26 million of charges relating to amortization of intangibles. The charges in 2012 included: (i) $41 million of charges relating to reorganization of business charges and (ii) $29 million of charges relating to amortization of intangibles, partially offset by $16 million of income related to a legal matter. The net reorganization of business charges are discussed in further detail in the “Reorganization of Businesses” section.

Net Interest Expense

Net interest expense was $113 million in 2013, compared to net interest expense of $66 million in 2012. Net interest expense in 2013 included interest expense of $132 million, partially offset by interest income of $19 million. Net interest expense in 2012 included interest expense of $108 million, partially offset by interest income of $42 million. The increase in net interest expense in 2013 compared to 2012 is primarily attributable to: (i) higher interest expense driven by an increase in average debt outstanding and (ii) a decrease in interest income due to lower average cash and cash equivalents during 2013 compared to 2012.

Gains on Sales of Investments and Businesses

Gains on sales of investments and businesses were $40 million in 2013, compared to $39 million in 2012. These gains consist of gains on the sale of multiple equity investments in both 2013 and 2012.

Other

Net Other income was $3 million in 2013, compared to net Other expense of $14 million in 2012. The net Other income in 2013 was primarily comprised of: (i) $10 million of equity method investment earnings and (ii) $11 million of other non-operating gains, partially offset by: (i) a $12 million loss on foreign currency and (ii) investment impairments of $6 million. The net Other expense in 2012 was primarily comprised of: (i) a $13 million loss on foreign currency, (ii) investment impairments of $8 million, and (iii) a $6 million loss from the extinguishment of debt, partially offset by $13 million of other net investment earnings.

Effective Tax Rate

We recorded $40 million of net tax expense in 2013, resulting in an effective tax rate of 3%, compared to $337 million of net tax expense in 2012, resulting in an effective tax rate of 28%. Our effective tax rate in 2013 was favorably impacted by: (i) $337 million of net tax benefit, or $1.25 of diluted earnings per share, associated with excess foreign tax credits realized upon repatriation of foreign earnings, (ii) a $25 million reduction in our deferred tax liability for undistributed foreign earnings primarily due to our assertion that certain earnings are now permanently reinvested, and (iii) a $14 million tax benefit for prior year R&D tax credits. Our effective tax rate in 2013 was unfavorably impacted by a $20 million tax charge associated with the liquidation of the Sigma Fund, as discussed within "Liquidity and Capital Resources."

The tax benefit for excess foreign tax credits relates to the repatriation of foreign earnings of certain non-U.S. subsidiaries reorganized under our recently implemented holding company structure.

Our effective tax rate in 2012 was lower than the U.S. statutory tax rate of 35% primarily due to: (i) a $60 million tax benefit related to the reversal of a significant portion of the valuation allowance established on certain foreign deferred tax assets and (ii) a $13 million reduction in unrecognized tax benefits for facts that then indicated the extent to which certain tax positions were more-likely-than-not of being sustained.

Our effective tax rate will change from period to period based on non-recurring events, such as the settlement of income tax audits, changes in valuation allowances and the tax impact of significant unusual or extraordinary items, as well as recurring factors including changes in the geographic mix of income and effects of various global income tax strategies.

Earnings from Continuing Operations

After taxes, we had net earnings from continuing operations of $1.1 billion, or $4.06 per diluted share, in 2013, compared to net earnings from continuing operations of $878 million, or $2.95 per diluted share, in 2012.

The increase in net earnings from continuing operations in 2013, as compared to 2012, was primarily driven by: (i) a lower effective tax rate due to the $337 million of net tax benefit associated with foreign tax credits realized upon repatriation of foreign earnings and (ii) decreased defined benefit expenses of over $100 million, partially offset by: (i) a $107 million decrease in gross margin, (ii) a $83 million increase in reorganization charges, and (iii) a $47 million increase in net interest expense. The increase in earnings per diluted share was driven by higher net earnings and the reduction in shares outstanding as a result of our share repurchase program.

Earnings from Discontinued Operations

In 2013, we had no earnings from discontinued operations, compared to $3 million of earnings from discontinued operations, or $0.01 per diluted share, in 2012. The earnings from discontinued operations in 2012 were primarily driven by a purchase price adjustment of a previously disposed business, offset by a loss related to the exit of the amateur, marine and airband business.

Results of Operations—2012 Compared to 2011

Net Sales

Net sales were $8.7 billion in 2012, a 6% increase compared to net sales of $8.2 billion in 2011. The increase in net sales reflects: (i) a $631 million, or 12% increase in net sales in the Government segment driven by broad based growth across the product portfolio and (ii) a $136 million, or 5% decrease in net sales in the Enterprise segment driven by the anticipated decline in iDEN sales, reduced information technology spending driven by macroeconomic uncertainty, and unfavorable foreign currency fluctuations.

Gross Margin

Gross margin was $4.3 billion, or 50.0% of net sales in 2012, compared to $4.1 billion, or 50.5% of net sales, in 2011. The gross margin increase was driven by the 12% increase in net sales in our Government segment, offset by lower gross margin in our Enterprise segment, primarily related to a decline in volume, including the decline in iDEN sales, and unfavorable foreign currency fluctuations. The decrease in gross margin as a percent of sales reflects higher gross margin percent from product sales and lower gross margin percent from service sales. The decline in gross margin percentage from service sales primarily relates to: (i) the expansion of managed services, which generally have lower gross margin than our traditional service contracts and (ii) unfavorable foreign currency fluctuations.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses increased 3% to $2.0 billion, or 22.6% of net sales in 2012, compared to $1.9 billion, or 23.2% of net sales in 2011. The increase in SG&A expenses is driven by an increase in pension and employee benefit-related expenses, as well as the Psion acquisition that closed in the fourth quarter of 2012.

Research and Development Expenditures

R&D expenditures increased 4% to $1.1 billion, or 12.4% of net sales in 2012, compared to $1.0 billion, or 12.6% of net sales in 2011. The increase in R&D expenditures reflects higher R&D expenditures in both segments, primarily due to: (i) an increase in employee benefit-related expenses, and (ii) increased investment in next-generation technology, including strategic acquisitions.

Other Charges

We recorded net charges of $54 million in Other charges in 2012, compared to net charges of $341 million in 2011. The charges in 2012 included: (i) $41 million of net reorganization of business charges and (ii) $29 million of charges relating to amortization of intangibles, partially offset by $16 million of income related to a legal matter. The charges in 2011 included: (i) $200 million of charges relating to the amortization of intangibles, (ii) $88 million of net charges relating to legal matters, (iii) $52 million of net reorganization of business charges, and (iv) $10 million related to a long term financing receivable reserve, partially offset by $9 million in gains related to pension plan adjustments. The net reorganization of business charges are discussed in further detail in the “Reorganization of Businesses” section.

Net Interest Expense

Net interest expense was $66 million in 2012, compared to net interest expense of $74 million in 2011. Net interest expense in 2012 included interest expense of $108 million, partially offset by interest income of $42 million. Net interest expense in 2011 includes interest expense of $132 million, partially offset by interest income of $58 million. The decrease in net interest expense in 2012 compared to 2011 is primarily attributable to lower interest expense driven by lower average debt outstanding, partially offset by a decrease in interest income due to lower average cash and cash equivalents during 2012 compared to 2011.

Gains on Sales of Investments and Businesses

Gains on sales of investments and businesses were $39 million in 2012, compared to $23 million in 2011. In 2012 and 2011, the net gains were primarily comprised of gains related to sales of certain of our equity investments.

Other

Net Other expense was $14 million in 2012, compared to net Other expense of $69 million in 2011. The net Other expense in 2012 was primarily comprised of: (i) a $13 million loss on foreign currency, (ii) a $6 million loss from the extinguishment of debt, and (iii) investment impairments of $8 million, partially offset by $13 million of other net investment earnings. The net Other expense in 2011 was primarily comprised of an $81 million loss from the extinguishment of a portion of our outstanding long-term debt, partially offset by an $8 million foreign currency gain.

Effective Tax Rate

We recorded $337 million of net tax expense in 2012, resulting in an effective tax rate of 28%, compared to a $3 million net tax benefit in 2011, resulting in a negative effective tax rate. Our effective tax rate in 2012 was lower than the U.S. statutory tax rate of 35% primarily due to: (i) a $60 million tax benefit related to the reversal of a significant portion of the valuation allowance established on certain foreign deferred tax assets and (ii) a $13 million reduction in unrecognized tax benefits for facts that then indicated the extent to which certain tax positions were more-likely-than-not of being sustained. Our negative effective tax rate in 2011 was primarily due to: (i) a $274 million tax benefit related to the reversal of a significant portion of the valuation allowance established on U.S. deferred tax assets and (ii) reductions in unrecognized tax benefits for facts that then indicated the extent to which certain tax positions were more-likely-than-not of being sustained, partially offset by an increase in the U.S. federal income tax accrual for undistributed foreign earnings.

Earnings from Continuing Operations

After taxes, and excluding earnings attributable to noncontrolling interests, we had net earnings from continuing operations of $878 million, or $2.95 per diluted share, in 2012, compared to $747 million, or $2.20 per diluted share, in 2011. The increase in earnings from continuing operations in 2012 compared to 2011 was primarily attributable to: (i) $287 million decrease in other charges related to lower intangible asset amortization, (ii) net income from legal matters of $16 million compared to charges of $88 million, and (iii) $202 million increase in gross margin, partially offset by the $274 million benefit for the valuation allowance reversal recorded during 2011. The increase in earnings per diluted share was primarily due to the increase in earnings from continuing operations and the reduction in shares outstanding as a result of our share repurchase program.

Earnings from Discontinued Operations

After taxes, we had earnings from discontinued operations of $3 million, or $0.01 per diluted share, in 2012, compared to earnings from discontinued operations of $411 million, or $1.21 per diluted share, in 2011. The earnings from discontinued operations in 2011 were primarily from the operations of and the gain on the sale of the Networks business.

Segment Information

The following commentary should be read in conjunction with the financial results of each operating business segment as detailed in Note 12, "Information by Segment and Geographic Region," to our consolidated financial statements. Net sales and operating results for our two segments for 2013, 2012, and 2011 are presented below.

Government Segment

In 2013, the Government segment's net sales represented 69% of our consolidated net sales, compared to 69% in 2012, and 65% in 2011.

	Years ended December 31			Percent Change	
(Dollars in millions)	2013	2012	2011	2013—2012	2012—2011
Segment net sales	$6,030	$5,989	$5,358	1 %	12 %
Operating earnings	979	965	616	1 %	57 %

Segment Results—2013 Compared to 2012

In 2013, the segment's net sales were $6.0 billion, a 1% increase compared to 2012. The 1% increase in net sales in the Government segment primarily reflects an increase in sales of infrastructure and deployment services. On a geographic basis, net sales declined in APME, were flat in North America and Latin America, and increased in EA, compared to 2012. Net sales in North America continued to comprise a significant portion of the segment's business, accounting for approximately 64% of the segment's net sales in 2013 and approximately 63% in 2012. North America showed continued strength in sales to state and local governments; however, federal sales declined partially due to sequestration and the government shutdown in October 2013. EA showed strong growth driven by infrastructure and deployment services. Our sales of PCR declined coming off of a record sales year in 2012. The segment's backlog was $5.4 billion at December 31, 2013 and $4.9 billion at December 31, 2012.

The segment had operating earnings of $979 million in 2013, compared to operating earnings of $965 million in 2012. As a percentage of net sales in 2013 as compared to 2012, gross margin was down 1%, SG&A expenditures decreased, and R&D expenditures decreased. The increase in operating earnings was primarily due to a decrease in SG&A expenses, driven by a decrease in variable compensation expenses and reduced defined benefit plan expenses, partially offset by a mix change where infrastructure and deployment services growth was offset by radio declines.

Segment Results—2012 Compared to 2011

In 2012, the segment's net sales were $6.0 billion, a 12% increase compared to net sales of $5.4 billion in 2011. The 12% increase in net sales in the Government segment reflects broad based growth across the portfolio and in all regions. Net sales in North America continued to comprise a significant portion of the segment's business, accounting for approximately 63% of the segment's net sales in both 2012 and 2011. The segment's backlog was $4.9 billion at December 31, 2012 and $4.4 billion at December 31, 2011.

The segment had operating earnings of $965 million in 2012, compared to operating earnings of $616 million in 2011. The increase in operating earnings was primarily due to: (i) an increase in gross margin, driven by the 12% increase in net sales and (ii) a decline in Other charges, driven by net income from legal matters that occurred in 2011, partially offset by an increase in SG&A expenses and R&D expenditures. The increase in SG&A expenses was due to increases in pension and employee benefit related expenses, and the increase in R&D expenditures was driven by higher employee benefit related expenses and increased investment in next-generation technologies. As a percentage of net sales in 2012 as compared to 2011, gross margin increased slightly due to favorable mix, and operating leverage increased primarily due to the 12% increase in net sales while improving the segment's fixed cost structure.

Enterprise Segment

In 2013, the Enterprise segment's net sales represented 31% of our consolidated net sales, compared to 31% in 2012, and 35% in 2011.

	Years ended December 31			Percent Change	
(Dollars in millions)	2013	2012	2011	2013—2012	2012—2011
Segment net sales	$2,666	$2,709	$2,845	(2)%	(5)%
Operating earnings	236	291	242	(19)%	20 %

Segment Results—2013 Compared to 2012

In 2013, the segment's net sales were $2.7 billion, a 2% decrease compared to 2012. The 2% decrease in net sales in the Enterprise segment was due to delayed spend by our customers as they continued to address a challenging macroeconomic environment, prioritized funding for cloud and ERP maintenance, and encountered some uncertainty around operating system roadmaps. This decline reflects a decrease in sales of: (i) iDEN, (ii) Data Capture, and (iii) WLAN, partially offset by an increase in Enterprise Mobile Computing sales due to the Psion acquisition. The decrease in net sales for the segment reflects a decline in North America and Latin America, offset by an increase in EA and APME, compared to 2012. The decline in North America was driven by lower sales in the Data Capture and WLAN product groups, while the decline in Latin America was driven by the anticipated decline in iDEN. The increases in EA and APME were primarily driven by Enterprise Mobile Computing sales, with EA net sales increasing due to the Psion acquisition. Data Capture and WLAN product groups grew in the fourth quarter of 2013 as compared to the fourth quarter of 2012 as we saw an increase in customer spending. Net sales in North America continued to comprise a significant portion of the segment's business, accounting for approximately 44% of the segment's net sales in 2013, and approximately 47% in 2012. The segment's backlog was $833 million at December 31, 2013, compared to $782 million at December 31, 2012.

The segment had operating earnings of $236 million in 2013, compared to operating earnings of $291 million in 2012. As a percentage of net sales in 2013 as compared to 2012, gross margin was 2% lower, SG&A expenditures decreased, and R&D expenditures decreased. The decrease in operating earnings was primarily due to: (i) a decline in gross margin primarily attributable to the anticipated decline in iDEN sales, which typically have higher margins, (ii) an increase in Psion sales with lower margins, and (iii) an unfavorable product and service mix. The decrease in SG&A expenses was driven by a decrease in variable compensation expenses and reduced defined benefit expenses, partially offset by incremental expenses relating to the Psion acquisition.

Segment Results—2012 Compared to 2011

In 2012, the segment's net sales were $2.7 billion, a 5% decrease compared to net sales of $2.8 billion in 2011. The 5% decrease in net sales in the Enterprise segment reflects a decrease in sales of: (i) iDEN, (ii) Enterprise Mobile Computing, and (iii) WLAN, partially offset by an increase in Data Capture equipment sales. The decrease in net sales for the segment reflects a decline in North America, Latin America, and EA, and an increase in APME. Net sales in North America continued to comprise a significant portion of the segment's business, accounting for approximately 47% of the segment's net sales in 2012, and approximately 46% in 2011. The segment's backlog was $782 million at December 31, 2012, compared to $875 million at December 31, 2011. The decline in backlog is primarily related to the anticipated decline in iDEN and reduced information technology spending driven by macroeconomic uncertainty.

The segment had operating earnings of $291 million in 2012, compared to operating earnings of $242 million in 2011. The increase in operating earnings was primarily due to a decrease in Other charges as a result of a reduction in intangibles amortization as certain intangible assets are fully amortized, as well as a decline from net legal matters that occurred in 2011. The decrease in Other charges was partially offset by: (i) a decrease in gross margin, primarily attributable to a decline in volume, and unfavorable foreign currency fluctuations, (ii) increased SG&A expenses due to increases in pension and employee benefit related expenses and the acquisition of Psion, and (iii) an increase in R&D expenditures, driven by higher employee benefit expenses and increased investment in next-generation technologies, including the acquisition of Psion. As a percentage of net sales in 2012 as compared to 2011, gross margin decreased primarily related to unfavorable foreign currency fluctuations and product mix, and operating leverage decreased due to the 5% decline in net sales.

Reorganization of Businesses

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During 2013, we implemented various productivity improvement plans aimed at continuing operating margin improvements by driving efficiencies and reducing operating costs. In 2013, we recorded net reorganization of business charges of $133 million relating to the separation of 2,200 employees, of which 1,400 were indirect employees and 800 were direct employees. These charges included $26 million recorded to Costs of sales and $107 million of charges within Other charges in our consolidated statements of operations. Included in the aggregate $133 million are charges of: (i) $146 million for employee separation costs and (ii) $3 million for exit costs, partially offset by $16 million of reversals for accruals no longer needed.

We realized cost-saving benefits of approximately $27 million in 2013 from the plans that were initiated during 2013, primarily in operating expenses. Beyond 2013, we expect the reorganization plans initiated during 2013 to provide annualized cost savings of approximately $159 million, consisting of $29 million of savings in Cost of sales, and $130 million of savings in operating expenses. These cost savings may be payroll or other operating expenses; however, as we continue to outsource manufacturing and other functions, these cost savings may not be realizable as variable outsourced manufacturing and other activities increase.

During 2012, we recorded net reorganization of business charges of $50 million, including: (i) $54 million for employee separation costs, and (ii) $7 million for building impairments, partially offset by $11 million for reversals of accruals no longer needed. During 2011, we recorded net reorganization of business charges of $58 million, including: (i) $41 million for employee separation costs and (ii) $19 million for exit costs, partially offset by $2 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by business segment:

Years ended December 31	2013	2012	2011
Government	$86	$33	$40
Enterprise	47	17	18
	$133	$50	$58

Cash payments for exit costs and employee separations in connection with these reorganization plans were $59 million in 2013, as compared to $55 million in 2012, and $81 million in 2011. The $109 million reorganization of businesses accrual remaining at December 31, 2013, includes: (i) $103 million relating to employee separation costs that are expected to be paid primarily in 2014 and (ii) $6 million relating to lease termination obligations that are expected to be paid over a number of years.

Liquidity and Capital Resources

We decreased our total cash and cash equivalent balances, Sigma Fund, and short-term investments by $376 million from $3.6 billion as of December 31, 2012 to $3.2 billion as of December 31, 2013. This decrease was primarily due to the return of $2.0 billion of capital to shareholders through share repurchases and dividends paid during 2013, partially offset by: (i) $944 million of operating cash flow and (ii) $593 million of net proceeds from the issuance of debt.

Cash and Cash Equivalents

At December 31, 2013, our cash and cash equivalents (which are highly-liquid investments purchased with an original maturity of three months or less) were $3.2 billion, an increase of $1.8 billion compared to $1.5 billion at December 31, 2012. The increase in cash and cash equivalents is primarily due to the liquidation of the Sigma Fund which had a balance of $2.1 billion at December 31, 2012. At December 31, 2013, $1.8 billion of the $3.2 billion cash and cash equivalents balance was held in the U.S. and $1.4 billion was held in other countries (including $732 million in the United Kingdom). At both December 31, 2013 and December 31, 2012, restricted cash was $63 million.

We continue to analyze and review various repatriation strategies to efficiently repatriate cash. In 2013, we repatriated approximately $777 million in cash to the U.S. from international jurisdictions. At December 31, 2013, we had approximately $500 million of foreign earnings that are not permanently reinvested and may be repatriated without an additional tax charge to our consolidated statements of operations, given the U.S. federal and foreign income tax accrued on the undistributed earnings and the utilization of available foreign tax credits. Undistributed earnings that we intend to reinvest indefinitely, and for which no income taxes have been provided, aggregate to $1.4

billion, $1.0 billion and $1.0 billion at December 31, 2013, 2012 and 2011, respectively. We currently have no plans to repatriate the foreign earnings permanently reinvested. If circumstances change and it becomes apparent that some or all of the permanently reinvested earnings will be remitted to the U.S. in the foreseeable future, an additional income tax charge may be necessary. In the third quarter of 2013, we made a $150 million cash tax payment, comprised of $87 million for withholding taxes associated with an intercompany foreign dividend and $63 million for previously accrued non-U.S. income taxes associated with the settlement of an income tax audit. Where appropriate, we may also pursue capital reduction activities; however, such activities can be involved and lengthy. While we regularly repatriate funds, and a portion of offshore funds can be repatriated with minimal adverse financial impact, repatriation of some of these funds may be subject to delay for local country approvals and could have potential adverse cash tax consequences.

On January 4, 2011, the distribution of Motorola Mobility from Motorola Solutions was completed. As part of the distribution, we contributed $3.2 billion of cash and cash equivalents to Motorola Mobility. We had 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 $225 million was paid during 2011 and $73 million was paid during 2012. These contributions are reflected as financing activities in our consolidated statements of cash flows for the years ended December 31, 2012 and 2011.

Operating Activities

Cash provided by operating activities from continuing operations in 2013 was $944 million, compared to $1.1 billion in 2012 and $848 million in 2011. Operating cash flows in 2013, as compared to 2012, were negatively impacted by: (i) higher cash tax payments, including Indian tax deposits of $43 million, and (ii) lower collections and sales of long-term receivables, including receivables related to the Networks divestiture that were retained after the sale and sold or collected in 2012, partially offset by: (i) approximately $190 million of lower defined benefit plan contributions and (ii) improvements in accounts payable metrics. Operating cash flows in 2012, as compared to 2011, were positively impacted by: (i) increased sales and the expansion of operating margins, (ii) a $156 million decrease in contributions to our pension plans, and (iii) improvements in our working capital management, including approximately $100 million of sold or collected long-term receivables related to the Networks divestiture that were retained after the sale.

In the first quarter of 2013, the Indian rupee equivalent of $43 million was seized by the Indian tax authorities from our Indian subsidiary related to Indian income tax and interest assessments currently under review by the Indian and U.S. Competent Authorities. As a result of our appeals, the Supreme Court of India directed the Indian tax authorities to refund the full amount of cash seized and such refund was received by our Indian subsidiary on January 17, 2014.

We contributed $150 million, $340 million, and $489 million to our U.S. pension plans during 2013, 2012, and 2011 respectively. In addition, we contributed $32 million, $31 million, and $38 million to our non-U.S. pension plans during 2013, 2012, and 2011 respectively.

Our pension deficit is impacted by the volatility of corporate bond rates which are used to determine the plan discount rate as well as returns on the pension plan asset portfolio. The discount rate used to measure the U.S. liability at the end of 2013 was 5.15%, compared to 4.35% in the prior year. As a result of the increase in the discount rate, net of contributions and other factors, our total underfunded U.S. pensions at year end decreased to approximately $1.2 billion. As of December 31, 2013, changing the U.S. pension plans discount rate by one percentage point would change the U.S. pension plans net periodic pension cost in 2014 as follows:

	1% Point Increase	1% Point Decrease
Increase (decrease) in:		
U.S. pension plan net periodic pension costs	$(11)	$9

Investing Activities

Net cash provided by investing activities from continuing operations was $2.0 billion in 2013, compared to $797 million in 2012 and $2.4 billion in 2011. The $1.2 billion increase in net cash provided by investing activities from 2012 to 2013 was primarily due to a $1.1 billion increase in cash received from sales of Sigma Fund investments, which we exited in the fourth quarter of 2013. The $1.6 billion decrease in net cash provided by investing activities from 2011 to 2012 was primarily due to: (i) a $1.2 billion decrease in cash received from sales of investments and businesses relating to the sale of the Networks business and (ii) a $433 million decrease in cash received from net sales of Sigma Fund investments.

Sigma Fund: Prior to December 2013, we invested most of our U.S. dollar-denominated cash in a fund (the "Sigma Fund") that was managed by independent investment management firms under specific investment guidelines restricting the type of investments held and their time to maturity. In December 2013, we completed the liquidation of the Sigma Fund and migrated the international U.S dollar-denominated cash to a U.S. dollar cash pool invested in U.S. dollar prime money market funds. The creation of the international cash pool enhances our flexibility to fund global operations. These money market funds are classified as Cash and cash equivalents within the consolidated balance sheets as of December 31, 2013. We had net proceeds of $2.1 billion from sales of Sigma Fund investments in 2013, compared to $1.1 billion in net proceeds from sales of Sigma Fund investments in 2012 and $1.5 billion from sales of Sigma Fund investments in 2011.

As of December 31, 2012, we had investments in the Sigma Fund of $2.1 billion (including $1.0 billion held outside the U.S.) which was invested in cash and U.S. government, agency, and government-sponsored enterprise obligations.

Acquisitions and Investments: We used cash of $65 million for acquisitions and new investment activities in 2013, compared to $109 million in 2012 and $32 million in 2011. The cash used in 2013 was for the acquisition of Twisted Pair, a communications software provider in push-to-talk-over-broadband applications for a purchase price, net of cash acquired, of $36 million, and other small strategic investments. The cash used in 2012 was primarily for the acquisition of Psion plc, a U.K. based leader in mobile computing solutions, for approximately $200 million, primarily utilizing foreign cash, partially offset by net proceeds received related to the agreement with NSN to take over responsibility to implement Norway´s TETRA public safety network. The cash used in 2011 was for small strategic investments.

Capital Expenditures: Capital expenditures were $191 million in 2013, compared to $187 million in 2012 and $186 million in 2011. Capital spending in 2013 was primarily driven by updating our information technology infrastructure, facility renovations, and building out factory lines for new product introductions.

Sales of Investments and Businesses: We received $67 million of proceeds in 2013 compared to disbursements of $38 million in 2012 and proceeds received of $1.1 billion in 2011. The $67 million of proceeds received in 2013 were primarily comprised of proceeds from sales of equity investments. The $38 million of disbursements in 2012 were primarily comprised of payments to NSN related to the purchase price adjustment from the sale of the Networks business completed in 2011, partially offset by proceeds from sales of certain of our equity investments. The $1.1 billion in proceeds in 2011 were primarily comprised of net proceeds received in connection with sales of: (i) the Networks business, (ii) the Wireless Broadband business, (iii) certain of our equity investments, and (iv) the Israel-based module business.

Financing Activities

Net cash used for financing activities was $1.2 billion in 2013 compared to $2.3 billion in 2012 and $5.5 billion in 2011. Cash used for financing activities in 2013 was primarily comprised of: (i) $1.7 billion used for purchases of our common stock under our share repurchase program and (ii) $292 million of cash used for the payment of dividends, partially offset by: (i) $593 million of net proceeds from the issuance of debt and (ii) $165 million of net proceeds from the issuance of common stock in connection with our employee stock option and employee stock purchase plans.

Cash used for financing activities in 2012 was primarily comprised of: (i) $2.4 billion used for purchases of our common stock under our share repurchase program, (ii) $413 million of cash used for the repayment of debt, and (iii) $270 million of cash used for the payment of dividends, partially offset by: (i) $747 million of net proceeds from the issuance of debt and (ii) $133 million of net cash received from the issuance of common stock in connection with our employee stock option and employee stock purchase plans.

Cash used for financing activities in 2011 was primarily comprised of: (i) $3.4 billion of contributions to Motorola Mobility, (ii) $1.2 billion used for repayment of long-term debt, (iii) $1.1 billion of cash used for purchases of common stock under our share repurchase program, and (iv) $72 million of cash used for payment of dividends, partially offset by $192 million of net cash received from the issuance of common stock in connection with our employee stock option and employee stock purchase plans.

Current and Long-Term Debt: At both December 31, 2013 and December 31, 2012, our current portion of long-term debt was $4 million. We had outstanding long-term debt of $2.5 billion and $1.9 billion at December 31, 2013 and December 31, 2012 respectively.

During 2013, we issued an aggregate face principal amount of $600 million of 3.50% Senior Notes due March 1, 2023, recognizing net proceeds of $588 million, after debt discount and issuance costs.

During 2012, we issued an aggregate face principal amount of $750 million of 3.75% Senior Notes due May 15, 2022 (the "2022 Senior Notes"). We also redeemed $400 million aggregate principal amount outstanding of our 5.375% Senior Notes due November 2012 (the "2012 Senior Notes"). All of the 2012 Senior Notes were redeemed for an aggregate purchase price of approximately $408 million. This debt was repurchased with a portion of the proceeds from the issuance of the 2022 Senior Notes.

During 2011, we repurchased $540 million of our outstanding long-term debt for a purchase price of $615 million, excluding approximately $6 million of accrued interest. In addition, we repaid the entire $600 million aggregate principal amount due on notes which had reached maturity. 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, we recognized a loss of approximately $81 million related to this debt tender in Other within Other income (expense) in the consolidated statements of operations.

The three largest U.S. national ratings agencies rate our senior unsecured long-term debt investment grade. We believe that we will be able to maintain sufficient access to the capital markets at our current ratings. Any future disruptions, uncertainty or volatility in the capital markets may result in higher funding costs for us and adversely affect our ability to access funds.

We may, from time to time, seek to retire certain of our outstanding debt through open market cash purchases, privately-negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

Share Repurchase Program: Through actions taken on July 28, 2011, January 30, 2012, July 25, 2012, and July 22, 2013, the Board of Directors has authorized an aggregate share repurchase amount of up to $7.0 billion of our outstanding shares of common stock (the “share repurchase program”). The share repurchase program does not have an expiration date. As of December 31, 2013, we have used approximately $5.2 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving approximately $1.8 billion of authority available for future repurchases.

We paid an aggregate of $1.7 billion during 2013, including transaction costs, to repurchase approximately 28.6 million shares at an average price of $59.30 per share. All repurchased shares have been retired.

Payment of Dividends: We paid cash dividends to holders of our common stock of $292 million in 2013, $270 million in 2012, and $72 million in 2011.

During 2011, we also paid $8 million of dividends to minority shareholders in connection with subsidiary common stock.

Credit Facilities

As of December 31, 2013, we had a $1.5 billion unsecured syndicated revolving credit facility (the “2011 Motorola Solutions Credit Agreement”) that is scheduled to expire on June 30, 2014. We must comply with certain customary covenants, including maintaining maximum leverage and minimum interest coverage ratios as defined in the 2011 Motorola Solutions Credit Agreement. We were in compliance with our financial covenants as of December 31, 2013. As of and during the year ended December 31, 2013, we did not borrow under the 2011 Motorola Solutions Credit Agreement.

Contractual Obligations and Other Purchase Commitments

Summarized in the table below are our obligations and commitments to make future payments under long-term debt obligations, lease obligations, purchase obligations and tax obligations as of December 31, 2013.

	Payments Due by Period							
(in millions)	Total	2014	2015	2016	2017	2018	Uncertain Timeframe	Thereafter
Long-term debt obligations	$2,457	$20	$5	$6	$406	$6	$—	$2,014
Lease obligations	491	99	71	56	44	34	—	187
Purchase obligations*	56	49	5	2	—	—	—	—
Tax obligations	156	25	—	—	—	—	131	—
Total contractual obligations	$3,160	$193	$81	$64	$450	$40	$131	$2,201

*Amounts included represent firm, non-cancelable commitments.

Lease Obligations: We lease certain office, factory and warehouse space, land, information technology and other equipment, principally under non-cancelable operating leases. Our future minimum lease obligations, net of minimum sublease rentals, totaled $491 million. Rental expense, net of sublease income, was $66 million in 2013, $65 million in 2012, and $92 million in 2011.

Purchase Obligations: During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, we enter into agreements with contract manufacturers and suppliers that either allow them to procure inventory based upon criteria as defined by us or establish the parameters defining our requirements. In addition, we have entered into software license agreements which are firm commitments and are not cancelable. As of December 31, 2013, we had entered into firm, noncancelable, and unconditional commitments under such arrangements through 2016. The total payments expected to be made under these agreements are $56 million, of which $53 million relate to take or pay obligations from arrangements with suppliers for the sourcing of inventory supplies and materials and $3 million relate to software contracts supporting engineering. We do not anticipate the cancellation of any of our take or pay agreements in the future and estimate that purchases from these suppliers will exceed the minimum obligations during the agreement periods.

Tax Obligations: We have approximately $156 million of unrecognized income tax benefits relating to multiple tax jurisdictions and tax years. Based on the potential outcome of our global tax examinations, or the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the unrecognized tax benefits will change within the next twelve months. The associated net tax impact on the effective tax rate, exclusive of valuation allowance changes, is estimated to be in the range of a $50 million tax charge to a $75 million tax benefit, with cash payments not expected to exceed $25 million.

Commitments Under Other Long-Term Agreements: We have entered into certain long-term agreements to purchase software, components, supplies and materials from suppliers which are not "take or pay" in nature. Most of the agreements extend for periods of one to three years (three to five years for software). Generally, these agreements do not obligate us to make any purchases, and many permit us to terminate the agreement with advance notice (usually ranging from 60 to 180 days). If we were to terminate these agreements, we generally would be liable for certain termination charges, typically based on work performed and supplier on-hand inventory and raw materials attributable to canceled orders. Our liability would only arise in the event we terminate the agreements for reasons other than “cause.”

We outsource certain corporate functions, such as benefit administration and information technology-related services. These contracts are expected to expire in 2017. Our remaining payments under these contracts are approximately $485 million over the remaining life of the contracts; however, these contracts can be terminated. Termination would result in a penalty substantially less than the remaining annual contract payments. We would also be required to find another source for these services, including the possibility of performing them in-house.

As is customary in bidding for and completing certain projects and pursuant to a practice we have followed for many years, we have a number of performance/bid bonds, standby letters of credit and surety bonds outstanding (collectively, referred to as “Performance Bonds”), primarily relating to projects of the Government segment. These Performance Bonds normally have maturities of multiple years and are standard in the industry as a way to give customers a convenient mechanism to seek resolution if a contractor does not satisfy certain requirements under a contract. Typically, a customer can draw on the Performance Bond only if we do not fulfill all terms of a project contract. If such an occasion occurred, we would be obligated to reimburse the institution that issued the Performance Bond for the amounts paid. In our long history, it has been rare for us to have a Performance Bond drawn upon. At December 31, 2013, outstanding Performance Bonds totaled approximately $809 million, compared to $891 million at December 31, 2012. Any future disruptions, uncertainty, or volatility in bank, insurance or capital markets, or a change in our credit ratings could adversely affect our ability to obtain Performance Bonds and may result in higher funding costs.

Off-Balance Sheet Arrangements: Under the definition contained in Item 303(a)(4)(ii) of Regulation S-K, we do not have any off-balance sheet arrangements.

Long-term Customer Financing Commitments

Outstanding Commitments: Certain purchasers of our products and services may request that we provide long-term financing (defined as financing with a term of greater than one year) in connection with the sale of equipment. These requests may include all or a portion of the purchase price of the products and services. Our obligation to provide long-term financing may be conditioned on the issuance of a letter of credit in favor of us 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 us. We had outstanding commitments to provide long-term financing to third-parties totaling $120 million at December 31, 2013, compared to $84 million at December 31, 2012.

Outstanding Long-Term Receivables: We had net non-current long-term receivables of $6 million at December 31, 2013, compared to net non-current long-term receivables of $60 million (net of allowances for losses of $10 million) at December 31, 2012. These long-term receivables are generally interest bearing, with interest rates ranging from 2% to 13%.

Sales of Receivables

From time to time, we sell accounts receivable and long-term receivables to third-parties under one-time arrangements while others have been sold to third-parties under committed facilities that involve contractual commitments. We may or may not retain the obligation to service the sold accounts receivable and long-term receivables. We had no significant committed facilities for the sale of long-term receivables at December 31, 2013 or at December 31, 2012.

The following table summarizes the proceeds received from sales of accounts receivable and long-term receivables for the years ended December 31, 2013, 2012, and 2011:

Years ended December 31	2013	2012	2011
Cumulative annual proceeds received from sales:			

Accounts receivable sales proceeds	$14	$12	$8
Long-term receivables sales proceeds	151	178	224
Total proceeds from receivable sales	$165	$190	$232

At December 31, 2013, the Company had retained servicing obligations for $434 million of long-term receivables, compared to $375 million of long-term receivables at December 31, 2012. Servicing obligations are limited to collection activities of the sales of accounts receivables and long-term receivables.

Adequate Internal Funding Resources
We believe that we have adequate internal resources available to fund expected working capital and capital expenditure requirements for the next twelve months as supported by the level of cash, cash equivalents and short-term investments in the U.S. and the ability to repatriate funds from foreign jurisdictions.
Other Contingencies
Potential Contractual Damage Claims in Excess of Underlying Contract Value: In certain circumstances, our businesses may enter into contracts with customers pursuant to which the damages that could be claimed by the other party for failed performance might exceed the revenue we receive from the contract. Contracts with these types of uncapped damage provisions are fairly rare, but individual contracts could still represent meaningful risk. There is a possibility that a damage claim by a counterparty to one of these contracts could result in expenses to us that are far in excess of the revenue received from the counterparty in connection with the contract.
Indemnification Provisions: In addition, we may provide indemnifications for losses that result from the breach of general warranties contained in certain commercial, intellectual property and divestiture agreements. Historically, we have not made significant payments under these agreements, nor have there been significant claims asserted against us. However, there is an increasing risk in relation to intellectual property indemnities given the current legal climate. In indemnification cases, payment by us is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow us to challenge the other party's claims. In some instances we may have recourse against third-parties for certain payments made by us. Further, our obligations under divestiture agreements for indemnification based on breach of representations and warranties are generally limited in terms of duration, typically not more than 24 months, and for amounts not in excess of a percentage of the contract value.
Legal Matters: We are a defendant in various lawsuits, claims and actions, which 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 our consolidated financial position, liquidity or results of operations. However, an unfavorable resolution could have a material adverse effect on our consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved.

Significant Accounting Policies
Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following significant accounting policies require significant judgment and estimates:
—Revenue recognition
—Inventory valuation
—Income taxes
—Restructuring activities
—Retirement benefits
—Valuation and recoverability of goodwill
Revenue Recognition
Net sales consist of a wide range of activities including the delivery of stand-alone equipment or services, custom design and installation over a period of time, and bundled sales of equipment, software and services. We enter into revenue arrangements that may consist of multiple deliverables of our products and services due to the needs of our

customers. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability of the sales price is reasonably assured. We recognize revenue from the sale of equipment, equipment containing both software and nonsoftware components that function together to deliver the equipment's essential functionality, and services in accordance with general revenue recognition accounting principles. We recognize revenue in accordance with software accounting guidance for the following types of sales transactions: (i) standalone sales of software products or software upgrades, (ii) standalone sales of software maintenance agreements, and (iii) sales of software bundled with equipment where the software is not essential to the functionality of that equipment.

Products

For equipment sales, in addition to the criteria mentioned above, revenue recognition occurs when title and risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and allowances for discounts, price protection, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. We base our estimates of these allowances on historical experience taking into consideration the type of products sold, the type of customer, and the specific type of transaction in each arrangement. Where customer incentives cannot be reliably estimated, we defer revenue until the incentive has been finalized with the customer. We include shipping charges billed to customers in net revenue, and include the related shipping costs in cost of sales.

We sell software and equipment obtained from other companies. We establish our own pricing and retain related inventory risk, are the primary obligor in sales transactions with customers, and assume the credit risk for amounts billed to customers. Accordingly, we generally recognize revenue for the sale of products obtained from other companies based on the gross amount billed.

Within the Enterprise segment, products are often sold through distributors to value-added resellers. In addition to cooperative marketing and other incentive programs, we have arrangements with some distributors which allow for price protection and limited rights of return, generally through stock rotation programs. Under the price protection programs, we give distributors credits for the difference between the original price paid and our then current price. Under the stock rotation programs, distributors are able to exchange certain products based on the number of qualified purchases made during the period. When we are unable to reliably estimate the final sales price due to the price protection and stock rotation programs revenue is not recognized until the products are resold by distributors to value-added resellers using information provided by these distributors.

Long-Term Contracts

For long-term contracts that involve customization of equipment and/or software, we generally recognize revenue using the percentage of completion method based on the percentage of costs incurred to date compared to the total estimated costs to complete the contract (“Estimated Costs at Completion”). The components of estimated costs to complete a contract and management’s process for reviewing Estimated Costs at Completion and progress toward completion is discussed further below. Contracts may be combined or segmented in accordance with the applicable criteria under contract accounting principles. In certain instances, when revenues or costs associated with long-term contracts cannot be reliably estimated or the contract contains other inherent uncertainties, revenues and costs are deferred until the project is complete and customer acceptance is obtained.

Total Estimated Costs at Completion include direct labor, material and subcontracting costs. Due to the nature of the work required to be performed under many of our long-term contracts, Estimated Costs at Completion is complex and subject to many variables. We have a standard and disciplined quarterly Estimated Costs at Completion process in which management reviews the progress and performance of open contracts. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion, the project schedule, identified risks and opportunities, and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the project schedule, technical requirements, and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, and performance by subcontractors, among other variables. Based on this analysis, any quarterly adjustments to net sales, cost of sales, and the related impact to operating income are recorded as necessary in the period they become known. These adjustments may result from positive project performance, and may result in an increase in operating income during the performance of individual contracts. Likewise, these adjustments may result in a decrease in operating income if Estimated Costs at Completion increase. Changes in estimates of net sales or cost of sales could affect the profitability of one or more of our contracts. The impact on Operating earnings as a result of changes in

Estimated Costs at Completion was not significant for the years 2013, 2012, and 2011. When estimates of total costs to be incurred on a contract exceed total estimates of revenue to be earned, a provision for the entire loss on the contract is recorded in the period the loss is determined.

Hardware and Software Services Support

Revenue under equipment and software support and maintenance agreements, which do not contain specified future software upgrades, is recognized ratably over the contract term as services are performed.

Software and Licenses

Revenue from pre-paid perpetual licenses is recognized at the inception of the arrangement, presuming all other relevant revenue recognition criteria are met. Revenue from non-perpetual licenses or term licenses is recognized ratably over the period that the licensee uses the license. Revenues from software maintenance, technical support and unspecified upgrades are recognized over the period that these services are delivered.

Multiple-Element Arrangements

Arrangements with customers may include multiple deliverables, including any combination of products, services and software. These multiple element arrangements could also include an element accounted for as a long-term contract coupled with other products, services and software. For multiple-element arrangements that include products containing software that functions together with the equipment to deliver its essential functionality, undelivered software elements that relate to the product's essential software, and undelivered non-software services, deliverables are separated into more than one unit of accounting when: (i) the delivered element(s) have value to the customer on a stand-alone basis and (ii) delivery of the undelivered element(s) is probable and substantially in our control.

In these arrangements, we allocate revenue to all deliverables based on their relative selling prices. We use the following hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of selling price (“TPE”), and (iii) best estimate of selling price (“ESP”).

We determine VSOE based on our normal pricing and discounting practices for the specific product or service when that same product or service is sold separately. In determining VSOE, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range, generally evidenced by the pricing rates of approximately 80% of such historical stand-alone transactions falling within plus or minus 15% of the median rate.

When VSOE does not exist, we attempt to determine TPE based on competitor prices for similar deliverables when sold separately. Generally, our go-to-market strategy for many of our products differs from that of our competitors and our offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality sold by other companies cannot be obtained. Furthermore, we are unable to reliably determine what similar competitor products’ selling prices are on a stand-alone basis. Therefore, we typically are not able to determine TPE.

When both VSOE and TPE are unavailable, we use ESP. We determine ESP by: (i) collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on our normal pricing and discounting practices, (ii) making any reasonably required adjustments to the data based on market and Company-specific factors, and (iii) stratifying the data points, when appropriate, based on customer, magnitude of the transaction and sales volume.

We also consider the geographies in which the products or services are sold, major product and service groups, customer classification, and other environmental or marketing variables in determining VSOE, TPE, and ESP.

Once elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

Our arrangements with multiple deliverables may also contain one or more software deliverables that are subject to software revenue recognition guidance. The revenue for these multiple-element arrangements is allocated to the software deliverable(s) and the non-software deliverable(s) based on the relative selling prices of all of the deliverables in the arrangement using the fair value hierarchy outlined above. In circumstances where we cannot determine VSOE or TPE for any of the deliverables in the arrangement, ESP is used for the purpose of allocating the arrangement consideration between software and non-software deliverables.

We account for multiple-element arrangements that consist entirely of software or software-related products, including the sale of software upgrades or software support agreements to previously sold software, in accordance with software accounting guidance. For such arrangements, revenue is allocated to the deliverables based on the relative fair value of each element, and fair value is determined using VSOE. Where VSOE does not exist for the undelivered software element, revenue is deferred until either the undelivered element is delivered or VSOE is established, whichever occurs first. When the final undelivered software element is post contract support, service revenue is recognized on a ratable basis over the remaining service period. When VSOE of a delivered element has not been established, but VSOE exists for the undelivered elements, we use the residual method to recognize revenue when the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement consideration is allocated to the delivered elements and is recognized as revenue.

Inventory Valuation

We record valuation reserves on our inventory for estimated excess or obsolescence. The amount of the reserve is equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. On a quarterly basis, management performs an analysis based on future demand requirement estimates of the underlying inventory to identify reserves needed for excess and obsolescence. We use our best judgment to estimate appropriate reserves based on this analysis. In addition, we adjust the carrying value of inventory if the current market value of that inventory is below our cost.

At December 31, 2013 and 2012, Inventories consisted of the following:

December 31	2013	2012
Finished goods	$232	$244
Work-in-process and production materials	468	432
	700	676
Less inventory reserves	(178)	(163)
	$522	$513

We balance the need to maintain strategic inventory levels to ensure competitive delivery performance to our customers against the risk of inventory obsolescence due to rapidly changing technology and customer requirements. As reflected above, our inventory reserves represented 25% of the gross inventory balance at December 31, 2013, compared to 24% of the gross inventory balance at December 31, 2012. We have inventory reserves for excess inventory, pending cancellations of product lines due to technology changes, long-life cycle products, lifetime buys at the end of supplier production runs, business exits, and a shift of production to outsourced manufacturing.

If future demand or market conditions are less favorable than those projected by management, additional inventory writedowns may be required.

Income Taxes

Our effective tax rate is based on pre-tax income and the tax rates applicable to such income in the various jurisdictions in which we operate. An estimated effective tax rate for the year is applied to our quarterly operating results. In the event that there is a significant unusual or discrete item recognized, or expected to be recognized, in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time as the unusual or discrete item. We consider the resolution of prior year tax matters to be such items. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions. We adjust reserves for unrecognized income tax benefits in light of changing facts and circumstances. We recognize the tax benefit of a tax position only if it is more-likely-than-not to be sustained.

Tax regulations may require items of income and expense to be included in a tax return in different periods than the items are reflected in the consolidated financial statements. As a result, the effective tax rate reflected in the consolidated financial statements may be different than the tax rate reported in the income tax return. Some of these differences are permanent, such as expenses that are not deductible on the tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in the tax return in future years for which we have already recorded the tax benefit in the consolidated financial statements. Deferred tax liabilities generally represent tax expense recognized in the consolidated financial statements for which the tax payment has been deferred or expense for which we have already taken a deduction on an income tax return, but has not yet been recognized in the consolidated financial statements.

We account for income taxes by recognizing deferred tax assets and liabilities using enacted tax rates for the effect of the temporary differences between the book and tax basis of recorded assets and liabilities. We make estimates and judgments with regard to the calculation of certain income tax assets and liabilities. Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more-likely-than-not that all or some portion of the deferred tax asset will not be realized. Significant weight is given to evidence that can be objectively verified.

We evaluate deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence, including historical and projected taxable income and tax planning strategies that are both prudent and feasible.

During 2013, our deferred tax valuation allowances were adjusted primarily for current year movement in deferred taxes and expiration of carryforwards. During 2012, we recorded $60 million of tax benefit related to the reversal of a significant portion of the valuation allowance established on certain foreign deferred tax assets. During 2011, we reassessed our valuation allowance requirements taking into consideration the distribution of Motorola Mobility. We evaluated all available evidence in our analysis, including the historical and projected pre-tax profits generated by our U.S. operations. We also considered tax planning strategies that are prudent and can be reasonably implemented. Based on our assessment, we recorded $274 million of tax benefit related to the reversal of a valuation allowance established on U.S. deferred tax assets in 2011. The U.S. valuation allowance as of December 31, 2013 relates to state tax carryforwards that we expect to expire unutilized.

We have a total deferred tax asset valuation allowance of approximately $256 million against gross deferred tax assets of approximately $4.1 billion as of December 31, 2013, compared to total deferred tax asset valuation allowance of approximately $308 million against net deferred tax assets of approximately $4.7 billion as of December 31, 2012.

Restructuring Activities

We maintain a formal Involuntary Severance Plan (the “Severance Plan”), which permits us to offer eligible employees severance benefits based on years of service and employment grade level in the event that employment is involuntarily terminated as a result of a reduction-in-force or restructuring. The Severance Plan includes defined formulas to calculate employees’ termination benefits. In addition to the Involuntary Severance Plan, during the year ended December 31, 2013, we accepted voluntary applications to our Severance Plan from a defined subset of employees within the United States. Voluntary applicants received termination benefits based on the formulas defined in the Severance Plan; however, termination benefits, which are normally capped at six months of salary, were capped at a full year’s salary.

We recognize termination benefits based on formulas per the Severance Plan at the point in time that future settlement is probable and can be reasonably estimated based on estimates prepared at the time a restructuring plan is approved by management. Exit costs consist of future minimum lease payments on vacated facilities and other contractual terminations. At each reporting date, we evaluate our accruals for employee separation and exit costs to ensure the accruals are still appropriate. In certain circumstances, accruals are no longer needed because of efficiencies in carrying out the plans or because employees previously identified for separation resigned from the Company and did not receive severance, or were redeployed due to circumstances not foreseen when the original plans were approved. In these cases, we reverse accruals through the consolidated statements of operations where the original charges were recorded when it is determined they are no longer needed.

Retirement Benefits

Our noncontributory pension plan (the “Regular Pension Plan”) covers U.S. employees who became eligible after one year of service. The benefit formula is dependent upon employee earnings and years of service. Effective January 1, 2005, newly-hired employees are not eligible to participate in the Regular Pension Plan. We also provide defined benefit plans which cover non-U.S. employees in certain jurisdictions, principally the United Kingdom, Germany and Japan (the “Non-U.S. Plans”). Other pension plans outside of the U.S. are not material to us either individually or in the aggregate.

We also had a noncontributory supplemental retirement benefit plan (the “Officers’ Plan”) for our elected officers. The Officers’ Plan contained provisions for vesting and funding the participants’ expected retirement benefits when the participants met the minimum age and years of service requirements. During 2013, the Officers' Plan was settled and terminated.

We have an additional noncontributory supplemental retirement benefit plan, the Motorola Supplemental Pension Plan (“MSPP”), which provides supplemental benefits to individuals by replacing the Regular Pension Plan benefits that are lost by such individuals under the retirement formula due to application of the limitations imposed by the Internal Revenue Code. However, elected officers who were covered under the Officers’ Plan were not eligible to participate in the MSPP. Effective January 1, 2007, eligible compensation was capped at the IRS limit plus $175,000 (the “Cap”) or, for those already in excess of the Cap as of January 1, 2007, the eligible compensation used to compute such employee’s MSPP benefit for all future years is the greater of: (i) such employee’s eligible compensation as of January 1, 2007 (frozen at that amount) or (ii) the relevant Cap for the given year. Additionally, effective January 1, 2009, the MSPP was frozen to new participants unless such participation was required under a prior contractual entitlement.

In February 2007, we amended the Regular Pension Plan and the MSPP, modifying the definition of average earnings. For years ended prior to December 31, 2007, benefits were calculated using the rolling average of the highest annual earnings in any five years within the previous ten calendar year period. Beginning in January 2008, the benefit calculation was based on the set of the five highest years of earnings within the ten calendar years prior to December 31, 2007, averaged with earnings from each year after 2007. Also effective January 2008, we amended the Regular Pension Plan, modifying the vesting period from five years to three years.

In December 2008, we amended the Regular Pension Plan, the Officers' Plan and the MSPP (collectively, the "U.S. Pension Benefit Plans") such that, effective March 1, 2009: (i) no participant shall accrue any benefit or additional benefit on or after March 1, 2009, and (ii) no compensation increases earned by a participant on or after March 1, 2009 shall be used to compute any accrued benefit.

Certain health care benefits are available to eligible domestic employees meeting certain age and service requirements upon termination of employment (the "Postretirement Health Care Benefits Plan"). For eligible employees hired prior to January 1, 2002, we offset a portion of the postretirement medical costs to the retired participant. Employees hired on or after

January 1, 2002 are eligible to access postretirement medical benefits under this plan; however, these employees receive no subsidy and pay full cost for their benefits. As of January 1, 2005, the Postretirement Health Care Benefits Plan was closed to new participants.

During the year ended December 31, 2012, we 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 are 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. The amendment to the Postretirement Health Care Benefits Plan effective January 1, 2013 resulted in a remeasurement of the plan generating an $87 million decrease in accumulated other comprehensive loss, net of taxes. The majority of that $87 million decrease will be recognized over approximately three years, or the period in which the remaining employees eligible for the plan will quality for benefits under the plan. During the year ended December 31, 2013, $43 million of prior service cost credit was recognized, including the amount associated with the 2012 amendment resulting in a net credit for periodic cost in 2013.

Accounting methodologies use an attribution approach that generally spreads the effects of individual events over the service lives of the participants in the plan, or estimated average lifetime when almost all of the plan participants are considered "inactive." Examples of “events” are plan amendments and changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases.

There are various assumptions used in calculating the net periodic benefit expense and related benefit obligations. One of these assumptions is the expected long-term rate of return on plan assets. The required use of the expected long-term rate of return on plan assets may result in recognized pension income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns. We use a five-year, market-related asset value method of recognizing asset related gains and losses.

We use long-term historical actual return experience with consideration of the expected investment mix of the plans’ assets, as well as future estimates of long-term investment returns, to develop our expected rate of return assumption used in calculating the net periodic pension cost and the net retirement healthcare expense. Our investment return assumption for the U.S. Pension Benefit Plans and Postretirement Healthcare Benefits Plan was 7.00% in 2013 and 8.25% in 2012. At December 31, 2013, the pension plans and the Postretirement Health Care Benefits Plan investment portfolios were comprised of approximately 55 percent and 58 percent equity investments, respectively.

A second key assumption is the discount rate. The discount rate assumptions used for pension benefits and postretirement health care benefits reflect, at December 31 of each year, the prevailing market rates for high-quality, fixed-income debt instruments that, if the obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. Our discount rates for measuring our U.S. pension obligations were 5.15% and 4.35% at December 2013 and 2012, respectively. Our discount rates for measuring the Postretirement Health Care Benefits Plan obligation were 4.65% and 3.80% at December 31, 2013 and 2012, respectively.

A final set of assumptions involves the cost drivers of the underlying benefits. The rate of compensation increase is a key assumption used in the actuarial model for pension accounting and is determined by us based upon our long-term plans for such increases. Our 2013 and 2012 rate for future compensation increase for the U.S. Pension Benefit Plans was 0%, as the salaries to be utilized for calculation of benefits under these plans have been frozen. For the Postretirement Health Care Benefits Plan, we review external data and our own historical trends for health care costs to determine the health care cost trend rates. The health care cost trend rate used to determine the December 31, 2013, accumulated postretirement benefit obligation was 8.50% for 2013, then grading down to a rate of 5% in 2020. The health care cost trend rate used to determine the December 31, 2012 accumulated postretirement benefit obligation was 7.25% for 2013, remaining flat at 7.25% through 2015, then grading down to a rate of 5% in 2019.

Prior to 2013, unrecognized gains and losses were amortized over periods ranging from three to thirteen years. At the close of fiscal 2012, we determined that the majority of the plan participants in our Regular and United Kingdom pension plans were no longer actively employed due to significant employee exits as a result of our recent divestitures. Under relevant accounting rules, when almost all of the plan participants are considered inactive, the amortization period for certain unrecognized losses changes from the average remaining service period to the average remaining lifetime of the participant. As such, beginning in 2013, and depending on the specific plan, we began amortizing gains and losses over periods ranging from five to twenty-eight years. Prior service costs are being amortized over periods ranging from ten to twelve years. Benefits under all pension plans are valued based on the projected unit credit cost method.

For the year ended December 31, 2013, we recognized net periodic pension expense of $118 million related to our U.S. Pension Benefit Plans, compared to $188 million for the year ended December 31, 2012. Cash contributions of $150 million were made to the U.S. Pension Benefit Plans during 2013 as compared to $340 million in 2012.

We recognized net postretirement health care benefit of $26 million and expense of $3 million for the years ended December 31, 2013 and 2012, respectively. No cash contributions were made to this plan in 2013. We do not expect to make cash contributions to the Postretirement Health Care Benefits Plan in 2014.
The measurement date of all of our retirement plans assets and obligations is December 31.
Valuation and Recoverability of Goodwill
We assess the recorded amount of goodwill for recovery on an annual basis in the fourth quarter of each fiscal year. Goodwill is assessed more frequently if an event occurs or circumstances change that would indicate it is more-likely-than-not that the fair value of a reporting unit is below its carrying amount. We continually assess whether any such events and circumstances have occurred, which requires a significant amount of judgment. Such events and circumstances may include: adverse changes in macroeconomic conditions, adverse changes in the entity's industry or market, changes in cost factors negatively impacting earnings and cash flows, negative or declining overall financial performance, events affecting the carrying value or composition of a reporting unit, or a sustained decrease in share price, among others. Any such adverse event or change in circumstances could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements.
The goodwill impairment assessment is performed at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a “component”). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. When two or more components of an operating segment have similar economic characteristics, the components are aggregated and deemed a single reporting unit. An operating segment is deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if the segment comprises only a single component. Based on this guidance, we have determined that our Government and Enterprise segments each meet the definition of a reporting unit.
2013
The goodwill impairment test for fiscal 2013 was performed using the two step goodwill impairment analysis. In step one, the fair value of each reporting unit is compared to its book value. Fair value is determined using a combination of present value techniques and quoted market prices of comparable businesses. If the fair value of the reporting unit exceeds its book value, goodwill is not deemed to be impaired for that reporting unit, and no further testing would be necessary. If the fair value of the reporting unit is less than its book value, step two is required. Step two uses the calculated fair value of the reporting unit to perform a hypothetical purchase price allocation to the fair value of the assets and liabilities of the reporting unit. The difference between the fair value of the reporting unit calculated in step one and the fair value of the underlying assets and liabilities of the reporting unit is the implied fair value of the reporting unit's goodwill. A charge is recorded in the financial statements if the carrying value of the reporting unit's goodwill is greater than its implied fair value.
The following describes the valuation methodologies used to derive the fair value of the reporting units:

- Income Approach: To determine fair value, we discounted the expected future cash flows of the reporting units. The discount rate used represented the estimated weighted average cost of capital, which reflects the overall level of inherent risk involved in our operations and the rate of return a market participant would expect to earn. To estimate cash flows beyond the final year of our model, we used a terminal value approach. Under this approach, we used estimated operating income before interest, taxes, depreciation and amortization in the final year of the model, adjusted to estimate a normalized cash flow, applied a perpetuity growth assumption and discounted it by a perpetuity discount factor to determine the terminal value. We incorporated the present value of the resulting terminal value into the estimate of fair value.
- Market-Based Approach: In addition, we estimated the fair value of our reporting units using several market-based approaches, including the value that is derived based on Motorola Solutions' consolidated stock price. We also used the guideline company method, which focuses on comparing our risk profile and growth prospects to select guideline publicly traded companies.

The determination of fair value of the reporting units and assets and liabilities within the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions primarily included the discount rate,

terminal growth rates, earnings before depreciation and amortization, and capital expenditures forecasts.
We evaluated the merits of each significant assumption, both individually and in the aggregate, used to determine the fair value of each reporting unit, as well as the fair values of the corresponding assets and liabilities within the reporting unit, and concluded they are reasonable. We weighted the fair value of our reporting units determined by the valuation methodologies at 50% based on the income approach and 50% based on the market-based approach. We believe that this weighting is appropriate because it is our view that value indications under the selected methods are equally reliable and reflective of the value of the reporting units.

The accounting principles regarding goodwill acknowledge that the observed market prices of individual trades of a company's stock (and thus its computed market capitalization) may not be representative of the fair value of the company as a whole. Additional value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity. Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity's individual common stock. In most industries, including ours, an acquiring entity typically is willing to pay more for equity securities that give it a controlling interest than an investor would pay for equity securities representing less than a controlling interest, referred to as a "control premium."

For the purpose of determining the implied control premium in the overall goodwill analysis, we applied assumptions for determining the fair value of corporate assets. Corporate assets primarily consisted of cash and cash equivalents, Sigma Fund balances, short-term investments, investments, and tax-related deposits and refunds receivable. Judgments about the fair value of corporate assets include, among others, an assumption that a significant portion of the corporate assets are required to pay off debt. The results of our impairment analysis resulted in an implied control premium within the range of historical transactions observed in our industry. For fiscal year 2013, we concluded that the fair value of each reporting unit is substantially in excess of its carrying value.

2012

We performed a qualitative assessment to determine whether it was more-likely-than-not that the fair value of each reporting unit was less than its carrying amount for fiscal year 2012. In performing this qualitative assessment, we assessed relevant events and circumstances including macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, changes in share price, and entity-specific events. In addition, we considered the fair value derived for each reporting unit in conjunction with the 2010 goodwill impairment test, which included a full step one fair value analysis similar to the valuation discussed above. We compared this prior fair value against the current carrying value of each reporting unit noting fair value significantly exceeded carrying value for both reporting units. We performed a sensitivity analysis on the fair value determined for each reporting unit in conjunction with the 2010 goodwill impairment test for changes in significant assumptions including the weighted average cost of capital used in the income approach and changes in expected cash flows. For fiscal year 2012, these changes in assumptions and estimated cash flows resulted in an increase in fair value for the Government reporting unit and a slight decrease in fair value for the Enterprise reporting unit. In spite of this small decrease in estimated fair value of the Enterprise reporting unit, the reporting unit's fair value continued to significantly exceed its carrying value. As such, for 2012, we concluded it was more-likely-than-not that the fair value of each reporting unit exceeded its carrying value. Therefore, the two-step goodwill impairment test was not required.

Differences in our actual future cash flows, operating results, growth rates, capital expenditures, cost of capital and discount rates as compared to the estimates utilized for the purpose of calculating the fair value of each reporting unit, as well as a decline in macroeconomic conditions, the industry, the market, overall financial performance or our stock price and related market capitalization, could affect the results of our annual goodwill assessment and, accordingly, potentially lead to future goodwill impairment charges.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 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. U.S. Generally Accepted Accounting Principles ("GAAP") does not currently include specific guidance on accounting for such obligations with joint and several liability which has resulted in diversity in practice. The ASU requires an entity to measure these obligations as the sum of the amount the reporting entity agreed to pay on the basis of the arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The ASU is to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements that exist within our statement of financial position at the beginning of the year of adoption. This guidance will be effective for us beginning January 1, 2014. We anticipate that the adoption of this standard will not have a material impact on our consolidated financial statements and footnote disclosures.

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or Tax Credit Carryforward Exists." The ASU requires entities to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when: (i) settlement in this manner is available under the tax law and (ii) the company intends to use the deferred tax asset for that purpose. This guidance will be effective for us beginning January 1, 2014. We anticipate that the adoption of this standard will not have a material impact on our consolidated financial statements and footnote disclosures.

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

Forward-Looking Statements

Except for historical matters, the matters discussed in this Form 10-K are forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements under the following headings: (1) "Business," about: (a) industry growth and demand, including opportunities resulting from such growth, (b) customer spending, (c) the impact of each segment's strategy, (d) the impact from the loss of key customers, (e) competitive position, (f) increased competition, (g) the impact of regulatory matters, (h) the impact from the allocation and regulation of spectrum, (i) the availability of materials and components, energy supplies and labor, (j) the seasonality of the business, (k) the firmness of each segment's backlog, (l) the competitiveness of the patent portfolio, and (m) the impact of research and development; (2) "Properties," about the consequences of a disruption in manufacturing; (3) "Legal Proceedings," about the ultimate disposition of pending legal matters and timing; (4) "Management's Discussion and Analysis," about: (a) market growth/contraction, demand, spending and resulting opportunities, (b) the increase in public safety LTE revenues in 2015, (c) the decline in iDEN, (d) the return of capital to shareholders through dividends and/or repurchasing shares, (e) the success of our business strategy and portfolio, (f) future payments, charges, use of accruals and expected cost-saving and profitability benefits associated with our reorganization of business programs and employee separation costs, (g) our ability and cost to repatriate funds, (h) the impact of the timing and level of sales and the geographic location of such sales, (i) the impact of maintaining inventory, (j) future cash contributions to pension plans or retiree health benefit plans, (k) the liquidity of our investments, (l) our ability and cost to access the capital markets, (m) our ability to borrow and the amount available under our credit facilities, (n) our ability to retire outstanding debt, (o) our ability and cost to obtain performance related bonds, (p) adequacy of resources to fund expected working capital and capital expenditure measurements, (q) expected payments pursuant to commitments under long-term agreements, (r) the ability to meet minimum purchase obligations, (s) our ability to sell accounts receivable and the terms and amounts of such sales, (t) the outcome and effect of ongoing and future legal proceedings, (u) the impact of recent accounting pronouncements on our financial statements, (v) the impact of the loss of key customers, and (w) the expected effective tax rate and deductibility of certain items; and (5) "Quantitative and Qualitative Disclosures about Market Risk," about: (a) the impact of foreign currency exchange risks, (b) future hedging activity and expectations of the Company, and (c) the ability of counterparties to financial instruments to perform their obligations.

Some of the risk factors that affect the Company's business and financial results are discussed in "Item 1A: Risk Factors." We wish to caution the reader that the risk factors discussed in "Item 1A: Risk Factors," and those described elsewhere in this report or in our other Securities and Exchange Commission filings, could cause our actual results to differ materially from those stated in the forward-looking statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

As of December 31, 2013, we have $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. Of this total long-term debt amount, a $36 million Euro-denominated variable interest loan has a hedge that changes the interest rate characteristics from variable to fixed-rate. A hypothetical unfavorable movement of 10% in the interest rates would have an immaterial impact on the hedge's fair value.

Foreign Currency Risk

We use financial instruments to reduce our overall exposure to the effects of currency fluctuations on cash flows. Our policy prohibits speculation in financial instruments for profit on exchange rate price fluctuations, trading in currencies for which there are no underlying exposures, or entering into transactions for any currency to intentionally increase the underlying exposure. Instruments that are designated as part of a hedging relationship must be effective at reducing the risk associated with the exposure being hedged and are designated as part of a hedging relationship at the inception of the contract. Accordingly, changes in the market values of hedge instruments must be highly correlated with changes in market values of the underlying hedged items both at the inception of the hedge and over the life of the hedge contract.

Our strategy related to foreign exchange exposure management is to offset the gains or losses on the financial instruments against losses or gains on the underlying operational cash flows or investments based on our assessment of risk. We enter into derivative contracts for some of our non-functional currency cash, receivables, and payables, which are primarily denominated in major currencies that can be traded on open markets. We typically use forward contracts and options to hedge these currency exposures. In addition, we enter into derivative contracts for some forecasted transactions, which are designated as part of a hedging relationship if it is determined that the transaction qualifies for hedge accounting under the provisions of the authoritative accounting guidance for derivative instruments and hedging activities. A portion of our exposure is from currencies that are not traded in liquid markets and these are addressed, to the extent reasonably possible, by managing net asset positions, product pricing and component sourcing.

At December 31, 2013, we had outstanding foreign exchange contracts totaling $837 million, compared to $523 million outstanding at December 31, 2012. Management believes that these financial instruments should not subject us 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 is charged to Other within Other income (expense) in our 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 December 31, 2013 and the corresponding positions as of December 31, 2012:

	Notional Amount	
Net Buy (Sell) by Currency	2013	2012
British Pound	$257	$225
Chinese Renminbi	(181)	(99)
Euro	(132)	(9)
Norwegian Krone	(95)	(48)
Brazilian Real	(44)	3

Foreign exchange financial instruments that are subject to the effects of currency fluctuations, which may affect reported earnings, include derivative financial instruments and other monetary assets and liabilities denominated in a currency other than the functional currency of the legal entity holding the instrument. Derivative financial instruments consist primarily of currency forward contracts and options. Other monetary assets and liabilities denominated in a currency other than the functional currency of the legal entity consist primarily of cash, cash equivalents, short-term investments, as well as accounts payable and receivable. Accounts payable and receivable are reflected at fair value in the financial statements. Assuming the amounts of the outstanding foreign exchange contracts represent our underlying foreign exchange risk related to monetary assets and liabilities, a hypothetical unfavorable 10% movement in the foreign exchange rates, from current levels, would reduce the value of those monetary assets and liabilities by approximately $82 million. Our market risk calculation represents an estimate of reasonably possible net losses that would be recognized assuming hypothetical 10% movements in future currency market pricing and is not necessarily indicative of actual results, which may or may not occur. It does not represent the maximum possible loss or any expected loss that may occur, since actual future gains and losses will differ from those estimated, based upon, among other things, actual fluctuation in market rates, operating exposures, and the timing thereof. We believe, however, that any such loss incurred would be offset by the effects of market rate movements on the respective underlying derivative financial instruments transactions. The foreign exchange financial instruments are held for purposes other than trading.

At December 31, 2013, the maximum term of derivative instruments that hedge forecasted transactions was seven months. The weighted average duration of our derivative instruments that hedge forecasted transactions was three months.

Item 8: Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Motorola Solutions, Inc.:

We have audited the accompanying consolidated balance sheets of Motorola Solutions, Inc. and Subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Motorola Solutions, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Motorola Solutions, Inc.’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 13, 2014 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Chicago, Illinois
February 13, 2014

Motorola Solutions, Inc. and Subsidiaries
Consolidated Statements of Operations

	Years ended December 31		
(In millions, except per share amounts)	2013	2012	2011
Net sales from products	$6,118	$6,363	$6,068
Net sales from services	2,578	2,335	2,135
Net sales	8,696	8,698	8,203
Costs of product sales	2,852	2,844	2,723
Costs of services sales	1,603	1,506	1,334
Costs of sales	4,455	4,350	4,057
Gross margin	4,241	4,348	4,146
Selling, general and administrative expenses	1,838	1,963	1,912
Research and development expenditures	1,055	1,075	1,035
Other charges	133	54	341
Operating earnings	1,215	1,256	858
Other income (expense):			
Interest expense, net	(113)	(66)	(74)
Gains on sales of investments and businesses, net	40	39	23
Other	3	(14)	(69)
Total other expense	(70)	(41)	(120)
Earnings from continuing operations before income taxes	1,145	1,215	738
Income tax expense (benefit)	40	337	(3)
Earnings from continuing operations	1,105	878	741
Earnings from discontinued operations, net of tax	—	3	411
Net earnings	1,105	881	1,152
Less: Earnings (loss) attributable to noncontrolling interests	6	—	(6)
Net earnings attributable to Motorola Solutions, Inc.	$1,099	$881	$1,158
Amounts attributable to Motorola Solutions, Inc. common stockholders:			
Earnings from continuing operations, net of tax	$1,099	$878	$747
Earnings from discontinued operations, net of tax	—	3	411
Net earnings	$1,099	$881	$1,158
Earnings per common share:			
Basic:			
Continuing operations	$4.13	$3.01	$2.24
Discontinued operations	—	—	1.23
	$4.13	$3.01	$3.47
Diluted:			
Continuing operations	$4.06	$2.95	$2.20
Discontinued operations	—	0.01	1.21
	$4.06	$2.96	$3.41
Weighted average common shares outstanding:			
Basic	266.0	292.1	333.8
Diluted	270.5	297.4	339.7
Dividends declared per share	$1.14	$0.96	$0.22

See accompanying notes to consolidated financial statements.

Motorola Solutions, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income

	Years ended December 31		
(In millions)	2013	2012	2011
Net earnings	$1,105	$881	$1,152
Other comprehensive income (loss):			
Amortization of retirement benefit adjustments, net of tax of $40, $99, and $73	70	177	132
Mid-year remeasurement of retirement benefit adjustments and other amendment, net of tax of $-, $52, and $9	—	87	(77)
Remeasurement of retirement benefit adjustments, net of tax of $571, $(419), and $(332)	953	(707)	(723)
Foreign currency translation adjustment, net of tax of $(7), $(4), and $(8)	(4)	14	19
Net gain (loss) on derivative hedging instruments, net of tax of $1, $(1), and $0	(2)	4	(3)
Net unrealized gain (loss) on securities, net of tax of $1, $1, and $(1)	(4)	1	(2)
Total other comprehensive income (loss)	1,013	(424)	(654)
Comprehensive income	2,118	457	498
Less: Earnings (loss) attributable to noncontrolling interest	6	—	(6)
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	$2,112	$457	$504

See accompanying notes to consolidated financial statements.

Motorola Solutions, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31	
(In millions, except par value)	2013	2012
ASSETS		
Cash and cash equivalents	$3,225	$1,468
Sigma Fund and short-term investments	2	2,135
Accounts receivable, net	1,920	1,881
Inventories, net	522	513
Deferred income taxes	584	604
Other current assets	767	800
Total current assets	7,020	7,401
Property, plant and equipment, net	810	839
Investments	251	240
Deferred income taxes	2,076	2,416
Goodwill	1,509	1,510
Other assets	185	273
Total assets	$11,851	$12,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$4	$4
Accounts payable	814	705
Accrued liabilities	2,402	2,626
Total current liabilities	3,220	3,335
Long-term debt	2,457	1,859
Other liabilities	2,485	4,195
Stockholders' Equity		
Preferred stock, $100 par value	—	—
Common stock, $.01 par value:	3	3
Authorized shares: 600.0		
Issued shares: 12/31/13—255.5; 12/31/12—277.3		
Outstanding shares: 12/31/13—254.5; 12/31/12—276.1		
Additional paid-in capital	3,518	4,937
Retained earnings	2,425	1,625
Accumulated other comprehensive loss	(2,287)	(3,300)
Total Motorola Solutions, Inc. stockholders' equity	3,659	3,265
Noncontrolling interests	30	25
Total stockholders' equity	3,689	3,290
Total liabilities and stockholders' equity	$11,851	$12,679

See accompanying notes to consolidated financial statements.

Motorola Solutions, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

(In millions, except per share amounts)	Shares	Common Stock and Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests
Balance as of January 1, 2011	337.2	$8,647	$(2,222)	$4,460	$ 102
Net earnings (loss)				1,158	(6)
Net unrealized loss on securities, net of tax of $(1)			(2)		
Foreign currency translation adjustments, net of tax of $(8)			19		
Amortization of retirement benefit adjustments, net of tax of $73			132		
Mid-year remeasurement of retirement benefits, net of tax of $9			(77)		
Year-end and other retirement adjustments, net of tax of $(332)			(723)		
Issuance of common stock and stock options exercised	9.4	152			
Share repurchase program	(26.6)	(1,110)			
Excess tax benefit from share-based compensation		42			
Share-based compensation expense		181			
Net loss on derivative hedging instruments, net of tax of $(0)			(3)		
Distribution of Motorola Mobility		(836)		(4,460)	
Dividends paid to noncontrolling interest on subsidiary common stock					(8)
Sale of noncontrolling interest in subsidiary common stock					(27)
Purchase of noncontrolling interest in subsidiary					(1)
Reclassification of share-based awards from liability to equity		(2)			
Dividends declared				(142)	
Balance as of December 31, 2011	320	$7,074	$(2,876)	$1,016	$ 60
Net earnings				881	—
Net unrealized gain on securities, net of tax of $1			1		
Foreign currency translation adjustments, net of tax benefit of $(4)			14		
Amortization of retirement benefit adjustments, net of tax of $99			177		
Remeasurement of retirement benefits, net of tax of $52			87		
			(707)		

Year-end and other retirement adjustments, net of tax of $(419)				
Issuance of common stock and stock options exercised	6.9	80		
Share repurchase program	(49.6)	(2,438)		
Excess tax benefit from share-based compensation		20		
Share-based compensation expense		184		
Net gain on derivative hedging instruments, net of tax of $(1)			4	
Acquisition of noncontrolling interest from Japanese subsidiary		20		(35)
Dividends declared				