Section 1: 10-Q (10-Q)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the period ended June 30, 2018

or

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

For the transition period from to

Commission file number: 1-7221

MOTOROLA SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State of Incorporation)	**36-1115800** (I.R.S. Employer Identification No.)
500 W. Monroe Street, **Chicago, Illinois** (Address of principal executive offices)	**60661** (Zip Code)

Registrant's telephone number, including area code:

(847) 576-5000

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on June 30, 2018:

Class	Number of Shares
Common Stock; $.01 Par Value	162,266,801

	Page
PART I FINANCIAL INFORMATION	
Item 1 Financial Statements	1
Condensed Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2018 and July 1, 2017	1
Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2018 and July 1, 2017	2
Condensed Consolidated Balance Sheets as of June 30, 2018 (Unaudited) and December 31, 2017	3
Condensed Consolidated Statement of Stockholders' Equity (Unaudited) for the Six Months Ended June 30, 2018	4
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2018 and July 1, 2017	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3 Quantitative and Qualitative Disclosures About Market Risk	42
Item 4 Controls and Procedures	43
PART II OTHER INFORMATION	
Item 1 Legal Proceedings	44
Item 1A Risk Factors	44
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	45
Item 3 Defaults Upon Senior Securities	45
Item 4 Mine Safety Disclosures	45
Item 5 Other Information	45
Item 6 Exhibits	46

Part I—Financial Information

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	***June 30, 2018***	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*
Net sales from products	**$ 1,042**	$ 848	**$ 1,842**	$ 1,551
Net sales from services	**718**	649	**1,385**	1,226
Net sales	**1,760**	1,497	**3,227**	2,777
Costs of products sales	**485**	392	**867**	739
Costs of services sales	**453**	415	**869**	778
Costs of sales	**938**	807	**1,736**	1,517
Gross margin	**822**	690	**1,491**	1,260
Selling, general and administrative expenses	**316**	254	**594**	500
Research and development expenditures	**162**	138	**314**	273
Other charges	**71**	37	**138**	54
Operating earnings	**273**	261	**445**	433
Other income (expense):				
Interest expense, net	**(58)**	(51)	**(104)**	(102)
Gains (losses) on sales of investments and businesses, net	**(1)**	(1)	**10**	2
Other	**13**	(4)	**16**	(9)
Total other expense	**(46)**	(56)	**(78)**	(109)
Net earnings before income taxes	**227**	205	**367**	324
Income tax expense	**46**	73	**69**	114
Net earnings	**181**	132	**298**	210
Less: Earnings attributable to noncontrolling interests	**1**	1	**1**	2
Net earnings attributable to Motorola Solutions, Inc.	**$ 180**	$ 131	**$ 297**	$ 208
Earnings per common share:				
Basic	**$ 1.11**	$ 0.80	**$ 1.83**	$ 1.27
Diluted	**$ 1.05**	$ 0.78	**1.73**	1.23
Weighted average common shares outstanding:				
Basic	**162.2**	163.1	**161.7**	163.7
Diluted	**171.7**	169.0	**171.1**	169.5
Dividends declared per share	**$ 0.52**	$ 0.47	**$ 1.04**	$ 0.94

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

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended			
(In millions)		***June 30, 2018***		*July 1, 2017*
Net earnings	**$**	**181**	$	132
Other comprehensive income (loss), net of tax (Note 3):				
Foreign currency translation adjustments		**(86)**		47
Marketable securities		**—**		4
Defined benefit plans		**14**		14
Total other comprehensive income (loss), net of tax		**(72)**		65
Comprehensive income		**109**		197
Less: Earnings attributable to noncontrolling interest		**1**		1
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	**$**	**108**	$	196

	Six Months Ended			
(In millions)		***June 30, 2018***		*July 1, 2017*
Net earnings	**$**	**298**	$	210
Other comprehensive income (loss), net of tax (Note 2):				
Foreign currency translation adjustments		**(38)**		81
Marketable securities		**(6)**		4
Defined benefit plans		**26**		33
Total other comprehensive income (loss), net of tax		**(18)**		118
Comprehensive income		**280**		328
Less: Earnings attributable to noncontrolling interest		**1**		2
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	**$**	**279**	$	326

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

Condensed Consolidated Balance Sheets

(In millions, except par value)	***June 30, 2018***	*December 31, 2017*
	(Unaudited)	
ASSETS		
Cash and cash equivalents	**$ 878**	$ 1,205
Restricted cash	**63**	63
Total cash and cash equivalents	**941**	1,268
Accounts receivable, net	**1,159**	1,523
Contract assets	**760**	—
Inventories, net	**391**	327
Other current assets	**330**	832
Total current assets	**3,581**	3,950
Property, plant and equipment, net	**895**	856
Investments	**172**	247
Deferred income taxes	**945**	1,023
Goodwill	**1,528**	938
Intangible assets, net	**1,340**	861
Other assets	**420**	333
Total assets	**$ 8,881**	$ 8,208
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	**$ 347**	$ 52
Accounts payable	**430**	593
Contract liabilities	**1,049**	—
Accrued liabilities	**1,096**	2,286
Total current liabilities	**2,922**	2,931
Long-term debt	**5,298**	4,419
Other liabilities	**2,153**	2,585
Stockholders' Equity		
Preferred stock, $100 par value	**—**	—
Common stock, $.01 par value:	**2**	2
Authorized shares: 600.0		
Issued shares: 6/30/18—162.8; 12/31/17—161.6		
Outstanding shares: 6/30/18—162.3; 12/31/17—161.2		
Additional paid-in capital	**444**	351
Retained earnings	**627**	467
Accumulated other comprehensive loss	**(2,580)**	(2,562)
Total Motorola Solutions, Inc. stockholders' equity (deficit)	**(1,507)**	(1,742)
Noncontrolling interests	**15**	15
Total stockholders' equity (deficit)	**(1,492)**	(1,727)
Total liabilities and stockholders' equity	**$ 8,881**	$ 8,208

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

Condensed Consolidated Statement of Stockholders' Equity

(Unaudited)

(In millions)	*Shares*	*Common Stock and Additional Paid-in Capital*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Noncontrolling Interests*
Balance as of December 31, 2017	**161.6**	**$ 353**	**$ (2,562)**	**$ 467**	**$ 15**
Net earnings				297	1
Other comprehensive loss			(18)		
Issuance of common stock and stock options exercised	1.8	59			
Share repurchase program	(0.6)			(66)	
Share-based compensation expense		34			
ASU 2016-16 Modified Retrospective Adoption				(30)	
ASU 2014-09 Modified Retrospective Adoption				127	
Dividends declared				(168)	(1)
Balance as of June 30, 2018	**162.8**	**$ 446**	**$ (2,580)**	**$ 627**	**$ 15**

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

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In millions)	Six Months Ended June 30, 2018	Six Months Ended July 1, 2017
Operating		
Net earnings attributable to Motorola Solutions, Inc.	**$ 297**	$ 208
Earnings attributable to noncontrolling interests	**1**	2
Net earnings	**298**	210
Adjustments to reconcile Net earnings to Net cash provided by (used for) operating activities:		
Depreciation and amortization	**178**	166
Non-cash other charges	**6**	21
Non-U.S. pension settlement loss	**—**	25
Share-based compensation expense	**34**	33
Gains on sales of investments and businesses, net	**(10)**	(2)
Changes in assets and liabilities, net of effects of acquisitions, dispositions, and foreign currency translation adjustments:		
Accounts receivable, contract assets and contract liabilities	**206**	251
Inventories	**37**	(112)
Other current assets	**43**	(21)
Accounts payable and accrued liabilities	**(340)**	(340)
Other assets and liabilities	**(558)**	21
Deferred income taxes	**31**	63
Net cash provided by (used for) operating activities	**(75)**	315
Investing		
Acquisitions and investments, net	**(1,153)**	(140)
Proceeds from sales of investments and businesses, net	**79**	72
Capital expenditures	**(82)**	(121)
Net cash used for investing activities	**(1,156)**	(189)
Financing		
Repayment of debt	**(197)**	(6)
Net proceeds from issuance of debt	**1,295**	—
Proceeds from financing through capital leases	**—**	7
Issuance of common stock	**59**	28
Purchases of common stock	**(66)**	(258)
Payments of dividends	**(168)**	(154)
Payments of dividend to non-controlling interest	**(1)**	(2)
Net cash provided by (used for) financing activities	**922**	(385)
Effect of exchange rate changes on cash and cash equivalents	**(18)**	34
Net decrease in cash and cash equivalents	**(327)**	(225)
Cash and cash equivalents, beginning of period	**1,268**	1,030
Cash and cash equivalents, end of period	**$ 941**	$ 805
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest, net	**$ 93**	$ 88
Income and withholding taxes, net of refunds	**56**	47

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

Notes to Condensed Consolidated Financial Statements

(Dollars in millions, except as noted)

(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements as of June 30, 2018 and for the three and six months ended June 30, 2018 and July 1, 2017 include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the condensed consolidated balance sheets, statements of operations, statements of comprehensive income, statement of stockholders' equity, and statements of cash flows of Motorola Solutions, Inc. ("Motorola Solutions" or the "Company") for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2017. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results to be expected for the full year.

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

Recent Developments

During the second quarter of 2018, the Company modified its internal reporting structure to better align the way financial information is reported to and analyzed by executive leadership, in part, as a result of recent acquisitions contributing to the growth within the newly aligned Services and Software segment. Previously, the Company had two reporting segments: Products and Services. The changes in reporting structure consist of Systems Integration related revenue and costs moving from the old Services segment into the newly presented Products and Systems Integration segment and Software related revenue and costs moving from the old Products segment into the newly presented Services and Software segment.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases," which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. The ASU is effective for the Company on January 1, 2019 and interim periods within that reporting period, with early adoption permitted. The Company will adopt the ASU on January 1, 2019, utilizing the modified retrospective method upon adoption. The Company has begun to assess the impact of the ASU on its financial statements, including the package of available practical expedients, required disclosures, and changes to internal controls. Based on the preliminary work completed, the Company expects a material impact to its balance sheet through the recording of right-of-use assets and lease obligations that were not required to be recorded within the balance sheet under current accounting standards.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," which is intended to simplify the application of hedge accounting and better portray the economic results of risk management strategies in the consolidated financial statements. The ASU expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The ASU is effective for the Company on January 1, 2019 with adoption permitted immediately in any interim or annual period (including the current period). The guidance related to cash flow and net investment hedges existing at the date of adoption should be applied using the modified retrospective method by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The guidance related to presentation and disclosure should be applied prospectively. The Company is currently assessing the impact of this ASU, including transition elections and required elections, on its consolidated financial statements and disclosures.

Recently Adopted Accounting Pronouncements

The Company adopted ASU No. 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory" on January 1, 2018 using the modified retrospective method of adoption. The Company recognized $30 million related to the cumulative effect of applying the ASU as an adjustment to its opening retained earnings balance. The comparative information has not been restated and continues to be reported under accounting standards in effect in those periods. This ASU eliminates the prior application of deferring the income tax effect of intra-entity asset transfers, other than inventory, until the transferred asset is sold to a third party or otherwise recovered through use. Under the ASU, the Company will recognize tax expense when intra-entity transfers of assets other than inventory occur.

The Company adopted ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" on January 1, 2018 using the retrospective method of adoption. The amendments in the ASU require that an employer disaggregate the service cost component from the other components of net periodic cost (benefit) and report that component in the same line item as other compensation costs arising

from services rendered by employees during the period. The other components of net periodic cost (benefit) are required to be presented in the statement of operations separately from the service cost component and outside of operating earnings. The Company has restated its comparative period results to reflect the application of the presentation guidance of the ASU. As a result of the ASU, the presentation of net periodic cost (benefit) has been updated to classify all components of the Company's net periodic benefit, with the exception of the service cost component, within Other in Other income (expense) on the statement of operations. The Company recorded $20 million and $4 million in the three months ended June 30, 2018 and July 1, 2017, respectively, and $40 million and $1 million in the six months ended June 30, 2018 and July 1, 2017, respectively.

The Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers," and all the related amendments (collectively "ASC 606") on January 1, 2018 using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to its opening retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those periods.

The Company has retained much of the same accounting treatment used to recognize revenue under ASC 606 as under accounting standards in effect in prior periods. Revenue on a significant portion of its System and Integration services contracts continues to be recognized under percentage of completion accounting, applying a cost-to-cost method. Services contracts continue to be recognized ratably over relevant contract terms as the Company stands ready to perform. Finally, revenue on equipment sales continues to be recognized based on delivery terms as aligned with the transfer of control.

Under the new standard, the Company identified distinct promises to transfer goods and services within its contracts. For system contracts that are recognized under percentage of completion accounting, the Company has considered the factors used to determine whether promises made in the contract are distinct and determined that devices and accessories represent distinct goods. Accordingly, adoption of the new standard impacts the Company's system contracts, with the result being revenue recognized earlier as control of devices and accessories transfers to the customer at a point in time rather than over time. For the remaining promised goods and services within the Company's system contracts, it continues to recognize revenue on these contracts using a cost-to-cost method based on the continuous transfer of control to the customer over time.

Under the new standard, revenue recognition for software sales is accelerated based on when control of software licenses and related support services are transferred to the customer. Amounts deferred under previous software accounting rules due to lack of vendor-specific objective evidence have been recognized as an adjustment through opening retained earnings.

Historically, the Company presented transactions that involved a third-party sales representative on a net basis. After considering the control concept and the remaining three indicators of gross presentation under the new standard, the Company has determined that it is the principal in contracts that involve a third-party sales representative. Thus, under the new standard, the Company presents associated revenues on a gross basis, with the affect being an equal increase to selling, general and administrative expenses for its cost of third-party commissions.

Under prior accounting standards, the Company expensed sales commissions and other costs to obtain a contract as incurred. However, under the new standard, the Company capitalizes sales commissions and certain other costs as incremental costs to obtain a contract. Such costs are classified as a non-current contract cost assets within Other assets and amortized over a period that approximates the timing of revenue recognition on the underlying contracts.

The new standard clarified the definition of a receivable and requires the Company to present its net position in a contract with a customer on the balance sheet. The position is presented as either a receivable, contract asset, or a contract liability. Under the new definition, accounts receivable are unconditional rights to consideration from a customer. Contract assets represent rights to consideration from a customer in exchange for transferred goods and services that are conditional on events other than the passage of time. Contract liabilities represent obligations to transfer goods and services for which the Company has received, or is due, consideration from a customer respectively. The Company reclassified its customer positions to align with the new definitions and presentation guidance. Accordingly, Unbilled accounts receivable and Costs and earnings in excess of billings have been reclassified from Accounts receivable and Other current assets, respectively, and are presented as Contract assets. Accounts receivable which are not due from customers have been reclassified into Other current assets. Deferred revenue, Billings in excess of costs and earnings, and Customer downpayments have been reclassified from Accrued liabilities and are presented as Contract liabilities. Non-current deferred revenue has been reclassified from Deferred revenue to Non-current contract liabilities within Other liabilities.

The cumulative effect of the changes made to our consolidated opening balance sheet as of January 1, 2018 due to the modified retrospective method of adoption of ASC 606 is as follows:

Balance Sheet (Selected captions)

(In millions)	*December 31, 2017*	*Reclassification of Contract Assets*	*Reclassification of Non-customer receivables*	*Reclassification of Contract Liabilities*	*Impact of Adoption on Open Contracts*	***January 1, 2018***
						(Unaudited)
			ASSETS			
Accounts receivable, net	$ 1,523	$ (297)	$ (24)	$ —	$ (4)	**$ 1,198**
Contract assets	—	846	—	—	85	**931**
Inventories, net	327	—	—	—	1	**328**
Other current assets	832	(549)	24	—	(23)	**284**
Deferred income taxes	1,023	—	—	—	(41)	**982**
Other assets	333	—	—	—	85	**418**
			LIABILITIES AND STOCKHOLDERS' EQUITY			
Contract liabilities	$ —	$ —	$ —	$ 1,099	$ (17)	**$ 1,082**
Accrued liabilities	2,286	—	—	(1,099)	—	**1,187**
Other liabilities	2,585	—	—	—	(7)	**2,578**
Stockholders' Equity						
Retained earnings	467	—	—	—	127	**594**

Adoption Impact to Financial Statements

The impact of the adoption of ASC 606 to the condensed consolidated financial statements for the three and six months ended June 30, 2018 is as follows:

Statements of Operations (Selected captions)

	Three Months Ended		
(In millions)	***June 30, 2018***	*Adjustments due to ASC 606*	*June 30, 2018 Balances Under ASC 605*
Net sales	**$ 1,760**	$ (24)	$ 1,736
Gross margin	**822**	(24)	798
Selling, general and administrative expenses	**316**	(16)	300
Operating Earnings	**273**	(8)	265
Net earnings before income taxes	**227**	(8)	219
Net earnings attributable to Motorola Solutions Inc.	**$ 180**	$ (8)	$ 172

(In millions)	June 30, 2018	Adjustments due to ASC 606	June 30, 2018 Balances Under ASC 605
		Six Months Ended	
Net sales	**3,227**	(39)	3,188
Gross margin	**1,491**	(39)	1,452
Selling, general and administrative expenses	**594**	(29)	565
Operating Earnings	**445**	(10)	435
Net earnings before income taxes	**367**	(10)	357
Net earnings attributable to Motorola Solutions Inc.	**297**	(10)	287

Balance Sheet (Selected captions)

(In millions)	June 30, 2018	Adjustments due to ASC 606	June 30, 2018 Balances Under ASC 605
Accounts receivable, net	**$ 1,159**	$ 205	$ 1,364
Contract assets	**760**	(760)	—
Other current assets	**330**	491	821
Deferred income taxes	**945**	41	986
Other assets	**420**	(92)	328
Contract liabilities	**$ 1,049**	$ (1,049)	$ —
Accrued liabilities	**1,096**	1,061	2,157
Other liabilities	**2,153**	10	2,163
Stockholders' Equity			
Retained earnings	**627**	(137)	490

There is no impact to the Statement of comprehensive income or the Statement of cash flows, with the exception of changes to Net earnings and changes within assets and liabilities as presented on the balance sheet and disclosed above.

2. Revenue from Contracts with Customers

The Company adopted ASC 606 and all the related amendments on January 1, 2018, applying the modified retrospective method to all contracts not completed as of the date of adoption. The cumulative effect of adopting ASC 606 for contracts that were open as of the date of adoption is recognized as an adjustment to opening retained earnings in the period of adoption. All of the periods prior to the adoption of ASC 606 will continue to reflect the financial results recognized under the guidance of the previous revenue recognition standard.

In accordance with ASC 606, the Company recognizes revenue to reflect the transfer of control of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for goods or services. The Company records revenue following the five steps below:

1. ***Identify the contract with customers:*** A contract is an agreement between two or more parties that creates enforceable rights and obligations and specifies that enforceability is a matter of law. Contracts shall be accounted for when: (i) the parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations, (ii) the Company can identify each party's rights regarding the goods or services to be transferred, (iii) the Company can identify the payment terms for the goods or services to be transferred, (iv) the contract has commercial substance (that is, the risk, timing, or amount of the Company's future cash flow is expected to change as a result of the contract), and (v) it is probable that the Company will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. It is the Company's customary business practice to obtain a signed legal document as evidence of an arrangement.

2. ***Identify performance obligations in contracts:*** The goods or services promised in a contract must be evaluated at inception to identify as a performance obligation each promise to transfer to the customer either: (i) a distinct good or service, or (ii) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

3. ***Determine the transaction price:*** The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. In determining the transaction price, the Company considers the following components: (i) variable consideration, (ii) significant financing, (iii) noncash consideration, and (iv) consideration payable to a customer.

4. ***Allocate the transaction price:*** For a contract that has more than one distinct performance obligation, the Company must allocate the transaction price to each distinct performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying that specific performance obligation.

5. ***Recognize revenue when or as the entity satisfies a performance obligation:*** The Company recognizes revenue when, or as, it satisfies a performance obligation by transferring control of a promised good or service to a customer.

Disaggregation of Revenue

The following table summarizes the disaggregation of our revenue by segment, geography, major product and service type and customer type for the three and six months ended June 30, 2018, consistent with the information reviewed by our chief operating decision maker for evaluating the financial performance of operating segments:

	Three Months Ended		Six Months Ended	
(in millions)	Products and Systems Integration	Services and Software	Products and Systems Integration	Services and Software
Regions				
Americas	$ 878	$ 331	$ 1,576	$ 627
EMEA	188	194	345	375
AP	123	46	220	84
Total	$ 1,189	$ 571	$ 2,141	$ 1,086
Major Products and Services				
Devices	$ 725	$ —	$ 1,356	$ —
Systems and Systems Integration	464	—	785	—
Services	—	456	—	902
Software	—	115	—	184
Total	$ 1,189	$ 571	$ 2,141	$ 1,086
Customer Type				
Direct	$ 740	$ 537	$ 1,357	$ 1,042
Indirect	449	34	784	44
Total	$ 1,189	$ 571	$ 2,141	$ 1,086

Products and Systems Integration: The Products and Systems Integration segment is comprised of Systems, Devices and Systems Integration. Direct customers of the Products and Systems Integration segment are typically government public safety and first-responder agencies, procuring at state, local, and federal levels as well as large commercial customers with secure mission critical needs. Indirect customers are defined as customers purchasing professional commercial radios and Avigilon video solutions, which are primarily sold through the Company's reseller partners to an end-customer base, composed of various industries where private communications networks and video solutions are used to secure operations and enable a mobile workforce. Contracts with the Company's customers are typically fixed fee, with consideration measured net of associated sales taxes, and, as it relates to our direct customers, funded through government appropriations. On the Company's Products and Systems Integration sales, it records consideration from shipping and handling on a gross basis within Net sales.

Devices: Devices includes two-way portable and vehicle-mounted radios, accessories, software features, and upgrades. Devices also includes video surveillance cameras sold by Avigilon. Devices are considered capable of being distinct and distinct within the context of our contracts. Revenue is recognized upon the transfer of control of the devices to the customer at a point in time, typically consistent with delivery under the applicable shipping terms. Devices are sold by both the direct sales force and through reseller partners. Revenue is generally recognized upon transfer of devices to reseller partners, rather than the end-customer, except for limited consignment arrangements. Provisions for returns and reseller discounts are made on a portfolio basis using historical data.

Systems and Systems Integration: Systems and Systems Integration include customized end-to-end radio network, video solutions and implementation, optimization, and integration of networks, devices, software, and applications. Radio network includes the aggregation of promises to the customer to provide the radio network core and central processing software, base stations, consoles, and repeaters. These individual promises are not distinct in the context of the contract, as the Company provides a significant service of integrating and customizing the goods and services promised. The radio network represents distinct performance obligations for which revenue is recognized over time, as the Company creates an asset with no alternative use and has an enforceable right to payment for work performed. The Company's revenue recognition over time is based on an input measure of costs incurred, which depicts the transfer of control to its customers under its contracts. Systems and Systems Integration revenue is recognized over an average duration of approximately one to two years.

Systems also includes Avigilon end-to-end security and surveillance solutions including: video analytics, network video management hardware and software, and access control solutions, which are capable of being distinct and distinct in the context of the contract. Avigilon security and surveillance video solutions are traditionally sold through reseller partners, with contracts negotiated under fixed pricing. Provisions for returns are determined on a portfolio basis using historical data. Revenue is recognized upon the transfer of control of the end-to-end video solution to the reseller partners, typically upon shipment.

Services and Software: The Services and Software segment provides a full set of offerings for government, public safety and commercial communication networks. Direct customers of the Services and Software segment are typically government public safety and first-responder agencies and municipalities. Indirect customers are commercial customers who distribute broadband push-to-talk services to a final end customer base. Contracts with our customers are typically fixed fee, with consideration measured net of associated sales taxes, and, as it relates to our direct customers, funded through government appropriations.

Services: Services includes a continuum of service offerings beginning with repair, technical support and maintenance. More advanced offerings include: monitoring, software updates and cybersecurity services. Managed service offerings range from partial to full operation of customer or Motorola Solutions owned networks. Services are provided across all radio network technologies. Services are both distinct and capable of being distinct in the context of the contract, representing a series of recurring services that the Company stands ready to perform over the contract term. Since services contracts typically allow for customers to terminate for convenience or for non-appropriations of fiscal funding, the contract term is generally considered to be limited to a monthly or annual basis, subject to customer renewal. While contracts with customers are typically fixed fee, certain managed services contracts may be subject to variable consideration related to the achievement of service level agreement performance measurements. The Company has not historically paid significant penalties under service level agreements, and accordingly, it does not constrain its contract price. Certain contracts may also contain variable consideration driven by number of users. Revenue is typically recognized on services over time as a series of services performed over the contract term on a straight-line basis.

Software: Software offerings include public safety and enterprise command solutions, unified communications applications, and video software solutions delivered either “as a service” or on-premise. Solutions delivered as a service consist of a range of promises including hosted software, technical support and the right to unspecified future software enhancements. Software is not distinct from the hosting service since the customer does not have the right to take possession of the software at any time during the term of the arrangement. The hosted software, technical support, and right to unspecified future software enhancements each represent a series of distinct services that are delivered concurrently using the same over-time method. As such, the promises are accounted for as a single performance obligation with revenue recognized on a straight-line basis.

On-premise offerings consist of multiple promises primarily including software licenses and post-contract customer support. The promises are each distinct and distinct within the context of the contract as the customer benefits from each promise individually without any significant integration or interrelationship between the promises. On-premise software revenue is recognized at the point in time when the customer can benefit from the software which generally aligns with the beginning of the license period. Revenue for post-contract customer support is recognized over-time as the customer simultaneously receives and consumes the services on a straight-line basis.

Significant Judgments

The Company enters into arrangements which consist of multiple promises to our customers. The Company evaluates whether the promised goods and services are distinct or a series of distinct goods or services. Where contracts contain multiple performance obligations, the Company generally allocates the total estimated consideration to each performance obligation based on applying an estimated selling price (“ESP”) as our best estimate of standalone selling price. The Company determines ESP by: (i) collecting all reasonably available data points including sales, cost and margin analysis of the product or services, and other inputs based on its 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 major product or service, type of customer, geographic market, and sales volume.

The Company accounts for certain system contracts on an over time basis, electing an input method of estimated costs as a measure of performance completed. The selection of the measurement of progress using estimated costs was based on a thorough consideration of alternatives of various output and input measures, including contract milestones and labor hours. However, the Company has determined that other input and output measures are not an appropriate measure of progress as they do not accurately align with the transfer of control on its customized product solutions. The selection of costs incurred as a measure of progress aligns the transfer of control to the overall production of the customized system.

For system contracts accounted for over time using estimated costs as a measure of performance completed, the Company relies on estimates around the total estimated costs to complete the contract (“Estimated Costs at Completion”). Total Estimated Costs at Completion include direct labor, material and subcontracting costs. Due to the nature of the efforts required to be performed to meet the underlying performance obligation, determining Estimated Costs at Completion may be complex and subject to many variables. We have a standard and disciplined quarterly process in which management reviews the progress and performance of open contracts in order to determine the best estimate of Estimated Costs at Completion. 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 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 work to be performed, the availability and cost of materials, and performance by subcontractors, among other variables. Based on this analysis, any quarterly adjustment to net sales, cost of sales, and the related impact to operating income are recorded as necessary in the period they become known. When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

Remaining Performance Obligations

Remaining performance obligations represent the revenue that is expected to be recognized in future periods related to performance obligations that are unsatisfied, or partially unsatisfied, as of the end of a period. The transaction price associated with remaining performance obligations which are not yet satisfied as of June 30, 2018 is $6.2 billion. A total of $3.1 billion is from Products and Systems Integration performance obligations that are not yet satisfied, of which $1.7 billion is expected to be recognized in the next 12 months. The remaining amounts will generally be satisfied over time as systems are implemented. A total of $3.1 billion is from Services and Software performance obligations that are not yet satisfied as of June 30, 2018. The determination of Services and Software performance obligations that are not satisfied takes into account a contract term that may be limited by the customer's ability to terminate for convenience. Where termination for convenience exists in the Company's Services contracts, its disclosure of the remaining performance obligations that are unsatisfied assumes the contract term is limited until renewal. The Company expects to recognize $1.1 billion from unsatisfied Services and Software performance obligations over the next 12 months, with the remaining performance obligations to be recognized over time as services are performed and software is implemented.

Contract Balances

(in millions)		January 1, 2018		**June 30, 2018**
Receivables	$	1,198	**$**	**1,159**
Contract assets		931		**760**
Contract liabilities		1,082		**1,049**
Non-current contract liabilities		162		**180**

Contract assets consist of amounts formerly classified as Costs and earnings in excess of billings and Unbilled accounts receivable where the Company does not yet have an unconditional right to bill. Contract liabilities consist of amounts formerly classified Billings in excess of costs and earnings recognized, Customer downpayments and Deferred revenue.

Payment terms on system contracts are typically tied to implementation milestones associated with progress on contracts, while revenue recognition is over-time based on a cost-to-cost method of measuring performance. The Company may recognize a contract asset or contract liability, depending on whether revenue has been recognized in excess of billings or billings in excess of revenue. Services contracts are typically billed in advance, generating Contract liabilities until the Company has performed the services. The Company does not record a financing component to contracts when it expects, at contract inception, that the period between the transfer of a promised good or service and related payment terms are less than a year.

Revenue recognized during the three months ended June 30, 2018 which was previously included in Contract liabilities as of April 1, 2018 is $365 million. Revenue recognized during the six months ended June 30, 2018 which was previously included in Contract liabilities as of January 1, 2018 is $541 million. Revenue of $6 million was reversed during the three months ended June 30, 2018 and $3 million of revenue was recognized during the six months ended June 30, 2018 related to performance obligations satisfied, or partially satisfied, in previous periods, primarily driven by changes in the estimates of progress on system contracts.

There have been no material impairment losses recognized on contract assets during the six months ended June 30, 2018.

Contract Cost Balances

(in millions)		January 1, 2018		**June 30, 2018**
Current contract cost assets	$	62	**$**	**47**
Non-current contract cost assets		85		**90**

Contract cost assets represent incremental costs to obtain a contract, primarily related to the Company's sales incentive plans, and certain costs to fulfill contracts. Contract cost assets are amortized into expense over a period that follows the

passage of control to the customer over time. Incremental costs to obtain a contract with the Company's sales incentive plans are accounted for under a portfolio approach, with amortization ranging from one to four years to approximate the recognition of revenues over time. Where incremental costs to obtain a contract will be recognized in one year or less, the Company applies a practical expedient around expensing amounts as incurred. Amortization of contract cost assets was $11 million and $23 million for the three and six months ended June 30, 2018, respectively.

3. Other Financial Data

Statements of Operations Information

Other Charges (Income)

Other charges (income) included in Operating earnings consist of the following:

	Three Months Ended		*Six Months Ended*	
	June 30, 2018	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*
Other charges:				
Intangibles amortization (Note 14)	**$ 53**	$ 37	**$ 94**	$ 73
Reorganization of business (Note 13)	**18**	1	**26**	16
Building impairment	**—**	—	**—**	8
Loss (Gain) on legal settlements	**—**	(1)	**1**	(2)
Gain on recovery of financial receivables	**—**	—	**—**	(42)
Acquisition-related transaction fees	**—**	—	**17**	1
	$ 71	$ 37	**$ 138**	$ 54

During the six months ending June 30, 2018, the Company recognized $17 million of acquisition-related transaction fees for the Avigilon and Plant acquisitions.

During the six months ended July 1, 2017, the Company recognized $8 million of building impairments related to the sale of its Basingstoke building.

During the six months ended July 1, 2017, the Company recognized a net gain of $42 million related to the recovery, through legal procedures to seize and liquidate assets, of financial receivables owed to the Company by a former customer of its legacy Networks business.

Other Income (Expense)

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

	Three Months Ended		*Six Months Ended*	
	June 30, 2018	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*
Interest income (expense), net:				
Interest expense	**$ (63)**	$ (55)	**$ (117)**	$ (109)
Interest income	**5**	4	**13**	7
	$ (58)	$ (51)	**$ (104)**	$ (102)
Other:				
Net periodic postretirement benefit (Note 7)	**$ 20**	$ 12	**$ 40**	$ 24
Non-U.S. pension settlement loss (Note 7)	**—**	(16)	—	(25)
Foreign currency gain (loss)	**11**	(20)	—	(22)
Gain (loss) on derivative instruments	**(19)**	18	**(23)**	11
Gains on equity method investments	**—**	1	**1**	—
Other	**1**	1	**(2)**	3
	$ 13	$ (4)	**$ 16**	$ (9)

During the three months ended June 30, 2018, the Company recognized a foreign currency gain of $11 million, primarily driven by the Euro and British pound, and a loss of $19 million on derivative instruments put in place to minimize the foreign exchange risk related to currency fluctuations.

During the six months ended June 30, 2018, the Company recognized a loss of $23 million on derivative instruments put in place to minimize the foreign exchange risk related to currency fluctuations. The loss includes a loss of $14 million on foreign currency derivatives put in place to minimize the exposure to the Canadian dollar related to the purchase of Avigilon.

During the three and six months ended July 1, 2017, the Company recognized foreign currency losses of $20 million and $22 million, respectively, primarily driven by the Euro and British Pound, partially offset by gains of $18 million and $11 million, respectively, on derivative instruments put in place to minimize the foreign exchange risk related to currency fluctuations.

Earnings Per Common Share

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

	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Three Months Ended		Six Months Ended	
	June 30, 2018	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*
Basic earnings per common share:				
Earnings	**$ 180**	$ 131	**$ 297**	$ 208
Weighted average common shares outstanding	**162.2**	163.1	**161.7**	163.7
Per share amount	**$ 1.11**	$ 0.80	**$ 1.83**	$ 1.27
Diluted earnings per common share:				
Earnings	**$ 180**	$ 131	**$ 297**	$ 208
Weighted average common shares outstanding	**162.2**	163.1	**161.7**	163.7
Add effect of dilutive securities:				
Share-based awards	**3.8**	3.1	**4.0**	3.2
Senior Convertible Notes	**5.7**	2.8	**5.4**	2.6
Diluted weighted average common shares outstanding	**171.7**	169.0	**171.1**	169.5
Per share amount	**$ 1.05**	$ 0.78	**$ 1.73**	$ 1.23

In the computation of diluted earnings per common share for the three months ended June 30, 2018, the assumed exercise of 1.4 million options, including 1.2 million subject to market-based contingent stock agreements, was excluded because their inclusion would have been antidilutive. For the six months ended June 30, 2018, the assumed exercise of 2.9 million options, including 2.4 million subject to market-based contingent stock agreements, were excluded because their inclusion would have been antidilutive.

For the three months ended July 1, 2017, the assumed exercise of 2.1 million options, including 1.8 million subject to market-based contingent stock agreements, was excluded because their inclusion would have been antidilutive. For the six months ended July 1, 2017, the assumed exercise of 2.4 million options, including 2.0 million subject to market-based contingent stock agreements, were excluded because their inclusion would have been antidilutive.

On August 25, 2015, the Company issued $1.0 billion of 2% Senior Convertible Notes which mature in September 2020 (the "Senior Convertible Notes"). The notes became fully convertible as of August 25, 2017. In the event of conversion, the Company intends to settle the principal amount of the Senior Convertible Notes in cash. Since the Company’s intention is to settle the par value of the Senior Convertible Notes in cash upon conversion, only the number of shares that would be issuable (under the treasury stock method of accounting for share dilution) are included in our computation of diluted earnings per share. The conversion price is adjusted for dividends declared through the date of settlement. Diluted earnings per share has been calculated based upon the amount by which the average stock price exceeds the conversion price.

Balance Sheet Information

Accounts Receivable, Net

Accounts receivable, net, consists of the following:

	June 30, 2018	*December 31, 2017*
Accounts receivable	**$ 1,203**	$ 1,568
Less allowance for doubtful accounts	**(44)**	(45)
	$ 1,159	$ 1,523

During the six months ended June 30, 2018, $297 million of Unbilled accounts receivable were reclassified to Contract assets and $24 million of non-customer miscellaneous receivables were reclassified to Other current assets as a result of the adoption of ASC 606. In addition, $87 million of receivables were acquired with the purchases of Avigilon and Plant.

Inventories, Net

Inventories, net, consist of the following:

	June 30, 2018	December 31, 2017
Finished goods	$ 215	$ 178
Work-in-process and production materials	307	282
	522	460
Less inventory reserves	(131)	(133)
	$ 391	$ 327

During the six months ended June 30, 2018, the increase in Inventories, net was primarily driven by the acquisitions of Avigilon and Plant.

Other Current Assets

Other current assets consist of the following:

	June 30, 2018	December 31, 2017
Costs and earnings in excess of billings (Note 1)	$ —	$ 549
Current contract cost assets (Note 2)	47	62
Tax-related refunds receivable	103	90
Other	180	131
	$ 330	$ 832

Property, Plant and Equipment, Net

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

	June 30, 2018	December 31, 2017
Land	$ 11	$ 11
Building	354	316
Machinery and equipment	2,190	2,122
	2,555	2,449
Less accumulated depreciation	(1,660)	(1,593)
	$ 895	$ 856

During the six months ended June 30, 2018, the increase in Property, plant and equipment was primarily driven by the acquisitions of Avigilon and Plant.

Depreciation expense for the three months ended June 30, 2018 and July 1, 2017 was $43 million and $49 million, respectively. Depreciation expense for the six months ended June 30, 2018 and July 1, 2017 was $84 million and $93 million, respectively.

Investments

Investments consist of the following:

	June 30, 2018	December 31, 2017
Corporate bonds	$ 2	$ 2
Common stock	10	13
	12	15
Strategic investments, at cost	65	78
Company-owned life insurance policies	81	141
Equity method investments	14	13
	$ 172	$ 247

Strategic investments include investments in non-public technology-driven startup companies. Strategic investments do not have readily determinable fair values and are recorded at cost less impairments and adjusted for observable fair value movements. The Company did not recognize any impairments or adjustments to fair value during the six months ended June 30, 2018.

Company-owned life insurance policies were recorded at their cash surrender value of $81 million and $141 million, at June 30, 2018 and December 31, 2017, respectively. During the six months ended June 30, 2018, the Company withdrew $60 million of excess cash from its company-sponsored life insurance investments.

As of December 31, 2017, the Company had unrealized gains of $8 million related to available-for-sale securities, which were realized upon the sale of the investment in the first half of 2018.

During the three months ended June 30, 2018 and July 1, 2017, Losses on the sale of investments and businesses were $1 million. During the six months ended June 30, 2018, Gains on the sale of investments and businesses were $10 million, compared to gains of $2 million during the six months ended July 1, 2017.

Other Assets

Other assets consist of the following:

	June 30, 2018	December 31, 2017
Defined benefit plan assets	166	133
Tax receivable	101	101
Non-current contract cost assets (Note 2)	90	—
Other	63	99
	$ 420	$ 333

Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2018	December 31, 2017
Deferred revenue (Note 1)	$ —	$ 613
Compensation	196	273
Billings in excess of costs and earnings (Note 1)	—	428
Tax liabilities	105	107
Deferred consideration on Airwave acquisition	83	83
Dividend payable	84	84
Trade liabilities	150	151
Other	478	547
	$ 1,096	$ 2,286

Deferred consideration in conjunction with the acquisition of Airwave will be paid on November 15, 2018.

Other Liabilities

Other liabilities consist of the following:

	June 30, 2018	December 31, 2017
Defined benefit plans	**$ 1,464**	$ 2,019
Non-current contract liabilities (Note 2)	**180**	—
Deferred revenue (Note 1)	**—**	169
Unrecognized tax benefits	**52**	54
Deferred income taxes	**240**	115
Other	**217**	228
	$ 2,153	$ 2,585

The Company made a $500 million contribution to our U.S. Pension Plans during the six months ended June 30, 2018.

During the six months ended June 30, 2018, the deferred income taxes increase was primarily driven by the acquisition of Avigilon.

Stockholders' Equity

Share Repurchase Program: Through a series of actions, the Board of Directors has authorized the Company to repurchase in the aggregate up to $14.0 billion of its outstanding shares of common stock (the "share repurchase program"). The share repurchase program does not have an expiration date.

During the six months ended June 30, 2018, the Company paid an aggregate of $66 million, including transaction costs, to repurchase approximately 0.6 million shares at an average price of $101.54 per share. As of June 30, 2018, the Company had used approximately $12.4 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving $1.6 billion of authority available for future repurchases.

Payment of Dividends: During the three months ended June 30, 2018 and July 1, 2017, the Company paid $84 million and $77 million, respectively, in cash dividends to holders of its common stock. During the six months ended June 30, 2018 and July 1, 2017, the Company paid $168 million and $154 million, respectively, in cash dividends to holders of its common stock.

Accumulated Other Comprehensive Loss

The following table displays the changes in Accumulated other comprehensive loss, including amounts reclassified into income, and the affected line items in the condensed consolidated statements of operations during the three and six months ended June 30, 2018 and July 1, 2017:

	Three Months Ended		*Six Months Ended*	
	June 30, 2018	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*
Foreign Currency Translation Adjustments:				
Balance at beginning of period	**$ (305)**	$ (460)	**$ (353)**	$ (494)
Other comprehensive income (loss) before reclassification adjustment	**(81)**	47	**(30)**	84
Tax expense	**(5)**	—	**(8)**	(3)
Other comprehensive income (loss), net of tax	**(86)**	47	**(38)**	81
Balance at end of period	**$ (391)**	$ (413)	**$ (391)**	$ (413)
Available-for-Sale Securities:				
Balance at beginning of period	**$ —**	$ —	**$ 6**	$ —
Other comprehensive income before reclassification adjustment	**—**	7	**—**	7
Tax expense	**—**	(3)	**—**	(3)
Other comprehensive income before reclassification adjustment, net of tax	**—**	4	**—**	4
Reclassification adjustment into Gains on sales of investments and businesses, net	**—**	—	**(8)**	—
Tax expense	**—**	—	**2**	—
Reclassification adjustment into Gains (losses) on sales of investments and businesses, net of tax	**—**	—	**(6)**	—
Other comprehensive income (loss), net of tax	**—**	4	**(6)**	4
Balance at end of period	**$ —**	$ 4	**$ —**	$ 4
Defined Benefit Plans:				
Balance at beginning of period	**$ (2,203)**	$ (1,804)	**$ (2,215)**	$ (1,823)
Other comprehensive loss before reclassification adjustment, net of tax	**—**	(11)	**—**	(11)
Reclassification adjustment - Actuarial net losses into Other income (expense)	**18**	16	**36**	32
Reclassification adjustment - Prior service benefits into Other income (expense)	**(4)**	(4)	**(7)**	(8)
Reclassification adjustment - Non-U.S. pension settlement loss into Other income (expense)	**—**	16	**—**	25
Tax benefit	**—**	(3)	**(3)**	(5)
Reclassification adjustment into Net earnings, net of tax	**14**	25	**26**	44
Other comprehensive income, net of tax	**14**	14	**26**	33
Balance at end of period	**$ (2,189)**	$ (1,790)	**$ (2,189)**	$ (1,790)
Total Accumulated other comprehensive loss	**$ (2,580)**	$ (2,199)	**$ (2,580)**	$ (2,199)

4. Debt and Credit Facilities

As of June 30, 2018, the Company had a $2.2 billion syndicated, unsecured revolving credit facility scheduled to mature in April 2022 (the "2017 Motorola Solutions Credit Agreement"). During the first quarter of 2018, $400 million was borrowed under this facility for the Avigilon acquisition, of which $100 million was repaid during the three months ended June 30, 2018. As of June 30, 2018, the outstanding loan amount was $300 million. Subsequent to the quarter, the Company paid an additional $50 million. The 2017 Motorola Solutions Credit Agreement includes a $500 million letter of credit sub-limit with $450 million of fronting commitments. Borrowings under the facility bear interest at the prime rate plus the applicable margin, or at a spread above the London Interbank Offered Rate ("LIBOR"), at the Company's option. The weighted average borrowing rate on outstanding amounts was 3.75%. An annual facility fee is payable on the undrawn amount of the credit line. The interest rate and facility fee are subject to adjustment if the Company's credit rating changes. The Company must comply with certain customary covenants including a maximum leverage ratio, as defined in the 2017 Motorola Solutions Credit Agreement. The Company was in compliance with its financial covenants as of June 30, 2018.

To complete the acquisition of Avigilon in the first quarter of 2018, the Company entered into a term loan for $400 million with a maturity date of March 26, 2021 (the “Term Loan”). Interest on the Term Loan is variable and indexed to LIBOR. Interest is payable monthly, subject to the Company's discretion. The weighted average borrowing rate for amounts outstanding during the six months ended June 30, 2018 was 3.35%. Net proceeds after issuance costs were $399 million. No additional borrowings are permitted and amounts borrowed and repaid or prepaid may not be re-borrowed.

Also in conjunction with the acquisition of Avigilon in March 2018, the Company assumed $75 million of borrowings under Avigilon's revolving credit facility, of which $35 million was repaid during the first quarter of 2018 with the remaining $40 million paid during the second quarter of 2018, resulting in the closure of the facility.

In February of 2018, the Company issued $500 million of 4.60% Senior notes due 2028. The Company recognized net proceeds of $497 million after debt issuance costs and debt discounts. These proceeds were then used to make a $500 million contribution to the Company's U.S. pension plan.

On August 25, 2015, the Company entered into an agreement with Silver Lake Partners to issue $1.0 billion of 2.00% Senior Convertible Notes which mature in September 2020. The notes became fully convertible as of August 25, 2017. The notes are convertible based on a conversion rate of 14.7476, as may be adjusted for dividends declared, per $1,000 principal amount (which is currently equal to a conversion price of $67.81 per share). The exercise price adjusts automatically for dividends. The value by which the Senior Convertible Notes exceeded their principal amount if converted as of June 30, 2018 was $682 million. In the event of conversion, the Company intends to settle the principal amount of the Senior Convertible Notes in cash.

5. Risk Management

Foreign Currency Risk

As of June 30, 2018, the Company had outstanding foreign exchange contracts with notional amounts totaling $681 million, compared to $507 million outstanding at December 31, 2017. The Company does not believe these financial instruments should subject it to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset gains and losses on the underlying assets, liabilities and transactions.

The following table shows the five largest net notional amounts of the positions to buy or sell foreign currency as of June 30, 2018, and the corresponding positions as of December 31, 2017:

	Notional Amount	
Net Buy (Sell) by Currency	***June 30, 2018***	*December 31, 2017*
Euro	**$ 245**	$ 149
British Pound	**162**	72
Chinese Renminbi	**(68)**	(73)
Australian Dollar	**(66)**	(64)
Brazilian Real	**(39)**	(45)

As of the six months ended June 30, 2018, the Company had entered into forward contracts to sell £25 million, expiring in September 2018. The forward contracts have been designated as a net investment hedge which is in place to partially hedge the Company's British pound foreign currency exposure on its net investment in Airwave Solutions Limited. The gains and losses on the Company's net investment in British pound-denominated foreign operations, driven by changes in foreign exchange rates, are economically offset by movements in the fair values of the forward contracts designated as net investment hedges. Any changes in fair value of the net investment hedges are reflected as a component of Accumulated other comprehensive loss. As of June 30, 2018, the fair value of the derivative contracts was a $2 million liability.

Interest Rate Risk

Certain of the Company's subsidiaries have variable interest loans denominated in the Euro and Chilean Peso. The Company has interest rate swap agreements in place which change the characteristics of interest rate payments from variable to maximum fixed-rate payments. The interest rate swaps are not designated as hedges. As such, changes in the fair value of the interest rate swaps are included in Other income (expense) in the Company's condensed consolidated statements of operations. The fair value of the interest rate swaps was de minimus at June 30, 2018 and December 31, 2017.

Counterparty Risk

The use of derivative financial instruments exposes the Company to counterparty credit risk in the event of non-performance by counterparties. However, the Company's risk is limited to the fair value of the instruments when the derivative is in an asset position. The Company actively monitors its exposure to credit risk. As of June 30, 2018, all of the counterparties have investment grade credit ratings. As of June 30, 2018, the Company had $4 million of exposure to aggregate net credit risk with all counterparties.

The following tables summarize the fair values and locations in the condensed consolidated balance sheets of all derivative financial instruments held by the Company as of June 30, 2018 and December 31, 2017:

	Fair Values of Derivative Instruments			
	Assets		*Liabilities*	
June 30, 2018	*Fair Value*	*Balance Sheet Location*	*Fair Value*	*Balance Sheet Location*
Derivatives designated as hedging instruments:				
Foreign exchange contracts	$ —	Other assets	$ 2	Other liabilities
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$ 4	Other current assets	$ 6	Accrued liabilities
Total derivatives	$ 4		$ 8	

	Fair Values of Derivative Instruments			
	Assets		*Liabilities*	
December 31, 2017	*Fair Value*	*Balance Sheet Location*	*Fair Value*	*Balance Sheet Location*
Derivatives designated as hedging instruments:				
Foreign exchange contracts	$ —	Other assets	$ 3	Other liabilities
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$ 5	Other current assets	$ 2	Accrued liabilities
Total derivatives	$ 5		$ 5	

The following table summarizes the effect of derivatives designated as hedging instruments on the Company's condensed consolidated financial statements for the three and six months ended June 30, 2018 and July 1, 2017:

	Three Months Ended		Six Months Ended		
Loss on Derivative Instruments	**June 30, 2018**	July 1, 2017	**June 30, 2018**	July 1, 2017	*Balance Sheet Location*
Foreign exchange contracts	**$ 5**	$ (2)	**$ 2**	$ (2)	Other comprehensive income (loss)

The following table summarizes the effect of derivatives not designated as hedging instruments on the Company's condensed consolidated financial statements for the three and six months ended June 30, 2018 and July 1, 2017:

	Three Months Ended		*Six Months Ended*		
Gain (loss) on Derivative Instruments	***June 30, 2018***	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*	*Statements of Operations Location*
Foreign exchange contracts	**$ (19)**	$ 18	**$ (23)**	$ 11	Other income (expense)

6. Income Taxes

At the end of each interim reporting period, the Company makes an estimate of its annual effective income tax rate. Tax expense in interim periods is calculated at the estimated annual effective tax rate plus or minus the tax effects of items of income and expense that are discrete to the period. The estimate used in providing for income taxes on a year-to-date basis may change in subsequent interim periods.

The following table provides details of income taxes:

	Three Months Ended		*Six Months Ended*	
	June 30, 2018	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*
Net earnings before income taxes	**$ 227**	$ 205	**$ 367**	$ 324
Income tax expense	**46**	73	**69**	114
Effective tax rate	**20%**	36%	**19%**	35%

The Company recorded $46 million of net tax expense during the three months ended June 30, 2018, resulting in an effective tax rate of 20%, compared to $73 million of net tax expense during the three months ended July 1, 2017, resulting in an effective tax rate of 36%. The effective tax rate for the three months ended June 30, 2018 of 20% is lower than the effective tax rate for the three months ended July 1, 2017 of 36%, primarily due to the corporate income tax rate decrease from 35% to 21%, as a result of the U.S. Tax Cuts and Jobs Act (the “Tax Act”) enacted December 22, 2017. The effective tax rate in the second quarter of 2018 was lower than the U.S. statutory tax rate of 21% primarily due to a favorable settlement of a state audit, resulting in a tax benefit. The effective tax rate in the second quarter of 2017 was greater than the U.S. statutory tax rate of 35% partly due to change of estimates between provision and the filing of tax returns in foreign jurisdictions.

The Company recorded $69 million of net tax expense during the six months ended June 30, 2018, resulting in an effective tax rate of 19%, compared to $114 million of net tax expense during the six months ended July 1, 2017, resulting in an effective tax rate of 35%. The effective tax rate for the six months ended June 30, 2018 of 19% is lower than the effective tax rate for the six months ended July 1, 2017 of 35%, primarily due to the corporate income tax rate decrease from 35% to 21%, as a result of the Tax Act. The effective tax rate for six months ended June 30, 2018 was lower than the U.S. statutory tax rate of 21% primarily due to the recognition of excess tax benefits on share-based compensation and a tax benefit due to a favorable settlement of a state audit. The effective tax rate for the six months ended July 1, 2017 was equal to the U.S. statutory tax rate of 35%.

Under the guidance in the U.S. Securities and Exchange Commission's Staff Accounting Bulletin No. 118 that addresses the FASB's ASC Topic 740, "Income Taxes," the Company recorded provisional amounts for the impact of the Tax Act in 2017. The Company is continuing to analyze the impact of the recently issued IRS Notices related to the Tax Act. For the six months ended June 30, 2018, the Company has not recorded any material adjustments to the previously recorded provisional tax amounts.

7. Retirement and Other Employee Benefits

Pension and Postretirement Health Care Benefits Plans

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

<td style="vertical-align:bottom;border-bo

	U.S. Pension Benefit Plans		*Non-U.S. Pension Benefit Plans*		*Postretirement Health Care Benefits Plan*	
Three Months Ended	***June 30, 2018***	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*	***June 30, 2018***	*July 1, 2017*
Service cost	**$ —**	$ —	**$ 1**	$ 1	**$ —**	$ —
Interest cost	**46**	46	**10**	10	**1**	1
Expected return on plan assets	**(68)**	(57)	**(24)**	(24)	**(3)**	(3)
Amortization of:						
Unrecognized net loss	**14**	11	**3**	4	**1**	1
Unrecognized prior service benefit	**—**	—	**—**	—	**(4)**	(4)
Settlement loss	**—**	—	**—**	16	**—**	—
Net periodic pension cost (benefit)	**$ (8)**	$ —				