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 October 1, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company ☐

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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on October 1, 2016:

Class	Number of Shares
Common Stock; $.01 Par Value	165,963,465

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Part I—Financial Information

Condensed Consolidated Statements of Operations

(Unaudited)

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	**October 1, 2016**	October 3, 2015
Net sales from products	**$ 920**	$ 925	**$ 2,423**	$ 2,550
Net sales from services	**612**	497	**1,732**	1,463
Net sales	**1,532**	1,422	**4,155**	4,013
Costs of products sales	**398**	395	**1,124**	1,139
Costs of services sales	**372**	342	**1,090**	993
Costs of sales	**770**	737	**2,214**	2,132
Gross margin	**762**	685	**1,941**	1,881
Selling, general and administrative expenses	**247**	259	**722**	769
Research and development expenditures	**137**	153	**411**	468
Other charges	**37**	42	**144**	39
Operating earnings	**341**	231	**664**	605
Other income (expense):				
Interest expense, net	**(54)**	(43)	**(157)**	(122)
Gains (losses) on sales of investments and businesses, net	**7**	10	**(13)**	60
Other	**(1)**	(1)	**(12)**	(3)
Total other expense	**(48)**	(34)	**(182)**	(65)
Earnings from continuing operations before income taxes	**293**	197	**482**	540
Income tax expense	**100**	71	**164**	175
Earnings from continuing operations	**193**	126	**318**	365
Loss from discontinued operations, net of tax	**—**	(11)	**—**	(32)
Net earnings	**193**	115	**318**	333
Less: Earnings attributable to noncontrolling interests	**1**	—	**1**	2
Net earnings attributable to Motorola Solutions, Inc.	**$ 192**	$ 115	**$ 317**	$ 331
Amounts attributable to Motorola Solutions, Inc. common stockholders:				
Earnings from continuing operations, net of tax	**$ 192**	$ 126	**$ 317**	$ 363
Loss from discontinued operations, net of tax	**—**	(11)	**—**	(32)
Net earnings attributable to Motorola Solutions, Inc.	**$ 192**	$ 115	**$ 317**	$ 331
Earnings (loss) per common share:				
Basic:				
Continuing operations	**$ 1.15**	$ 0.63	**$ 1.85**	$ 1.75
Discontinued operations	**—**	(0.05)	**—**	(0.15)
	$ 1.15	$ 0.58	**$ 1.85**	$ 1.60
Diluted:				
Continuing operations	**$ 1.13**	$ 0.63	**$ 1.82**	$ 1.74
Discontinued operations	**—**	(0.06)	**—**	(0.16)
	$ 1.13	$ 0.57	**$ 1.82**	$ 1.58
Weighted average common shares outstanding:				
Basic	**166.3**	199.2	**171.0**	207.2
Diluted	**169.6**	201.3	**174.0**	209.2
Dividends declared per share	**$ 0.41**	$ 0.34	**$ 1.23**	$ 1.02

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

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended	
(In millions)	***October 1, 2016***	*October 3, 2015*
Net earnings	**$ 193**	$ 115
Other comprehensive income (loss), net of tax (Note 3):		
Foreign currency translation adjustments	**(49)**	(16)
Marketable securities	**1**	(5)
Defined benefit plans	**5**	—
Total other comprehensive loss, net of tax	**(43)**	(21)
Comprehensive income	**150**	94
Less: Earnings attributable to noncontrolling interest	**1**	—
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	**$ 149**	$ 94

	Nine Months Ended	
(In millions)	***October 1, 2016***	*October 3, 2015*
Net earnings	**$ 318**	$ 333
Other comprehensive income (loss), net of tax (Note 3):		
Foreign currency translation adjustments	**(134)**	(35)
Marketable securities	**4**	(34)
Defined benefit plans	**65**	(82)
Total other comprehensive loss, net of tax	**(65)**	(151)
Comprehensive income	**253**	182
Less: Earnings attributable to noncontrolling interest	**1**	2
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	**$ 252**	$ 180

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

Condensed Consolidated Balance Sheets

(In millions, except par value)		October 1, 2016		December 31, 2015
		(Unaudited)		
ASSETS				
Cash and cash equivalents	**$**	**1,687**	$	1,980
Accounts receivable, net		**1,164**		1,362
Inventories, net		**283**		296
Other current assets		**670**		954
Current assets held for disposition		**—**		27
Total current assets		**3,804**		4,619
Property, plant and equipment, net		**780**		487
Investments		**238**		231
Deferred income taxes		**2,187**		2,278
Goodwill		**597**		420
Other assets		**1,013**		271
Non-current assets held for disposition		**—**		40
Total assets	**$**	**8,619**	$	8,346
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current portion of long-term debt	**$**	**5**	$	4
Accounts payable		**406**		518
Accrued liabilities		**1,750**		1,671
Total current liabilities		**2,161**		2,193
Long-term debt		**5,044**		4,345
Other liabilities		**2,062**		1,904
Stockholders' Equity				
Preferred stock, $100 par value		**—**		—
Common stock, $.01 par value:		**2**		2
Authorized shares: 600.0				
Issued shares: 10/1/16—166.3; 12/31/15—174.5				
Outstanding shares: 10/1/16—166.0; 12/31/15—174.3				
Additional paid-in capital		**174**		42
Retained earnings		**1,096**		1,716
Accumulated other comprehensive loss		**(1,931)**		(1,866)
Total Motorola Solutions, Inc. stockholders' equity (deficit)		**(659)**		(106)
Noncontrolling interests		**11**		10
Total stockholders' equity (deficit)		**(648)**		(96)
Total liabilities and stockholders' equity	**$**	**8,619**	$	8,346

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, 2015	**174.5**	**$ 44**	**$ (1,866)**	**$ 1,716**	**$ 10**
Net earnings				317	1
Other comprehensive loss			(65)		
Issuance of common stock and stock options exercised	2.3	80			
Share repurchase program	(10.5)			(728)	
Share-based compensation expense		52			
Dividends declared				(209)	
Balance as of October 1, 2016	**166.3**	**$ 176**	**$ (1,931)**	**$ 1,096**	**$ 11**

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

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended	
(In millions)	***October 1, 2016***	*October 3, 2015*
Operating		
Net earnings attributable to Motorola Solutions, Inc.	**$ 317**	$ 331
Earnings attributable to noncontrolling interests	**1**	2
Net earnings	**318**	333
Loss from discontinued operations, net of tax	**—**	(32)
Earnings from continuing operations, net of tax	**318**	365
Adjustments to reconcile Earnings from continuing operations to Net cash provided by operating activities:		
Depreciation and amortization	**220**	113
Non-cash other charges	**43**	43
Non-U.S. pension curtailment gain	**—**	(32)
Share-based compensation expense	**52**	58
Losses (gains) on sales of investments and businesses, net	**13**	(60)
Deferred income taxes	**143**	127
Changes in assets and liabilities, net of effects of acquisitions, dispositions, and foreign currency translation adjustments:		
Accounts receivable	**245**	167
Inventories	**—**	(21)
Other current assets	**(102)**	38
Accounts payable and accrued liabilities	**(224)**	(152)
Other assets and liabilities	**(56)**	(39)
Net cash provided by operating activities	**652**	607
Investing		
Acquisitions and investments, net	**(1,215)**	(150)
Proceeds from sales of investments and businesses, net	**637**	150
Capital expenditures	**(211)**	(131)
Proceeds from sales of property, plant and equipment	**68**	2
Net cash used for investing activities	**(721)**	(129)
Financing		
Repayment of debt	**(3)**	(3)
Net proceeds from issuance of debt	**673**	976
Issuance of common stock	**80**	69
Purchase of common stock	**(728)**	(2,996)
Excess tax benefit from share-based compensation	**—**	1
Payment of dividends	**(213)**	(218)
Net cash used for financing activities	**(191)**	(2,171)
Effect of exchange rate changes on cash and cash equivalents	**(33)**	(61)
Net decrease in cash and cash equivalents	**(293)**	(1,754)
Cash and cash equivalents, beginning of period	**1,980**	3,954
Cash and cash equivalents, end of period	**$ 1,687**	$ 2,200
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest, net	**$ 152**	$ 130
Income and withholding taxes, net of refunds	**62**	86

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 October 1, 2016 and for the three and nine months ended October 1, 2016 and October 3, 2015 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, 2015. The results of operations for the three and nine months ended October 1, 2016 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

On February 19, 2016, the Company completed the acquisition of Guardian Digital Communications Limited ("GDCL"), a holding company of Airwave Solutions Limited ("Airwave"), the largest private operator of a public safety network in the world. All of the outstanding equity of GDCL was acquired for the sum of £1, after which the Company invested into GDCL £698 million, net of cash acquired, or approximately $1.0 billion, to settle all third party debt. The Company will make a deferred cash payment of £64 million on November 15, 2018. The Company funded the investment with a $675 million term loan (the “Term Loan”) and approximately $400 million of international cash on hand. The acquisition has been reported within our Services segment, enabling the Company to geographically diversify its global Managed & Support services offerings, while offering a proven service delivery platform to build on for providing innovative, leading, mission-critical communications solutions and services to customers. See discussion in Note 14.

During the three months ended October 1, 2016, Motorola Solutions relocated its global headquarters from Schaumburg, IL to Chicago, IL. The move provides the Company with access to key talent and allows the Company to optimize the Schaumburg campus for current space requirements.

On September 23, 2016, the Company entered into a stock purchase agreement with Spillman Technologies, a provider of comprehensive law enforcement and public safety software solutions. The acquisition, which is expected to close in the fourth quarter of 2016, will expand the Company's smart public safety portfolio and will enable the Company to offer a full suite of command center solutions to a broader customer base.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This new standard will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to receive for those goods and services. This ASU requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates and changes in those estimates. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date" that delayed the effective date of ASU 2014-09 by one year to January 1, 2018, as the Company’s annual reporting period begins after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" which clarifies the implementation guidance on principal versus agent considerations and includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. In April of 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing,” which reduces the complexity when applying the guidance for identifying performance obligations and improves the operability and understandability of the license implementation guidance. In May 2016, the FASB issued ASU 2016-12 “Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients,” which amends the guidance on transition, collectability, non-cash consideration, and the presentation of sales and other similar taxes. ASU 2016-12 clarifies that, for a contract to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP. In addition, ASU 2016-12 clarifies how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard’s contract criteria. The standard allows for both retrospective and modified retrospective methods of adoption. The Company is in the process of determining the method of adoption it will elect and is currently assessing the impact of this ASU on its consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued 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 January 1, 2019 and interim periods within that reporting period. The ASU requires a modified retrospective method upon adoption. The Company is in the process of assessing the impact of this ASU on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments,” which clarifies eight specific cash flow issues in an effort to reduce diversity in practice in how certain transactions are classified within the statement of cash flows. This ASU is effective for the Company January 1, 2018 with early adoption permitted. Upon adoption, the ASU requires a retrospective application unless it is determined that it is impractical to do so for which it must be retrospectively applied at the earliest date practical. Upon adoption, the Company does not anticipate significant changes to the Company's existing accounting policies or presentation of the Statement of Cash Flows.

In October 2016, the FASB issued ASU 2016-16, “Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory,” as part of the Board’s simplification initiative aimed at reducing complexity in accounting standards. This ASU eliminates the current 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 and will require entities to recognize tax expense when the transfer occurs. The guidance will be effective for the Company on January 1, 2018 and interim periods within that reporting period; early adoption permitted. The ASU requires a modified retrospective application with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. The Company is currently assessing the impact of this ASU on its consolidated financial statements and footnote disclosures.

The Company elected to adopt ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” as of January 1, 2016. ASU 2016-09, which was issued by the FASB in March 2016, simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The impact of the prospective adoption of the provisions related to the recognition of excess tax benefits in income tax expense was a $5 million income tax benefit during the nine months ended October 1, 2016. Additionally, as a result of the adoption of this accounting standard, excess tax benefits on share-based compensation have been reported as a component of operating cash rather than within financing cash flows as previously presented, while the payment of withholding taxes on the settlement of share-based awards has been reported as a component of financing cash flows rather than within operating cash flows as previously presented. The change in presentation of withholding taxes within the condensed consolidated statements of cash flows has been adopted retrospectively, thereby increasing operating cash flows and reducing financing cash flows by $16 million for both the nine months ended October 1, 2016 and October 3, 2015. The presentation of excess tax benefits on share-based compensation has been adjusted prospectively within the condensed consolidated statement of cash flows, increasing operating cash flow and decreasing financing cash flow by $5 million for the nine months ended October 1, 2016.

The Company adopted ASU No. 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," effective January 1, 2016. Under this guidance, debt issuance costs related to a recognized debt liability are required to be presented in the balance sheet as a direct reduction from the carrying amount of such debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this guidance. We have retrospectively adopted ASU 2015-03 effective January 1, 2016. As a result, debt issuance costs which were previously capitalized in other assets in the condensed consolidated balance sheet have been presented as a reduction to long-term debt. As of October 1, 2016 and December 31, 2015, $31 million and $41 million, respectively, have been presented as a component of long-term debt.

2. Discontinued Operations

On October 27, 2014, the Company completed the sale of its Enterprise business to Zebra Technologies Corporation for $3.45 billion in cash. Certain assets of the Enterprise business were excluded from the transaction and retained by the Company, including the Company’s iDEN business. The historical financial results of the Enterprise business, excluding those assets and liabilities retained in the transaction, are reflected in the Company's condensed consolidated financial statements and footnotes as discontinued operations for all periods presented.

During the three and nine months ended October 1, 2016, the Company had no earnings from discontinued operations in the condensed consolidated statements of operations. During the three and nine months ended October 3, 2015, the Company recorded losses from discontinued operations of $11 million and $32 million, 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		Nine Months Ended	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Other charges:				
Intangibles amortization	**$ 31**	$ 2	**$ 83**	$ 6
Reorganization of business	**6**	8	**28**	33
Building impairment	**—**	6	**17**	6
Non-U.S. pension curtailment gain	**—**	—	**—**	(32)
Impairment of corporate aircraft	**—**	26	**3**	26
Acquisition-related transaction fees	**—**	—	**13**	—
	$ 37	$ 42	**$ 144**	$ 39

Other Income (Expense)

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

	Three Months Ended		Nine Months Ended	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Interest income (expense), net:				
Interest expense	**$ (58)**	$ (47)	**$ (169)**	$ (132)
Interest income	**4**	4	**12**	10
	$ (54)	$ (43)	**$ (157)**	$ (122)
Other:				
Investment impairments	**(2)**	—	**(2)**	(3)
Foreign currency gain (loss)	**7**	(29)	**$ 34**	$ (23)
Gain (loss) on derivative instruments	**(11)**	25	**(41)**	13
Gains on equity method investments	**—**	2	**2**	6
Realized foreign currency loss on acquisition	**—**	—	**(10)**	—
Other	**5**	1	**5**	4
	$ (1)	$ (1)	**$ (12)**	$ (3)

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			
	Earnings from Continuing Operations, net of tax		*Net Earnings*	
Three Months Ended	***October 1, 2016***	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Basic earnings per common share:				
Earnings	**$ 192**	$ 126	**$ 192**	$ 115
Weighted average common shares outstanding	**166.3**	199.2	**166.3**	199.2
Per share amount	**$ 1.15**	$ 0.63	**$ 1.15**	$ 0.58
Diluted earnings per common share:				
Earnings	**$ 192**	$ 126	**$ 192**	$ 115
Weighted average common shares outstanding	**166.3**	199.2	**166.3**	199.2
Add effect of dilutive securities:				
Share-based awards	**2.4**	2.1	**2.4**	2.1
Senior Convertible Notes	**0.9**	—	**0.9**	—
Diluted weighted average common shares outstanding	**169.6**	201.3	**169.6**	201.3
Per share amount	**$ 1.13**	$ 0.63	**$ 1.13**	$ 0.57

	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from Continuing Operations, net of tax		*Net Earnings*	
Nine Months Ended	***October 1, 2016***	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Basic earnings per common share:				
Earnings	**$ 317**	$ 363	**$ 317**	$ 331
Weighted average common shares outstanding	**171.0**	207.2	**171.0**	207.2
Per share amount	**$ 1.85**	$ 1.75	**$ 1.85**	$ 1.60
Diluted earnings per common share:				
Earnings	**$ 317**	$ 363	**$ 317**	$ 331
Weighted average common shares outstanding	**171.0**	207.2	**171.0**	207.2
Add effect of dilutive securities:				
Share-based awards	**2.5**	2.0	**2.5**	2.0
Senior Convertible Notes	**0.5**	—	**0.5**	—
Diluted weighted average common shares outstanding	**174.0**	209.2	**174.0**	209.2
Per share amount	**$ 1.82**	$ 1.74	**$ 1.82**	$ 1.58

In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three months ended October 1, 2016, the assumed exercise of 2.5 million options were excluded because their inclusion would have been antidilutive. For the nine months ended October 1, 2016, the assumed exercise of 2.9 million options and the assumed vesting of 0.4 million restricted stock units ("RSUs") were excluded because their inclusion would have been antidilutive.

For the three months ended October 3, 2015, the assumed exercise of 3.9 million stock options were excluded because their inclusion would have been antidilutive. For the nine months ended October 3, 2015, the assumed exercise of 2.6 million options and the assumed vesting of 0.4 million RSUs 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 are convertible based on a conversion rate of 14.5985 per $1,000 principal amount (which is equal to an initial conversion price of $68.50 per share). In the event of conversion, the Company intends to settle the principal amount of the Senior Convertible Notes in cash.

Because of the Company's intention to settle the par value of the Senior Convertible Notes in cash upon conversion, Motorola Solutions does not reflect any shares underlying the Senior Convertible Notes in its diluted weighted average shares outstanding until the average stock price per share for the period exceeds the conversion price. In this case, only the number of shares that would be issuable (under the treasury stock method of accounting for share dilution) will be included, which is based upon the amount by which the average stock price exceeds the conversion price of $68.50. For the three and nine months ended October 1, 2016, the dilutive impact of the Senior Convertible Notes was 0.9 million shares and 0.5 million shares, respectively.

Balance Sheet Information

Cash and Cash Equivalents

The Company's cash and cash equivalents were $1.7 billion at October 1, 2016 and $2.0 billion at December 31, 2015. Of these amounts, $63 million was restricted at both October 1, 2016 and December 31, 2015.

Accounts Receivable, Net

Accounts receivable, net, consists of the following:

	October 1, 2016	*December 31, 2015*
Accounts receivable	**$ 1,207**	$ 1,390
Less allowance for doubtful accounts	**(43)**	(28)
	$ 1,164	$ 1,362

Inventories, Net

Inventories, net, consist of the following:

	October 1, 2016	*December 31, 2015*
Finished goods	**$ 154**	$ 151
Work-in-process and production materials	**265**	287
	419	438
Less inventory reserves	**(136)**	(142)
	$ 283	$ 296

Other Current Assets

Other current assets consist of the following:

	October 1, 2016	*December 31, 2015*
Available-for-sale securities	**$ 45**	$ 438
Costs and earnings in excess of billings	**413**	374
Tax-related refunds receivable	**100**	44
Other	**112**	98
	$ 670	$ 954

Property, Plant and Equipment, Net

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

	October 1, 2016	*December 31, 2015*
Land	**$ 14**	$ 17
Building	**293**	523
Machinery and equipment	**1,920**	1,585
	2,227	2,125
Less accumulated depreciation	**(1,447)**	(1,638)
	$ 780	$ 487

Depreciation expense for the three months ended October 1, 2016 and October 3, 2015 was $45 million and $30 million, respectively. Depreciation expense for the nine months ended October 1, 2016 and October 3, 2015 was $137 million and $107 million, respectively.

On February 1, 2016, the Company completed the sale of its Penang, Malaysia manufacturing operations, including the land, building, equipment, and inventory, as well as the transfer of employees to a contract manufacturer. During the nine months ended October 1, 2016, the Company incurred a loss of $7 million on the sale of its Penang, Malaysia facility and manufacturing operations, which is included within Gains (losses) on sales of investments and businesses, net.

The Company acquired property, plant and equipment, including network-related assets, with a fair value of $245 million in the acquisition of GDCL on February 19, 2016. See discussion in Note 14.

During the nine months ended October 1, 2016, the Company sold all remaining parcels of its Schaumburg, IL headquarters campus. A building impairment loss of $17 million has been recognized in Other charges during the nine months ended October 1, 2016 related to the excess carrying value of the long-lived assets in relation to the selling price.

During the three months ended October 1, 2016, Motorola Solutions relocated its global headquarters from Schaumburg, IL to Chicago, IL. The move provides the Company with access to key talent and allows the Company to optimize the Schaumburg campus for current space requirements.

Investments

Investments consist of the following:

October 1, 2016	*Cost Basis*	*Unrealized Gains*	*Unrealized Losses*	*Investments*
Available-for-sale securities:				
Government, agency, and government-sponsored enterprise obligations	$ 50	$ —	$ —	$ 50
Corporate bonds	5	—	—	5
Common stock	—	1	—	1
	55	1	—	56
Other investments, at cost	217	—	—	217
Equity method investments	10	—	—	10
	$ 282	$ 1	$ —	$ 283
Less: current portion of available-for-sale securities				45
				$ 238

December 31, 2015	*Cost Basis*	*Unrealized Gains*	*Unrealized Losses*	*Investments*
Available-for-sale securities:				
Government, agency, and government-sponsored enterprise obligations	$ 455	$ —	$ (11)	$ 444
Corporate bonds	7	—	—	7
Common stock	—	6	—	6
	462	6	(11)	457
Other investments, at cost	203	—	—	203
Equity method investments	9	—	—	9
	$ 674	$ 6	$ (11)	$ 669
Less: current portion of available-for-sale securities				438
				$ 231

In December 2015, the Company invested $401 million in United Kingdom treasury securities in order to partially offset the risk associated with fluctuations in the British Pound Sterling in the period before the closing of the purchase of GDCL. The investments were recorded within Other current assets in the Company's consolidated balance sheets. The Company liquidated these investments in February 2016 to partially fund the acquisition of GDCL. During the nine months ended October 1, 2016, the Company realized a loss of $19 million associated with the sale of the treasury securities, of which, $11 million was unrealized as of December 31, 2015.

Other Assets

Other assets consist of the following:

	October 1, 2016	*December 31, 2015*
Intangible assets, net (Note 14)	**$ 769**	$ 49
Non-current long-term receivables, net	**43**	47
Defined benefit plan assets	**163**	128
Other	**38**	47
	$ 1,013	$ 271

Accrued Liabilities

Accrued liabilities consist of the following:

	October 1, 2016	*December 31, 2015*
Deferred revenue	**$ 404**	$ 390
Compensation	**196**	241
Billings in excess of costs and earnings	**329**	337
Tax liabilities	**72**	48
Dividend payable	**68**	71
Trade liabilities	**159**	135
Other	**522**	449
	$ 1,750	$ 1,671

Other Liabilities

Other liabilities consist of the following:

	October 1, 2016	*December 31, 2015*
Defined benefit plans	**$ 1,486**	$ 1,512
Postretirement Health Care Benefit Plan	**—**	49
Deferred revenue	**126**	113
Unrecognized tax benefits	**42**	50
Deferred income taxes	**119**	—
Deferred consideration (Note 14)	**76**	—
Other	**213**	180
	$ 2,062	$ 1,904

Stockholders' Equity

Share Repurchase Program: Through actions taken on July 28, 2011, January 30, 2012, July 25, 2012, July 22, 2013, November 3, 2014, and August 3, 2016, 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 nine months ended October 1, 2016, the Company paid an aggregate of $728 million, including transaction costs, to repurchase approximately 10.5 million shares at an average price of $69.31 per share. As of October 1, 2016, the

Company had used approximately $11.7 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving $2.3 billion of authority available for future repurchases.

Payment of Dividends: On November 3, 2016, the Company announced that its Board of Directors approved an increase in the quarterly cash dividend from $0.41 per share to $0.47 per share of common stock. During both the three months ended October 1, 2016 and October 3, 2015, the Company paid $70 million in cash dividends to holders of its common stock. During the nine months ended October 1, 2016 and October 3, 2015, the Company paid $213 million and $218 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 nine months ended October 1, 2016 and October 3, 2015:

	Three Months Ended		*Nine Months Ended*	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Foreign Currency Translation Adjustments:				
Balance at beginning of period	**$ (351)**	$ (223)	**$ (266)**	$ (204)
Other comprehensive loss before reclassification adjustment	**(47)**	(17)	**(131)**	(35)
Tax (expense) benefit	**(2)**	1	**(3)**	—
Other comprehensive loss, net of tax	**(49)**	(16)	**(134)**	(35)
Balance at end of period	**$ (400)**	$ (239)	**$ (400)**	$ (239)
Available-for-Sale Securities:				
Balance at beginning of period	**$ —**	$ 15	**$ (3)**	$ 44
Other comprehensive income (loss) before reclassification adjustment	**1**	—	**(1)**	(2)
Tax benefit	**—**	—	**1**	1
Other comprehensive income (loss) before reclassification adjustment, net of tax	**1**	—	**—**	(1)
Reclassification adjustment into Gains (losses) on sales of investments and businesses, net	**—**	(8)	**6**	(54)
Tax expense (benefit)	**—**	3	**(2)**	21
Reclassification adjustment into Gains (losses) on sales of investments and businesses, net of tax	**—**	(5)	**4**	(33)
Other comprehensive income (loss), net of tax	**1**	(5)	**4**	(34)
Balance at end of period	**$ 1**	$ 10	**$ 1**	$ 10
Defined Benefit Plans:				
Balance at beginning of period	**(1,537)**	(1,777)	**$ (1,597)**	$ (1,695)
Other comprehensive income (loss) before reclassification adjustment	**—**	—	**53**	(53)
Tax expense	**—**	—	**(16)**	—
Other comprehensive income (loss) before reclassification adjustment, net of tax	**—**	—	**37**	(53)
Reclassification adjustment - Actuarial net losses into Selling, general, and administrative expenses	**13**	20	**40**	56
Reclassification adjustment - Prior service benefits into Selling, general, and administrative expenses	**(7)**	(20)	**(20)**	(52)
Reclassification adjustment - Non-U.S. pension curtailment gain into Other charges	**—**	—	**—**	(32)
Tax expense (benefit)	**(1)**	—	**8**	(1)
Reclassification adjustment into Selling, general, and administrative expenses, net of tax	**5**	—	**28**	(29)
Other comprehensive income (loss), net of tax	**5**	—	**65**	(82)
Balance at end of period	**$ (1,532)**	$ (1,777)	**$ (1,532)**	$ (1,777)
Total Accumulated other comprehensive loss	**$ (1,931)**	$ (2,006)	**$ (1,931)**	$ (2,006)

4. Debt and Credit Facilities

As of October 1, 2016, the Company had a $2.1 billion unsecured syndicated revolving credit facility, which includes a $450 million letter of credit sub-limit, (the "2014 Motorola Solutions Credit Agreement") scheduled to mature on May 29, 2019. The Company must comply with certain customary covenants, including a maximum leverage ratio as defined in the 2014 Motorola Solutions Credit Agreement. The Company was in compliance with its financial covenants as of October 1, 2016. The Company did not borrow or issue any letters of credit under the 2014 Motorola Solutions Credit Agreement during the nine months ended October 1, 2016.

In connection with the completion of the acquisition of GDCL, the Company entered into a new term loan credit agreement (the "Term Loan Agreement"), under which the Company borrowed a term loan with an initial principal amount of $675 million and a maturity date of February 18, 2019 (the "Term Loan"). Interest on the Term Loan is variable and indexed to LIBOR. Interest expense on the Term Loan is payable quarterly in February, May, August, and November. No additional borrowings are permitted under the Term Loan Agreement and amounts borrowed and repaid or prepaid may not be re-borrowed.

Effective January 1, 2016, the Company retrospectively adopted ASU No. 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." Under this guidance, the Company has revised the presentation of debt issuance costs which were previously capitalized in other assets in the consolidated balance sheet to be presented as a reduction to long-term debt. As of October 1, 2016 and December 31, 2015, $31 million and $41 million, respectively, have been reclassified to be presented as a component of long-term debt.

5. Risk Management

Foreign Currency Risk

As of October 1, 2016, the Company had outstanding foreign exchange contracts with notional amounts totaling $744 million, compared to $494 million outstanding at December 31, 2015. 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 October 1, 2016, and the corresponding positions as of December 31, 2015:

	Notional Amount	
Net Buy (Sell) by Currency	***October 1, 2016***	*December 31, 2015*
Euro	**$ 211**	$ 99
British Pound	**192**	62
Chinese Renminbi	**(98)**	(114)
Australian Dollar	**(61)**	(60)
Brazilian Real	**(59)**	(44)

Interest Rate Risk

One of the Company's European subsidiaries has Euro-denominated loans. The interest on the Euro-denominated loans is variable. 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 a hedge. 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 swap was in a liability position of $1 million at both October 1, 2016 and December 31, 2015.

The Company is exposed to interest rate risk on its Term Loan which has a variable interest rate that is indexed to LIBOR.

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 October 1, 2016, all of the counterparties have investment grade credit ratings. As of October 1, 2016, the aggregate net credit risk with all counterparties was de minimus.

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 October 1, 2016 and December 31, 2015:

	Fair Values of Derivative Instruments			
	Assets		*Liabilities*	
October 1, 2016	*Fair Value*	*Balance Sheet Location*	*Fair Value*	*Balance Sheet Location*
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$ —	Other current assets	$ 18	Accrued liabilities
Interest rate swap	—	Other current assets	1	Accrued liabilities
Total derivatives	$ —		$ 19	

	Fair Values of Derivative Instruments			
	Assets		*Liabilities*	
December 31, 2015	*Fair Value*	*Balance Sheet Location*	*Fair Value*	*Balance Sheet Location*
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$ 6	Other current assets	$ 2	Accrued liabilities
Interest rate swap	—	Other current assets	1	Accrued liabilities
Total derivatives	$ 6		$ 3	

The following table summarizes the effect of derivatives not designated as hedging instruments on the Company's condensed consolidated statements of operations for the three and nine months ended October 1, 2016 and October 3, 2015:

	Three Months Ended		*Nine Months Ended*		
Gain (loss) on Derivative Instruments	***October 1, 2016***	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*	*Statements of Operations Location*
Interest rate swap	**$ —**	$ —	**$ —**	$ 1	Other income (expense)
Foreign exchange contracts	**(11)**	25	**(41)**	12	Other income (expense)
Total derivatives	**$ (11)**	$ 25	**$ (41)**	$ 13	

The Company had no instruments designated as hedging instruments for the three and nine months ended October 1, 2016 and October 3, 2015.

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		*Nine Months Ended*	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Earnings from continuing operations before income taxes	**$ 293**	$ 197	**$ 482**	$ 540
Income tax expense	**100**	71	**164**	175
Effective tax rate	**34%**	36%	**34%**	32%

The Company recorded $100 million of net tax expense in the third quarter of 2016 resulting in an effective tax rate of 34%, compared to $71 million of net tax expense in the third quarter of 2015 resulting in an effective tax rate of 36%. The effective tax rate in the third quarter of 2016 was lower than the U.S. statutory tax rate of 35% partly due to favorable discrete adjustments to deferred tax assets of foreign subsidiaries. The effective tax rate in the third quarter of 2015 was higher than the U.S. statutory tax rate of 35% primarily due to higher income in the U.S. relative to foreign operations.

The Company recorded $164 million of net tax expense in the first nine months of 2016 resulting in an effective tax rate of 34%, compared to $175 million of net tax expense resulting in an effective tax rate of 32% in the first nine months of 2015. The effective tax rate for the first nine months of 2016 was lower than the U.S. statutory tax rate of 35% partly due to the recognition of excess tax benefits on share-based compensation. The effective tax rate in the first nine months of 2015 was lower than the U.S. statutory tax rate of 35% primarily due to the rate differential for foreign affiliates and the U.S. domestic production tax deduction.

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:

	U.S. Pension Benefit Plans		*Non U.S. Pension Benefit Plans*		*Postretirement Health Care Benefits Plan*	
Three Months Ended	***October 1, 2016***	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Service cost	**$ —**	$ —	**$ 2**	$ 3	**$ —**	$ —
Interest cost	**46**	48	**13**	14	**1**	2
Expected return on plan assets	**(55)**	(53)	**(23)**	(23)	**(2)**	(2)
Amortization of:						
Unrecognized net loss	**9**	12	**3**	5	**1**	3
Unrecognized prior service benefit	**—**	—	**—**	(1)	**(7)**	(15)
Net periodic pension cost (benefit)	**$ —**	$ 7	**$ (5)**	$ (2)	**$ (7)**	$ (12)

The Company made no contributions to its U.S. Pension Benefit Plans during both the three months ended October 1, 2016 and October 3, 2015. The Company made $2 million of contributions to its Non U.S. Pension Benefit Plans during both the three months ended October 1, 2016 and October 3, 2015.

	U.S. Pension Benefit Plans		*Non U.S. Pension Benefit Plans*		*Postretirement Health Care Benefits Plan*	
Nine Months Ended	***October 1, 2016***	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Service cost	**$ —**	$ —	**$ 6**	$ 10	**$ —**	$ 1
Interest cost	**138**	144	**41**	49	**3**	6
Expected return on plan assets	**(165)**	(159)	**(71)**	(79)	**(7)**	(7)
Amortization of:						
Unrecognized net loss	**27**	35	**9**	13	**4**	8
Unrecognized prior service benefit	**—**	—	**—**	(3)	**(20)**	(45)
Curtailment gain	**—**	—	**—**	(32)	**—**	—
Net periodic cost (benefit)	**$ —**	$ 20	**$ (15)**	$ (42)	**$ (20)**	$ (37)

The Company made $2 million of contributions to its U.S. Pension Benefit Plans during the nine months ended October 1, 2016 and no contributions to its U.S. Pension Benefit Plans during the nine months ended October 3, 2015. During the nine months ended October 1, 2016 and October 3, 2015, the Company made $7 million and $8 million of contributions to its Non U.S. Pension Benefit Plans, respectively.

During the nine months ended October 1, 2016, the Company made an amendment to the Postretirement Health Care Benefits Plan (the "Amendment"). As a result of the Amendment, all eligible retirees under the age of 65 will be provided an annual subsidy per household, versus per individual, toward the purchase of their own health care coverage from private insurance companies and for the reimbursement of eligible health care expenses.

The Amendment to the Postretirement Health Care Benefits Plan required a remeasurement of the plan, resulting in a $53 million reduction in the accumulated Postretirement Benefit Obligation. A substantial portion of the decrease is related to a prior service credit and will be recognized as a credit to the condensed consolidated statements of operations over approximately five years, or the period in which the remaining employees eligible for the plan will qualify for benefits under the plan.

During the nine months ended October 3, 2015, the Company amended its Non U.S. defined benefit plan within the United Kingdom by closing future benefit accruals to all participants effective December 31, 2015. As a result, the Company recorded a curtailment gain of $32 million to Other charges in the Company's condensed consolidated statements of operations.

Effective January 1, 2016, the Company changed the method used to estimate the interest and service cost components of net periodic cost for defined benefit pension and other post-retirement benefit plans. Historically, the interest and service cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the projected benefit obligation at the beginning of the period. The Company has elected to use a full yield curve approach in the estimation of these components of net periodic cost by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligation to the relevant projected cash flows. The Company made this change to improve the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of interest and service costs. This change does not affect the measurement of total benefit obligations as the change in interest and service cost is completely offset in the actuarial loss reported in the period. The Company has concluded that this change is a change in estimate and, therefore, has accounted for it prospectively beginning January 1, 2016. Based on the change in estimate, the Company experienced no reduction in service costs and a $21 million reduction in interest costs for the nine months ended October 1, 2016 compared to the prior approach. The overall reduction in the interest cost for the nine months ended October 1, 2016 is comprised of $14 million related to the U.S. Pension Benefit Plans, $3 million related to the Postretirement Health Care Benefit Plans, and $4 million related to the Non U.S. Pension Benefits Plan.

8. Share-Based Compensation Plans

Compensation expense for the Company's share-based compensation plans was as follows:

	Three Months Ended		*Nine Months Ended*	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Share-based compensation expense included in:				
Costs of sales	**$ 2**	$ 2	**$ 7**	$ 7
Selling, general and administrative expenses	**12**	13	**35**	38
Research and development expenditures	**3**	3	**10**	13
Share-based compensation expense included in Operating earnings	**17**	18	**52**	58
Tax benefit	**5**	6	**16**	19
Share-based compensation expense, net of tax	**$ 12**	$ 12	**$ 36**	$ 39
Decrease in basic earnings per share	**$ (0.07)**	$ (0.06)	**$ (0.21)**	$ (0.19)
Decrease in diluted earnings per share	**$ (0.07)**	$ (0.06)	**$ (0.21)**	$ (0.19)

During the nine months ended October 1, 2016, the Company granted 0.7 million RSUs and market stock units ("MSUs") and 0.7 million stock options and performance options ("POs"). The total aggregate compensation expense, net of estimated forfeitures, for these RSUs and MSUs was $42 million and stock options and POs was $10 million, respectively, which will generally be recognized over the vesting period of three years.

9. Fair Value Measurements

The Company holds certain fixed income securities, equity securities and derivatives, which are recognized and disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Fair value is measured using the fair value hierarchy and related valuation methodologies as defined in the authoritative literature. This guidance specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about current market conditions.

The fair value hierarchy and related valuation methodologies are as follows:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.

Level 3—Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

The fair values of the Company's financial assets and liabilities by level in the fair value hierarchy as of October 1, 2016 and December 31, 2015 were as follows:

October 1, 2016	*Level 1*	*Level 2*	*Total*
Assets:			
Available-for-sale securities:			
Government, agency, and government-sponsored enterprise obligations	$ —	$ 50	$ 50
Corporate bonds	—	5	5
Common stock	1	—	1
Liabilities:			
Foreign exchange derivative contracts	$ —	$ 18	$ 18
Interest rate swap	—	1	1

December 31, 2015	*Level 1*	*Level 2*	*Total*
Assets:			
Foreign exchange derivative contracts	$ —	$ 6	$ 6
Available-for-sale securities:			
Government, agency, and government-sponsored enterprise obligations	—	444	444
Corporate bonds	—	7	7
Common stock	6	—	6
Liabilities:			
Foreign exchange derivative contracts	$ —	$ 2	$ 2
Interest rate swap	—	1	1

The Company had no Level 3 holdings as of October 1, 2016 or December 31, 2015.

At October 1, 2016 and December 31, 2015, the Company had $1.1 billion and $1.3 billion, respectively, of investments in money market mutual funds (Level 2) classified as Cash and cash equivalents in its condensed consolidated balance sheets. The money market funds had quoted market prices that are equivalent to par.

Using quoted market prices and market interest rates, the Company determined that the fair value of long-term debt at October 1, 2016 and December 31, 2015 was $5.2 billion and $4.1 billion (Level 2), respectively.

All other financial instruments are carried at cost, which is not materially different from the instruments' fair values.

10. Long-term Financing and Sales of Receivables

Long-term Financing

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

	October 1, 2016	*December 31, 2015*
Long-term receivables, net	**54**	60
Less current portion	**(11)**	(13)
Non-current long-term receivables, net	**$ 43**	$ 47

The current portion of long-term receivables is included in Accounts receivable, net and the non-current portion of long-term receivables is included in Other assets in the Company's condensed consolidated balance sheets. The Company had outstanding commitments to provide long-term financing to third parties totaling $214 million at October 1, 2016, compared to $112 million at December 31, 2015.

Sales of Receivables

The following table summarizes the proceeds received from sales of accounts receivable and long-term receivables for the three and nine months ended October 1, 2016 and October 3, 2015:

	Three Months Ended		*Nine Months Ended*	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Accounts receivable sales proceeds	**$ 8**	$ 5	**$ 15**	$ 16
Long-term receivables sales proceeds	**39**	24	**173**	132
Total proceeds from receivable sales	**$ 47**	$ 29	**$ 188**	$ 148

At October 1, 2016, the Company had retained servicing obligations for $685 million of long-term receivables, compared to $668 million of long-term receivables at December 31, 2015. Servicing obligations are limited to collection activities related to the sales of accounts receivables and long-term receivables.

Credit Quality of Financing Receivables and Allowance for Credit Losses

An aging analysis of financing receivables at October 1, 2016 and December 31, 2015 is as follows:

October 1, 2016	*Total Long-term Receivable*	*Current Billed Due*	*Past Due Under 90 Days*	*Past Due Over 90 Days*
Municipal leases secured tax exempt	$ 12	$ —	$ —	$ —
Commercial loans and leases secured	42	—	1	1
Total gross long-term receivables, including current portion	$ 54	$ —	$ 1	$ 1

December 31, 2015	*Total Long-term Receivable*	*Current Billed Due*	*Past Due Under 90 Days*	*Past Due Over 90 Days*
Municipal leases secured tax exempt	$ 35	$ —	$ —	$ —
Commercial loans and leases secured	25	1	1	1
Total gross long-term receivables, including current portion	$ 60	$ 1	$ 1	$ 1

11. Commitments and Contingencies

Legal Matters

The Company is 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 the Company's condensed consolidated financial position, liquidity, or results of operations. However, an unfavorable resolution could have a material adverse effect on the Company's 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 is obtained that changes management's opinion of the ultimate disposition.

Other Indemnifications

The Company is a party to a variety of agreements pursuant to which it is obligated to indemnify the other party with respect to certain matters. In indemnification cases, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. In some instances, the Company may have recourse against third parties for certain payments made by the Company.

Some of these obligations arise as a result of divestitures of the Company's assets or businesses and require the Company to indemnify the other party against losses arising from breaches of representations and warranties and covenants and, in some cases, the settlement of pending obligations. The Company's obligations under divestiture agreements for indemnification based on breaches of representations and warranties are generally limited in terms of duration and to amounts not in excess of a percentage of the contract value. The Company had no accruals for any such obligations at October 1, 2016.

In addition, the Company may provide indemnifications for losses that result from the breach of general warranties contained in certain commercial and intellectual property agreements. Historically, the Company has not made significant payments under these agreements.

12. Segment Information

The Company conducts its business globally and manages it through the following two segments:

Products: The Products segment is comprised of Devices and Systems. Devices includes two-way portable and vehicle-mounted radios, accessories, software features, and upgrades. Systems includes the radio network core and central processing software, base stations, consoles, repeaters, and software applications and features. The primary customers of the Products segment are government, public safety and first-responder agencies, municipalities, and commercial and industrial customers who operate private communications networks and manage a mobile workforce.

Services: The Services segment provides a full set of offerings for government, public safety and commercial communication networks including: (i) Integration services, (ii) Managed & Support services, and (iii) iDEN services. Integration services includes implementation, optimization, and integration of networks, devices, software, and applications. Managed & Support services includes a continuum of service offerings beginning with repair, technical support and hardware maintenance. More advanced offerings include network monitoring, software maintenance and cyber security services. Managed service offerings range from partial or full operation of customer owned networks to operation of Motorola Solutions owned networks. Services are provided across all radio network technologies, Command Center Consoles and Smart Public Safety Solutions. iDEN services consists primarily of hardware and software maintenance services for our legacy iDEN customers.

The following table summarizes Net sales by segment:

	Three Months Ended		*Nine Months Ended*	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Products	**$ 920**	$ 925	**$ 2,423**	$ 2,550
Services	**612**	497	**1,732**	1,463
	$ 1,532	$ 1,422	**$ 4,155**	$ 4,013

The following table summarizes the Operating earnings by segment:

	Three Months Ended		*Nine Months Ended*	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Products	**$ 225**	$ 178	**$ 404**	$ 413
Services	**116**	53	**260**	192
Operating earnings	**341**	231	**664**	605
Total other expense	**(48)**	(34)	**(182)**	(65)
Earnings from continuing operations before income taxes	**$ 293**	$ 197	**$ 482**	$ 540

13. Reorganization of Business

2016 Charges

During the three months ended October 1, 2016, the Company recorded net reorganization of business charges of $7 million including $6 million of charges in Other charges and $1 million of charges in Cost of sales in the Company's condensed consolidated statements of operations. Included in the $7 million were charges of $8 million related to employee separation costs, partially offset by $1 million of reversals for accruals no longer needed.

During the nine months ended October 1, 2016, the Company recorded net reorganization of business charges of $74 million including $48 million of charges in Other charges and $26 million of charges in Cost of sales in the Company's condensed consolidated statements of operations. Included in the $74 million were charges of: (i) $54 million for employee separation costs, (ii) $20 million for impairments, including $17 million for a building impairment and $3 million for the impairment of the corporate aircraft, and (iii) $5 million for exit costs, partially offset by $5 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by segment:

October 1, 2016	Three Months Ended	Nine Months Ended
Products	$ 5	$ 59
Services	2	15
	$ 7	$ 74

The following table displays a rollforward of the reorganization of business accruals established for lease exit costs and employee separation costs from January 1, 2016 to October 1, 2016:

	January 1, 2016	Additional Charges	Adjustments	Amount Used	October 1, 2016
Exit costs	$ 9	$ 5	$ —	$ (5)	$ 9
Employee separation costs	51	54	(5)	(54)	46
	$ 60	$ 59	$ (5)	$ (59)	$ 55

Exit Costs

At January 1, 2016, the Company had $9 million of accruals for exit costs. During the nine months ended October 1, 2016, there were $5 million of additional charges and $5 million of cash payments related to the exit of leased facilities. The remaining accrual of $9 million, which is included in Accrued liabilities in the Company's condensed consolidated balance sheets at October 1, 2016, primarily represents future cash payments for lease obligations that are expected to be paid over a number of years.

Employee Separation Costs

At January 1, 2016, the Company had an accrual of $51 million for employee separation costs. The 2016 additional charges of $54 million represent severance costs for approximately 600 employees. The adjustment of $5 million reflects reversals for accruals no longer needed. The $54 million used reflects cash payments to severed employees. The remaining accrual of $46 million, which is included in Accrued liabilities in the Company's condensed consolidated balance sheets at October 1, 2016, is expected to be paid, primarily within one year, to approximately 500 employees, who have either been severed or have been notified of their severance and have begun or will begin receiving payments.

2015 Charges

During the three months ended October 3, 2015, the Company recorded net reorganization of business charges of $41 million including $40 million of charges in Other charges and $1 million of charges in Cost of sales in the Company's condensed consolidated statements of operations. Included in the $41 million were charges of: (i) $26 million for the impairment of corporate aircraft, (ii) $11 million of charges related to employee separation costs, and (iii) a $6 million building impairment charge, partially offset by $2 million of reversals for accruals no longer needed.

During the nine months ended October 3, 2015, the Company recorded net reorganization of business charges of $70 million including $65 million of charges in Other charges and $5 million of charges in Cost of sales in the Company's condensed consolidated statements of operations. Included in the $70 million were charges of: (i) $36 million related to employee separation costs, (ii) $26 million for the impairment of the corporate aircraft, (iii) a $6 million building impairment charge, and (iv) $4 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 segment:

October 3, 2015	Three Months Ended	Nine Months Ended
Products	$ 29	$ 51
Services	12	19
	$ 41	$ 70

14. Intangible Assets and Goodwill

Acquisitions

During the year ended December 31, 2015 the Company completed the acquisitions of two providers of public safety software-based solutions for an aggregate purchase price of $50 million, recognizing an additional $31 million of goodwill, $22 million of identifiable intangible assets, and $3 million of acquired liabilities related to these acquisitions. The $22 million of

identifiable intangible assets were classified as: (i) $11 million of completed technology, (ii) $8 million of customer-related, and (iii) $3 million of other intangibles. These intangible assets will be amortized over periods ranging from five to ten years. The results of operations for these acquisitions have been included in the Company's condensed consolidated statements of operations subsequent to the acquisition date. The pro forma effects of these acquisitions are not significant individually or in the aggregate.

On February 19, 2016, the Company completed the acquisition of GDCL, a holding company of Airwave, the largest private operator of a public safety network in the world. All of the outstanding equity of GDCL was acquired for the sum of £1, after which the Company invested into GDCL £698 million, net of cash acquired, or approximately $1.0 billion, to settle all third party debt. The Company will make a deferred cash payment of £64 million on November 15, 2018.

The acquisition of GDCL enables the Company to geographically diversify its global Managed & Support services offerings, while offering a proven service delivery platform to build on for providing innovative, leading, mission-critical communications solutions and services to customers. During the nine months ended October 1, 2016, the Company recorded $338 million within Net sales and $71 million within Net earnings from the operations of Airwave.

The acquisition of GDCL has been accounted for at fair value as of the acquisition date, based on the fair value of the total consideration transferred which has been attributed to all identifiable assets acquired and liabilities assumed and measured at fair value.

The total consideration for the acquisition of GDCL was approximately $1.1 billion, consisting of cash payments of $1.0 billion, net of cash acquired, and deferred consideration valued at fair value on the date of the acquisition of $82 million. The fair value of deferred consideration has been determined based on its net present value, calculated using a discount rate of 4.2%, which is reflective of the credit standing of the combined entity. The following table summarizes fair values of assets acquired and liabilities assumed as of the February 19, 2016 acquisition date:

Cash	$	86
Accounts receivable, net		55
Other current assets		36
Property, plant and equipment, net		245
Deferred income taxes		78
Accounts payable		(18)
Accrued liabilities		(181)
Other liabilities		(289)
Goodwill		195
Intangible assets		875
Total consideration	$	1,082
Net present value of deferred consideration payment to former owners		(82)
Net cash consideration at purchase	$	1,000

Acquired intangible assets consist of $846 million of customer relationships and $29 million of trade names. All intangibles have a useful life of seven years, over which amortization expense will be recognized on a straight line basis.

The fair values of trade names and customer relationships were estimated using the income approach. Customer relationships were valued under the excess earnings method which assumes that the value of an intangible asset is equal to the present value of the incremental after-tax cash flows attributable specifically to the intangible asset. Trade names were valued under the relief from royalty method, which assumes value to the extent that the acquired company is relieved of the obligation to pay royalties for the benefits received from them.

The fair value of acquired Property, plant and equipment, primarily network-related assets, was valued under the replacement cost method, which determines fair value based on the replacement cost of new property with similar capacity, adjusted for physical deterioration over the remaining useful life.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from the other assets acquired that could not be individually identified and separately recognized. Goodwill is not deductible for tax purposes.

On August 9, 2016, the Company completed the acquisition of a provider of communications systems support and two-way radios, for a gross purchase price of $6 million, recognizing $5 million of identifiable intangible assets, which will be amortized over a period of five years. The results of operations for these acquisitions have been included in the Company's condensed consolidated statements of operations subsequent to the acquisition date.

On September 23, 2016, the Company entered into a stock purchase agreement with Spillman Technologies, a provider of comprehensive law enforcement and public safety software solutions. The acquisition, which is expected to close in the fourth

quarter of 2016, will expand the Company's smart public safety portfolio and will enable the Company to offer a full suite of command center solutions to a broader customer base.

Pro Forma Financial Information

The following table presents the unaudited pro forma combined results of operations of the Company and GDCL for the three and nine months ended October 1, 2016 and October 3, 2015 as if the acquisition of GDCL had occurred on January 1, 2016 and January 1, 2015, respectively, (in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 1, 2016	October 3, 2015	**October 1, 2016**	October 3, 2015
Revenues	**$ 1,532**	$ 1,570	**$ 4,226**	$ 4,450
Earnings from continuing operations	**192**	152	**340**	(464)
Basic earnings per share from continuing operations	**1.15**	0.76	**1.99**	(2.24)
Diluted earnings per share from continuing operations	**1.13**	0.76	**1.95**	(2.22)

The Company did not adjust the effects of an $884 million goodwill impairment charge reported in the historic results of GDCL for the nine months ended October 3, 2015 on the basis that the goodwill impairment charge was not directly attributable to the acquisition of GDCL by the Company. However, this goodwill impairment charge should be highlighted as unusual and non-recurring.

The pro forma results are based on estimates and assumptions, which the Company believes are reasonable. They are not necessarily indicative of its consolidated results of operations in future periods or the results that actually would have been realized had we been a combined company during the periods presented. The pro forma results include adjustments primarily related to amortization of acquired intangible assets, depreciation, interest expense, and transaction costs expensed during the period.

Intangible Assets

Amortized intangible assets were comprised of the following:

	October 1, 2016		December 31, 2015	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Completed technology	**$ 60**	**$ 36**	$ 60	$ 32
Patents	**8**	**6**	8	5
Customer-related	**795**	**79**	23	10
Other intangibles	**43**	**16**	20	15
	$ 906	**$ 137**	$ 111	$ 62

Amortization expense on intangible assets was $31 million for the three months ended October 1, 2016 and $83 million for the nine months ended October 1, 2016. Amortization expense on intangible assets was $2 million for the three months ended October 3, 2015 and $6 million for the nine months ended October 3, 2015. The increase in amortization expense is due to the acquisition of GDCL. As of October 1, 2016, annual amortization expense is estimated to be $114 million in 2016, $123 million in 2017, $122 million in 2018 and 2019, $119 million in 2020, and $118 million in 2021.

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

	October 1, 2016		December 31, 2015	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Products	**$ 86**	**$ 61**	$ 89	$ 60
Services	**820**	**76**	22	2
	$ 906	**$ 137**	$ 111	$ 62

Goodwill

The following table displays a rollforward of the carrying amount of goodwill by segment from January 1, 2016 to October 1, 2016:

	Products	*Services*	*Total*
Balance as of January 1, 2016			
Aggregate goodwill	$ 270	$ 150	$ 420
Accumulated impairment losses	—	—	—
Goodwill, net of impairment losses	$ 270	$ 150	$ 420
Goodwill acquired	—	170	170
Purchase accounting adjustments	—	25	25
Foreign currency	—	(18)	(18)
Balance as of October 1, 2016			
Aggregate goodwill	$ 270	$ 327	$ 597
Accumulated impairment losses	—	—	—
Goodwill, net of impairment losses	$ 270	$ 327	$ 597

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This commentary should be read in conjunction with the condensed consolidated financial statements and related notes thereto of Motorola Solutions, Inc. ("Motorola Solutions" or the "Company," "we," "our," or "us") for the three and nine months ended October 1, 2016 and October 3, 2015, as well as our consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations in our Annual Report on Form 10-K for the year ended December 31, 2015.

Executive Overview

Recent Developments

On February 19, 2016, we completed the acquisition of Guardian Digital Communications Limited ("GDCL"), a holding company of Airwave Solutions Limited ("Airwave"), the largest private operator of a public safety network in the world. All of the outstanding equity of GDCL was acquired for the sum of £1, after which we invested into GDCL £698 million, net of cash acquired, or approximately $1.0 billion, to settle all third party debt. We will make a deferred cash payment of £64 million on November 15, 2018. We funded the investment with a $675 million term loan (the "Term Loan") and approximately $400 million of international cash on hand. The acquisition of GDCL enables us to geographically diversify our global Managed & Support services offerings, while offering a proven service delivery platform to build on for providing innovative, leading, mission-critical communications solutions and services to customers.

During the three months ended October 1, 2016, we relocated our global headquarters from Schaumburg, IL to Chicago, IL. The move provides us with access to key talent and allows the Company to optimize the Schaumburg campus for current space requirements.

On September 23, 2016, we entered into a stock purchase agreement with Spillman Technologies, a provider of comprehensive law enforcement and public safety software solutions. The acquisition, which is expected to close in the fourth quarter of 2016, will expand our smart public safety portfolio and enables us to offer a full suite of command center solutions to a broader customer base.

Our Business

We are a leading global provider of mission-critical communication infrastructure, devices, accessories, software, and services. Our products and services help government, public safety and commercial customers improve their operations through increased effectiveness, efficiency, and safety of their mobile workforces. We serve our customers with a global footprint of sales in more than 100 countries and 13,000 employees worldwide, based on our industry leading innovation and a deep portfolio of products and services.

We conduct our business globally and manage it by two segments:

Products: The Products segment is comprised of Devices and Systems. Devices includes two-way portable and vehicle mounted radios, accessories, and software features and upgrades. Systems includes the radio network core and central processing software, base stations, consoles, repeaters, and software applications and features. The primary customers of the Products segment are government, public safety and first-responder agencies, municipalities, and commercial and industrial customers who operate private communications networks and manage a mobile workforce. In the third quarter of 2016, the segment's net sales were $920 million, representing 60% of our consolidated net sales.

Services: The Services segment provides a full set of service offerings for government, public safety, and commercial communication networks including: (i) Integration services, (ii) Managed & Support services, and (iii) iDEN services. Integration services includes the implementation, optimization, and integration of systems, devices, software, and applications. Managed & Support services includes a continuum of service offerings beginning with repair, technical support, and hardware maintenance. More advanced offerings include network monitoring, software maintenance, and cyber security services. Managed service offerings range from partial or full operation of customer owned networks to operation of Motorola Solutions owned networks. Services are provided across all radio network technologies, Command Center Consoles, and Smart Public Safety Solutions. iDEN services consists primarily of hardware and software maintenance services for our legacy iDEN customers. In the third quarter of 2016, the segment's net sales were $612 million, representing 40% of our consolidated net sales.

Trends Affecting Our Business

Impact of Macroeconomic Conditions: The stronger U.S. dollar and weakening economic conditions have had a negative impact on sales, particularly in Latin America, parts of Europe, and China. Additionally, the strengthening dollar has reduced the purchasing power of our customers, and economic challenges have negatively impacted government budgets and funds available for the purchase of our products in these regions.

The impact of foreign exchange rate fluctuations on net earnings is partially mitigated by the following: (i) the majority of our revenues are derived from contracts within North America denominated in U.S. dollars, (ii) the cost of sales for the delivery of our Services offerings are predominately labor costs incurred within the same geographic region as the associated sales, resulting in minimal impact of foreign exchange rates on gross margin within the Services segment, and (iii) a significant portion

of our operating expenses are denominated in foreign currencies as a result of our offshore research and development ("R&D") and selling, general, and administrative ("SG&A") footprint.

Cost Savings Initiatives: We are committed to employing disciplined financial policies and driving continuous efficiencies and improvements in our cost structure. We expect to reduce SG&A and R&D expenses during 2016 by approximately $120 million in comparison to 2015, excluding incremental operating expenses from acquisitions in the second half of the year. In the first nine months of 2016, we realized $97 million of SG&A and R&D cost savings.

Growth of Our Services Portfolio: Our Services segment is expected to grow at a higher rate than our Products segment. Overall, the Services segment has a lower gross margin percentage than the Products segment, but we expect consolidated operating margins to continue to expand. During the three and nine months ended October 1, 2016, we grew our net sales within the Services segment by 23% and 18%, respectively, inclusive of the acquisition of GDCL, compared to the three and nine months ended October 3, 2015.

iDEN: We have experienced a downward trend in iDEN product and services sales over recent years due to decreased demand as a result of the dated nature of the technology. We expect the downward trend to continue as service contracts expire and new technology replaces iDEN equipment in the marketplace. This trend primarily relates to our Services segment as the majority of iDEN sales are hardware and software maintenance services. The expected decline in iDEN sales will impact both revenues and gross margins within the Services segment as iDEN services' gross margins are generally higher than the remainder of our services portfolio.

Third Quarter Summary

- Net sales were $1.5 billion in the third quarter of 2016, up $110 million, or 8%, from the third quarter of 2015.
- We generated operating earnings of $341 million, or 22% of net sales, in the third quarter of 2016, compared to $231 million, or 16% of net sales, in the third quarter of 2015. Profitability increased primarily as a result of: (i) higher revenue and gross margin percentage in the Services segment and (ii) lower operating expenses as a result of cost savings initiatives.
- We had earnings from continuing operations attributable to Motorola Solutions, Inc. of $192 million, or $1.13 per diluted common share, in the third quarter of 2016, compared to $126 million, or $0.63 per diluted common share, in the third quarter of 2015.
- We generated net cash from operating activities of $652 million during the first nine months of 2016, compared to $607 million in the first nine months of 2015.
- We returned $941 million in capital to shareholders through dividends and share repurchases during the first nine months of 2016.
- We announced the acquisition of Spillman Technologies, a provider of comprehensive law enforcement and public safety software solutions. The acquisition, which is expected to close in the fourth quarter of 2016, will expand our smart public safety portfolio and will enable us to offer a full suite of command center solutions to a broader customer base.
- We announced the increase of our quarterly dividend by 15 percent to $0.47 per share.

A summary of our segment results is as follows:

- *Products:* Net sales were $920 million in the third quarter of 2016, a decrease of $5 million, or 1% compared to net sales of $925 million during the third quarter of 2015. On a geographic basis, net sales decreased in Europe, Middle East, and Africa ("EMEA"), Latin America, and Asia Pacific ("AP), and increased in North America, compared to the year-ago quarter.
- *Services:* Net sales were $612 million in the third quarter of 2016, an increase of $115 million, or 23% compared to net sales of $497 million in the third quarter of 2015. On a geographic basis, net sales increased in EMEA, AP, and North America, and decreased in Latin America, compared to the year-ago quarter.

Results of Operations

(Dollars in millions, except per share amounts)	Three Months Ended				Nine Months Ended			
	October 1, 2016	**% of Sales****	October 3, 2015	% of Sales**	**October 1, 2016**	**% of Sales****	October 3, 2015	% of Sales**
Net sales from products	**$ 920**		$ 925		**$ 2,423**		$ 2,550	
Net sales from services	**612**		497		**1,732**		1,463	
Net sales	**1,532**		1,422		**4,155**		4,013	
Costs of product sales	**398**	**43.3 %**	395	42.7 %	**1,124**	**46.4 %**	1,139	44.7 %
Costs of services sales	**372**	**60.8 %**	342	68.8 %	**1,090**	**62.9 %**	993	67.9 %
Costs of sales	**770**		737		**2,214**		2,132	
Gross margin	**762**	**49.7 %**	685	48.2 %	**1,941**	**46.7 %**	1,881	46.9 %
Selling, general and administrative expenses	**247**	**16.1 %**	259	18.2 %	**722**	**17.4 %**	769	19.2 %
Research and development expenditures	**137**	**8.9 %**	153	10.8 %	**411**	**9.9 %**	468	11.7 %
Other charges	**37**	**2.4 %**	42	3.0 %	**144**	**3.5 %**	39	1.0 %
Operating earnings	**341**	**22.3 %**	231	16.2 %	**664**	**16.0 %**	605	15.1 %
Other income (expense):								
Interest expense, net	**(54)**	**(3.5)%**	(43)	(3.0)%	**(157)**	**(3.8)%**	(122)	(3.0)%
Gains (losses) on sales of investments and businesses, net	**7**	**0.5 %**	10	0.7 %	**(13)**	**(0.3)%**	60	1.5 %
Other	**(1)**	**(0.1)%**	(1)	(0.1)%	**(12)**	**(0.3)%**	(3)	(0.1)%
Total other expense	**(48)**	**(3.1)%**	(34)	(2.4)%	**(182)**	**(4.4)%**	(65)	(1.6)%
Earnings from continuing operations before income taxes	**293**	**19.1 %**	197	13.9 %	**482**	**11.6 %**	540	13.5 %
Income tax expense	**100**	**6.5 %**	71	5.0 %	**164**	**3.9 %**	175	4.4 %
Earnings from continuing operations	**193**	**12.6 %**	126	8.9 %	**318**	**7.7 %**	365	9.1 %
Less: Earnings attributable to noncontrolling interests	**1**	**0.1 %**	—	— %	**1**	**— %**	2	— %
Earnings from continuing operations*	**192**	**12.5 %**	126	8.9 %	**317**	**7.6 %**	363	9.0 %
Loss from discontinued operations, net of tax	**—**	**— %**	(11)	(0.8)%	**—**	**— %**	(32)	(0.8)%
Net earnings*	**$ 192**	**12.5 %**	$ 115	8.1 %	**$ 317**	**7.6 %**	$ 331	8.2 %
Earnings (loss) per diluted common share*:								
Continuing operations	**$ 1.13**		$ 0.63		**$ 1.82**		$ 1.74	
Discontinued operations	**—**		(0.06)		**—**		(0.16)	
Earnings per diluted common share*	**$ 1.13**		$ 0.57		**$ 1.82**		$ 1.58	

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

*** Percentages may not add due to rounding*

Results of Operations—Three months ended October 1, 2016 compared to three months ended October 3, 2015

The results of operations for the third quarter of 2016 are not necessarily indicative of the operating results to be expected for the full year. Historically, we have experienced higher revenues in the fourth quarter as compared to the rest of the quarters of our fiscal year as a result of the purchasing patterns of our customers.

Net Sales

Net sales were $1.5 billion in the third quarter of 2016, a $110 million, or 8%, increase compared to the third quarter of 2015. The increase in net sales is reflective of growth in EMEA, North America, and AP, partially offset by a decrease in Latin America. The increase in EMEA was due to growth in Services sales, primarily due to the acquisition of GDCL which provided $131 million of net sales within the quarter, partially offset by lower Products sales. The increase in North America was due to higher sales in both the Products and Services segments. The increase in AP was due to growth in Services sales, partially offset by lower Products sales. The decrease in Latin America was the result of lower Products and Services sales primarily due to continued macroeconomic pressures.

Gross Margin

Gross margin was $762 million, or 49.7% of net sales, in the third quarter of 2016, compared to $685 million, or 48.2% of net sales, in the third quarter of 2015. The increase in gross margin percentage was driven primarily by an increase in the margins within the Services segment while the Products segment decreased slightly. The increase in gross margin percentage in the Services segment was driven by the expansion of our Managed & Support services portfolio, primarily due to the acquisition of GDCL, which historically has had higher margins than our legacy portfolio.

Selling, General and Administrative Expenses

SG&A expenses decreased 5% to $247 million, or 16.1% of net sales, in the third quarter of 2016, compared to $259 million, or 18.2% of net sales, in the third quarter of 2015. The decrease in SG&A expenditures is primarily due to cost savings initiatives, including headcount reductions.

Research and Development Expenditures

R&D expenditures decreased 10% to $137 million, or 8.9% of net sales, in the third quarter of 2016, from $153 million, or 10.8% of net sales, in the third quarter of 2015. The decrease in R&D expenditures is primarily due to cost savings initiatives, including headcount reductions.

Other Charges

We recorded net charges of $37 million in the third quarter of 2016, compared to net charges of $42 million in the third quarter of 2015. The net Other charges in the third quarter of 2016 included: (i) $31 million of charges relating to the amortization of intangibles and (ii) $6 million of net reorganization of business charges. The net charges in the third quarter of 2015 of $42 million included: (i) $40 million of net reorganization of business charges, including a $26 million impairment of the corporate aircraft and a $6 million building impairment charge, and (ii) $2 million of charges relating to the amortization of intangibles. The net reorganization of business charges are discussed in further detail in the “Reorganization of Businesses” section.

Net Interest Expense

Net interest expense was $54 million in the third quarter of 2016 and $43 million in the third quarter of 2015. The increase in net interest expense in the third quarter of 2016 as compared to the third quarter of 2015 was a result of higher outstanding debt balances and lower cash balances.

Gains (losses) on Sales of Investments and Businesses, net

Net gains on sales of investments and businesses were $7 million in the third quarter of 2016 compared to $10 million in the third quarter of 2015. The net gains in the third quarter of 2016 and the third quarter of 2015 were related to the sales of equity investments.

Other

Net Other expense was $1 million in both the third quarter of 2016 and 2015. The net Other expense in the third quarter of 2016 was comprised of: (i) an $11 million loss on derivative investments and (ii) a $2 million investment impairment, partially offset by: (i) a $7 million foreign currency gain and (ii) $5 million of other non-operating gains. The net Other expense in the third quarter of 2015 was comprised of a $29 million foreign currency loss, partially offset by: (i) a $25 million gain on derivative instruments, (ii) a $2 million gain on equity method investments, and (iii) $1 million of other non-operating gains.

Effective Tax Rate

We recorded $100 million of net tax expense in the third quarter of 2016, resulting in an effective tax rate of 34%, compared to $71 million of net tax expense in the third quarter of 2015, resulting in an effective tax rate of 36%. Our effective tax rate in the third quarter of 2016 was lower than the U.S. statutory tax rate of 35% partly due to favorable discrete adjustments to deferred tax assets of foreign subsidiaries. Our effective tax rate in the third quarter of 2015 was higher than the U.S. statutory tax rate of 35% primarily due to higher income in the U.S. relative to foreign operations.

Earnings from Continuing Operations Attributable to Motorola Solutions, Inc.

After taxes, we had earnings from continuing operations attributable to Motorola Solutions, Inc. of $192 million, or $1.13 per diluted share, in the third quarter of 2016, compared to earnings from continuing operations attributable to Motorola Solutions, Inc. of $126 million, or $0.63 per diluted share, in the third quarter of 2015.

The increase in earnings from continuing operations in the third quarter of 2016, as compared to the third quarter of 2015, was primarily driven by: (i) a $77 million increase in Gross margin largely driven by our Managed & Support services in EMEA, primarily due to the acquisition of GDCL, (ii) a $16 million decrease in R&D expenses, and (iii) a $12 million decrease in SG&A spend. The increase in earnings from continuing operations per diluted share was driven by an increase in earnings from continuing operations and lower shares outstanding as a result of repurchases made through our ongoing share repurchase program.

Earnings from Discontinued Operations

In the third quarter of 2016, we reported no earnings from discontinued operations, compared to a loss from discontinued operations of $11 million, or $0.06 per diluted share, in the third quarter of 2015.

Results of Operations—Nine months ended October 1, 2016 compared to nine months ended October 3, 2015

Net Sales

Net sales were $4.2 billion in the first nine months of 2016, a $142 million, or 4% increase from the first nine months of 2015. The increase in net sales is reflective of growth in EMEA and North America, partially offset by decreases in Latin America and AP. EMEA grew on Services sales, partially offset by lower Products sales. The increase in EMEA Services sales was due to an increase in Managed and Support services, primarily due to the acquisition of GDCL which provided $338 million of net sales during the first nine months of 2016. North America grew on both Services and Products sales. The decrease in Latin America was the result of lower Products and Services sales primarily due to macroeconomic pressures. The decrease in AP was due to lower Products sales, primarily in China, partially offset by growth in the Services segment.

Gross Margin

Gross margin was $1.9 billion, or 46.7% of net sales, in the first nine months of 2016, compared to $1.9 billion, or 46.9% of net sales, in the first nine months of 2015. The decrease in gross margin percentage was driven by the Products segment while the gross margin percentage of the Services segment increased. The decrease in gross margin percentage in the Products segment was primarily driven by: (i) a decrease in volume and (ii) lower margins on global systems sales. The Services segment gross margin percentage improved with the expansion of our Managed & Support services portfolio, primarily due to the acquisition of GDCL, which historically has had higher margins than our legacy portfolio.

Selling, General and Administrative Expenses

SG&A expenses decreased $47 million to $722 million, or 17.4% of net sales, in the first nine months of 2016, compared to $769 million, or 19.2% of net sales, in the first nine months of 2015. The decrease in SG&A expenditures is primarily due to: (i) cost savings initiatives, including headcount reductions, and (ii) lower pension expenses.

Research and Development Expenses

R&D expenditures decreased $57 million to $411 million, or 9.9% of net sales, in the first nine months of 2016, compared to $468 million, or 11.7% of net sales, in the first nine months of 2015. The decrease in R&D expenditures is primarily due to cost savings initiatives, including headcount reductions.

Other Charges

We recorded net charges of $144 million in Other charges in the first nine months of 2016, compared to net charges of $39 million in the first nine months of 2015. The net charges in the first nine months of 2016 included: (i) $83 million of charges relating to the amortization of intangibles, (ii) $48 million of net reorganization of business charges, including a $17 million building impairment and a $3 million impairment of the corporate aircraft, and (iii) $13 million of transaction fees on the acquisition of GDCL. The net Other charges in the first nine months of 2015 of $39 million included: (i) $65 million of net reorganization of business charges, including a $26 million impairment of the corporate aircraft and a $6 million building impairment charge, and (ii) $6 million of charges relating to the amortization of intangibles, partially offset by a $32 million gain related to the curtailment of a non-U.S. pension plan. The net reorganization of business charges are discussed in further detail in the “Reorganization of Business” section.

Net Interest Expense

Net interest expense was $157 million in the first nine months of 2016 and $122 million in the first nine months of 2015. The increase in net interest expense in the first nine months of 2016 as compared to the first nine months of 2015 was a result of higher outstanding debt balances and lower cash balances.

Gains (losses) on Sales of Investments and Businesses, net

Net losses on sales of investments and businesses were $13 million in the first nine months of 2016 compared to net gains on sales of investments and businesses of $60 million in the first nine months of 2015. The net losses in the first nine months of 2016 consisted of: (i) a $19 million loss on the sale of an investment in United Kingdom treasury securities and (ii) a $7 million loss from the sale of our Malaysia manufacturing operations, partially offset by $13 million of gains on the sales of equity investments. The net gain in the first nine months of 2015 consisted of gains on the sales of equity investments.

Other

Net Other expense was $12 million in the first nine months of 2016, compared to net Other expense of $3 million in the first nine months of 2015. The net Other expense in the first nine months of 2016 was comprised of: (i) a $41 million loss on derivative instruments, (ii) a $10 million foreign currency loss on currency purchased and held in anticipation of the acquisition of GDCL, and (iii) a $2 million investment impairment, partially offset by: (i) a $34 million foreign currency gain, (ii) a $2 million gain on equity method investments, and (iii) $5 million of other non-operating gains. The net Other expense in the first nine months of 2015 was comprised of: (i) a $23 million foreign currency loss and (ii) a $3 million investment impairment, partially offset by: (i) a $13 million gain on derivative instruments, (ii) a $6 million gain on equity method investments, and (iii) $4 million of other non-operating gains.

Effective Tax Rate

We recorded $164 million of net tax expense in the first nine months of 2016, resulting in an effective tax rate of 34%, compared to $175 million of net tax expense, resulting in an effective tax rate of 32% in the first nine months of 2015. Our effective tax rate in 2016 was lower than the U.S. statutory tax rate of 35% partly due to the recognition of excess tax benefits on share-based compensation. Our effective tax rate in the first nine months of 2015 was lower than the U.S. statutory tax rate of 35% primarily due to the rate differential for foreign affiliates and the U.S. domestic production tax deduction.

Earnings from Continuing Operations Attributable to Motorola Solutions, Inc.

After taxes, we had earnings from continuing operations attributable to Motorola Solutions, Inc. of $317 million, or $1.82 per diluted share, in the first nine months of 2016, compared to earnings from continuing operations attributable to Motorola Solutions, Inc. of $363 million, or $1.74 per diluted share, in the first nine months of 2015.

The decrease in earnings from continuing operations in the first nine months of 2016, as compared to the first nine months of 2015, was primarily driven by: (i) a $105 million increase in Other charges and (ii) a $73 million decrease in Gains (losses) on sales of investments and businesses, partially offset by: (i) a $60 million overall increase in Gross margin, (ii) a $57 million decrease in R&D expenses, and (iii) a $47 million decrease in SG&A spend. The increase in earnings from continuing operations per diluted share was driven by lower shares outstanding as a result of repurchases made through our ongoing share repurchase program.

Loss from Discontinued Operations

In the first nine months of 2016, we reported no earnings from discontinued operations, compared to a loss from discontinued operations of $32 million, or $0.16 per diluted share, in the first nine months of 2015.

Segment Information

The following commentary should be read in conjunction with the financial results of each reporting segment for the three and nine months ended October 1, 2016 and October 3, 2015, as detailed in Note 12, "Segment Information," of our condensed consolidated financial statements.

Products Segment

For the third quarter of 2016, the segment's net sales represented 60% of our consolidated net sales, compared to 65% of our consolidated net sales for the third quarter of 2015. For the first nine months of 2016, the segment's net sales represented 58% of our consolidated net sales, compared to 64% of our consolidated net sales for the third quarter of 2015.

	Three Months Ended			*Nine Months Ended*		
	October 1, 2016	*October 3, 2015*	*% Change*	***October 1, 2016***	*October 3, 2015*	*% Change*
Segment net sales	**$ 920**	$ 925	(1)%	**$ 2,423**	$ 2,550	(5)%
Operating earnings	**225**	178	26 %	**404**	413	(2)%

Three months ended October 1, 2016 compared to three months ended October 3, 2015

The segment's net sales decreased $5 million, or 1%, to $920 million in the third quarter of 2016, as compared to $925 million during the third quarter of 2015. The decrease in the segment's net sales was primarily driven by a decrease in devices sales in EMEA. On a geographic basis, net sales decreased in EMEA, Latin America, and AP, and increased in North America for the third quarter of 2016, compared to the third quarter of 2015.

Net sales in North America continued to comprise a significant portion of the segment's business, accounting for approximately 70% of the segment's net sales in the third quarter of 2016, up from 66% of the segment's net sales in the third quarter of 2015.

The segment had operating earnings of $225 million in the third quarter of 2016, compared to $178 million in the third quarter of 2015. The increase in operating earnings was primarily driven by: (i) a decrease in Other charges as a result of an $18 million impairment charge recorded in the third quarter of 2015 related to the corporate aircraft and (ii) lower SG&A and R&D expenditures as a result of cost savings initiatives, including headcount reductions.

Nine months ended October 1, 2016 compared to nine months ended October 3, 2015

The segment's net sales decreased $127 million, or 5%, to $2.4 billion in the first nine months of 2016, as compared to $2.6 billion during the first nine months of 2015. The decrease in the segment's net sales was primarily driven by: (i) lower volume including decreased devices sales outside of North America and a decrease in global systems sales, (ii) decreases in both devices and systems sales in Latin America primarily due to macroeconomic conditions, and (iii) unfavorable foreign exchange rates with a strengthening U.S. dollar in EMEA, Latin America, and AP. On a geographic basis, net sales decreased in EMEA, Latin America, and AP, and increased in North America for the first nine months of 2016, compared to the first nine months of 2015.

Net sales in North America continued to comprise a significant portion of the segment's business, accounting for approximately 70% of the segment's net sales in the first nine months of 2016, up from 65% of the segment's net sales in the first nine months of 2015.

The segment had operating earnings of $404 million in the first nine months of 2016, compared to $413 million in the first nine months of 2015. The decrease in operating earnings in the first nine months of 2016 compared to the first nine months of 2015, was primarily driven by: (i) lower volume of devices and systems sales and (ii) an increase in Other charges, partially offset by: (i) lower SG&A expenditures as a result of cost savings initiatives, including headcount reductions, and lower pension expenses and (ii) lower R&D expenditures as a result of cost savings initiatives, including headcount reductions.

Services Segment

For the third quarter of 2016, the segment's net sales represented 40% of our consolidated net sales, compared to 35% of our consolidated net sales for the third quarter of 2015. For the first nine months of 2016 and 2015, the segment's net sales represented 42% of our consolidated net sales, compared to 36% of our consolidated net sales for the third quarter of 2015.

	Three Months Ended			*Nine Months Ended*		
	October 1, 2016	*October 3, 2015*	*% Change*	***October 1, 2016***	*October 3, 2015*	*% Change*
Segment net sales	**$ 612**	$ 497	23%	**$ 1,732**	$ 1,463	18%
Operating earnings	**116**	53	119%	**260**	192	35%

Three months ended October 1, 2016 compared to three months ended October 3, 2015

The segment's net sales increased $115 million, or 23%, to $612 million in the third quarter of 2016, as compared to $497 million in the third quarter of 2015. The increase in the segment's net sales was primarily driven by higher Managed & Support services sales from both the GDCL acquisition as well as organic growth. The acquisition of GDCL provided $131 million of net sales within EMEA during the quarter, while the organic Managed & Support services business grew in North America, AP, and Latin America. This sales growth was partially offset by: (i) a decrease in Integration services sales, primarily in EMEA related to the winding down of a large system implementation, and (ii) declining iDEN services sales in Latin America. On a geographic basis, net sales for the third quarter of 2016 increased in EMEA, AP, and North America, and decreased in Latin America, compared to the third quarter of 2015.

Net sales in North America continued to comprise a significant portion of the segment's business, accounting for approximately 52% of the segment's net sales in the third quarter of 2016, compared to 63% of the segment's net sales in the third quarter of 2015.

The segment had operating earnings of $116 million in the third quarter of 2016, compared to $53 million in the third quarter of 2015. The increase in operating earnings in the third quarter of 2016 compared to the third quarter of 2015 was primarily driven by increased sales volume generating higher gross margin on our Managed & Support services, primarily due to the GDCL acquisition, partially offset by an increase in Other charges, including $29 million of intangible amortization expense associated with the GDCL acquisition.

Nine months ended October 1, 2016 compared to nine months ended October 3, 2015

The segment's net sales increased $269 million, or 18%, to $1.7 billion in the first nine months of 2016, as compared to net sales of $1.5 billion in the first nine months of 2015. The increase in the segment's net sales was primarily driven by higher Managed & Support services sales from both the acquisition of GDCL as well as organic growth. The acquisition of GDCL provided $338 million of net sales within EMEA during the first nine months of 2016, while the organic Managed & Support services business grew in North America and AP. This sales growth was partially offset by: (i) a decrease in Integration services sales, with a significant decrease in EMEA related to the winding down of a large system implementation, (ii) declining iDEN services sales in Latin America, and (iii) the effect of unfavorable foreign exchange rates with a strengthening U.S. dollar in EMEA, Latin America, and AP. On a geographic basis, net sales for the first nine months of 2016 increased in EMEA, AP, and North America, and decreased and Latin America, compared to the first nine months of 2015.

Net sales in North America continued to comprise a significant portion of the segment's business, accounting for approximately 53% of the segment's net sales in the first nine months of 2016, compared to 62% of the segment's net sales in the first nine months of 2015.

The segment had operating earnings of $260 million in the first nine months of 2016, compared to operating earnings of $192 million in the first nine months of 2015. The increase in operating earnings in the first nine months of 2016 as compared to the first nine months of 2015 was driven by increased sales volume generating higher gross margin on our Managed & Support services, primarily in EMEA, partially offset by an increase in Other charges, including $77 million of intangible amortization expense associated with the GDCL acquisition.

Reorganization of Business

During the third quarter of 2016, we recorded net reorganization of business charges of $7 million including $6 million of charges recorded within Other charges and $1 million in Cost of sales in our condensed consolidated statements of operations. Included in the $7 million were charges of $8 million related to employee separation costs, partially offset by $1 million of reversals for accruals no longer needed.

During the first nine months of 2016, we implemented various productivity improvement plans aimed at continuing operating margin improvements by driving efficiencies and reducing operating costs. During the first nine months of 2016, we recorded net reorganization of business charges of $74 million including charges of $48 million recorded in Other charges and $26 million in Cost of sales in our condensed consolidated statements of operations. Included in the $74 million were charges of: (i) $54 million for employee separation costs, (ii) $20 million for impairments, including $17 million for a building impairment and $3 million for the impairment of the corporate aircraft, and (iii) $5 million for exit costs, partially offset by $5 million of reversals for accruals no longer needed.

During the third quarter of 2015, we recorded net reorganization of business charges of $41 million including charges of $40 million recorded in Other charges and $1 million in Cost of sales in our condensed consolidated statements of operations. Included in the $41 million were charges of: (i) $26 million for the impairment of corporate aircraft, (ii) $11 million of charges related to employee separation costs, and (iii) a $6 million building impairment charge, partially offset by $2 million of reversals for accruals no longer needed.

During the first nine months of 2015, we recorded net reorganization of business charges of $70 million including charges of $65 million recorded in Other charges and $5 million in Cost of sales in our condensed consolidated statements of operations. Included in the $70 million were charges of: (i) $36 million related to employee separation costs, (ii) $26 million for the impairment of the corporate aircraft, (iii) a $6 million building impairment charge, and (iv) $4 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:

	Three Months Ended		*Nine Months Ended*	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Products	**$ 5**	$ 29	**$ 59**	$ 51
Services	**2**	12	**15**	19
	$ 7	$ 41	**$ 74**	$ 70

Cash payments for employee severance and exit costs in connection with the reorganization of business plans were $59 million in the first nine months of 2016 and $53 million in the first nine months of 2015. The reorganization of business accruals at October 1, 2016 were $55 million, of which $46 million relate to employee separation costs that are expected to be paid within one year and $9 million of accruals related primarily to lease termination obligations that are expected to be paid over a number of years.

Liquidity and Capital Resources

We decreased the aggregate of our cash and cash equivalent balances by $293 million from $2.0 billion as of December 31, 2015 to $1.7 billion as of October 1, 2016. The decrease is primarily due to: (i) $1.0 billion paid in the acquisition of GDCL and (ii) $941 million of capital returned to shareholders through share repurchases and dividends paid, offset by (i) $673 million of net proceeds raised by the issuance of the Term Loan (net of $2 million of issuance costs paid), (ii) $382 million of proceeds received from the sale of United Kingdom treasury securities used to partially fund the acquisition of GDCL, and (iii) $652 million of cash generated by operating activities.

As highlighted in the condensed consolidated statements of cash flows, our liquidity and available capital resources are impacted by four key components: (i) cash and cash equivalents, (ii) operating activities, (iii) investing activities, and (iv) financing activities.

Cash and Cash Equivalents

At October 1, 2016, $1.0 billion of the $1.7 billion cash and cash equivalents balance was held in the U.S. and approximately $680 million was held by the Company or its subsidiaries in other countries, with approximately $354 million held in the United Kingdom. Restricted cash was $63 million at both October 1, 2016 and December 31, 2015.

Operating Activities

Net cash provided by operating activities in the first nine months of 2016 was $652 million, as compared to $607 million in the first nine months of 2015. Operating cash flows in the first nine months of 2016, as compared to the first nine months of 2015, were positively impacted by higher earnings from continuing operations (adjusted for net non-cash charges), offset by higher employee incentive payments.

Investing Activities

Net cash used by investing activities was $721 million in the first nine months of 2016, compared to $129 million in the first nine months of 2015. The $721 million cash used in the first nine months of 2016 included: (i) $1.2 billion cash used for acquisitions and investments, including $1.0 billion paid for the acquisition of GDCL, and (ii) $211 million in capital expenditures, partially offset by: (i) $637 million of proceeds from sales of investments and businesses and (ii) $68 million of proceeds from the sale of property, plant and equipment. The cash usage of $129 million in the first nine months of 2015 consisted primarily of: (i) $150 million cash used for acquisitions and investments and (ii) $131 million in capital expenditures, partially offset by: (i) $150 million of proceeds from the sale of investments and businesses and (ii) $2 million of proceeds from the sale of property, plant, and equipment.

Acquisition and Investments: We used net cash for acquisitions and investments of $1.2 billion during the first nine months of 2016 compared to $150 million in the first nine months of 2015. We paid cash of $1.0 billion during the first nine months of 2016 related to the acquisition of GDCL. The remainder of the cash was used for several debt and equity investments. The cash used during the first nine months of 2015 consisted of $49 million related to the acquisition of two public safety software solution providers and several debt and equity investments.

Sales of Investments and Businesses: We had $637 million of proceeds related to the sales of investments and businesses in the first nine months of 2016 compared to $150 million in the first nine months of 2015. The proceeds in the first nine months of 2016 primarily consisted of: (i) $382 million from the sale of United Kingdom treasury securities used to finance the acquisition of GDCL, (ii) $209 million from the sales of various debt and equity securities, and (iii) $46 million from the sale of our Penang, Malaysia facility and manufacturing operations. The proceeds in the first nine months of 2015 were comprised of: (i) $54 million from the sale of an equity investment, (ii) $49 million reimbursement from Zebra Technologies for cash transferred with the sale of the Enterprise business in conjunction with legal entities sold through a stock sale, (iii) $15 million net cash received from Zebra Technologies for reimbursement of liabilities of the Enterprise business paid on Zebra's behalf, and (iv) proceeds from the sale of various debt and equity securities, partially offset by $27 million of net cash transferred in conjunction with the sale of our ownership interest in a majority owned subsidiary to the entity's noncontrolling interest.

Capital Expenditures: Capital expenditures increased in the first nine months of 2016 to $211 million, compared to $131 million in the first nine months of 2015. The increase in capital expenditures was primarily related to revenue-generating network expenditures, information technology spend, and facility expenditures.

Sales of Property, Plant, and Equipment: We had $68 million of proceeds related to the sale of property, plant, and equipment in the first nine months of 2016 compared to $2 million in the first nine months of 2015. The proceeds in the first nine months of 2016 were comprised of $49 million from the sale of buildings and land on the Schaumburg, IL headquarters campus and $19 million received from the sale of the corporate aircraft.

Financing Activities

Net cash used for financing activities was $191 million in the first nine months of 2016, compared to $2.2 billion in the first nine months of 2015. Cash used for financing activities in the first nine months of 2016 was primarily comprised of: (i) $728 million used for purchases of our common stock under our share repurchase program and (ii) $213 million of cash used for the payment of dividends, partially offset by: (i) $673 million of net proceeds from the issuance of the Term Loan and (ii) $80 million of net proceeds from the issuance of common stock in connection with our employee stock option plans and employee stock purchase plan. Net cash used for financing activities in the first nine months of 2015 was primarily comprised of: (i) $3.0 billion used for purchases of our common stock under our share repurchase program and (ii) $218 million of cash used for the payment of dividends, partially offset by: (i) $976 million of net proceeds from the issuance of the Senior Convertible Notes (net of issuance costs paid) and (ii) $69 million of net proceeds from the issuance of common stock in connection with our employee stock option plans and employee stock purchase plan.

Long-Term Debt: We had outstanding long-term debt of $5.0 billion and $4.3 billion, including the current portions of $5 million and $4 million at October 1, 2016 at December 31, 2015, respectively.

In connection with the completion of the acquisition of GDCL, we entered into a new term loan credit agreement (the "Term Loan Agreement"), under which we borrowed a Term Loan with an initial principal amount of $675 million. We received net proceeds of $673 million, net of $2 million of issuance costs. Interest on the Term Loan is variable and indexed to LIBOR. No additional borrowings are permitted under the Term Loan Agreement and amounts borrowed and repaid or prepaid may not be re-borrowed.

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

Share Repurchase Program: During the nine months ended October 1, 2016, the Company paid an aggregate of $728 million, including transaction costs, to repurchase approximately 10.5 million shares at an average price of $69.31 per share. As of October 1, 2016, the Company had used approximately $11.7 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving $2.3 billion of authority available for future repurchases.

Payment of Dividends: During the third quarter of 2016, we paid $70 million in cash dividends to holders of our common stock. During the first nine months of 2016, we paid $213 million in cash dividends to holders of our common stock. Subsequent to quarter end, we paid an additional $68 million in cash dividends to holders of our common stock.

Credit Facilities

As of October 1, 2016, we had a $2.1 billion unsecured syndicated revolving credit facility, which includes a $450 million letter of credit sub-limit, (the "2014 Motorola Solutions Credit Agreement") scheduled to mature on May 29, 2019. We must comply with certain customary covenants, including maximum leverage ratio as defined in the 2014 Motorola Solutions Credit Agreement. We were in compliance with our financial covenants as of October 1, 2016. We did not borrow or issue any letters of credit under the 2014 Motorola Solutions Credit Agreement during the first nine months of 2016.

Long-Term Customer Financing Commitments

Outstanding Commitments: We had outstanding commitments to provide long-term financing to third parties totaling $214 million at October 1, 2016, compared to $112 million at December 31, 2015.

Outstanding Long-Term Receivables: We had net non-current long-term receivables of $43 million at October 1, 2016, compared to $47 million at December 31, 2015.

Sales of Receivables

The following table summarizes the proceeds received from sales of accounts receivable and long-term customer financing receivables for the three and nine months ended October 1, 2016 and October 3, 2015:

	Three Months Ended		*Nine Months Ended*	
	October 1, 2016	*October 3, 2015*	***October 1, 2016***	*October 3, 2015*
Accounts receivable sales proceeds	**$ 8**	$ 5	**$ 15**	$ 16
Long-term receivables sales proceeds	**39**	24	**173**	132
Total proceeds from sales of accounts receivable	**$ 47**	$ 29	**$ 188**	$ 148

At October 1, 2016, the Company had retained servicing obligations for $685 million of long-term receivables, compared to $668 million of long-term receivables at December 31, 2015. Servicing obligations are limited to collection activities related to the sales of accounts receivables and long-term receivables.

Other Contingencies

Potential Contractual Damage Claims in Excess of Underlying Contract Value: In certain circumstances, we 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: We are a party to a variety of agreements pursuant to which we are obligated to indemnify the other party with respect to certain matters. 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.

Some of these obligations arise as a result of divestitures of our assets or businesses and require us to indemnify the other party against losses arising from breaches of representations and warranties and covenants and, in some cases, the settlement of pending obligations. Our obligations under divestiture agreements for indemnification based on breaches of representations and warranties are generally limited in terms of duration, and for amounts for breaches of such representations and warranties in connection with prior divestitures not in excess of a percentage of the contract value. We had no accruals for any such obligations at October 1, 2016.

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 condensed 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 is obtained that changes management's opinion of the ultimate disposition.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This new standard will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to receive for those goods and services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates and changes in those estimates. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date" that delayed the effective date of ASU 2014-09 by one year to January 1, 2018, as the our annual reporting period begins after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, “"Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” which clarifies the implementation guidance on principal versus agent considerations and includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. In April of 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing,” which reduces the complexity when applying the guidance for identifying performance obligations and improves the operability and understandability of the license implementation guidance. In May 2016, the FASB issued ASU 2016-12 “Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients,” which amends the guidance on transition, collectability, non-cash consideration and the presentation of sales and other similar taxes. ASU 2016-12 clarifies that, for a contract to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP. In addition, ASU 2016-12 clarifies how an entity should evaluate the collectability threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard’s contract criteria. The standard allows for both retrospective and modified retrospective methods of adoption. We are in the process of determining the method of adoption we will elect and are currently assessing the impact of this ASU on our consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued 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 us January 1, 2019 and interim periods within that reporting period. The ASU requires a modified retrospective method upon adoption. We are in the process of assessing the impact of this ASU on our consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments,” which clarifies eight specific cash flow issues in an effort to reduce diversity in practice in how certain transactions are classified within the statement of cash flows. This ASU is effective for us January 1, 2018 with early adoption permitted. Upon adoption, the ASU requires a retrospective application unless it is determined that it is impractical to do so for which it must be retrospectively applied at the earliest date practical. Upon adoption, we do not anticipate significant changes to our existing accounting policies or presentation of the Statement of Cash Flows.

In October 2016, the FASB issued ASU 2016-16, “Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory,” as part of the Board’s simplification initiative aimed at reducing complexity in accounting standards. This

ASU eliminates the current 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 and will require entities to recognize tax expense when the transfer occurs. The guidance will be effective for us on January 1, 2018 and interim periods within that reporting period; early adoption permitted. The ASU requires a modified retrospective application with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. We are currently assessing the impact of this ASU on our consolidated financial statements and footnote disclosures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Derivative Financial Instruments

As of October 1, 2016, we had outstanding foreign exchange contracts with notional amounts totaling $744 million, compared to $494 million outstanding as of December 31, 2015. 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 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 October 1, 2016, and the corresponding positions as of December 31, 2015:

	Notional Amount	
Net Buy (Sell) by Currency	***October 1, 2016***	*December 31, 2015*
Euro	**$ 211**	$ 99
British Pound	**192**	62
Chinese Renminbi	**(98)**	(114)
Australian Dollar	**(61)**	(60)
Brazilian Real	**(59)**	(44)

Forward-Looking Statements

Except for historical matters, the matters discussed in this Form 10-Q are forward-looking statements within the meaning of applicable federal securities law. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and generally include words such as “believes,” “expects,” “intends,” “aims,” “estimates” and similar expressions. We can give no assurance that any future results or events discussed in these statements will be achieved. Any forward-looking statements represent our views only as of today and should not be relied upon as representing our views as of any subsequent date. Readers are cautioned that such forward-looking statements are subject to a variety of risks and uncertainties that could cause our actual results to differ materially from the statements contained in this Form 10-Q. Forward-looking statements include, but are not limited to, statements included in: (1) “Management's Discussion and Analysis,” about: (a) the impact of the GDCL acquisition on our business, (b) trends affecting our business, including: (i) the impact of macroeconomic conditions, (ii) the impact of foreign exchange rate fluctuations, (iii) the impact of cost savings initiatives on operating expenses, (iv) the growth of our Services segment and the resulting impact on consolidated gross margin, and (v) the decline of iDEN product and services sales and the related impact on revenue and gross margins within the Services segment, (c) our business strategies and expected results, (d) future payments, charges, use of accruals and expected cost-saving benefits associated with our productivity improvement plans, reorganization of business programs, and employee separation costs, (e) our ability and cost to repatriate funds, (f) our ability to settle the principal amount of the Senior Convertible Notes in cash, (g) our ability and cost to access the capital markets at our current ratings, (h) our ability to borrow and the amount available under our credit facilities, (i) our plans with respect to the level of outstanding debt, (j) the return of capital to shareholders through dividends and/or repurchasing shares, (k) the adequacy of our cash balances to meet current operating requirements, (l) potential contractual damages claims, and (m) the outcome and effect of ongoing and future legal proceedings, (2) “Quantitative and Qualitative Disclosures about Market Risk,” about the impact of foreign currency exchange risks, (3) “Legal Proceedings,” about the ultimate disposition of pending legal matters, and (4) "Controls and Procedures," about the implementation of our enterprise resource planning systems. Motorola Solutions undertakes no obligation to publicly update any forward-looking statement or risk factor, whether as a result of new information, future events or otherwise.

Some of the risk factors that affect our business and financial results are discussed within this document and in Part I, “Item 1A: Risk Factors” on pages 9 through 22 of our 2015 Annual Report on Form 10-K and in our other SEC filings available for free on the SEC's website at www.sec.gov and on Motorola Solutions' website at www.motorolasolutions.com. We wish to caution the reader that the risk factors discussed in each of these documents and those described 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 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this quarterly report (the “Evaluation Date”). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to Motorola Solutions, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission (“SEC”) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to Motorola Solutions’ management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting that occurred during the quarter ended October 1, 2016, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

We previously were in the process of a multi-year phased upgrade and consolidation of our enterprise resource planning (“ERP”) systems into a single global platform across our businesses. With the sale of the Enterprise business which included the transfer of our existing ERP system to Zebra, we have entered into transition service agreements which require us to operate in a shared information technology environment with Zebra until 2017. We are completing the design phase for the initial release of our future ERP system and have begun system integration testing. Phase one will allow us to cease using the Zebra transition services agreement and includes the replacement of regional systems supporting our product based business and the current indirect procurement system. Phase one is scheduled to go-live in 2017.

Part II—Other Information

Item 1. Legal Proceedings

The Company is 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 the Company's condensed consolidated financial position, liquidity, or results of operations. However, an unfavorable resolution could have a material adverse effect on the Company's condensed 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 is obtained that changes management's opinion of the ultimate disposition.

Item 1A. Risk Factors

The reader should carefully consider, in connection with the other information in this report, the factors discussed below and in Part I, “Item 1A: Risk Factors” on pages 9 through 22 of the Company’s 2015 Annual Report on Form 10-K. These factors could cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table provides information with respect to acquisitions by the Company of shares of its common stock during the quarter ended October 1, 2016.

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)
6/29/16 to 7/26/16	478,377	$ 65.28	478,377	$ 383,570,622
7/27/16 to 8/23/16	278,348	$ 75.69	278,348	$ 2,362,502,104
8/24/16 to 9/27/16	742,430	$ 77.18	742,430	$ 2,305,199,373
Total	1,499,155	$ 73.11	1,499,155	

(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, July 22, 2013, November 3, 2014, and August 3, 2016, the Board of Directors has authorized the Company to repurchase an aggregate amount of 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. As of October 1, 2016, the Company had used approximately $11.7 billion, including transaction costs, to repurchase shares, leaving $2.3 billion of authority available for future repurchases.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit No.	*Exhibit*
*31.1	Certification of Gregory Q. Brown pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Gino A. Bonanotte pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Gregory Q. Brown pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Gino A. Bonanotte pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Scheme Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOTOROLA SOLUTIONS, INC.

By: /S/ JOHN K. WOZNIAK

John K. Wozniak
Corporate Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

November 3, 2016

EXHIBIT INDEX

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