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Motorola Solutions, Inc.  
Form 10-Q  
November 04, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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(Mark One)

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

For the period ended October 3, 2015

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

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MOTOROLA SOLUTIONS, INC.  
(Exact name of registrant as specified in its charter)

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DELAWARE

(State of Incorporation)

1303 E. Algonquin Road,

Schaumburg, Illinois

(Address of principal executive offices)

Registrant's telephone number, including area code:

(847) 576-5000

36-1115800

(I.R.S. Employer Identification No.)

60196

(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on October 3, 2015:

Class	Number of Shares
Common Stock; \$.01 Par Value	176,561,670

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	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1 Financial Statements	<u>1</u>
Condensed Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended October 3, 2015 and September 27, 2014	<u>1</u>
Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended October 3, 2015 and September 27, 2014	<u>2</u>
Condensed Consolidated Balance Sheets as of October 3, 2015 (Unaudited) and December 31, 2014	<u>3</u>
Condensed Consolidated Statement of Stockholders' Equity (Unaudited) for the Nine Months Ended October 3, 2015	<u>4</u>
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended October 3, 2015 and September 27, 2014	<u>5</u>
Notes to Condensed Consolidated Financial Statements (Unaudited)	<u>6</u>
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 4 Controls and Procedures</u>	<u>38</u>
<u>PART II OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	<u>39</u>
<u>Item 1A Risk Factors</u>	<u>39</u>
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
<u>Item 3 Defaults Upon Senior Securities</u>	<u>40</u>
<u>Item 4 Mine Safety Disclosures</u>	<u>40</u>
<u>Item 5 Other Information</u>	<u>40</u>
<u>Item 6 Exhibits</u>	<u>41</u>

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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 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales from products	\$925	\$921	\$2,550	\$2,561
Net sales from services	497	515	1,463	1,497
Net sales	1,422	1,436	4,013	4,058
Costs of product sales	395	414	1,139	1,165
Costs of services sales	342	337	993	974
Costs of sales	737	751	2,132	2,139
Gross margin	685	685	1,881	1,919
Selling, general and administrative expenses	259	287	769	902
Research and development expenditures	153	166	468	516
Other charges	42	25	39	49
Operating earnings	231	207	605	452
Other income (expense):				
Interest expense, net	(43	) (31	) (122	) (85
Gains on sales of investments, net	10	1	60	4
Other	(1	) (26	) (3	) (34
Total other expense	(34	) (56	) (65	) (115
Earnings from continuing operations before income taxes	197	151	540	337
Income tax expense	71	84	175	107
Earnings from continuing operations	126	67	365	230
Earnings (loss) from discontinued operations, net of tax	(11	) 81	(32	) 869
Net earnings	115	148	333	1,099
Less: Earnings attributable to noncontrolling interests	—	1	2	1
Net earnings attributable to Motorola Solutions, Inc.	\$115	\$147	\$331	\$1,098
Amounts attributable to Motorola Solutions, Inc. common stockholders:				
Earnings from continuing operations, net of tax	\$126	\$66	\$363	\$229
Earnings (loss) from discontinued operations, net of tax	(11	) 81	(32	) 869
Net earnings attributable to Motorola Solutions, Inc.	\$115	\$147	\$331	\$1,098
Earnings (loss) per common share:				
Basic:				
Continuing operations	\$0.63	\$0.27	\$1.75	\$0.91
Discontinued operations	(0.05	) 0.33	(0.15	) 3.46
	\$0.58	\$0.60	\$1.60	\$4.37
Diluted:				
Continuing operations	\$0.63	\$0.27	\$1.74	\$0.90
Discontinued operations	(0.06	) 0.32	(0.16	) 3.42
	\$0.57	\$0.59	\$1.58	\$4.32
Weighted average common shares outstanding:				
Basic	199.2	246.3	207.2	251.1
Diluted	201.3	248.2	209.2	254.0
Dividends declared per share	\$0.34	0.34	\$1.02	0.96

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

1

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Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)

(In millions)	Three Months Ended	
	October 3, 2015	September 27, 2014
Net earnings	\$115	\$148
Other comprehensive loss, net of tax (Note 3):		
Foreign currency translation adjustments	(16	) (34
Marketable securities	(5	) —
Defined benefit plans	—	(345
Total other comprehensive loss, net of tax	(21	) (379
Comprehensive income (loss)	94	(231
Less: Earnings attributable to noncontrolling interest	—	1
Comprehensive income (loss) attributable to Motorola Solutions, Inc. common shareholders	\$94	\$(232
		)
	Nine Months Ended	
(In millions)	October 3, 2015	September 27, 2014
Net earnings	\$333	\$1,099
Other comprehensive income (loss), net of tax (Note 3):		
Foreign currency translation adjustments	(35	) (19
Derivative instruments	—	1
Marketable securities	(34	) 2
Defined benefit plans	(82	) (322
Total other comprehensive loss, net of tax	(151	) (338
Comprehensive income	182	761
Less: Earnings attributable to noncontrolling interest	2	1
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	\$180	\$760
See accompanying notes to condensed consolidated financial statements (unaudited).		

## Condensed Consolidated Balance Sheets

(In millions, except par value)	October 3, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$2,200	\$3,954
Accounts receivable, net	1,222	1,409
Inventories, net	334	345
Deferred income taxes	430	431
Other current assets	574	740
Current assets held for disposition	27	—
Total current assets	4,787	6,879
Property, plant and equipment, net	467	549
Investments	292	316
Deferred income taxes	1,889	2,151
Goodwill	423	383
Other assets	183	145
Non-current assets held for disposition	45	—
Total assets	\$8,086	\$10,423
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current portion of long-term debt	\$4	\$4
Accounts payable	443	540
Accrued liabilities	1,582	1,706
Total current liabilities	2,029	2,250
Long-term debt	4,386	3,396
Other liabilities	1,969	2,011
Stockholders' Equity		
Preferred stock, \$100 par value	—	—
Common stock, \$.01 par value:	2	2
Authorized shares: 600.0		
Issued shares: 10/3/15—176.7; 12/31/14—220.5		
Outstanding shares: 10/3/15—176.6; 12/31/14—219.8		
Additional paid-in capital	8	1,178
Retained earnings	1,689	3,410
Accumulated other comprehensive loss	(2,006)	) (1,855 )
Total Motorola Solutions, Inc. stockholders' equity (deficit)	(307)	) 2,735 )
Noncontrolling interests	9	31
Total stockholders' equity (deficit)	(298)	) 2,766 )
Total liabilities and stockholders' equity	\$8,086	\$10,423
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, 2014	220.5	\$1,180	\$ (1,855 )	\$3,410	\$ 31
Net earnings				331	2
Other comprehensive loss			(151 )		
Issuance of common stock and stock options exercised	1.6	71			
Share repurchase program	(45.4 )	(1,147 )		(1,849 )	
Tax shortfalls from share-based compensation		(160 )			
Share-based compensation expense		58			
Sale of controlling interest in subsidiary common stock					(24 )
Dividends declared				(203 )	
Equity component of Senior Convertible Notes		8			
Balance as of October 3, 2015	176.7	\$10	\$ (2,006 )	\$1,689	\$ 9

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

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(In millions)	Nine Months Ended		
	October 3, 2015	September 27, 2014	
<b>Operating</b>			
Net earnings attributable to Motorola Solutions, Inc.	\$331	\$1,098	
Earnings attributable to noncontrolling interests	2	1	
Net earnings	333	1,099	
Earnings (loss) from discontinued operations, net of tax	(32	) 869	
Earnings from continuing operations, net of tax	365	230	
Adjustments to reconcile Earnings from continuing operations to Net cash provided by operating activities from continuing operations:			
Depreciation and amortization	113	131	
Gain on sale of building and land	—	(21	)
Non-cash other charges (income)	43	(2	)
Non-U.S. pension curtailment gain	(32	) —	
Share-based compensation expense	58	74	
Gains on sales of investments and businesses, net	(60	) (4	)
Loss from the extinguishment of long term debt	—	37	
Deferred income taxes	127	69	
Changes in assets and liabilities, net of effects of acquisitions, dispositions, and foreign currency translation adjustments:			
Accounts receivable	167	202	
Inventories	(21	) 12	
Other current assets	38	(9	)
Accounts payable and accrued liabilities	(168	) (170	)
Other assets and liabilities	(39	) (534	)
Net cash provided by operating activities from continuing operations	591	15	
<b>Investing</b>			
Acquisitions and investments, net	(150	) (21	)
Proceeds from sales of investments and businesses, net	150	23	
Capital expenditures	(131	) (130	)
Proceeds from sales of property, plant and equipment	2	30	
Net cash used for investing activities from continuing operations	(129	) (98	)
<b>Financing</b>			
Repayment of debt	(3	) (461	)
Net proceeds from issuance of debt	976	1,375	
Issuance of common stock	85	94	
Purchase of common stock	(2,996	) (1,123	)
Excess tax benefit from share-based compensation	1	11	
Payment of dividends	(218	) (236	)
Distributions from discontinued operations	—	66	
Net cash used for financing activities from continuing operations	(2,155	) (274	)
<b>Discontinued Operations</b>			
Net cash provided by operating activities from discontinued operations	—	63	
Net cash provided by investing activities from discontinued operations	—	5	
Net cash used for financing activities from discontinued operations	—	(66	)
Effect of exchange rate changes on cash and cash equivalents from discontinued operations	—	(2	)

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Net cash provided by discontinued operations	—	—
Effect of exchange rate changes on cash and cash equivalents from continuing operations	(61	) (23
Net decrease in cash and cash equivalents	(1,754	) (380
Cash and cash equivalents, beginning of period	3,954	3,225
Cash and cash equivalents, end of period	\$2,200	\$2,845
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest, net	\$130	\$92
Income and withholding taxes, net of refunds	86	36
See accompanying notes to condensed consolidated financial statements (unaudited).		

5

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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 3, 2015 and for the three and nine months ended October 3, 2015 and September 27, 2014, 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, 2014. The results of operations for the three and nine months ended October 3, 2015 are not necessarily indicative of the operating results to be expected for the full year.

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

Recent Accounting Pronouncements

In 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. ASU 2014-09 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 April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. 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. In adopting the ASU, the Company will be required to apply a full retrospective approach to all periods presented. This guidance will be effective January 1, 2016 and, upon adoption, debt issuance costs capitalized in other assets in the consolidated balance sheet will be reclassified and presented as a reduction to long-term debt. As of October 3, 2015, debt issuance costs, net of accumulated amortization, recognized in the condensed consolidated balance sheet were \$44 million.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 340): Simplifying the Measurement of Inventory. Under this guidance, entities utilizing the FIFO or average cost method should measure inventory at the lower of cost or net realizable value, where net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU should be applied prospectively and will be effective for the Company beginning January 1, 2017 with early adoption permitted. The Company does not expect this ASU will have a material impact on its consolidated financial statements.



## 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.

The following table displays summarized activity in the Company's condensed consolidated statements of operations for discontinued operations during the three and nine months ended October 3, 2015 and September 27, 2014:

	Three Months Ended		Nine Months Ended		
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014	
Net sales	\$—	\$605	\$—	\$1,737	
Operating earnings	—	78	—	195	
Losses on sales of investments and businesses, net	—	—	(28	) —	
Earnings (loss) before income taxes	—	68	(28	) 181	
Income tax expense (benefit)	11	(13	) 4	(688	)
Earnings (loss) from discontinued operations, net of tax	\$(11	) \$81	\$(32	) \$869	

During the three months ended October 3, 2015, the Company recorded \$11 million of tax expense on the gain on the sale of the Enterprise business to reflect actual amounts filed in the income tax return.

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 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014