Motorola Solutions, Inc.
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the period ended July 1, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-7221

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

DELAWARE	36-1115800
(State of Incorporation)	(I.R.S. Employer Identification No.)
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 x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer" "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨	Emerging growth company ¨
	(Do not check if a smaller reporting company)			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on July 1, 2017:

Class	Number of Shares
Common Stock; $.01 Par Value	162,653,552

Part I—Financial Information
Condensed Consolidated Statements of Operations
(Unaudited)

(In millions, except per share amounts)	Three Months Ended July 1, 2017	Three Months Ended July 2, 2016	Six Months Ended July 1, 2017	Six Months Ended July 2, 2016
Net sales from products	$848	$801	$1,551	$1,503
Net sales from services	649	629	1,226	1,120
Net sales	1,497	1,430	2,777	2,623
Costs of products sales	392	361	739	726
Costs of services sales	415	393	778	718
Costs of sales	807	754	1,517	1,444
Gross margin	690	676	1,260	1,179
Selling, general and administrative expenses	242	240	475	475
Research and development expenditures	138	138	273	274
Other charges	53	74	79	107
Operating earnings	257	224	433	323
Other income (expense):				
Interest expense, net	(51)	(54)	(102)	(103)
Gains (losses) on sales of investments and businesses, net	(1)	1	2	(20)
Other	—	(4)	(9)	(11)
Total other expense	(52)	(57)	(109)	(134)
Net earnings before income taxes	205	167	324	189
Income tax expense	73	59	114	64
Net earnings	132	108	210	125
Less: Earnings attributable to noncontrolling interests	1	1	2	1
Net earnings attributable to Motorola Solutions, Inc.	$131	$107	$208	$124
Earnings per common share:				
Basic	$0.80	$0.62	$1.27	$0.72
Diluted	$0.78	$0.61	$1.23	$0.71
Weighted average common shares outstanding:				
Basic	163.1	171.9	163.7	173.0
Diluted	169.0	174.8	169.5	175.7
Dividends declared per share	$0.47	$0.41	$0.94	$0.82

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

Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In millions)	Three Months Ended July 1, 2017	July 2, 2016
Net earnings	$132	$108
Other comprehensive income (loss), net of tax (Note 2):		
Foreign currency translation adjustments	47	(98)
Marketable securities	4	(1)
Defined benefit plans	14	56
Total other comprehensive income (loss), net of tax	65	(43)
Comprehensive income	197	65
Less: Earnings attributable to noncontrolling interest	1	1
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	$196	$64

(In millions)	Six Months Ended July 1, 2017	July 2, 2016
Net earnings	$210	$125
Other comprehensive income (loss), net of tax (Note 2):		
Foreign currency translation adjustments	81	(85)
Marketable securities	4	3
Defined benefit plans	33	60
Total other comprehensive income (loss), net of tax	118	(22)
Comprehensive income	328	103
Less: Earnings attributable to noncontrolling interest	2	1
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	$326	$102

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

Condensed Consolidated Balance Sheets

(In millions, except par value)	July 1, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 742	$ 967
Restricted cash	63	63
Total cash and cash equivalents	805	1,030
Accounts receivable, net	1,211	1,410
Inventories, net	391	273
Other current assets	804	755
Total current assets	3,211	3,468
Property, plant and equipment, net	859	789
Investments	248	238
Deferred income taxes	2,160	2,219
Goodwill	749	728
Intangible assets	868	821
Other assets	200	200
Total assets	$ 8,295	$ 8,463
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$ 46	$ 4
Accounts payable	440	553
Accrued liabilities	1,924	2,111
Total current liabilities	2,410	2,668
Long-term debt	4,421	4,392
Other liabilities	2,440	2,355
Stockholders' Equity		
Preferred stock, $100 par value	—	—
Common stock, $.01 par value:	2	2
Authorized shares: 600.0		
Issued shares: 7/1/17—163.1; 12/31/16—165.5		
Outstanding shares: 7/1/17—162.7; 12/31/16—164.7		
Additional paid-in capital	264	203
Retained earnings	945	1,148
Accumulated other comprehensive loss	(2,199)	(2,317)
Total Motorola Solutions, Inc. stockholders' equity (deficit)	(988)	(964)
Noncontrolling interests	12	12
Total stockholders' equity (deficit)	(976)	(952)
Total liabilities and stockholders' equity	$ 8,295	$ 8,463

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, 2016	165.5	$ 205	$ (2,317)	$ 1,148	$ 12
Net earnings				208	2
Other comprehensive income			118		
Issuance of common stock and stock options exercised	0.8	28			
Share repurchase program	(3.2)			(258)	
Share-based compensation expense		33			
Dividends declared				(153)	(2)
Balance as of July 1, 2017	163.1	$ 266	$ (2,199)	$ 945	$ 12

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

Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Six Months Ended July 1, 2017	July 2, 2016
Operating		
Net earnings attributable to Motorola Solutions, Inc.	$208	$124
Earnings attributable to noncontrolling interests	2	1
Net earnings	210	125
Adjustments to reconcile Net earnings to Net cash provided by operating activities:		
Depreciation and amortization	166	144
Non-cash other charges	21	35
Non-U.S. pension settlement loss	25	—
Share-based compensation expense	33	35
Losses (gains) on sales of investments and businesses, net	(2)	20
Deferred income taxes	63	71
Changes in assets and liabilities, net of effects of acquisitions, dispositions, and foreign currency translation adjustments:		
Accounts receivable	251	327
Inventories	(112)	(2)
Other current assets	(21)	(65)
Accounts payable and accrued liabilities	(340)	(362)
Other assets and liabilities	21	(24)
Net cash provided by operating activities	315	304
Investing		
Acquisitions and investments, net	(140)	(1,120)
Proceeds from sales of investments and businesses, net	72	553
Capital expenditures	(121)	(143)
Proceeds from sales of property, plant and equipment	—	46
Net cash used for investing activities	(189)	(664)
Financing		
Repayment of debt	(6)	(2)
Net proceeds from issuance of debt	—	673
Proceeds from financing through capital leases	7	—
Issuance of common stock	28	40
Purchase of common stock	(258)	(619)
Payment of dividends	(154)	(143)
Payment of dividend to non-controlling interest	(2)	—
Net cash used for financing activities	(385)	(51)
Effect of exchange rate changes on cash and cash equivalents	34	(24)
Net decrease in cash and cash equivalents	(225)	(435)
Cash and cash equivalents, beginning of period	1,030	1,980
Cash and cash equivalents, end of period	$805	$1,545
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest, net	$88	$94
Income and withholding taxes, net of refunds	47	54

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

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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 July 1, 2017 and for the three and six months ended July 1, 2017 and July 2, 2016 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, 2016. The results of operations for the three and six months ended July 1, 2017 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 July 28, 2017, the Company announced its intention to purchase Plant Holdings, Inc., which owns the Airbus DS Communications business. This acquisition will expand the Company's software portfolio in the Command Center with additional solutions for Next Gen 9-1-1.

On May 1, 2017, the Company announced its intention to purchase Kodiak Networks, a provider of broadband push-to-talk (PTT) for commercial customers. The acquisition of Kodiak Networks reflects Motorola Solutions' strategy to build its communications and collaboration software portfolio. The acquisition is expected to be completed later this year.

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 the existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is the recognition of revenue for the transfer of goods and services equal to the amount an entity 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.

The Company has continued to analyze the impact of the new standard on its financial results based on an inventory of the Company's current contracts with customers. The Company has obtained an understanding of the new standard and currently believes that it will retain much of the same accounting treatment used to recognize revenue under current standards. Revenue on a significant portion of its contracts is currently recognized under percentage of completion accounting, applying a cost-to-cost method.

Under the new standard, the Company must identify the distinct promises to transfer goods and/or services within its contracts using certain factors. For contracts that are currently recognized under percentage of completion accounting, the Company has considered the factors used to determine whether promises made in the contract are distinct and determined that devices represent distinct goods. Accordingly, adoption of the new standard will impact the Company's percentage of completion contracts that include devices, with the resulting impact being revenue recognized earlier as control of the devices transfers to the customer at a point in time rather than over time. For the remaining promised goods and services within the Company's percentage of completion contracts, it will continue to recognize revenue on these contracts using a cost-to-cost method based on the continuous transfer of control to the customer over time. Transfer of control in the Company's contracts is demonstrated by creating a customized asset for customers, in conjunction with contract terms which provide the right to receive payment for goods and services.

In addition, the standard may generally cause issuers to accelerate revenue recognition in contracts which were previously limited by software revenue recognition rules. While the Company may have contracts which fall under these rules in the current standard, it has not historically deferred significant amounts of revenue under these rules as many arrangements are single-element software arrangements or sales of software with a tangible product which falls out of the scope of the current software rules. Based on the contracts currently in place, the Company does not anticipate a significant acceleration of revenue upon applying the new standard to its current contracts under these fact patterns.

The Company continues to evaluate the impact of ASU No. 2014-09 on its financial results and prepare for the adoption of the standard on January 1, 2018, including readying its internal processes and control environment for new requirements, particularly around enhanced disclosures, under the new standard. The standard allows for both retrospective and modified retrospective methods of adoption. The Company expects to adopt this standard under the modified retrospective method of adoption, which recognizes the cumulative effect of transition as an adjustment to retained earnings for contracts that are not completed as of the adoption date, without restating prior period financial statements.

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 prescribes the use of a modified retrospective method upon adoption, which requires all prior periods presented in the financial statements to be restated, with a cumulative adjustment to retained earnings as of the beginning of the earliest period presented. 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. The Company intends to adopt this ASU January 1, 2018. Upon adoption, the ASU requires a retrospective application unless it is determined that it is impractical to do so, in which case 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 Company intends to adopt the ASU January 1, 2018. 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.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period balances on the statement of cash flows upon adoption of this standard. The ASU is effective for the Company January 1, 2018 with early adoption permitted. Upon adoption, the ASU requires the retrospective application. The Company does not anticipate significant changes to the Company's financial statements and related disclosures from adoption of the ASU.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this update require that an employer disaggregate the service cost component from the other components of net periodic cost (benefit) and report that component in the same line item as other compensation costs arising from services rendered by employees during the period. The other components of net periodic cost (benefit) are required to be presented in the statement of operations separately from the service cost component and outside of operating earnings. The amendment also allows for the service cost component of net periodic cost (benefit) to be eligible for capitalization when applicable. The guidance will be effective for the Company on January 1, 2018 and interim periods within that reporting period; early adoption permitted. The guidance on the income statement presentation of the components of net periodic cost (benefit) must be applied retrospectively, while the guidance limiting the capitalization of net periodic cost (benefit) in assets to the service cost component must be applied prospectively. The Company intends to adopt this ASU on January 1, 2018. Upon adoption, the Company plans to update the presentation of net periodic cost (benefit) accordingly, noting all components of the Company's net periodic cost (benefit), with the exception of the service cost component, will be presented outside of operating earnings. The estimated impact of adoption of the ASU will be a reclassification of certain components of net periodic benefit from operating earnings to other income (expense) in the amount of $37 million and $29 million for the years ended December 31, 2017 and December 31, 2016, respectively.

2. Other Financial Data

Statements of Operations Information

Other Charges (Income)

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

	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Other charges:				
Intangibles amortization	$ 37	$ 38	$ 73	$ 52
Reorganization of business	1	19	16	25
Building impairment	—	17	8	17
Non-U.S. pension settlement loss	16	—	25	—
Legal settlements	(1)	—	(44)	—
Acquisition-related transaction fees	—	—	1	13
	$ 53	$ 74	$ 79	$ 107

During the six months ended July 1, 2017, the Company recognized a net gain of $44 million related to legal settlements. Of this amount, $42 million relates to the recovery, through legal procedures to seize and liquidate assets, of financial receivables owed to the Company by a former customer of its legacy Networks business. The net gain of $42 million was based on $52 million of proceeds received, net $10 million of fees owed to third parties for their involvement in the recovery.

Other Income (Expense)

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

	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Interest income (expense), net:				
Interest expense	$ (55)	$ (59)	$ (109)	$ (111)
Interest income	4	5	7	8
	$ (51)	$ (54)	$ (102)	$ (103)
Other:				
Foreign currency gain (loss)	$ (20)	$ 14	$ (22)	$ 27
Gain (loss) on derivative instruments	18	(18)	11	(30)
Gains on equity method investments	1	—	—	2
Realized foreign currency loss on acquisition	—	—	—	(10)
Other	1	—	2	—
	$ —	$ (4)	$ (9)	$ (11)

Earnings Per Common Share

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

	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Three Months Ended		Six Months Ended	
	July 1, 2017	July 2, 2016	July 1, 2017	July 2, 2016
Basic earnings per common share:				
Earnings	$131	$ 107	$208	$ 124
Weighted average common shares outstanding	163.1	171.9	163.7	173.0
Per share amount	$0.80			