

Motorola Solutions, Inc.
Form 10-Q
May 01, 2014

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 March 29, 2014
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)

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)

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 March 29, 2014:

Class	Number of Shares
Common Stock; \$.01 Par Value	254,207,875

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Part I—Financial Information

Motorola Solutions, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(In millions, except per share amounts)	Three Months Ended	
	March 29, 2014	March 30, 2013
Net sales from products	\$1,211	\$1,381
Net sales from services	590	592
Net sales	1,801	1,973
Costs of product sales	583	651
Costs of services sales	373	367
Costs of sales	956	1,018
Gross margin	845	955
Selling, general and administrative expenses	427	460
Research and development expenditures	243	262
Other charges	5	17
Operating earnings	170	216
Other income (expense):		
Interest expense, net	(25) (25
Gains on sales of investments and businesses, net	7	7
Other	(1) 7
Total other expense	(19) (11
Earnings before income taxes	151	205
Income tax expense	24	13
Net earnings	\$127	\$192
Earnings per common share:		
Basic	\$0.50	\$0.70
Diluted	\$0.49	\$0.68
Weighted average common shares outstanding:		
Basic	254.1	274.5
Diluted	258.3	280.7
Dividends declared per share	\$0.31	0.26
See accompanying notes to condensed consolidated financial statements (unaudited).		

Motorola Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In millions)	Three Months Ended	
	March 29, 2014	March 30, 2013
Net earnings	\$127	\$192
Other comprehensive income (loss):		
Amortization of retirement benefit adjustments, net of tax of \$6 and \$9	13	19
Foreign currency translation adjustment, net of tax of \$1 and \$(1)	2	(37)
Net realized gains on derivative hedging instruments	—	(1)
Net unrealized gains on securities, net of tax of \$(2) and \$—	2	—
Total other comprehensive income (loss)	17	(19)
Comprehensive income	\$144	\$173
See accompanying notes to condensed consolidated financial statements (unaudited).		

Motorola Solutions, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(In millions, except par value)	March 29, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$3,141	\$3,225
Accounts receivable, net	1,727	1,920
Inventories, net	576	522
Deferred income taxes	624	584
Other current assets	713	769
Total current assets	6,781	7,020
Property, plant and equipment, net	795	810
Investments	260	251
Deferred income taxes	2,004	2,076
Goodwill	1,531	1,509
Other assets	244	185
Total assets	\$11,615	\$11,851
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$4	\$4
Accounts payable	655	814
Accrued liabilities	2,367	2,402
Total current liabilities	3,026	3,220
Long-term debt	2,462	2,457
Other liabilities	2,380	2,485
Stockholders' Equity		
Preferred stock, \$100 par value	—	—
Common stock, \$.01 par value:	3	3
Authorized shares: 600.0		
Issued shares: 3/29/14—255.3; 12/31/13—255.5		
Outstanding shares: 3/29/14—254.2; 12/31/13—254.5		
Additional paid-in capital	3,511	3,518
Retained earnings	2,473	2,425
Accumulated other comprehensive loss	(2,270)	(2,287)
Total Motorola Solutions, Inc. stockholders' equity	3,717	3,659
Noncontrolling interests	30	30
Total stockholders' equity	3,747	3,689
Total liabilities and stockholders' equity	\$11,615	\$11,851
See accompanying notes to condensed consolidated financial statements (unaudited).		

Motorola Solutions, Inc. and Subsidiaries
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, 2013	255.5	\$ 3,521	\$ (2,287)	\$ 2,425	\$ 30
Net earnings				127	
Net unrealized gains on securities, net of tax of \$(2)			2		
Foreign currency translation adjustments, net of tax of \$1			2		
Amortization of retirement benefit adjustments, net of tax of \$6			13		
Issuance of common stock and stock options exercised	0.7	9			
Share repurchase program	(0.9)	(57)			
Excess tax benefit from share-based compensation		5			
Share-based compensation expense		36			
Dividends declared				(79)	
Balance as of March 29, 2014	255.3	\$ 3,514	\$ (2,270)	\$ 2,473	\$ 30
See accompanying notes to condensed consolidated financial statements (unaudited).					

Motorola Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Three Months Ended		
	March 29, 2014	March 30, 2013	
Operating			
Net earnings	\$127	\$192	
Adjustments to reconcile Net earnings to Net cash provided by (used for) operating activities:			
Depreciation and amortization	55	52	
Gain on sale of building and land	(21) —	
Non-cash other charges (income)	3	(1)
Share-based compensation expense	36	45	
Gains on sales of investments and businesses, net	(7) (7)
Deferred income taxes	41	(11)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable	191	200	
Inventories	(54) (5)
Other current assets	24	(75)
Accounts payable and accrued liabilities	(216) (417)
Other assets and liabilities	(133) (4)
Net cash provided by (used for) operating activities	46	(31)
Investing			
Acquisitions and investments, net	(10) (4)
Proceeds from sales of investments and businesses, net	13	19	
Capital expenditures	(45) (46)
Proceeds from sales of property, plant and equipment	24	—	
Purchases of Sigma Fund investments, net	—	(113)
Net cash used for investing activities	(18) (144)
Financing			
Repayment of debt	(1) (1)
Net proceeds from issuance of debt	4	593	
Issuance of common stock	14	40	
Purchase of common stock	(57) (357)
Excess tax benefit from share-based compensation	5	9	
Payment of dividends	(79) (72)
Net cash provided by (used for) financing activities	(114) 212	
Effect of exchange rate changes on cash and cash equivalents	2	(35)
Net increase (decrease) in cash and cash equivalents	(84) 2	
Cash and cash equivalents, beginning of period	3,225	1,468	
Cash and cash equivalents, end of period	\$3,141	\$1,470	
Supplemental Cash Flow Information			
Cash paid during the period for:			
Interest, net	\$18	\$6	
Income and withholding taxes, net of refunds	(2) 64	
See accompanying notes to condensed consolidated financial statements (unaudited).			

Motorola Solutions, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Dollars in millions, except as noted)
(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements as of March 29, 2014 and for the three months ended March 29, 2014 and March 30, 2013, 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, 2013. The results of operations for the three months ended March 29, 2014 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 January 2014, the FASB issued ASU No. 2014-05, "Service Concession Arrangements." The ASU clarifies that an operating entity should not account for a services concession arrangement with a public-sector grantor as a lease if: (i) the grantor controls or has the ability to modify or approve the services the operating entity must provide, to whom it must provide them, and at what price and (ii) the grantor controls any residual interest in the infrastructure at the end of the arrangement. In addition, the infrastructure used in a service concession arrangement would not be recognized as property, plant and equipment of the operating entity. The ASU is to be applied on a modified retrospective basis to service concession arrangements outstanding upon adoption and will be effective for the Company beginning January 1, 2015. The Company is currently assessing the impact of this standard on its consolidated financial statements and footnote disclosures.

2. Other Financial Data

Statement of Operations Information

Other Charges

Other charges included in Operating earnings consist of the following:

	Three Months Ended	
	March 29, 2014	March 30, 2013
Other charges (income):		
Intangibles amortization	\$5	\$6
Reorganization of businesses	21	11
Gain on sale of building and land	(21) —
	\$5	\$17

During the three months ended March 29, 2014, the Company completed the sale of a building and parcel of land with a net book value of \$3 million for net cash proceeds of \$24 million resulting in a gain on sale of \$21 million.

Other Income (Expense)

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

	Three Months Ended	
	March 29, 2014	March 30, 2013
Interest income (expense), net:		
Interest expense	\$(30) \$(30
Interest income	5	5
	\$(25) \$(25
Other:		
Foreign currency gain (loss)	\$(2) \$4
Other	1	3
	\$(1) \$7

Earnings Per Common Share

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

	Net Earnings	
	March 29, 2014	March 30, 2013
Three Months Ended		
Basic earnings per common share:		
Earnings	\$127	\$192
Weighted average common shares outstanding	254.1	274.5
Per share amount	\$0.50	\$0.70
Diluted earnings per common share:		
Earnings	\$127	\$192
Weighted average common shares outstanding	254.1	274.5
Add effect of dilutive securities:		
Share-based awards	4.2	6.2
Diluted weighted average common shares outstanding	258.3	280.7
Per share amount	\$0.49	\$0.68

In the computation of diluted earnings per common share for the three months ended March 29, 2014 and March 30, 2013, the assumed exercise of 5.0 million and 4.5 million stock options, respectively, were excluded because their inclusion would have been antidilutive.

Balance Sheet Information

Cash and Cash Equivalents

The Company's cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) were \$3.1 billion at March 29, 2014 and \$3.2 billion at December 31, 2013. Of these amounts, \$64 million at March 29, 2014 and \$63 million at December 31, 2013 were restricted.

Investments

Investments consist of the following:

March 29, 2014	March 29, 2014	December 31, 2013
Available-for-sale securities:		
Government, agency, and government-sponsored enterprise obligations	\$15	\$15
Corporate bonds	8	7
Mutual funds	11	11
Common stock and equivalents	—	2
	34	35
Other investments, at cost	211	201
Equity method investments	15	15
	\$260	\$251

The Company had no unrealized gains or losses on its investments as of both March 29, 2014 and December 31, 2013.

Accounts Receivable, Net

Accounts receivable, net, consists of the following:

	March 29, 2014	December 31, 2013
Accounts receivable	\$1,788	\$1,976
Less allowance for doubtful accounts	(61) (56
	\$1,727	\$1,920

Inventories, Net

Inventories, net, consist of the following:

	March 29, 2014	December 31, 2013
Finished goods	\$257	\$232
Work-in-process and production materials	508	468
	765	700
Less inventory reserves	(189) (178
	\$576	\$522

Other Current Assets

Other current assets consist of the following:

	March 29, 2014	December 31, 2013
Costs and earnings in excess of billings	\$392	\$390
Contract-related deferred costs	114	105
Tax-related deposits and refunds receivable	71	113
Other	136	161
	\$713	\$769

Property, Plant and Equipment, Net

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

	March 29, 2014	December 31, 2013
Land	\$36	\$36
Building	651	649
Machinery and equipment	1,979	1,938
	2,666	2,623
Less accumulated depreciation	(1,871)	(1,813)
	\$795	\$810

During the first quarter of 2014, the Company entered into an arrangement to transfer its Reynosa, Mexico manufacturing operation including the land, building, equipment, inventory, and employees to a contract manufacturer. The transaction closed subsequent to the quarter ended March 29, 2014. As a result of the expected sales proceeds, the Company recognized an impairment loss of \$6 million during the quarter ended March 29, 2014, within Other charges in its condensed consolidated statements of operations.

Depreciation expense for the three months ended March 29, 2014 and March 30, 2013 was \$50 million and \$45 million, respectively.

Other Assets

Other assets consist of the following:

	March 29, 2014	December 31, 2013
Intangible assets, net	\$103	\$87
Long-term receivables	47	6
Other	94	92
	\$244	\$185

Accrued Liabilities

Accrued liabilities consist of the following:

	March 29, 2014	December 31, 2013
Deferred revenue	\$810	\$778
Compensation	276	334
Billings in excess of costs and earnings	354	295
Tax liabilities	92	95
Customer reserves	107	146
Dividend payable	79	79
Other	649	675
	\$2,367	\$2,402

Other Liabilities

Other liabilities consist of the following:

	March 29, 2014	December 31, 2013
Defined benefit plans, including split dollar life insurance arrangements	\$1,714	\$1,759
Postretirement health care benefit plan	118	117
Deferred revenue	293	302
Unrecognized tax benefits	61	102
Other	194	205
	\$2,380	\$2,485

Stockholders' Equity

Share Repurchase Program: The Company paid an aggregate of \$57 million during the first quarter of 2014, including transaction costs, to repurchase approximately one million shares at an average price of \$66.32 per share. As of March 29, 2014, the Company had used approximately \$5.3 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving \$1.7 billion of authority available for future repurchases.

Payment of Dividends: During the three months ended March 29, 2014 and March 30, 2013, the Company paid \$79 million and \$72 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, net of tax, by component from January 1, 2014 to March 29, 2014:

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Retirement Benefit Items	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2014	\$(1)	\$ (2)	\$(2,188)	\$(96)	\$(2,287)
Other comprehensive income before reclassifications	—	2	—	2	