

Motorola Solutions, Inc.
Form 10-Q
July 24, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the period ended June 29, 2013

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 June 29, 2013:

Class	Number of Shares
Common Stock; \$.01 Par Value	265,854,476

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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		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales from products	\$1,479	\$1,563	\$2,860	\$3,007
Net sales from services	628	585	1,220	1,097
Net sales	2,107	2,148	4,080	4,104
Costs of product sales	695	712	1,346	1,370
Costs of service sales	383	376	750	701
Costs of sales	1,078	1,088	2,096	2,071
Gross margin	1,029	1,060	1,984	2,033
Selling, general and administrative expenses	470	496	930	968
Research and development expenditures	268	269	530	523
Other charges	25	17	42	32
Operating earnings	266	278	482	510
Other income (expense):				
Interest expense, net	(32)	(16)	(57)	(30)
Gains on sales of investments and businesses, net	—	3	7	20
Other	(10)	(25)	(3)	(16)
Total other expense	(42)	(38)	(53)	(26)
Earnings from continuing operations before income taxes	224	240	429	484
Income tax expense (benefit)	(38)	63	(25)	148
Earnings from continuing operations	262	177	454	336
Earnings from discontinued operations, net of tax	—	5	—	3
Net earnings	262	182	454	339
Less: Earnings attributable to noncontrolling interests	4	—	4	—
Net earnings attributable to Motorola Solutions, Inc.	258	182	\$450	\$339
Amounts attributable to Motorola Solutions, Inc. common stockholders:				
Earnings from continuing operations, net of tax	\$258	\$177	\$450	\$336
Earnings from discontinued operations, net of tax	—	5	—	3
Net earnings	\$258	\$182	\$450	\$339
Earnings per common share:				
Basic:				
Continuing operations	\$0.96	\$0.61	\$1.66	\$1.11
Discontinued operations	—	0.02	—	0.01
	\$0.96	\$0.63	\$1.66	\$1.12
Diluted:				
Continuing operations	\$0.94	\$0.60	\$1.62	\$1.09
Discontinued operations	—	0.01	—	0.01
	\$0.94	\$0.61	\$1.62	\$1.10
Weighted average common shares outstanding:				
Basic	269.5	290.6	271.9	302.1
Diluted	274.7	296.1	277.7	308.1
Dividends declared per share	\$0.26	0.22	\$0.52	0.44

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

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

(In millions)	Three Months ended	
	June 29, 2013	June 30, 2012
Net earnings	\$262	\$182
Other comprehensive income (loss):		
Amortization of retirement benefit adjustments, net of tax of \$10 and \$25	16	46
Foreign currency translation adjustment, net of tax of \$(5) and \$(6)	(5	) (18
Net loss on derivative hedging instruments, net of tax of \$0 and \$0	—	(2
Net unrealized gain (loss) on securities, net of tax of \$0 and \$6	(1	) 8
Total other comprehensive income	10	34
Comprehensive income	272	216
Less: Earnings attributable to noncontrolling interest	4	—
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	\$268	\$216

(In millions)	Six Months Ended	
	June 29, 2013	June 30, 2012
Net earnings	\$454	\$339
Other comprehensive income (loss):		
Amortization of retirement benefit adjustments, net of tax of \$19 and \$51	35	95
Foreign currency translation adjustment, net of tax of \$(6) and \$(10)	(42	) (22
Net gain (loss) on derivative hedging instruments, net of tax of \$0 and \$0	(1	) 2
Net unrealized gain (loss) on securities, net of tax of \$0 and \$6	(1	) 8
Total other comprehensive income (loss)	(9	) 83
Comprehensive income	445	422
Less: Earnings attributable to noncontrolling interest	4	—
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	\$441	\$422

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

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

(In millions, except par value amounts)	June 29, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$1,457	\$1,468
Sigma Fund and short-term investments	1,759	2,135
Accounts receivable, net	1,707	1,881
Inventories, net	498	513
Deferred income taxes	641	604
Other current assets	779	800
Total current assets	6,841	7,401
Property, plant and equipment, net	830	839
Investments	142	144
Deferred income taxes	2,530	2,416
Goodwill	1,502	1,510
Other assets	315	369
Total assets	\$12,160	\$12,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$4	\$4
Accounts payable	597	705
Accrued liabilities	2,193	2,626
Total current liabilities	2,794	3,335
Long-term debt	2,452	1,859
Other liabilities	4,095	4,195
Stockholders' Equity		
Preferred stock, \$100 par value	—	—
Common stock, \$.01 par value:	3	3
Authorized shares: 600.0		
Issued shares: 6/29/13—267.4; 12/31/12—277.3		
Outstanding shares: 6/29/13—265.9; 12/31/12—276.1		
Additional paid-in capital	4,162	4,937
Retained earnings	1,935	1,625
Accumulated other comprehensive loss	(3,309)	(3,300)
Total Motorola Solutions, Inc. stockholders' equity	2,791	3,265
Noncontrolling interests	28	25
Total stockholders' equity	2,819	3,290
Total liabilities and stockholders' equity	\$12,160	\$12,679
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), Net of Tax	Retained Earnings	Noncontrolling Interests
Balance at December 31, 2012	277.3	\$4,940	\$ (3,300)	\$1,625	\$ 25
Net earnings				450	4
Net unrealized loss on securities, net of tax of \$0			(1)		
Foreign currency translation adjustments, net of tax of \$(6)			(42)		
Amortization of retirement benefit adjustments, net of tax of \$19			35		
Issuance of common stock and stock options exercised	5.5	38			
Share repurchase program	(15.4)	(907)			
Excess tax benefit from share-based compensation		18			
Share-based compensation expense		79			
Net loss on derivative hedging instruments, net of tax of \$0			(1)		
Acquisition of noncontrolling interest		(3)			(1)
Dividends declared				(140)	
Balance at June 29, 2013	267.4	\$4,165	\$ (3,309)	\$1,935	\$ 28

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

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

(In millions)	Six Months Ended	
	June 29, 2013	June 30, 2012
Operating		
Net earnings attributable to Motorola Solutions, Inc.	\$450	\$339
Earnings attributable to noncontrolling interests	4	—
Net earnings	454	339
Earnings from discontinued operations, net of tax	—	3
Earnings from continuing operations	454	336
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	109	106
Non-cash other income	(5	) (1
Share-based compensation expense	79	95
Gains on sales of investments and businesses, net	(7	) (20
Loss from the extinguishment of long-term debt	—	6
Deferred income taxes	(154	) 93
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	132	262
Inventories	11	(8
Other current assets	—	(77
Accounts payable and accrued liabilities	(575	) (383
Other assets and liabilities	7	(87
Net cash provided by operating activities from continuing operations	51	322
Investing		
Acquisitions and investments, net	(15	) 68
Proceeds from (used for) sales of investments and businesses, net	21	(67
Capital expenditures	(89	) (101
Proceeds from sales of property, plant and equipment	15	9
Proceeds from sales of Sigma Fund and short term investments, net	376	1,277
Net cash provided by investing activities from continuing operations	308	1,186
Financing		
Repayment of debt	(2	) (411
Net proceeds from issuance of debt	593	747
Contribution to Motorola Mobility	—	(73
Issuance of common stock	100	63
Purchase of common stock	(907	) (1,804
Excess tax benefits from share-based compensation	18	17
Payments of dividends	(143	) (134
Distribution to discontinued operations	—	(11
Net cash used for financing activities from continuing operations	(341	) (1,606
Discontinued Operations		
Net cash provided by operating activities from discontinued operations	—	2
Net cash provided by financing activities from discontinued operations	—	11
Effect of exchange rate changes on cash and cash equivalents from discontinued operations	—	(13
Net cash provided by (used for) discontinued operations	—	—
	(29) (11

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Effect of exchange rate changes on cash and cash equivalents from continuing operations

Net decrease in cash and cash equivalents	(11	)	(109)
Cash and cash equivalents, beginning of period	1,468		1,881	
Cash and cash equivalents, end of period	\$1,457		\$1,772	
Supplemental Cash Flow Information				
Cash paid during the period for:				
Interest, net	\$58		\$54	
Income and withholding taxes, net of refunds	68		91	

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

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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 June 29, 2013 and for the three and six months ended June 29, 2013 and June 30, 2012, 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, 2012. The results of operations for the three and six months ended June 29, 2013 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 February 2013, the Financing Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date." The standard addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not currently include specific guidance on accounting for such obligations with joint and several liability which has resulted in diversity in practice. The ASU requires an entity to measure these obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The ASU is to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the updates scope that exist within the Company's statement of financial position at the beginning of the year of adoption. This guidance will be effective for the Company beginning January 1, 2014. The Company anticipates that the adoption of this standard will not have a material impact on its consolidated financial statements or footnote disclosures.

2. Discontinued Operations

On January 1, 2012, the Company completed a series of transactions which resulted in exiting the amateur, marine and airband radio businesses. The operating results of the amateur, marine and airband radio businesses, formerly included as part of the Government segment, are reported as discontinued operations in the condensed consolidated statements of operations for all periods presented. The results of certain purchase price adjustments for previous divestitures that were recorded during the periods presented have also been reported as discontinued operations.

During the three and six months ended June 29, 2013 the Company had no activity in the condensed consolidated statements of operations for discontinued operations. The following table displays summarized activity in the Company's condensed consolidated statements of operations for discontinued operations during the three and six months ended June 30, 2012.

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	
Net sales	\$—	\$—	
Operating earnings	10	11	
Loss on sales of investments and businesses, net	—	(7)
Earnings before income taxes	10	8	
Income tax expense	5	5	
Earnings from discontinued operations, net of tax	5	3	

3. Other Financial Data

Statement of Operations Information

Other Charges

Other charges included in Operating earnings consist of the following:

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Other charges:				
Amortization of intangible assets	\$6	\$6	\$12	\$12
Reorganization of business charges	19	11	30	20
	\$25	\$17	\$42	\$32

Other Income (Expense)

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

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Interest income (expense), net:				
Interest expense	\$(38	) \$(25	) \$(68	) \$(50
Interest income	6	9	11	20
	\$(32	) \$(16	) \$(57	) \$(30
Other:				
Loss from the extinguishment of long-term debt	\$—	\$(6	) \$—	\$(6
Investment impairments	(4	) —	(4	) (2
Foreign currency loss	(8	) (21	) (4	) (11
Other	2	2	5	3
	\$(10	) \$(25	) \$(3	) \$(16

Earnings Per Common Share

The computation of basic and diluted earnings per common share attributable to Motorola Solutions, Inc. common stockholders is as follows:

Three Months Ended	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from Continuing Operations		Net Earnings	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Basic earnings per common share:				
Earnings	\$258	\$177	\$258	\$182
Weighted average common shares outstanding	269.5	290.6	269.5	290.6
Per share amount	\$0.96	\$0.61	\$0.96	\$0.63
Diluted earnings per common share:				
Earnings	\$258	\$177	\$258	\$182
Weighted average common shares outstanding	269.5	290.6	269.5	290.6
Add effect of dilutive securities:				
Share-based awards	5.2	5.5	5.2	5.5
Diluted weighted average common shares outstanding	274.7	296.1	274.7	296.1
Per share amount	\$0.94	\$0.60	\$0.94	\$0.61
Six Months Ended	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from Continuing Operations		Net Earnings	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Basic earnings per common share:				
Earnings	\$450	\$336	\$450	\$339
Weighted average common shares outstanding	271.9	302.1	271.9	302.1
Per share amount	\$1.66	\$1.11	\$1.66	\$1.12
Diluted earnings per common share:				
Earnings	\$450	\$336	\$450	\$339
Weighted average common shares outstanding	271.9	302.1	271.9	302.1
Add effect of dilutive securities:				
Share-based awards	5.8	6.0	5.8	6.0
Diluted weighted average common shares outstanding	277.7	308.1	277.7	308.1
Per share amount	\$1.62	\$1.09	\$1.62	\$1.10

In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three and six months ended June 29, 2013, the assumed exercise of 4.3 million and 4.4 million stock options, respectively, were excluded because their inclusion would have been antidilutive. In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three and six months ended June 30, 2012, the assumed exercise of 6.2 million and 6.0 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 \$1.5 billion at both June 29, 2013 and December 31, 2012. Of these amounts, \$63 million at both June 29, 2013 and December 31, 2012 was restricted.

Sigma Fund

The Sigma Fund consists of the following:

	June 29, 2013	December 31, 2012
Cash	\$46	\$149
Securities:		
U.S. government, agency, and government-sponsored enterprise obligations	1,710	1,984
	\$1,756	\$2,133

Investments

Investments consist of the following:

June 29, 2013	Recorded Value Short-term Investments	Less Unrealized Gains	Unrealized Loss	Cost Basis
Available-for-sale securities:				
U.S. government, agency and government-sponsored enterprise obligations				