

Xylem Inc.  
Form 10-Q  
May 03, 2016

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 quarterly period ended March 31, 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: 1-35229

Xylem Inc.

(Exact name of registrant as specified in its charter)

Indiana

45-2080495

(State or other jurisdiction of incorporation or organization)

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

1 International Drive, Rye Brook, NY 10573

(Address of principal executive offices) (Zip code)

(914) 323-5700

(Registrant's telephone number, including area 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 (§232.405 of this chapter) 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.

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 ☒

As of April 29, 2016, there were 178,897,399 outstanding shares of the registrant's common stock, par value \$0.01 per share.

Xylem Inc.

Table of Contents

ITEM	PAGE
PART I – Financial Information	
Item 1 - <u>Condensed Consolidated Financial Statements:</u>	
<u>Condensed Consolidated Income Statements for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015 (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u>	<u>6</u>
<u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
Item 2 - <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3 - <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
Item 4 - <u>Controls and Procedures</u>	<u>37</u>
PART II – Other Information	
Item 1 - <u>Legal Proceedings</u>	<u>38</u>
Item 1A- <u>Risk Factors</u>	<u>38</u>
Item 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
Item 3 - <u>Defaults Upon Senior Securities</u>	<u>38</u>
Item 4 - <u>Mine Safety Disclosures</u>	<u>38</u>
Item 5 - <u>Other Information</u>	<u>38</u>
Item 6 - <u>Exhibits</u>	<u>38</u>
<u>Signatures</u>	<u>39</u>

## PART I

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## XYLEM INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED INCOME STATEMENTS (Unaudited)

(in millions, except per share data)

For the three months ended March 31,	2016	2015
Revenue	\$847	\$837
Cost of revenue	518	522
Gross profit	329	315
Selling, general and administrative expenses	219	206
Research and development expenses	25	23
Restructuring charges	6	3
Operating income	79	83
Interest expense	14	14
Other non-operating (expense), net	—	(1 )
Gain from sale of businesses	—	9
Income before taxes	65	77
Income tax (benefit) expense	(1 )	13
Net income	\$66	\$64
Earnings per share:		
Basic	\$0.37	\$0.35
Diluted	\$0.37	\$0.35
Weighted average number of shares:		
Basic	178.6	182.1
Diluted	179.3	183.1
Dividends declared per share	\$0.1549	\$0.1408

See accompanying notes to condensed consolidated financial statements.

XYLEM INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(in millions)

For the three months ended March 31,	2016	2015
Net income	\$66	\$64
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustment	12	(129)
Foreign currency gain reclassified into net income	—	(8)
Net change in derivative hedge agreements:		
Unrealized gains (losses)	4	(5)
Amount of loss reclassified into net income	—	5
Net change in postretirement benefit plans:		
Amortization of net actuarial loss into net income	3	4
Other comprehensive income (loss), before tax	19	(133)
Income tax impact related to items of other comprehensive income (loss)	(7)	1
Other comprehensive income (loss), net of tax	26	(134)
Comprehensive income (loss)	\$92	\$(70)

See accompanying notes to condensed consolidated financial statements.

## XYLEM INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in millions, except per share amounts)

	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,193	\$ 680
Receivables, less allowances for discounts and doubtful accounts of \$24 and \$33 in 2016 and 2015, respectively	752	749
Inventories	482	433
Prepaid and other current assets	148	143
Total current assets	2,575	2,005
Property, plant and equipment, net	446	439
Goodwill	1,632	1,584
Other intangible assets, net	464	435
Other non-current assets	187	194
Total assets	\$ 5,304	\$ 4,657
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 332	\$ 338
Accrued and other current liabilities	380	407
Short-term borrowings and current maturities of long-term debt	720	78
Total current liabilities	1,432	823
Long-term debt	1,153	1,196
Accrued postretirement benefits	340	335
Deferred income tax liabilities	106	118
Other non-current accrued liabilities	114	101
Total liabilities	3,145	2,573
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Common Stock – par value \$0.01 per share:		
Authorized 750.0 shares, issued 190.8 shares and 190.2 shares in 2016 and 2015, respectively		