PPG INDUSTRIES INC
Form 10-Q
October 20, 2017

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Quarter Ended September 30, 2017
Commission File Number 1-1687

PPG INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	25-0730780
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One PPG Place, Pittsburgh, Pennsylvania	15272
(Address of principal executive offices)	(Zip Code)

(412) 434-3131
(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, and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý 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 ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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 ý

As of September 30, 2017, 254,475,927 shares of the Registrant’s common stock, par value $1.66-2/3 per share, were outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Income (Unaudited)
($ in millions, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Net sales	$3,776	$3,660	$11,068	$10,853
Cost of sales, exclusive of depreciation and amortization	2,100	1,978	6,087	5,783
Selling, general and administrative	905	893	2,658	2,720
Depreciation	85	82	245	240
Amortization	32	31	95	91
Research and development, net	114	115	337	344
Interest expense	27	34	78	96
Interest income	(5)	(6)	(13)	(20)
Pension settlement charge	—	968	22	968
Asbestos settlement, net	—	—	—	5
Other charges	13	12	39	58
Other income	(16)	(21)	(112)	(80)
Income (loss) from continuing operations before income taxes	$521	$(426)	$1,632	$648
Income tax expense (benefit)	123	(220)	392	174
Income (loss) from continuing operations	$398	$(206)	$1,240	$474
Income from discontinued operations, net of tax	217	27	220	77
Net income (loss) attributable to the controlling and noncontrolling interests	$615	$(179)	$1,460	$551
Less: Net income attributable to noncontrolling interests	(6)	(5)	(16)	(18)
Net income (loss) (attributable to PPG)	$609	$(184)	$1,444	$533
Amounts attributable to PPG:				
Income (loss) from continuing operations, net of tax	$392	$(211)	$1,224	$456
Income from discontinued operations, net of tax	217	27	220	77
Net income (loss) (attributable to PPG)	$609	$(184)	$1,444	$533
Earnings per common share:				
Income (loss) from continuing operations, net of tax	$1.53	$(0.79)	$4.76	$1.71
Income from discontinued operations, net of tax	0.85	0.10	0.86	0.29
Net income (loss) (attributable to PPG)	$2.38	$(0.69)	$5.62	$2.00
Earnings per common share – assuming dilution:				
Income (loss) from continuing operations, net of tax	$1.52	$(0.79)	$4.73	$1.69
Income from discontinued operations, net of tax	0.84	0.10	0.85	0.29
Net income (loss) (attributable to PPG)	$2.36	$(0.69)	$5.58	$1.98
Dividends per common share	$0.45	$0.40	$1.25	$1.16

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated statement.

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PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Comprehensive Income (Unaudited)
($ in millions)

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Net income (loss) attributable to the controlling and noncontrolling interests	$615	$(179)	$1,460	$551
Other comprehensive income, net of tax:				
Defined benefit pension and other postretirement benefits	(29)	348	(63)	391
Unrealized foreign currency translation adjustments	26	(147)	387	(231)
Derivative financial instruments	1	8	(16)	—
Other comprehensive income, net of tax	$(2)	$209	308	160
Total comprehensive income	$613	$30	$1,768	$711
Less: amounts attributable to noncontrolling interests:				
Net income	(6)	(5)	(16)	(18)
Unrealized foreign currency translation adjustments	(2)	(1)	(15)	1
Comprehensive income attributable to PPG	$605	$24	$1,737	$694

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated statement.

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PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet (Unaudited)
($ in millions)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 2,287	$ 1,820
Short-term investments	41	43
Receivables (less allowance for doubtful accounts of $25 and $36)	3,155	2,654
Inventories	1,805	1,514
Assets held for sale	—	223
Other	350	320
Total current assets	$ 7,638	$ 6,574
Property, plant and equipment (net of accumulated depreciation of $3,737 and $3,398)	2,730	2,608
Goodwill	3,881	3,572
Identifiable intangible assets, net	2,099	1,983
Deferred income taxes	421	184
Investments	261	179
Other assets	585	669
Total	$ 17,615	$ 15,769
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,895	$ 3,460
Restructuring reserves	107	100
Short-term debt and current portion of long-term debt	616	629
Liabilities held for sale	—	64
Total current liabilities	$ 4,618	$ 4,253
Long-term debt	4,089	3,787
Accrued pensions	758	740
Other postretirement benefits	767	724
Deferred income taxes	445	417
Other liabilities	928	935
Total liabilities	$ 11,605	$ 10,856
Commitments and contingent liabilities (Note 15)		
Shareholders' equity:		
Common stock	969	969
Additional paid-in capital	745	701
Retained earnings	17,106	15,984
Treasury stock, at cost	(10,855)	(10,472)
Accumulated other comprehensive loss	(2,063)	(2,356)
Total PPG shareholders' equity	$ 5,902	$ 4,826
Noncontrolling interests	108	87
Total shareholders' equity	$ 6,010	$ 4,913
Total	$ 17,615	$ 15,769

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated statement.

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PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows (Unaudited)
($ in millions)

	Nine Months Ended September 30	
	2017	2016
Operating activities:		
Net income attributable to controlling and noncontrolling interests	$1,460	$551
Less: Income from discontinued operations	(220)	(77)
Income from continuing operations	$1,240	$474
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	340	331
Pension expense	51	58
Pension settlement	22	968
Stock-based compensation expense	33	37
Gain from the sale of a business	(25)	—
Gain from the sale of an equity affiliate	—	(20)
Equity affiliate earnings, net of distributions received	—	(5)
Deferred income tax benefit	(55)	(58)
Cash contributions to pension plans	(43)	(74)
Cash used for restructuring actions	(31)	(42)
Cash paid for asbestos settlement funding	—	(813)
Change in certain asset and liability accounts:		
Receivables	(350)	(256)
Inventories	(200)	(43)
Other current assets	(40)	(14)
Accounts payable and accrued liabilities	223	161
Taxes and interest payable	(112)	(93)
Noncurrent assets and liabilities, net	(103)	43
Other	70	(4)
Cash from operating activities - continuing operations	$1,020	$650
Cash from operating activities - discontinued operations	12	126
Cash from operating activities	$1,032	$776
Investing activities:		
Capital expenditures	(207)	(239)
Business acquisitions, net of cash balances acquired	(69)	(321)
Payments for acquisition of equity investment	(100)	—
Proceeds from the disposition of a business	593	—
Proceeds from the sale of an investment in an equity affiliate	—	41
Proceeds from maturity of short-term investments	—	92
Payments for the settlement of cross currency swap contracts	(34)	(36)
Proceeds from the settlement of cross currency swap and foreign currency contracts	37	37
Other	—	14
Cash from (used for) investing activities - continuing operations	$220	$(412)
Cash used for investing activities - discontinued operations	(4)	(33)
Cash from (used for) investing activities	$216	$(445)
Financing activities:		
Net change in borrowing with maturities of three months or less	(6)	(22)

Net (payments) proceeds on commercial paper and short-term debt	(81)	297
Repayment of long-term debt	(9)	(253)
Purchase of treasury stock	(413)	(400)
Issuance of treasury stock	45	29
Dividends paid	(321)	(309)
Payments related to tax withholding on stock-based compensation awards	(25)	(25)
Other	(41)	(9)
Cash used for financing activities	$(851)	$(692)
Effect of currency exchange rate changes on cash and cash equivalents	70	(21)
Net increase (decrease) in cash and cash equivalents	$467	$(382)
Cash and cash equivalents, beginning of period	1,820	1,311
Cash and cash equivalents, end of period	$2,287	$929
Supplemental disclosures of cash flow information:		
Interest paid, net of amount capitalized	$60	$80
Taxes paid, net of refunds	$481	$276

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated statement.

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PPG INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared following the requirements of the Securities and Exchange Commission and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim reporting. Under these rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. These statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position of PPG Industries, Inc. and its subsidiaries (the "Company" or "PPG") as of September 30, 2017, and the results of their operations and their cash flows for the three and nine months ended September 30, 2017 and 2016. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated through the report issuance date and disclosed where applicable. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in PPG’s Annual Report on Form 10-K for the year ended December 31, 2016.

On September 1, 2017, PPG completed the sale of its North American fiber glass business to Nippon Electric Glass Co. Ltd. ("NEG"). Refer to Note 3 for additional information. All historical periods have been recast to present the results of operations and cash flows of PPG's North American fiber glass, former European and Asian fiber glass and flat glass businesses, collectively the Glass reportable business segment, as discontinued operations. The December 31, 2016 balance sheet has been recast to present the assets and liabilities of the North American fiber glass business as assets and liabilities held for sale. PPG now has two reportable business segments, Performance Coatings and Industrial Coatings.

The condensed consolidated statement of cash flows has also been recast for the adoption of Accounting Standard Update ("ASU") No. 2016-09, “Improvements to Employee Share-Based Payment Accounting,” as discussed in Note 2.

Net sales, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results of operations for the three and nine months ended September 30, 2017 and the trends in these unaudited condensed consolidated financial statements may not necessarily be indicative of the results to be expected for the full year.

2. New Accounting Standards

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-12, "Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities." This ASU modifies the presentation and disclosure of hedging results. Further, it provides partial relief on the timing of certain aspects of hedge documentation and eliminates the requirement to recognize hedge ineffectiveness separately in income. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and for interim periods therein. PPG does not believe this ASU will have a material impact on its consolidated financial position, results of operation or cash flows.

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation - Scope of Modification Accounting." This ASU requires all equity award modifications to be accounted for as a modification unless the fair value, vesting conditions and classification of the award as equity or liability are the same as the classification of the original award immediately before the original award is modified. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 and for interim periods therein. PPG does not believe this ASU will have a material impact on its consolidated financial position, results of operation or cash flows.

In March 2017, the FASB issued ASU No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU requires the service cost component of net benefit costs to be disaggregated from all other components and be reported in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 and for interim periods therein. PPG does not believe this ASU will have a material impact on its consolidated financial position, results of operation or cash flows.

In January 2017, PPG adopted ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." This ASU simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Adoption of this ASU did not have a material impact on PPG's consolidated financial position, results of operation or cash flows.

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In January 2017, PPG adopted ASU No. 2016-18, "Restricted Cash." This ASU eliminates diversity in practice by requiring the statement of cash flows to reconcile total cash, including deposits with restrictions. PPG does not have a material amount of restricted cash. Adoption of this ASU did not have a material impact on PPG's consolidated financial position, results of operation or cash flows.

In January 2017, PPG adopted ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This ASU simplifies certain aspects of the accounting for share-based payment transactions, including income tax requirements, forfeitures, and presentation on the balance sheet and the statement of cash flows. In conjunction with the adoption of this ASU, PPG recast the condensed consolidated statement of cash flows to present withholding tax payments related to stock-based compensation made on behalf of employees as financing outflows. Adoption of this ASU did not have a material impact on PPG's consolidated financial position, results of operation or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” This ASU requires all lessees to recognize on the balance sheet right to use assets and lease liabilities for the rights and obligations created by lease arrangements with terms greater than 12 months. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and for interim periods therein. PPG is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers: Topic 606.” This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and for interim periods therein. The provisions of this ASU may be applied retroactively or on a modified retrospective (cumulative effect) basis. PPG expects to adopt the standard using the modified retrospective approach in January 2018. In addition, PPG is evaluating recently issued guidance on practical expedients as part of its transition decision. PPG believes the preponderance of the Company’s contracts with customers are standard ship and bill arrangements where revenue is recognized at the time of shipment. Under the provisions of this ASU, PPG believes certain costs currently reported in Selling, general and administrative costs will be reclassified to Cost of sales, exclusive of depreciation and amortization on the Condensed Consolidated Statement of Income, as they represent costs incurred in satisfaction of performance obligations. In addition, PPG expects the cost of certain customer incentives to be recorded as a reduction of Net sales rather than Cost of sales, exclusive of depreciation and amortization or Selling, general and administrative costs. PPG does not believe this ASU will have a significant impact on its consolidated financial position, results of operations and cash flows.

3. Acquisitions and Divestitures

Acquisitions

The Crown Group

On October 2, 2017, PPG acquired The Crown Group (“Crown”), a U.S.-based coatings application services business, which will be reported as part of PPG's coatings services business unit beginning in the fourth quarter 2017. Crown is one of the leading component and product finishers in North America. Crown applies coatings to customers’ manufactured parts and assembled products at 11 U.S. sites. Most of Crown’s facilities, which also provide assembly, warehousing and sequencing services, are located at customer facilities or positioned near customer manufacturing sites. The company serves manufacturers in the automotive, agriculture, construction, heavy truck and alternative energy industries. Crown has annual sales of approximately $125 million.

Taiwan Chlorine Industries

Taiwan Chlorine Industries (“TCI”) was established in 1986 as a joint venture between PPG and China Petrochemical Development Corporation (“CPDC”) to produce chlorine-based products in Taiwan, at which time PPG owned 60 percent of the venture. In conjunction with the 2013 separation of its commodity chemicals business, PPG conveyed to Axiall Corporation ("Axiall") its 60% ownership interest in TCI. Under PPG’s agreement with CPDC, if certain post-closing conditions were not met following the three year anniversary of the separation, CPDC had the option to sell its 40% ownership interest in TCI to Axiall for $100 million. In turn, Axiall had a right to designate PPG as its designee to purchase the 40% ownership interest of CPDC. In April 2016, Axiall announced that CPDC had decided to sell its ownership interest in TCI to Axiall. In June 2016, Axiall formally designated PPG to purchase the 40% ownership interest in TCI. In August 2016, Westlake Chemical Corporation acquired Axiall, which became a wholly-owned subsidiary of Westlake. On April 11, 2017, PPG finalized its purchase of CPDC's 40% ownership interest in TCI. The difference between the acquisition date fair value and the purchase price of PPG's 40% ownership interest in TCI has been recorded as a loss in discontinued operations during the nine months-ended September 30, 2017.

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Other

In January 2017, PPG completed the acquisition of DEUTEK S.A., a leading Romanian paint and architectural coatings manufacturer, from the Emerging Europe Accession Fund. DEUTEK, established in 1993, manufactures and markets a large portfolio of well-known professional and consumer paint brands, including OSKAR® and DANKE!®. The company’s products are sold in more than 120 do-it-yourself stores and 3,500 independent retail outlets in Romania. PPG also acquired certain assets of automotive refinish coatings company Futian Xinshi ("Futian"), an automotive refinish coatings company based in the Guangdong province of China. Futian distributes its products in China through a network of more than 200 distributors.

Divestitures

Glass Segment

On September 1, 2017, PPG completed the sale of its North American fiber glass business to NEG, which represents the culmination of a multi-year strategic shift in the Company's business portfolio, resulting in the exit of all glass operations. Accordingly, the results of operations, including the gain on the disposal, and cash flows for its former Glass reportable business segment have been recast as discontinued operations for all periods presented, which consists of the fiber glass business, PPG's ownership interest in two Asian fiber glass joint ventures and the flat glass business. PPG now has two reportable business segments.

The net sales and income from discontinued operations related to the former Glass reportable business segment for the three and nine months ended September 30, 2017 and 2016 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
($ in millions)	2017	2016	2017	2016
Net sales	$50	$285	$217	$828
Income from operations	$5	$38	$23	$109
Net gain on divestiture of North American fiber glass business	343	—	343	—
Income tax expense	131	11	138	32
Income from discontinued operations, net of tax	$217	$27	$228	$77

North American Fiber Glass Business

Pre-tax proceeds from the sale were $541 million, resulting in a pre-tax gain of $343 million, net of certain accruals and contingencies established in conjunction with the divestiture.

PPG’s fiber glass operations included manufacturing facilities in Chester, South Carolina, and Lexington and Shelby, North Carolina; and administrative and research-and-development operations in Shelby and in Harmar, Pennsylvania, near Pittsburgh. The business, which employed more than 1,000 people and had net sales of approximately $350 million in 2016, supplies the transportation, energy, infrastructure and consumer markets. In 2016, PPG completed the sale of its European fiber glass operations to NEG and divested its ownership interests in two Asian fiber glass joint ventures.

The Company's December 31, 2016 balance sheet has been recast to present the assets and liabilities of the North American fiber glass business as held for sale.

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The major classes of assets and liabilities of the North American fiber glass business included in the PPG condensed, consolidated balance sheet at December 31, 2016 were as follows:

($ in millions)	December 31, 2016
Receivables, net	$ 38
Inventory	32
Other current assets	1
Property, plant and equipment, net	151
Deferred tax asset [(a)]	(30)
Other non-current assets	1
Assets held for sale	$ 193
Accounts payable and accrued liabilities	52
Long-term liabilities	12
Liabilities held for sale	$ 64

[(a)] The net deferred income tax liability is included in assets held for sale due to the Company's tax jurisdictional netting.

Flat Glass Business

In October 2016, PPG completed the sale of its flat glass manufacturing and glass coatings operations to Vitro S.A.B. de C.V. For the three and nine months ended September 30, 2016, the results of operations of the flat glass business are presented as discontinued operations on the condensed consolidated statements of income and cash flows.

Plaka Business

In June 2017, PPG completed the sale of the assets of its Mexico-based Plaka plasterboard and cement-board business to Knauf International GmbH and recorded a pre-tax gain of $25 million during the nine months-ended September 30, 2017. The Company's balance sheet presents the assets and liabilities of the Plaka business as held for sale as of December 31, 2016.

4. Inventories

($ in millions)	September 30, 2017	December 31, 2016
Finished products	$ 1,136	$ 947
Work in process	184	165
Raw materials	452	370
Supplies	33	32
Total Inventories	$ 1,805	$ 1,514

Most U.S. inventories are valued using the last-in, first-out method. These inventories represented approximately 33% and 38% of total inventories at September 30, 2017 and December 31, 2016, respectively. If the first-in, first-out method of inventory valuation had been used, inventories would have been $105 million and $106 million higher as of September 30, 2017 and December 31, 2016, respectively.

5. Goodwill and Other Identifiable Intangible Assets

This Quarterly Report on Form 10-Q contains forward-looking statements regarding our capital needs, business plans and expectations. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Quarterly Report on Form 10-Q. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Quarterly Report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. We caution the reader that numerous important factors, including those factors discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008, which are incorporated herein by reference, could affect our actual results and could cause our actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, Xstream Mobile Solutions Corp. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We file reports with the Securities and Exchange Commission (the “SEC” or “Commission”). You can also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report on Form 10-Q. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Quarterly Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

As used in this Quarterly Report, the terms “we,” “us,” “our,” and “Xstream Mobile Solutions Corp.” mean Xstream Mobile Solutions Corp., unless otherwise indicated.

Overview

We were incorporated as a Delaware corporation on May 10, 1998 under the name Environmental Monitoring and Testing Corporation. Since our incorporation, we provided electronic filing services to companies that are required to electronically file disclosure information with the Securities and Exchange Commission "SEC."

The Company filed a Form 8-K with the Securities and Exchange Commission and changed its name to Netchoice, Inc., effective February 3, 2005.

Subsequent to the reporting period, the Company filed a Form 8-K with the Securities and Exchange Commission and changed its name to Xstream Mobile Solutions Corp. effective December 19, 2005.

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Business of the Issuer

Description of Business

We are creating and marketing Software for the emergency text message market. Xstream Safe© allows your organization to easily send messages to anyone or everyone in a database from any internet accessible computer. DBM-1©: Database Migration Software creates databases automatically for an organization. Import/Export: provides the ability to import and export existing contact databases, if needed. Archive of sent messages Two methods of Delivery: Send Text, E-mail or both simultaneously. Cell-Enabled Message Interface: Send messages from internet capable devices (cell phones, PDA's, etc.) Message Storage: Store messages for easy retrieval when seconds count. Both Client-Side and Server-Side Capabilities: This means that sensitive personal data is stored on your server, not a server in another state or country. Certification Indicator: Lets you know that people in groups have tested and registered their phones. Contact Size: Scalable from small groups of 1-100 up to large groups encompassing tens of thousands.

Patents, Licenses, Trademarks, Intellectual Property, Franchises, Concessions, Royalty Agreements, or Labor Contracts

We do not own any interest in a patent, trademark, license, franchise, concession, or royalty agreement.

Employees

We currently have two full-time administrative employees. Our employees are not represented by labor unions or collective bargaining agreements. Our key employees are Mr. Michael See, founder, Chief Executive Officer, and Chairman of the Board of Directors and Mr. Joseph F. Johns, III, Director, President and Chief Financial Officer

Government Regulation

We are not aware of any existing or probable governmental regulation that will have a material impact on our company.

We are not subject to any compliance with environmental laws.

Research and Development

We did not incur any research or development expenditures during the quarter ended December 31, 2008.

Compliance with Environmental Laws

We did not incur any costs in connection with the compliance with any federal, state, or local environmental laws.

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Plan of Operations

We are currently in the communications business specializing in entertainment, safety and security. Since this time, we have attempted to identify and evaluate other business and technology opportunities in order to proceed with an active business operation. At the present time, we have not identified any other business and/or technology opportunities that our management believes are consistent with the best interest of the company. Our plan of operations is to continue our attempts to identify and evaluate other business and technology opportunities in order to proceed with an active business operation.

We currently have forecasted the expenditure of approximately $20,000 during the next twelve months in order to remain in compliance with the Securities Exchange Act of 1934 and to identify additional business and/or technology for acquisition. We can provide no assurance that we will be successful in acquiring other businesses or technology due to our limited working capital. We anticipate that if we are successfully able to identify any technology or business for acquisition, we will require additional financing in order for us to complete the acquisition. We can provide no assurance that we will receive additional financing if sought.

We do not anticipate purchasing any real property or significant equipment in the next twelve months.

We have two (2) employees at this time. We do not anticipate hiring any additional employees until such time as we are able to acquire any additional businesses and/or technology.

Results of Operations for the Three Months Ended December 31, 2008 and 2007

We earned $0 of revenues for three months ended December 31, 2008 and no revenues were earned during the same period in 2007. We hope that our earnings will increase as our name is established in the market for our products.

We incurred operating expenses in the amount of $25,880 for the three months ended December 31, 2008, compared to operating expenses of $85,148 for the three months ended December 31, 2007. Our operating expenses for the three month period ended December 31, 2008 were primarily attributable to selling, general and administrative expenses of $25,467 and depreciation of $413. Our operating expenses for the three month period ended December 31, 2007 were primarily attributable to selling, general and administrative expenses of $84,872.

We have incurred a net loss of ($21,495) for the three months ended December 31, 2008, compared to ($85,046) for the three months ended December 31, 2007.

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Liquidity and Capital Resources

As of December 31, 2008, we had total current assets of $8,801 and total assets in the amount of $23,942. Our total current liabilities as of December 31, 2008 were $241,074. As a result, on December 31, 2008, we had a working capital deficit of ($232,273).

We are not certain as to whether our current cash balance will be sufficient to fund our operations for the next nine (9) months, as well as meet the requirements for promotion our products. In order to support our working capital needs and to provide for previously unanticipated legal expenses, we are considering the possibility of raising additional capital as well as other strategic options.

Off Balance Sheet Arrangements

We do not have any off-balance sheet debt nor did we have any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses.

Going Concern

We have incurred net losses for the period from inception on May 10, 1998 to December 31, 2008 of ($6,086,971) and we have small sources of revenue thus far. The continuity of our future operations is dependent on our ability to obtain financing and upon future acquisition, exploration and development of profitable operations from our software development. These conditions raise substantial doubt about our ability to continue as a going concern.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants list their most “critical accounting polices” in the Management Discussion and Analysis. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of a company’s financial condition and results, and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following accounting policies fit this definition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that information we are required to disclose in reports filed under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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Based upon their evaluation as of the end of the period covered by this report, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are not effective to ensure that information required to be included in our periodic SEC filings is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms.

Our Board of Directors were advised by Bagell, Josephs, Levine & Company, LLC, the Company's independent registered public accounting firm, that during their performance of audit procedures for 2008 Bagell, Josephs, Levine & Company, LLC identified a material weakness as defined in Public Company Accounting Oversight Board Standard No. 5 in the Company's internal control over financial reporting.

This deficiency consisted primarily of inadequate staffing and supervision that could lead to the untimely identification and resolution of accounting and disclosure matters and failure to perform timely and effective reviews. However, the size of the Company prevents us from being able to employ sufficient resources to enable us to have adequate segregation of duties within our internal control system. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any pending legal proceeding. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of five percent or more of our voting securities are adverse to us or have a material interest adverse to us.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Company sold 22,850 shares of its common stock at $1.00 per share for a total of $22,850 as of December 31, 2007. In addition, existing shareholders exercised warrants for 15,000 shares @ $1.00 per share.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the quarterly period ended December 31, 2008

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index following the signatures page of this report, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Xstream Mobile Solutions Corp.
Date:	June 22, 2009
	By: /s/ Michael See Michael See Title: Chief Executive Officer and Director
Date:	June 22, 2009
	By: /s/ Joseph Johns, III Joseph Johns, III Title: Chief Financial Officer

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XSTREAM MOBILE SOLUTIONS CORP.
(the "Registrant")
(Commission File No. 000-18296)
Exhibit Index
to
Quarterly Report on Form 10-Q
for the Quarter Ended December 31, 2008

Exhibit No.	Description	Incorporated Herein by Reference to	Filed Herewith
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		X
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		X