

Motorola Mobility Holdings, Inc  
Form 10-Q  
October 27, 2011  
Table of Contents

**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 October 1, 2011**

**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: 001-34805**

**MOTOROLA MOBILITY HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

**DELAWARE**

**27-2780868**

(State of Incorporation)

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

**600 N. U.S. Highway 45**

**60048**

**Libertyville, Illinois 60048**

(Zip Code)

(Address of principal executive offices)

**Registrant's telephone number, including area code:**

**(847) 523-5000**

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  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 October 1, 2011:

Class	Number of Shares
Common Stock; \$.01 Par Value	299,487,006

**Table of Contents**

	<b>Page</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	1
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Operations (Unaudited) for the Three Months and Nine Months Ended October 1, 2011 and October 2, 2010</u>	1
<u>Condensed Consolidated Balance Sheets (Unaudited) as of October 1, 2011 and December 31, 2010</u>	2
<u>Condensed Consolidated Statement of Stockholders' Equity (Unaudited) for the Nine Months Ended October 1, 2011</u>	3
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended October 1, 2011 and October 2, 2010</u>	4
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>Item 4. Controls and Procedures</u>	42
<b><u>PART II - OTHER INFORMATION</u></b>	44
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	47
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 3. Defaults Upon Senior Securities</u>	48
<u>Item 4. (Removed and Reserved)</u>	48
<u>Item 5. Other Information</u>	48
<u>Item 6. Exhibits</u>	48

**Table of Contents**

1

**Part I Financial Information****Motorola Mobility Holdings, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****(Unaudited)**

<i>(In millions, except per share amounts)</i>	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>October 1, 2011</i>	<i>October 2, 2010</i>	<i>October 1, 2011</i>	<i>October 2, 2010</i>
Net revenues	<b>\$3,259</b>	\$2,946	<b>\$9,628</b>	\$8,035
Costs of sales	<b>2,415</b>	2,155	<b>7,165</b>	5,985
Gross margin	<b>844</b>	791	<b>2,463</b>	2,050
Selling, general and administrative expenses	<b>426</b>	385	<b>1,299</b>	1,141
Research and development expenditures	<b>390</b>	373	<b>1,142</b>	1,112
Other charges (income)	<b>33</b>	27	<b>86</b>	(153)
Operating earnings (loss)	<b>(5)</b>	6	<b>(64)</b>	(50)
Other income (expense):				
Interest income (expense), net	<b>7</b>	(11)	<b>10</b>	(40)
Gains on sales of investments	<b>2</b>		<b>12</b>	
Other, net	<b>(6)</b>	(2)	<b>(28)</b>	(24)
Total other income (expense)	<b>3</b>	(13)	<b>(6)</b>	(64)
Loss before income taxes	<b>(2)</b>	(7)	<b>(70)</b>	(114)
Income tax expense	<b>30</b>	28	<b>99</b>	55
Net loss	<b>(32)</b>	(35)	<b>(169)</b>	(169)
Less: Loss attributable to non-controlling interests		(1)		(3)
Net loss attributable to Motorola Mobility Holdings, Inc.	<b>\$(32)</b>	\$(34)	<b>\$(169)</b>	\$(166)
<i>Loss per common share (Note 3):</i>				
Basic	<b>\$(0.11)</b>	\$(0.12)	<b>\$(0.57)</b>	\$(0.56)
Diluted	<b>\$(0.11)</b>	N/A	<b>\$(0.57)</b>	N/A
<i>Weighted average common shares outstanding:</i>				
Basic	<b>297.7</b>	294.3	<b>296.1</b>	294.3
Diluted	<b>297.7</b>	N/A	<b>296.1</b>	N/A

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

**Table of Contents**

2

**Motorola Mobility Holdings, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(Unaudited)**

<i>(In millions)</i>	<i>October 1, 2011</i>	<i>December 31, 2010</i>
<b>ASSETS</b>		
Cash and cash equivalents	\$3,078	\$
Accounts receivable, net	1,774	1,571
Inventories, net	746	843
Deferred income taxes	147	110
Other current assets	605	595
<b>Total current assets</b>	<b>6,350</b>	<b>3,119</b>
Cash deposits	160	
Property, plant and equipment, net	803	806
Investments	125	137
Deferred income taxes	50	49
Goodwill	1,431	1,396
Other assets	558	697
<b>Total assets</b>	<b>\$9,477</b>	<b>\$6,204</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts payable	\$1,708	\$1,731
Accrued liabilities	2,234	2,115
<b>Total current liabilities</b>	<b>3,942</b>	<b>3,846</b>
Other liabilities	587	603
<i>Stockholders Equity</i>		
Common stock: \$.01 par value;	3	
Authorized shares: 900.0		
Issued shares: 300.0		
Outstanding shares: 299.5		
Additional paid-in capital	5,217	
Accumulated other comprehensive loss	(103)	(345)
Retained earnings (accumulated deficit)	(169)	
Owner's net investment, prior to Separation		2,077
<b>Total Motorola Mobility Holdings, Inc. stockholders equity</b>	<b>4,948</b>	<b>1,732</b>
Non-controlling interests		23
<b>Total stockholders equity</b>	<b>4,948</b>	<b>1,755</b>
<b>Total liabilities and stockholders equity</b>	<b>\$9,477</b>	<b>\$6,204</b>

Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

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

Table of Contents

3

**Motorola Mobility Holdings, Inc. and Subsidiaries****Condensed Consolidated Statement of Stockholders' Equity****(Unaudited)**

<i>(In millions)</i>	Shares	Common Stock and Additional Paid-in Capital	Fair Value Adjustment to Available for Sale of Securities, Net of Tax	Foreign Currency Translation Adjustments, Net of Tax	Retirement Benefits Adjustments, Net of Tax	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Owner's Net Investment, Prior to Separation	Non-Controlling Interests	Comprehensive Earnings (Loss)
<b>Balances at December 31, 2010</b>		\$	\$14	\$(349)	\$(10)	\$	\$2,077	\$23		
Capital contribution from Former Parent							3,200			
Separation-related adjustments			(5)	346	(4)		(300)	(23)		
Reclassification of Owner's Net Investment to Common Stock and Additional Paid-in Capital in connection with Separation	294.3	4,977						(4,977)		
Deferred Contribution from Former Parent		75								
Net loss							(169)			(169)
Impact of sale of securities, net of tax of \$5			(9)							(9)
Foreign currency translation adjustments				(86)						(86)
Issuance of common stock and stock options exercised	5.2	48								
Share-based compensation expense		120								
<b>Balances at October 1, 2011</b>	<b>299.5</b>	<b>\$5,220</b>	<b>\$</b>	<b>\$(89)</b>	<b>\$(14)</b>	<b>\$</b>	<b>\$(169)</b>	<b>\$</b>	<b>\$</b>	<b>\$(264)</b>

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

**Table of Contents**

4

**Motorola Mobility Holdings, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

<i>(In millions)</i>	<i>Nine Months Ended</i>	
	<i>October 1,</i>	<i>October 2,</i>
	<i>2011</i>	<i>2010</i>
<b>Operating</b>		
Net loss attributable to Motorola Mobility Holdings, Inc.	\$(169)	\$(166)
Loss attributable to non-controlling interests		(3)
Net loss	(169)	(169)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	167	169
Share-based compensation expense	120	120
Non-cash other charges	17	1
Gains on sales of investments	(12)	
Deferred income taxes	(46)	14
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(246)	(225)
Inventories	80	(166)
Other current assets		(7)
Accounts payable and accrued liabilities	125	686
Other assets and liabilities	96	(42)
Net cash provided by operating activities	132	381
<b>Investing</b>		
Acquisitions and investments	(65)	(66)
Proceeds from sales of investments and business, net	29	12
Capital expenditures	(136)	(68)
Cash deposits	(24)	
Other, net	5	1
Net cash used for investing activities	(191)	(121)
<b>Financing</b>		
Share-based compensation activity	48	
Capital contributions from Former Parent	3,107	
Other, net	14	
Net transfers to Former Parent		(293)
Net cash provided by (used for) financing activities	3,169	(293)
Effect of exchange rate changes on cash and cash equivalents	(32)	33
Net increase in cash and cash equivalents	3,078	
Cash and cash equivalents, beginning of period		
Cash and cash equivalents, end of period	\$3,078	\$
<i>Cash Flow Information</i>		
<b>Cash paid during the period for:</b>		



## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

Interest, net	\$2	N/A
Income taxes, net of refunds	122	N/A
See accompanying notes to condensed consolidated financial statements (unaudited).		

---

**Table of Contents****Motorola Mobility Holdings, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(Dollars in millions, except as noted)****(Unaudited)****1. Background and Basis of Presentation****Background**

Motorola Mobility Holdings, Inc. ( Motorola Mobility or the Company ) is a provider of innovative technologies, products and services that enable a broad range of mobile and wireline, digital communication, information and entertainment experiences. The Company's integrated products and platforms deliver rich multimedia content, such as voice, video, messaging and Internet-based applications and services to multiple screens, such as mobile devices, televisions and personal computers ( multi screens ). Our product portfolio primarily includes mobile devices, wireless accessories, set-top boxes and video distribution systems, and wireline broadband infrastructure products and associated customer premises equipment. We are focused on developing differentiated, innovative products to meet the expanding needs of consumers to communicate, to collaborate and to discover, consume, create and share content at a time and place of their choosing on multiple devices.

On January 4, 2011 (the Distribution Date ), the separation of Motorola Mobility from Motorola, Inc., which effective January 4, 2011 changed its name to Motorola Solutions, Inc. (hereinafter, the Former Parent ) (the Separation ), was completed. Motorola Mobility is now an independent public company trading under the symbol MMI on the New York Stock Exchange. On January 4, 2011, Former Parent stockholders of record as of the close of business on December 21, 2010 (the Record Date ) received one (1) share of Motorola Mobility common stock for each eight (8) shares of Motorola, Inc. common stock held as of the Record Date (the Distribution ). Motorola Mobility did not issue fractional shares of its common stock in the Distribution. Fractional shares that Former Parent stockholders would otherwise have been entitled to receive were aggregated and sold in the public market by the distribution agent and aggregate net cash proceeds of these sales were distributed ratably to those stockholders who would otherwise have been entitled to receive fractional shares.

At the time of the Distribution, the Former Parent contributed \$3.2 billion in cash, cash equivalents and cash deposits to the Company (the Distribution Date Contribution ). The Former Parent agreed to contribute to the Company an additional \$300 million in cash if and when the Former Parent receives cash distributions as a result of the reduction in registered capital of an overseas subsidiary (the Deferred Contribution ). On July 22, 2011, the Company received its first Deferred Contribution of \$75 million from the Former Parent.

***Merger Agreement with Google Inc.***

On August 15, 2011, Motorola Mobility Holdings, Inc. entered into an Agreement and Plan of Merger (the Merger Agreement ) with Google Inc. ( Google ) and RB98 Inc., a wholly owned subsidiary of Google ( Merger Sub ). The Merger Agreement provides for the merger of Merger Sub with and into the Company (the Merger ), with the Company surviving the Merger as a wholly owned subsidiary of Google. In the Merger, each outstanding share of common stock, par value \$0.01 per share, of the Company, other than any dissenting shares, shares held by Google, Merger Sub, the Company or any of their respective subsidiaries and treasury shares, will be cancelled and converted into the right to receive \$40.00 in cash, without interest. The closing of the Merger is subject to customary closing conditions, including adoption of the Merger Agreement by the Company's stockholders and regulatory approvals.

Under the Merger Agreement, the Company may not solicit competing proposals or participate in any discussions or negotiations regarding alternative business combination transactions, subject to exceptions that

---

**Table of Contents**

6

permit the Company's Board of Directors to take actions required by their fiduciary duties. The Company may terminate the Merger Agreement under certain specified circumstances, including if its Board of Directors determines in good faith that it has received a superior proposal (as defined in the Merger Agreement), and otherwise complies with certain terms of the Merger Agreement. In connection with a termination to accept a superior proposal, Google will be entitled to a fee of \$375 million. The \$375 million fee is also payable to Google in other limited circumstances involving a competing proposal and termination of the Merger Agreement.

Pursuant to the Merger Agreement, stock options and restricted stock units (RSUs) granted by the Company under the Legacy Incentive Plan as a substitute for Motorola, Inc. stock options, and RSUs granted prior to 2011, will fully vest upon the closing of the transaction and be paid out at \$40 for each RSU, and \$40 minus the exercise price for each stock option, in each case less applicable tax withholdings. Vested stock options and vested RSUs granted under the 2011 Incentive Compensation Plan in 2011 will be paid out at \$40 for each RSU, and \$40 minus the exercise price for each stock option, in each case less applicable tax withholdings. Unvested stock options and unvested restricted stock (RS) and RSUs granted under the 2011 Incentive Compensation Plan in 2011 will be converted to an award of equivalent value in Google stock options, RS and RSUs, respectively.

**Basis of Presentation**

The condensed consolidated financial statements include the accounts of the Company and all controlled subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements as of October 1, 2011 and December 31, 2010 and for the three months and nine months ended October 1, 2011 and October 2, 2010 include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the Company's consolidated financial position, results of operations and cash flows 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 combined financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2010. The results of operations for the three months and nine months ended October 1, 2011 are not necessarily indicative of the operating results to be expected for the full year. Certain amounts in prior period financial statements and related notes have been reclassified to conform to the 2011 presentation.

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.

Prior to Separation, the historical financial statements were derived from the consolidated financial statements and accounting records of the Former Parent principally representing the Mobile Devices and Home business segments, using the historical results of operations and historical basis of assets and liabilities of the Company's businesses. The historical financial statements also include allocations of certain Former Parent general corporate expenses. Management believes the assumptions and methodologies underlying the allocation of general corporate expenses to the historical results of operations were reasonable. However, such expenses may not be indicative of the actual level of expenses that would have been incurred by the Company if it had operated as an independent, publicly traded company or of the costs expected to be incurred in the future. As such, the results of operations prior to Separation, included herein, may not necessarily reflect the Company's results of operations, financial position or cash flows in the future or what its results of operations, financial position or cash flows would have been had the Company been an independent, publicly traded company during the historical periods presented. Because a direct ownership relationship did not exist among all the various worldwide entities comprising the Company, the Former Parent's net investment in the Company is presented as Owner's net investment, rather than stockholders' equity, in the combined balance sheets for periods prior to the

**Table of Contents**

Separation. Transactions between the Mobile Devices and Home business segments and other Former Parent businesses have been identified in the historical financial statements as transactions between related parties for periods prior to the Separation.

The following table presents the expense (income) allocations reflected in the Company's statements of operations:

	<i>Three Months Ended</i>	<i>Nine Months Ended</i>
<b>October 2, 2010</b>		
Leveraged services expenses	<b>\$ 102</b>	<b>\$ 369</b>
Employee benefits and incentives	<b>119</b>	<b>327</b>
Basic research		<b>5</b>
Interest expense (income), net	<b>12</b>	<b>38</b>
	<b>\$ 233</b>	<b>\$ 739</b>

The Company and the Former Parent considered these leveraged services expenses, employee benefits and incentives, basic research and interest expense (income) allocations to be a reasonable reflection of the services provided to the Company by the Former Parent. For the three months and nine months ended October 1, 2011, there are no allocations from the Former Parent in the statement of operations.

The Former Parent used a worldwide centralized approach to cash management and the financing of its operations with all related activity between the Company and the Former Parent reflected as equity transactions in Owner's net investment in the Company's historical balance sheets for periods prior to Separation. Types of intercompany transactions between the Company and the Former Parent prior to Separation included: (i) cash receipts from the Company's businesses, which were transferred to the Former Parent on a regular basis, (ii) cash injections from the Former Parent used to fund operations, capital expenditures, or acquisitions, (iii) charges (benefits) for income taxes, and (iv) allocations of the Former Parent's corporate expenses, as discussed above.

Prior to Separation, the historical financial statements included a manufacturing joint venture that primarily benefited the Company. Activity in the joint venture for the benefit of the Company began to wind down prior to Separation. Upon Separation, the Company did not retain any ownership in the joint venture and the Company is no longer receiving any manufactured goods from the joint venture. As such, after Separation, the joint venture is no longer included in the consolidated financial statements of the Company. In addition, because the historical financial statements were derived from the Former Parent's accounting records, included in the Separation-related adjustments are adjustments to foreign currency translation adjustments, net of tax, in Accumulated other comprehensive loss, to reflect the appropriate opening balances related to the Company's legal entities at Separation.

For purposes of the Company's historical financial statements, income tax expense and deferred income tax balances were recorded as if the Company filed tax returns on a separate return basis (hypothetical carve-out basis) from the Former Parent. The Company's historical income tax balances reflected tax losses and tax credits generated by the Company while divisions within the Former Parent's legal entities which were available for use by the Former Parent's other businesses. Additionally, as part of the Separation, the Former Parent entered into taxable transactions when separating the Company's non-U.S. assets and liabilities into separate non-U.S. subsidiaries of the Company. As a result of these taxable transactions and the use of certain tax losses and credits by the Former Parent, the Company's income tax balances, as presented on the hypothetical carve-out basis, at December 31, 2010 were adjusted after the Separation to reflect the Company's post-Separation income tax positions, including unrecognized tax benefits, tax loss and credit carry forwards, other deferred tax assets and valuation allowances. The adjustment resulted in a decrease in the hypothetical carve-out income tax balances with an offsetting \$32 million increase in Stockholders Equity.

---

**Table of Contents**

8

***Brazil Functional Currency***

Effective July 3, 2011, based on cumulatively significant changes in economic facts and circumstances, the Company determined that for purposes of financial statement translation the local Brazilian currency should be the functional currency of the Company's wholly owned Brazilian subsidiary, Motorola Industrial Ltda. Prior to July 3, 2011, the functional currency was the U.S. dollar. As a result of this change, there was an immaterial adjustment to the previously reported values of non-monetary assets offset by an adjustment to the Foreign currency translation adjustment, a component of accumulated other comprehensive loss in Stockholders' equity in the condensed consolidated balance sheets. As a result of this change in the functional currency, for financial periods beginning on or after July 3, 2011, changes in the Brazilian exchange rates will result in gains or losses, which will be recorded in Other, net in the condensed consolidated statements of operations related to the revaluation of U.S. dollar denominated monetary assets and liabilities, such as cash and cash equivalents and accounts payable held by our Brazilian subsidiary.

**Recently Issued Accounting Pronouncements**

In May 2011, the FASB issued authoritative guidance that changes the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. The guidance also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively during interim and annual periods beginning after December 15, 2011. The Company anticipates that the adoption of this standard will not materially expand its consolidated financial statement footnote disclosures or change the way it measures fair value.

In June 2011, the FASB issued authoritative guidance which amends current comprehensive income guidance. This guidance eliminates the option to present the components of comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for the Company during the interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not have an impact on the Company's consolidated statements of operations, balance sheets or cash flows as it only requires a change in the format of the current presentation.

In September 2011, the FASB issued new accounting guidance intended to simplify goodwill impairment testing. The Company will be allowed to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company expects to early adopt this guidance in the fourth quarter effective October 2, 2011 for its fiscal 2011 annual impairment test. The Company does not expect the adoption of this guidance will have a material impact on our results of operations or financial position.

**2. Relationship with the Former Parent**

In connection with the Separation, the Company entered into a series of agreements with the Former Parent which are intended to govern the relationship between the Company and the Former Parent going forward. These agreements include a Master Separation and Distribution Agreement, intellectual property agreements, a trademark license agreement, a tax sharing agreement and an employee matters agreement. The Company also entered into other related agreements with the Former Parent including transition services agreements. During the three months and nine months ended October 1, 2011, the net expense to the Company related to these agreements was not material. See Note 10, *Commitments and Contingencies*, regarding indemnifications to and from the Former Parent.

**Table of Contents**
**3. Other Financial Data**  
**Statement of Operations Information**
**Other Charges (Income)**

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

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>October 1,</i>	<i>October 2,</i>	<i>October 1,</i>	<i>October 2,</i>
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Merger-related transaction costs	<b>\$18</b>	\$	<b>\$18</b>	\$
Legal claim provision			<b>20</b>	
Intangible asset amortization	<b>15</b>	14	<b>47</b>	41
Intangible asset impairment			<b>4</b>	
Reorganization of businesses		13	<b>(3)</b>	34
Legal settlement				(228)
	<b>\$33</b>	\$27	<b>\$86</b>	\$(153)

In August 2011, the Company retained investment banking firms to, among other things, advise us in connection with a potential transaction such as the merger and to evaluate whether the consideration to be received by the holders of our common stock pursuant to the Merger agreement was fair, from a financial point of view, to such holders. To date, the Company has incurred non-refundable fees of approximately \$9 million, which have been recorded as a component of Other charges (income) in the Company's condensed consolidated statements of operations for the three and nine months ended October 1, 2011. At the effective time of the Merger, the Company will incur additional aggregate fees of approximately \$42 million to the investment banking firms. Additionally, the Company incurred \$9 million in legal fees and other incremental costs in the third quarter of 2011 relating to the Merger, which has also been recorded as a component of Other Charges (income) in the Company's condensed consolidated statements of operations for the three and nine months ended October 1, 2011.

In June 2010, the Company announced that it had entered into a settlement and license agreement with another company, which resolved all outstanding litigation between the two companies. The agreement includes provisions for an upfront payment of \$175 million from the other company to the Company, future royalties to be paid by the other company to the Company for the license of certain intellectual property, and the transfer of certain patents between the companies. As a result of this agreement and the valuation of the patents exchanged, the Company recorded a pre-tax gain of \$228 million during the nine months ended October 2, 2010, related to the settlement of the outstanding litigation between the parties.

**Table of Contents**

10

**Other Income (Expense)**

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

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>October 1,</i>	<i>October 2,</i>	<i>October 1,</i>	<i>October 2,</i>
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Interest income (expense), net:				
Interest income	\$8	\$12	\$18	\$24
Interest expense	(1)	(23)	(8)	(64)
	\$7	\$(11)	\$10	\$(40)
Other, net:				
Foreign currency costs	\$(8)	\$(6)	\$(30)	\$(25)
Investment impairments				(7)
Other	2	4	2	8
	\$(6)	\$(2)	\$(28)	\$(24)

**Loss Per Common Share**

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

	<i>Amounts attributable to Motorola Mobility Holdings, Inc. common stockholders</i>			
	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>October 1,</i>	<i>October 2,</i>	<i>October 1,</i>	<i>October 2,</i>
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
<b>Basic loss per common share:</b>				
Net loss	\$(32)	\$(34)	\$(169)	\$(166)
Weighted average common shares outstanding	297.7	294.3	296.1	294.3
Per share amount	\$(0.11)	\$(0.12)	\$(0.57)	\$(0.56)
<b>Diluted loss per common share:</b>				
Net loss	\$(32)	N/A	\$(169)	N/A
Weighted average common shares outstanding	297.7	N/A	296.1	N/A
Add effect of dilutive securities:				
Share-based awards and other		N/A		N/A
Diluted weighted average common shares outstanding	297.7	N/A	296.1	N/A

## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

Per share amount	<b>\$(0.11)</b>	N/A	<b>\$(0.57)</b>	N/A
------------------	-----------------	-----	-----------------	-----

For the three months and nine months ended October 1, 2011, the Company was in a net loss position and, accordingly, the assumed exercise of 1.4 million and 1.2 million stock options, respectively, and the assumed vesting of 1.9 million and 2.0 million restricted stock units, respectively, were excluded from diluted weighted average shares outstanding because their inclusion would have been anti-dilutive.

The computation of basic loss per common share for all periods through December 31, 2010, is calculated using the number of shares of Motorola Mobility common stock outstanding on January 4, 2011, following the Distribution. No measure of diluted loss per common share is presented since there were no actual shares outstanding prior to Separation.



**Table of Contents**

11

**Balance Sheet Information*****Cash and Cash Equivalents and Cash Deposits***

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 October 1, 2011. In addition, the Company had \$181 million of cash deposits, primarily related to various legal disputes, at October 1, 2011. At October 1, 2011, \$21 million of this amount was current and included in Other current assets in the Company's condensed consolidated balance sheet (all of which was held in the U.S.) and \$160 million of this amount was non-current (including \$155 million held outside the U.S.). Prior to Separation, the Company participated in the Former Parent's cash management program. As a result, the Company has recorded no cash, cash equivalents or cash deposits on its balance sheet prior to Separation.

***Accounts Receivable***

Accounts receivable, net, consists of the following:

	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Accounts receivable	<b>\$1,801</b>	\$1,620
Less allowance for doubtful accounts	(27)	(49)
	<b>\$1,774</b>	\$1,571

***Inventories***

Inventories, net, consists of the following:

	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Work-in-process and production materials	<b>\$465</b>	\$724
Finished goods	<b>504</b>	508
	<b>969</b>	1,232
Less inventory reserves	(223)	(389)
	<b>\$746</b>	\$843

***Other Current Assets***

Other current assets consists of the following:

	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Contractor receivables	<b>\$246</b>	\$239
Deferred costs	<b>109</b>	163

Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

Tax refunds receivable	<b>108</b>	103
Royalty license arrangements	<b>50</b>	44
Cash deposits	<b>21</b>	
Other	<b>71</b>	46
	<b>\$605</b>	\$595

**Table of Contents**

12

**Property, Plant and Equipment**

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

	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Land	\$44	\$44
Building	695	716
Machinery and equipment	1,717	1,665
	<b>2,456</b>	2,425
Less accumulated depreciation	<b>(1,653)</b>	(1,619)
	<b>\$803</b>	\$806

Depreciation expense for the three months ended October 1, 2011 and October 2, 2010 was \$42 million and \$44 million, respectively. Depreciation expense for the nine months ended October 1, 2011 and October 2, 2010 was \$120 million and \$128 million, respectively.

**Investments**

Investments consists of the following:

	<i>Recorded Value</i>	<i>Unrealized Gains</i>	<i>Less Unrealized Losses</i>	<i>Cost Basis</i>
<i>October 1, 2011</i>				
Available-for-sale securities:				
Common stock and equivalents	\$	\$	\$	\$
Other securities, at cost	93			93
Equity method investments	32			32
	<b>\$125</b>	<b>\$</b>	<b>\$</b>	<b>\$125</b>

	<i>Recorded Value</i>	<i>Unrealized Gains</i>	<i>Less Unrealized Losses</i>	<i>Cost Basis</i>
<i>December 31, 2010</i>				
Available-for-sale securities:				
Common stock and equivalents	\$21	\$14	\$	\$7
Other securities, at cost	89			89
Equity method investments	27			27
	<b>\$137</b>	<b>\$14</b>	<b>\$</b>	<b>\$123</b>

During the nine months ended October 1, 2011, the Company disposed of Available-for-sale common stock and equivalents and Other securities, at cost resulting in a gain on sale of investments of \$12 million.

## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

During the three months and nine months ended October 1, 2011, and the three months ended October 2, 2010, investment impairment charges recorded by the Company were *de minimis*. During the nine months ended October 2, 2010, the Company recorded investment impairment charges of \$7 million representing other-than-temporary declines in the value of the Company's investment portfolio, primarily related to other securities recorded at cost. Investment impairment charges are included in Other within Other income (expense) in the Company's condensed consolidated statements of operations.

**Table of Contents**

13

**Other Assets**

Other assets consists of the following:

	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Royalty license arrangements	\$220	\$228
Intangible assets, net of accumulated amortization of \$661 and \$614	160	205
Deferred costs	128	180
Value-added tax refunds receivable	11	48
Other	39	36
	<b>\$558</b>	<b>\$697</b>

**Accrued Liabilities**

Accrued liabilities consists of the following:

	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Customer reserves	\$364	\$256
Deferred revenue	310	325
Warranty reserves	253	206
Compensation	249	246
Royalty license arrangements	246	211
Contractor payables	183	179
Tax liabilities	100	140
Other	529	552
	<b>\$2,234</b>	<b>\$2,115</b>

**Other Liabilities**

Other liabilities consists of the following:

	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Deferred revenue	\$178	\$224
Facility financing obligation	97	96
Defined benefit pension plans	95	93
Deferred income taxes	77	79
Other	140	111
	<b>\$587</b>	<b>\$603</b>

**4. Risk Management**  
**Derivative Financial Instruments**

*Foreign Currency Risk*

The Company uses financial instruments to reduce its overall exposure to the effects of currency fluctuations on cash flows. The Company's policy prohibits speculation in financial instruments for profit on exchange rate price fluctuations, trading in currencies for which there are no underlying exposures, or entering

**Table of Contents**

14

into transactions for any currency to intentionally increase the underlying exposure. Instruments that are designated as part of a hedging relationship must be effective at reducing the risk associated with the exposure being hedged and are designated as part of a hedging relationship at the inception of the contract. Accordingly, changes in the market values of hedge instruments must be highly correlated with changes in market values of the underlying hedged items both at the inception of the hedge and over the life of the hedge contract.

The Company's strategy related to foreign exchange exposure management is to offset the gains or losses on the financial instruments against losses or gains on the underlying operational cash flows or investments based on the operating business units' assessment of risk. The Company enters into derivative contracts for some of the Company's non-functional currency receivables and payables, which are primarily denominated in major currencies that can be traded on open markets. The Company typically uses forward contracts and options to hedge these currency exposures. In addition, the Company enters into derivative contracts for some firm commitments and some forecasted transactions, which are designated as part of a hedging relationship if it is determined that the transaction qualifies for hedge accounting under the provisions of the authoritative accounting guidance for derivative instruments and hedging activities. A portion of the Company's exposure is from currencies that are not traded in liquid markets and these are addressed, to the extent reasonably possible, by managing net asset positions, product pricing and component sourcing.

As of October 1, 2011 and December 31, 2010, the Company had outstanding foreign exchange contracts with notional values totaling \$265 million and \$608 million, respectively. Management believes that these financial instruments should not subject the Company to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset losses and gains on the underlying assets, liabilities and transactions, except for the ineffective portion of the instruments, which are charged to Other within Other income (expense) in the Company's condensed consolidated statements of operations.

The following table shows the five largest net notional amounts of the positions to buy or sell foreign currency as of October 1, 2011 and the corresponding positions as of December 31, 2010:

<i>Net Buy (Sell) by Currency</i>	<i>Notional Amount</i>	
	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Canadian Dollar	\$25	\$35
Indian Rupee	(25)	(43)
Chinese Yuan	(29)	14
Euro	(66)	(54)
Japanese Yen	(67)	(5)

**Counterparty Risk**

The use of derivative financial instruments exposes the Company to counterparty credit risk in the event of nonperformance by counterparties. However, the risk is limited to the fair value of the instruments when the derivative is in an asset position. At the present time, all of the counterparties have investment grade credit ratings. As of October 1, 2011 the Company was exposed to an aggregate credit risk of approximately \$14 million with all counterparties.

**Fair Value of Financial Instruments**

The Company's financial instruments include accounts receivable, accounts payable, accrued liabilities, derivative financial instruments and other financing commitments. The Company's available-for-sale investment portfolios and derivative financial instruments are recorded in the Company's condensed consolidated balance sheets at fair value. All other financial instruments are carried at cost, which is not materially different than the instruments' fair values.

---

**Table of Contents****5. Income Taxes*****Basis of Presentation***

For purposes of the Company's historical financial statements pre-Separation, income tax expense and deferred income tax balances were recorded as if the Company had filed tax returns on a separate return basis ( hypothetical carve-out basis ) from the Former Parent. Post-Separation, income tax expense and deferred income tax balances are recorded in accordance with the Company's stand-alone income tax positions.

***Income Tax Expense***

For the three months ended October 1, 2011 and October 2, 2010, the Company recorded net income tax expense of \$30 million and \$28 million, respectively, primarily comprised of taxes on foreign earnings and foreign withholding taxes on royalty and other income.

For the nine months ended October 1, 2011 and October 2, 2010, the Company recorded net income tax expense of \$99 million and \$55 million, respectively, primarily comprised of taxes on foreign earnings and foreign withholding taxes on royalty and other income.

The Company has not recorded a tax benefit on its U.S. losses due to its recent history of cumulative U.S. losses.

***Deferred Income Taxes***

As of October 1, 2011, the Company's net deferred tax assets, exclusive of valuation allowances, were \$2.5 billion, compared to \$2.9 billion as of December 31, 2010. As of October 1, 2011, the valuation allowance against the net deferred tax assets was \$2.4 billion, as compared to \$2.8 billion as of December 31, 2010.

Included in the net deferred tax assets of \$2.5 billion as of October 1, 2011 are: (i) approximately \$1.0 billion of deferred tax assets related to capitalized R&D costs that may be amortized for tax purposes through 2019; (ii) approximately \$800 million of deferred tax assets related to U.S. and foreign tax loss and credit carry forwards; and (iii) approximately \$700 million of deferred taxes related to other temporary differences.

***Unrecognized Tax Benefits***

The Company had unrecognized tax benefits of \$21 million and \$101 million as of October 1, 2011 and December 31, 2010, respectively. The decrease in unrecognized tax benefits is primarily attributable to a \$76 million decrease relating to post-Separation adjustments.

**6. Share-Based Compensation Plans**

Upon Separation, all outstanding Former Parent stock options, stock appreciation rights and restricted stock units ( RSU ) for the Company's employees were replaced with awards in the Company using a formula designed to preserve the intrinsic value and fair value of the award immediately prior to Separation. There was no incremental compensation expense to the Company related to the replacement of the Former Parent share-based compensation awards. Any unrecognized compensation expense related to the replaced awards will be recognized by the Company over the remaining vesting period of the awards. During the nine months ended October 1, 2011, the Company began to grant share based compensation to employees and non-employee directors under the Company's incentive plans.

***Stock Options***

During the nine months ended October 1, 2011, the Company granted 9.7 million stock options. The weighted-average estimated fair value of employee stock options granted during the nine months ended October 1, 2011 was \$11.70. As of October 1, 2011, the Company had 21.4 million stock options and stock appreciation rights outstanding.



**Table of Contents**

16

**Restricted Stock and Restricted Stock Units**

During the nine months ended October 1, 2011, the Company granted 4.5 million restricted stock ( RS ) and RSUs with a weighted-average fair market value of \$29.15 per RS and RSU. As of October 1, 2011, the Company had 8.6 million RS and RSUs outstanding.

**Employee Stock Purchase Plan**

During the three months ended July 2, 2011, employees began to participate in the Company's new employee stock purchase plan. The employee stock purchase plan allows eligible participants to purchase shares of the Company's common stock through payroll deductions of up to 10% of eligible compensation on an after-tax basis. Plan participants cannot purchase more than \$25,000 of stock in any calendar year. The price an employee pays per share is 85% of the lower of the fair market value of the Company's stock on the close of the first trading day or last trading day of the purchase period. The plan has two purchase periods, the first one from May 1 through October 31 and the second one from November 1 through April 30. During the three months ended October 1, 2011, there was no purchase of the Company's stock under the plan as the initial offering period had not yet closed. During the three months ended October 1, 2011, the Company announced that the period ending October 31, 2011 would be the final period that employees would be able to purchase common stock of the Company under the plan.

Compensation expense related to the Company's employee stock options, stock appreciation rights, restricted stock, restricted stock units and employee stock purchase plan was as follows (prior to Separation, compensation expense included the Company's employees, as well as allocated compensation expense from the Former Parent's corporate functions):

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>October 1,</i>	<i>October 2,</i>	<i>October 1,</i>	<i>October 2,</i>
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Share-based compensation expense included in:				
Costs of sales	\$3	\$5	\$11	\$12
Selling, general and administrative expenses	19	22	68	68
Research and development expenditures	12	15	41	40
Share-based compensation expense included in Operating earnings (loss)	34	42	120	120
Tax benefit				
Share-based compensation expense, net of tax	\$34	\$42	\$120	\$120

**7. Fair Value Measurements**

The Company had no non-financial assets or liabilities that are required to be measured at fair value on a recurring basis as of October 1, 2011.

Applicable accounting standards specify a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about current market conditions. The prescribed fair value hierarchy and related valuation methodologies are as follows:

*Level 1* Quoted prices for identical instruments in active markets.

*Level 2* Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.

**Table of Contents**

17

*Level 3* Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

The fair values of the Company's financial assets and liabilities by level in the fair value hierarchy as of October 1, 2011 were as follows:

<i>October 1, 2011</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>Assets:</b>				
Foreign exchange derivative contracts	\$	\$15	\$	\$15
<b>Liabilities:</b>				
Foreign exchange derivative contracts	\$	\$3	\$	\$3

**8. Sales of Receivables**

Prior to Separation, the Former Parent sold accounts receivable generated from its business units to third-parties in transactions that qualified as true-sales. Until Separation, the Company's businesses participated in this activity by transferring certain of their accounts receivable balances to the Former Parent. The Company also has agreements under which the Company sells its accounts receivable directly to a third party in transactions that qualify as true-sales.

Total sales of accounts receivable were \$43 million and \$57 million during the three months ended October 1, 2011 and October 2, 2010, respectively, and \$140 million and \$173 million for the nine months ended October 1, 2011 and October 2, 2010, respectively. As of October 1, 2011, there were no accounts receivable outstanding under these programs for which the Company retained servicing obligations, compared to \$43 million at December 31, 2010.

**9. Credit Facilities**

On January 4, 2011, the Company entered into a \$500 million unsecured three-year credit agreement (the *Credit Agreement*) with a syndicate of lenders. The *Credit Agreement* provides for a revolving credit facility and a letter of credit facility, is guaranteed by certain of the Company's subsidiaries, and contains restrictive covenants. The Company may use any borrowings under the *Credit Agreement* for general corporate purposes. No obligations are outstanding under the *Credit Agreement* as of October 1, 2011.

**10. Commitments and Contingencies***Legal*

The Company is involved in various lawsuits, claims and investigations arising in the normal course of business and relating to the Company's business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved.

*Tax and Regulatory Proceedings in Brazil*

In connection with the Company's operations in Brazil, Brazilian tax authorities have proposed assessments against the Company's Brazilian subsidiary relating to various technology transfer taxes, duties, value added taxes, certain other taxes and labor related matters related to the subsidiary's operations for calendar years 1997 through 2010. As of October 1, 2011, these assessments collectively represent reasonably possible

---

**Table of Contents**

18

loss contingencies under the applicable accounting standards of up to approximately \$466 million, based on the exchange rate in effect at October 1, 2011, including interest and penalties. However, the Company is vigorously disputing these matters, believes it has valid defenses that are supported by the law, and believes that this amount is not a meaningful indicator of liability. These matters are progressing through the multiple levels of administrative and judicial review available in Brazil. Due to the complexities and uncertainty surrounding the administrative and judicial process in Brazil and the nature of the claims asserted, the Company does not expect a final resolution of these matters for several years.

The Company routinely assesses the probability of ultimately incurring a loss in each of these matters and records the Company's best estimate of the ultimate loss in situations where the Company assesses the likelihood of an ultimate loss as probable. Based on the Company's assessment of these matters, the Company has recorded accruals on only a small portion of the total exposure. It is, however, very difficult to predict the outcome of legal disputes and controversies, including litigation, in Brazil and our ultimate loss may be significantly greater than our current assessments and related accruals.

As of October 1, 2011, the Company had approximately \$150 million of cash deposits, including accrued interest, for these matters, which are included in Cash deposits in the Company's condensed consolidated balance sheet as of October 1, 2011.

***Indemnifications***

The Company may provide indemnifications for losses associated with indemnification and/or warranty provisions contained in certain commercial and intellectual property agreements. Historically, the Company has not made significant payments under these indemnifications. However, there is an increasing risk in relation to intellectual property indemnities given the current legal climate. In particular, two customers of the Company have made indemnification demands of the Company related to patent infringement claims by TiVo, Inc. against our products.

Furthermore, pursuant to the Master Separation and Distribution Agreement and certain other agreements with the Former Parent, the Company agreed to indemnify the Former Parent for certain liabilities, and the Former Parent agreed to indemnify the Company for certain liabilities, in each case for uncapped amounts.

Generally, in indemnification cases, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. Further, the Company's obligations under these agreements for indemnification are generally limited in terms of duration and are for amounts not in excess of the contract value, except with respect to certain intellectual property infringement claims. In some instances, the Company may have recourse against third-parties for certain payments made by the Company.

**11. Segment Information**

The Company reports financial results for the following business segments:

The Mobile Devices segment designs, manufactures, sells and services wireless mobile devices, including smartphones and media tablets, with integrated software and accessory products, and licenses intellectual property.

The Home segment designs, manufactures, sells, installs and services set-top boxes for digital video, Internet Protocol ( IP ) video, satellite and terrestrial broadcast networks, end-to-end digital video and Internet Protocol Television ( IPTV ) distribution systems, broadband access network infrastructure platforms, and associated data and voice customer premises equipment and associated software solutions to cable television ( TV ) and telecommunication service providers.

**Table of Contents**

19

Summarized below are the Company's net revenues and operating earnings (loss) by segment for the three months and nine months ended October 1, 2011 and October 2, 2010:

<i>Three Months Ended</i>	<i>Net Revenues</i>		<i>Operating Earnings (Loss)</i>	
	<i>October 1, 2011</i>	<i>October 2, 2010</i>	<i>October 1, 2011</i>	<i>October 2, 2010</i>
Mobile Devices	\$2,434	\$2,034	\$(41)	\$(43)
Home	825	912	54	49
	<b>\$3,259</b>	<b>\$2,946</b>		
Merger-related transaction costs			(18)	
Operating earnings (loss)			(5)	6
Total other income (expense)			3	(13)
Loss before income taxes			\$(2)	\$(7)

<i>Nine Months Ended</i>	<i>Net Revenues</i>		<i>Operating Earnings (Loss)</i>	
	<i>October 1, 2011</i>	<i>October 2, 2010</i>	<i>October 1, 2011</i>	<i>October 2, 2010</i>
Mobile Devices	\$6,992	\$5,399	\$(215)	\$(148)
Home	2,636	2,636	169	98
	<b>\$9,628</b>	<b>\$8,035</b>		
Merger-related transaction costs			(18)	
Operating loss			(64)	(50)
Total other expense			(6)	(64)
Loss before income taxes			\$(70)	\$(114)

**12. Reorganization of Businesses**

The Company maintains a formal Involuntary Severance Plan (the "Severance Plan"), which permits the Company to offer eligible employees severance benefits based on years of service and employment grade level in the event that employment is involuntarily terminated as a result of a reduction-in-force or restructuring. Prior to Separation, the Company participated in the Former Parent's Severance Plan. The Company recognizes termination benefits based on formulas per the Severance Plan at the point in time that future settlement is probable and can be reasonably estimated based on estimates prepared at the time a restructuring plan is approved by management. Exit costs consist of future minimum lease payments on vacated facilities and other contractual terminations. At each reporting date, the Company evaluates its accruals for employee separation and exit costs to ensure the accruals are still appropriate. In certain circumstances, accruals are no longer needed because of efficiencies in carrying out the plans or because employees previously identified for separation resigned from the Company and did not receive

## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

severance or were redeployed due to circumstances not foreseen when the original plans were initiated. In these cases, the Company reverses accruals through the condensed consolidated statements of operations where the original charges were recorded when it is determined they are no longer needed.

**Table of Contents**

20

**2011 Activity**

During the three months ended October 1, 2011, the Company recorded no additional charges related to restructuring actions under Other charges in the Company's condensed consolidated statements of operations, and *de minimis* reversals of reorganization of business charges for accruals no longer needed.

During the nine months ended October 1, 2011, the Company recorded \$6 million of net reversals of reorganization of business charges, including \$3 million of Separation-related adjustments for employees that remained with the Former Parent and \$4 million of reversals for accruals no longer needed, partially offset by \$1 million of additional charges related to restructuring actions under Other charges in the Company's condensed consolidated statements of operations.

On October 24, 2011, Company management approved a workforce reduction action under which the Company will record a net pre-tax charge to earnings during the quarter ended December 31, 2011, of approximately \$31 million, comprised of \$27 million of severance costs related to approximately 800 employees impacted by the action and approximately \$4 million of facility exit costs. Both of the Company's business segments (the Mobile Devices business and the Home business), as well as various corporate functions, are impacted by the action and the action affects employees globally. Under the Company's employee severance plan, policies or applicable law, severance payments to employees affected by this action will be made substantially over the next 12 months.

The following table displays the net charges (reversals of accruals) incurred by business segment:

<i>October 1, 2011</i>	<i>Three Months Ended</i>	<i>Nine Months Ended</i>
Mobile Devices	\$	\$(3)
Home		
	\$	\$(3)

The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2011 to October 1, 2011:

	<i>Accruals at January 1, 2011</i>	<i>Additional Charges</i>	<i>Adjustments</i>	<i>Amount Used</i>	<i>Accruals at October 1, 2011</i>
Exit costs	\$12	\$	\$	\$(3)	\$9
Employee separation costs	32	1	(7)	(25)	1
	\$44	\$1	\$(7)	\$(28)	\$10

Adjustments include foreign currency translation adjustments.

*Exit Costs*

At January 1, 2011, the Company had an accrual of \$12 million for exit costs attributable to lease terminations. The \$3 million used reflects cash payments. The remaining accrual of \$9 million, which is included in Accrued liabilities in the Company's condensed consolidated balance sheet at October 1, 2011, represents future cash payments, primarily for lease termination obligations that are expected to be paid over a number of years.

*Employee Separation Costs*

At January 1, 2011, the Company had an accrual of \$32 million for employee separation costs, representing the severance costs for approximately 1,100 employees. The adjustments of \$7 million reflect reversals of accruals no longer needed and the additional charges of \$1 million relate to restructuring actions taken by the Company. During the nine months ended October 1, 2011, approximately 700 employees, of which 200 were direct employees and 500 were indirect employees, were separated from the Company. The \$25 million used reflects cash payments to these separated employees. The remaining accrual of \$1 million is included in Accrued liabilities in the Company's condensed consolidated balance sheet at October 1, 2011.

**Table of Contents**

21

**2010 Activity**

During the three months ended October 2, 2010, the Company recorded net reorganization of business charges of \$18 million, including \$5 million of charges in Costs of sales and \$13 million of charges under Other charges in the Company's condensed consolidated statements of operations. Included in the aggregate \$18 million are charges of \$25 million for employee separation costs, partially offset by \$7 million of reversals for accruals no longer needed.

During the nine months ended October 2, 2010, the Company recorded net reorganization of business charges of \$45 million, including \$11 million of charges in Costs of sales and \$34 million of charges under Other charges in the Company's condensed consolidated statements of operations. Included in the aggregate \$45 million are charges of \$61 million for employee separation costs, partially offset by \$16 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by business segment:

<i>October 2, 2010</i>	<i>Three Months Ended</i>	<i>Nine Months Ended</i>
Mobile Devices	\$13	\$30
Home	5	15
	\$18	\$45

The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2010 to October 2, 2010:

	<i>Accruals at January 1, 2010</i>	<i>Additional Charges</i>	<i>Adjustments</i>	<i>Amount Used</i>	<i>Accruals at October 2, 2010</i>
Exit costs	\$39	\$	\$(3)	\$(17)	\$19
Employee separation costs	33	61	(16)	(47)	31
	\$72	\$61	\$(19)	\$(64)	\$50

Adjustments include foreign currency translation adjustments.

*Exit Costs*

At January 1, 2010, the Company had an accrual of \$39 million for exit costs attributable to lease terminations. There were no material additional charges related to exit costs. The adjustments of \$3 million reflect: (i) \$2 million of reversals of accruals no longer needed, and (ii) \$1 million of foreign currency translation adjustments. The \$17 million used reflects cash payments. The remaining accrual of \$19 million was included in Accrued liabilities in the Company's condensed combined balance sheet at October 2, 2010.

*Employee Separation Costs*

At January 1, 2010, the Company had an accrual of \$33 million for employee separation costs, representing the severance costs for approximately 400 employees. The additional charges of \$61 million represent severance costs for approximately an additional 1,500 employees, of which 500 were direct employees and 1,000 were indirect employees. The adjustments of \$16 million reflect: (i) \$13 million of reversals of accruals no longer needed and (ii) \$3 million of foreign currency translation adjustments. During the nine months ended



## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

October 2, 2010, approximately 900 employees, of which 300 were direct employees and 600 were indirect employees, were separated from the Company. The \$47 million used reflects cash payments to these separated employees. The remaining accrual of \$31 million was included in Accrued liabilities in the Company's combined balance sheet at October 2, 2010.

**Table of Contents**

22

**13. Intangible Assets and Goodwill**  
**Intangible Assets**

Amortized intangible assets were comprised of the following:

	<i>October 1, 2011</i>		<i>December 31, 2010</i>	
	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>
Completed technology	\$510	\$451	\$507	\$418
Licensed technology	106	106	105	105
Patents	97	22	97	16
Customer-related	64	44	62	37
In-process research and development	6		10	
Other intangibles	38	38	38	38
	<b>\$821</b>	<b>\$661</b>	<b>\$819</b>	<b>\$614</b>

Amortization expense on intangible assets, which is included within Other charges, was \$15 million and \$14 million for the three months ended October 1, 2011 and October 2, 2010, respectively. Amortization expense on intangible assets, which is included within Other charges, was \$47 million and \$41 million for the nine months ended October 1, 2011 and October 2, 2010, respectively. As of October 1, 2011, annual amortization expense is estimated to be \$59 million in 2011, \$42 million in 2012, \$33 million in 2013, \$18 million in 2014 and \$12 million in 2015.

During the three months ended April 2, 2011, the Company recorded an impairment of \$4 million related to the abandonment of previously acquired in-process research and development.

Amortized intangible assets, excluding goodwill, by business segment were as follows:

	<i>October 1, 2011</i>		<i>December 31, 2010</i>	
	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>
Mobile Devices	\$149	\$61	\$153	\$53
Home	672	600	666	561
	<b>\$821</b>	<b>\$661</b>	<b>\$819</b>	<b>\$614</b>

**Goodwill**

The following table displays a rollforward of the carrying amount of goodwill by reportable segment from January 1, 2011 to October 1, 2011:

	<i>Mobile Devices</i>	<i>Home</i>	<i>Total</i>
<b>Balances as of January 1, 2011:</b>			
Aggregate goodwill acquired	\$133	\$1,391	\$1,524

Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

Accumulated impairment losses	(55)	(73)	(128)
Goodwill, net of impairment losses	78	1,318	1,396
Goodwill acquired	9	25	34
Adjustments	1		1
<b>Balances as of October 1, 2011:</b>			
Aggregate goodwill acquired	143	1,416	1,559
Accumulated impairment losses	(55)	(73)	(128)
Goodwill, net of impairment losses	\$88	\$1,343	\$1,431

**Table of Contents**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This commentary should be read in conjunction with Motorola Mobility Holdings, Inc.'s (the "Company's") condensed consolidated financial statements for the three and nine months ended October 1, 2011 and October 2, 2010, as well as the Company's combined financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Introduction**

Management's discussion and analysis of financial condition and results of operations ("MD&A") is a supplement to the accompanying condensed consolidated financial statements and provides additional information on Motorola Mobility's business, recent developments, financial condition, liquidity and capital resources, cash flows and results of operations. MD&A is organized as follows:

**Separation from Motorola, Inc.** This section provides a general discussion of our separation from Motorola, Inc., which changed its name to Motorola Solutions, Inc. (hereinafter, our "Former Parent") effective January 4, 2011.

**Merger Agreement with Google Inc.** This section provides a general discussion of our proposed Merger with Google Inc.

**Executive Overview** This section provides a general description of our business, as well as recent developments we believe are important in understanding our results of operations and financial condition or in understanding anticipated future trends.

**Looking Forward** This section provides a discussion of management's general outlook about market demand, competition and product development.

**Results of Operations** This section provides an analysis of our results of operations for the three and nine months ended October 1, 2011 and October 2, 2010.

**Liquidity and Capital Resources** This section provides a discussion of our current financial condition and an analysis of our cash flows for the nine months ended October 1, 2011 and October 2, 2010.

**Significant Accounting Policies** This section identifies and summarizes those accounting policies that significantly impact our reported results of operations and financial condition and require significant judgment or estimates on the part of management in their application.

**Separation from Motorola, Inc.**

On January 4, 2011 (the "Distribution Date"), Motorola Mobility Holdings, Inc. became an independent, publicly traded company as a result of our Former Parent's distribution of its shares of Motorola Mobility to our Former Parent's stockholders. On the Distribution Date, Former Parent

## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

stockholders of record as of the close of business on December 21, 2010 (the Record Date ) received one share of Motorola Mobility common stock for every eight shares of Motorola, Inc. common stock held as of the Record Date (the Distribution ). Motorola Mobility is comprised of Motorola, Inc. s former Mobile Devices and Home businesses. Our Former Parent s Board of Directors approved the distribution of its shares of Motorola Mobility Holdings, Inc. on November 30, 2010. Motorola Mobility Holdings, Inc. was incorporated on May 28, 2010 and is the parent of Motorola Mobility, Inc., our main U.S. wholly owned operating subsidiary through which we conduct substantially all of the business activities discussed in this Form 10-Q. Our Registration Statement on Form 10 was declared effective by the U.S. Securities and Exchange Commission on December 1, 2010. Our common stock began trading regular-way under the ticker symbol MMI on the New York Stock Exchange on January 4, 2011.

**Table of Contents**

24

The Motorola Mobility businesses discussed herein represent the historical operating results and financial condition of Motorola Mobility. For operating results prior to the separation, any references to we, us, Motorola Mobility Holdings, Inc., Motorola Mobility or the Company in the MD&A refer to the Mobile Devices and Home businesses as they operated as a part of our Former Parent prior to the Distribution.

***Merger Agreement with Google Inc.***

On August 15, 2011, Motorola Mobility Holdings, Inc. entered into an Agreement and Plan of Merger (the Merger Agreement) with Google Inc. (Google) and RB98 Inc., a wholly owned subsidiary of Google (Merger Sub). The Merger Agreement provides for the merger of Merger Sub with and into the Company (the Merger), with the Company surviving the Merger as a wholly owned subsidiary of Google. In the Merger, each outstanding share of common stock, par value \$0.01 per share, of the Company, other than any dissenting shares, shares held by Google, Merger Sub, the Company or any of their respective subsidiaries and treasury shares, will be cancelled and converted into the right to receive \$40.00 in cash, without interest. The closing of the Merger is subject to customary closing conditions, including adoption of the Merger Agreement by the Company's stockholders and regulatory approvals.

Under the Merger Agreement, the Company may not solicit competing proposals or participate in any discussions or negotiations regarding alternative business combination transactions, subject to exceptions that permit the Company's Board of Directors to take actions required by their fiduciary duties. The Company may terminate the Merger Agreement under certain specified circumstances, including if its Board of Directors determines in good faith that it has received a superior proposal (as defined in the Merger Agreement), and otherwise complies with certain terms of the Merger Agreement. In connection with a termination to accept a superior proposal, Google will be entitled to a fee of \$375 million. The \$375 million fee is also payable to Google in other limited circumstances involving a competing proposal and termination of the Merger Agreement.

Pursuant to the Merger Agreement, stock options and restricted stock units (RSUs) granted by the Company under the Legacy Incentive Plan as a substitute for Motorola, Inc. stock options, and RSUs granted prior to 2011, will fully vest upon the closing of the transaction and be paid out at \$40 for each RSU, and \$40 minus the exercise price for each stock option, in each case less applicable tax withholdings. Vested stock options and vested RSUs granted under the 2011 Incentive Compensation Plan in 2011 will be paid out at \$40 for each RSU, and \$40 minus the exercise price for each stock option, in each case less applicable tax withholdings. Unvested stock options and unvested restricted stock (RS) and RSUs granted under the 2011 Incentive Compensation Plan in 2011 will be converted to an award of equivalent value in Google stock options, RS and RSUs, respectively. The Merger Agreement and related materials can be found in the Company's SEC filings at [www.sec.gov](http://www.sec.gov).

---

**Table of Contents****Executive Overview****The Company**

Motorola Mobility Holdings, Inc. is a provider of innovative technologies, products and services that enable a range of mobile and wireline digital communication, information and entertainment experiences. The Company's integrated products and platforms deliver rich multimedia content, such as voice, video, messaging and Internet-based applications and services to multiple screens, such as mobile devices, including smartphones and media tablets, televisions and personal computers. Our product portfolio primarily includes mobile devices, wireless accessories, set-top boxes and video distribution systems, and wireline broadband infrastructure products and associated customer premises equipment. We are focused on developing differentiated, innovative products to meet the expanding needs of consumers to communicate, to collaborate and to discover, consume, create and share content at a time and place of their choosing on multiple devices.

We operate our business in two segments. The Mobile Devices segment is focused on mobile wireless devices and related products and services. This segment's net revenues were \$2.4 billion in the third quarter of 2011 and \$2.0 billion in the third quarter of 2010, representing 75% and 69%, respectively, of Motorola Mobility's consolidated net revenues. The Home segment is focused on technologies to provide video entertainment services to consumers by enabling subscribers to access a variety of interactive digital television services. This segment's net revenues were \$825 million in the third quarter of 2011 and \$912 million in the third quarter of 2010, representing 25% and 31%, respectively, of Motorola Mobility's consolidated net revenues.

**Motorola Mobility's Financial Results for the quarter ended October 1, 2011**

*Net Revenues:* Our net revenues were \$3.3 billion in the third quarter of 2011, up 11% compared to net revenues of \$2.9 billion in the third quarter of 2010. Net revenues increased 20% in the Mobile Devices segment and decreased 10% in the Home segment.

*Operating Earnings (Loss):* We incurred an operating loss of \$5 million in the third quarter of 2011, compared to operating earnings of \$6 million in the third quarter of 2010.

*Net Loss:* We incurred a net loss of \$32 million in the third quarter of 2011, compared to net loss of \$34 million in the third quarter of 2010.

*Operating Cash Flows:* We generated \$132 million of net cash from operating activities in the first nine months of 2011, compared to generating \$381 million of net cash from operating activities in the first nine months of 2010.

**Financial results for our two business segments for the quarter ended October 1, 2011**

*In Our Mobile Devices Business:* Net revenues were \$2.4 billion in the third quarter of 2011, an increase of 20% compared to net revenues of \$2.0 billion in the third quarter of 2010. The increase in net revenues was primarily driven by a 28% increase in unit shipments, partially offset by a 6% decrease in average selling price (ASP). We shipped 11.6 million mobile devices in the third quarter of 2011, a 28% increase compared to shipments of 9.1 million mobile devices in third quarter of 2010, and a 5% increase sequentially compared to shipments of 11.0 million mobile devices in the second quarter of 2011. We shipped 4.8 million Android-based smartphones in the third quarter of 2011, a 27% increase compared to shipments of 3.8 million in the third quarter of 2010, and a 10% increase sequentially compared to shipments of 4.4 million in the second quarter of 2011. On a geographic basis, net revenues increased substantially in Latin America, the Europe, Middle East and Africa region (EMEA) and Asia, and decreased in North America.

## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

The segment incurred an operating loss of \$41 million in the third quarter of 2011, compared to an operating loss of \$43 million in the third quarter of 2010. The decrease in operating loss was primarily due to an increase in gross margin, driven by a 20% increase in net revenues, largely offset by an increase in SG&A expenses.



---

**Table of Contents**

26

*In Our Home Business:* Net revenues were \$825 million in the third quarter of 2011, a decrease of 10% compared to net revenues of \$912 million in the third quarter of 2010. The decrease in net revenues in the Home segment was primarily driven by an 11% decrease in net revenues from sales of set-top boxes, reflecting a 3% decrease in shipments of set-top boxes as well as a lower ASP. Net revenues from sales of video and access infrastructure equipment declined 12%. On a geographic basis, net revenues decreased in Asia and North America, partially offset by increased net revenues in EMEA. Net revenues in Latin America remained unchanged.

The segment had operating earnings of \$54 million in the third quarter of 2011, compared to operating earnings of \$49 million in the third quarter of 2010. The increase in operating earnings was primarily due to (i) an increase in gross margin, driven by operational efficiencies, product cost recoveries as well as a favorable product mix shift, (ii) a slight decrease in SG&A expenses, partially offset by an increase in research and development ( R&D ) expenditures.

**Looking Forward**

In August 2011, Motorola Mobility and Google Inc. entered into the Merger Agreement pursuant to which Google will acquire the Company. We currently expect the Merger to be completed by the end of 2011 or early 2012. However, the Merger is subject to various closing conditions, including antitrust clearances in various jurisdictions and other conditions described in the Company's definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on October 14, 2011. It is possible that the failure to timely meet those closing conditions or other factors outside of our control could require us to complete the Merger at a later time or prevent us from completing the Merger altogether.

In our Mobile Devices business, while we expect the overall global mobile device market to remain intensely competitive, we expect annual growth in total industry demand over the next several years, particularly in smartphones and media tablets. Our strategy is focused on developing and marketing a comprehensive smartphone portfolio and strengthening our position in priority markets. Our smartphone priorities and areas of differentiation include the following areas: (i) providing a broad based portfolio of devices at multiple price points and distributed through carriers, distributors and retailers globally, (ii) expanding our portfolio to include 4G LTE devices, (iii) software applications and services for consumers, including cloud based social networking, media and content related experiences, (iv) Webtop, a proprietary software application, and related accessories that enable enhanced and more interactive computer-like user experiences, and (v) enterprise-ready devices that address the security and device management needs required for business use. Our mid- to high-tier feature phone portfolio will be limited given declining global demand in this segment of the handset industry. We will continue to develop and market our iDEN portfolio of devices, although we expect overall annual iDEN unit demand to continue to gradually decline. For lower-priced, voice-centric mobile devices, our portfolio will also be limited as we deliver devices to meet certain market needs. To address a growth opportunity, we are developing a portfolio of media tablets, wireless devices which enable enhanced access to the mobile Internet, content consumption, and enterprise experiences for consumers and business users. We shipped our first LTE-upgradable media tablet, the Motorola XOOM, beginning in the first quarter of 2011. We expect significant annual growth in total industry demand for media tablets over the next several years and for this market to be intensely competitive. Mobile Devices' market priorities continue to be primarily North America, China and Latin America, followed by Western Europe and other strategic markets. With the growth in demand for smartphones and media tablets, and by accelerating our speed to market, providing rich consumer experiences and strengthening our brand, we expect to continue to improve the financial performance in our Mobile Devices business.

In our Home business, industry demand levels in 2011 have been comparable to 2010. We expect a return to industry growth when market conditions improve, particularly in the U.S., which may drive increased consumer demand for high definition TV set-top boxes, whole-home IP-based network solutions, 3D-TV, advanced interactive services and converged experiences. In addition, consumer demand for video services is expected to drive the need for infrastructure equipment to optimize networks and storage, increase bandwidth and provide new services across multiple screens, including smartphones, media tablets and TV's. We will continue

**Table of Contents**

to leverage our market leadership position in set-top boxes and video delivery systems and in intellectual property to develop innovative solutions for new and emerging market opportunities. As we address these opportunities, we will continue to manage our overall cost structure, focus on the profitability of our core business, and position ourselves for profitable growth.

Other opportunities we plan to focus on include those resulting from the convergence of industries like wireless, media, computing and the Internet. These industries are increasingly interacting with each other, which we expect will create demand for new consumer devices, applications and services. We believe we will be well positioned to deliver innovative experiences, both in the home and on the go, across multiple types of devices to address this emerging opportunity.

The Company has an industry leading patent portfolio encompassing many wireless, video, and other innovative technologies. We are involved in significant patent litigation with industry competitors and other relevant patent holders. Several of these matters could be resolved during the remainder of 2011 or the first half of 2012. The outcome of these disputes could have a significant impact on our business and such matters are discussed in Part II, Item 1. Legal Proceedings of the Company's Forms 10-Q and Part I, Item 3. Legal Proceedings of the Company's Form 10-K.

We conduct our business in highly competitive markets, facing both new and established competitors. The markets for many of our products are characterized by rapidly changing technologies, frequent new product introductions, changing consumer trends, short product life cycles and evolving industry standards. Market disruptions caused by new technologies, the entry of new competitors, consolidations among our customers and competitors, changes in regulatory requirements, or other factors, can introduce volatility into our businesses. We face challenging, but relatively stable, global economic conditions in our largest markets. Meeting all of these challenges requires consistent operational planning and execution and investment in technology, resulting in innovative products that meet the needs of our customers around the world. As we execute on meeting these objectives, we remain focused on taking the necessary action to design and deliver differentiated and innovative products, services and experiences that simplify, connect, and enrich people's lives.

**Table of Contents**

28

**Results of Operations**

<i>(Dollars in millions, except per share amounts)</i>	<i>Three Months Ended</i>				<i>Nine Months Ended</i>			
	<i>October 1, 2011</i>	<i>% of Sales</i>	<i>October 2, 2010</i>	<i>% of Sales</i>	<i>October 1, 2011</i>	<i>% of Sales</i>	<i>October 2, 2010</i>	<i>% of Sales</i>
Net revenues	<b>\$3,259</b>		\$2,946		<b>\$9,628</b>		\$8,035	
Costs of sales	<b>2,415</b>	<b>74.1%</b>	2,155	73.2%	<b>7,165</b>	<b>74.4%</b>	5,985	74.5%
<b>Gross margin</b>	<b>844</b>	<b>25.9%</b>	791	26.8%	<b>2,463</b>	<b>25.6%</b>	2,050	25.5%
Selling, general and administrative expenses	<b>426</b>	<b>13.0%</b>	385	13.1%	<b>1,299</b>	<b>13.5%</b>	1,141	14.2%
Research and development expenditures	<b>390</b>	<b>12.0%</b>	373	12.6%	<b>1,142</b>	<b>11.8%</b>	1,112	13.8%
Other charges (income)	<b>33</b>	<b>1.1%</b>	27	0.9%	<b>86</b>	<b>0.9%</b>	(153)	(1.9)%
<b>Operating earnings (loss)</b>	<b>(5)</b>	<b>(0.2)%</b>	6	0.2%	<b>(64)</b>	<b>(0.6)%</b>	(50)	(0.6)%
Other income (expense):								
Interest income (expense), net	<b>7</b>	<b>0.2%</b>	(11)	(0.4)%	<b>10</b>	<b>0.1%</b>	(40)	(0.5)%
Gains on sales of investments	<b>2</b>	<b>0.1%</b>		%	<b>12</b>	<b>0.1%</b>		%
Other, net	<b>(6)</b>	<b>(0.2)%</b>	(2)	(0.0)%	<b>(28)</b>	<b>(0.3)%</b>	(24)	(0.3)%
Total other income (expense)	<b>3</b>	<b>0.1%</b>	(13)	(0.4)%	<b>(6)</b>	<b>(0.1)%</b>	(64)	(0.8)%
Loss before income taxes	<b>(2)</b>	<b>(0.1)%</b>	(7)	(0.2)%	<b>(70)</b>	<b>(0.7)%</b>	(114)	(1.4)%
Income tax expense	<b>30</b>	<b>0.9%</b>	28	1.0%	<b>99</b>	<b>1.1%</b>	55	0.7%
Net loss	<b>(32)</b>	<b>(1.0)%</b>	(35)	(1.2)%	<b>(169)</b>	<b>(1.8)%</b>	(169)	(2.1)%
Less: Loss attributable to non-controlling interests		%	(1)	(0.0)%		%	(3)	(0.0)%
Net loss attributable to Motorola Mobility Holdings, Inc.	<b>\$(32)</b>	<b>(1.0)%</b>	\$(34)	(1.2)%	<b>\$(169)</b>	<b>(1.8)%</b>	\$(166)	(2.1)%

**Three months ended October 1, 2011 compared to three months ended October 2, 2010**

**Net Revenues**

Net revenues were \$3.3 billion in the third quarter of 2011, up 11% compared to net revenues of \$2.9 billion in the third quarter of 2010. The increase in net revenues reflects: (i) a \$400 million, or 20%, increase in net revenues in the Mobile Devices segment, and (ii) a \$87 million, or 10%, decrease in net revenues in the Home segment. The 20% increase in net revenues in the Mobile Devices segment was primarily driven by a 28% increase in unit shipments, partially offset by a 6% decrease in average selling price ( ASP ). The 10% decrease in net revenues in the Home business was primarily driven by an 11% decrease in net revenues from sales of set-top boxes, reflecting a 3% decrease in shipments of set-top boxes as well as a lower ASP.

**Gross Margin**

Gross margin was \$844 million, or 25.9% of net revenues, in the third quarter of 2011, compared to \$791 million, or 26.8% of net revenues, in the third quarter of 2010. The increase in gross margin reflects higher gross margin in both segments. The increase in gross margin in the Mobile Devices segment was primarily driven by the 20% increase in net revenues. The increase in gross margin in the Home segment was primarily

## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

due to operational efficiencies, product cost recoveries and a favorable product mix shift. The decrease in gross margin as a percentage of net revenues in the third quarter of 2011 compared to the third quarter of 2010 reflects a decrease in gross margin percentage in the Mobile Devices segment partially offset by an increase in gross margin percentage in the Home segment. The Company's overall gross margin as a percentage of net revenues can be impacted by the proportion of overall net revenues generated by its two businesses.

---

**Table of Contents***Selling, General and Administrative Expenses*

SG&A expenses increased 11% to \$426 million, or 13.0% of net revenues, in the third quarter of 2011, compared to \$385 million, or 13.1% of net revenues, in the third quarter of 2010. The increase in SG&A expenses reflects higher SG&A expenses in the Mobile Devices segment, partially offset by a slight decrease in SG&A expenses in the Home segment. The increase in the Mobile Devices segment was to support the growth in smartphone volumes. SG&A expenses as a percentage of net revenues increased in the Home segment and decreased in the Mobile Devices segment.

*Research and Development Expenditures*

R&D expenditures increased 4% to \$390 million, or 12.0% of net revenues, in the third quarter of 2011, compared to \$373 million, or 12.6% of net revenues, in the third quarter of 2010. The increase in R&D expenditures reflects higher R&D expenditures in both segments. R&D expenditures as a percentage of net revenues increased in the Home segment and decreased in the Mobile Devices segment. The Company participates in very competitive industries with constant changes in technology and, accordingly, the Company continues to believe that a strong commitment to R&D is required to drive long-term growth.

*Other Charges (Income)*

The Company recorded other charges of \$33 million in the third quarter of 2011, compared to net charges of \$27 million in the third quarter of 2010. The charges in the third quarter of 2011 were comprised of \$18 million of charges related to the proposed Merger with Google and \$15 million of charges relating to the amortization of intangibles. The other charges in the third quarter of 2010 included \$14 million of charges relating to the amortization of intangibles and \$13 million of net reorganization of business charges. The net reorganization of business charges are discussed in further detail in the section entitled "Reorganization of Businesses" included elsewhere within this document.

*Interest Income (Expense), Net*

Net interest income was \$7 million in the third quarter of 2011, compared to net interest expense of \$11 million in the third quarter of 2010. Net interest income in the third quarter of 2011 includes interest income of \$8 million, partially offset by interest expense of \$1 million. Net interest expense in the third quarter of 2010 included interest expense of \$23 million, partially offset by interest income of \$12 million. Prior to separation, our interest income and expense primarily represents amounts allocated from our Former Parent.

*Gains on Sales of Investments*

Gains on sales of investments were \$2 million in the third quarter of 2011. We did not have gains on sales of investments in the third quarter of 2010. In the third quarter of 2011, the net gain was primarily comprised of gains related to sales of securities recorded at cost.

*Other, Net*

Net expense classified as Other, net, as presented in Other income (expense), was \$6 million in the third quarter of 2011, compared to \$2 million in the third quarter of 2010. The net expense in the third quarter of 2011 was primarily comprised of \$8 million of foreign currency costs. The net expense in the third quarter of 2010 was primarily comprised of \$6 million of foreign currency costs.

*Income Tax Expense*

The Company recorded income tax expense of \$30 million in the third quarter of 2011 as compared to \$28 million in the third quarter of 2010. The expense for both the third quarters of 2011 and 2010 was comprised of taxes on foreign earnings and foreign withholding taxes on royalty and other income. The Company has not recorded a tax benefit on its U.S. losses due to its recent history of cumulative U.S. losses.

**Table of Contents**

30

The Company's tax provision may change from period to period based on non-recurring events, such as the settlement of tax audits, changes in valuation allowances and the tax impact of significant unusual or extraordinary items. The Company's tax provision will also change due to the level of pre-tax income or loss and its geographic mix.

*Net Loss*

The Company incurred a loss before income taxes of \$2 million in the third quarter of 2011, compared with a loss before income taxes of \$7 million in the third quarter of 2010. After taxes, and excluding Loss attributable to non-controlling interests, the Company incurred a net loss of \$32 million in the third quarter of 2011, compared to net loss of \$34 million in the third quarter of 2010.

***Nine months ended October 1, 2011 compared to nine months ended October 2, 2010***

*Net Revenues*

Net revenues were \$9.6 billion in the first nine months of 2011, up 20% compared to net revenues of \$8.0 billion in the first nine months of 2010. The increase in net revenues reflects a \$1.6 billion, or 30%, increase in net revenues in the Mobile Devices segment. The 30% increase in net revenues in the Mobile Devices segment was primarily driven by a 5% increase in ASP and by a 23% increase in unit shipments.

*Gross Margin*

Gross margin was \$2.5 billion, or 25.6% of net revenues, in the first nine months of 2011, compared to \$2.1 billion, or 25.5% of net revenues, in the first nine months of 2010. The increase in gross margin reflects higher gross margin in both segments. The increase in gross margin in the Mobile Devices segment was primarily driven by (i) the 30% increase in net revenues and (ii) a favorable product mix, specifically due to increased volume of smartphone devices. The increase in gross margin in the Home segment was primarily due to a favorable product mix shift, operational efficiencies and product cost recoveries. The slight increase in gross margin as a percentage of net revenues in the first nine months of 2011 compared to the first nine months of 2010 reflects an increase in gross margin percentage in the Home segment, almost entirely offset by the decrease in gross margin in the Mobile Devices segment. The Company's overall gross margin as a percentage of net revenues can be impacted by the proportion of overall net revenues generated by its two businesses.

*Selling, General and Administrative Expenses*

SG&A expenses increased 14% to \$1.3 billion, or 13.5% of net revenues, in the first nine months of 2011, compared to \$1.1 billion, or 14.2% of net revenues, in the first nine months of 2010. The increase in SG&A expenses reflects higher SG&A expenses in the Mobile Devices segment. The increase in the Mobile Devices segment was to support the growth in smartphone volumes. SG&A expenses as a percentage of net revenues decreased in both segments.

*Research and Development Expenditures*

R&D expenditures increased 3% to \$1.1 billion, or 11.8% of net revenues, in the first nine months of 2011, compared to \$1.1 billion, or 13.8% of net revenues, in the first nine months of 2010. The increase in R&D expenditures reflects slightly higher R&D expenditures in both segments. R&D expenditures as a percentage of net revenues increased in the Home segment and decreased in the Mobile Devices segment. The Company participates in very competitive industries with constant changes in technology and, accordingly, the Company continues to believe that a strong commitment to R&D is required to drive long-term growth.

---

**Table of Contents**

31

*Other Charges (Income)*

The Company recorded other charges of \$86 million in the first nine months of 2011, compared to other income of \$153 million in the first nine months of 2010. The charges in the first nine months of 2011 were primarily comprised of \$47 million of charges relating to the amortization of intangibles, \$20 million of charges related to a legal claim provision and \$18 million of charges related to the proposed Merger with Google. The other income in the first nine months of 2010 included a \$228 million gain related to a legal settlement, partially offset by: (i) \$41 million of charges relating to the amortization of intangibles and (ii) \$34 million of net reorganization of business charges.

*Interest Income (Expense), Net*

Net interest income was \$10 million in the first nine months of 2011, compared to net interest expense of \$40 million in the first nine months of 2010. Net interest income in the first nine months of 2011 includes interest income of \$18 million, partially offset by interest expense of \$8 million. Net interest expense in the first nine months of 2010 included interest expense of \$64 million, partially offset by interest income of \$24 million. Prior to separation, our interest income and expense primarily represents amounts allocated from our Former Parent.

*Gains on Sales of Investments*

Gains on sales of investments were \$12 million in the first nine months of 2011. We did not have gains on sales of investments in the first nine months of 2010. In the first nine months of 2011, the net gain was primarily comprised of gains related to sales of certain of the Company's available-for-sale securities.

*Other, Net*

Net expense classified as Other, net, as presented in Other income (expense), was \$28 million in the first nine months of 2011, compared to \$24 million in the first nine months of 2010. The net expense in the first nine months of 2011 was primarily comprised of \$30 million of foreign currency costs. The net expense in the first nine months of 2010 was primarily comprised of \$25 million of foreign currency costs.

*Income Tax Expense*

The Company recorded income tax expense of \$99 million in the first nine months of 2011 as compared to \$55 million in the first nine months of 2010. The expense for both the first nine months of 2011 and 2010 was comprised of taxes on foreign earnings and foreign withholding taxes on royalty and other income. The Company has not recorded a tax benefit on its U.S. losses due to its recent history of cumulative U.S. losses.

The Company's tax provision may change from period to period based on non-recurring events, such as the settlement of tax audits, changes in valuation allowances and the tax impact of significant unusual or extraordinary items. The Company's tax provision will also change due to the level of pre-tax income or loss and its geographic mix.

*Net Loss*

The Company incurred a loss before income taxes of \$70 million in the first nine months of 2011, compared with a loss before income taxes of \$114 million in the first nine months of 2010. After taxes, and excluding Loss attributable to non-controlling interests, the Company incurred a net loss of \$169 million in the first nine months of 2011, compared to a net loss of \$166 million in the first nine months of 2010.

The improvement in the loss before income taxes in the first nine months of 2011 compared to the first nine months of 2010 was primarily attributable to a \$413 million increase in gross margin, primarily due to an increase in revenues. The increase in gross margin was partially offset by (i) a \$239 million change in Other charges (income), primarily due to the absence in 2011 of a comparable \$228 million gain related to a legal settlement in 2010, and (ii) a \$158 million increase in SG&A expenses.

**Table of Contents**

32

**Segment Results**

The following commentary should be read in conjunction with the financial results of each operating business segment as detailed in Note 11, *Segment Information*, to the Company's condensed consolidated financial statements as of and for the three months and nine months ended October 1, 2011. Net revenues and operating results for the Company's two operating business segments for the three months and nine months ended October 1, 2011 and October 2, 2010, are presented below.

**Mobile Devices Segment**

The **Mobile Devices** segment designs, manufactures, sells and services wireless mobile devices, including smartphones and media tablets, with integrated software and accessory products, and licenses intellectual property. For the third quarter of 2011, the segment's net revenues represented 75% of the Company's consolidated net revenues, compared to 69% for the third quarter of 2010. For the first nine months of 2011, the segment's net revenues represented 73% of the Company's consolidated net revenues, compared to 67% for the first nine months of 2010.

	<i>Three Months Ended</i>			<i>Nine Months Ended</i>		
	<i>October 1, 2011</i>	<i>October 2, 2010</i>	<i>% Change</i>	<i>October 1, 2011</i>	<i>October 2, 2010</i>	<i>% Change</i>
Segment net revenues	<b>\$2,434</b>	\$2,034	20%	<b>\$6,992</b>	\$5,399	30%
Operating loss	<b>(41)</b>	(43)	(5)%	<b>(215)</b>	(148)	45%

**Three months ended October 1, 2011 compared to three months ended October 2, 2010**

In the third quarter of 2011, the segment's net revenues were \$2.4 billion, an increase of 20% compared to net revenues of \$2.0 billion in the third quarter of 2010. The increase in net revenues was primarily driven by a 28% increase in unit shipments, partially offset by a 6% decrease in average selling price (ASP). On a geographic basis, net revenues increased substantially in Latin America, the Europe, Middle East and Africa region (EMEA) and Asia, and decreased in North America.

The segment incurred an operating loss of \$41 million in the third quarter of 2011, compared to operating loss of \$43 million in the third quarter of 2010. The decrease in operating loss was primarily due to an increase in gross margin, driven by a 20% increase in net revenues, partially offset by an increase in SG&A expenses and research and development (R&D) expenditures. As a percentage of net revenues in the third quarter of 2011 as compared to the third quarter of 2010, gross margin, SG&A expenses and research and development (R&D) expenditures decreased.

The segment's industry typically experiences short life cycles for new products. Therefore, it is vital to the segment's success that new, compelling products are continually introduced. Accordingly, a strong commitment to R&D is required and, even amidst challenging global economic conditions, the segment expects to continue to make the appropriate investments to develop a differentiated product portfolio and fuel long-term growth.

Handset unit shipments in the third quarter of 2011 were 11.5 million units, a 27% increase compared to shipments of 9.1 million units in the third quarter of 2010 and a 9% increase sequentially compared to shipments of 10.6 million units in the second quarter of 2011. Smartphone shipments in the third quarter of 2011 were 4.8 million, a 27% increase compared to shipments of 3.8 million smartphones in the third quarter of 2010 and a 10% increase sequentially compared to shipments of 4.4 million smartphones in the second quarter of 2011. In addition to handsets, we also shipped approximately 100 thousand media tablet units in the third quarter of 2011, an 81% decrease sequentially compared to shipments of 440 thousand units in the second quarter of 2011.

In the third quarter of 2011, segment ASP decreased approximately 6% compared to the third quarter of 2010 and decreased approximately 5% compared to the second quarter of 2011. The decrease in ASP in the third quarter of 2011 as compared to the third quarter of 2010 was driven by regional product mix. ASP is impacted by numerous factors, including product mix, market conditions and competitive product offerings, and ASP trends often vary over time.



**Table of Contents**

33

***Nine months ended October 1, 2011 compared to nine months ended October 2, 2010***

In the first nine months of 2011, the segment's net revenues were \$7.0 billion, an increase of 30% compared to net revenues of \$5.4 billion in the first nine months of 2010. The 30% increase in net revenues was primarily driven by a 5% increase in ASP and by a 23% increase in unit shipments. On a geographic basis, net revenues increased substantially in the Europe, Middle East and Africa region ( EMEA ), Asia and Latin America, and decreased in North America.

The segment incurred an operating loss of \$215 million in the first nine months of 2011, compared to an operating loss of \$148 million in the first nine months of 2010. The increase in the operating loss was primarily due to the absence in 2011 of a comparable \$228 million gain related to a legal settlement in 2010, partially offset by an increase in gross margin. The increase in gross margin in the Mobile Devices segment was primarily driven by (i) the 30% increase in net revenues and (ii) a favorable product mix, specifically due to increased volume of smartphone devices. Also contributing to the increase in operating loss were higher SG&A expenses to support the growth in smartphone volumes. As a percentage of net revenues in the first nine months of 2011 as compared to the first nine months of 2010, gross margin, SG&A expenses and R&D expenditures decreased.

Handset unit shipments in the first nine months of 2011 were 31.2 million units, a 20% increase compared to shipments of 26.0 million units in the first nine months of 2010. Smartphone shipments in the first nine months of 2011 were 13.3 million, a 52% increase compared to shipments of 8.8 million smartphones in the first nine months of 2010. In addition to handsets, we also shipped nearly 800 thousand media tablet units in the first nine months of 2011.

In the first nine months of 2011, segment ASP increased approximately 5% compared to the first nine months of 2010. The increase in ASP in the first nine months of 2011 as compared to the first nine months of 2010 was driven by increased shipments of smartphones and the launch and shipment of media tablets in the first nine months of 2011. ASP is impacted by numerous factors, including product mix, market conditions and competitive product offerings, and ASP trends often vary over time.

***Home Segment***

The **Home** segment designs, manufactures, sells, installs and services set-top boxes for digital video, Internet protocol ( IP ) video, satellite and terrestrial broadcast networks, end-to-end digital video and Internet protocol television ( IPTV ) distribution systems, broadband access network infrastructure platforms, and associated data and voice customer premises equipment and associated software solutions to cable TV and telecommunication service providers. For the third quarter of 2011, the segment's net revenues represented 25% of the Company's consolidated net revenues, compared to 31% for the third quarter of 2010. For the first nine months of 2011, the segment's net revenues represented 27% of the Company's consolidated net revenues, compared to 33% for the first nine months of 2010.

	<i>Three Months Ended</i>			<i>Nine Months Ended</i>		
	<i>October 1, 2011</i>	<i>October 2, 2010</i>	<i>% Change</i>	<i>October 1, 2011</i>	<i>October 2, 2010</i>	<i>% Change</i>
Segment net revenues	\$825	\$912	(10)%	\$2,636	\$2,636	%
Operating earnings	54	49	10%	169	98	72%

***Three months ended October 1, 2011 compared to three months ended October 2, 2010***

In the third quarter of 2011, the segment's net revenues were \$825 million, a decrease of 10% compared to net revenues of \$912 million in the third quarter of 2010. The 10% decrease in net revenues was primarily driven by an 11% decrease in net revenues from sales of set-top boxes, reflecting a 3% decrease in shipments of set-top boxes as well as a lower ASP. Net revenues from sales of video and access infrastructure equipment declined by 12%.

**Table of Contents**

34

Revenues from high definition ( HD ) set-top boxes decreased primarily due to lower shipments to large telecommunication and cable operators in North America as a result of lower demand. On a geographic basis, net revenues decreased in Asia and North America, partially offset by increased net revenues in EMEA. Net revenues in Latin America remained relatively consistent. Net revenues in North America continued to comprise a significant portion of the segment's business, accounting for approximately 73% of the segment's net revenues in the third quarter of 2011, compared to approximately 76% in the third quarter of 2010.

The segment had operating earnings of \$54 million in the third quarter of 2011, compared to operating earnings of \$49 million in the third quarter of 2010. The increase in operating earnings was primarily due to (i) an increase in gross margin, driven by operational efficiencies, product cost recoveries and a favorable product mix shift (ii) a slight decrease in SG&A expenses, partially offset by an increase in research and development ( R&D ) expenditures. As a percentage of net revenues in the third quarter of 2011 as compared to the third quarter of 2010, gross margin, R&D expenditures and SG&A expenses increased.

***Nine months ended October 1, 2011 compared to nine months ended October 2, 2010***

In the first nine months of 2011, the segment's net revenues were \$2.6 billion, which is consistent with the net revenues of \$2.6 billion in the first nine months of 2010. Net revenues from sales of set-top boxes increased by 3%, reflecting an 11% increase in shipments of set-top boxes partially offset by a lower ASP. Net revenues of video and access infrastructure equipment declined by 8%.

Revenues from high definition ( HD ) set-top boxes increased primarily due to higher shipments to large telecommunication and cable operators in North America as a result of higher demand. On a geographic basis, net revenues increased in Latin America and North America, fully offset by the decline in net revenues in EMEA and Asia. Net revenues in North America continued to comprise a significant portion of the segment's business, accounting for approximately 74% of the segment's net revenues in the first nine months of 2011, compared to approximately 73% in the first nine months of 2010.

The segment had operating earnings of \$169 million in the first nine months of 2011, compared to operating earnings of \$98 million in the first nine months of 2010. The increase in operating earnings was primarily due to an increase in gross margin, driven by a favorable product mix shift, operational efficiencies and product cost recoveries. The increase in gross margin was partially offset by an increase in R&D expenditures. As a percentage of net revenues in the first nine months of 2011 as compared to the first nine months of 2010, gross margin and R&D expenditures increased and SG&A expenses decreased.

**Reorganization of Businesses****2011 Activity**

During the three months ended October 1, 2011, the Company recorded no additional charges related to restructuring actions under Other charges in the Company's condensed consolidated statements of operations, and *de minimis* reversals of reorganization of business charges for accruals no longer needed.

During the nine months ended October 1, 2011, the Company recorded \$6 million of net reversals of reorganization of business charges, including \$3 million of Separation-related adjustments for employees that remained with the Former Parent and \$4 million of reversals for accruals no longer needed, partially offset by \$1 million of additional charges related to restructuring actions under Other charges in the Company's condensed consolidated statements of operations.

On October 24, 2011, Company management approved a workforce reduction action under which the Company will record a net pre-tax charge to earnings during the quarter ended December 31, 2011, of approximately \$31 million, comprised of \$27 million of severance costs related to approximately 800 employees impacted by the action and approximately \$4 million of facility exit costs. Both of the Company's business segments (the Mobile Devices business and the Home business), as well as various corporate functions, are impacted by the action and the action affects employees globally. Under the Company's employee severance plan, policies or applicable law, severance payments to employees affected by this action will be made substantially over the next 12 months.

**Table of Contents**

35

The following table displays the net charges (reversals of accruals) incurred by business segment:

<i>October 1, 2011</i>	<i>Three Months Ended</i>	<i>Nine Months Ended</i>
Mobile Devices	\$	\$(3)
Home		
	\$	\$(3)

Cash payments for exit costs and employee separations in connection with reorganization plans were \$28 million during the nine months ended October 1, 2011. The \$10 million reorganization of businesses accrual at October 1, 2011, includes (i) \$1 million relating to employee separation costs that are expected to be paid in 2011 and (ii) \$9 million relating to lease termination obligations that are expected to be paid over a number of years.

**2010 Activity**

During the three months ended October 2, 2010, the Company recorded net reorganization of business charges of \$18 million, including \$5 million of charges in Costs of sales and \$13 million of charges under Other charges in the Company's condensed consolidated statements of operations. Included in the aggregate \$18 million are charges of \$25 million for employee separation costs, partially offset by \$7 million of reversals for accruals no longer needed.

During the nine months ended October 2, 2010, the Company recorded net reorganization of business charges of \$45 million, including \$11 million of charges in Costs of sales and \$34 million of charges under Other charges in the Company's condensed consolidated statements of operations. Included in the aggregate \$45 million are charges of \$61 million for employee separation costs, partially offset by \$16 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by business segment:

<i>October 2, 2010</i>	<i>Three Months Ended</i>	<i>Nine Months Ended</i>
Mobile Devices	\$13	\$30
Home	5	15
	\$18	\$45

Cash payments for exit costs and employee separations in connection with reorganization plans were \$64 million during the nine months ended October 2, 2010.

**Liquidity and Capital Resources**

As highlighted in the condensed consolidated statements of cash flows, the Company's liquidity and available capital resources are impacted by four key components: (i) cash and cash equivalents, (ii) operating activities, (iii) investing activities, and (iv) financing activities.

**Cash and Cash Equivalents and Cash Deposits**

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 October 1, 2011. At October 1, 2011, \$2.1 billion of this amount was held in the U.S. and \$1.0 billion was held by the Company or its subsidiaries in other countries. Our intent is to indefinitely reinvest a portion of our earnings from foreign operations. The Company has

## Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

sufficient U.S. cash and cash equivalents to fund its U.S. operations, without the need for funds from foreign operations. In

**Table of Contents**

36

the event funds from foreign operations are needed to fund operations or other strategic initiatives in the U.S., the Company may incur foreign withholding tax costs in order to distribute the earnings and cash back to the U.S. The Company would not incur a U.S. tax liability as a result of the distribution given its available U.S. tax attributes.

At October 1, 2011, Cash deposits were \$181 million. At October 1, 2011, \$21 million of this amount was current and included in Other current assets in the Company's condensed consolidated balance sheet (all of which was held in the U.S.) and \$160 million of this amount was non-current (including \$155 million held outside the U.S.).

Prior to separation, the Company participated in our Former Parent's cash management program. Our Former Parent primarily used a worldwide, centralized approach to cash management in which cash accounts are principally consolidated on a daily basis. Therefore, the financing of the Company's operations and the related activity between the Company and our Former Parent prior to the separation is reflected as Net transfers from (to) Motorola, Inc. in our combined statements of business equity and of cash flows. As a result, the Company has recorded no cash, cash equivalents or cash deposits on its combined balance sheet prior to separation.

***Deferred Contribution from Former Parent***

Our Former Parent agreed to contribute to us an additional \$300 million in cash if and when our Former Parent receives cash distributions as a result of the reduction in registered capital of an overseas subsidiary (the *Deferred Contribution*). On July 22, 2011, we received our first *Deferred Contribution* of \$75 million from our Former Parent. This contribution is presented as cash provided by financing activities in the third quarter of 2011.

***Operating Activities***

The net cash generated from operating activities in the first nine months of 2011 was \$132 million, compared to \$381 million of cash generated from operating activities in the first nine months of 2010. The primary contributors to the net cash generation in the first nine months of 2011 were: (i) a \$125 million increase in accounts payable and accrued liabilities, (ii) a \$96 million net increase in other assets and liabilities, (iii) an \$80 million decrease in net inventories, and (iv) the net loss (adjusted for non-cash items) of \$77 million, partially offset by a \$246 million increase in net accounts receivable. The primary contributors to the net cash generation in the first nine months of 2010 were: (i) an \$686 million increase in accounts payable and accrued liabilities, and (ii) net earnings (adjusted for non-cash items) of \$135 million, which included the receipt of \$175 million in cash related to a legal settlement, partially offset by: (i) a \$225 million increase in net accounts receivable, (ii) a \$166 million increase in net inventories, and (iii) a \$42 million net increase in other assets and liabilities.

*Accounts Receivable:* The Company's net accounts receivable were \$1.8 billion at October 1, 2011, compared to \$1.6 billion at December 31, 2010. Compared to December 31, 2010, net accounts receivable at October 1, 2011 were higher in the Mobile Devices segment and lower in the Home segment. The Company's businesses sell their products in a variety of markets throughout the world and payment terms can vary by market type and geographic location. Accordingly, the Company's levels of net accounts receivable can be impacted by the timing and level of sales that are made by its various businesses and by the geographic locations in which those sales are made.

As further described below under *Sales of Receivables*, from time to time, the Company elects to sell accounts receivable to third-parties. The Company's levels of net accounts receivable can be impacted by the timing and amount of such sales, which can vary by period and can be impacted by numerous factors.

*Inventories:* The Company's net inventories were \$746 million at October 1, 2011, compared to \$843 million at December 31, 2010. The decrease in the Company's net inventories was reflective of a decrease in both segments, primarily driven by the Home segment. Inventory reserves decreased by \$166 million in the first nine months of 2011 primarily due to the scrapping of excess and obsolete inventory. Inventory management continues to be an area of focus as the Company balances the need to maintain strategic inventory levels to

---

**Table of Contents**

37

ensure delivery to its customers against the risk of inventory excess and obsolescence due to rapidly changing technology and customer demand.

*Accounts Payable:* The Company's accounts payable were approximately \$1.7 billion at both October 1, 2011 and December 31, 2010. Accounts payable increased in the Mobile Devices segment and decreased in the Home segment. The Company buys products in a variety of markets throughout the world and payment terms can vary by market type and geographic location. Accordingly, the Company's levels of accounts payable can be impacted by the timing and level of purchases made by its various businesses and by the geographic locations in which those purchases are made.

*Reorganization of Businesses:* The Company has implemented reorganization of businesses plans. Cash payments for exit costs and employee separations in connection with a number of these plans were \$28 million in the first nine months of 2011, as compared to \$64 million in the first nine months of 2010. Of the \$10 million reorganization of businesses accrual at October 1, 2011, \$1 million relates to employee separation costs that are expected to be paid over the remainder of 2011. The remaining \$9 million in accruals relate to lease termination obligations that are expected to be paid over a number of years.

**Investing Activities**

Net cash used for investing activities was \$191 million in the first nine months of 2011, compared to net cash used of \$121 million in the first nine months of 2010. The \$70 million increase in net cash used for investing activities was primarily due to a \$68 million increase in capital expenditures.

*Acquisitions and Investments:* The Company used \$65 million of cash for acquisitions and new investment activities in the first nine months of 2011, compared to cash used of \$66 million in the first nine months of 2010. The cash used in the first nine months of 2011 and 2010 was primarily for small strategic acquisitions and investments across the Company.

*Proceeds from Sales of Investments:* The Company received \$29 million of cash as proceeds from the sale of investments in the first nine months of 2011 compared to \$12 million in the first nine months of 2010. The proceeds received during the first nine months of 2011 are primarily related to the disposal of the available-for-sale equity securities portfolio.

*Capital Expenditures:* Capital expenditures were \$136 million in the first nine months of 2011, compared to \$68 million in the first nine months of 2010. The Company's emphasis in making capital expenditures is to focus on strategic investments driven by customer demand, new design capability and process improvements, including IT systems.

*Cash deposits:* The Company made cash deposits of \$24 million in the first nine months of 2011, compared to no cash deposits being made in the first nine months of 2010. The cash deposits made in the first nine months of 2011 were primarily related to supply chain activities.

*Investments:* The Company views its investments as an additional source of liquidity. The majority of these securities are available-for-sale and cost-method investments in technology companies. The fair market values of these securities are subject to substantial price volatility. In addition, the realizable values of these securities are subject to market and other conditions. At October 1, 2011, the Company did not have an available-for-sale equity securities portfolio. At December 31, 2010, the Company's available-for-sale equity securities portfolio had an approximate fair market value of \$21 million, comprised of a cost basis of \$7 million and a net unrealized gain of \$14 million. The Company's available-for-sale investments are included in Investments in the Company's condensed consolidated balance sheets.

**Financing Activities**

Net cash provided by financing activities was \$3.2 billion in the first nine months of 2011, compared to \$293 million of net cash used in the first nine months of 2010. Cash provided by financing activities in the first nine months of 2011 was primarily comprised of \$3.0 billion of cash and cash equivalents received from our Former Parent at the time of the Distribution and an additional \$75 million of cash received during the third

---

**Table of Contents**

38

quarter. The contribution from our Former Parent also included \$168 million of cash deposits, primarily related to various legal disputes, which are included in Cash deposits in the Company's condensed consolidated balance sheet at October 1, 2011. Cash used for financing activities in the first nine months of 2010 was due to net cash transfers to our Former Parent.

Our Former Parent primarily used a worldwide centralized approach to cash management and the financing of its operations with all related activity, prior to separation, between the Company and our Former Parent reflected as equity transactions in Owner's net investment in the Company's combined balance sheets. When necessary, our Former Parent had provided the Company funds for its operating cash needs. The Company's funds in excess of working capital needs had been advanced to our Former Parent. Intercompany accounts were maintained for such borrowings that occur between the Company's operations and our Former Parent. Types of intercompany transactions between the Company and our Former Parent included: (i) cash deposits from the Company's businesses which were transferred to our Former Parent on a regular basis, (ii) cash borrowings from our Former Parent used to fund operations, capital expenditures or acquisitions, (iii) charges (benefits) for income taxes, and (iv) allocations of our Former Parent's corporate expenses described elsewhere in this document. For purposes of the combined statements of cash flows prior to the separation, the Company reflected intercompany activity as a financing activity. The net cash transferred to our Former Parent was \$293 million in the first nine months of 2010.

***Credit Facilities***

On January 4, 2011, the Company entered into a \$500 million unsecured three-year credit agreement (the "Credit Agreement") with a syndicate of lenders. The Credit Agreement provides for a revolving credit facility and a letter of credit facility, is guaranteed by certain of the Company's subsidiaries, and contains restrictive covenants. The Company may use any borrowings under the Credit Agreement for general corporate purposes. No obligations are outstanding under the Credit Agreement as of October 1, 2011.

Our ability to obtain standby letters of credit, performance bonds, surety bonds (collectively referred to as "Letters of Credit"), credit facilities, and foreign exchange lines primarily depends upon our capitalization, working capital, past performance, management expertise and reputation, and certain external factors, including the condition of the capital markets, the overall capacity of Letters of Credit and foreign exchange markets. Financial institutions providing these instruments consider such factors in relationship to their underwriting/credit standards, which may change from time to time.

***Sales of Receivables***

Prior to separation, our Former Parent sold accounts receivable generated from its business units to third-parties in transactions that qualified as true-sales. Through separation, the Company's businesses participated in this activity by transferring certain of their accounts receivable balances to our Former Parent. The Company also has agreements under which the Company sells its accounts receivable directly to a third party in transactions that qualify as true sales.

For the three months ended October 1, 2011 and October 2, 2010, total accounts receivable sold by the Company were \$43 million and \$57 million, respectively. For the nine months ended October 1, 2011 and October 2, 2010, total accounts receivable sold by the Company were \$140 million and \$173 million, respectively. As of October 1, 2011, there were no accounts receivable outstanding under these programs for which the Company retained servicing obligations, compared to \$43 million at December 31, 2010.

***Other Contingencies***

***Potential Contractual Damage Claims in Excess of Underlying Contract Value:*** In certain circumstances, our businesses may enter into contracts with customers pursuant to which the damages that could be claimed by the other party for failed performance might exceed the revenue Motorola Mobility receives from the contract. Contracts with these types of uncapped damage provisions are fairly rare, but individual contracts could still represent meaningful risk. There is a possibility that a damage claim by a counterparty to one of these

**Table of Contents**

contracts could result in expenses to Motorola Mobility that are far in excess of the revenue received from the counterparty in connection with the contract.

*Indemnification Provisions:* Motorola Mobility may provide indemnifications for losses associated with indemnification and/or warranty provisions contained in certain commercial and intellectual property agreements. Historically, Motorola Mobility has not made significant payments under these indemnifications. However, there is an increasing risk in relation to intellectual property indemnities given the current legal climate. In particular, two customers of the Company have made indemnification demands of the Company related to patent infringement claims by TiVo, Inc. against our products.

Generally, in indemnification cases, payment by Motorola Mobility is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow Motorola Mobility to challenge the other party's claims. Further, Motorola Mobility's obligations under these agreements for indemnification are generally limited in terms of duration, typically not more than 24 months, and for amounts not in excess of the contract value, except with respect to certain intellectual property infringement claims. In some instances, Motorola Mobility may have recourse against third-parties for certain payments made by Motorola Mobility.

Furthermore, pursuant to the Master Separation and Distribution Agreement and certain other agreements with our Former Parent, Motorola Mobility agreed to indemnify our Former Parent for certain liabilities, and our Former Parent agreed to indemnify Motorola Mobility for certain liabilities, in each case for uncapped amounts.

*Legal Matters:* The Company is involved in various lawsuits, claims and investigations arising in the normal course of business and relating to our business. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on Motorola Mobility's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved. See Item 1. Legal Proceedings for more details.

*Tax and Regulatory Proceedings in Brazil:* The Company had approximately \$150 million of cash deposits, including accrued interest, related to various legal disputes in Brazil. The cash deposit balance decreased during the third quarter primarily related to foreign currency exchange rate fluctuations in Brazil. The balance may increase at some point in 2012 because a trade compliance matter is pending in the intermediate administrative level. If we receive an adverse ruling and are forced to continue to dispute the matter in Brazil's judicial system, we may be required to deposit approximately \$320 million, based on the exchange rate in effect at October 1, 2011, of additional collateral with the Brazil judicial system, which could be in the form of cash, bank or insurance bonds or pledged assets.

**Significant Accounting Policies**

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following significant accounting policies require significant judgment and estimates:

Revenue recognition

Warranty reserves



**Table of Contents**

40

Inventory valuation

Income taxes

Restructuring activities

Valuation and recoverability of goodwill

Valuation and recoverability of long-lived assets

*Recently Issued Accounting Pronouncements*

In May 2011, the FASB issued authoritative guidance that changes the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. The guidance also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively during interim and annual periods beginning after December 15, 2011. The Company anticipates that the adoption of this standard will not materially expand its consolidated financial statement footnote disclosures or change the way it measures fair value.

In June 2011, the FASB issued authoritative guidance which amends current comprehensive income guidance. This guidance eliminates the option to present the components of comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for the Company during the interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not have an impact on the Company's consolidated statements of operations, balance sheets or cash flows as it only requires a change in the format of the current presentation.

In September 2011, the FASB issued new accounting guidance intended to simplify goodwill impairment testing. The Company will be allowed to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company expects to early adopt this guidance in the fourth quarter effective October 2, 2011 for its fiscal 2011 annual impairment test. The Company does not expect the adoption of this guidance will have a material impact on our results of operations or financial position.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk****Derivative Financial Instruments***Foreign Currency Risk*

The Company uses financial instruments to reduce its overall exposure to the effects of currency fluctuations on cash flows. The Company's policy prohibits speculation in financial instruments for profit on exchange rate price fluctuations, trading in currencies for which there are no underlying exposures, or entering into transactions for any currency to intentionally increase the underlying exposure. Instruments that are designated as part of a hedging relationship must be effective at reducing the risk associated with the exposure being hedged and are designated as part of a hedging relationship at the inception of the contract. Accordingly, changes in the market values of hedge instruments must be highly correlated with changes in market values of the underlying hedged items both at the inception of the hedge and over the life of the hedge contract.

The Company's strategy related to foreign exchange exposure management is to offset the gains or losses on the financial instruments against losses or gains on the underlying operational cash flows or investments based on the operating business units' assessment of risk. The Company enters into derivative contracts for some of the Company's non-functional currency receivables and payables, which are primarily denominated in major currencies that can be traded on open markets. The Company typically uses forward contracts and options to hedge these currency

exposures. In addition, the Company enters into derivative

**Table of Contents**

41

contracts for some firm commitments and some forecasted transactions, which are designated as part of a hedging relationship if it is determined that the transaction qualifies for hedge accounting under the provisions of the authoritative accounting guidance for derivative instruments and hedging activities. A portion of the Company's exposure is from currencies that are not traded in liquid markets and these are addressed, to the extent reasonably possible, by managing net asset positions, product pricing and component sourcing.

As of October 1, 2011 and December 31, 2010, the Company had outstanding foreign exchange contracts with notional values totaling \$265 million and \$608 million, respectively. Management believes that these financial instruments should not subject the Company to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset losses and gains on the underlying assets, liabilities and transactions, except for the ineffective portion of the instruments, which are charged to Other within Other income (expense) in the Company's condensed consolidated statements of operations.

The following table shows the five largest net notional amounts of the positions to buy or sell foreign currency as of October 1, 2011 and the corresponding positions as of December 31, 2010:

<i>Net Buy (Sell) by Currency</i>	<i>Notional Amount</i>	
	<i>October 1, 2011</i>	<i>December 31, 2010</i>
Canadian Dollar	\$25	\$35
Indian Rupee	(25)	(43)
Chinese Yuan	(29)	14
Euro	(66)	(54)
Japanese Yen	(67)	(5)
<i>Brazil Functional Currency</i>		

Effective July 3, 2011, based on cumulatively significant changes in economic facts and circumstances, the Company determined that for purposes of financial statement translation the local Brazilian currency should be the functional currency of the Company's wholly owned Brazilian subsidiary, Motorola Industrial Ltda. Prior to July 3, 2011, the functional currency was the U.S. dollar. As a result of this change, there was an immaterial adjustment to the previously reported values of non-monetary assets offset by an adjustment to the Foreign currency translation adjustment, a component of accumulated other comprehensive loss in Stockholders' equity in the condensed consolidated balance sheets. As a result of this change in the functional currency, for financial periods beginning on or after July 3, 2011, changes in the Brazilian exchange rates will result in gains or losses, which will be recorded in Other, net in the condensed consolidated statements of operations related to the revaluation of U.S. dollar denominated monetary assets and liabilities, such as cash and cash equivalents and accounts payable held by our Brazilian subsidiary.

*Interest Rate Risk*

At October 1, 2011 and December 31, 2010, the Company did not have any interest rate agreements in place.

*Counterparty Risk*

The use of derivative financial instruments exposes the Company to counterparty credit risk in the event of nonperformance by counterparties. However, the risk is limited to the fair value of the instruments when the derivative is in an asset position. At the present time, all of the counterparties have investment grade credit ratings. As of October 1, 2011 the Company was exposed to an aggregate credit risk of approximately \$14 million with all counterparties.

---

**Table of Contents**

42

*Fair Value of Financial Instruments*

The Company's financial instruments include accounts receivable, accounts payable, accrued liabilities, derivative financial instruments and other financing commitments. The Company's available-for-sale investment portfolios and derivative financial instruments are recorded in the Company's condensed consolidated balance sheets at fair value. All other financial instruments are carried at cost, which is not materially different than the instruments' fair values.

*Forward-Looking Statements*

Except for historical matters, the matters discussed in this Form 10-Q are forward-looking statements within the meaning of applicable federal securities law. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and generally include words such as believes, expects, intends, anticipates, estimates and similar expressions. We can give no assurance that any future results or events discussed in these statements will be achieved. Any forward-looking statements represent our views only as of today and should not be relied upon as representing our views as of any subsequent date. Readers are cautioned that such forward-looking statements are subject to a variety of risks and uncertainties that could cause our actual results to differ materially from the statements contained in this Form 10-Q. Forward-looking statements include, but are not limited to, for example: (1) our business strategies, plans and objectives, including the anticipated impact of such strategies, plans and objectives; (2) our future operating and financial performance; (3) our future investment strategies; (4) future levels of revenues, operating margins, income from operations, net income, earnings per share and other financial information; (5) expectations regarding the Company's ability to finance its operations and its ability to obtain, and the cost of, letters of credit, credit facilities and foreign exchange lines; (6) future hedging activities; (7) anticipated levels of demand for our products and services; (8) expectations regarding our research and development activities and intellectual property, including expectations regarding the competitiveness of the patent portfolio; (9) expectations regarding patent litigation, including trends and the impact and timing of a potentially negative result for the Company; (10) the success or timing of completion of ongoing or anticipated capital or maintenance projects; (11) expectations regarding opportunities for growth; (12) expectations regarding availability of materials and components, energy supplies and labor; (13) the resolution, potential effects and timing of judicial or other proceedings on our business, financial condition, results of operations, cash flows and liquidity; (14) the potential effect of the financial markets on our business, financial condition, results of operations, cash flows and liquidity; (15) the anticipated effects of actions of third-parties such as competitors, counterparties, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation; and (16) statements that describe the proposed Merger transaction with Google, including its financial impact, and other statements of management's beliefs, intentions or goals. Motorola Mobility undertakes no obligation to publicly update any forward-looking statement or risk factor, whether as a result of new information, future events or otherwise, except as required by law.

*Some of the risk factors that affect the Company's business and financial results are discussed in Item 1A: Risk Factors on pages 13 through 34 of our 2010 Annual Report on Form 10-K and in Item 1A: Risk Factors in this Quarterly Report on Form 10-Q. We wish to caution the reader that the risk factors discussed in each of these documents and those described in our other Securities and Exchange Commission filings, could cause our actual results to differ materially from those stated in the forward-looking statements.*

**Item 4. Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this quarterly report (the Evaluation Date). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls

**Table of Contents**

and procedures were effective such that the information relating to Motorola Mobility, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission ( SEC ) reports, is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to Motorola Mobility s management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting.* Except as described below, there have been no changes in our internal control over financial reporting that occurred during the quarter ended October 1, 2011, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

The Company has an ongoing initiative to upgrade its enterprise resource planning (ERP) system. The upgrade, which began during 2010, will be implemented in stages over multiple years. Management believes that necessary procedures are in place to maintain effective internal control over financial reporting during the upgrade process. The procedures include pre-implementation planning, design and testing, as well as extensive planned post-implementation monitoring and testing of the effectiveness of internal control over financial reporting in the upgraded ERP environment. To date, the Company has not identified any significant internal control issues in connection with the implementation or operation of the ERP system upgrade.

**Table of Contents**

44

**Part II Other Information****Item 1. Legal Proceedings***Personal Injury Cases**Cases relating to Wireless Telephone Usage**Farina v. Nokia, Inc., et al.*

On April 19, 2001, *Farina v. Nokia, Inc., et al.*, was filed in the Pennsylvania Court of Common Pleas, Philadelphia County. *Farina*, filed on behalf of a Pennsylvania class, claimed that the failure to incorporate a remote headset into cellular phones or warning against using a phone without a headset rendered the phones defective by exposing users to alleged biological injury and health risks and sought compensatory damages and injunctive relief. After removal to federal court, transfer and consolidation with now-dismissed similar cases, an appeal, remand to state court and a second removal, the case proceeded in the federal district court in Philadelphia. The original complaint was amended to add allegations that cellular telephones sold without headsets are defective because they present a safety risk when used while driving. In the current complaint, Plaintiff seeks actual damages in the form of the greater of \$100 or the difference in value of a Motorola phone as delivered and with a headset, the amount necessary to modify the phones to permit safe use, out of pocket expenses, including the purchase of headsets, treble damages and attorney's fees and costs. On September 2, 2008, the federal district court in Philadelphia dismissed the *Farina* case, finding that the complaint is preempted by federal law. On October 22, 2010, the U.S. Court of Appeals for the Third Circuit affirmed the dismissal of the complaint. On February 22, 2011, Plaintiff filed a petition for writ of certiorari to the U.S. Supreme Court. On October 3, 2011, the U.S. Supreme Court denied plaintiff's petition for writ of certiorari. The decision of the Court of Appeals dismissing the complaint is final.

*Patent Related Cases**Microsoft Corporation v. Motorola, Inc.*

On October 1, 2010, Microsoft Corporation ( Microsoft ) filed complaints against Motorola, Inc. in the International Trade Commission ( ITC ) and the United States District Court for the Western District of Washington ( District Court ) alleging patent infringement based on products manufactured and sold by Motorola, Inc. The ITC matter is entitled *In the Matter of Mobile Devices, Associated Software, and Components Thereof* (Inv. No. 337-TA-744). On October 6, 2010 and October 12, 2010, Microsoft amended the District Court and ITC complaints, respectively, to add Motorola Mobility, Inc. as a defendant. The complaints, as amended, allege infringement of claims in nine patents based on Motorola, Inc.'s and Motorola Mobility, Inc.'s manufacture and sale of Android-based mobile phones. The ITC complaint seeks exclusion and cease and desist orders. On November 5, 2010, the ITC instituted the investigation. Microsoft subsequently dropped its patent infringement claims with respect to two patents in the ITC investigation. The District Court complaint seeks unspecified monetary damages and injunctive relief.

On November 9, 2010, Microsoft filed a complaint in the United States District Court for the Western District of Washington against Motorola, Inc. and Motorola Mobility, Inc. (the Motorola Defendants ) alleging that the Motorola Defendants breached a contractual obligation to license certain patents related to 802.11 wireless networking technology and H.264 video coding technology on reasonable and non-discriminatory terms and conditions. The complaint seeks unspecified monetary damages and injunctive relief including a declaration that the Motorola Defendants have not offered royalties to Microsoft under reasonable rates with reasonable terms and conditions that are demonstrably free of any unfair discrimination. On February 23, 2011, Microsoft amended the complaint to add General Instrument Corporation (our indirect wholly-owned subsidiary) as a defendant.

In November 2010, Motorola Mobility, Inc. and General Instrument Corporation (our indirect wholly-owned subsidiary) filed complaints alleging patent infringement against Microsoft in the ITC and in the U.S. District Courts for the Southern District of Florida, *Motorola Mobility, Inc. v. Microsoft Corporation*, and the

**Table of Contents**

Western District of Wisconsin, *Motorola Mobility, Inc. and General Instrument Corporation v. Microsoft Corporation* and *Motorola Mobility, Inc. and General Instrument Corporation v. Microsoft Corporation*. The ITC matter is entitled *In the Matter of Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof* (Inv. No. 337-TA-752). Among the complaints, Motorola Mobility, Inc. and General Instrument Corporation are asserting infringement of claims in seventeen patents by Microsoft's PC and Server software, Windows mobile software and Xbox products. The ITC complaint seeks exclusion and cease and desist orders. On December 23, 2010, the ITC instituted the investigation. The District Court complaints seek monetary damages and injunctive relief. In December 2010 and February 2011, Motorola Mobility, Inc. subsequently asserted claims of four additional patents in the Western District of Wisconsin, *Motorola Mobility, Inc. v. Microsoft Corporation*.

Between December 23, 2010 and January 25, 2011, Microsoft filed counterclaims against Motorola Mobility, Inc. in these actions, alleging infringement of a total of fourteen additional Microsoft patents. Three of the complaints filed by Motorola Mobility, Inc. and General Instrument Corporation in the Western District of Wisconsin and the Southern District of Florida have been transferred to the U.S. District Court for the Western District of Washington.

On June 24, 2011, Motorola Mobility, Inc. filed counterclaims against Microsoft Corporation in the ITC proceeding which we subsequently removed to the Northern District of California, and instituted a new action in the Northern District of California, *Motorola Mobility, Inc. v. Microsoft Corporation*, alleging that Microsoft Corporation breached commitments to license certain patents. The counterclaims include breach of contract, promissory estoppel, violation of Section 2 of the Sherman Act and unfair competition.

In July 2011, Motorola Mobility, Inc. and General Instrument Corporation filed patent infringement complaints in Mannheim, Germany alleging that Microsoft Deutschland GmbH infringes four patents owned by Motorola Mobility, Inc. and General Instrument Corporation.

In September 2011, Microsoft filed patent infringement complaints in Munich, Germany alleging that Motorola Mobility Germany GmbH infringe three utility patents owned by Microsoft.

*ITC Matters Generally*

In our rapidly evolving and highly competitive industry, companies invest heavily in developing and acquiring intellectual property rights to seek incremental advantages in the marketplace. Such companies also vigorously pursue and protect their intellectual property rights with patent litigation. The ITC (U.S. International Trade Commission) has increasingly become an important forum to litigate intellectual property disputes because an ultimate loss for a company or its suppliers in an ITC action could result in a prohibition on importing infringing products into the U.S.

As previously disclosed, we are currently engaged in significant patent litigation with Microsoft and Apple in many different forums within and outside the U.S., including in the ITC. We expect results on the Microsoft matter at the ITC in April 2012 and on the Apple matter at the ITC in May 2012, each with a sixty-day presidential review period thereafter. The Company and several of our chip suppliers are also facing an ITC matter brought by Rambus, as discussed in the Company's Annual Report on Form 10-K, and a result is expected at the ITC in May 2012 with a sixty-day presidential review period thereafter. An ultimate loss for the Company or its suppliers in an ITC action could result in a prohibition on importing infringing products or products incorporating infringing components into the U.S. In light of the U.S. being a very important market and our substantial manufacturing operations overseas, a prohibition on importation could have a significant negative impact on the Company, including the inability to import many important products into the U.S. The impact also could necessitate workarounds to shift to non-infringing products or limit certain features of our products. Such patent litigation could also result in increased costs for the Company associated with damages, development of non-infringing products, licenses to the subject intellectual property or, when applicable, difficulties seeking indemnification from suppliers. It may also result in our competitors obtaining additional freedom of action. Intellectual property risks are further discussed in Part I. Item 1A. Risk Factors in the Company's Annual Report on Form 10-K.

**Table of Contents**

46

***Tax Proceedings in Brazil***

Brazilian tax authorities have proposed assessments against the Company's Brazilian subsidiary relating to various technology transfer taxes, duties, value added taxes, certain other taxes and labor related matters related to the subsidiary's operations for calendar years 1997 through 2010. As of October 1, 2011, these assessments collectively represent reasonably possible loss contingencies under the applicable accounting standards of up to approximately \$466 million, based on the exchange rate in effect at October 1, 2011, including interest and penalties. However, the Company is vigorously disputing these matters, believes it has valid defenses that are supported by the law, and believes that this amount is not a meaningful indicator of liability. These matters are progressing through the multiple levels of administrative and judicial review available in Brazil. Although we are vigorously disputing these matters, in the event of a loss of these matters at the intermediate administrative level, in order to continue to dispute the matters in Brazil's judicial system, the Company may be required to deposit additional cash, bank or insurance bonds or pledge assets while the underlying matter is pending judicial review to cover an amount equal to the full value of the alleged tax assessment plus penalties and interest, which may negatively impact the Company's cash liquidity, potentially significantly in some cases. Due to the complexities and uncertainty surrounding the administrative and judicial process in Brazil and the nature of the claims asserted, we do not expect a final resolution of these matters for several years.

***Merger Related Litigation***

Sixteen putative class-action complaints challenging the proposed Google Merger have been filed against Motorola Mobility and its directors. Four of these complaints were filed in the Circuit Court of Cook County, Illinois: *Keating v. Motorola Mobility Holdings, Inc. et al.*, Case No. 11CH28854, *Cinotto v. Motorola Mobility Holdings, Inc. et al.*, Case No. 11CH29297, *Grossman v. Motorola Mobility Holdings, Inc. et al.*, Case No. 11CH29738, and *Colaco v. Barfield et al.*, Case No. 11CH30541. Eight additional putative class-action complaints were filed in the Circuit Court of the Nineteenth Judicial District, Lake County, Illinois: *Groveman and Schnider v. Motorola Mobility Holdings, Inc. et al.*, Case No. 11CH3719, *Johnson v. Jha et al.*, Case No. 11CH3751, *Midler v. Motorola Mobility Holdings Inc. et al.*, Case No. 11CH3783, *Mulholland and Ryan v. Motorola Mobility Holdings, Inc. et al.*, Case No. 11CH3816, *Iron Workers District Council of Tennessee Valley & Vicinity Pension Plan v. Motorola Mobility Holdings, Inc., et al.*, Case No. 11CH3820, *Lassoff v. Motorola Mobility Holdings, Inc.*, Case No. 11CH3831, *Lang v. Motorola Mobility Holdings, Inc. et al.*, Case No. 11CH3832 and *Blumstein v. Motorola Mobility Holdings, Inc.*, No. 11CH4336. Three additional putative class-action complaints were filed in the Delaware Court of Chancery: *Goldfein v. Motorola Mobility Holdings, Inc. et al.*, Case No. 6787, *Driscoll v. Motorola Mobility Holdings, Inc. et al.*, Case No. 6794, and *Beren v. Jha et al.*, Case No. 6799. One additional putative class-action complaint was filed in the United States District Court for the Northern District of Illinois, Eastern Division: *Stein v. Jha et al.*, Case No. 11-cv-06100.

Each of the above-named complaints has been brought on behalf of a putative class of Motorola Mobility's stockholders and each alleges that, in approving the proposed transaction, the directors of Motorola Mobility breached the fiduciary duties they owe to the members of the putative class. Each complaint alleges further that Motorola Mobility itself aided and abetted the alleged breaches of fiduciary duty, and all complaints other than *Johnson* name Google a defendant and allege that Google aided and abetted the alleged breaches of fiduciary duty. Finally, the complaints in *Midler*, *Lang*, *Driscoll*, *Beren* and *Stein* allege that RB98 Inc. also aided and abetted the alleged breaches of duty.

All sixteen putative class-action complaints seek, among other things, injunctive relief barring the named defendants from consummating the proposed transaction, as well as attorneys' fees and costs. Motions were filed in Cook County, Lake County, and Delaware to consolidate the putative class-actions there pending. No judicial action has been taken on the consolidation motion filed in Delaware. On September 27, the Circuit Court for Lake County consolidated the eight actions before it into *Mulholland*. On October 3, the Circuit Court for Cook County consolidated the four actions before it into *Keating*. Also on October 3, defendants moved the Cook County and Lake County courts for an order designating the single venue for disposition of the *Mulholland* and *Keating* actions. After that motion was filed, but before the courts could act upon it, plaintiffs agreed to coordinate the various lawsuits on a consolidated basis in the *Keating* action, pending in Cook County. As a result, on October 12, the Lake County court entered a stay in the *Mulholland* action.



---

**Table of Contents**

For additional information regarding litigation and its potential impact on the Company, see Part I. Item 1A. Risk Factors in the Company's Annual Report on Form 10-K.

The Company is involved in various other lawsuits, claims and investigations arising in the normal course of business and relating to our business, such as intellectual property disputes, contractual disputes, and employment matters. In the opinion of management, the ultimate disposition of these matters is not expected to have a material adverse effect on Motorola Mobility's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved.

**Item 1A. Risk Factors**

The reader should carefully consider, in connection with the other information in this report, the factors discussed in Part I, Item 1A: Risk Factors on pages 13 through 34 of the Company's 2010 Annual Report on Form 10-K. These factors could cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere. In addition to the factors included in the Form 10-K and elsewhere, the reader should also consider the following risk factors:

***The pendency of our agreement to be acquired by Google could have a negative impact on our business.***

On August 15, 2011, we entered into Merger Agreement with Google pursuant to which a wholly-owned subsidiary of Google will, subject to the satisfaction or waiver of the conditions contained in the Merger Agreement, merge with and into Motorola Mobility, and Motorola Mobility will be the surviving corporation of the Merger and will become a wholly owned subsidiary of Google. Pursuant to the terms of the Merger Agreement and subject to the satisfaction or waiver of the closing conditions set forth in the Merger Agreement, at the effective time of the Merger (the Effective Time), each share of common stock of Motorola Mobility issued and outstanding immediately prior to the Effective Time will be cancelled and converted into the right to receive \$40.00 in cash, without interest and less any applicable tax withholdings.

The announcement and pendency of the Merger may have a negative impact on our business, financial results and operations or disrupt our business by:

intensifying existing litigation or increasing new legal claims from our competitors and other third parties, particularly as companies vigorously pursue and protect their intellectual property rights with patent litigation;

intensifying competition as our competitors may seek opportunities related to our pending Merger;

affecting our relationships with our customers, distributors, suppliers and employees;

limiting certain of our business operations prior to completion of the Merger which may prevent us from pursuing certain opportunities without Google's approval;

causing us to forego certain opportunities we might otherwise pursue absent the Merger Agreement;

impairing our ability to attract, recruit, retain, and motivate current and prospective employees who may be uncertain about their future roles and relationships with Google following the completion of the Merger; and

creating distractions from our strategy and day-to-day operations for our employees and management and a strain on resources.

***The failure to complete the Merger with Google could negatively impact our business.***

There is no assurance that the Merger with Google or any other transaction will occur or that the conditions to the Merger will be satisfied in a timely manner or at all. If the proposed Merger or a similar transaction is not completed, the share price of our common stock may drop to the extent that the current market price of our common stock reflects an assumption that a transaction will be completed. In addition, under circumstances defined in the Merger Agreement, we may be required to pay a termination fee of up to approximately \$375 million. Certain costs associated with the Merger are already incurred or may be payable even if the Merger is not completed. Further, a failed transaction may result in negative publicity and a negative impression of us in the investment community. Finally, any disruptions to our business resulting from the announcement and pendency of the Merger and from intensifying competition from our competitors, including

**Table of Contents**

48

any adverse changes in our relationships with our customers, vendors and employees or recruiting and retention efforts, could continue or accelerate in the event of a failed transaction. There can be no assurance that our business, these relationships or our financial condition will not be negatively impacted, as compared to the condition prior to the announcement of the Merger, if the Merger is not consummated.

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

None

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. (Removed and Reserved)****Item 5. Other Information.**

On October 24, 2011, Company management approved a workforce reduction action under which the Company will record a net pre-tax charge to earnings during the quarter ended December 31, 2011, of approximately \$31 million, comprised of \$27 million of severance costs related to approximately 800 employees impacted by the action and approximately \$4 million of facility exit costs. Both of the Company's business segments (the Mobile Devices business and the Home business), as well as various corporate functions, are impacted by the action and the action affects employees globally. Under the Company's employee severance plan, policies or applicable law, severance payments to employees affected by this action will be made substantially over the next 12 months.

**Item 6. Exhibits**

<i>Exhibit No.</i>	<i>Exhibits</i>
2.1	Agreement and Plan of Merger, by and among Google Inc., RB98 Inc., and Motorola Mobility Holdings, Inc., dated as of August 15, 2011 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on August 18, 2011 (File No. 1-34805)).
*31.1	Certification of Dr. Sanjay K. Jha pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Marc E. Rothman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Dr. Sanjay K. Jha pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Marc E. Rothman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Scheme Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

MOTOROLA and the Stylized M Logo are trademarks or registered trademarks of Motorola Trademark Holdings, LLC.

Edgar Filing: Motorola Mobility Holdings, Inc - Form 10-Q

All other product or service names are the property of their respective owners. © 2011 Motorola Mobility, Inc. All rights reserved.

Table of Contents

**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.**

Motorola Mobility Holdings, Inc.

By: /s/ MARK R. VALENTINE  
Mark R. Valentine  
Vice President and Controller

*(Principal Accounting Officer)*

Date: October 27, 2011

**Table of Contents**

50

**EXHIBIT INDEX**

<i>Exhibit No.</i>	<i>Exhibits</i>
2.1	Agreement and Plan of Merger, by and among Google Inc., RB98 Inc., and Motorola Mobility Holdings, Inc., dated as of August 15, 2011 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on August 18, 2011 (File No. 1-34805)).
*31.1	Certification of Dr. Sanjay K. Jha pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Marc E. Rothman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Dr. Sanjay K. Jha pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Marc E. Rothman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Scheme Document
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.