

Motorola Mobility Holdings, Inc  
Form 10-Q  
May 01, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

**For the period ended March 31, 2012**

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)

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**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 March 31, 2012:

Class	Number of Shares
Common Stock; \$.01 Par Value	303,676,580

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**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>March 31,</i>	<i>April 2,</i>
	<i>2012</i>	<i>2011</i>
Net revenues	<b>\$3,078</b>	\$3,032
Costs of sales	<b>2,324</b>	2,277
Gross margin	<b>754</b>	755
Selling, general and administrative expenses	<b>430</b>	417
Research and development expenditures	<b>366</b>	357
Other charges	<b>28</b>	17
Operating loss	<b>(70)</b>	(36)
Other income (expense):		
Interest income, net	<b>3</b>	2
Other, net	<b>(2)</b>	(17)
Total other income (expense)	<b>1</b>	(15)
Loss before income taxes	<b>(69)</b>	(51)
Income tax expense	<b>17</b>	30
Net loss	<b>\$(86)</b>	\$(81)
<i>Loss per common share (Note 2):</i>		
Basic	<b>\$(0.28)</b>	\$(0.27)
Diluted	<b>\$(0.28)</b>	\$(0.27)
<i>Weighted average common shares outstanding:</i>		
Basic	<b>302.4</b>	294.7
Diluted	<b>302.4</b>	294.7

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

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**Motorola Mobility Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**(Unaudited)**

<i>(In millions)</i>	<i>Three Months Ended</i>	
	<i>March 31,</i>	<i>April 2,</i>
	<i>2012</i>	<i>2011</i>
Net loss	<b>\$(86)</b>	\$(81)
Other comprehensive income (loss):		
Net unrealized loss on securities (net of tax of \$0)	<b>(1)</b>	(3)
Net loss on derivative instruments (net of tax of \$1)	<b>(3)</b>	
Foreign currency translation adjustments	<b>23</b>	2
Total other comprehensive income (loss)	<b>19</b>	(1)
Comprehensive loss	<b>\$(67)</b>	\$(82)

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

## Motorola Mobility Holdings, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(Unaudited)

<i>(In millions)</i>	<i>March 31, 2012</i>	<i>December 31, 2011</i>
<b>ASSETS</b>		
Cash and cash equivalents	\$3,065	\$3,451
Cash deposits	267	2
Accounts receivable, net	1,711	1,780
Inventories, net	569	701
Deferred income taxes	92	95
Other current assets	595	583
<b>Total current assets</b>	<b>6,299</b>	<b>6,612</b>
Cash deposits	162	155
Property, plant and equipment, net	801	805
Investments	123	119
Deferred income taxes	93	93
Goodwill	1,434	1,433
Other assets	480	513
<b>Total assets</b>	<b>\$9,392</b>	<b>\$9,730</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts payable	\$1,530	\$1,666
Accrued liabilities	2,224	2,408
<b>Total current liabilities</b>	<b>3,754</b>	<b>4,074</b>
Other liabilities	547	568
<i>Stockholders Equity</i>		
Common stock: \$.01 par value; Authorized shares: 900.0 Issued shares: 304.3 Outstanding shares: 303.7	3	3
Additional paid-in capital	5,522	5,452
Accumulated other comprehensive loss	(99)	(118)
Accumulated deficit	(335)	(249)
<b>Total stockholders equity</b>	<b>5,091</b>	<b>5,088</b>
<b>Total liabilities and stockholders equity</b>	<b>\$9,392</b>	<b>\$9,730</b>

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

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

	Shares	Common Stock and Additional Paid-in Capital	<i>Accumulated Other Comprehensive Income (Loss)</i>				Accumulated Deficit
			<i>Fair Value Adjustment to Available for Sale Securities, Net of Tax</i>	<i>Foreign Currency Translation Adjustments, Net of Tax</i>	<i>Retirement Benefits Adjustments, Net of Tax</i>	<i>Other Items, Net of Tax</i>	
<i>(In millions)</i>							
<b>Balances at December 31, 2011</b>	<b>301.7</b>	<b>\$5,455</b>	<b>\$</b>	<b>\$(111)</b>	<b>\$(11)</b>	<b>\$4</b>	<b>\$(249)</b>
Net loss							(86)
Net unrealized loss on securities (net of tax of \$0)			(1)				
Net loss on derivative instruments (net of tax of \$1)						(3)	
Foreign currency translation adjustments				23			
Stock options exercised	2.0	22					
Share-based compensation expense		48					
<b>Balances at March 31, 2012</b>	<b>303.7</b>	<b>\$5,525</b>	<b>\$(1)</b>	<b>\$(88)</b>	<b>\$(11)</b>	<b>\$1</b>	<b>\$(335)</b>

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

## Motorola Mobility Holdings, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

<i>(In millions)</i>	<i>Three Months Ended</i>	
	<i>March 31,</i>	<i>April 2,</i>
	<i>2012</i>	<i>2011</i>
<b>Operating</b>		
Net loss	\$(86)	\$(81)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	49	54
Share-based compensation expense	48	40
Non-cash other charges (income)		(1)
Deferred income taxes	(3)	(11)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	74	21
Inventories	138	(16)
Other current assets	(8)	22
Accounts payable and accrued liabilities	(327)	1
Other assets and liabilities	17	78
Net cash provided by (used for) operating activities	(98)	107
<b>Investing</b>		
Acquisitions and investments, net	(20)	(11)
Capital expenditures	(33)	(50)
Cash deposits	(265)	
Other, net	(1)	
Net cash used for investing activities	(319)	(61)
<b>Financing</b>		
Issuance of common stock	22	16
Capital contribution from Former Parent, net of cash deposits of \$168		3,032
Other, net	(1)	15
Net cash provided by financing activities	21	3,063
Effect of exchange rate changes on cash and cash equivalents	10	7
Net increase (decrease) in cash and cash equivalents	(386)	3,116
Cash and cash equivalents, beginning of period	3,451	
Cash and cash equivalents, end of period	\$3,065	\$3,116
<i>Cash Flow Information</i>		
<b>Cash paid during the period for:</b>		
Interest, net	\$1	\$1
Income taxes, net of refunds	6	19

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



**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, video distribution systems 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 ). Since Separation, the Company has received \$297 million of the Deferred Contribution from the Former Parent including \$72 million received on April 24, 2012.

***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 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. On November 17, 2011, Motorola Mobility stockholders approved the proposed merger with Google at the Company's Special Meeting of Stockholders. Antitrust clearances have been received in the U.S., European Commission, Canada, Israel, Russia, Taiwan and Turkey. Under the merger agreement, antitrust clearances, or waiting period expirations, are also required in

China. Requisite filings have been submitted to the appropriate regulatory body in China. In March 2012, the Chinese Ministry of Commerce extended the second phase of its investigation and the investigation is pending.

Pursuant to the Merger Agreement, stock options and restricted stock units ( RSUs ) granted by the Company 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 Motorola Mobility's 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 Motorola Mobility's 2011 Incentive Compensation Plan in 2011 and 2012 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 March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and April 2, 2011 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 consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2011. The results of operations for the three months ended March 31, 2012 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 2012 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.

## 2. Other Financial Data

### Statement of Operations Information

#### Other Charges

Other charges included in Operating loss consist of the following:

<i>Three Months Ended</i>	<i>March 31, 2012</i>	<i>April 2, 2011</i>
Other charges:		
Merger-related transaction costs	\$17	\$
Intangible asset amortization	11	16
Intangible asset impairment		4
Reorganization of businesses		(3)
	\$ 28	\$ 17

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. In the first quarter of 2012, the Company has incurred non-refundable fees of approximately \$1 million, which have been recorded as a component of Other charges (income) in the Company's condensed consolidated statements of operations for the three months ended March 31, 2012. At the effective time of the Merger, the Company will incur additional aggregate fees of approximately \$39 million to the investment banking firms. Additionally, the Company incurred \$16 million in legal fees and other incremental costs in the first quarter of 2012 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 months ended March 31, 2012.

#### **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>March 31, 2012</i>	<i>April 2, 2011</i>
Interest income (expense), net:		
Interest income	\$5	\$4
Interest expense	(2)	(2)
	<b>\$3</b>	<b>\$2</b>
Other, net:		
Foreign currency costs	\$(1)	\$(12)
Investment impairments	(3)	
Other	2	(5)
	<b>\$(2)</b>	<b>\$(17)</b>

#### **Loss Per Common Share**

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

<i>Three Months Ended</i>	<i>March 31, 2012</i>	<i>April 2, 2011</i>
<b>Basic loss per common share:</b>		
Net loss	\$(86)	\$(81)
Weighted average common shares outstanding	302.4	294.7
Per share amount	<b>\$(0.28)</b>	\$(0.27)
<b>Diluted loss per common share:</b>		
Net loss	\$(86)	\$(81)
Weighted average common shares outstanding	302.4	294.7
Add effect of dilutive securities:		
Share-based awards and other		
Diluted weighted average common shares outstanding	<b>302.4</b>	294.7

Per share amount	<b>\$(0.28)</b>	\$(0.27)
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For the three months ended March 31, 2012 and April 2, 2011, the Company was in a net loss position and, accordingly, the assumed exercise of 2.5 million stock options and the assumed vesting of 4.0 million restricted stock units for the three months ended March 31, 2012 and the assumed exercise of 1.3 million stock options and the assumed vesting of 2.7 million restricted stock units for the three months ended April 2, 2011, were excluded from diluted weighted average shares outstanding because their inclusion would have been antidilutive.

## 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 March 31, 2012. In addition, the Company had \$429 million of cash deposits, primarily related to various legal disputes, at March 31, 2012. At March 31, 2012, \$267 million of this amount was current and \$162 million of this amount was non-current.

### *Accounts Receivable*

Accounts receivable, net, consists of the following:

	<i>March 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
Accounts receivable	<b>\$1,730</b>	\$1,803
Less allowance for doubtful accounts	<b>(19)</b>	(23)
	<b>\$1,711</b>	\$1,780

### *Inventories*

Inventories, net, consists of the following:

	<i>March 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
Finished goods	<b>\$387</b>	\$474
Work-in-process and production materials	<b>401</b>	455
	<b>788</b>	929
Less inventory reserves	<b>(219)</b>	(228)
	<b>\$569</b>	\$701

### *Other Current Assets*

Other current assets consists of the following:

	<i>March 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
Contractor receivables	<b>\$234</b>	\$264
Tax refunds receivable	<b>141</b>	101

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Deferred costs	97	97
Royalty license arrangements	55	47
Other	68	74
	<b>\$595</b>	\$583

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**Property, Plant and Equipment**

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

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Land	\$43	\$43
Buildings	719	696
Machinery and equipment	1,671	1,685
	<b>2,433</b>	2,424
Less accumulated depreciation	<b>(1,632)</b>	(1,619)
	<b>\$801</b>	\$805

Depreciation expense for the three months ended March 31, 2012 and April 2, 2011 was \$38 million for each period.

**Investments**

Investments consists of the following:

<i>March 31, 2012</i>	<i>Recorded Value</i>	<i>Unrealized Gains</i>	<i>Less Unrealized Losses</i>	<i>Cost Basis</i>
Available-for-sale securities:				
Common stock and equivalents	\$4	\$	\$(1)	\$5
Other securities, at cost	90			90
Equity method investments	29			29
	<b>\$123</b>	<b>\$</b>	<b>\$(1)</b>	<b>\$124</b>

<i>December 31, 2011</i>	<i>Recorded Value</i>	<i>Unrealized Gains</i>	<i>Less Unrealized Losses</i>	<i>Cost Basis</i>
Available-for-sale securities:				
Common stock and equivalents	\$	\$	\$	\$
Other securities, at cost	90			90
Equity method investments	29			29
	<b>\$119</b>	<b>\$</b>	<b>\$</b>	<b>\$119</b>

During the three months ended March 31, 2012, the Company recorded investment impairment charges of \$3 million, representing other-than-temporary declines in the value of the Company's investment portfolio, primarily related to other securities recorded at cost. During the three months ended April 2, 2011 the investment impairment charges recorded by the Company were *de minimis*. Investment impairment charges are included in Other within Other income (expense) in the Company's condensed consolidated statements of operations.

**Other Assets**

Other assets consists of the following:

	<i>March 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
Royalty license arrangements	<b>\$202</b>	\$210
Intangible assets, net of accumulated amortization of \$684 and \$673	<b>137</b>	147
Deferred costs	<b>94</b>	111
Value-added tax refunds receivable	<b>8</b>	6
Other	<b>39</b>	39
	<b>\$480</b>	\$513

**Accrued Liabilities**

Accrued liabilities consists of the following:

	<i>March 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
Customer reserves	<b>\$338</b>	\$382
Deferred revenue	<b>315</b>	307
Warranty reserves	<b>289</b>	277
Royalty license arrangements	<b>249</b>	269
Contractor payables	<b>194</b>	217
Compensation	<b>168</b>	302
Tax liabilities	<b>102</b>	106
Other	<b>569</b>	548
	<b>\$2,224</b>	\$2,408

**Other Liabilities**

Other liabilities consists of the following:

	<i>March 31,</i> <i>2012</i>	<i>December 31,</i> <i>2011</i>
Deferred revenue	<b>\$144</b>	\$162
Defined benefit pension plans	<b>98</b>	95
Facility financing obligation	<b>97</b>	97
Deferred income taxes	<b>64</b>	70
Other	<b>144</b>	144
	<b>\$547</b>	\$568

### 3. 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 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 March 31, 2012 and December 31, 2011, the Company had outstanding foreign exchange contracts with notional values totaling \$564 million and \$546 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 March 31, 2012 and the corresponding positions as of December 31, 2011:

<i>Net Buy (Sell) by Currency</i>	<i>Notional Amount</i>	
	<i>March 31, 2012</i>	<i>December 31, 2011</i>
Euro	<b>\$(343)</b>	<b>\$(154)</b>
British Pound	<b>(27)</b>	<b>(10)</b>
Chinese Yuan	<b>31</b>	<b>191</b>
Brazilian Real	<b>41</b>	<b>37</b>
Canadian Dollar	<b>46</b>	<b>47</b>

***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. The Company is not exposed to material credit risk with any single counterparty.

The following table summarizes the effect of derivative instruments in our condensed consolidated statements of operations:

<i>Three Months Ended March 31, 2012</i>	<i>Loss on Derivative Instruments</i>	<i>Statement of</i>
		<i>Operations Location</i>
Derivatives designated as hedging instruments:		
Foreign exchange contracts Fair value hedges	\$	Foreign currency income (expense)
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	(4)	Other income (expense)
Total derivatives not designated as hedging instruments	\$(4)	

<i>Three Months Ended April 2, 2011</i>	<i>Loss on Derivative Instruments</i>	<i>Statement of Operations Location</i>
<i>Derivatives designated as hedging instruments:</i>		
Foreign exchange contracts Fair value hedges	\$	Foreign currency income (expense)
<i>Derivatives not designated as hedging instruments:</i>		
Foreign exchange contracts	(25)	Other income (expense)
Total derivatives not designated as hedging instruments	\$(25)	

***Fair Value of Financial Instruments***

The Company's financial instruments include cash equivalents, 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.

#### **4. Income Taxes**

##### ***Income Tax Expense***

For the three months ended March 31, 2012 and April 2, 2011, the Company recorded income tax expense of \$17 million and \$30 million, respectively, 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 March 31, 2012 and December 31, 2011, the Company's net deferred tax assets, exclusive of valuation allowances, were \$2.6 billion. As of March 31, 2012 and December 31, 2011, the valuation allowance against the net deferred tax assets was \$2.5 billion.

Included in the net deferred tax assets of \$2.6 billion as of March 31, 2012 are: (i) approximately \$900 million of deferred tax assets related to capitalized R&D costs that may be amortized for tax purposes through 2019; (ii) approximately \$900 million of deferred tax assets related to U.S. and foreign tax loss and credit carry forwards; and (iii) approximately \$800 million of deferred taxes related to other temporary differences.

##### ***Unrecognized Tax Benefits***

The Company had unrecognized tax benefits of \$16 million and \$23 million, at March 31, 2012 and December 31, 2011, respectively. During the three months ended March 31, 2012, the Company reduced its unrecognized tax benefits by \$7 million primarily for facts that indicate the extent to which certain tax positions are more-likely-than-not of being sustained. The reduction resulted in the recording of no net income tax benefit due to offsetting valuation allowances.

#### **5. Share-Based Compensation Plans**

Upon Separation, all outstanding Former Parent stock options, stock appreciation rights and restricted stock units 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.

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**Stock Options**

During the three months ended March 31, 2012, the Company did not grant any stock options. As of March 31, 2012, the Company had 18.6 million stock options and stock appreciation rights outstanding.

**Restricted Stock and Restricted Stock Units**

During the three months ended March 31, 2012, the Company granted 6.1 million RS and RSUs with a weighted-average fair market value of \$38.88 per RS and RSU. As of March 31, 2012, the Company had 14.2 million RS and RSUs outstanding.

Compensation expense related to the Company's employee stock option, stock appreciation rights, employee stock purchase, restricted stock and restricted stock unit plans was as follows:

<i>Three Months Ended</i>	<i>March 31, 2012</i>	<i>April 2, 2011</i>
<b>Share-based compensation expense included in:</b>		
Costs of sales	\$5	\$4
Selling, general and administrative expenses	25	21
Research and development expenditures	18	15
<b>Share-based compensation expense included in Operating loss</b>	<b>48</b>	<b>40</b>
Tax benefit		
<b>Share-based compensation expense, net of tax</b>	<b>\$48</b>	<b>\$40</b>

**6. 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 March 31, 2012.

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.

*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 March 31, 2012 were as follows:

<i>March 31, 2012</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>Assets:</b>				
Cash equivalents				
Money market funds	\$2,345	\$	\$	\$2,345
Time deposits and bank drafts		423		423

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Common stock and equivalents	4		4
Foreign exchange derivative contracts		1	1

**7. Sales of Receivables**

For the three months ended March 31, 2012 and April 2, 2011, total accounts receivable sold by the Company were \$3 million and \$31 million, respectively. As of March 31, 2012 and December 31, 2011, there were no accounts receivable outstanding for which the Company retained servicing obligations.

**8. 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 March 31, 2012.

**9. 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. The Company is currently engaged in significant patent litigation with Microsoft Corporation (*Microsoft*) and Apple Inc. (*Apple*) in many different forums within and outside the U.S., including in the U.S. International Trade Commission (*ITC*). The Company expects final ITC determinations on the Microsoft patent infringement matter against the Company in May 2012 with a sixty-day presidential review period subject to any applicable bonding requirements. An ultimate loss for the Company in an ITC action could result in a prohibition on importing infringing products or products incorporating infringing components into the U.S. The Company's manufacturing is conducted outside the U.S. and the Company imports all of its products into the U.S. An ultimate loss in the ITC also could necessitate workarounds to shift to non-infringing products or limit certain features of our products, increasing costs. Such patent litigation also could result in increased costs for the Company associated with damages, development of non-infringing products, and licenses under the subject intellectual property.

In the opinion of management, the ultimate disposition of these various 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. If the Company is prohibited from importing infringing products into the U.S. and the scope of the prohibition impacts a meaningful portion of the Company's products, disposition of such an ITC matter could have a material impact on the Company's consolidated financial position, liquidity or results of operations.

*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 and certain other taxes related to the subsidiary's operations for calendar years 1997 through

2010. As of March 31, 2012, these assessments collectively represent reasonably possible loss contingencies under the applicable accounting standards of up to approximately \$449 million, based on the exchange rate in effect at March 31, 2012, 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 March 31, 2012, the Company had approximately \$157 million of cash deposits, including accrued interest, for these matters, which are included in non-current Cash deposits in the Company's condensed consolidated balance sheet as of March 31, 2012.

#### ***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, Motorola Mobility agreed to indemnify the Former Parent for certain liabilities, and the Former Parent agreed to indemnify Motorola Mobility 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.

#### **10. 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.

Summarized below are the Company's net revenues and operating earnings (loss) by segment for the three months ended March 31, 2012 and April 2, 2011:

<i>Three Months Ended</i>	<i>Net Revenues</i>		<i>Operating Earnings (Loss)</i>	
	<i>March 31, 2012</i>	<i>April 2, 2011</i>	<i>March 31, 2012</i>	<i>April 2, 2011</i>
Mobile Devices	\$2,194	\$2,128	\$(121)	\$(89)
Home	884	904	68	53
	<b>\$3,078</b>	<b>\$3,032</b>		
Merger-related transaction costs			(17)	
Operating loss			(70)	(36)
Total other income (expense)			1	(15)
Loss before income taxes			<b>\$(69)</b>	<b>\$(51)</b>

#### 11. 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 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.

#### 2012 Activity

During the three months ended March 31, 2012, 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.

The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2012 to March 31, 2012:

	<i>Accruals at January 1, 2012</i>	<i>Additional Charges</i>	<i>Adjustments</i>	<i>Amount Used</i>	<i>Accruals at March 31, 2012</i>
Exit costs	\$5	\$	\$	\$(1)	\$4



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Employee separation costs	21			(14)	7
	\$26	\$	\$	\$(15)	\$11
Adjustments include foreign currency translation adjustments.					

*Exit Costs*

At January 1, 2012, the Company had an accrual of \$5 million for exit costs attributable to lease terminations. The \$1 million used reflects cash payments. The remaining accrual of \$4 million, which is included in Accrued liabilities in the Company's condensed consolidated balance sheet at March 31, 2012, 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, 2012, the Company had an accrual of \$21 million for employee separation costs, representing the severance costs for approximately 700 employees. During the three months ended March 31, 2012, approximately 300 employees, of which 100 were direct employees and 200 were indirect employees, were separated from the Company. The \$14 million used reflects cash payments to these separated employees. The remaining accrual of \$7 million, relating to employee separation costs that are expected to be paid in 2012, is included in Accrued liabilities in the Company's condensed consolidated balance sheet at March 31, 2012.

**2011 Activity**

During the three months ended April 2, 2011, the Company recorded \$6 million of reversals of reorganization of business charges for accruals no longer needed, including \$3 million of Separation-related adjustments for employees that remained with the Former Parent and \$3 million under Other charges in the Company's condensed consolidated statements of operations.

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

<i>Three Months Ended</i>	<i>April 2, 2011</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 April 2, 2011:

	<i>Accruals at January 1, 2011</i>	<i>Additional Charges</i>	<i>Adjustments</i>	<i>Amount Used</i>	<i>Accruals at April 2, 2011</i>
Exit costs	\$12	\$	\$	\$(1)	\$11
Employee separation costs	32		(6)	(18)	8
	\$44	\$	\$(6)	\$(19)	\$19

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 \$1 million used reflects cash payments. The remaining accrual of \$11 million, which is included in Accrued liabilities in the Company's condensed consolidated balance sheet at April 2, 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 \$6 million reflect reversals of accruals no longer needed. During the three months ended April 2, 2011, approximately 500 employees, of which 100 were direct employees and 400 were indirect employees, were separated from the Company. The \$18 million used reflects cash payments to these separated employees. The remaining accrual of \$8 million is included in Accrued liabilities in the Company's condensed consolidated balance sheet at April 2, 2011.

## 12. Intangible Assets and Goodwill

### Intangible Assets

Amortized intangible assets were comprised of the following:

	<i>March 31, 2012</i>		<i>December 31, 2011</i>	
	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>
Completed technology	\$516	\$466	\$515	\$459
Licensed technology	106	106	106	106
Patents	97	26	97	24
Customer-related	64	48	64	46
Other intangibles	38	38	38	38
	<b>\$821</b>	<b>\$684</b>	\$820	\$673

Amortization expense on intangible assets, which is included within Other charges, was \$11 million and \$16 million for the three months ended March 31, 2012 and April 2, 2011, respectively. As of March 31, 2012, annual amortization expense is estimated to be \$42 million in 2012, \$36 million in 2013, \$16 million in 2014, \$12 million in 2015 and \$9 million in 2016.

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

	<i>March 31, 2012</i>		<i>December 31, 2011</i>	
	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>
Mobile Devices	\$149	\$67	\$148	\$64
Home	672	617	672	609
	<b>\$821</b>	<b>\$684</b>	\$820	\$673

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**Goodwill**

The following table displays a rollforward of the carrying amount of goodwill by reportable segment from January 1, 2012 to March 31, 2012:

	<i>Mobile Devices</i>	<i>Home</i>	<i>Total</i>
<b>Balances as of January 1, 2012:</b>			
Aggregate goodwill acquired	\$142	\$1,419	\$1,561
Accumulated impairment losses	(55)	(73)	(128)
Goodwill, net of impairment losses	87	1,346	1,433
Goodwill acquired			
Impairment losses			
Adjustments	1		1
<b>Balances as of March 31, 2012:</b>			
Aggregate goodwill acquired	143	1,419	1,562
Accumulated impairment losses	(55)	(73)	(128)
Goodwill, net of impairment losses	\$88	\$1,346	\$1,434

## 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 months ended March 31, 2012 and April 2, 2011, as well as the Company's consolidated 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, 2011.

**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 months ended March 31, 2012 and April 2, 2011.

**Liquidity and Capital Resources** This section provides a discussion of our current financial condition and an analysis of our cash flows for the three months ended March 31, 2012 and April 2, 2011.

**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 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

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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.

### ***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 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. On November 17, 2011, Motorola Mobility stockholders approved the proposed merger with Google at the Company's Special Meeting of Stockholders. Antitrust clearances have been received in the U.S., European Commission, Canada, Israel, Russia, Taiwan and Turkey. Under the merger agreement, antitrust clearances, or waiting period expirations, are also required in China. Requisite filings have been submitted to the appropriate regulatory body in China. In March 2012, the Chinese Ministry of Commerce extended the second phase of its investigation and the investigation is pending. The Company currently expects the transaction to close during the first half of 2012.

Pursuant to the Merger Agreement, stock options and restricted stock units ("RSUs") granted by the Company 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 Motorola Mobility's 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 Motorola Mobility's 2011 Incentive Compensation Plan in 2011 and 2012 will be converted to an award of equivalent value in Google stock options, RS and RSUs, respectively.

### **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, video distribution systems 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 \$2.2 billion in the first quarter of 2012 and \$2.1 billion in the first quarter of 2011, representing 71% and 70%, respectively, of Motorola Mobility's consolidated net revenues. The Home segment is focused on technologies and devices that provide video entertainment services to consumers by enabling subscribers to access a variety of interactive digital television services. This segment's net revenues were \$884 million in the first quarter of 2012 and \$904 million in the first quarter of 2011, representing 29% and 30%, respectively, of Motorola Mobility's consolidated net revenues.

#### **Motorola Mobility's Financial Results for the First Quarter of 2012**

*Net Revenues of \$3.1 Billion:* Our net revenues were \$3.1 billion in the first quarter of 2012, up 2% compared to net revenues of \$3.0 billion in the first quarter of 2011. Net revenues increased 3% in the Mobile Devices segment and decreased 2% in the Home segment.

*Operating Loss of \$70 Million:* We incurred an operating loss of \$70 million in the first quarter of 2012, compared to an operating loss of \$36 million in the first quarter of 2011.

*Net Loss of \$86 Million:* We incurred a net loss of \$86 million in the first quarter of 2012, compared to a net loss of \$81 million in the first quarter of 2011.

*Cash used for Operating Activities of \$98 Million:* We used \$98 million of net cash from operating activities in the first quarter of 2012, compared to generating \$107 million of net cash from operating activities in the first quarter of 2011.

#### **Financial results for our two business segments for the quarter ended March 31, 2012**

*In Our Mobile Devices Business:* Net revenues were \$2.2 billion in the first quarter of 2012, an increase of 3% compared to net revenues of \$2.1 billion in the first quarter of 2011. The increase in net revenues was primarily driven by an 11% increase in average selling price ( ASP ), partially offset by a 3% decrease in handset unit shipments. We shipped 8.9 million mobile devices in the first quarter of 2012, a 4% decrease compared to shipments of 9.3 million mobile devices in the first quarter of 2011, and a 15% decrease sequentially compared to shipments of 10.5 million mobile devices in the fourth quarter of 2011. We shipped 5.1 million Android-based smartphones in the first quarter of 2012, a 24% increase compared to shipments of 4.1 million in the first quarter of 2011, and a 5% decrease sequentially compared to shipments of 5.4 million in the fourth quarter of 2011. On a geographic basis, net revenues increased in the Europe, Middle East and Africa region ( EMEA ) and Latin America, partially offset by decreased net revenues in Asia and North America.

The segment incurred an operating loss of \$121 million in the first quarter of 2012, compared to an operating loss of \$89 million in the first quarter of 2011. The increase in the operating loss was primarily due to (i) higher selling, general and administrative ( SG&A ) expenses to support the growth in smartphone volumes and (ii) a decrease in gross margin, partially offset by a 3% increase in net revenues.

*In Our Home Business:* Net revenues were \$884 million in the first quarter of 2012, a decrease of 2% compared to net revenues of \$904 million in the first quarter of 2011. The decrease in net revenues in the Home segment was primarily driven by a 4% decrease in net revenues of set-top boxes, reflecting a 10% decrease in shipments of set-top boxes, partially offset by a higher ASP due to a favorable product mix. Net revenues of video and access infrastructure equipment declined slightly. On a geographic basis, net revenues decreased in North America, Latin America and Asia, partially offset by increased net revenues in EMEA.

The segment had operating earnings of \$68 million in the first quarter of 2012, compared to operating earnings of \$53 million in the first quarter of 2011. The increase in operating earnings was primarily due to (i) an increase in gross margin primarily driven by operational efficiencies and a favorable product mix and (ii) a decrease in SG&A expenditures, primarily due to a non-recurring charge to settle a legal matter during the first quarter of 2011, partially offset by higher research and development ( R&D ) expenditures.

#### **Looking Forward**

In August 2011, Motorola Mobility and Google entered into the Merger Agreement pursuant to which Google will acquire the Company. 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. We currently expect the Merger to be completed during the first half of 2012 following antitrust regulatory approval from China. In all other jurisdictions with pre-closing requirements, the transaction has been investigated and cleared without conditions. It is possible that the failure to timely meet the 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.



We expect continued growth, as well as convergence, of industries like wireless, media, computing and the Internet. This is expected to create continued consumer demand for new mobile devices, applications and services. We believe we are well positioned to deliver innovative experiences, both in the home and on the go, and across multiple types of devices, to address these opportunities.

In our Mobile Devices business, we expect continued annual growth in total industry demand over the next several years, particularly in the smartphone and media tablet segments of the market. We expect the overall global mobile device market to remain intensely competitive, particularly in smartphones and media tablets. The largest competitors in the industry, particularly Apple, are expected to continue to be very successful in the marketplace. We also expect certain competitors to significantly expand their smartphone portfolios in 2012 in the markets in which we compete, including several China-based manufacturers. Our strategy is focused on developing and marketing a competitive mobile device portfolio and strengthening our position in priority markets. Our product portfolio priorities include the following: (i) providing a more focused portfolio of mobile devices distributed through carriers, distributors and retailers globally, (ii) software applications, services and accessories for consumers, including cloud based, interactive experiences and a portfolio of accessories that enhance user experiences, and (iii) enterprise-ready devices for business as well as personal use. The balance of our portfolio, including feature phones, iDEN devices, and voice-centric devices will be more limited given the declining opportunity for profitable growth in these segments of the handset industry. 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 industry demand for mobile devices, and by providing compelling consumer experiences and leveraging our brand, we expect to continue to improve the financial performance in our Mobile Devices business.

In our Home business, we expect industry conditions in 2012 to be comparable to 2011, including overall demand levels, competitiveness and pricing pressures. We will leverage our market leadership position and intellectual property to enhance our device portfolio, including advanced high definition and DVR set-top boxes and voice and data gateways. We are focusing our development efforts on innovation that enables our customers to provide converged media experiences through next generation whole-home IP video gateways and multi-screen service enablement. Increasing adoption of IP connected devices, such as smartphones, tablets, PCs and TVs, is enabling new services and increasing broadband demand. These trends are leading service providers to invest in IP networks driving the need for video and broadband infrastructure equipment to optimize their network, increase bandwidth and provide new services. We are focused on balancing our investment in growth market segments, management of our cost structure in the mature market segments and the profitability of the business.

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 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 Form 10-Q and *Part I, Item 3. Legal Proceedings* of the Company's 2011 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, consumer loyalty 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, changes in economic conditions, supply interruptions or other factors, can introduce volatility into our businesses. 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.

**Results of Operations**

<i>(Dollars in millions)</i>	<i>March 31,</i> <i>2012</i>	<i>Three Months Ended</i> <i>% of</i> <i>Revenue</i>	<i>April 2,</i> <i>2011</i>	<i>% of</i> <i>Revenue</i>
Net revenues	<b>\$3,078</b>		\$3,032	
Costs of sales	<b>2,324</b>	<b>75.5%</b>	2,277	75.1%
<b>Gross margin</b>	<b>754</b>	<b>24.5%</b>	755	24.9%
Selling, general and administrative expenses	<b>430</b>	<b>14.0%</b>	417	13.8%
Research and development expenditures	<b>366</b>	<b>11.9%</b>	357	11.8%
Other charges	<b>28</b>	<b>0.9%</b>	17	0.5%
<b>Operating loss</b>	<b>(70)</b>	<b>(2.3)%</b>	(36)	(1.2)%
Other income (expense):				
Interest income (expense), net	<b>3</b>	<b>0.1%</b>	2	0.0%
Other, net	<b>(2)</b>	<b>%</b>	(17)	(0.5)%
<b>Total other income (expense)</b>	<b>1</b>	<b>0.1%</b>	(15)	(0.5)%
Loss before income taxes	<b>(69)</b>	<b>(2.2)%</b>	(51)	(1.7)%
Income tax expense	<b>17</b>	<b>0.6%</b>	30	1.0%
<b>Net loss</b>	<b>\$(86)</b>	<b>(2.8)%</b>	\$(81)	(2.7)%

*Three months ended March 31, 2012 compared to three months ended April 2, 2011*

*Net Revenues*

Net revenues were \$3.1 billion in the first quarter of 2012, up 2% compared to net revenues of \$3.0 billion in the first quarter of 2011. The increase in net revenues reflects a \$66 million, or 3%, increase in net revenues in the Mobile Devices segment, partially offset by a \$20 million, or 2%, decrease in net revenues in the Home segment. The 3% increase in net revenues in the Mobile Devices segment was primarily driven by an 11% increase in ASP, partially offset by a 3% decrease in unit shipments. The 2% decrease in net revenues in the Home segment was primarily driven by a 4% decrease in net revenues of set-top boxes, reflecting a 10% decrease in shipments of set-top boxes, partially offset by a higher ASP due to favorable product mix. Net revenues of video and access infrastructure equipment declined slightly.

*Gross Margin*

Gross margin was \$754 million, or 24.5% of net revenues, in the first quarter of 2012, compared to \$755 million, or 24.9% of net revenues, in the first quarter of 2011. The decrease in gross margin as a percentage of net sales in the first quarter of 2012 compared to the first quarter of 2011 reflects a decrease in gross margin percentage in the Mobile Devices segment, partially offset by an increase 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 various businesses.

*Selling, General and Administrative Expenses*

SG&A expenses increased 3% to \$430 million, or 14.0% of net revenues, in the first quarter of 2012, compared to \$417 million, or 13.8% of net revenues, in the first quarter of 2011. The increase in SG&A expenses reflects higher SG&A expenses in the Mobile Devices segment, partially offset by lower SG&A expenses in the Home segment, primarily due to the absence in the first quarter of 2012 of a comparable non-recurring

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charge to settle a legal matter. 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 Mobile Devices segment and decreased in the Home segment.

*Research and Development Expenditures*

R&D expenditures increased 3% to \$366 million, or 11.9% of net revenues, in the first quarter of 2012, compared to \$357 million, or 11.8% of net revenues, in the first quarter of 2011. The increase in R&D expenditures reflects higher R&D expenditures in the Home segment, partially offset by a slight decrease in R&D in the Mobile Devices segment. R&D expenses 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*

The Company recorded net charges of \$28 million in Other charges in the first quarter of 2012, compared to net charges of \$17 million in the first quarter of 2011. The charges in the first quarter of 2012 were primarily comprised of \$17 million of charges related to the proposed Merger with Google and \$11 million of charges relating to the amortization of intangibles. The charges in the first quarter of 2011 were primarily comprised of \$16 million of charges relating to the amortization of intangibles.

*Interest Income (Expense), Net*

Net interest income was \$3 million in the first quarter of 2012, compared to net interest income of \$2 million in the first quarter of 2011. Net interest income in the first quarter of 2012 includes interest income of \$5 million, partially offset by interest expense of \$2 million. Net interest income in the first quarter of 2011 includes interest income of \$4 million, partially offset by interest expense of \$2 million.

*Other, Net*

Net expense classified as Other, as presented in Other income (expense), was \$2 million in the first quarter of 2012, compared to \$17 million in the first quarter of 2011. The net expense in the first quarter of 2012 was primarily comprised of \$3 million of investment impairment costs. The net expense in the first quarter of 2011 was primarily comprised of \$12 million of foreign currency costs.

*Income Tax Expense*

The Company recorded income tax expense of \$17 million in the first quarter of 2012 as compared to \$30 million in the first quarter of 2011. The expense for both the first quarters of 2012 and 2011 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 \$69 million in the first quarter of 2012, compared with a loss before income taxes of \$51 million in the first quarter of 2011. After taxes, the Company incurred a net loss of \$86 million in the first quarter of 2012, compared to a net loss of \$81 million in the first quarter of 2011.

The increase in the loss before income taxes in the first quarter of 2012 compared to the first quarter of 2011 was primarily attributable to a \$11 million increase in Other charges and a \$13 million increase in SG&A expenses, partially offset by a \$15 million decrease in Other, as presented in Other income (expense).

## Segment Results

The following commentary should be read in conjunction with the financial results of each operating business segment as detailed in Note 10, *Segment Information*, to the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2012. Net revenues and operating results for the Company's two operating business segments for the three months ended March 31, 2012 and April 2, 2011 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 first quarter of 2012, the segment's net revenues represented 71% of the Company's consolidated net revenues, compared to 70% for the first quarter of 2011.

<i>(Dollars in millions)</i>	<i>Three Months Ended</i>		<i>% Change</i>
	<i>March 31,</i>	<i>April 2,</i>	
Segment net revenues	<b>\$2,194</b>	\$2,128	<b>3 %</b>
Operating loss	<b>(121)</b>	(89)	<b>36%</b>

**Three months ended March 31, 2012 compared to three months ended April 2, 2011**

In the first quarter of 2012, the segment's net revenues were \$2.2 billion, an increase of 3% compared to net revenues of \$2.1 billion in the first quarter of 2011. The increase in net revenues was primarily driven by an 11% increase in average selling price, partially offset by a 3% decrease in unit shipments. On a geographic basis, net revenues increased in the Europe, Middle East and Africa region and Latin America, partially offset by decreased net revenues in Asia and North America.

The segment incurred an operating loss of \$121 million in the first quarter of 2012, compared to an operating loss of \$89 million in the first quarter of 2011. The increase in the operating loss was primarily due to (i) higher selling, general and administrative expenses to support the growth in smartphone volumes and (ii) a decrease in gross margin, partially offset by a 3% increase in net revenues. As a percentage of net revenues in the first quarter of 2012 as compared to the first quarter of 2011, gross margin and R&D expenditures decreased and SG&A expenses increased.

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 first quarter of 2012 were 8.8 million units, a 3% decrease compared to shipments of 9.0 million units in the first quarter of 2011 and a 14% decrease sequentially compared to shipments of 10.3 million units in the fourth quarter of 2011. Smartphone shipments in the first quarter of 2012 were 5.1 million, a 24% increase compared to shipments of 4.1 million smartphones in the first quarter of 2011 and a 5% decrease sequentially compared to shipments of 5.4 million smartphones in the fourth quarter of 2011. In addition to handsets, we also shipped over 100 thousand media tablet units in the first quarter of 2012.

In the first quarter of 2012, segment ASP increased approximately 11% compared to the first quarter of 2011 and increased approximately 3% compared to the fourth quarter of 2011. The increase in ASP in the first quarter of 2012 as compared to the fourth quarter of 2011 was driven by favorable product mix in the first quarter of 2012. 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 first quarter of 2012, the segment's net revenues represented 29% of the Company's consolidated net revenues, compared to 30% for the first quarter of 2011.

<i>(Dollars in millions)</i>	<i>Three Months Ended</i>		<i>% Change</i>
	<i>March 31, 2012</i>	<i>April 2, 2011</i>	
Segment net revenues	\$884	\$904	(2)%
Operating earnings	68	53	28%

**Three months ended March 31, 2012 compared to three months ended April 2, 2011**

In the first quarter of 2012, the segment's net revenues were \$884 million, a decrease of 2% compared to net revenues of \$904 million in the first quarter of 2011. The 2% decrease in net revenues was primarily driven by a 4% decrease in net revenues of set-top boxes, reflecting a 10% decrease in shipments of set-top boxes, partially offset by a higher ASP due to a favorable product mix. Net revenues of video and access infrastructure equipment declined slightly.

Revenues from high definition ( HD ) and standard definition ( SD ) set-top boxes decreased primarily due to lower shipments to large telecommunication and cable operators in North America as a result of lower demand. The decrease in unit shipments of HD and SD set-top boxes was partially offset by an increase in high definition / digital video recorder ( HD/DVR ) set-top boxes due to higher demand for DVR capabilities.

On a geographic basis, net revenues decreased in North America, Latin America and Asia, partially offset by increased net revenues in EMEA. 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 quarter of 2012, compared to approximately 77% in the first quarter of 2011.

The segment had operating earnings of \$68 million in the first quarter of 2012, compared to operating earnings of \$53 million in the first quarter of 2011. The increase in operating earnings was primarily due to (i) an increase in gross margin primarily driven by operational efficiencies and a favorable product mix and (ii) a decrease in SG&A expenditures, primarily due to a non-recurring charge to settle a legal matter during the first quarter of 2011, partially offset by higher R&D expenditures. As a percentage of net revenues in the first quarter of 2012 as compared to the first quarter of 2011, gross margin and R&D expenditures increased and SG&A expenditures decreased.

**Reorganization of Businesses**

During the three months ended March 31, 2012, 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 three months ended April 2, 2011, the Company recorded \$6 million of reversals of reorganization of business charges for accruals no longer needed, including \$3 million of separation-related adjustments for employees that remained with our Former Parent and \$3 million under Other charges in the Company's condensed consolidated statements of operations.

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

**Three Months Ended**

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	<i>March 31,</i> <i>2012</i>	<i>April 2,</i> <i>2011</i>
Mobile Devices	\$	\$(3)
Home		
	\$	\$(3)

Cash payments for exit costs and employee separations in connection with these reorganization plans were \$15 million during the three months ended March 31, 2012 and \$19 million during the three months ended April 2, 2011. The \$11 million reorganization of businesses accrual at March 31, 2012 includes (i) \$7 million relating to employee separation costs that are expected to be paid in 2012 and (ii) \$4 million relating to lease termination obligations that are expected to be paid over a number of years.

### **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 March 31, 2012. At March 31, 2012, \$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 sufficient U.S. cash and cash equivalents to fund its U.S. operations, without the need for funds from foreign operations. In 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 March 31, 2012, Cash deposits were \$429 million, primarily related to various legal disputes. At March 31, 2012, \$267 million of this amount was current and \$162 million of this amount was non-current.

#### ***Deferred Contribution from Former Parent***

Our Former Parent agreed to contribute to us 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). Since Separation, the Company has received \$297 million of the Deferred Contribution from the Former Parent including \$72 million received on April 24, 2012.

#### ***Operating Activities***

The net cash used for operating activities in the first quarter of 2012 was \$98 million, compared to \$107 million of cash generated from operating activities in the first quarter of 2011. The primary contributor to the net cash usage in the first quarter of 2012 was a \$327 million decrease in accounts payable and accrued liabilities, partially offset by a \$138 million decrease in net inventories and a \$74 million decrease in net accounts receivable. The primary contributors to the net cash generation in the first quarter of 2011 were: (i) a \$78 million net decrease in other assets and liabilities, (ii) a \$22 million decrease in other current assets, and (iii) a \$21 million decrease in net accounts receivable, partially offset by a \$16 million increase in net inventories.

*Accounts Receivable:* The Company's net accounts receivable were \$1.7 billion at March 31, 2012, compared to \$1.8 billion at December 31, 2011. Compared to December 31, 2011, net accounts receivable at March 31, 2012 were lower in the Home segment and slightly higher in the Mobile Devices 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 \$569 million at March 31, 2012, compared to \$701 million at December 31, 2011. The decrease in the Company's net inventories was reflective of a decrease in net inventory in the Mobile Devices segment. Inventory management continues to be an area of focus as the Company balances the need to maintain strategic inventory levels to 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 \$1.5 billion at March 31, 2012, compared to \$1.7 billion at December 31, 2011. Accounts payable decreased in both segments. 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 \$15 million in the first quarter of 2012, as compared to \$19 million in the first quarter of 2011. Of the \$11 million reorganization of businesses accrual at March 31, 2012, \$7 million relates to employee separation costs and is expected to be paid over the remainder of 2012. The remaining \$4 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 \$319 million in the first quarter of 2012, compared to net cash used of \$61 million in the first quarter of 2011. The \$258 million increase in net cash used for investing activities was primarily due to a \$265 million increase in cash deposits.

*Acquisitions and Investments:* The Company used \$20 million of net cash for acquisitions and new investment activities in the first quarter of 2012, compared to net cash used of \$11 million in the first quarter of 2011. The cash used in the first quarter of 2012 and 2011 was primarily for small strategic investments across the Company.

*Capital Expenditures:* Capital expenditures were \$33 million in the first quarter of 2012, compared to \$50 million in the first quarter of 2011. 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 \$265 million in the first three months of 2012, compared to no cash deposits being made in the first three months of 2011. The cash deposits made in the first three months of 2012 were primarily to enforce court injunctions related to ongoing legal matters outside of the U.S.

*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 March 31, 2012, the Company's available-for-sale equity securities portfolio had an approximate fair market value of \$4 million, comprised of a cost basis of \$5 million and a net unrealized loss of \$1 million. At December 31, 2011, the Company did not have an available-for-sale equity securities portfolio. 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 \$21 million in the first quarter of 2012, compared to \$3.1 billion of net cash provided in the first quarter of 2011. Cash provided by financing activities in the first three months of 2012 was primarily comprised of \$22 million of cash from stock options being exercised. Cash

provided by financing activities in the first three 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. 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 sheets.

### ***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 on the date hereof. 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 addition to their underwriting/credit standards, which may change from time to time.

### ***Sales of Receivables***

For the three months ended March 31, 2012 and April 2, 2011, total accounts receivable sold by the Company were \$3 million and \$31 million, respectively. As of March 31, 2012 and December 31, 2011, there were no accounts receivable outstanding for which the Company retained servicing obligations.

### ***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 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. The Company is currently engaged in significant patent

litigation with Microsoft and Apple in many different forums within and outside the U.S., including in the U.S. International Trade Commission ( ITC ). We expect final ITC determinations on the Microsoft patent infringement matter against the Company in May 2012 with a sixty-day presidential review period subject to any applicable bonding requirements. An ultimate loss for the Company in an ITC action could result in a prohibition on importing infringing products or products incorporating infringing components into the U.S. The Company's manufacturing is conducted outside the U.S. and we import all of our products into the U.S. An ultimate loss in the ITC also could necessitate workarounds to shift to non-infringing products or limit certain features of our products, increasing costs. Such patent litigation also could result in increased costs for the Company associated with damages, development of non-infringing products, and licenses under the subject intellectual property.

In the opinion of management, the ultimate disposition of these various 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. If the Company is prohibited from importing infringing products into the U.S. and the scope of the prohibition impacts a meaningful portion of the Company's products, disposition of such an ITC matter could have a material impact on Motorola Mobility's consolidated financial position, liquidity or results of operations. See *Part II, Item 1. Legal Proceedings* for more details.

*Tax and Regulatory Proceedings in Brazil:* The Company had approximately \$157 million of cash deposits, including accrued interest, related to various legal disputes in Brazil, which are included in non-current Cash deposits in the Company's condensed consolidated balance sheet as of March 31, 2012. This amount may increase before the end of the year because a trade compliance matter is pending in the intermediate administrative level and may be resolved at that level before the end of the year. If we receive an adverse ruling and are forced to continue to dispute the matter in Brazil's judicial system, we would be required to deposit approximately \$331 million, based on the exchange rate in effect at March 31, 2012, 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

Inventory valuation

Income taxes

Restructuring activities

Valuation and recoverability of goodwill

Valuation and recoverability of long-lived assets

### 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 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 March 31, 2012 and December 31, 2011, the Company had outstanding foreign exchange contracts with notional values totaling \$564 million and \$546 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 March 31, 2012 and the corresponding positions as of December 31, 2011:

<i>Net Buy (Sell) by Currency</i>	<i>Notional Amount</i>	
	<i>March 31, 2012</i>	<i>December 31, 2011</i>
Euro	<b>\$(343)</b>	<b>\$(154)</b>
British Pound	<b>(27)</b>	<b>(10)</b>
Chinese Yuan	<b>31</b>	<b>191</b>
Brazilian Real	<b>41</b>	<b>37</b>
Canadian Dollar	<b>46</b>	<b>47</b>

##### *Interest Rate Risk*

At March 31, 2012 and December 31, 2011, 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. The Company is not exposed to material credit risk with any single counterparty.

#### *Fair Value of Financial Instruments*

The Company's financial instruments include cash equivalents, short-term investments, 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) the ability of the Company and Google Inc. to consummate the proposed transaction and the satisfaction of the conditions precedent to the consummation of the proposed transaction, including the ability to secure regulatory and other approvals at all or in a timely manner; (2) our business strategies, plans and objectives, including the anticipated impact of such strategies, plans and objectives; (3) our future operating and financial performance; (4) our future investment strategies; (5) future levels of revenues, operating margins, income from operations, net income, earnings per share and other financial information; (6) 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; (7) future hedging activities; (8) anticipated levels of demand for our products and services; (9) expectations regarding our research and development activities and intellectual property, including expectations regarding the competitiveness of the patent portfolio; (10) expectations regarding patent litigation, including trends and the impact and timing of a potentially negative result for the Company; (11) the success or timing of completion of ongoing or anticipated capital or maintenance projects; (12) expectations regarding opportunities for growth; (13) expectations regarding availability of materials and components, energy supplies and labor; (14) the resolution, potential effects and timing of judicial or other proceedings on our business, financial condition, results of operations, cash flows and liquidity; (15) the potential effect of the financial markets on our business, financial condition, results of operations, cash flows and liquidity; (16) 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 (17) 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 14 through 34 of our 2011 Annual Report on Form 10-K. 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 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.* There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2012, 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.

## Part II Other Information

### Item 1. Legal Proceedings

#### 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. If granted, the Company may be prohibited from importing into the U.S. products that infringe one or more of Microsoft 's patents. The District Court complaint seeks unspecified monetary damages and injunctive relief.

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. On December 20, 2011, the Administrative Law Judge found that the Company infringed one or more claims of one asserted Microsoft patent. The Administrative Law Judge did not find a violation for six other Microsoft patents. Microsoft and the Company have filed petitions to review the findings of the Administrative Law Judge. On March 2, 2012, the ITC gave notice that it will review the administrative law judge 's initial determination on validity for one remaining Microsoft patent. We expect the ITC will issue a final determination by May 18, 2012.

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. On April 12, 2012, Microsoft obtained a temporary restraining order against the Motorola Mobility defendants that could impact enforcement of any injunctions that may issue against Microsoft products based on H.264 standards essential patents currently pending in Germany.

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 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*. On April 23, 2012, the administrative law judge found violations for four out of five Motorola Mobility and General Instrument Corporation patents. The final determination is currently scheduled for August 23, 2012.

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 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. The counterclaims have been transferred to the U.S. District Court for the Western District of Washington.

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

Later in 2011, Microsoft filed patent infringement complaints in Munich, Germany and Mannheim, Germany alleging that Motorola Mobility Germany GmbH infringed utility patents owned by Microsoft. On December 20, 2011, Microsoft applied for an ex parte injunction in Munich, Germany against Motorola RAZR sold in Germany alleging infringement of one patent. The court denied the request but set a hearing for April 4, 2012. After the hearing, the court denied Microsoft's request for a preliminary injunction.

*Motorola Mobility, Inc. v. Apple Inc.*

On October 6, 2010, Motorola Mobility, Inc. filed a complaint alleging patent infringement against Apple Inc. with the ITC. The matter is entitled *In the Matter of Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof* (Inv. No. 337-TA-745). The complaint alleges that Apple Inc. directly infringes, contributorily infringes and/or induces others to infringe claims of six patents by importing and selling in the United States after importation certain wireless communication devices, portable music and data processing devices, computers, and components thereof without the authorization of Motorola Mobility, Inc. The complaint seeks the issuance of an exclusion order barring from entry into the United States certain products and a cease and desist order prohibiting Apple from importing, marketing and distributing certain products and other related activities. On November 8, 2010, the ITC instituted the investigation. Motorola Mobility subsequently dropped its patent claims with respect to two patents in the ITC investigation. On April 24, 2012, the administrative law judge found violations for one out of four remaining Motorola Mobility patents in his initial determination. We expect the ITC will issue a final determination by August 24, 2012.

On October 6, 2010, Motorola Mobility, Inc. also filed two complaints for patent infringement against Apple Inc., *Motorola Mobility, Inc. v. Apple Inc.*, in the United States District Court for the Northern District of Illinois (the Illinois Complaints). Motorola Mobility, Inc. filed another complaint for patent infringement against Apple, *Motorola Mobility, Inc. v. Apple Inc.*, in the United States District Court for the Southern District of Florida (the Florida Complaint). The complaints allege that Apple directly and/or indirectly infringes eighteen Motorola Mobility patents by making, using, offering for sale and selling in the United States certain products and services. On November 9, 2010, Motorola Mobility, Inc. voluntarily dismissed the Illinois Complaints, which were being asserted as counterclaims in the actions brought by Apple on October 29, 2010 in the United States District Court for the Western District of Wisconsin, as described below. On November 18, 2010, Apple counterclaimed in the Southern District of Florida, alleging infringement of six Apple patents by Motorola Mobility, Inc.'s manufacture and sale of mobile devices, set-top boxes and digital video recorders. Apple later dropped its assertions on two patents.

On October 8, 2010, Motorola Mobility, Inc. filed a complaint for declaratory relief against Apple Inc. and NeXT Software, Inc. in *Motorola Mobility, Inc. v. Apple Inc. and NeXT Software, Inc.*, in the United States District Court for the District of Delaware. The complaint seeks a judgment declaring that Motorola Mobility,



Inc. has not infringed, induced the infringement of, or contributed to the infringement of any valid, enforceable claim of twelve patents owned by Apple and NeXT Software, Inc. On December 2, 2010, Apple asserted these twelve patents against Motorola, Inc. and Motorola Mobility, Inc. in the Western District of Wisconsin, seeking to transfer the Delaware action to Wisconsin. The patent assertions of both parties were subsequently transferred to the Northern District of Illinois.

On October 29, 2010, Apple Inc. filed two complaints alleging patent infringement against Motorola, Inc. and Motorola Mobility, Inc. in *Apple Inc. v. Motorola, Inc. and Motorola Mobility, Inc.*, in the United States District Court for the Western District of Wisconsin. The complaints allege infringement of six patents by Motorola, Inc. and Motorola Mobility, Inc. The complaints allege that Motorola, Inc. and Motorola Mobility, Inc. directly infringe, contributorily infringe and/or induce others to infringe the patents-in-suit by making, using, offering for sale and selling in the United States certain mobile devices and related software. The complaint seeks unspecified monetary damages and injunctive relief. On November 9, 2010, Motorola Mobility, Inc. filed counterclaims against Apple to their complaints alleging infringement by Apple of twelve Motorola Mobility, Inc. patents originally asserted by Motorola Mobility, Inc. in the Northern District of Illinois as above. The Western District of Wisconsin transferred the actions to the Northern District of Illinois. A trial is currently scheduled for June 11, 2012 that may involve four Apple patents and three Motorola Mobility, Inc. patents.

On October 29, 2010, Apple Inc. filed a complaint alleging patent infringement against Motorola, Inc. and Motorola Mobility, Inc. with the United States International Trade Commission. The matter is entitled *In the Matter of Certain Mobile Devices and Related Software* (Inv. No. 337-TA-750). The complaint alleges infringement of three patents by Motorola, Inc. and Motorola Mobility, Inc. The complaint alleges that Motorola, Inc. and Motorola Mobility, Inc. directly infringe, contributorily infringe and/or induce others to infringe the three patents by manufacturing, marketing and selling in the United States mobile devices, such as smartphones, and associated software, including operating systems, user interfaces, and other application software designed for use on, and loaded onto, such devices. The complaint seeks the issuance of an exclusion order barring from entry into the United States certain mobile devices and related software and a cease and desist order prohibiting Motorola from importing, selling, transporting, and other related activities of certain mobile devices and related software. On November 30, 2010, the ITC instituted the investigation. On January 13, 2012, the Administrative Law Judge found that no violation existed for the three asserted Apple patents. Apple has filed a petition to review the findings of the Administrative Law Judge. The ITC reviewed the initial determination and confirmed the finding of no violation on the three asserted Apple patents, terminating the investigation on March 16, 2012.

On March 11, 2011, Apple filed counterclaims against Motorola Mobility, Inc. in the ITC proceeding which were subsequently removed to the United States District Court for the Western District of Wisconsin, and instituted a new action in the Western District of Wisconsin, *Apple Inc. v. Motorola Mobility, Inc.*, alleging that Motorola Mobility, Inc. breached commitments to various standards setting organizations. The counterclaims include equitable estoppel, waiver, breach of contract, violation of Section 2 of the Sherman Act, unfair competition and interference with contract. Apple seeks declaratory judgments that Motorola Mobility, Inc.'s license offers involving standards essential patents have not been on reasonable and non-discriminatory terms and conditions, that Motorola Mobility, Inc. is not entitled to injunctive relief and that Motorola Mobility, Inc. has committed patent misuse.

In March and April 2011, Motorola Mobility, Inc. filed patent infringement complaints in Mannheim, Germany alleging that Apple Retail Germany GmbH, Apple Sales International, and Apple Inc. infringe three patents owned by Motorola Mobility, Inc., two of which are standards-essential patents. In December 2011 and February 2012, the court in Mannheim, Germany found that Apple products infringe two of the three Motorola Mobility patents one standards-essential and one non-essential and granted injunctions. The injunction on the standard essential patent is currently stayed.

From May to December 2011, Apple Inc. filed patent infringement complaints in Munich, Düsseldorf and Mannheim, Germany alleging that Motorola Mobility, Inc. and Motorola Mobility Germany GmbH infringe utility patents and design patents owned by Apple. The design patents are being asserted against Motorola Mobility's tablet products. The court in Munich found that two features on certain Motorola Mobility smartphones infringed two of the Apple utility patents and granted an injunction.

In January 2012, Motorola Mobility, Inc. filed a second complaint for patent infringement in the U.S. District court for the Southern District of Florida alleging infringement of six patents (previously asserted in Florida) against new Apple products. Apple filed a counterclaim and asserted infringement of four patents (previously asserted) against new Motorola Mobility products and adding six additional Apple patents to the action. Motorola Mobility responded by amending the complaint and adding six additional Motorola Mobility patents to the action against Apple products.

On February 10, 2012, Apple Inc. and Apple Sales International commenced litigation against Motorola Mobility, Inc. in the U.S. District Court for the Southern District of California in *Apple Inc. and Apple Sales International v. Motorola Mobility, Inc.* The complaint requests declaratory and injunctive relief based on an alleged breach of contract. Apple alleges that it is a third party beneficiary under a Patent Licensing Agreement between Motorola Mobility, Inc. and Qualcomm, Inc. The complaint alleges that Motorola Mobility's rights under two patents it is asserting against Apple in Germany are exhausted under the Patent Licensing Agreement and asks the court to enjoin Motorola Mobility from prosecuting and enforcing its claims against Apple in Germany. On April 2, 2012, Apple Inc. and Apple Sales International filed an amended complaint asking the court to limit any relief against Motorola Mobility to certain claims brought by Motorola Mobility against Apple anywhere outside of Germany.

On April 2, 2012, the European Commission, Competition Director-General (the Commission) initiated two proceedings to investigate allegations made by Apple on February 17, 2012 and Microsoft on February 23, 2012 that Motorola Mobility has failed to honor the commitment it gave to the European Telecommunications Standards Institute (ETSI) that it would license patents it declared essential to certain ETSI standards (SEPs) on fair, reasonable and non-discriminatory (FRAND) terms. In particular, the Commission will investigate the allegation that Motorola Mobility has infringed the competition rules in licensing negotiations, including by seeking and enforcing injunctions in national courts in relation to some of its ETSI SEPs. On March 2, 2012 and March 11, 2012, respectively, Motorola Mobility responded to the Apple and Microsoft complaints denying the allegations and providing the background of the disputes with Apple and 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 final determinations in the Microsoft ITC 744 proceeding in May 2012 with a sixty-day presidential review period subject to any applicable bonding requirements. 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 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*.

#### *TiVo Matters*

In August 2009, TiVo, Inc. (TiVo) commenced litigation against two customers of our Home business in *TiVo, Inc. v. Verizon Comms., Inc. et al.* and *TiVo, Inc. v. AT&T Inc.* in the U.S. District Court for the Eastern

District of Texas alleging patent infringement related to certain digital video recording ( DVR ) equipment sold by Motorola Mobility to these customers. The complaints seek damages and injunctions against our customers related to our DVR equipment. Verizon and AT&T have made indemnification demands to us based on the lawsuits.

On February 25, 2011, Motorola Mobility, Inc. and General Instrument Corporation (our indirect wholly owned subsidiary) filed a patent infringement complaint against TiVo in the U.S. District Court for the Eastern District of Texas, *Motorola Mobility, Inc. and General Instrument Corporation v. TiVo, Inc.* The complaint alleges infringement of three patents by TiVo DVR products, and requests a declaration that two patents of TiVo are invalid and not infringed by certain DVR products of Motorola Mobility, Inc. and General Instrument Corporation. Our complaint asserts that an actual controversy exists between TiVo and Motorola Mobility, Inc./General Instrument Corporation based on TiVo's accusations of infringement related to our Home business DVR products in the TiVo-Verizon lawsuit, Verizon's indemnification demand to Motorola Mobility, Inc./General Instrument Corporation, and subsequent discovery in the TiVo-Verizon lawsuit directed at our Home business DVR products. On March 26, 2012, TiVo filed its Amended Counterclaims to add a new patent and a new party, Time Warner Cable, as a defendant.

On June 2 and 3, 2011, TiVo filed for reexamination with the U.S. patent and trademark office ( PTO ) on the Verizon patents. On July 22, 2011, Verizon filed reexaminations with the PTO on two of the three TiVo patents.

On January 4, 2012, the *TiVo v. AT&T* matter was settled and on January 6, 2012 it was dismissed by the court.

*Rambus Inc. v. Motorola Mobility, Inc., et al.*

On December 1, 2010, Rambus Inc. ( Rambus ) commenced an Investigation for patent infringement against several companies including Motorola, Inc. in *Certain Semiconductor Chips and Products Containing Same* (Inv. No. 337-TA-753) in the U.S. International Trade Commission ( ITC ). The complaint alleges that Motorola, Inc. designs, imports, and sells wireless gateways, wireless routers, DSL modems, set-top boxes, and digital video recorders incorporating at least Broadcom and LSI products that infringe claims of five Rambus patents. The ITC complaint seeks exclusion and cease and desist orders. On December 29, 2010, the ITC instituted the investigation. On February 15, 2011, Motorola Mobility, Inc. was substituted for Motorola, Inc.

On January 17, 2012, the International Trade Commission, terminated the Investigation as to Broadcom in view of the Settlement Agreement and Patent License Agreement executed between Broadcom and Rambus (the Agreements ). The Agreements also resolve the dispute between Rambus and Broadcom as to products of customer respondents, like Motorola Mobility, to the extent claims are based on Broadcom products incorporated into such customer respondent products. Nvidia, another supplier respondent, settled with Rambus in February 2012 and entered into a license agreement. On February 13, 2012, Nvidia filed a motion to terminate the investigation as to itself and its customers to the extent claims are based on Nvidia products incorporated into customer respondent products. On March 2, 2012, the Administrative Law Judge terminated the investigation as to Motorola Mobility, Inc. On March 29, 2012, the ITC decided not to review that determination.

*Digitide Innovations LLC v. Motorola Mobility Holdings, Inc.*

On December 2, 2011, Digitide Innovations LLC ( Digitide ) commenced an Investigation for patent infringement against Motorola Mobility Holdings, Inc. in *Certain Portable Communication Devices* (Inv. No. 337-TA-827) in the U.S. International Trade Commission, and an action for patent infringement in the U.S. District Court for the District of Delaware. On February 10, 2012, Motorola Mobility, Inc. was substituted for Motorola Mobility Holdings, Inc. in the District of Delaware. On February 10, 2012, the Delaware court stayed the district court action pending the ITC investigation. The complaints in both Delaware and the ITC allege infringement of the same four patents. Digitide alleges that Motorola Mobility manufactures, markets, sells and/or imports infringing mobile electronic devices incorporating technology that infringe the patents at issue. The ITC complaint seeks exclusion and cease and desist orders. On April 19, 2012, the parties settled the dispute.

*Graphics Properties Holdings, Inc. v. Motorola Mobility Holdings, Inc.*

On January 30, 2012, Graphics Properties Holdings, Inc. ( GPH ) filed an Amended International Trade Commission Complaint for patent infringement, adding Motorola Mobility, Inc. and Motorola Mobility Holdings, Inc. to the investigation it commenced in the U.S. International Trade Commission captioned *In Re Certain Consumer Electronics and Display Devices and Products Containing Same* and an action for patent infringement in the U.S. District Court for the District of Delaware in *Graphics Properties Holdings, Inc. v. Motorola Mobility Holdings, Inc.* At the request of GPH, the ITC has delayed a vote on whether or not to institute an investigation. Four patents are asserted against components in Motorola Mobility's products. The Amended Complaint seeks a limited exclusion and cease and desist orders. In March 2012, Motorola Mobility settled the dispute with GPH and the legal proceedings were dismissed with prejudice.

**Personal Injury Cases**

***Cases relating to Wireless Telephone Usage***

*Dahlgren v. Motorola, Inc., et al.*

On September 9, 2002, *Dahlgren v. Motorola, Inc., et al.*, was filed in the D.C. Superior Court containing class claims alleging deceptive and misleading actions by defendants for failing to disclose the alleged debate related to the safety of wireless phones reflected in studies that allegedly show wireless phones can cause harm. On December 9, 2005, Plaintiff filed an amended complaint in *Dahlgren*. On March 5, 2008, the court stayed *Dahlgren* pending the outcome of *Murray v. Motorola, Inc., et al.* After the *Murray* decision, the Court lifted the stay and the Plaintiff amended the complaint to remove the class allegations and sue in a representative capacity on behalf of the General Public of the District of Columbia. *Dahlgren* seeks treble damages or statutory damages in the amount of \$1,500 per violation, whichever is greater, disgorgement of profits, punitive damages, attorneys' fees, costs or disbursements. On July 8, 2010, the court granted Defendant's motion to dismiss in part and denied it in part. The court dismissed claims asserting that Defendants failed to disclose the safety debate regarding cellular telephones and certain claims pre-dating October 2000. The court denied Defendants' argument that federal preemption barred Plaintiff's claims in their entirety. Plaintiff filed a third amended complaint on September 21, 2010. On March 15, 2012, the D.C. Superior Court entered summary judgment in favor of Motorola Mobility. Plaintiff did not appeal and the judgment is final.

*Jean Brooks, individually and as the representative of the Estate of Herbert Brooks v. Motorola Mobility, Inc. et al.*

On April 12, 2012, Jean Brooks, individually and as the representative of the Estate of Herbert Brooks filed suit in the Superior Court for the District of Columbia alleging that use of cellular phone caused Mr. Brooks' brain cancer. The complaint contains counts for fraud and intentional misrepresentation, negligent misrepresentation, strict liability, failure to warn, negligence, breach of implied warranty, loss of consortium, survival, and wrongful death. The complaint seeks \$50 million in compensatory damages plus punitive damages.

***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 March 31, 2012, these assessments collectively represent reasonably possible loss contingencies under the applicable accounting standards of up to approximately \$449 million, based on the exchange rate in effect at March 31, 2012, 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

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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.

For additional information regarding litigation and its potential impact on the Company, see *Part I, Item 1A, Risk Factors*.

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 14 through 34 of the Company's 2011 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.

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

None

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

None

**Item 4. Mine Safety Disclosures**

None

**Item 5. Other Information.**

None

**Item 6. Exhibits**

<i>Exhibit No.</i>	<i>Exhibits</i>
*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. GOOGLE and ANDROID are trademarks of Google Inc.

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**SIGNATURES**

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

Motorola Mobility Holdings, Inc.

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

*(Principal Accounting Officer)*

Date: May 1, 2012

**EXHIBIT INDEX**

<i>Exhibit No.</i>	<i>Exhibits</i>
*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.