Motorola Mobility Holdings, Inc
Form 10-Q
July 29, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the period ended July 2, 2011

or

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

For the transition period from to

Commission file number: 001-34805

MOTOROLA MOBILITY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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 x 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 x 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 x	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 x

The number of shares outstanding of each of the issuer s classes of common stock as of the close of business on July 2, 2011:

Class	**Number of Shares**
Common Stock; $.01 Par Value	296,939,608

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Part I Financial Information

Motorola Mobility Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	***July 2, 2011***	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Net revenues	**$3,337**	$2,609	**$6,369**	$5,089
Costs of sales	**2,473**	1,945	**4,750**	3,830
Gross margin	**864**	664	**1,619**	1,259
Selling, general and administrative expenses	**456**	385	**873**	756
Research and development expenditures	**395**	372	**752**	739
Other charges (income)	**36**	(209)	**53**	(180)
Operating earnings (loss)	**(23)**	116	**(59)**	(56)
Other income (expense):				
Interest income (expense), net	**1**	(18)	**3**	(29)
Gains on sales of investments	**10**		**10**	
Other, net	**(5)**	(6)	**(22)**	(22)
Total other income (expense)	**6**	(24)	**(9)**	(51)
Earnings (loss) before income taxes	**(17)**	92	**(68)**	(107)
Income tax expense	**39**	15	**69**	27
Net earnings (loss)	**(56)**	77	**(137)**	(134)
Less: Loss attributable to non-controlling interests		(3)		(2)
Net earnings (loss) attributable to Motorola Mobility Holdings, Inc.	**$(56)**	$80	**$(137)**	$(132)
Earnings (loss) per common share (Note 3):				
Basic	**$(0.19)**	$0.27	**$(0.46)**	$(0.45)
Diluted	**$(0.19)**	N/A	**$(0.46)**	N/A
Weighted average common shares outstanding:				
Basic	**295.8**	294.3	**295.3**	294.3
Diluted	**295.8**	N/A	**295.3**	N/A

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

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Motorola Mobility Holdings, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(In millions)	***July 2, 2011***	*December 31, 2010*
ASSETS		
Cash and cash equivalents	**$3,026**	$
Accounts receivable, net	**1,843**	1,571
Inventories, net	**744**	843
Deferred income taxes	**80**	110
Other current assets	**620**	595
Total current assets	**6,313**	3,119
Cash deposits	**180**	
Property, plant and equipment, net	**806**	806
Investments	**122**	137
Deferred income taxes	**98**	49
Goodwill	**1,423**	1,396
Other assets	**614**	697
Total assets	**$9,556**	$6,204
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	**$1,728**	$1,731
Accrued liabilities	**2,276**	2,115
Total current liabilities	**4,004**	3,846
Other liabilities	**648**	603
Stockholders Equity		
Common stock: $.01 par value;	**3**	
Authorized shares: 900.0		
Issued shares: 297.6		
Outstanding shares: 296.9		
Additional paid-in capital	**5,051**	
Accumulated other comprehensive loss	**(13)**	(345)
Retained earnings (accumulated deficit)	**(137)**	
Owner s net investment, prior to Separation		2,077
Total Motorola Mobility Holdings, Inc. stockholders equity	**4,904**	1,732
Non-controlling interests		23
Total stockholders equity	**4,904**	1,755
Total liabilities and stockholders equity	**$9,556**	$6,204

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

Motorola Mobility Holdings, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

			Accumulated Other Comprehensive Income (Loss)						
(In millions)	*Shares*	*Common Stock and Additional Paid-in Capital*	*Fair Value Adjustment to Available for Sale Securities, Net of Tax*	*Foreign Currency Translation Adjustments, Net of Tax*	*Retirement Benefits Adjustments, Net of Tax*	*Retained Earnings (Accumulated Deficit)*	*Owner s Net Investment, Prior to Separation*	*Non-Controlling Interests*	*Comprehensive Earnings (Loss)*
Balances at December 31, 2010		**$**	**$14**	**$(349)**	**$(10)**	**$**	**$2,077**	**$23**	
Capital contribution from Former Parent							3,200		
Separation-related adjustments			(5)	346	(4)		(311)	(23)	
Reclassification of Owner s Net Investment to Common Stock and Additional Paid-in Capital in connection with Separation	294.3	4,966					(4,966)		
Net loss						(137)			(137)
Impact of sale of securities, net of tax of $5			(9)						(9)
Foreign currency translation adjustments				4					4
Issuance of common stock and stock options exercised	2.6	2							
Share-based compensation expense		86							
Balances at July 2, 2011	**296.9**	**$5,054**	**$**	**$1**	**$(14)**	**$(137)**	**$**	**$**	**$(142)**

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

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Motorola Mobility Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
(In millions)	***July 2, 2011***	*July 3, 2010*
Operating		
Net loss attributable to Motorola Mobility Holdings, Inc.	**$(137)**	$(132)
Loss attributable to non-controlling interests		(2)
Net loss	**(137)**	(134)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**110**	111
Share-based compensation expense	**86**	78
Non-cash other charges	**17**	1
Gains on sales of investments	**(10)**	
Deferred income taxes	**(15)**	(3)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	**(263)**	51
Inventories	**99**	60
Other current assets	**45**	79
Accounts payable and accrued liabilities	**95**	(89)
Other assets and liabilities	**80**	(97)
Net cash provided by operating activities	**107**	57
Investing		
Acquisitions and investments	**(44)**	(20)
Proceeds from sales of investments	**17**	
Capital expenditures	**(96)**	(42)
Cash deposits	**(23)**	
Other, net	**1**	6
Net cash used for investing activities	**(145)**	(56)
Financing		
Share-based compensation activity	**2**	
Capital contribution from Former Parent, net of cash deposits of $168	**3,032**	
Other, net	**15**	
Net transfers to Former Parent		(28)
Net cash provided by (used for) financing activities	**3,049**	(28)
Effect of exchange rate changes on cash and cash equivalents	**15**	27
Net increase in cash and cash equivalents	**3,026**	
Cash and cash equivalents, beginning of period		
Cash and cash equivalents, end of period	**$3,026**	$
Cash Flow Information		
Cash paid during the period for:		

Interest, net	**$1**	N/A
Income taxes, net of refunds	**89**	N/A

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

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Motorola Mobility Holdings, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Dollars in millions, except as noted)

(Unaudited)

1. Background and Basis of Presentation
Background

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

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

At the time of the Distribution, the Former Parent contributed $3.2 billion in cash, cash equivalents and cash deposits to the Company (the Distribution Date Contribution). Additional contributions totaling $300 million from the Former Parent are due in cash if and when the Former Parent receives cash distributions as a result of the reduction in registered capital of an overseas subsidiary (the Deferred Contribution). On July 22, 2011, the Company received $75 million of the Deferred Contribution due from the Former Parent.

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 July 2, 2011 and December 31, 2010 and for the three months and six months ended July 2, 2011 and July 3, 2010 include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the Company s consolidated financial position, results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the combined financial statements and notes thereto included in the Company s Form 10-K for the year ended December 31, 2010. The results of operations for the three months and six months ended July 2, 2011 are not necessarily indicative of the operating results to be expected for the full year. Certain amounts in prior period financial statements and related notes have been reclassified to conform to the 2011 presentation.

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The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

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

July 3, 2010	*Three Months Ended*	*Six Months Ended*
Leveraged services expenses	**$ 138**	**$ 267**
Employee benefits and incentives	**129**	**208**
Basic research	**2**	**5**
Interest expense (income), net	**15**	**26**
	$ 284	**$ 506**

The Company and the Former Parent considered these leveraged services expenses, employee benefits and incentives, basic research and interest expense (income) allocations to be a reasonable reflection of the services provided to the Company by the Former Parent. For the three months and six months ended July 2, 2011, there are no allocations from the Former Parent in the statement of operations.

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

Prior to Separation, the historical financial statements included a manufacturing joint venture that primarily benefited the Company. Activity in the joint venture for the benefit of the Company began to wind down prior to Separation. Upon Separation, the Company did not retain any ownership in the joint venture and the Company is no longer receiving any manufactured goods from the joint venture. As such, after Separation, the joint venture is no longer included in the consolidated financial statements of the Company. In addition, because the historical financial statements were derived from the Former Parent s accounting records, included in

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the Separation-related adjustments are adjustments to foreign currency translation adjustments, net of tax, in Accumulated other comprehensive loss, to reflect the appropriate opening balances related to the Company s legal entities at Separation.

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

Recently Issued Accounting Pronouncements

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

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

2. Relationship with the Former Parent

In connection with the Separation, the Company entered into a series of agreements with the Former Parent which are intended to govern the relationship between the Company and the Former Parent going forward. These agreements include a Master Separation and Distribution Agreement, intellectual property agreements, a trademark license agreement, a tax sharing agreement and an employee matters agreement. The Company also entered into other related agreements with the Former Parent including transition services agreements. During the three months and six months ended July 2, 2011, the net expense to the Company related to these agreements was not material. See Note 10, *Commitments and Contingencies* , regarding indemnifications to and from the Former Parent.

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3. Other Financial Data

Statement of Operations Information

Other Charges (Income)

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

	Three Months Ended		*Six Months Ended*	
	July 2, 2011	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Legal claim provision	**$20**	$	**$20**	
Intangible asset amortization	**16**	14	**32**	$27
Intangible asset impairment			**4**	
Reorganization of businesses		5	**(3)**	21
Legal settlement		(228)		(228)
	$36	$(209)	**$53**	$(180)

In June 2010, the Company announced that it had entered into a settlement and license agreement with another company, which resolved all outstanding litigation between the two companies. The agreement includes provisions for an upfront payment of $175 million from the other company to the Company, future royalties to be paid by the other company to the Company for the license of certain intellectual property, and the transfer of certain patents between the companies. As a result of this agreement and the valuation of the patents exchanged, the Company recorded a pre-tax gain of $228 million during the three months ended July 3, 2010, related to the settlement of the outstanding litigation between the parties.

Other Income (Expense)

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

	Three Months Ended		*Six Months Ended*	
	July 2, 2011	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Interest income (expense), net:				
Interest income	**$6**	$7	**$10**	$12
Interest expense	**(5)**	(25)	**(7)**	(41)
	$1	$(18)	**$3**	$(29)
Other, net:				
Foreign currency costs	**(10)**	(10)	**(22)**	(19)
Investment impairments		(1)		(8)
Other	**5**	5		5
	$(5)	$(6)	**$(22)**	$(22)

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Earnings (Loss) Per Common Share

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

	Amounts attributable to Motorola Mobility Holdings, Inc. common stockholders			
	Three Months Ended		*Six Months Ended*	
	July 2, 2011	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Basic earnings (loss) per common share:				
Net earnings (loss)	**$(56)**	$80	**$(137)**	$(132)
Weighted average common shares outstanding	**295.8**	294.3	**295.3**	294.3
Per share amount	**$(0.19)**	$0.27	**$(0.46)**	$(0.45)
Diluted earnings (loss) per common share:				
Net earnings (loss)	**$(56)**	N/A	**$(137)**	N/A
Weighted average common shares outstanding	**295.8**	N/A	**295.3**	N/A
Add effect of dilutive securities:				
Share-based awards and other		N/A		N/A
Diluted weighted average common shares outstanding	**295.8**	N/A	**295.3**	N/A
Per share amount	**$(0.19)**	N/A	**$(0.46)**	N/A

For the three months and six months ended July 2, 2011, the Company was in a net loss position and, accordingly, the assumed exercise of 0.6 million and 1.1 million stock options, respectively, and the assumed vesting of 1.7 million and 2.2 million restricted stock units, respectively, were excluded from diluted weighted average shares outstanding because their inclusion would have been anti-dilutive.

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

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 $3.0 billion at July 2, 2011. In addition, the Company had $203 million of cash deposits, primarily related to various legal disputes, at July 2, 2011. At July 2, 2011, $23 million of this amount was current and included in Other current assets in the Company s condensed consolidated balance sheet (all of which was held in the U.S.) and $180 million of this amount was non-current (including $171 million held outside the U.S.). Prior to Separation, the Company participated in the Former Parent s cash management program. As a result, the Company has recorded no cash, cash equivalents or cash deposits on its balance sheet prior to Separation.

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Accounts Receivable

Accounts receivable, net, consists of the following:

	July 2, 2011	December 31, 2010
Accounts receivable	**$1,889**	$1,620
Less allowance for doubtful accounts	**(46)**	(49)
	$1,843	$1,571

Inventories

Inventories, net, consists of the following:

	July 2, 2011	December 31, 2010
Work-in-process and production materials	**$559**	$724
Finished goods	**454**	508
	1,013	1,232
Less inventory reserves	**(269)**	(389)
	$744	$843

Other Current Assets

Other current assets consists of the following:

	July 2, 2011	December 31, 2010
Contractor receivables	**$228**	$239
Deferred costs	**125**	163
Tax refunds receivable	**71**	103
Royalty license arrangements	**51**	44
Cash deposits	**23**	
Other	**122**	46
	$620	$595

Property, Plant and Equipment

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

	July 2, 2011	*December 31, 2010*
Land	**$44**	$44
Building	**712**	716
Machinery and equipment	**1,728**	1,665
	2,484	2,425
Less accumulated depreciation	**(1,678)**	(1,619)
	$806	$806

Depreciation expense for the three months ended July 2, 2011 and July 3, 2010 was $40 million and $48 million, respectively. Depreciation expense for the six months ended July 2, 2011 and July 3, 2010 was $78 million and $84 million, respectively.

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Investments

Investments consists of the following:

July 2, 2011	***Recorded Value***	***Unrealized Gains***	***Less Unrealized Losses***	***Cost Basis***
Available-for-sale securities:				
Common stock and equivalents	$	$	$	$
Other securities, at cost	95			95
Equity method investments	27			27
	$122	$	$	$122

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

During the three months ended July 2, 2011, the Company disposed of Available-for-sale common stock and equivalents resulting in a gain on sale of investments of $10 million.

During the three months and six months ended July 2, 2011, investment impairment charges recorded by the Company were *de minimis*. During the three months and six months ended July 3, 2010, the Company recorded investment impairment charges of $1 million and $8 million, respectively, representing other-than-temporary declines in the value of the Company s investment portfolio, primarily related to other securities recorded at cost. Investment impairment charges are included in Other within Other income (expense) in the Company s condensed consolidated statements of operations.

Other Assets

Other assets consists of the following:

	July 2, 2011	*December 31, 2010*
Royalty license arrangements	**$224**	$228
Intangible assets, net of accumulated amortization of $646 and $614	**176**	205
Deferred costs	**145**	180
Value-added tax refunds receivable	**29**	48
Other	**40**	36

$614	$697

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Accrued Liabilities

Accrued liabilities consists of the following:

	July 2, 2011	*December 31, 2010*
Customer reserves	**$360**	$256
Deferred revenue	**334**	325
Warranty reserves	**258**	206
Royalty license arrangements	**242**	211
Compensation	**226**	246
Contractor payables	**159**	179
Tax liabilities	**102**	140
Other	**595**	552
	$2,276	$2,115

Other Liabilities

Other liabilities consists of the following:

	July 2, 2011	*December 31, 2010*
Deferred revenue	**$194**	$224
Defined benefit pension plans	**99**	93
Facility financing obligation	**98**	96
Deferred income taxes	**79**	79
Unrecognized tax benefits	**7**	18
Other	**171**	93
	$648	$603

4. Risk Management
Derivative Financial Instruments

Foreign Currency Risk

The Company uses financial instruments to reduce its overall exposure to the effects of currency fluctuations on cash flows. The Company s policy prohibits speculation in financial instruments for profit on exchange rate price fluctuations, trading in currencies for which there are no underlying exposures, or entering 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 July 2, 2011 and December 31, 2010, the Company had outstanding foreign exchange contracts with notional values totaling $362 million and $608 million, respectively. Management believes that these financial instruments should not subject the Company to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset losses and gains on the underlying assets, liabilities and transactions, except for the ineffective portion of the instruments, which are charged to Other within Other income (expense) in the Company s condensed consolidated statements of operations.

The following table shows the five largest net notional amounts of the positions to buy or sell foreign currency as of July 2, 2011 and the corresponding positions as of December 31, 2010:

	Notional Amount	
Net Buy (Sell) by Currency	***July 2, 2011***	*December 31, 2010*
Chinese Yuan	**$101**	$14
Indian Rupee	**(26)**	(43)
Brazilian Real	**(26)**	(394)
Korean Won	**(40)**	(30)
Euro	**(58)**	(54)

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 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.

5. Income Taxes

Basis of Presentation

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

Income Tax Expense

For the three months ended July 2, 2011 and July 3, 2010, the Company recorded net income tax expense of $39 million and $15 million, respectively, primarily comprised of taxes on foreign earnings and foreign withholding taxes on royalty and other income.

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For the six months ended July 2, 2011 and July 3, 2010, the Company recorded net income tax expense of $69 million and $27 million, respectively, primarily comprised of taxes on foreign earnings and foreign withholding taxes on royalty and other income.

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

Deferred Income Taxes

As of July 2, 2011, the Company s net deferred tax assets, exclusive of valuation allowances, were $2.5 billion, compared to $2.9 billion as of December 31, 2010. As of July 2, 2011, the valuation allowance against the net deferred tax assets was $2.4 billion, as compared to $2.8 billion as of December 31, 2010.

Included in the net deferred tax assets of $2.5 billion as of July 2, 2011 are: (i) approximately $1.0 billion of deferred tax assets related to capitalized R&D costs that may be amortized for tax purposes through 2019; (ii) approximately $600 million of deferred tax assets related to U.S. and foreign tax loss and credit carry forwards; and (iii) approximately $900 million of deferred taxes related to other temporary differences.

Unrecognized Tax Benefits

The Company had unrecognized tax benefits of $25 million and $101 million, at July 2, 2011 and December 31, 2010, respectively. The decrease in unrecognized tax benefits is attributable to a $76 million decrease relating to post-Separation adjustments.

6. Share-Based Compensation Plans

Upon Separation, all outstanding Former Parent stock options, stock appreciation rights and restricted stock units (RSU) for the Company s employees were replaced with awards in the Company using a formula designed to preserve the intrinsic value and fair value of the award immediately prior to Separation. There was no incremental compensation expense to the Company related to the replacement of the Former Parent share-based compensation awards. Any unrecognized compensation expense related to the replaced awards will be recognized by the Company over the remaining vesting period of the awards. During the six months ended July 2, 2011, the Company began to grant share based compensation to employees and non-employee directors under the Company s incentive plans.

Stock Options

During the six months ended July 2, 2011, the Company granted 9.7 million stock options. The weighted-average estimated fair value of employee stock options granted during the six months ended July 2, 2011 was $11.70. As of July 2, 2011, the Company had 23.9 million stock options and stock appreciation rights outstanding.

Restricted Stock and Restricted Stock Units

During the six months ended July 2, 2011, the Company granted 4.4 million restricted stock (RS) and RSUs with a weighted-average fair market value of $29.33 per RS and RSU. As of July 2, 2011, the Company had 9.2 million RS and RSUs outstanding.

Employee Stock Purchase Plan

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

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

	Three Months Ended		*Six Months Ended*	
	July 2, 2011	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Share-based compensation expense included in:				
Costs of sales	**$4**	$4	**$8**	$7
Selling, general and administrative expenses	**28**	23	**49**	46
Research and development expenditures	**14**	13	**29**	25
Share-based compensation expense included in Operating earnings (loss)	**46**	40	**86**	78
Tax benefit				
Share-based compensation expense, net of tax	**$46**	$40	**$86**	$78

7. Fair Value Measurements

The Company had no non-financial assets or liabilities that are required to be measured at fair value on a recurring basis as of July 2, 2011.

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

Level 1 Quoted prices for identical instruments in active markets.

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

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 July 2, 2011 were as follows:

July 2, 2011	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets:				
Foreign exchange derivative contracts	$	$2	$	$2
Liabilities:				
Foreign exchange derivative contracts	$	$6	$	$6

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8. Sales of Receivables

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

Total sales of accounts receivable were $66 million and $45 million during the three months ended July 2, 2011 and July 3, 2010, respectively, and $97 million and $116 million for the six months ended July 2, 2011 and July 3, 2010, respectively. As of July 2, 2011, there were $66 million of accounts receivable outstanding under these programs for which the Company retained servicing obligations, compared to $43 million at December 31, 2010.

9. Credit Facilities

On January 4, 2011, the Company entered into a $500 million unsecured three-year credit agreement (the Credit Agreement) with a syndicate of lenders. The Credit Agreement provides for a revolving credit facility and a letter of credit facility, is guaranteed by certain of the Company s subsidiaries, and contains restrictive covenants. The Company may use any borrowings under the Credit Agreement for general corporate purposes. No obligations are outstanding under the Credit Agreement as of July 2, 2011.

10. Commitments and Contingencies

Legal

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

Tax and Regulatory Proceedings in Brazil

In connection with the Company s operations in Brazil, Brazilian tax authorities have proposed assessments against the Company s Brazilian subsidiary relating to various technology transfer taxes, duties, value added taxes, certain other taxes and labor related matters related to the subsidiary s operations for calendar years 1997 through 2010. As of July 2, 2011, these assessments collectively represent reasonably possible loss contingencies under the applicable accounting standards of up to approximately $530 million, based on the exchange rate in effect at July 2, 2011, including interest and penalties. However, the Company is vigorously disputing these matters, believes it has valid defenses that are supported by the law, and believes that this amount is not a meaningful indicator of liability. These matters are progressing through the multiple levels of administrative and judicial review available in Brazil. Due to the complexities and uncertainty surrounding the administrative and judicial process in Brazil and the nature of the claims asserted, the Company does not expect a final resolution of these matters for several years.

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

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As of July 2, 2011, the Company had approximately $166 million of cash deposits, including accrued interest, for these matters, which are included in Cash deposits in the Company s condensed consolidated balance sheet as of July 2, 2011.

Indemnifications

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

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

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

11. Segment Information

The Company reports financial results for the following business segments:

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

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

Summarized below are the Company s net revenues and operating earnings (loss) by segment for the three months and six months ended July 2, 2011 and July 3, 2010:

	Net Revenues		*Operating Earnings (Loss)*	
Three Months Ended	***July 2, 2011***	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Mobile Devices	**$2,430**	$1,723	**$(85)**	$87
Home	**907**	886	**62**	29
	$3,337	$2,609		

Operating earnings (loss)	**(23)**	116
Total other income (expense)	**6**	(24)
Earnings (loss) before income taxes	**$(17)**	$92

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Six Months Ended	Net Revenues July 2, 2011	July 3, 2010	Operating Earnings (Loss) July 2, 2011	July 3, 2010
Mobile Devices	**$4,558**	$3,365	**$(174)**	$(105)
Home	**1,811**	1,724	**115**	49
	$6,369	$5,089		
Operating loss			**(59)**	(56)
Total other expense			**(9)**	(51)
Loss before income taxes			**$(68)**	$(107)

12. Reorganization of Businesses

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

2011 Activity

During the three months ended July 2, 2011, the Company recorded $1 million of additional charges related to restructuring actions under Other charges in the Company s condensed consolidated statements of operations, and $1 million of reversals of reorganization of business charges for accruals no longer needed.

During the six months ended July 2, 2011, the Company recorded $6 million of net reversals of reorganization of business charges, including $3 million of Separation-related adjustments for employees that remained with the Former Parent and $4 million of reversals for accruals no longer needed, partially offset by $1 million of additional charges related to restructuring actions under Other charges in the Company s condensed consolidated statements of operations.

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

July 2, 2011	*Three Months Ended*	*Six Months Ended*
Mobile Devices	$	$(3)
Home		
	$	$(3)

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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 July 2, 2011:

	Accruals at January 1, 2011	*Additional Charges*	*Adjustments*	*Amount Used*	*Accruals at July 2, 2011*
Exit costs	$12	$	$	$(2)	$10
Employee separation costs	32	1	(7)	(23)	3
	$44	$1	$(7)	$(25)	$13

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 $2 million used reflects cash payments. The remaining accrual of $10 million, which is included in Accrued liabilities in the Company s condensed consolidated balance sheet at July 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 $7 million reflect reversals of accruals no longer needed and the additional charges of $1 million relate to restructuring actions taken by the Company. During the six months ended July 2, 2011, approximately 600 employees, of which 100 were direct employees and 500 were indirect employees, were separated from the Company. The $23 million used reflects cash payments to these separated employees. The remaining accrual of $3 million is included in Accrued liabilities in the Company s condensed consolidated balance sheet at July 2, 2011.

2010 Activity

During the three months ended July 3, 2010, the Company recorded net reorganization of business charges of $7 million, including $2 million of charges in Costs of sales and $5 million of charges under Other charges in the Company s condensed consolidated statements of operations. Included in the aggregate $7 million are charges of $12 million for employee separation costs, partially offset by $5 million of reversals for accruals no longer needed.

During the six months ended July 3, 2010, the Company recorded net reorganization of business charges of $27 million, including $6 million of charges in Costs of sales and $21 million of charges under Other charges in the Company s condensed consolidated statements of operations. Included in the aggregate $27 million are charges of $36 million for employee separation costs, partially offset by $9 million of reversals for accruals no longer needed.

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

July 3, 2010	*Three Months Ended*	*Six Months Ended*

Mobile Devices	$2	$17
Home	5	10
	$7	$27

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The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2010 to July 3, 2010:

	Accruals at January 1, 2010	*Additional Charges*	*Adjustments*	*Amount Used*	*Accruals at July 3, 2010*
Exit costs	$39	$	$(3)	$(15)	$21
Employee separation costs	33	36	(8)	(35)	26
	$72	$36	$(11)	$(50)	$47

Adjustments include foreign currency translation adjustments.

Exit Costs

At January 1, 2010, the Company had an accrual of $39 million for exit costs attributable to lease terminations. There were no material additional charges related to exit costs. The adjustments of $3 million reflect: (i) $2 million of reversals of accruals no longer needed, and (ii) $1 million of foreign currency translation adjustments. The $15 million used reflects cash payments. The remaining accrual of $21 million was included in Accrued liabilities in the Company s condensed combined balance sheet at July 3, 2010.

Employee Separation Costs

At January 1, 2010, the Company had an accrual of $33 million for employee separation costs, representing the severance costs for approximately 400 employees. The additional charges of $36 million represent severance costs for approximately an additional 1,000 employees, of which 400 were direct employees and 600 were indirect employees. The adjustments of $8 million reflect: (i) $7 million of reversals of accruals no longer needed and (ii) $1 million of foreign currency translation adjustments. During the six months ended July 3, 2010, approximately 700 employees, of which 200 were direct employees and 500 were indirect employees, were separated from the Company. The $35 million used reflects cash payments to these separated employees. The remaining accrual of $26 million was included in Accrued liabilities in the Company s combined balance sheet at July 3, 2010.

13. Intangible Assets and Goodwill

Intangible Assets

Amortized intangible assets were comprised of the following:

	July 2, 2011		*December 31, 2010*	
	Gross Carrying Amount	*Accumulated Amortization*	*Gross Carrying Amount*	*Accumulated Amortization*
Completed technology	**$511**	**$441**	$507	$418
Licensed technology	**106**	**106**	105	105
Patents	**97**	**20**	97	16
Customer-related	**64**	**41**	62	37
In-process research and development	**6**		10	
Other intangibles	**38**	**38**	38	38

	$822	**$646**	$819	$614

Amortization expense on intangible assets, which is included within Other charges, was $16 million and $14 million for the three months ended July 2, 2011 and July 3, 2010, respectively. Amortization expense on

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intangible assets, which is included within Other charges, was $32 million and $27 million for the six months ended July 2, 2011 and July 3, 2010, respectively. As of July 2, 2011, annual amortization expense is estimated to be $60 million in 2011, $43 million in 2012, $33 million in 2013, $19 million in 2014 and $11 million in 2015.

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

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

	July 2, 2011		*December 31, 2010*	
	Gross Carrying Amount	*Accumulated Amortization*	*Gross Carrying Amount*	*Accumulated Amortization*
Mobile Devices	**$150**	**$59**	$153	$53
Home	**672**	**587**	666	561
	$822	**$646**	$819	$614

Goodwill

The following table displays a rollforward of the carrying amount of goodwill by reportable segment from January 1, 2011 to July 2, 2011:

	Mobile Devices	*Home*	*Total*
Balances as of January 1, 2011:			
Aggregate goodwill acquired	$133	$1,391	$1,524
Accumulated impairment losses	(55)	(73)	(128)
Goodwill, net of impairment losses	78	1,318	1,396
Goodwill acquired		25	25
Adjustments	2		2
Balances as of July 2, 2011:			
Aggregate goodwill acquired	135	1,416	1,551
Accumulated impairment losses	(55)	(73)	(128)
Goodwill, net of impairment losses	$80	$1,343	$1,423

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

This commentary should be read in conjunction with Motorola Mobility Holdings, Inc. s (the Company s) condensed consolidated financial statements for the three and six months ended July 2, 2011 and July 3, 2010, as well as the Company s combined financial statements and related notes thereto and management s discussion and analysis of financial condition and results of operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Introduction

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

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

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

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

Results of Operations This section provides an analysis of our results of operations for the three and six months ended July 2, 2011 and July 3, 2010.

Liquidity and Capital Resources This section provides a discussion of our current financial condition and an analysis of our cash flows for the six months ended July 2, 2011 and July 3, 2010.

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

Separation from Motorola, Inc.

On January 4, 2011 (the Distribution Date), Motorola Mobility Holdings, Inc. became an independent, publicly traded company as a result of our Former Parent s distribution of its shares of Motorola Mobility to our Former Parent s stockholders. On the Distribution Date, Former Parent stockholders of record as of the close of business on December 21, 2010 (the Record Date) received one share of Motorola Mobility common stock for every eight shares of Motorola, Inc. common stock held as of the Record Date (the Distribution). Motorola Mobility is comprised of Motorola, Inc. s former Mobile Devices and Home businesses. Our Former Parent s Board of Directors approved the distribution of its shares of

Motorola Mobility Holdings, Inc. on November 30, 2010. Motorola Mobility Holdings, Inc. was incorporated on May 28, 2010 and is the parent of Motorola Mobility, Inc., our main U.S. wholly owned operating subsidiary through which we conduct substantially all of the business activities discussed in this Form 10-Q. Our Registration Statement on Form 10 was declared effective by the U.S. Securities and Exchange Commission on December 1, 2010. Our common stock began trading regular-way under the ticker symbol MMI on the New York Stock Exchange on January 4, 2011.

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

Executive Overview

The Company

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

We operate our business in two segments. The Mobile Devices segment is focused on mobile wireless devices and related products and services. This segment s net revenues were $2.4 billion in the second quarter of 2011 and $1.7 billion in the second quarter of 2010, representing 73% and 66%, respectively, of Motorola Mobility s consolidated net revenues. The Home segment is focused on technologies to provide video entertainment services to consumers by enabling subscribers to access a variety of interactive digital television services. This segment s net revenues were $907 million in the second quarter of 2011 and $886 million in the second quarter of 2010, representing 27% and 34%, respectively, of Motorola Mobility s consolidated net revenues.

Motorola Mobility s Financial Results for the quarter ended July 2, 2011

Net Revenues: Our net revenues were $3.3 billion in the second quarter of 2011, up 28% compared to net revenues of $2.6 billion in the second quarter of 2010. Net revenues increased 41% in the Mobile Devices segment and 2% in the Home segment.

Operating Earnings (Loss): We incurred an operating loss of $23 million in the second quarter of 2011, compared to operating earnings of $116 million in the second quarter of 2010.

Net Earnings (Loss): We incurred a net loss of $56 million in the second quarter of 2011, compared to net earnings of $80 million in the second quarter of 2010.

Operating Cash Flows: We generated $107 million of net cash from operating activities in the first half of 2011, compared to generating $57 million of net cash from operating activities in the first half of 2010.

Financial results for our two business segments for the quarter ended July 2, 2011

In Our Mobile Devices Business: Net revenues were $2.4 billion in the second quarter of 2011, an increase of 41% compared to net revenues of $1.7 billion in the second quarter of 2010. The increase in net revenues was primarily driven by an 8% increase in average selling price (ASP) and by a 33% increase in unit shipments. We shipped 11.0 million mobile devices in the second quarter of 2011, a 33% increase compared to shipments of 8.3 million mobile devices in second quarter of 2010, and a 19% increase sequentially compared to shipments of 9.3 million mobile devices in the first quarter of 2011. We shipped 4.4 million Android-based smartphones in the second quarter of 2011, a 63% increase compared to shipments of 2.7 million in the second quarter of 2010, and a 7% increase sequentially compared to shipments of 4.1 million in the first quarter of 2011. On a geographic basis, net revenues increased substantially in Asia, Latin America, and the Europe, Middle East and Africa region (EMEA), and decreased in North America.

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The segment incurred an operating loss of $85 million in the second quarter of 2011, compared to operating earnings of $87 million in the second quarter of 2010. The change from operating earnings to an operating loss was primarily due to the absence in 2011 of a comparable $228 million gain related to a legal settlement in 2010, partially offset by an increase in gross margin driven by the 41% increase in net revenues. Selling, general and administrative (SG&A) expenses also increased to support the growth in smartphone volumes.

In Our Home Business: Net revenues were $907 million in the second quarter of 2011, an increase of 2% compared to net revenues of $886 million in the second quarter of 2010. The increase in net revenues in the Home segment was primarily driven by a 10% increase in net revenues from sales of set-top boxes, reflecting a 12% increase in shipments of set-top boxes, partially offset by lower ASP. Net revenues from sales of video and access infrastructure equipment declined 10%. On a geographic basis, net revenues increased in North America and Latin America, partially offset by decreased net revenues in EMEA and Asia.

The segment had operating earnings of $62 million in the second quarter of 2011, compared to operating earnings of $29 million in the second quarter of 2010. The increase in operating earnings was primarily due to (i) an increase in gross margin, driven by the 2% increase in net revenues and a favorable product mix shift and (ii) a slight decrease in SG&A expenses, partially offset by an increase in research and development (R&D) expenditures.

Looking Forward

In our Mobile Devices business, while we expect the overall global mobile device market to remain intensely competitive, we expect annual growth in total industry demand over the next several years, particularly in smartphones and media tablets. Our strategy is focused on developing and marketing a comprehensive smartphone portfolio and strengthening our position in priority markets. Our smartphone priorities and areas of differentiation include the following areas: (i) providing a broad based portfolio of devices at multiple price points and distributed through carriers, distributors and retailers globally, (ii) expanding our portfolio to include 4G LTE devices, (iii) software applications and services for consumers, including cloud based social networking, media and content related experiences, (iv) Webtop, a proprietary software application, and related accessories that enable enhanced and more interactive computer-like user experiences, and (v) enterprise-ready devices that address the security and device management needs required for business use. Our mid- to high-tier feature phone portfolio will be limited given declining global demand in this segment of the handset industry. We will continue to develop and market our iDEN portfolio of devices, although we expect overall iDEN unit demand in 2011 to be lower than in 2010. For lower-priced, voice-centric mobile devices, our portfolio will also be limited as we deliver devices to meet certain market needs. To address a new growth opportunity, we are developing a portfolio of media tablets, wireless devices which enable enhanced access to the mobile Internet, content consumption, and enterprise experiences for consumers and business users. We shipped our first LTE-upgradable media tablet, the Motorola XOOM, beginning in the first quarter of 2011. We expect significant annual growth in total industry demand for media tablets over the next several years and for this market to be intensely competitive. Mobile Devices market priorities continue to be primarily North America, China and Latin America, followed by Western Europe and other strategic markets. With the growth in demand for smartphones and media tablets, and by accelerating our speed to market, providing rich consumer experiences and strengthening our brand, we expect to continue to improve the financial performance in our Mobile Devices business.

In our Home business, we expect overall industry demand in 2011 to be comparable to 2010 levels. We expect a return to industry growth when market conditions improve, particularly in the U.S., which may drive increased consumer demand for high definition TV set-top boxes, whole-home IP-based network solutions, 3D-TV, advanced interactive services and converged experiences. In addition, consumer demand for video services is expected to drive the need for infrastructure equipment to optimize networks and storage, increase bandwidth and provide new services across multiple screens, including smartphones, media tablets and TV s. We will continue to leverage our market leadership position in set-top boxes and video delivery systems and in intellectual property to develop innovative solutions for new and emerging market opportunities. As we address these opportunities, we will continue to manage our overall cost structure, focus on the profitability of our core business, and position ourselves for profitable growth.

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

Important suppliers to the company are located in Japan. While we do not expect any significant disruption in our ability to meet our customer needs in the second half of the year, we continue to carefully monitor the continuing impact of the March 2011 earthquake and ensuing tsunami in Japan. Uncertainties remain, including the potential for unanticipated events, which could have a negative impact on our business.

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

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

Results of Operations

(Dollars in millions, except per share amounts)	***July 2, 2011***	***% of Sales***	*Three Months Ended* *July 3, 2010*	*% of Sales*	***July 2, 2011***	***% of Sales***	*Six Months Ended* *July 3, 2010*	*% of Sales*
Net revenues	**$3,337**		$2,609		**$6,369**		$5,089	
Costs of sales	**2,473**	**74.1%**	1,945	74.5%	**4,750**	**74.6%**	3,830	75.3%
Gross margin	**864**	**25.9%**	664	25.5%	**1,619**	**25.4%**	1,259	24.7%
Selling, general and administrative expenses	**456**	**13.7%**	385	14.8%	**873**	**13.7%**	756	14.8%
Research and development expenditures	**395**	**11.8%**	372	14.3%	**752**	**11.8%**	739	14.5%
Other charges (income)	**36**	**1.1%**	(209)	(8.0)%	**53**	**0.8%**	(180)	(3.5)%
Operating earnings (loss)	**(23)**	**(0.7)%**	116	4.4%	**(59)**	**(0.9)%**	(56)	(1.1)%
Other income (expense):								
Interest income (expense), net	**1**	**%**	(18)	(0.7)%	**3**	**%**	(29)	(0.6)%
Gains on sales of investments	**10**	**0.3%**		%	**10**	**0.2%**		%
Other, net	**(5)**	**(0.1)%**	(6)	(0.2)%	**(22)**	**(0.3)%**	(22)	(0.4)%
Total other income (expense)	**6**	**0.2%**	(24)	(0.9)%	**(9)**	**(0.1)%**	(51)	(1.0)%
Earnings (loss) before income taxes	**(17)**	**(0.5)%**	92	3.5%	**(68)**	**(1.1)%**	(107)	(2.1)%
Income tax expense	**39**	**1.2%**	15	0.5%	**69**	**1.1%**	27	0.5%
Net earnings (loss)	**(56)**	**(1.7)%**	77	3.0%	**(137)**	**(2.2)%**	(134)	(2.6)%
Less: Loss attributable to non-controlling interests		**%**	(3)	(0.1)%		**%**	(2)	(0.0)%
Net earnings (loss) attributable to Motorola Mobility Holdings, Inc.	**$(56)**	**(1.7)%**	$80	3.1%	**$(137)**	**(2.2)%**	$(132)	(2.6)%

Three months ended July 2, 2011 compared to three months ended July 3, 2010

Net Revenues

Net revenues were $3.3 billion in the second quarter of 2011, up 28% compared to net revenues of $2.6 billion in the second quarter of 2010. The increase in net revenues reflects: (i) a $707 million, or 41%, increase in net revenues in the Mobile Devices segment, and (ii) a $21 million, or 2%, increase in net revenues in the Home segment. The 41% increase in net revenues in the Mobile Devices segment was primarily driven by an 8% increase in average selling price (ASP) and by a 33% increase in unit shipments. The 2% increase in net revenues in the Home business was primarily driven by a 10% increase in net revenues from sales of set-top boxes, partially offset by a 10% decline in net revenues from sales of video and access infrastructure equipment.

Gross Margin

Gross margin was $864 million, or 25.9% of net revenues, in the second quarter of 2011, compared to $664 million, or 25.5% of net revenues, in the second quarter of 2010. The increase in gross margin reflects higher gross margin in both segments. The increase in gross margin in the Mobile Devices segment was primarily driven by the 41% increase in net revenues. The increase in gross margin in the Home segment was primarily due to the 2% increase in net revenues and a favorable product mix shift. The increase in gross margin as a percentage of net sales in the second quarter of 2011 compared to the second quarter of 2010 reflects an increase in gross margin percentage in the Home segment partially offset by a decrease in gross margin percentage in the Mobile Devices segment. The Company s overall gross margin as a percentage of net revenues can be impacted by the proportion of overall net revenues generated by its two businesses.

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Selling, General and Administrative Expenses

SG&A expenses increased 18% to $456 million, or 13.7% of net revenues, in the second quarter of 2011, compared to $385 million, or 14.8% of net revenues, in the second quarter of 2010. The increase in SG&A expenses reflects higher SG&A expenses in the Mobile Devices segment, partially offset by a slight decrease in SG&A expenses in the Home segment. The increase in the Mobile Devices segment was to support the growth in smartphone volumes. SG&A expenses as a percentage of net revenues decreased in both segments.

Research and Development Expenditures

R&D expenditures increased 6% to $395 million, or 11.8% of net revenues, in the second quarter of 2011, compared to $372 million, or 14.3% of net revenues, in the second quarter of 2010. The increase in R&D expenditures reflects higher R&D expenditures in both segments. R&D expenditures as a percentage of net revenues increased in the Home segment and decreased in the Mobile Devices segment. The Company participates in very competitive industries with constant changes in technology and, accordingly, the Company continues to believe that a strong commitment to R&D is required to drive long-term growth.

Other Charges (Income)

The Company recorded other charges of $36 million in the second quarter of 2011, compared to other income of $209 million in the second quarter of 2010. The charges in the second quarter of 2011 were primarily comprised of $20 million of charges related to a legal claim provision and $16 million of charges relating to the amortization of intangibles. The other income in the second quarter of 2010 included a $228 million gain related to a legal settlement, partially offset by: (i) $14 million of charges relating to the amortization of intangibles and (ii) $5 million of net reorganization of business charges. The net reorganization of business charges are discussed in further detail in the section entitled Reorganization of Businesses included elsewhere within this document.

Interest Income (Expense), Net

Net interest income was $1 million in the second quarter of 2011, compared to net interest expense of $18 million in the second quarter of 2010. Net interest income in the second quarter of 2011 includes interest income of $6 million, partially offset by interest expense of $5 million. Net interest expense in the second quarter of 2010 included interest expense of $25 million, partially offset by interest income of $7 million. Prior to separation, our interest income and expense primarily represents amounts allocated from our Former Parent.

Gains on Sales of Investments

Gains on sales of investments were $10 million in the second quarter of 2011. We did not have gains on sales of investments in the second quarter of 2010. In the second quarter of 2011, the net gain was primarily comprised of gains related to sales of certain of the Company s available-for-sale securities.

Other, Net

Net expense classified as Other, net, as presented in Other income (expense), was $5 million in the second quarter of 2011, compared to $6 million in the second quarter of 2010. The net expense in the second quarter of 2011 was primarily comprised of $10 million of foreign currency costs. The net expense in the second quarter of 2010 was primarily comprised of $10 million of foreign currency costs.

Income Tax Expense

The Company recorded income tax expense of $39 million in the second quarter of 2011 as compared to $15 million in the second quarter of 2010. The expense for both the second quarters of 2011 and 2010 was comprised of taxes on foreign earnings and foreign withholding taxes on royalty and other income. The Company has not recorded a tax benefit on its U.S. losses due to its recent history of cumulative U.S. losses.

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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 Earnings (Loss)

The Company incurred a loss before income taxes of $17 million in the second quarter of 2011, compared with earnings before income taxes of $92 million in the second quarter of 2010. After taxes, and excluding Loss attributable to non-controlling interests, the Company incurred a net loss of $56 million in the second quarter of 2011, compared to net earnings of $80 million in the second quarter of 2010.

The change to a loss before income taxes in the second quarter of 2011 compared to earnings before income taxes in the second quarter of 2010 was primarily attributable to: (i) a $245 million change in Other charges (income), primarily due to the absence in 2011 of a comparable $228 million gain related to a legal settlement in 2010, and (ii) a $71 million increase in SG&A expenses, partially offset by a $200 million increase in gross margin, primarily due to an increase in revenues.

Six months ended July 2, 2011 compared to six months ended July 3, 2010

Net Revenues

Net revenues were $6.4 billion in the first half of 2011, up 25% compared to net revenues of $5.1 billion in the first half of 2010. The increase in net revenues reflects: (i) a $1.2 billion, or 35%, increase in net revenues in the Mobile Devices segment, and (ii) an $87 million, or 5%, increase in net revenues in the Home segment. The 35% increase in net revenues in the Mobile Devices segment was primarily driven by a 14% increase in ASP and by a 20% increase in unit shipments. The 5% increase in net revenues in the Home business was primarily driven by a 10% increase in net revenues from sales of set-top boxes, partially offset by a 5% decline in net revenues from sales of video and access infrastructure equipment.

Gross Margin

Gross margin was $1.6 billion, or 25.4% of net revenues, in the first half of 2011, compared to $1.3 billion, or 24.7% of net revenues, in the first half of 2010. The increase in gross margin reflects higher gross margin in both segments. The increase in gross margin in the Mobile Devices segment was primarily driven by (i) the 35% increase in net revenues and (ii) a favorable product mix, specifically due to increased volume of smartphone devices. The increase in gross margin in the Home segment was primarily due to the 5% increase in net revenues and a favorable product mix shift. The increase in gross margin as a percentage of net sales in the first half of 2011 compared to the first half of 2010 reflects an increase in gross margin percentage in both segments. The Company s overall gross margin as a percentage of net revenues can be impacted by the proportion of overall net revenues generated by its two businesses.

Selling, General and Administrative Expenses

SG&A expenses increased 15% to $873 million, or 13.7% of net revenues, in the first half of 2011, compared to $756 million, or 14.8% of net revenues, in the first half of 2010. The increase in SG&A expenses reflects higher SG&A expenses in the Mobile Devices segment. The increase in the Mobile Devices segment was to support the growth in smartphone volumes. SG&A expenses as a percentage of net revenues decreased in both segments.

Research and Development Expenditures

R&D expenditures increased 2% to $752 million, or 11.8% of net revenues, in the first half of 2011, compared to $739 million, or 14.5% of net revenues, in the first half of 2010. The increase in R&D expenditures reflects slightly higher R&D expenditures in both segments. R&D expenditures as a percentage of net revenues decreased in both segments. The Company participates in very competitive industries with constant changes in technology and, accordingly, the Company continues to believe that a strong commitment to R&D is required to drive long-term growth.

Other Charges (Income)

The Company recorded other charges of $53 million in the first half of 2011, compared to other income of $180 million in the first half of 2010. The charges in the first half of 2011 were primarily comprised of $32 million of charges relating to the amortization of intangibles and $20 million of charges related to a legal claim provision. The other income in the first half of 2010 included a $228 million gain related to a legal settlement, partially offset by: (i) $27 million of charges relating to the amortization of intangibles and (ii) $21 million of net reorganization of business charges.

Interest Income (Expense), Net

Net interest income was $3 million in the first half of 2011, compared to net interest expense of $29 million in the first half of 2010. Net interest income in the first half of 2011 includes interest income of $10 million, partially offset by interest expense of $7 million. Net interest expense in the first half of 2010 included interest expense of $41 million, partially offset by interest income of $12 million.

Gains on Sales of Investments

Gains on sales of investments were $10 million in the first half of 2011. We did not have gains on sales of investments in the first half of 2010. In the first half of 2011, the net gain was primarily comprised of gains related to sales of certain of the Company s available-for-sale securities.

Other, Net

Net expense classified as Other, net, as presented in Other income (expense), was $22 million in the first half of 2011 and the first half of 2010. The net expense in the first half of 2011 was primarily comprised of $22 million of foreign currency costs. The net expense in the first half of 2010 was primarily comprised of (i) $19 million of foreign currency costs and (ii) $8 million of investment impairment charges.

Income Tax Expense

The Company recorded income tax expense of $69 million in the first half of 2011 as compared to $27 million in the first half of 2010. The expense for both the first halves of 2011 and 2010 was comprised of taxes on foreign earnings and foreign withholding taxes on royalty and other income. The Company has not recorded a tax benefit on its U.S. losses due to its recent history of cumulative U.S. losses.

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

Net Earnings (Loss)

The Company incurred a loss before income taxes of $68 million in the first half of 2011, compared with a loss before income taxes of $107 million in the first half of 2010. After taxes, and excluding Loss attributable to non-controlling interests, the Company incurred a net loss of $137 million in the first half of 2011, compared to a net loss of $132 million in the first half of 2010.

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The improvement in the loss before income taxes in the first half of 2011 compared to the first half of 2010 was primarily attributable to a $360 million increase in gross margin, primarily due to an increase in revenues. The increase in gross margin was partially offset by (i) a $233 million change in Other charges (income), primarily due to the absence in 2011 of a comparable $228 million gain related to a legal settlement in 2010, and (ii) a $117 million increase in SG&A expenses.

Segment Results

The following commentary should be read in conjunction with the financial results of each operating business segment as detailed in Note 11, *Segment Information*, to the Company s condensed consolidated financial statements as of and for the three months and six months ended July 2, 2011. Net revenues and operating results for the Company s two operating business segments for the three months and six months ended July 2, 2011 and July 3, 2010, are presented below.

Mobile Devices Segment

The **Mobile Devices** segment designs, manufactures, sells and services wireless mobile devices, including smartphones and media tablets, with integrated software and accessory products, and licenses intellectual property. For the second quarter of 2011, the segment s net revenues represented 73% of the Company s consolidated net revenues, compared to 66% for the second quarter of 2010. For the first half of 2011, the segment s net revenues represented 72% of the Company s consolidated net revenues, compared to 66% for the first half of 2010.

	Three Months Ended			*Six Months Ended*		
	July 2, 2011	*July 3, 2010*	*% Change*	***July 2, 2011***	*July 3, 2010*	*% Change*
Segment net revenues	**$2,430**	$1,723	41%	**$4,558**	$3,365	35%
Operating earnings (loss)	**(85)**	87	(198)%	**(174)**	(105)	66%

Three months ended July 2, 2011 compared to three months ended July 3, 2010

In the second quarter of 2011, the segment s net revenues were $2.4 billion, an increase of 41% compared to net revenues of $1.7 billion in the second quarter of 2010. The increase in net revenues was primarily driven by a 8% increase in ASP and by a 33% increase in unit shipments. On a geographic basis, net revenues increased substantially in Asia, Latin America, and the Europe, Middle East and Africa region (EMEA), and decreased in North America.

The segment incurred an operating loss of $85 million in the second quarter of 2011, compared to operating earnings of $87 million in the second quarter of 2010. The change from operating earnings to an operating loss was primarily due to the absence in 2011 of a comparable $228 million gain related to a legal settlement in 2010, partially offset by an increase in gross margin driven by the 41% increase in net revenues. Selling, general and administrative (SG&A) expenses also increased to support the growth in smartphone volumes. As a percentage of net revenues in the second quarter of 2011 as compared to the second quarter of 2010, gross margin, SG&A and research and development (R&D) expenditures decreased.

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

Handset unit shipments in the second quarter of 2011 were 10.6 million units, a 28% increase compared to shipments of 8.3 million units in the second quarter of 2010 and an 18% increase sequentially compared to

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