

Motorola Mobility Holdings, Inc
Form 10-K
February 17, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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)

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DELAWARE
(State of Incorporation)

27-2780868
(I.R.S. Employer Identification No.)

600 N. U.S. Highway 45, Libertyville, Illinois 60048

(Address of principal executive offices)

(847) 523-5000

(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 Par Value per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 aggregate market value of the registrant's common stock as of July 2, 2011 (the last business day of the registrant's most recently completed second quarter) was approximately \$7.0 billion.

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The number of shares of the registrant's Common Stock, \$.01 par value per share, outstanding as of January 31, 2012 was 302,017,237.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be delivered to stockholders in connection with its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking statements in our public filings or other public statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other public statements. These forward-looking statements were based on various facts and were derived utilizing numerous important assumptions and other important factors, and changes in such facts, assumptions or factors could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives. Statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, projects, estimates, plans, may increase, may decrease, and similar expressions or future or conditional verbs such as will, should, would, may and could are generally forward-looking in nature and not historical facts. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. You should understand that the factors described under *Risk Factors* and the following important factors could affect our future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

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;

adverse developments in general business, economic and political conditions or any outbreak or escalation of hostilities on a national, regional or international basis;

the rapidly changing and intensely competitive nature of the Mobile Devices and Home businesses, including competition in our existing and future lines of business and the financial resources of competitors;

the uncertain economic climate and its impact on the markets in general or on the ability of our suppliers to meet their commitments to us, or the timing of purchases by our current and potential customers, and other general economic and business conditions;

adverse results in existing or new litigation, including an adverse result that could prohibit the importation of our products into the U.S.;

the impact of our separation from Motorola, Inc. and risks relating to our ability to operate effectively as an independent, publicly traded company;

changes in our cost structure, management, financing and business operations;

fluctuations in our operating results, unanticipated delays or accelerations in our sales cycles and the difficulty of accurately estimating revenues; and

risks inherent in operating in foreign countries, including the impact of economic, political, legal, regulatory, compliance, cultural, foreign currency fluctuations and other conditions abroad.

Except for historical matters, the matters discussed in this Annual Report on Form 10-K are forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements that relate to, or statements that are subject to risks, contingencies or uncertainties that relate to, for example:

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our business strategies, plans and objectives, including the anticipated impact of such strategies, plans and objectives;

the expected closing date of the proposed Google transaction;

our future operating and financial performance;

future levels of revenues, operating margins, income from operations, net income, earnings per share and other financial information;

expectations regarding the Company's ability to finance its operations and its ability to obtain, and the cost of, performance related bonds;

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future hedging activities;

anticipated levels of demand for our products and services;

expectations regarding our research and development activities and intellectual property, including expectations regarding the competitiveness of the patent portfolio;

the success or timing of completion of ongoing or anticipated capital or maintenance projects;

expectations regarding opportunities for growth;

expectations regarding availability of materials and components, energy supplies and labor;

the potential effects of judicial or other proceedings and of the financial markets on our business, financial condition, results of operations and cash flows; and

the anticipated effects of actions of third-parties such as competitors, counterparties, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation, including amounts of judicial deposits.

In particular, information included under *Business*, *Risk Factors*, and *Management's Discussion and Analysis of Financial Condition and Results of Operations* contain forward-looking statements.

Other factors not identified above, including the risk factors described in the section entitled *Risk Factors* included elsewhere in this Annual Report on Form 10-K, may also cause actual results to differ materially from those projected by our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our reasonable control.

You should consider the areas of risk described above, as well as those set forth in the section entitled *Risk Factors* included elsewhere in this Annual Report on Form 10-K, in connection with considering any forward-looking statements that may be made by us and our businesses generally. We can give no assurance that any future results or events discussed in these statements will be achieved. The forward-looking statements included in this document are made as of the date of this Annual Report on Form 10-K and should not be relied upon as representing our views as of any subsequent date. We undertake 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.

MOTOROLA and the Stylized M Logo are trademarks or registered trademarks of Motorola Trademark Holdings, LLC. DROID is a trademark of Lucasfilm Ltd. and its related companies. Used under license. GOOGLE and ANDROID are trademarks of Google Inc. KEVLAR is a registered trademark of DUPONT and is used under license by Motorola Mobility, Inc. and its subsidiaries. All other product or service names are the property of their respective owners. © 2012 Motorola Mobility, Inc. All rights reserved.

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Throughout this 10-K report we incorporate by reference certain information in parts of other documents filed with the Securities and Exchange Commission (the SEC). The SEC allows us to disclose important information by referring to it in that manner. Please refer to such information.

We are making forward-looking statements in this report. In Item 1A: Risk Factors we discuss some of the risk factors that could cause actual results to differ materially from those stated in the forward-looking statements.

Motorola Mobility (which may be referred to as the Company, we, us, or our) means Motorola Mobility Holdings, Inc. or Motorola Mobility Holdings, Inc. and its subsidiaries, or one of our segments, as the context requires. Motorola is a registered trademark of Motorola Trademark Holdings, LLC.

Item 1: Business**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 Motorola, Inc.'s distribution of its shares of Motorola Mobility to Motorola, Inc. stockholders. On the Distribution Date, Motorola, Inc. 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). Our common stock began trading regular-way under the ticker symbol MMI on the New York Stock Exchange on January 4, 2011. Motorola, Inc. changed its name to Motorola Solutions, Inc. (hereinafter, our Former Parent) effective on separation 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 and Turkey. Under the merger agreement, antitrust clearances, or waiting period expirations, are also required in China and Taiwan. Requisite filings have been submitted to the appropriate regulatory body in each of these jurisdictions. In December 2011, the Chinese Ministry of Commerce proceeded to phase two of its investigation and the investigation is pending. Clearance in Taiwan also is pending. The Company currently expects the transaction to close in early 2012 once all conditions have been satisfied and reminds stockholders that it is possible that the failure to timely meet such conditions or other factors outside of the Company's control could delay or prevent completion of the transaction altogether.

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 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

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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. The Merger Agreement and related materials can be found in the Company's SEC filings at www.sec.gov.

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Motorola Mobility

Motorola Mobility Holdings, Inc. 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 video, voice, messaging and cloud-based and Internet-based applications and services to multiple screens, such as mobile devices, televisions, media tablets, and personal computers (multi-screens). Our product portfolio primarily includes mobile devices, including smartphones and media tablets, wireless accessories, set-top boxes and video distribution systems, and broadband access infrastructure products and associated customer premises equipment (CPE). 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, our Mobile Devices segment and our Home segment.

Our Mobile Devices business portfolio includes a wide variety of devices, including the DROID by Motorola family of smartphones, including our new DROID RAZR and DROID RAZR MAXX, each available in 4G, the latest generation of mobile device technology. The DROID RAZR was launched in late 2011 and noted among top-tier smartphones for the thinness of its form factor (which is the physical look and mechanical function of a device), build quality and user experiences. Improved battery life is also an important improvement of the RAZR MAXX relative to other 4G smartphones. Other smartphones include our ATRIX series of smartphones and the DEFY family of smartphones, which are resistant to moisture, shock and other environmental hazards. In 2011, we entered the media tablet market with the introduction of the MOTOROLA XOOM and MOTOROLA XYBOARD family of devices. Our mobile devices and accessories feature applications and services to enhance the consumer experience, such as our Smart Actions software, which simplifies device management, enhances ease of use, automates configuration changes and improves battery life. We also feature a cloud-based services platform that enables a variety of advanced diagnostics and analytics solutions for our end users and carrier partners as well as manages, aggregates, automatically delivers (referred to as push) and uploads personalized digital content, such as photos, videos and social networking updates.

Our Home business portfolio includes video, voice and data solutions for service providers networks to the home, in the home and beyond the home. This includes a broad array of advanced set-top boxes, data and voice gateways, our first video gateway platform and video processing and broadband access infrastructure solutions. To enable emerging multi-screen and converged media experiences, our Medios services platform enables service providers to deliver more content on more devices, anywhere, at any time. As more video IP devices become connected to IP networks, our Dream Gallery cloud-based video tool enables consistent experiences to discover, consume and share media across multiple devices.

We sell our products globally and in 2011 our net revenues were \$13.1 billion. We have approximately 20,500 employees and we operate in approximately 40 countries, with major facilities in the U.S., China, Brazil and Taiwan. Our direct customers are large, leading telecommunications and cable operators. We also sell our products through retailers and distributors. We are strongly committed to research and development and we have a broad portfolio of approximately 17,500 granted patents and approximately 6,500 pending patent applications worldwide.

Business Segments

We report financial results for two business segments: Mobile Devices and Home.

Mobile Devices Segment

The Mobile Devices segment is a provider of mobile devices and related products and services designed to deliver mobile communications, such as voice, messaging, push-to-talk and video, and to deliver mobile Internet access and content, including multimedia, social networking, navigation and other mobile applications. Mobile Devices net revenues represented 73% of Motorola Mobility's consolidated net revenues in 2011.

Our Products

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We design, manufacture and sell a range of mobile devices encompassing multiple network technologies, form factors, capabilities, price points and geographies. Our product portfolio of mobile devices includes smartphones

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(which are wireless phones with advanced Internet browsing and application capabilities), feature phones (which are wireless phones with limited Internet browsing and application capabilities), voice-centric phones (which are primarily used for calls and text messaging), and media tablet devices (also known as slates) that offer enhanced multimedia and functionality to the end user. Certain of our smartphones include our Webtop software, which when connected to our Lapdock accessory, replicate a desktop PC-like computing experience. In 2011, we introduced MOTOACTV, a wearable health- and fitness-oriented device designed to work with our MOTOACTV Web portal for online, automatic tracking of activities. We also provide complementary mobile software, services and accessories and license our extensive portfolio of intellectual property. We market our products globally to mobile network operators and carriers (collectively wireless carriers) and consumers through direct sales, retailers and distributors.

Our Industry

In 2011, the wireless mobile device industry, including wireless handsets and media tablets, continued to grow. Total industry unit shipments of wireless handsets increased more than 10% from 2010. The smartphone segment grew on a unit basis approximately 50% from 2010 to 2011. We expect growth in the smartphone segment of the wireless handset market to be in a range of 30% to 40% for the full year 2012. In addition, wireless connectivity is being integrated into new classes of devices (converged devices), including media tablets. We expect the market for media tablet units to grow more than 50% in 2012. The largest opportunity for profitable growth in the wireless mobile device industry is in smartphones and media tablets. Currently, there are a large number of manufacturers competing in this market. We expect competition to increase in 2012 as several competitors, including Nokia and several China-based manufacturers, significantly expand their smartphone and media tablet portfolios. We also expect continued significant competition from Apple for reasons including their differentiated user experiences, distribution capabilities, extensive marketing of their products and consumer loyalty and from Samsung for reasons including their vertical supply chain integration, distribution capabilities and extensive marketing of their products.

Key drivers of mobile device industry growth include:

Growing Consumer Demand for Broadband-Enabled Multi-Function Devices. The mobile device is continuing to evolve from a voice-only communications device to a multi-function device with features like digital still camera, video camera, music player, organizer, email and calendars, Internet browsing and gaming. Consumers' desires for mobile data and their evolving communication patterns will continue to drive the demand for multi-function devices with enhanced, personalized mobile experiences, including easy access to the Internet, content and applications on a real-time basis. Even in countries where smartphone and multi-function device penetration is well established, we believe the increased capabilities of fourth-generation (4G) broadband smartphones compared to 2G and 3G smartphones represents a compelling, demand-generating value proposition for consumers and enterprise users.

Wireless Carriers Focus on Growing Data ARPU. In response to intense competition and shifting consumer communication behavior, we expect wireless carriers to continue to focus on increasing data average revenue per user (ARPU) to offset declining voice and text messaging ARPU. To drive data ARPU, we believe wireless carriers will continue to promote smartphones and converged devices that provide Internet access, applications and services. In addition, wireless carriers are continuing to deploy higher bandwidth wireless technologies with 4G standards to better support smartphones and converged devices that enhance consumers' overall mobile experiences.

Advanced Device Technology. High performance mobile microprocessors, advanced mobile browsers and high speed wireless networks are enabling mobile devices to provide functionality similar to what consumers experience on a personal computer. Advanced operating systems have enabled third-party developers to create thousands of new innovative mobile applications that consumers can easily download and install on their mobile devices. Additionally, the high-resolution, sophisticated imaging capabilities available in many smartphones are delivering picture and video qualities that rival stand-alone digital cameras.

Emergence of Mobile Cloud-Based Services. Increasingly, consumers are seeking cloud-based services and applications to deliver information and content to their mobile devices and provide user experiences. Examples of these services include storing, sharing and consumption of media, social networking and location-based services, such as navigation.

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Increasing Consumer Choices Within the Enterprise. Businesses are increasingly permitting employees to choose the mobile devices they use in the workplace. At the same time, employees are seeking multi-functional devices to serve business and personal applications. Collectively, these trends connote the consumerization of IT.

Participants in the mobile devices industry are competing in an intensively competitive and rapidly evolving marketplace. To be successful, manufacturers must consistently innovate and deliver a differentiated product portfolio and compelling consumer experiences through the growing ecosystem of applications and services. This requires extensive intellectual property assets and expertise in the integration of hardware, software and, increasingly, services. Manufacturers must also have strong wireless carrier relationships, global distribution capabilities, including a strong retail presence, extensive marketing support for their products and a strong brand. In addition, as the smartphone and tablet markets have evolved, it is increasingly important to achieve scale. Scale can provide benefits in the area of component costs, distribution efficiency, marketing leverage and brand.

Our Strengths

We believe the strengths of our Mobile Devices segment position us well to bring to market innovative and differentiated products and services. Our key strengths include:

Innovative Mobile Technologies. We have a long history of developing innovative mobile devices including the DynaTAC, the first portable cellular phone; the StarTAC® and RAZR® phones; and the DROID by MOTOROLA family of smartphones, including the recently launched DROID RAZR and DROID RAZR MAXX, both available using 4G technology. We have devoted extensive research and development resources into integrating advanced technologies such as multiple radio interfaces, mobile microprocessors, advanced mobile operating systems and advanced multimedia functionality and industrial design into our mobile devices. We have also committed significant development resources to software application and services development. We provide a cloud-based service platform to enable the delivery of differentiated user experiences, including, for example, Smart Actions. We also recently launched a new suite of Business Ready secure productivity tools and device management applications for enterprise users of our smartphones and media tablets.

Diverse Product Portfolio. Our diverse global product portfolio includes smartphones, feature phones, voice-centric devices, media tablets, wearable fitness trackers/portable music players, and a wide range of accessories. This portfolio extends across various wireless technologies, capabilities, form factors and price points.

Deep Customer Relationships. We have extensive relationships with wireless carriers, retailers and global distributors that have been in place for many years. Our global sales organization markets our portfolio of devices and services around the world.

Strong Patent Portfolio. We have developed an extensive portfolio of intellectual property assets through our significant and continued investment in research and development. The intellectual property assets held by our Mobile Devices segment include approximately 15,500 granted patents and 5,200 pending patent applications, worldwide. These are complemented by approximately 2,000 granted patents and 1,300 pending patent applications, worldwide, held by our Home segment. The total held by our two segments is approximately 17,500 granted patents and 6,500 pending patent applications, worldwide. These patents and patent applications are directed to inventions in areas such as wireless, audio, video, design and user interface (UI). Further, we believe our portfolio of patents in 4G will position us well in the upcoming technology transition from 2G and 3G.

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Global Brand. Our highly recognizable and successful global brand has been in use for more than 80 years. We believe our brand is associated with quality, reliability and innovation.

Our Strategy

We are committed to growing our business by developing and marketing a portfolio of mobile devices, primarily smartphones and media tablets, that will enhance the mobility of the Internet and deliver interactive, personalized multi-screen experiences and services to consumers around the world. The delivery of these experiences

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and services onto a mobile device requires integration of hardware, software, services and UI. Motorola Mobility's expertise in each of these domains are the technological underpinnings of our smartphone, converged computing products and tablet strategies and capabilities. We also selectively develop devices that target other segments of the mobile device market, including feature phones, wearable fitness devices and accessory products.

Our strategy is to differentiate our products across a number of dimensions. From a hardware perspective, our smartphones, tablets and other mobile devices are differentiated through build quality, leading-edge design, and in certain families of devices, protection against moisture, shock and other environmental hazards. From a software and services standpoint, we strive to achieve differentiation through software, applications, and cloud-based services. This includes providing unique features, including Smart Actions software that simplifies device setup and usage, MotoCast which facilitates access to digital content, and Business Ready enterprise tools to meet the unique needs of business users. We are also differentiating our products through our global distribution reach, highly recognized brand and extensive customer relationships. As new digital lifestyles continue to evolve, we plan to take advantage of our capabilities in mobile and wireline communications to meet consumers' increasing demands to communicate and collaborate inside and outside the home on multiple devices. Key elements of our strategy include:

Capitalize on Our Strong Technology Position. We believe that open-source platforms foster rapid innovation and encourage third-party development of applications and services, resulting in an expansive ecosystem of consumer experiences and entertainment. We are currently using the Android operating system, a royalty-free, open-source platform developed by Google, to develop our portfolio of smartphones, which currently has a large offering of applications and services.

We are differentiating certain of our product offerings by using the Android operating system with our cloud-based services platform. Originally developed as a social network aggregation and push engine, this cloud platform now serves as a more comprehensive service delivery system enabling diverse features and services, such as online device diagnostics and Smart Actions.

We also continue to develop our innovative Webtop software and Lapdock accessory, which provide new mobile computing experiences. Webtop, featured on our ATRIX, DROID RAZR and DROID RAZR MAXX products, enables the unique user experience of running a full desktop browser on our Lapdock accessory without the need for a PC. With our Webtop-enabled, smartphone-docking accessories, our consumer and enterprise users will experience desktop PC performance on a mobile smartphone.

As data consumption continues to increase, next-generation wireless technologies will be critical to ensure efficient use of wireless carriers' spectrum. We continue to invest in next-generation wireless technologies, including evolved high speed packet access (HSPA+) and 4G, including long-term evolution (LTE) and the LTE Advanced standards. These investments will enable us to develop devices for high speed networks while delivering converged services and media.

Focused Product Portfolio. Our primary focus is developing and marketing a portfolio of smartphones and media tablets. We will provide smartphones ranging from value-priced devices to high performance devices in the high-tier. We will feature fewer individual product launches supported by more extensive development and marketing programs. These devices will continue to be differentiated by a variety of factors, including form factor, price, processor speed, display size and consumer experience. We plan on offering docking accessories that extend the capabilities of our mobile devices by enabling the connection of external keyboards and displays. We believe that our mobile devices combined with our Webtop-enabled, smartphone-docking accessories will enable a wide range of multimedia, broadband Internet browsing and other mobile computing experiences without the need for a traditional computer.

In the feature phone market, we will continue to sell a limited number of phones for specific customers or applications. This may include rugged devices for certain wireless carriers and integrated digital enhanced network (iDEN) push-to-talk devices. Our feature phone portfolio is focused primarily on Latin America and North America-based customers, who are increasingly moving towards smartphones and away from feature phones.

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To enhance our opportunity for growth in the fastest growing segment of the smartphone market, we plan to increasingly utilize original design manufacturers (ODMs) to develop a portfolio of mid-range and

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lower-priced smartphones and media tablets. These products will be lower cost to compete effectively in this tier in the U.S., and parts of Latin America, Europe, and Asia. We will also use ODMs to develop a limited portfolio of lower-priced, voice-centric mobile devices aimed primarily at retailers and distributors in emerging markets.

Leverage Customer Relationships and Global Distribution. We market our mobile devices portfolio to leading wireless carriers, distributors and retailers around the world through our global sales organization. Our market priorities continue to be primarily North America, China and Latin America followed by Western Europe and other strategic markets. We recently strengthened our relationship with customers through the launch of several mobile devices in North America, China, Latin America, Western Europe and Korea. In 2011, we reentered the Japan market with the launch of smartphones and media tablets. We plan to continue to build upon these relationships and use our global reach to drive future business growth.

Develop, Leverage and Protect Our Intellectual Property. With approximately 17,500 granted patents and approximately 6,500 pending patent applications, worldwide, held by our two segments, we believe we have one of the strongest portfolios of intellectual property assets in the wireless industry. Areas of strength include wireless technologies, video, security, UI, and design. To enhance our competitive position, we will seek to continue to expand our intellectual property portfolio, leverage the existing intellectual property and, as appropriate, enforce our intellectual property rights around the world.

Market Our Products Under Our Highly Recognizable Global Brand. Our brand has been in use for more than 80 years and we believe it is associated with quality, reliability and innovation. We intend to continue to strengthen our brand through advertising and marketing of our products globally.

Pursue Complementary Technology and Talent Through Acquisitions. We regularly evaluate opportunities to acquire capabilities that complement our internal research and development. We have historically acquired various businesses, technologies and talent to grow our capabilities. We expect to continue targeting acquisition candidates that have complementary technology, products and talent.

Competition

Mobile device manufacturers compete in a rapidly evolving and intensely competitive marketplace. Competitors include traditional mobile device manufacturers as well as new competitors who have entered the market in the last several years. As handset demand continues to shift toward smartphones and as the market for media tablets expands, additional competitors are expected to enter the market or expand their product offerings. The Mobile Devices segment experiences intense competition from numerous global competitors such as Apple, Samsung, Nokia, HTC, LG, Sony-Ericsson, and RIM. In 2011, we estimate that these seven manufacturers together held an aggregate market share of approximately 85% of the smartphone segment of the handset market. During 2011, Apple and Samsung each significantly strengthened their competitive position in the industry and accounted for an estimated 50% of the smartphone market in the fourth quarter of 2011. Apple's position was partially as a result of differentiated user experiences, expanded distribution, extensive marketing of their products and consumer loyalty. Samsung's position was partially as a result of vertical supply chain integration, global distribution capabilities and increased marketing of their products.

While we increased our total aggregate smartphone market share slightly in 2011, competition from manufacturers with significant scale is challenging, particularly as we seek to improve profitability in our Mobile Devices business. Moreover, in North America, our largest market, Apple and Samsung continue to grow in market share in smartphones with significant sales at our largest customers. We expect smartphone competition to increase further in 2012 as certain competitors, including Nokia and a number of China-based manufacturers, significantly expand their smartphone product lines.

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In media tablets, we believe over 25 manufacturers currently offer media tablets in the marketplace. We estimate that the top seven manufacturers, including Apple, Samsung, Acer, Motorola Mobility, RIM, HTC and LG, accounted for greater than 90% of the total media tablet market in 2011. In the fourth quarter of 2011, we estimate Apple alone accounted for over 50% of the media tablet market. All other manufacturers, including Motorola Mobility, each held an individual market share of less than 10%. In 2012, we expect additional entrants into the media tablet market, including Nokia and a number of China based manufacturers.

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General competitive factors in the market for our products include: overall quality of user experiences; differentiated user experiences; consumer loyalty; design; time to market; brand awareness; technology offered; price; product innovation, features, performance and quality; delivery and warranty; the quality and availability of service; and relationships with key customers. In addition, as the market has evolved, it is increasingly important to achieve scale to compete successfully. Scale can provide benefits in the area of component costs, distribution efficiency, marketing leverage and brand.

Home Segment

The Home segment is a provider of products and services to cable operators and wireline telecommunications (telco) service providers (collectively, network operators) that enable the delivery of video, voice and data services to consumers. Our product portfolio primarily includes interactive set-top boxes, end-to-end digital video and Internet Protocol Television (IPTV) distribution systems, broadband access infrastructure platforms, and associated data and voice CPE. Home net revenues represented 27% of Motorola Mobility s consolidated net revenues in 2011.

Our Products

Our products and services are used by content providers and network operators throughout the delivery network and by consumers in the home.

We are a leader in providing set-top boxes and data and voice modems on consumers premises. We provide a broad array of set-top boxes for network operators that support standard definition television (SDTV) and high definition television (HDTV) delivery, including set-top boxes with integrated digital video recorder (DVR) capability. Our set-top boxes support a variety of delivery architectures including conventional cable TV, IPTV and hybrid IP/conventional environments. We also supply modems and gateways for data over cable service interface specification (DOCSIS) 3.0 and Optical Terminal Nodes for digital subscriber line (DSL) networks and passive optical networks (PON).

We provide a wide range of network equipment to transport signals to and from the end-user premises. Our cable modem termination systems (CMTS) for DOCSIS 3.0 networks and our optical headend and network equipment enable network operators to deliver video, data and voice services.

Our products are used by network operators to process, deliver and manage video, voice and data services. We provide integrated receiver decoders (IRDs), multiplexers and transcoders that receive content from the content providers for redistribution over the operators networks. We also provide encoders for local programming, video-on-demand (VOD) servers and multiplexers for placement of advertising streams.

We provide software that enables the delivery and management of multi-screen experiences across a wide range of cable, telco and wireless platforms. Our products include a suite of software to manage and merchandize content, cloud based tools for the rapid creation of operator-branded guides and custom user experiences, content security through encryption and digital rights management across a variety of devices, a device management technology for set-top boxes and modems, and a server based platform for home control, management and security.

Our Industry

Over the last 15 years, video delivery technology has converted from analog to digital, greatly increasing program choices for consumers and enabling new capabilities such as HDTV, VOD and interactive services. During this period, both traditional cable operators and telcos have

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expanded their offerings to deliver video, voice and data services (triple play). The next evolution of service delivery networks is underway as service providers transition to all IP networks. IP delivery and advances in wireless data technology are allowing consumers to be in touch and access the same entertainment and information inside and outside the home.

Providing video, voice and data services to consumers is a highly competitive business and our customers compete aggressively to provide individual services, triple play packages and even quad play packages, which also include mobile voice and data services. The competitive environment is driving operators to enhance and expand service offerings by adding more high definition (HD) channels and three dimensional television (3D-TV) content, increasing data speeds and mobile data services, providing new experiences that bridge conventional TV

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and Internet services along with convergence of media experiences across home and mobile devices. Enabling these new capabilities is driving network operators to regularly upgrade their networks and in-home devices, such as set-top boxes and other CPE such as modems and gateways.

Although the U.S. has the highest adoption of advanced video technologies like HDTV and DVR, growth opportunity remains in the U.S. as the adoption of advanced video technologies continues. While the majority of our revenues are generated in the more mature U.S. market, the majority of global TV households has only begun to adopt these technologies and represents an additional growth opportunity. During 2011, digital TV households that purchase video programming from cable, satellite and telco providers grew by approximately 17.6% worldwide and global residential broadband households grew by approximately 12.1%. We expect this trend to continue for the next couple of years as digital TV households are expected to grow by 30% to 35% and residential broadband households are expected to grow by 20% to 25% from the end of 2011 through 2012. While the unit volume is expected to grow, we expect pressure on the average sales price of these units. Further, there are many competitors addressing these markets, limiting the growth potential of industry participants.

The consumer viewing experience is expanding beyond the TV and consumers now also watch video programming on Internet Protocol (IP)-enabled devices, such as PCs, media tablets and smartphones. Video delivery requires substantially more bandwidth than other data services and its growth is driving operators to upgrade their network and CPE. This expanded data capacity is allowing new content providers and aggregators to use the service providers' high speed data networks to provide over-the-top (OTT) services to consumers. These OTT providers sell content directly to the consumer and deliver it to the consumer's IP-enabled devices and web-capable BluRay players, TV's and consumer-purchased set-top boxes. Competition from OTT services is driving network operators to invest to expand their content choices, upgrade their networks and enhance their consumer experiences across TVs, PCs and wireless devices.

Our Strengths

We believe our key strengths position us well to be a leading provider of products and services to network operators. Our key strengths include:

A Long History of Innovation. We introduced our first cable TV system products in 1950 and have been a major supplier of cable network and in-home products for 60 years. We enabled the first pay-per-view event and launched the first all digital HDTV system. Our industry leadership also includes firsts in digital video compression and encryption. We were a pioneer in cable modems, produced the first HD set-top boxes with integrated DVR and developed the first multi-room DVR content distribution system.

Broad Portfolio of Infrastructure and Devices. We offer a broad portfolio of infrastructure and devices to enable network operators to deliver video, data and voice services. We are an industry leader in providing interactive set-top boxes supporting the major video delivery technologies. We are experienced in enabling video networks with a complete portfolio of video processing equipment and in building broadband access networks.

Strategic Customer Relationships. Through our global sales organization, we market our portfolio of infrastructure and devices to network operators around the world. In North America, our largest market, we are a provider to all of the top ten cable and telco service providers that provide video services to the premise and together account for over 90% of cable and telco digital video subscribers. As a result of our history of supplying the industry, we have a large installed base of infrastructure and devices which positions us well to participate in network upgrades.

Extensive Intellectual Property and Industry Standards Leadership. We have made substantial contributions to industry standards such as Moving Picture Experts Group (MPEG) for video compression, Advanced Television Systems Committee (