

MOTOROLA INC
Form 10-Q
August 05, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the period ended July 3, 2010

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: 1-7221

MOTOROLA, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State of Incorporation)

36-1115800

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

**1303 E. Algonquin Road,
Schaumburg, Illinois**

(Address of principal executive offices)

60196

(Zip Code)

Registrant's telephone number, including area code:
(847) 576-5000

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

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subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on July 3, 2010:

Class	Number of Shares
Common Stock; \$.01 Par Value	2,333,888,938

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Part I Financial Information

Motorola, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
<i>(In millions, except per share amounts)</i>	<i>July 3, 2010</i>	<i>July 4, 2009</i>	<i>July 3, 2010</i>	<i>July 4, 2009</i>
Net sales	\$ 5,414	\$ 5,497	\$ 10,458	\$ 10,868
Costs of sales	3,412	3,787	6,670	7,662
Gross margin	2,002	1,710	3,788	3,206
Selling, general and administrative expenses	896	822	1,772	1,691
Research and development expenditures	762	775	1,519	1,622
Other charges (income)	(19)	103	58	332
Operating earnings (loss)	363	10	439	(439)
Other income (expense):				
Interest expense, net	(38)	(30)	(71)	(65)
Gain on sales of investments and businesses, net	53	30	61	10
Other	(33)	23	(21)	93
Total other income (expense)	(18)	23	(31)	38
Earnings (loss) from continuing operations before income taxes	345	33	408	(401)
Income tax expense (benefit)	179	(2)	174	(148)
Earnings (loss) from continuing operations	166	35	234	(253)
Earnings from discontinued operations, net of tax				60
Net earnings (loss)	166	35	234	(193)
Less: Earnings attributable to noncontrolling interests	4	9	3	12
Net earnings (loss) attributable to Motorola, Inc.	\$ 162	\$ 26	\$ 231	\$ (205)

*Amounts attributable to
Motorola, Inc. common
shareholders:*

Earnings (loss) from continuing operations, net of tax	\$ 162	\$ 26	\$ 231	\$ (265)
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Earnings from discontinued operations, net of tax 60

Net earnings (loss)	\$	162	\$	26	\$	231	\$	(205)
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Earnings (loss) per common share:

Basic:								
Continuing operations	\$	0.07	\$	0.01	\$	0.10	\$	(0.12)
Discontinued operations								0.03
	\$	0.07	\$	0.01	\$	0.10	\$	(0.09)

Diluted:								
Continuing operations	\$	0.07	\$	0.01	\$	0.10	\$	(0.12)
Discontinued operations								0.03
	\$	0.07	\$	0.01	\$	0.10	\$	(0.09)

<i>Weighted average common shares outstanding:</i>				
Basic	2,328.8	2,293.9	2,322.0	2,286.5
Diluted	2,365.0	2,306.4	2,352.9	2,286.5

Dividends paid per common share of Motorola, Inc.	\$	0.00	\$	0.00	\$	0.00	\$	0.05
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See accompanying notes to condensed consolidated financial statements (unaudited).

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

<i>(In millions, except par value amounts)</i>	<i>July 3, 2010</i>	<i>December 31, 2009</i>
ASSETS		
Cash and cash equivalents	\$ 2,893	\$ 2,869
Sigma Fund	5,313	5,092
Short-term investments	25	2
Accounts receivable, net	3,465	3,495
Inventories, net	1,299	1,308
Deferred income taxes	1,212	1,082
Other current assets	1,807	2,184
Total current assets	16,014	16,032
Property, plant and equipment, net	1,968	2,154
Sigma Fund	105	66
Investments	322	459
Deferred income taxes	1,882	2,284
Goodwill	2,828	2,823
Other assets	1,693	1,785
Total assets	\$ 24,812	\$ 25,603
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable and current portion of long-term debt	\$ 531	\$ 536
Accounts payable	2,336	2,429
Accrued liabilities	5,020	5,296
Total current liabilities	7,887	8,261
Long-term debt	2,907	3,365
Other liabilities	3,798	4,094
<i>Stockholders' Equity</i>		
Preferred stock, \$100 par value		
Common stock, \$.01 par value:	23	23
Authorized shares: 4,200.0		
Issued shares: 07/03/10 2,339.9; 12/31/09 2,314.2		
Outstanding shares: 07/03/10 2,333.9; 12/31/09 2,312.1		
Additional paid-in capital	8,411	8,211
Retained earnings	4,058	3,827
Accumulated other comprehensive loss	(2,376)	(2,286)
Total Motorola, Inc. stockholders' equity	10,116	9,775
Non-controlling interests	104	108
Total stockholders' equity	10,220	9,883
Total liabilities and stockholders' equity	\$ 24,812	\$ 25,603

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

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

<i>Motorola, Inc. Shareholders</i>									
<i>Accumulated Other Comprehensive Income (Loss)</i>									
<i>Fair Value</i>									
<i>Adjustment</i>									
<i>(In millions)</i>	<i>Shares</i>	<i>Common Stock and Additional Paid-in Capital</i>	<i>to Available for Sale Securities, Net of Tax</i>	<i>Foreign Currency Translation Adjustments, Net of Tax</i>	<i>Retirement Benefits Adjustments, Net of Tax</i>	<i>Other Items, Net of Tax</i>	<i>Retained Earnings</i>	<i>Non-controlling Interests</i>	<i>Comprehensive Earnings (Loss)</i>
Balances at December 31, 2009	2,314.2	\$ 8,234	\$ 70	\$ (63)	\$ (2,295)	2	\$ 3,827	\$ 108	
Net earnings							231	3	\$ 234
Net unrealized loss on securities, net of tax of \$(35)			(59)						(59)
Foreign currency translation adjustments, net of tax of \$(11)				(106)					(106)
Amortization of retirement benefit adjustments, net of tax of \$30					57				57
Plan amendment, net of tax of \$0					22				22
Issuance of common stock and stock options exercised	25.7	43							
Tax shortfalls from stock-based compensation		(16)							
Share-based compensation expense		149							
Net loss on derivative instruments, net of tax of \$(2)						(4)			(4)
Dividends paid to noncontrolling interest on subsidiary common stock								(7)	
Reclassification of share-based awards from liability to equity		24							
Balances at July 3, 2010	2,339.9	\$ 8,434	\$ 11	\$ (169)	\$ (2,216)	(2)	\$ 4,058	\$ 104	\$ 144

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

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

(In millions)	<i>Six Months Ended</i>	
	<i>July 3, 2010</i>	<i>July 4, 2009</i>
Operating		
Net earnings (loss) attributable to Motorola, Inc.	\$ 231	\$ (205)
Earnings attributable to noncontrolling interests	3	12
Net earnings (loss)	234	(193)
Earnings from discontinued operations		60
Earnings (loss) from continuing operations	234	(253)
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by (used for) operating activities:		
Depreciation and amortization	341	382
Non-cash other income	(18)	(5)
Share-based compensation expense	149	150
Gain on sales of investments and businesses, net	(61)	(10)
Loss (gain) from the extinguishment of long-term debt	12	(67)
Deferred income taxes	261	(35)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	(17)	(203)
Inventories		990
Other current assets	368	507
Accounts payable and accrued liabilities	(356)	(2,203)
Other assets and liabilities	(186)	(117)
Net cash provided by (used for) operating activities	727	(864)
Investing		
Acquisitions and investments, net	(26)	(21)
Proceeds from sales of investments and businesses, net	243	226
Capital expenditures	(146)	(137)
Proceeds from sales of property, plant and equipment	28	6
Proceeds from sales (purchases) of Sigma Fund investments, net	(248)	670
Proceeds from sales (purchases) of short-term investments, net	(23)	180
Net cash provided by (used for) investing activities	(172)	924
Financing		
Repayment of short-term borrowings, net	(5)	(54)
Repayment of debt	(481)	(129)
Issuance of common stock	68	56
Payment of dividends		(114)
Other, net	(7)	6
Net cash used for financing activities	(425)	(235)

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Effect of exchange rate changes on cash and cash equivalents from continuing operations	(106)	(8)
Net increase in cash and cash equivalents	24	(183)
Cash and cash equivalents, beginning of period	2,869	3,064
Cash and cash equivalents, end of period	\$ 2,893	\$ 2,881

Cash Flow Information

Cash paid during the period for:		
Interest, net	\$ 130	\$ 133
Income taxes, net of refunds	34	174

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

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Motorola, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Dollars in millions, except as noted)
(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements as of July 3, 2010 and for the three and six months ended July 3, 2010 and July 4, 2009, include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly Motorola, Inc.'s (the "Company's") consolidated financial position, results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2009. The results of operations for the three and six months ended July 3, 2010 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 2010 presentation.

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

Change in Segment Presentation

On February 11, 2010, the Company announced that it is targeting the first quarter of 2011 for the completion of its planned separation into two independent, publicly traded companies. The Company currently expects that, upon separation, one public company will be comprised of the Company's Mobile Devices and Home businesses and the other public company will be comprised of the Company's Enterprise Mobility Solutions and Networks businesses. As a result of this announcement, Motorola, Inc. realigned its businesses during the first quarter of 2010 and now reports financial results for the following four operating business segments:

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

Home: This segment designs, manufactures, sells, installs and services set-top boxes for digital video, Internet Protocol video, satellite and terrestrial broadcast networks, end-to-end video and Internet protocol television distribution systems, broadband access network infrastructure platforms, and associated data and voice customer premise equipment and associated software solutions to cable television and telecommunication service providers.

Enterprise Mobility Solutions: This segment designs, manufactures, sells, installs and services analog and digital two-way radios, wireless LAN and security products, voice and data communications products and systems for private networks, wireless broadband systems and end-to-end enterprise mobility solutions.

Networks: This segment designs, manufactures, sells, installs and services wireless network systems, including cellular infrastructure systems and wireless and wireline cable and cellular broadband systems, for wireless service providers.

Additionally, prior to the first quarter of 2010, certain costs, including some elements of share-based compensation, intangible assets amortization expense, business-related asset impairments and other Corporate expenses, were recorded at Corporate and included in Other and Eliminations. In addition to the business realignment discussed above, effective as of the first quarter of 2010, the Company now allocates the costs described above to the operating business segments.

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Accordingly, previously reported segment results for the three and six months ended July 4, 2009, have been revised to reflect the new segment presentation and the allocation of Corporate costs.

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Recently Adopted New Accounting Guidance

Revenue Recognition

In October 2009, the Financial Accounting Standards Board ("FASB") issued new guidance which amended the accounting standards for revenue arrangements with multiple deliverables. The new guidance changes the criteria required to separate deliverables into separate units of accounting when they are sold in a bundled arrangement and requires an entity to allocate an arrangement's consideration using estimated selling prices ("ESP") of deliverables if a vendor does not have vendor-specific objective evidence of selling price ("VSOE") or third-party evidence of selling price ("TPE"). The new guidance also eliminates the use of the residual method to allocate an arrangement's consideration.

In October 2009, the FASB also issued new guidance to remove from the scope of software revenue recognition guidance tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality.

The new accounting guidance is effective for revenue arrangements entered into or materially modified after June 15, 2010. The standards permit prospective or retrospective adoption as well as early adoption. The Company elected to adopt this guidance early, at the beginning of its first quarter of fiscal 2010 on a prospective basis for applicable arrangements that were entered into or materially modified after January 1, 2010.

The Company's material revenue streams are the result of a wide range of activities, from the delivery of stand-alone equipment to custom design and installation over a period of time to bundled sales of devices, equipment, software and services. The Company enters into revenue arrangements that may consist of multiple deliverables of its product and service offerings due to the needs of its customers. Additionally, many of the Company's products have both software and non-software components that function together to deliver the product's essential functionality. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility of the sales price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

Products and Equipment For product and equipment sales, revenue recognition generally occurs when products or equipment have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and allowances for discounts, price protection, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. The Company bases its estimates of these allowances on historical experience taking into consideration the type of products sold, the type of customer, and the specific type of transaction in each arrangement. Where customer incentives cannot be reliably estimated, the Company recognizes revenue at the time the product sells through the distribution channel to the end customer.

Long-Term Contracts For long-term contracts that involve customization of the Company's equipment or software, the Company generally recognizes revenue using the percentage of completion method based on the percentage of costs incurred to date compared to the total estimated costs to complete the contract. In certain instances, when revenues or costs associated with long-term contracts cannot be reliably estimated or the contract contains other inherent uncertainties, revenues and costs are deferred until the project is complete and customer acceptance is obtained. When current estimates of total contract revenue and contract costs indicate a contract loss, the loss is recognized in the period it becomes evident.

Services Revenue for services is generally recognized ratably over the contract term as services are performed.

Software and Licenses Revenue from pre-paid perpetual licenses is recognized at the inception of the arrangement, presuming all other relevant revenue recognition criteria are met. Revenue from non-perpetual licenses or term licenses is recognized ratably over the period that the licensee uses the license. Revenue from software maintenance, technical support and unspecified upgrades is generally recognized over the period that these services are delivered.

Multiple-Element Arrangements Arrangements with customers may include multiple deliverables, including any combination of products,

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equipment, services and software. These multiple element arrangements could also include an element accounted for as a long-term contract coupled with other products, equipment, services and software. For the Company's multiple-element arrangements where at least one of the deliverables is not subject to existing software revenue recognition guidance, deliverables are separated into more than one unit of

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accounting when (i) the delivered element(s) have value to the customer on a stand-alone basis, and (ii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. Based on the new accounting guidance adopted January 1, 2010, revenue is then allocated to each unit of accounting based on the relative selling price of each unit of accounting based first on VSOE if it exists, based next on TPE if VSOE does not exist, and, finally, if both VSOE and TPE do not exist, based on ESP.

VSOE In many instances, products are sold separately in stand-alone arrangements as customers may support the products themselves or purchase support on a time and materials basis. Additionally, advanced services such as general consulting, network management or advisory projects are often sold in stand-alone engagements. Technical support services are also often sold separately through renewals of annual contracts. The Company determines VSOE based on its normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, the Company requires that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range, generally evidenced by the pricing rates of approximately 80% of such historical stand-alone transactions falling within plus or minus 15% of the median rate. In addition, the Company considers the geographies in which the products or services are sold, major product and service groups, customer classification, and other environmental or marketing variables in determining VSOE.

TPE VSOE generally exists only when the Company sells the deliverable separately. When VSOE does not exist, the Company attempts to determine TPE based on competitor prices for similar deliverables when sold separately. Generally, the Company's go-to-market strategy for many of its products differs from that of its peers and its offerings contain a significant level of customization and differentiation such that the comparable pricing of products with similar functionality sold by other companies cannot be obtained. Furthermore, the Company is unable to reliably determine what similar competitor products' selling prices are on a stand-alone basis. Therefore, the Company is typically not able to determine TPE.

ESP The objective of ESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. When both VSOE and TPE do not exist, the Company determines ESP for the arrangement element by first collecting all reasonably available data points including sales, cost and margin analysis of the product, and other inputs based on the Company's normal pricing practices. Second, the Company makes any reasonably required adjustments to the data based on market and Company-specific factors. Third, the Company stratifies the data points, when appropriate, based on customer, magnitude of the transaction and sales volume.

Once elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

The Company's arrangements with multiple deliverables may also contain a stand-alone software deliverable that is subject to the existing software revenue recognition guidance. The revenue for these multiple-element arrangements is allocated to the software deliverable and the non-software deliverable(s) based on the relative selling prices of all of the deliverables in the arrangement using the hierarchy in the new revenue accounting guidance. In circumstances where the Company cannot determine VSOE or TPE of the selling price for all of the deliverables in the arrangement, including the software deliverable, ESP is used for the purpose of allocating the arrangement consideration.

The Company's arrangements with multiple deliverables may be comprised entirely of deliverables that are all still subject to the existing software revenue recognition guidance. For these arrangements, revenue is allocated to the deliverables based on VSOE. Should VSOE not exist for the undelivered software element, revenue is deferred until either the undelivered element is delivered or VSOE is established for the element, whichever occurs first. When the fair value of a delivered element has not been established, but fair value exists for the undelivered elements, the Company uses the residual method to recognize revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement consideration is allocated to the delivered elements and is recognized as revenue.

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Net sales as reported and pro forma net sales that would have been reported during the three and six months ended July 3, 2010, if the transactions entered into or materially modified after January 1, 2010, were still subject to the previous accounting guidance are shown in the following table:

<i>July 3, 2010</i>	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<i>As Reported</i>	<i>Pro Forma Basis</i>	<i>As Reported</i>	<i>Pro Forma Basis</i>
Net sales	\$ 5,414	\$ 4,984	\$ 10,458	\$ 9,589

For the three and six months ended July 3, 2010, the difference between the amount of revenue recorded under the new accounting guidance for revenue recognition as compared to the pro forma amount that would have been recorded under the prior accounting guidance relates primarily to sales of smartphones by the Company's Mobile Devices segment. The individual impact to the Company's other businesses was not material. The pro forma basis revenue reflects the recognition of revenue related to smartphones that contain a service element and unspecified software upgrade rights under a subscription-based model under which revenue is recognized ratably over the estimated expected life of the smartphone as the Company was unable to determine VSOE for the undelivered element in the transaction. To the extent that the smartphone arrangement contains a specified software upgrade right, the subscription model is deferred until the specified software upgrade is delivered as the Company was unable to determine VSOE for the specified software upgrade right. Once the specified software upgrade is delivered, revenue is then recognized under the subscription-based model over the remainder of the estimated expected life of the smartphone. The as reported revenue reflects the allocation of revenue related to smartphones shipped under arrangements executed during the three and six months ended July 3, 2010 using ESP for the device, the service, specified software upgrade rights, when applicable, and the unspecified software upgrade rights, resulting in a lower deferral of revenue than under prior accounting guidance. Both the as reported revenue and the pro forma basis revenue contain the revenue recognized under the subscription-based revenue recognition model related to smartphones that contain a service element and unspecified software that shipped under arrangements executed during the year ended December 31, 2009.

Based on the Company's current sales strategies, the newly adopted accounting guidance for revenue recognition is not expected to have a significant effect on the timing and pattern of revenue recognition for sales in periods after the initial adoption when applied to multiple-element arrangements, except for the continued impact on smartphone revenue recognition.

2. Discontinued Operations

During the six months ended July 4, 2009, the Company completed the sale of: (i) Good Technology, and (ii) the biometrics business, which includes its Printrak trademark. Collectively, the Company received \$163 million in net cash and recorded a net gain on sale of the businesses of \$175 million before income taxes, which is included in Earnings from discontinued operations, net of tax, in the Company's condensed consolidated statements of operations. The operating results of these businesses, formerly included as part of the Enterprise Mobility Solutions segment, are reported as discontinued operations in the condensed consolidated financial statements for the period ending July 4, 2009.

The following table displays summarized activity in the Company's condensed consolidated statements of operations for discontinued operations during the six months ended July 4, 2009, all of which occurred during the three months ended April 4, 2009. The Company had no such activity during the three months ended July 4, 2009.

<i>Six Months Ended</i>	<i>July 4, 2009</i>
Net sales	\$ 19
Operating loss	(11)
Gains on sales of investments and businesses, net	175
Earnings before income taxes	162
Income tax expense	102
Earnings from discontinued operations, net of tax	60

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3. Other Financial Data**Statement of Operations Information*****Other Charges***

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

	<i>Three Months</i>		<i>Six Months</i>	
	<i>Ended</i>		<i>Ended</i>	
	<i>July 3,</i>	<i>July 4,</i>	<i>July 3,</i>	<i>July 4,</i>
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Other charges:				
Separation-related transaction costs	\$ 105	\$	\$ 130	\$
Amortization of intangible assets	65	70	130	141
Royalty settlement	21		21	
Reorganization of business charges	18	49	34	207
Facility impairment charge		39		39
Legal settlements	(228)	(55)	(257)	(55)
	\$ (19)	\$ 103	\$ 58	\$ 332

During the three months ended July 4, 2009, the Company classified a facility as held for sale and wrote it down to its fair value, less estimated selling costs, resulting in an impairment loss of \$39 million, which was included in Other charges for the period.

In June 2010, the Company announced that it had entered into a settlement and license agreement with another company, which resolves all outstanding litigation between the two companies. The agreement includes provisions for an upfront payment of \$175 million from the other company to Motorola, Inc., future royalties to be paid by the other company to Motorola, Inc. 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 expense, net, and Other, both included in Other income (expense), consist of the following:

	<i>Three Months</i>		<i>Six Months</i>	
	<i>Ended</i>		<i>Ended</i>	
	<i>July 3,</i>	<i>July 4,</i>	<i>July 3,</i>	<i>July 4,</i>
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Interest income (expense), net:				
Interest expense	\$ (59)	\$ (49)	\$ (120)	\$ (111)
Interest income	21	19	49	46
	\$ (38)	\$ (30)	\$ (71)	\$ (65)
Other:				
Gain (loss) from the extinguishment of the Company's outstanding long-term debt	\$ (12)	\$	\$ (12)	\$ 67
Investment impairments	(10)	(26)	(19)	(33)
Foreign currency loss	(8)	(34)	(5)	(28)
Gain (loss) on Sigma Fund investments	(4)	68	12	75

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Other	1	15	3	12
	\$ (33)	\$ 23	\$ (21)	\$ 93

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Earnings (Loss) Per Common Share

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

<i>Three Months Ended</i>	<i>Amounts attributable to Motorola, Inc. common shareholders</i>			
	<i>Continuing Operations</i>		<i>Net Earnings</i>	
	<i>July 3, 2010</i>	<i>July 4, 2009</i>	<i>July 3, 2010</i>	<i>July 4, 2009</i>
Basic earnings per common share:				
Earnings	\$ 162	\$ 26	\$ 162	\$ 26
Weighted average common shares outstanding	2,328.8	2,293.9	2,328.8	2,293.9
Per share amount	\$ 0.07	\$ 0.01	\$ 0.07	\$ 0.01
Diluted earnings per common share:				
Earnings	\$ 162	\$ 26	\$ 162	\$ 26
Weighted average common shares outstanding	2,328.8	2,293.9	2,328.8	2,293.9
Add effect of dilutive securities:				
Share-based awards and other	36.2	12.5	36.2	12.5
Diluted weighted average common shares outstanding	2,365.0	2,306.4	2,365.0	2,306.4
Per share amount	\$ 0.07	\$ 0.01	\$ 0.07	\$ 0.01

<i>Six Months Ended</i>	<i>Amounts attributable to Motorola, Inc. common shareholders</i>			
	<i>Continuing Operations</i>		<i>Net Earnings (Loss)</i>	
	<i>July 3, 2010</i>	<i>July 4, 2009</i>	<i>July 3, 2010</i>	<i>July 4, 2009</i>
Basic earnings (loss) per common share:				
Earnings (loss)	\$ 231	\$ (265)	\$ 231	\$ (205)
Weighted average common shares outstanding	2,322.0	2,286.5	2,322.0	2,286.5
Per share amount	\$ 0.10	\$ (0.12)	\$ 0.10	\$ (0.09)
Diluted earnings (loss) per common share:				
Earnings (loss)	\$ 231	\$ (265)	\$ 231	\$ (205)
Weighted average common shares outstanding	2,322.0	2,286.5	2,322.0	2,286.5
Add effect of dilutive securities:				
Share-based awards and other	30.9		30.9	

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Diluted weighted average common shares outstanding	2,352.9	2,286.5	2,352.9	2,286.5
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Per share amount	\$	0.10	\$	(0.12)	\$	0.10	\$	(0.09)
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In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three months ended July 3, 2010 and July 4, 2009, 153.9 million and 178.6 million, respectively, out-of-the-money stock options and the assumed vesting of 48.8 million and 42.0 million, respectively, restricted stock units were excluded because their inclusion would have been antidilutive. In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the six months ended July 3, 2010, the assumed exercise of 153.1 million stock options and the assumed vesting of 43.9 million restricted stock units were excluded because their inclusion would have been antidilutive. For the six months ended July 4, 2009, the Company was in a net loss position and, accordingly, the assumed exercise of 207.6 million stock options and the assumed vesting of 35.3 restricted stock units were excluded from diluted weighted average shares outstanding because their inclusion would have been antidilutive.

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

The Company's cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) were \$2.9 billion at July 3, 2010 and December 31, 2009. Of these amounts, \$216 million and \$206 million, respectively, were restricted.

Sigma Fund

The Sigma Fund consists of the following:

<i>Fair Value</i>	<i>July 3, 2010</i>		<i>December 31, 2009</i>	
	<i>Current</i>	<i>Non-current</i>	<i>Current</i>	<i>Non-Current</i>
Cash	\$	\$	\$ 202	\$
Securities:				
U.S. government, agency and government-sponsored enterprise obligations	5,275		4,408	
Corporate bonds	28	66	367	63
Asset-backed securities	1	2	66	
Mortgage-backed securities	9	37	49	3
	\$ 5,313	\$ 105	\$ 5,092	\$ 66

The fair market value of investments in the Sigma Fund was \$5.4 billion and \$5.2 billion at July 3, 2010 and December 31, 2009, respectively.

During the three and six months ended July 3, 2010, the Company recorded a loss on Sigma Fund investments of \$4 million and a gain of \$12 million, respectively, in Other income (expense) in the condensed consolidated statement of operations. During the three and six months ended July 4, 2009, the Company recorded gains on Sigma Fund investments of \$68 million and \$75 million, respectively, in Other income (expense) in the condensed consolidated statement of operations.

Investments

Investments consist of the following:

<i>July 3, 2010</i>	<i>Recorded Value</i>		<i>Less</i>		<i>Cost Basis</i>
	<i>Short-term Investments</i>	<i>Investments</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	
Certificates of deposit	\$ 23	\$	\$		\$ 23
Available-for-sale securities:					
U.S. government, agency and government-sponsored enterprise obligations		24	1		23
Corporate bonds	2	9			11
Mortgage-backed securities		3			3
Common stock and equivalents		46	16		30

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	25	82	17	90
Other securities, at cost		187		187
Equity method investments		53		53
	\$ 25	\$ 322	\$ 17	\$ 330

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<i>December 31, 2009</i>	<i>Recorded Value</i>		<i>Less</i>		<i>Cost Basis</i>
	<i>Short-term Investments</i>	<i>Investments</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	
Available-for-sale securities:					
U.S. government, agency and government-sponsored enterprise obligations	\$	\$ 23	\$ 1	\$	\$ 22
Corporate bonds	2	10			12
Mortgage-backed securities		3			3
Common stock and equivalents		147	111	(1)	37
	2	183	112	(1)	74
Other securities, at cost					