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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the period ended October 1, 2011

 \mathbf{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 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 October 1, 2011:

Class

Number of Shares 299,487,006

Common Stock; \$.01 Par Value

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Part I Financial Information

1

Motorola Mobility Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

| | Three Mo | Three Months Ended | | nths Ended |
|---|------------|--------------------|-----------------|------------|
| | October 1, | October 2, | October 1, | October 2, |
| (In millions, except per share amounts) | 2011 | 2010 | 2011 | 2010 |
| Net revenues | \$3,259 | \$2,946 | \$9,628 | \$8,035 |
| Costs of sales | 2,415 | 2,155 | 7,165 | 5,985 |
| Gross margin | 844 | 791 | 2,463 | 2,050 |
| Selling, general and administrative expenses | 426 | 385 | 1,299 | 1,141 |
| Research and development expenditures | 390 | 373 | 1,142 | 1,112 |
| Other charges (income) | 33 | 27 | 86 | (153) |
| Operating earnings (loss) | (5) | 6 | (64) | (50) |
| Other income (expense): | | | | |
| Interest income (expense), net | 7 | (11) | 10 | (40) |
| Gains on sales of investments | 2 | | 12 | |
| Other, net | (6) | (2) | (28) | (24) |
| Total other income (expense) | 3 | (13) | (6) | (64) |
| Loss before income taxes | (2) | (7) | (70) | (114) |
| Income tax expense | 30 | 28 | 99 | 55 |
| Net loss | (32) | (35) | (169) | (169) |
| Less: Loss attributable to non-controlling interests | | (1) | | (3) |
| Net loss attributable to Motorola Mobility Holdings, Inc. | \$(32) | \$(34) | \$(169) | \$(166) |
| Loss per common share (Note 3): | | | | |
| Basic | \$(0.11) | \$(0.12) | \$(0.57) | \$(0.56) |
| Diluted | \$(0.11) | N/A | \$(0.57) | N/A |
| Weighted average common shares outstanding: | | | | |
| Basic | 297.7 | 294.3 | 296.1 | 294.3 |
| Diluted | 297.7 | N/A | 296.1 | 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) | | October 1, 2011 | December 31, 2010 |
|--|------------------------|--------------------|----------------------|
| (11) 1111100110) | ASSETS | | 2010 |
| Cash and cash equivalents | | \$3,078 | \$ |
| Accounts receivable, net | | 1,774 | 1,571 |
| Inventories, net | | 746 | 843 |
| Deferred income taxes | | 147 | 110 |
| Other current assets | | 605 | 595 |
| Total current assets | | 6,350 | 3,119 |
| Cash deposits | | 160 | |
| Property, plant and equipment, net | | 803 | 806 |
| Investments | | 125 | 137 |
| Deferred income taxes | | 50 | 49 |
| Goodwill | | 1,431 | 1,396 |
| Other assets | | 558 | 697 |
| Total assets | | \$9,477 | \$6,204 |
| | ND STOCKHOLDERS EQUITY | | |
| Accounts payable | | \$1,708 | \$1,731 |
| Accrued liabilities | | 2,234 | 2,115 |
| Total current liabilities | | 3,942 | 3,846 |
| Other liabilities | | 587 | 603 |
| Stockholders Equity | | | |
| Common stock: \$.01 par value; | | 3 | |
| Authorized shares: 900.0 | | | |
| Issued shares: 300.0 | | | |
| Outstanding shares: 299.5 | | | |
| Additional paid-in capital | | 5,217 | |
| Accumulated other comprehensive loss | | (103) | (345) |
| Retained earnings (accumulated deficit) | | (169) | |
| Owner s net investment, prior to Separation | | | 2,077 |
| Total Motorola Mobility Holdings, Inc. stockholders equity | | 4,948 | 1,732 |
| Non-controlling interests | | | 23 |
| Total stockholders equity | | 4,948 | 1,755 |
| Total liabilities and stockholders equity | | \$9,477 | \$6,204 |

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

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Motorola Mobility Holdings, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

| | | | A | Accumulated Comprehen Income (Lo | sive | | | | |
|--|--------|------------|------------|--|---------------|--------------|-------------|---------------|-----------------------------|
| | | | Fair | | | | | | |
| | | | Value | | | | | | |
| | | | Adjustmen | t | | | | | |
| | | | to | | | | | | |
| | | | Available | | | | | | |
| | | Common | for | Foreign | | | | | |
| | | Stock | Sale | Currency | Retirement | | | | |
| | | and | Securities | , Translation | Benefits | Retained | Owner s New | t | |
| | | Additional | Net | Adjustments, | Adjustments, | Earnings | Investment, | | |
| | | Paid-in | of | Net of | Net of | (Accumulated | Prior to | Non-Controlli | n & omprehensive |
| (In millions) | Shares | Capital | Tax | Tax | Tax | Deficit) | Separation | Interests | 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) | | (300) | (23) | |
| Reclassification of Owner s Net | | | | | | | | | |
| Investment to Common Stock and | | | | | | | | | |
| Additional Paid-in Capital in connection | | | | | | | | | |
| with Separation | 294.3 | 4,977 | | | | | (4,977) | | |
| Deferred Contribution from Former | | | | | | | | | |
| Parent | | 75 | | | | | | | |
| Net loss | | | | | | (169) | | | (169) |
| Impact of sale of securities, net of | | | | | | | | | |
| tax of \$5 | | | (9) | | | | | | (9) |
| Foreign currency translation adjustments | | | | (86) | | | | | (86) |
| Issuance of common stock and stock | | | | | | | | | |
| options exercised | 5.2 | 48 | | | | | | | |
| Share-based compensation expense | | 120 | | | | | | | |
| Balances at October 1, 2011 | 299.5 | \$5,220 | \$ | \$(89) | \$(14) | \$(169) | \$ | \$ | \$(264) |

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)

| | Nine Mo | nths Ended |
|---|----------------|------------|
| | October 1, | October 2 |
| (In millions) | 2011 | 2010 |
| Operating | | |
| Net loss attributable to Motorola Mobility Holdings, Inc. | \$(169) | \$(166 |
| Loss attributable to non-controlling interests | | (3 |
| Net loss | (169) | (169 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 167 | 16 |
| Share-based compensation expense | 120 | 12 |
| Non-cash other charges | 17 | |
| Gains on sales of investments | (12) | |
| Deferred income taxes | (46) | 1 |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable, net | (246) | (225 |
| nventories | 80 | (166 |
| Other current assets | | (7 |
| Accounts payable and accrued liabilities | 125 | 68 |
| Other assets and liabilities | 96 | (42 |
| Net cash provided by operating activities | 132 | 38 |
| Investing | | |
| Acquisitions and investments | (65) | (66 |
| Proceeds from sales of investments and business, net | 29 | 1 |
| Capital expenditures | (136) | (68 |
| Cash deposits | (24) | |
| Other, net | 5 | |
| Net cash used for investing activities | (191) | (121 |
| Financing | | |
| Share-based compensation activity | 48 | |
| Capital contributions from Former Parent | 3,107 | |
| Other, net | 14 | |
| Net transfers to Former Parent | | (293 |
| Net cash provided by (used for) financing activities | 3,169 | (293 |
| Effect of exchange rate changes on cash and cash equivalents | (32) | 3 |
| Net increase in cash and cash equivalents | 3,078 | |
| Cash and cash equivalents, beginning of period | , | |
| Cash and cash equivalents, end of period | \$3,078 | |
| Cash Flow Information | | |
| Cook poid during the ported for | | |

Cash paid during the period for:

| Interest, net | \$2 | N/A |
|------------------------------|------------|-----|
| Income taxes, net of refunds | 122 | 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). The Former Parent agreed to contribute to the Company an additional \$300 million in cash if and when the Former Parent receives cash distributions as a result of the reduction in registered capital of an overseas subsidiary (the Deferred Contribution). On July 22, 2011, the Company received its first Deferred Contribution of \$75 million from the Former Parent.

Merger Agreement with Google Inc.

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

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

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

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

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and all controlled subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements as of October 1, 2011 and December 31, 2010 and for the three months and nine months ended October 1, 2011 and October 2, 2010 include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the Company s consolidated financial position, results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the combined financial statements and notes thereto included in the Company s Form 10-K for the year ended December 31, 2010. The results of operations for the three months and nine months ended October 1, 2011 are not necessarily indicative of the operating results to be expected for the full year. Certain amounts in prior period financial statements and related notes have been reclassified to conform to the 2011 presentation.

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

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

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:

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

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

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

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

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

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Brazil Functional Currency

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

Recently Issued Accounting Pronouncements

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

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

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

2. Relationship with the Former Parent

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

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

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

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

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Other Income (Expense)

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

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

Loss Per Common Share

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

Amounts attributable to Motorola Mobility
Holdings, Inc.

| | common stockholders | | | |
|--|---------------------|------------|-------------------|------------|
| | Three Mo | nths Ended | Nine Months Ended | |
| | October 1, | October 2, | October 1, | October 2, |
| | 2011 | 2010 | 2011 | 2010 |
| Basic loss per common share: | | | | |
| Net loss | \$(32) | \$(34) | \$(169) | \$(166) |
| Weighted average common shares outstanding | 297.7 | 294.3 | 296.1 | 294.3 |
| | | | | |
| Per share amount | \$(0.11) | \$(0.12) | \$(0.57) | \$(0.56) |
| | +(**==) | +(***=) | +() | +(0.00) |
| Diluted loss per common share: | | | | |
| Net loss | \$(32) | N/A | \$(169) | N/A |
| | | | | |
| Weighted average common shares outstanding | 297.7 | N/A | 296.1 | N/A |
| Add effect of dilutive securities: | | | _, _, | |
| Share-based awards and other | | N/A | | N/A |
| | | | | |
| Diluted weighted average common shares outstanding | 297.7 | N/A | 296.1 | N/A |
| Dialed weighed average common shares outstanding | 201.1 | 1 1/11 | 2 /0.1 | 11/11 |

Per share amount \$(0.11) N/A \$(0.57) N/A

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

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

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Balance Sheet Information

Cash and Cash Equivalents and Cash Deposits

The Company s cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) were \$3.1 billion at October 1, 2011. In addition, the Company had \$181 million of cash deposits, primarily related to various legal disputes, at October 1, 2011. At October 1, 2011, \$21 million of this amount was current and included in Other current assets in the Company s condensed consolidated balance sheet (all of which was held in the U.S.) and \$160 million of this amount was non-current (including \$155 million held outside the U.S.). Prior to Separation, the Company participated in the Former Parent s cash management program. As a result, the Company has recorded no cash, cash equivalents or cash deposits on its balance sheet prior to Separation.

Accounts Receivable

Accounts receivable, net, consists of the following:

| | | December 31, |
|--------------------------------------|--------------------|--------------|
| | October 1, 2011 | 2010 |
| Accounts receivable | \$1,801 | \$1,620 |
| Less allowance for doubtful accounts | (27) | (49) |
| | \$1,774 | \$1,571 |

Inventories

Inventories, net, consists of the following:

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

Other Current Assets

Other current assets consists of the following:

| | October 1, 2011 | December 31, 2010 |
|------------------------|--------------------|----------------------|
| Contractor receivables | \$246 | \$239 |
| Deferred costs | 109 | 163 |

| Tax refunds receivable | 108 | 103 |
|------------------------------|-------|-------|
| Royalty license arrangements | 50 | 44 |
| Cash deposits | 21 | |
| Other | 71 | 46 |
| | | |
| | \$605 | \$595 |



Property, Plant and Equipment

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

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

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

Investments

Investments consists of the following:

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

| | Less | | | |
|--------------------------------|----------|------------|------------|-------|
| | | Unrealized | Unrealized | |
| | Recorded | | | Cost |
| December 31, 2010 | Value | Gains | Losses | 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 nine months ended October 1, 2011, the Company disposed of Available-for-sale common stock and equivalents and Other securities, at cost resulting in a gain on sale of investments of \$12 million.

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

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Other Assets

Other assets consists of the following:

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

Accrued Liabilities

Accrued liabilities consists of the following:

| | October 1, 2011 | December 31, 2010 |
|------------------------------|--------------------|----------------------|
| Customer reserves | \$364 | \$256 |
| Deferred revenue | 310 | 325 |
| Warranty reserves | 253 | 206 |
| Compensation | 249 | 246 |
| Royalty license arrangements | 246 | 211 |
| Contractor payables | 183 | 179 |
| Tax liabilities | 100 | 140 |
| Other | 529 | 552 |
| | | |
| | \$2.234 | \$2,115 |

Other Liabilities

Other liabilities consists of the following:

| | October 1, 2011 | December 31, 2010 |
|-------------------------------|--------------------|----------------------|
| Deferred revenue | \$178 | \$224 |
| Facility financing obligation | 97 | 96 |
| Defined benefit pension plans | 95 | 93 |
| Deferred income taxes | 77 | 79 |
| Other | 140 | 111 |
| | | |
| | \$587 | \$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 October 1, 2011 and December 31, 2010, the Company had outstanding foreign exchange contracts with notional values totaling \$265 million and \$608 million, respectively. Management believes that these financial instruments should not subject the Company to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset losses and gains on the underlying assets, liabilities and transactions, except for the ineffective portion of the instruments, which are charged to Other within Other income (expense) in the Company s condensed consolidated statements of operations.

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

| | Notio | nal Amount |
|----------------------------|------------|--------------|
| | October 1, | December 31, |
| Net Buy (Sell) by Currency | 2011 | 2010 |
| Canadian Dollar | \$25 | \$35 |
| Indian Rupee | (25) | (43) |
| Chinese Yuan | (29) | 14 |
| Euro | (66) | (54) |
| Japanese Yen | (67) | (5) |
| | | |

Counterparty Risk

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

Fair Value of Financial Instruments

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

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5. Income Taxes

Basis of Presentation

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

Income Tax Expense

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

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

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

Deferred Income Taxes

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

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

Unrecognized Tax Benefits

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

6. Share-Based Compensation Plans

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

Stock Options

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

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Restricted Stock and Restricted Stock Units

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

Employee Stock Purchase Plan

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

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

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

7. Fair Value Measurements

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

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

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

| October 1, 2011 | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------------|---------|---------|---------|-------|
| Assets: | | | | |
| Foreign exchange derivative contracts | \$ | \$15 | \$ | \$15 |
| Liabilities: | | | | |
| Foreign exchange derivative contracts | \$ | \$3 | \$ | \$3 |

8. Sales of Receivables

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

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

9. Credit Facilities

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

10. Commitments and Contingencies

Legal

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

Tax and Regulatory Proceedings in Brazil

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

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

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

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

Indemnifications

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

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

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

11. Segment Information

The Company reports financial results for the following business segments:

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

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

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Operating

\$(70)

\$(114)

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

| | | | | erating |
|----------------------------------|------------|------------|--------------|------------|
| | | | Ea | rnings |
| | Net I | Revenues | (1 | Loss) |
| | October 1, | October 2, | October 1, | October 2, |
| Three Months Ended | 2011 | 2010 | 2011 | 2010 |
| Mobile Devices | \$2,434 | \$2,034 | \$(41) | \$(43) |
| Home | 825 | 912 | 54 | 49 |
| | \$3,259 | \$2,946 | | |
| Merger-related transaction costs | | | (18) | |
| Merger-related transaction costs | | | (10) | |
| Operating earnings (loss) | | | (5) | 6 |
| Total other income (expense) | | | 3 | (13) |
| Loss before income taxes | | | \$(2) | \$(7) |
| | | | | |
| | | | Ope | rating |
| | | | Ear | nings |
| | Net Re | venues | (L | oss) |
| | October 1, | October 2, | October 1, | October 2, |
| Nine Months Ended | 2011 | 2010 | 2011 | 2010 |
| Mobile Devices | \$6,992 | \$5,399 | \$(215) | \$(148) |
| Home | 2,636 | 2,636 | 169 | 98 |
| | \$9,628 | \$8,035 | | |
| | | | | |
| Merger-related transaction costs | | | (18) | |
| Operating loss | | | (64) | (50) |
| Total other expense | | | (6) | (64) |
| | | | | |

12. Reorganization of Businesses

Loss before income taxes

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.

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2011 Activity

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

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

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

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

| | Three Months | Nine Months |
|-----------------|--------------|-------------|
| October 1, 2011 | Ended | Ended |
| Mobile Devices | \$ | \$(3) |
| Home | | |
| | | |
| | \$ | \$(3) |

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

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

Adjustments include foreign currency translation adjustments.

Exit Costs

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

Employee Separation Costs

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

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2010 Activity

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

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

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

| | Three Months | Nine Months |
|-----------------|--------------|-------------|
| October 2, 2010 | Ended | Ended |
| Mobile Devices | \$13 | \$30 |
| Home | 5 | 15 |
| | | |
| | \$18 | \$45 |

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

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

Adjustments include foreign currency translation adjustments.

Exit Costs

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

Employee Separation Costs

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

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

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13. Intangible Assets and Goodwill Intangible Assets

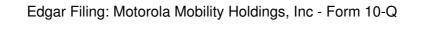
Amortized intangible assets were comprised of the following:

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

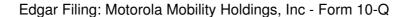
Amortization expense on intangible assets, which is included within Other charges, was \$15 million and \$14 million for the three months ended October 1, 2011 and October 2, 2010, respectively. Amortization expense on intangible assets, which is included within Other charges, was \$47 million and \$41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

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

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



when permitted by law, for valuation of assets and liabilities and for minimum capital requirements; and (vi) controlling the Central de



nents that have characteristics of permanence and loss absorption that are in compliance with regulations enacted by the SBS, such as he of redeemable subordinated debt and of any other components that have characteristics of debt and equity as provided by the SBS; (iii) d such subsidiaries referred to in Articles 34 and 224 of the Law; (iii) the amount in which an investment in shares issued by a company

Consolidated Financial Statements.

.00% to 4.25%. As of December 2011, the reference interest rate remained at that level.



y the Category B License.



Registry of Securities of Peru or the comparable registry of their respective country.

per of factors in identifying a credit-impaired security, including: (i) the nature of the security and the underlying collateral, (ii) the amo

zed cost. Management estimates a security's forecasted recovery period using current estimates of volatility in market interest rates (inc

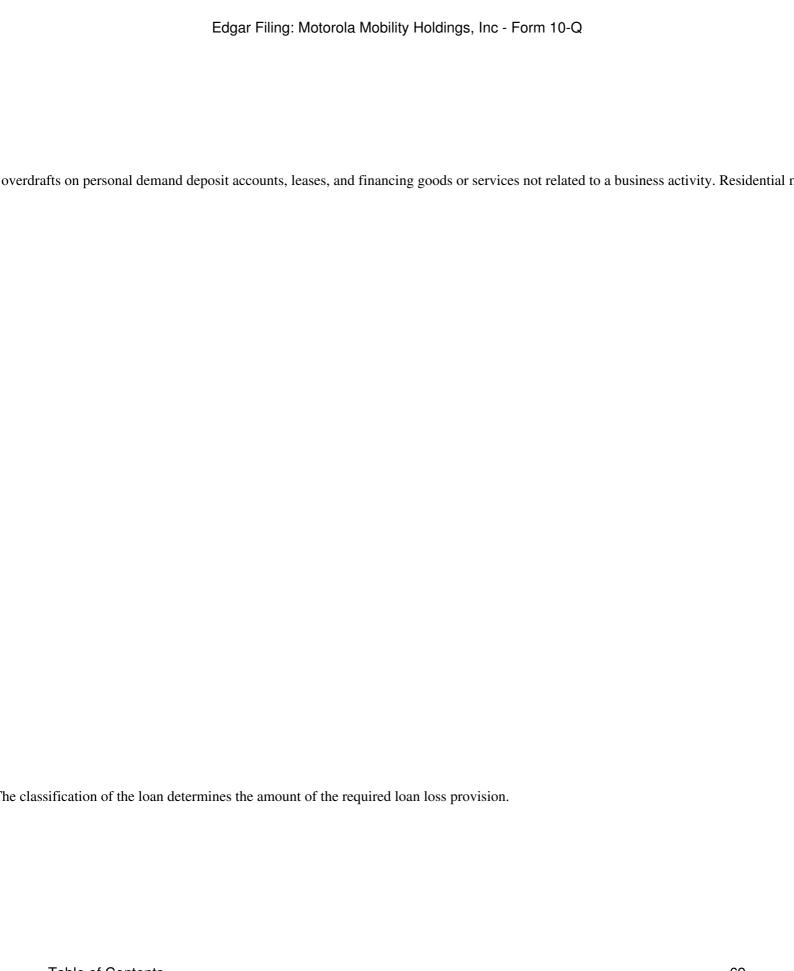
Factoring: The sale of title to a company's accounts

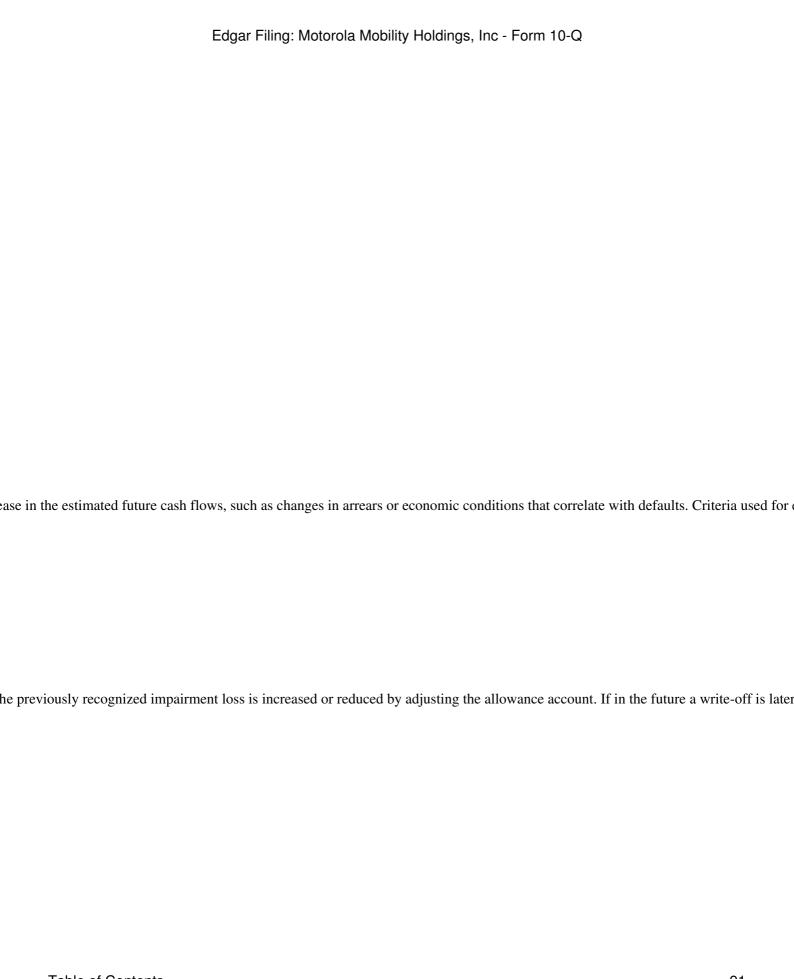
Refinanced Loans: Loans that were refinanced because the client was unable

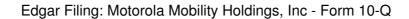
| | 2007 (U.S. Dollar | 2008 rs in thousand | 2009 ls) | 2010 | 2011 |
|----------------|----------------------|------------------------|-------------|-----------|-----------|
| | | | | | |
| Personal Loans | 510,338 | 666,661 | 976,499 | 1,147,274 | 1,455,200 |
| Mortgage Loans | 1,121,775 | 1,484,495 | 1,752,460 | 2,058,403 | 2,723,830 |
| Small Business | 493,360 | 606,168 | 739,157 | 953,394 | 1,129,119 |
| Credit card | 355,443 | 389,374 | 495,333 | 600,136 | 824,323 |
| | 2 480 916 | 3 146 698 | 3 963 449 | 4 759 207 | 6 132 472 |

orime credit quality. The limits on lending to non-Peruvian financial institutions increases to 50% of BCP's regulatory capital if the amount

cked by a cash deposit at BCP or by debt obligations of the Central Bank is 30% of BCP's regulatory capital.







impairment loss will be reversed through the consolidated income statement.

expenses. See Note 7(b) to the Consolidated Financial Statements.



ed to restructure their debt as a result of the Latin American debt crisis and government restrictions, BCP and Grupo Pacífico complied

act correspondent banks to make a payment of a certain amount to a beneficiary that is not a financial institution. These funds have mat

s (US\$134.4 million in 2010 and US\$188.3 million in 2009). These bonds have maturities of up to seven years. See Note 15 to the Const

rue or be due and payable at any time and shall not constitute an acceleration event. In those cases, BCP will not, and will not cause its

Romero Seminario.

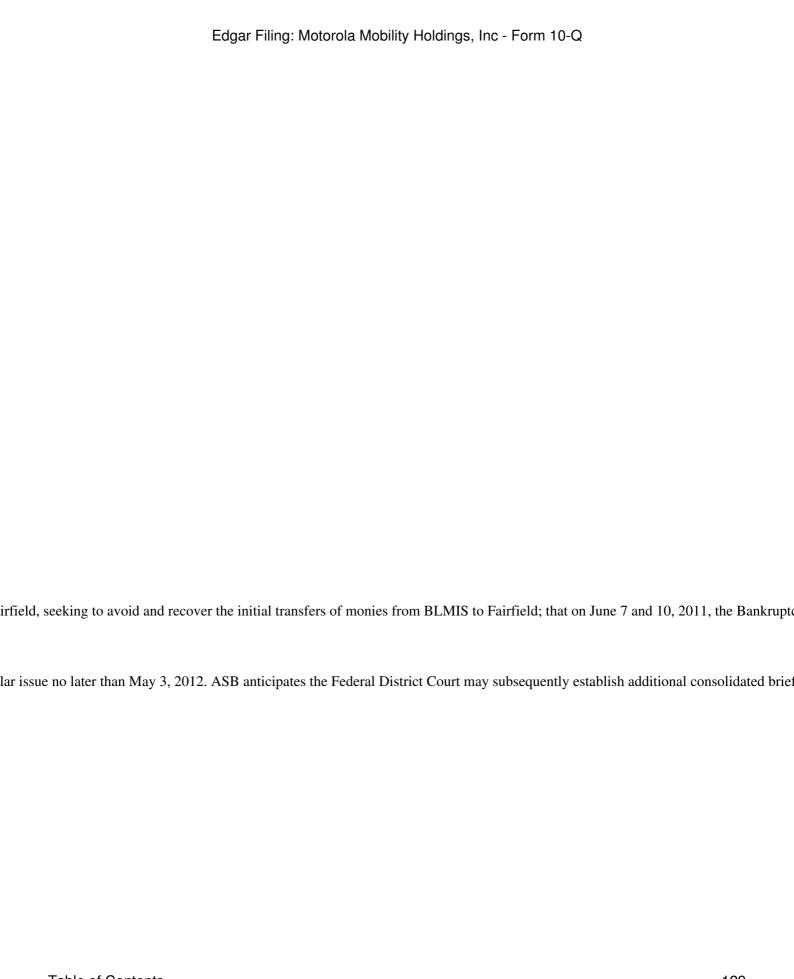


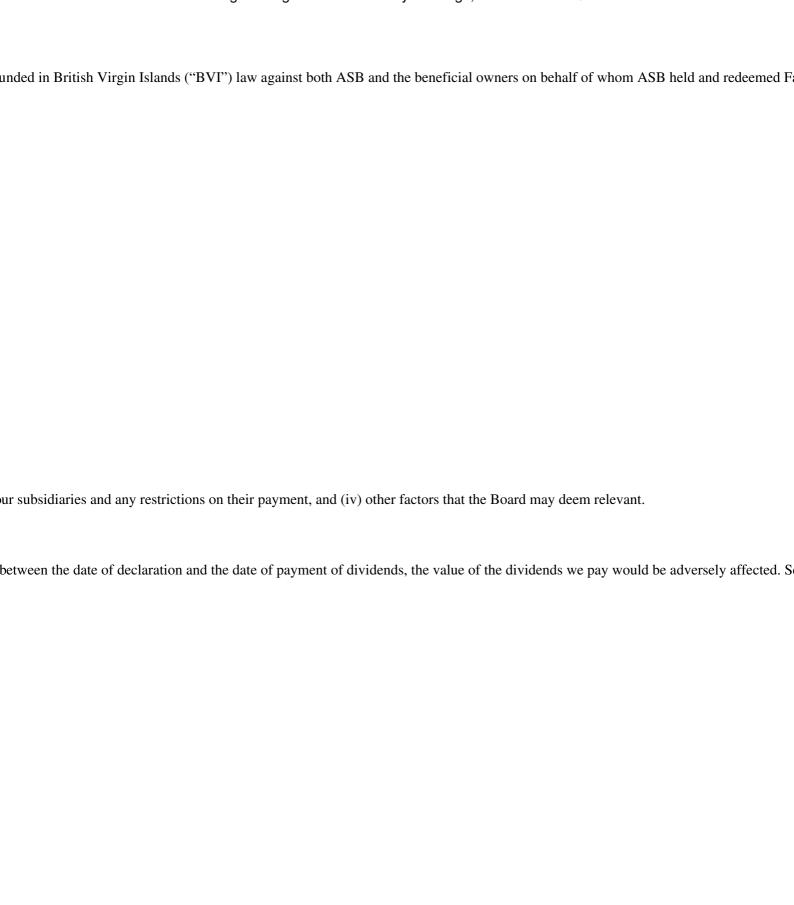
ability recorded for the vested benefits.

ppointed by the board on May 25, 2011. Mr. Juan Carlos Verme replaced Mr. Reynaldo Llosa Barber who served as Chairman of the A

nent, performed on a continuous basis, of the financial position of each related party and the market in which it operates. The decrease

able loans.

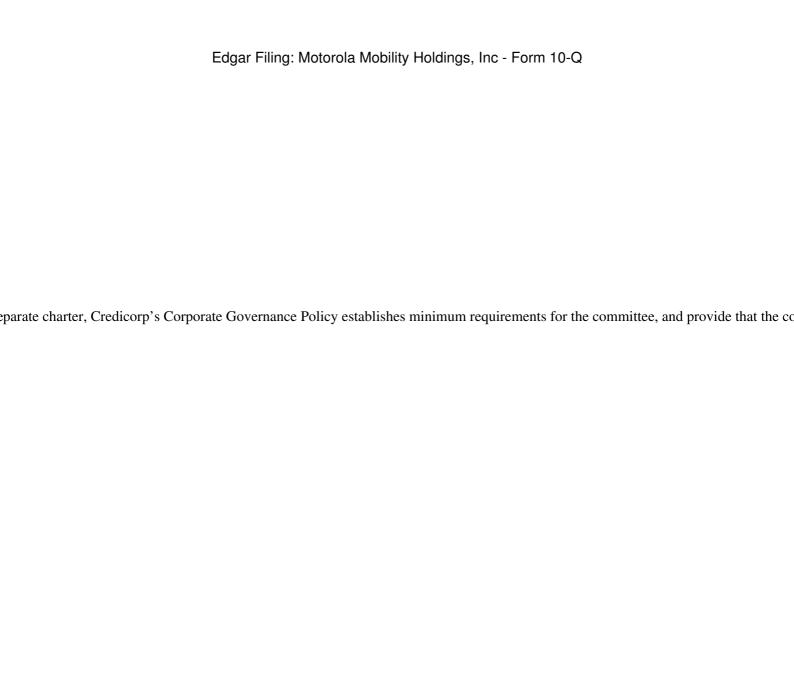




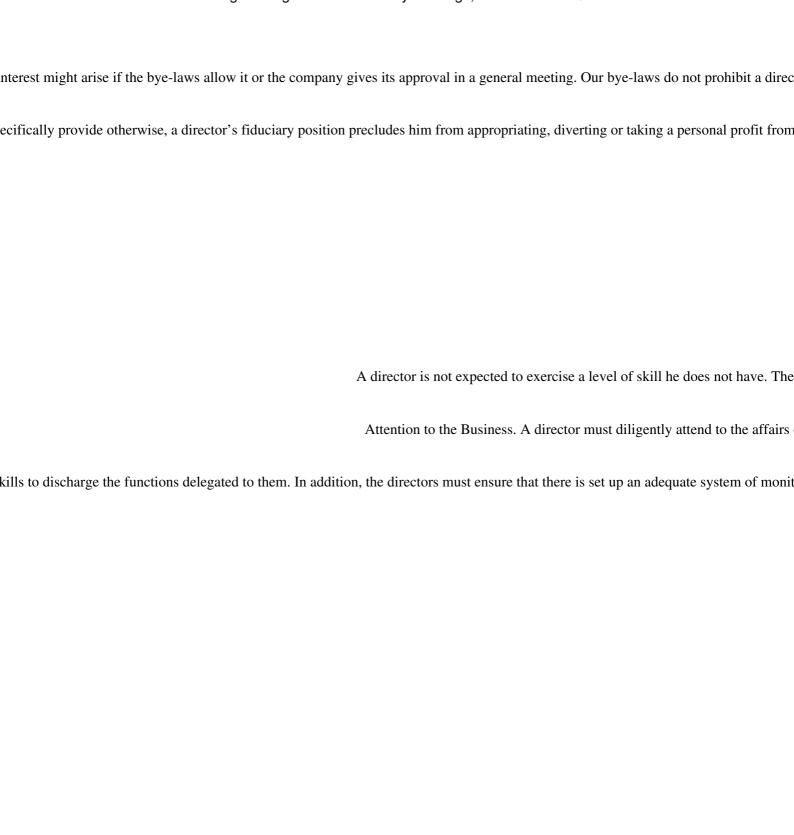




ermuda law.



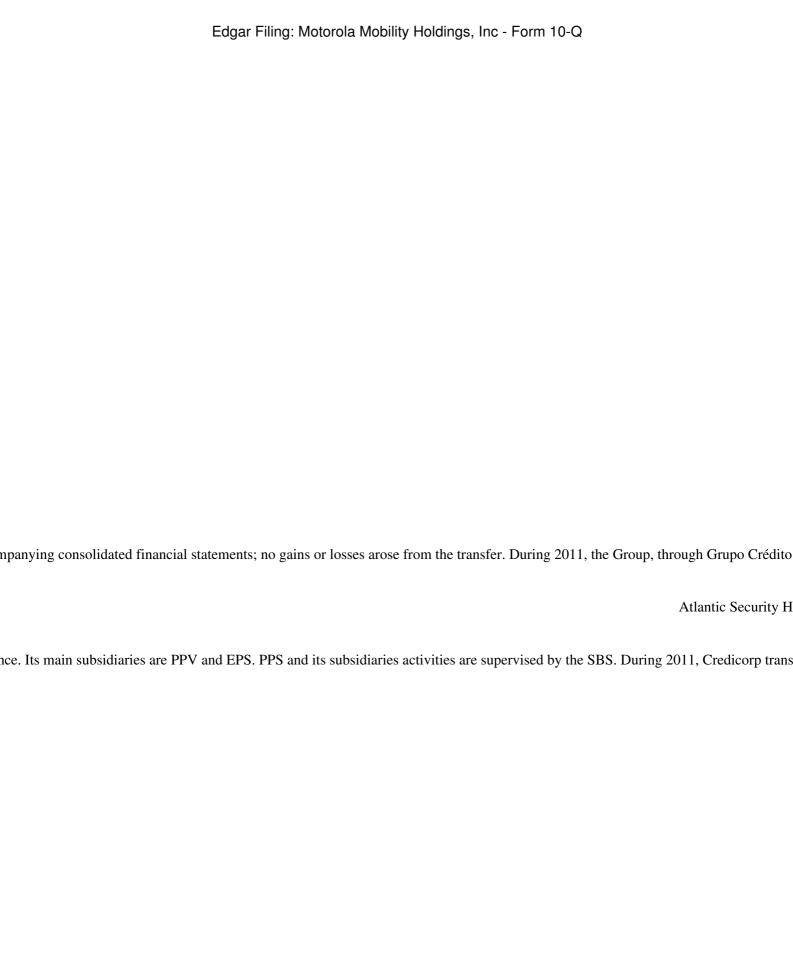






Durii





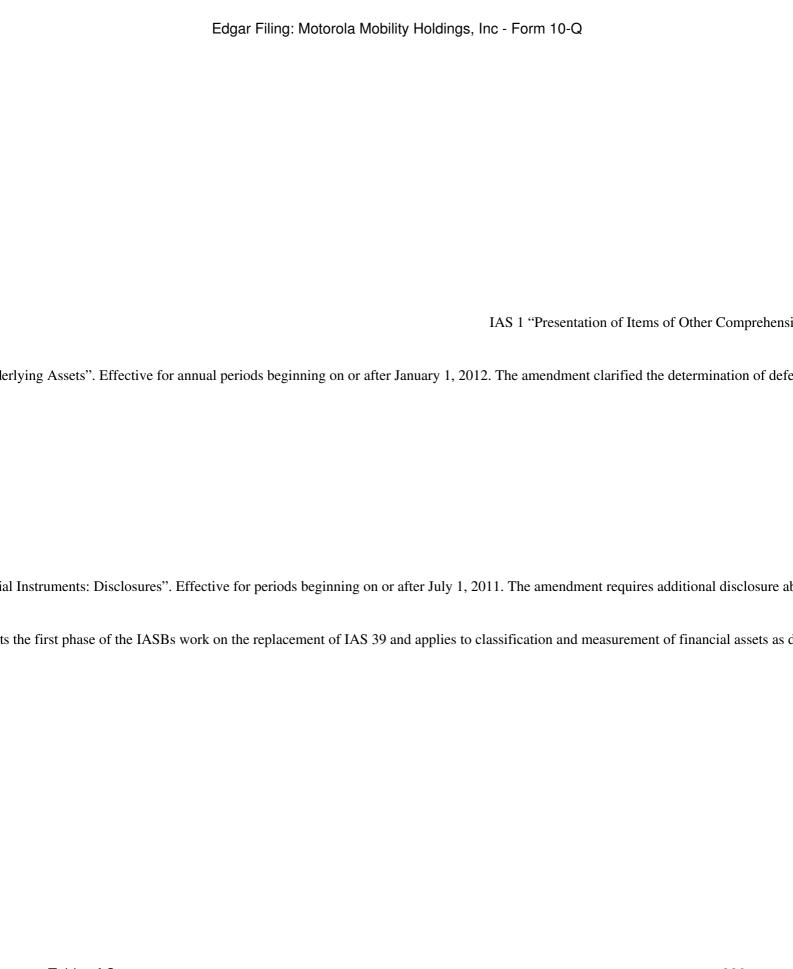


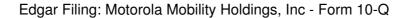




ar, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognize

pairment loss is reversed through the consolidated statements of income.



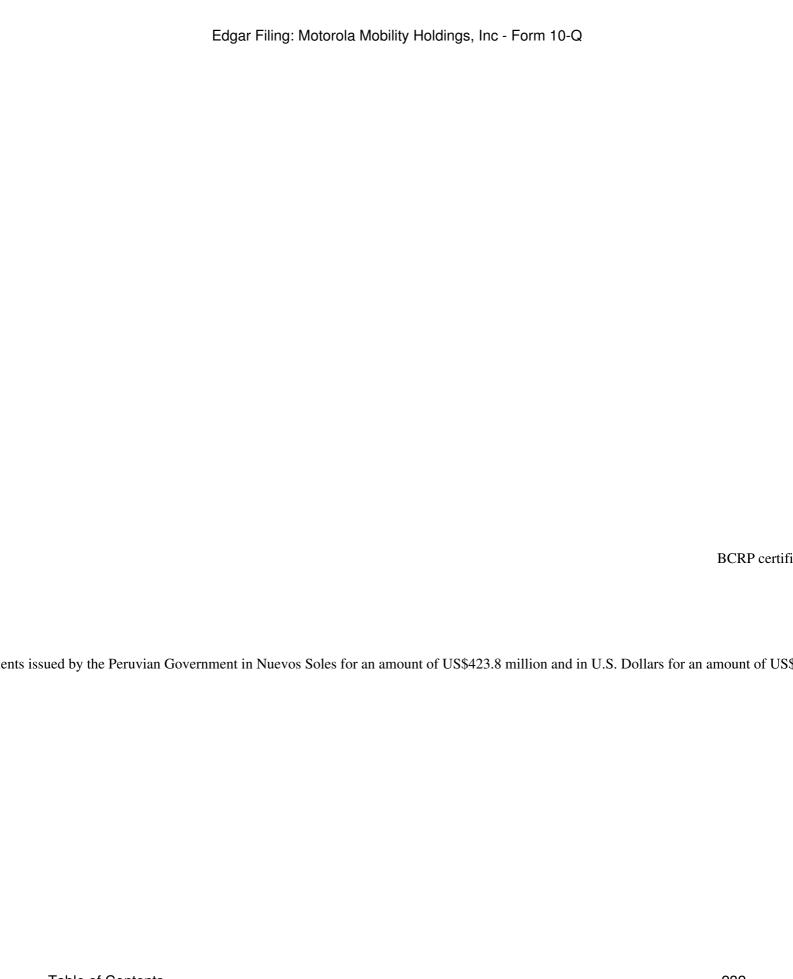


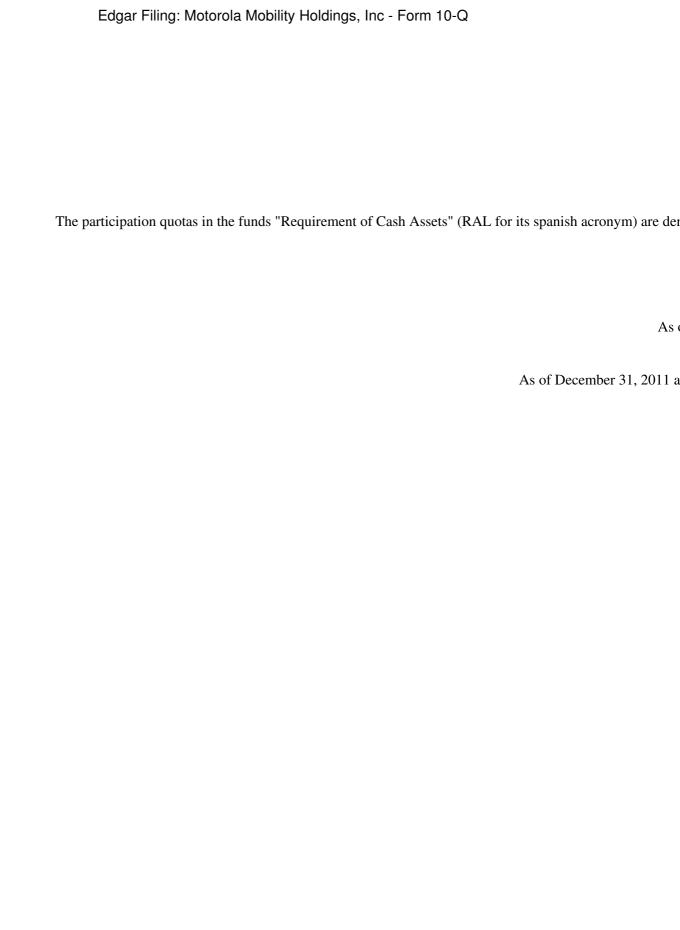
ing on or after January 1, 2013. IFRS 10 replaces the portion of IAS 27 "Consolidated and Separate Financial Statements" that address

IFRS 11 "Joint Arrangements". Effective

IFRS 12 "Disclosure of Interests in Other Entities". Effective for

Conceptual Framework for Financial Reporting - Objectives and Qualitative Characteristics. The IA





The movement in the allowance for loan losses includes the allowance

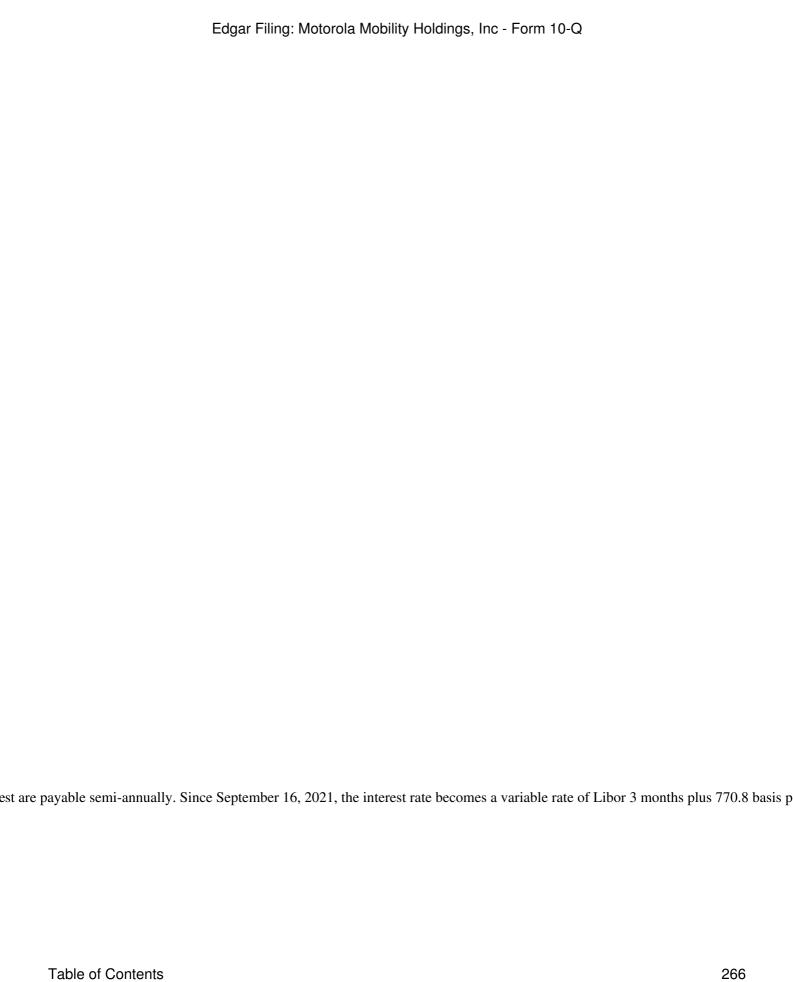
t that income arising from asset management charges is based on the value of assets in the fund. For the year 2011, the loss resulting from

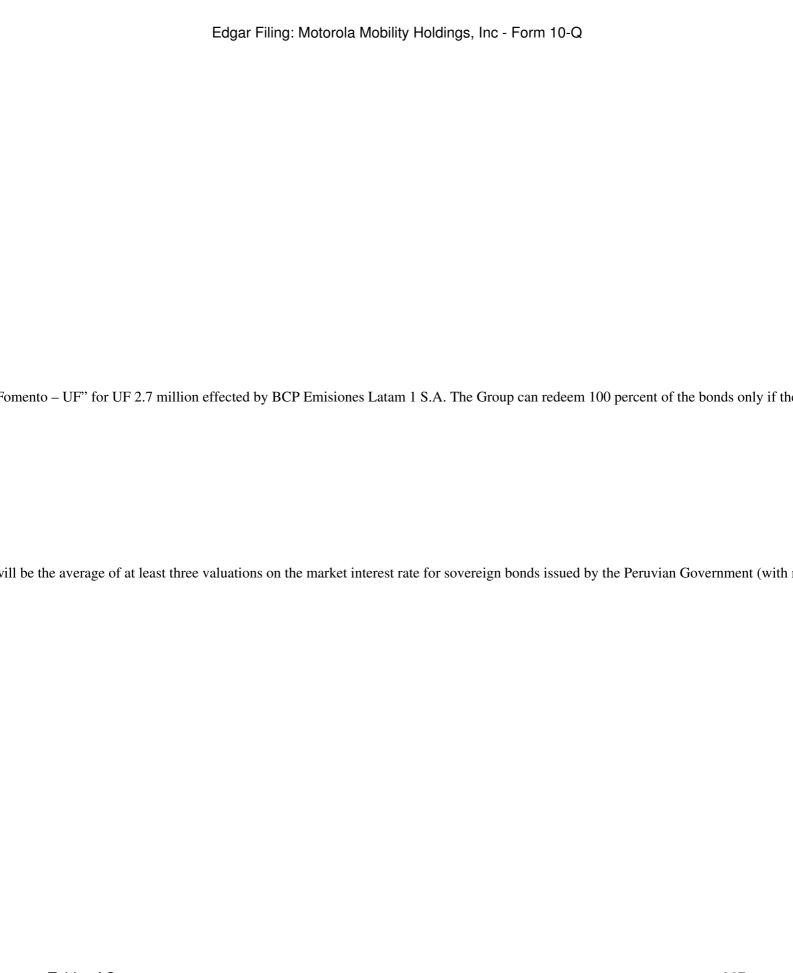
roup") and Credit Agricole Corporate and Investment Bank (hereinafter "Calyon"). These contracts consist of the purchase of certificat

designated at fair value through profit or loss" of the consolidated statements of income ("Net gain on financial assets designated at fair

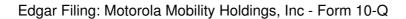


Promotional credit lines represent loans granted to BCP by Corporación Financiera de Desarrollo (COFIDE for its Spanish act





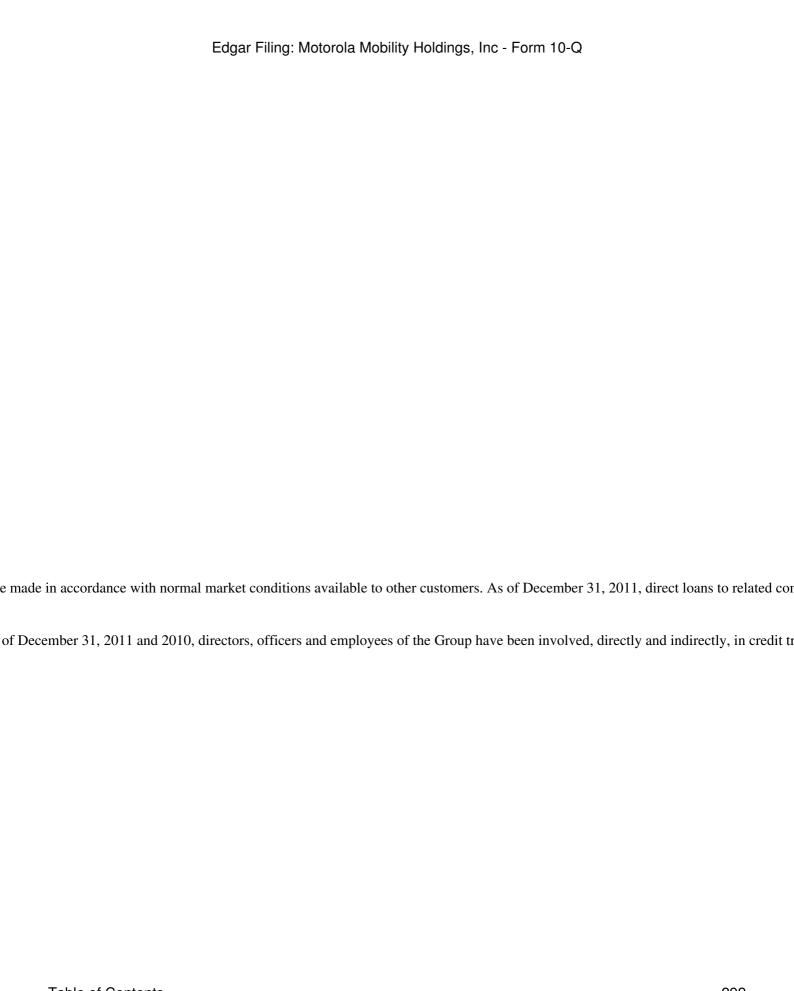
Leasing an



As of December 31, 2011 and 2010, the regulatory capital for Credicorp's substance.



The Peruvian Tax Authority has the right to review and, if necessar





Group.



