

Name:

Section: XX

Links:

**10-k Report:**

[http://www.sec.gov/Archives/edgar/data/1495569/000119312511040013/d10k.htm#toc135973\\_1](http://www.sec.gov/Archives/edgar/data/1495569/000119312511040013/d10k.htm#toc135973_1)

**Wall Street Journal Article:** <http://blogs.wsj.com/marketbeat/2011/03/15/motorola-mobility-continues-to-stumble/?KEYWORDS=motorola>

**PESTLE Forces:**

- 1. Political- Section 12-** Many of the products sold by our business are subject to regulation by the FCC in the U.S. and other communications regulatory agencies around the world. In addition, our customers, and their networks into which our products are incorporated, are subject to government regulation. Government regulatory policies affecting either the willingness or the ability of cable and telecommunications operators, wireless operators and wireline operators to offer certain services, or the terms on which these operators offer the services and conduct their business, may have a material adverse effect on our results.

The FCC is the federal governing body that regulates the mobile phone industry. Phone manufacturers and service providers cannot offer products or services that do not fall within the guidelines set forth by the FCC. If the FCC does not approve of a product or a service that Motorola is developing, losses can be incurred.

- 2. Economic- Section 14 -** In each of the last four years, Motorola Mobility had net losses as a result of the financial performance of our Mobile Devices business. We cannot be certain that we will return to profitability in the near-term or maintain profitability if achieved.

In 2010, the telecommunications, cable industries and our Home business were impacted by the weakened global macro-economic environment, particularly in the U.S. Our financial performance could be negatively impacted if these industries do not return to growth.

The recent weak economy has caused a trend of net losses for Motorola in the past four years. The ongoing recession has caused a negative impact on the telecommunications industry as a whole. If these trends continue Motorola can potentially have further losses.

- 3. Sociocultural- Section 2** - In 2010, total industry shipments of wireless handsets increased from an economically weakened level in 2009. The smartphone segment grew on a unit basis more than 60% from 2009 to 2010. We expect the smartphone segment unit growth to be between 40% to 50% for the full year 2011. In addition, wireless connectivity is being integrated into new classes of devices (“converged devices”), including media tablets, creating new growth opportunities for mobile devices manufacturers. We expect the market for media tablet units to more than double in 2011.

The trend of phone purchases have shifted from feature phones that focus on calling and texting features to smart phones and tablet computers that have advanced capabilities. Manufactures must follow this trend to make sure they are making devices that will sell in the current market.

- 4. Technological- Section 14**- We operate in an extremely competitive environment and the markets for our products are characterized by rapidly changing technologies, frequent new product introductions, short product life cycles and evolving industry standards. The convergence of the telecommunication, data and media industries which is driven by technological development related to IP based communications is driving rapid change in our industries. Product life cycles can be short and new products are expensive to develop and bring to market. Our success depends, in substantial part, on the timely and successful introduction of new products, services and upgrades of current products to comply with emerging industry standards and to address competing technological and product developments by our competitors. The research and development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation and investment, as well as the accurate anticipation of technology, market trends and customer needs. We may focus our resources on technologies that do not become widely accepted, are not timely released or are not commercially viable. In addition, our products may contain defects or errors that are detected only after deployment. If our products are not competitive or do not work properly, our business could suffer and our financial performance could be negatively impacted.

Technology in the mobile phone industry is quickly evolving and companies are coming out with new devices at a fast pace. This leads to shorter development cycles and a risk that the product you are developing will not be able to compete with what other manufacturers are bringing out. The emphasis is placed on bringing out the right products at the right time.

- 5. Legal- Section 18**- The Company has licensed, or has otherwise obtained the rights from third-parties to use, certain trademarks in connection with our products, including, but not limited to, ANDROID™, DROID™ and CLIQ™. Such third-party ownership rights may be challenged by other third-parties. In the event that such third-party licensor is successfully challenged, our continued use of such trademarks could result in an injunction barring the sale of our products, and if such third-party licensor refuses or fails to indemnify the Company, we could be liable for payment of damages resulting from trademark infringement, thereby disrupting our continued and/or long-term use of such trademarks.

Many of the products offered by Motorola Mobility are reliant on licenses from third party companies. If Motorola were to lose those licenses through a challenge or if one of the

companies decides to not renew a license, Motorola would be forced to stop selling a particular product and could face legal action. To combat this Motorola should aim to secure long term deals with third party companies or seek to own the rights to as many of the licenses as possible.

- 6. Environmental- Section 11-** During 2010, compliance with federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, did not have a material effect on capital expenditures, earnings or the competitive position of Motorola Mobility.

Complying with laws regarding how materials are handled and following proper disposal procedure has not had a negative impact on Motorola Mobility.

#### **Porter's Five Forces:**

- 7. Current Competitors- High- Section 5-** The segment experiences intense competition from numerous global competitors such as Nokia, Samsung, LG, Sony-Ericsson, Apple, RIM and HTC. In 2010, these seven manufacturers together held an aggregate market share of approximately 80% of the total mobile devices market. Smartphone manufacturers have benefited from the growing smartphone demand. New competitors are also entering from the traditional computing market. In addition, second-tier vendors are increasing their presence in Asia, as well as expanding into other regions, providing another layer of competition.

In 2010, our overall market share decreased; however, our share in smartphones increased compared to 2009.

With the Android platform being open source it is easy for developers to produce third party applications for phones running the platform. This has caused the platform to become very popular with users because of the variety of applications available. This trend has caught the attention of the major phone manufacturers and now several of the top manufactures produce phones using the same Android platform which increases competition in the market. The two competitors to the Android platform are the iPhone and Blackberry (RIM) platforms.

- 8. New Entrants – High –Section 5-** Mobile device manufacturers compete in a rapidly evolving and highly competitive marketplace. Competitors include traditional mobile device manufacturers as well as new competitors who have entered the market in the last several years. As market demand continues to shift toward smartphones and media tablets, additional competitors may enter the mobile devices market.

There isn't necessarily a high threat of new phone manufactures appearing but as technology changes and new trends (like tablet computing) become more popular there is a high chance of new companies entering the market and offering products that compete with some of the products that Motorola is offering. This occurs because Motorola offers a wide range of products instead of just focusing on one segment.

**9. Suppliers- Moderate- Section 19-** As with all companies that have sizeable sales and operations outside the U.S., we are exposed to risks that could negatively impact sales or profitability, including but not limited to: (1) import/export regulations, tariffs, trade barriers and trade disputes, customs classifications and certifications, including but not limited to changes in classifications or errors or omissions related to such classifications and certifications, (2) patent infringement actions in the ITC, (3) changes in U.S. and non-U.S. rules related to trade, the environment, health and safety, technical standards and consumer protection, (4) longer payment cycles, (5) tax issues, such as tax law changes, inconsistent interpretation, variations in tax laws from country to country and as compared to the U.S., and difficulties in repatriating cash generated or held abroad in a tax-efficient manner, (6) currency fluctuations, particularly in the Chinese yuan, euro, Brazilian real, Taiwan dollar, and Korean won which could negatively impact our revenues and profits, (7) foreign exchange regulations, which may limit Motorola Mobility's ability to convert or repatriate foreign currency, (8) challenges in collecting accounts receivable, (9) cultural and language differences, (10) employment regulations and local labor conditions, (11) difficulties protecting intellectual property in foreign countries, (12) instability in economic or political conditions, including inflation, recession and actual or anticipated military or political conflicts, including war and other hostilities, (13) natural disasters, (14) public health issues or outbreaks, (15) changes in laws or regulations that negatively impact benefits, such as tax benefits, being received by Motorola Mobility, (16) the impact of each of the foregoing on our outsourcing and procurement arrangements, and (17) litigation in foreign judicial systems and foreign administrative proceedings.

This is another statement that could fall under different categories. It was placed here because of the fact that the majority of Motorola's suppliers are outside of the country. This places Motorola at a higher risk because they are now at the mercy of foreign governments and must deal with foreign currency, tax policy, export regulations and local labor laws of these countries. Also instabilities in foreign governments or events like wars could disrupt Motorola's supply chain. To combat this Motorola could shift its production to the United States where it will have more direct control.

**10. Buyers – High- Bottom of Section 14 and Top of 15-** We sell the majority of our handsets to wireless carriers. Currently, we do not have long-term exclusivity arrangements with our customers or commitments by them to purchase guaranteed volumes. Moreover, our customers can cancel orders or contracts with us with little, if any, notice. Some of our current competitors may have more favorable contractual arrangements with some wireless carriers, including exclusivity arrangements. These more favorable contractual arrangements may give our competitors competitive advantages. Our financial results could be negatively impacted as a result of these types of arrangements.

This can be characterized as a weakness, threat or buyer power. It is placed here because it clearly demonstrates that the buyer (Wireless Companies) have extremely high buyer power.

Without long term contracts in place Motorola has no guarantee that wireless companies will continue to buy its products. Add to that the fact that other manufactures may have better deals in place puts Motorola at a severe disadvantage. Motorola must offer innovative products that are in demand with users or it can lose its market share all together.

**11. Threat of Substitutes – High- Section 15-** We are at risk if Android-based smartphones do not remain competitive in the marketplace. Even if Android-based smartphones remain competitive, the Android operating system is an open-source platform and many other companies sell competing Android-based smartphones. If the Android-based smartphones of our competitors are more successful than ours, our financial results could be negatively impacted. It is also critical to the success of the Android operating system that third-party developers continue to develop and offer applications for this operating system that are competitive with applications developed for other operating systems. From an overall risk perspective, the industry is currently engaged in an extremely competitive phase with respect to operating system platforms, applications and software generally. If Android does not continue to gain operator and/or developer adoption, or any updated versions or new releases of Google's Android operating system or applications are not made available to Motorola Mobility in a timely fashion, Motorola Mobility could be competitively disadvantaged and Motorola Mobility's financial results could be negatively impacted.

The android platform is open source and widely used by many phone manufactures. This creates potential substitutes for wireless carriers to choose from because they can select the manufacture that has the best features and best price. An open source operating system means that it can be easily customized and can be used by developers in unique ways. By contrast, for applications to be developed for Apple's iPhone must fit Apple's rigid specifications and Apple has the right to deny a developer the right to develop something that Apple doesn't like. With the freedom that

the android platform gives to developers and the popularity it currently has, consumers have many options available when it comes to purchasing phones that will run the android operating system. Also since Motorola only makes android phones they are betting that the android platform will continue to be profitable. If a new leader emerges and Motorola does not respond quickly, losses can be incurred.

## **SWOT**

**12. Strengths- Section 3-** We believe the strengths of our Mobile Devices segment position us well to bring to market innovative and differentiated products and services. Our key strengths include:

- *Innovative Mobile Technologies.* We have a long history of developing innovative mobile devices including the first portable cellular phone, the StarTAC® and RAZR® phones, the DROID by MOTOROLA family of smartphones and, more recently, the ATRIX. We have devoted extensive research and development resources into integrating advanced technologies such as multiple radio interfaces, mobile microprocessors, advanced mobile operating systems and advanced multimedia functionality and industrial design into our mobile devices. In addition, we have extended our expertise into software application and services development to create the MOTOBLUR service platform.
- *Diverse Product Portfolio.* Our diverse global product portfolio includes media tablets, smartphones, feature phones and voice-centric devices. This portfolio extends across various wireless technologies, capabilities, form factors and price points.
- *Deep Customer Relationships.* We have extensive relationships with wireless carriers, retailers and global distributors that have been in place for many years. Our global sales organization markets our portfolio of devices and services around the world.

Motorola has a long history of making innovative mobile phones for the last several generations of phones and networks. They also have long running relationships with wireless carriers so they have an established market for their products. Also by having a diverse portfolio of devices they have a greater chance of success because they are not dependent on the success of one particular product. This also allows the company to shift its resources to particular products (like tablet computers) as the market changes.

**13. Weaknesses- Section 14-** During 2010, approximately 28% of our net revenues were from Verizon Communications Inc. (including Verizon Wireless) (“Verizon”). It may be difficult to replace or find new large customers, especially with increasing concentration in the U.S. where there are a limited number of carriers. If any significant customer, particularly Verizon or Sprint Nextel or other large customers, such as Comcast, stopped doing business with us, or significantly reduced the level of

business they do with us, it could impact our ability to service other customers using similar technology and our financial results could be negatively impacted.

With there being a very limited number of wireless providers (and even less now that AT&T is in the process of buying T-Mobile) , if one were to stop doing business with Motorola there would be a significant reduction in revenue, so much that it could impact Motorola's ability to continue doing business. This increases the power of the buyer because Motorola has so few clients and must preserve these relationships to continue operating.

**14. Opportunities – Section 4- *Strong Patent Portfolio.*** We have developed an extensive portfolio of intellectual property assets through our significant and continued investment in research and development. The intellectual property assets held by our Mobile Devices segment include approximately 15,200 granted patents and 6,200 pending patent applications, worldwide, which are complemented by another approximately 1,900 granted patents and 1,300 pending patent applications, worldwide, held by our Home segment for a total held by our two segments of approximately 17,000 granted patents and 7,500 pending patent applications, worldwide. These patents and patent applications are directed to inventions in areas such as wireless, audio, video, design and user interface (“UI”).” Further, we believe our portfolio of patents in 4G will position us well in the upcoming technology transition from 2G and 3G.

This is an opportunity because all of the major wireless carriers (Verizon, Sprint, and the newly formed AT&T/T-Mobile) are all pushing the emerging 4G network (HSPA + and LTE) which will enable phones with higher bandwidth and increased computing power. For Motorola to already possess 4G patents they are positioning themselves to be a top manufacturer of mobile devices as we enter the next generation.

**15. Threats- Section 16 -** Our business could be harmed if: (1) we, our customers and/or our suppliers are found to have infringed intellectual property rights of third-parties, (2) the intellectual property indemnities in our supplier agreements are inadequate to cover damages and losses we suffer due to infringement of third-party intellectual property rights by our suppliers' products, (3) we are required to indemnify our customers for significant amounts under agreements providing for intellectual property indemnities that have been entered into with some of our customers, (4) our intellectual property protection is inadequate to protect our proprietary rights, (5) the indemnity rights passed through by our customers are insufficient, or (6) our competitors negotiate significantly more favorable terms for licensed intellectual property. We may be harmed if we are forced to make publicly available, under the relevant open-source licenses, certain internally developed software related intellectual property as a result of either our use of open-source software code or the use of third-party software that contains

open-source code. Our intellectual property protection could be limited due to the use of such open-source software code in our products.

Motorola is at risk because there is a chance they will have to make their code public because it was developed on free, open-source software. This can be incredibly damaging as it will expose Motorola's competitive advantage.

#### **Competitive Strategy - Section 4**

Our strategy is to differentiate ourselves from competitors across a number of dimensions. We are differentiating our portfolio by providing an array of innovative and integrated smartphone devices and media tablets encompassing multiple price points, technologies and geographies. Media tablets will bring the power of computing into a mobile form factor and are a critical component to enable multi-screen experiences. We are also differentiating our products through our global distribution reach, highly recognized brand and extensive customer relationships. As the new digital lifestyle continues to evolve, we plan to take advantage of our capabilities in mobile and wireline communications to meet consumers' increasing demands to communicate and collaborate inside and outside the home effortlessly on multiple devices. Key elements of our strategy include:

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

We are differentiating certain of our product offerings by using the Android operating system with MOTOBLUR. This platform aggregates data such as social network updates, email and calendar and automatically pushes data to the device rather than requiring the user to login individually to multiple services, which increases network traffic and reduces battery life.

We recently announced an innovative new mobile computing solution. Beginning with the ATRIX, certain of our smartphones will feature our Webtop software, providing a desktop environment with a full desktop browser. When combined with our docking accessories, the device functionality is transformed into a powerful mobile computer. We believe the launch of our advanced Webtop-enabled smartphones and docking accessories opens the doors for Motorola Mobility to enter new mobile computing markets. With our Webtop-enabled smartphone-docking accessory bundles, our customers will experience desktop PC performance on a mobile smartphone.

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

Motorola's strategy is to differentiate itself from competitors by focusing on products using Google's Android Platform. Motorola offers high-end, mid-range and lower-end cell phones powered by Android software to attract a wide range of customers. Also by integrating its



MOTOBLUR software it can provide unique solutions that other phone manufactures are now trying to immitate. The MOTOBLUR software allows for increased performance by combing services like calendar events and social updates into one application. Motorola's investments in 4G technology will allow the company to stay competitive in the immediate future.

### **Summary:**

The Wall street Journal recent posted an article talking about the problems facing Motorola. The article is short but goes on to mention that some of Motorola's premier devices are not performing well against competitors. The Motorola Atrix 4G, the top of the line android phone being sold by Motorola, was cited as having slower download speeds than the 3G iPhone 4 and is being criticized by industry experts because of the cost and functionality of the laptop dock that is being sold as an accessory for the phone. When the phone is plugged into the laptop dock users can browse the internet and use applications directly on the laptop screen instead of using the phone screen. While a good idea in theory, the high cost of \$500 for the accessory makes it a deal breaker. Consumers can buy a netbook computer and a basic smart phone for that price.

To make matters worse the Xoom tablet computer is experiencing weak sales. The tablet computer runs a version of Google's Android platform was labeled as being buggy and cannot compete with the success of Apple's iPad 2. Motorola has taken a big gamble by investing all of its resources into the android platform. With its top phone and tablet having weaker than expected sales Motorola is set to continue to experience its recent trend of posting losses.

To become profitable again Motorola should continue to focus on differentiation. While the MOTOBLUR technology is innovative, other companies like HTC and RIM have implemented similar ideas in their products. With the emergence of 4G networks Motorola can remain a major player in the mobile phone industry by continuing to focus its resources on developing phones that will use the new network. Other manufactures like Research in Motion (maker of Blackberry phones) have yet to introduce

a 4G phone. Motorola can leverage its international brand recognition and 4G investments to remain a relevant cell phone manufacturer.