AUTOINFO INC
Form 10-Q
August 10, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: JUNE 30, 2010

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934
For the transition period from ______________ to ____________________

Commission File Number: 001-11497

AUTOINFO, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	13-2867481
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification number)

6413 Congress Ave., Suite 260, Boca Raton, FL 33487
(Address of principal executive office)

(561) 988-9456
(Registrant's telephone number, including area code)

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 o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES o NO o

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

LARGE ACCELERATED FILER o	ACCELERATED FILER o
NON-ACCELERATED FILER o	SMALLER REPORTING COMPANY x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

The number of shares outstanding of the Registrant's common stock as of August 10, 2010: 33,496,060 shares of common stock.

AUTOINFO, INC. AND SUBSIDIARIES

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Part I. Financial Information:

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PART I - FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

AUTOINFO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2010 Unaudited	December 31, 2009 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	$70,000	$ 67,000
Accounts receivable, net of allowance for doubtful accounts of $697,000 and $420,000 as of June 30, 2010 and December 31, 2009, respectively	43,897,000	36,068,000
Deferred income taxes (Note 2)	358,000	985,000
Prepaid expenses	1,588,000	1,182,000
Current portion of advances and other assets	2,905,000	3,183,000
Total current assets	48,818,000	41,485,000
Fixed assets, net of accumulated depreciation	468,000	523,000
Advances and other assets, net of current portion	12,373,000	12,197,000
	$61,659,000	$ 54,205,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$20,511,000	$ 17,631,000
Loan payable	22,008,000	18,650,000
Stockholders' Equity		
Common stock - authorized 100,000,000 shares $.001 par value; issued and outstanding -33,496,000 shares as of June 30, 2010 and December 31, 2009	34,000	34,000
Additional paid-in capital	20,163,000	20,100,000
Deficit	(1,057,000)	(2,210,000)
Total stockholders' equity	19,140,000	17,924,000
	$61,659,000	$ 54,205,000

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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AUTOINFO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Six Months Ended June 30, 2010	2009	Three Months Ended June 30, 2010	2009
Gross revenues				
Transportation services	$ 125,500,000	$78,786,000	$69,070,000	$43,794,000
Agent support services	976,000	642,000	491,000	322,000
Total revenues	126,476,000	79,428,000	69,561,000	44,116,000
Cost of transportation	102,526,000	62,946,000	56,503,000	35,396,000
Gross profit	23,950,000	16,482,000	13,058,000	8,720,000
Commissions	17,715,000	11,608,000	9,662,000	6,259,000
Operating expenses	3,994,000	3,658,000	2,016,000	1,691,000
	21,709,000	15,266,000	11,678,000	7,950,000

Ticketmaster	USA Interactive
McAfee.com	Network Associates
Travelocity	Sabre Holdings
Intimate Brands	Limited
Aquila	Utilicorp/Aquila
Marketing America	Miracle Marketing
Liberty Digital	Liberty Media Corp
TD Waterhouse	Toronto Dominion

Selected Precedent Minority Buy-Back Transactions

Target	**Acquiror**
TyCom	Tyco Intl.
Spectra-Physics	Thermo Electron Corp
Liberty Financial Companies	Liberty Mutual Insurance
Unigraphics Solutions Inc.	Electronic Data Systems
CSFBdirect	CSFB
Westfield America	Westfield America Trust
Azurix Corp	Enron Corp
Hertz Corp	Ford Motor Co.
BHC Communications Inc.	News Corp Ltd
Hartford Life (ITT Hartford)	Hartford Financial Services
Homestead Village Inc.	Security Capital Group
Travelers Property Casualty	Citigroup Inc.
Vastar Resources Inc.	BP Amoco Inc.
Howmet Intl Inc.	Alcoa Inc.
CareInsite	Healtheon/WebMD
Thermo Instrument Systems	Thermo Electron Corp
Thermedics	Thermo Electron Corp

For each precedent minority buy-back transaction, Morgan Stanley analyzed, as of the announcement date of each precedent transaction, the premium offered by the acquiror to the target s closing price one day prior to announcement of the transaction (the one day unaffected price), the 30-day average price prior to announcement of the transaction (the 30-day average unaffected price), and the increase from the initial offer price to the final offer price. In this set of precedent transactions, the range of final price premia to the one-day unaffected price was 1% to 140%, with a median of 24.6%, the range of final price premia to the 30-day average unaffected price was (17%) to 108%, with a median of 23.0%, and the range of increase from the initial offer price to the final offer price was 0% to 108%, with a median of 16.9% for those transactions which were contested or which were negotiated following the announcement of the acquiror s intent to purchase. Based on this analysis, Morgan Stanley calculated the implied value per Share, as shown in the table below:

Precedent Minority Buy-Back Transaction Financial Statistic	**Precedent Transaction Statistic Range**	**Per Share Unaffected Price**	**Implied Value per Share**
Premium to one-day Unaffected Price	10% 50%	$ 0.91	$ 1.00 $1.36
Premium to the 30-day Avg. Unaffected Price	10% 40%	$ 0.87	$ 0.96 $1.22
Increase from Initial Offer Price	0% 20%	$ 1.04	$ 1.04 $1.25

No company or transaction utilized in the analysis of selected precedent minority buy-back transactions is identical to Next Level or the Amended Motorola Offer. In evaluating the precedent minority buy-back transactions, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters which are beyond the control of Next Level, such as the impact of competition on the business of Next Level or the industry generally, industry growth and the absence of any adverse material change in financial condition and prospects of Next Level or the industry or in the financial markets in general, which could affect the public trading value of the companies and the aggregate value of the transactions to which they are being compared. Mathematical analysis, such as determining the average or median, is not in itself a meaningful method of using comparable company data.

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Liquidation Analysis. Morgan Stanley estimated the implied value per share to holders of Shares in the event Next Level is forced into liquidation giving effect to the claims from debt holders and the impact of the liquidation preference on Motorola s preferred stock for two scenarios:

(i) *Book Value:* the value per share to holders of Shares if Next Level s net assets are liquidated at the stated book value as of December 31, 2002; and

(ii) *Illustrative Upside:* the value per share to holders of Shares if Next Level s inventory is liquidated at its gross carrying value as of December 31, 2002, property plant and equipment is liquidated at a 100% premium to its book value as of December 31, 2002, and Next Level s remaining net assets are liquidated at its stated book value as of December 31, 2002.

Liquidation Analysis	**Book Value**	**Illustrative Upside**
Implied Value per Common Share	$ 0.00	$ 0.00

Discounted Cash Flow. Morgan Stanley performed discounted cash flow analyses on three financial forecast scenarios: the Management Case, described above, the Sensitivity Case and the Downside Case.

Sensitivity Case: The Sensitivity Case was prepared by Morgan Stanley, in consultation with management. This case reflected an elimination of selected customers included in the Management Case and implies a reduction in the forecasted revenues included in the Management Case of approximately 42% to 50% in years 2005 to 2008, reflects the same gross margins as the Management Case, and reflects operating expenses which are 2% to 3% higher as a percentage of revenue than the operating expenses included in the Management Case. The Sensitivity Case also includes the expense increases of $5 million described earlier, primarily as a result of the Motorola Offer. A summary of this revised forecast is shown below:

	2003	**2004**	**2005**	**2006**	**2007**	**2008**
Revenues	$ 117	$ 248	$ 400	$ 555	$ 603	$ 652
% Growth	*105%*	*112*	*61%*	*39%*	*9%*	*8%*
Gross Profit	$ 27	$ 80	$ 126	$ 177	$ 183	$ 198
Gross Margin	*23%*	*32%*	*31%*	*32*	*30%*	*30%*
Operating Income	$ (24)	$ 26	$ 59	$ 86	$ 86	$ 93
Operating Margin	*-18%*	*10%*	*15%*	*15%*	*14%*	*14%*
Net Income	$ (32)	$ 23	$ 57	$ 116	$ 90	$ 100
Capital Expenditures	1	$ 2	$ 3	$ 4	$ 5	$ 6
Unlevered Free Cash Flow	$ (20)	$ 39	$ 65	$ 75	$ 87	$ 94

Downside Case: The Downside Case was prepared by Morgan Stanley to reflect the circumstance in which Motorola does not support Next Level s funding requirements either by providing funding to Next Level or by relaxing certain covenants to permit Next Level to obtain alternative funding and to reflect the belief that Next Level will have a going concern qualification in its 2002 annual report due on March 31, 2003, which is likely to affect Next Level s business prospects. The Downside Case reflects an elimination of selected customers included in the Sensitivity Case and reflects a reduction of the forecasted revenues included in the Sensitivity Case by approximately 30% to 45% in years 2003 to 2008, reflects gross margins which are from one to six percentage points lower than the gross margins included in the Sensitivity Case and reflects operating expenses as a percentage of revenue which are two to three percentage points higher than the operating expenses as a percentage or revenue included in the Sensitivity Case. The Downside Case

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also includes the expense increases of $5 million described earlier, primarily as a result of the Motorola Offer. A summary of this forecast is shown below:

	2003	2004	2005	2006	2007	2008
Revenues	$ 80	$ 170	$ 281	$ 363	$ 332	$ 360
% Growth	*40%*	*113%*	*65%*	*29%*	*-9%*	*8%*
Gross Profit	$ 16	$ 46	$ 80	$ 100	$ 92	$ 104
Gross Margin	*20%*	*27%*	*29%*	*28%*	*28%*	*29%*
Operating Income	$ (34)	$ (7)	$ 13	$ 24	$ 25	$ 35
Operating Margin	*-42%*	*-4%*	*5%*	*7%*	*8%*	*10%*
Net Income	$ (42)	$ (11)	$ 10	$ 52	$ 25	$ 36
Capital Expenditure	$ 1	$ 2	$ 2	$ 2	$ 3	$ 3
Unlevered Free Cash Flow	($ 27)	$ 6	$ 26	$ 20	$ 32	$ 37

Based on the Management Case, Morgan Stanley estimated the implied value per share of Shares for three different outcomes:

(i) *Standalone Value:* the discounted cash flow value per share to holders of Shares, if Next Level remains a standalone entity;

(ii) *Additional $30 million in Funding:* the discounted cash flow value per share to holders of Shares after giving effect to an illustrative financing of $30 million of convertible preferred stock with an exercise price of $0.50 per share; and

(iii) *Additional $90 million in Funding*: the discounted cash flow value per share to holders of Shares after giving effect to an illustrative financing of $90 million of convertible preferred stock with an exercise price of $0.50 per share and additional discounting of cash flows by two additional years.

Based on the Sensitivity Case and Downside Case, Morgan Stanley estimated the implied value per share of Shares for two different outcomes:

(iv) *Additional $30 million in Funding*: as described in clause (ii) above; and

(v) *Additional $90 million in Funding*: as described in clause (iii) above.

For all three financial forecast scenarios, Morgan Stanley observed that if Next level was unable to obtain additional Funding and Next Level was forced into liquidation, based on the Liquidation Analysis described above, the value per share to holders of Shares would be $0.00.

In arriving at the per share value to holders of Shares, Morgan Stanley used the treasury stock method, including primary shares, in-the-money options, in-the-money warrants, and the exercise of in-the-money convertible preferred. Morgan Stanley discounted the calendar year 2003 through 2008 forecasted unlevered free cash flows using a discount rate of 12% to 18%. A perpetual growth rate of 3% to 5% was applied to the final year of unlevered free cash flow, which was assumed to have been fully taxed at 40% without consideration of any remaining Next level tax benefits which might exist at that time, and discounted using a discount rate of 12% to 18%. A summary of these calculated values is shown below:

Implied per

	Share Value	
	Low	High
MANAGEMENT CASE		
Standalone Value	$ 3.01	$ 6.41
Value to Common SH/s w/ $30MM in Financing	$ 2.37	$ 5.07
Value to Common SH/s w/ $90MM in Financing	$ 1.11	$ 2.84
SENSITIVITY CASE		
Value to Common SH/s w/ $30MM in Financing	$ 1.04	$ 2.38
Value to Common SH/s w/ $90MM in Financing	$ 0.00	$ 1.27
DOWNSIDE CASE		
Value to Common SH/s w/ $30MM in Financing	$ 0.00	$ 0.43
Value to Common SH/s w/ $90MM in Financing	$ 0.00	$ 0.00

In connection with the review of the Amended Motorola Offer by the Independent Committee, Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a financial opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any analysis or factor it considered. Morgan Stanley believes that selecting any portion of its analyses, without considering all analyses as a whole, would create an incomplete view of the process underlying its analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions. As a result, the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley s view of the actual value of Next Level. In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters. Many of these assumptions are beyond the control of Next Level. Any estimates contained in Morgan Stanley s analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than those suggested by such estimates.

Morgan Stanley conducted the analyses described above solely as part of its analysis of the fairness, from a financial point of view, of the Per Share Consideration to be received by the holders of Shares pursuant to the Amended Motorola Offer to the holders of Shares other than Motorola and its affiliates and in connection with the delivery of its written opinion dated March 23, 2003 to the Independent Committee. These analyses do not purport to be appraisals or to reflect the prices at which Shares might actually trade. Morgan Stanley did not recommend any specific consideration to the Independent Committee or that any given consideration constituted the appropriate consideration for the Amended Motorola Offer.

In addition, as described elsewhere in this Statement, Morgan Stanley s opinion and its presentation to the Independent Committee was one of many factors taken into consideration by the Independent Committee in reaching its recommendation with regard to the Amended Motorola Offer. Consequently, the analyses as described above should not be viewed in any way as determinative of the opinion of the Independent Committee.

The Independent Committee retained Morgan Stanley based upon Morgan Stanley s qualifications, experience and expertise. Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking and financial advisory business, is continuously engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate, estate and other purposes. In the ordinary course of its trading, brokerage, investment banking, investment management, financing and principal investing activities, Morgan Stanley or its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions, for its own account or the accounts of its customers, in debt or equity securities or senior loans of Next Level or Motorola. In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for Motorola and have received fees for the rendering of those services.

Intent to Tender

To Next Level s knowledge, (i) one of its executive officers and all of its directors presently holding Shares presently intend to tender Shares pursuant to the Amended Motorola Offer and (ii) none of Next Level s executive officers or directors presently intends to otherwise sell any Shares which are owned beneficially or held of record by such persons. The foregoing does not include Shares over which, or with respect to which any such executive officer, director or affiliate or subsidiary acts in a fiduciary or representative capacity or is subject to instructions from a third party with respect to such tender. See Item 4: The Solicitation or Recommendation Reasons for Next Level s Recommendation .

ITEM 8. ADDITIONAL INFORMATION.

The subsection of this Item entitled Item 8: Additional Information Delaware Stockholder Litigation is hereby amended to add, at the end of such subsection, the following:

On March 14, 2003, Barry Feldman, for himself and on behalf of a putative class of Next Level stockholders, filed a complaint in the Delaware Court of Chancery in and for New Castle County, against Walter C. Clay, Alex Good, Craig Kornblau, John McCartney, Richard D. Severns and Paul Latchford, Civil Action No. 20195. The complaint seeks to certify a class of Next Level stockholders and alleges the stockholders were harmed by the defendants conduct in adopting the retention agreements with Messrs. Ide, St. Cyr, Sheppard, Weeks, Wiley and Zar which are attached as exhibits to Next Level s Schedule 14D-9 (the Retention Agreements). The complaint seeks injunctive relief to rescind the Retention Agreements, damages and attorneys fees.

On March 24, 2003, Motorola and Next Level reached agreements in principle, subject to court approval, with the class action plaintiffs to settle the lawsuits that had been filed on behalf of Next Level s shareholders in both Delaware and California relating to the Motorola Offer and the Retention Agreements.

The subsection of this Item entitled Item 8: Additional Information Next Level Litigation is hereby amended to add, at the end of such subsection, the following:

On March 24, 2003, Next Level, Next Level Partners, LLC, and Spencer and Jacquelyn Segura dismissed this complaint with prejudice and entered into a settlement agreement with Motorola.

ITEM 9. EXHIBITS.

Item 9 of the Schedule 14D-9 is hereby amended and supplemented by adding the following thereto:

(a)(1)(xiii)*	Press Release dated March 24, 2003.
(a)(5)(i)*	Complaint of Barry Feldman, individually and on behalf of all others similarly situated, against Walter C. Clay, Alex Good, Craig Kornblau, John McCartney, Richard D. Severns and Paul Latchford, Civil Action No. 20195 filed in the Court of Chancery of the State of Delaware on March 14, 2003.
(a)(5)(ii)*	Settlement Agreement, dated March 23, 2003, by and between Next Level, Next Level Partners LLC and Motorola.
(a)(5)(iii)*	Memorandum of Understanding, dated March 23, 2003

* Filed herewith.

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SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: March 26, 2003

NEXT LEVEL COMMUNICATIONS, INC.

By: /s/ J. MICHAEL NORRIS

Name: J. Michael Norris

Title: Chairman of the Board and Chief Executive Officer

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ANNEX D

March 23, 2003

Independent Committee of the Board of Directors

Next Level Communications, Inc.

6085 State Farm Drive

Rohnert Park, CA 94928

Members of the Independent Committee:

We understand that on January 27, 2003, Motorola, Inc. (Motorola) commenced an offer to purchase (the Offer) all of the outstanding shares of common stock, par value $0.01 per share (Company Common Stock), of Next Level Communications, Inc. (the Company) not held by Motorola or its subsidiaries for $1.04 per share net to the seller in cash (the Initial Per Share Consideration), upon the terms and subject to the conditions set forth in the Offer to Purchase (as amended as of the date hereof, the Offer to Purchase) contained in the Schedule TO (as amended as of the date hereof, the Schedule TO) filed by Motorola with the Securities and Exchange Commission on January 27, 2003, and the related Letter of Transmittal (together with the Offer to Purchase and the Schedule TO, the Offer Documents). We also understand that on March 24, 2003, Motorola will amend the Offer to increase the Initial Per Share Consideration to $1.18 per share net to the seller in cash (as so increased, the Per Share Consideration). We have been informed that the amended Offer Documents will further provide that if the Offer is completed, Motorola expects to effect a merger (the Merger) between the Company and a wholly owned subsidiary of Motorola under the short form merger provisions of the Delaware General Corporation Law. Pursuant to the Merger, the Company would become a wholly owned subsidiary of Motorola, and each outstanding share of Company Common Stock, other than shares held in treasury or held by Motorola or any affiliate of Motorola or as to which dissenters rights have been perfected, would be converted into the right to receive the Per Share Consideration. It is our understanding that the terms and conditions of the amended Offer will be fully set forth in the Offer Documents. We understand that as of January 31, 2003, Motorola owned approximately 74% of the outstanding shares of Company Common Stock and beneficially owned 89.5% of the Company Common Stock.

You have asked for our opinion as to whether the Per Share Consideration to be received by the holders of shares of the Company Common Stock pursuant to the Offer is fair from a financial point of view to such holders (other than Motorola and its affiliates).

For purposes of the opinion set forth herein, we have:

Members of the Independent Committee of the Board of Directors

March 23, 2003

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(i) reviewed certain publicly available financial statements and other business and financial information of the Company;

(ii) reviewed certain internal financial statements and other financial and operating data concerning the Company prepared by the management of the Company;

(iii) reviewed and discussed certain financial forecasts prepared by the management of the Company;

(iv) discussed the past and current operations and financial condition and the prospects of the Company, including information relating to future strategic, financial and operational plans, with senior executives of the Company;

(v) discussed with the Independent Committee of the Board of Directors of the Company its expectation of the terms and conditions of the Offer at the increased per share consideration;

(vi) reviewed the reported prices and trading activity for the Company Common Stock;

(vii) compared the financial performance of the Company and the prices and trading activity of the Company Common Stock with that of certain comparable publicly-traded companies and their securities;

(viii) reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;

(ix) participated in discussions and negotiations among representatives of the Company and Motorola and certain other parties and their financial and legal advisors;

(x) discussed with management of the Company the terms of financing proposals received by the Company to date;

(xi) reviewed the Offer Documents, the draft Solicitation/Recommendation Statement on Schedule 14D-9 of the Company, in each case as amended as of the date hereof, and certain related documents; and

(xii) performed such other analyses and considered such other factors as we have deemed appropriate.

We have assumed and relied upon, without independent verification, the accuracy and completeness of the information supplied or otherwise made available to us by the Company for the purposes of this opinion. With respect to the financial forecasts, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of the

Company. We have relied upon, without independent verification, the assessment of the management of the Company of: (i) the ability to achieve such forecasts, (ii) the funding needs of the Company, and (iii) the risks and uncertainties associated with its strategic, financial and operational plans. We have also relied upon, without independent verification, the assessment of the management of the Company of: (i) the Company s technologies, products and

Members of the Independent Committee of the Board of Directors

March 23, 2003

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intellectual property and (ii) the validity of, and risks associated with, the Company s existing and future technologies, products and intellectual property. We have not made any independent valuation or appraisal of the assets, liabilities, technologies or intellectual property of the Company, nor have we been furnished with any such appraisals. In addition, we have assumed that the Offer and the Merger will be completed as contemplated in the Offer Documents. Our opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof.

Our opinion does not address the relative merits of the Offer or the Merger as compared to any alternative business transaction, or other alternatives, whether or not such alternatives could be achieved. Further, in arriving at our opinion, we were not authorized to solicit, and did not solicit, interest from any party with respect to the acquisition, business combination or other extraordinary transaction involving the Company or its assets, nor did we negotiate with any party, other than Motorola, with respect to the possible acquisition, business combination or other extraordinary transaction involving the Company or its assets.

We have acted as financial advisor to the Independent Committee of the Board of Directors of the Company in connection with the Offer and will receive a fee for our services. In the ordinary course of our trading, brokerage, investment banking, investment management, financing and principal investing activities, Morgan Stanley & Co. Incorporated or its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions, for our own account or the accounts of customers, in debt or equity securities or senior loans of the Company or Motorola. In the past, Morgan Stanley & Co. Incorporated and its affiliates have provided financial advisory and financing services for Motorola and have received fees for the rendering of those services.

It is understood that this letter is for the information of the Independent Committee of the Board of Directors of the Company appointed to review and evaluate the Offer and for the information of the Board of Directors of the Company (other than Mr. Eugene Delaney and Mr. Gray Benoist who are affiliates of Motorola) and this letter may not be used for any other purpose or disclosed without our prior written consent, except that a copy of our opinion may be included in its entirety in the Solicitation/Recommendation Statement on Schedule 14D-9 required to be filed by the Company with the Securities and Exchange Commission with respect to the Offer. This opinion is not intended to be and shall not constitute a recommendation to any holder of Company Common Stock as to whether to tender shares of Company Common Stock pursuant to the Offer. In addition, this opinion does not in any manner address the prices at which the Company Common Stock will actually trade at any time.

Based upon and subject to the foregoing, we are of the opinion on the date hereof that the Per Share Consideration to be received by the holders of shares of the Company Common Stock pursuant to the Offer is fair from a financial point of view to such holders (other than Motorola and its affiliates).

Very truly yours,

MORGAN STANLEY & CO. INCORPORATED

By: /s/ MICHAEL F. WYATT

Michael F. Wyatt

Executive Director