MOTOROLA INC
Form 10-K/A
March 07, 2006

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

FORM 10-K/A

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

For the fiscal year ended December 31, 2005
or

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

For the transition period from to
Commission File number 1-7221

MOTOROLA, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	**36-1115800**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

1303 East Algonquin Road, Schaumburg, Illinois 60196
(Address of principal executive offices)
(847) 576-5000
(Registrant s telephone number)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $3 Par Value per Share	New York Stock Exchange Chicago Stock Exchange
Rights to Purchase Junior Participating Preferred Stock, Series B	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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 þ No o.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of July 1, 2005 (the last business day of the Registrant s most recently completed second quarter) was approximately $45.1 billion (based on closing sale price of $18.27 per share as reported for the New York Stock Exchange-Composite Transactions).

The number of shares of the registrant s Common Stock, $3 par value per share, outstanding as of January 31, 2006 was 2,499,612,495.

DOCUMENTS INCORPORATED BY REFERENCE

No documents are incorporated by reference into this Form 10-K/A. Portions of the registrant s definitive Proxy Statement to be delivered to stockholders in connection with its Annual Meeting of Stockholders to be held on May 1, 2006 are incorporated by reference into Part III of the Annual Report on Form 10-K filed on March 2, 2006.

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EXPLANATORY NOTE

This Amendment No. 1 to Form 10-K/A (this Amendment) is being filed to correct errors that appear in Item 1: Business of Part I and Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations of Part II of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, originally filed on March 2, 2006 (the Original Filing). As required under SEC rules, this Amendment sets forth the complete text of Item 1: Business and Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations , as amended. Except for the specific changes referred to below, no other changes have been made to the Original Filing. ***This Amendment continues to speak as of the date of the Original Filing and the Company has not updated the disclosure in this Amendment to speak to any later date.***

Although the corrections appear in multiple places in this Amendment, all corrections relate to two matters: (i) the Mobile Devices segment s share of the 2005 global wireless handset market, and (ii) the percentage of the Company s, and certain of its segment s, 2004 and 2005 net sales that are comprised of purchases by Sprint Nextel Corporation and its affiliates (collectively, Sprint Nextel).

Specifically, the corrections are as follows:

Relating to Mobile Devices Market Share:

- In the Executive Overview section of Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations of Part II of the Original Filing, references to Mobile Devices market share of the 2005 global wireless handset market have been corrected to read:

(i) an estimated 18% , as opposed to an estimated 17% as appeared in the Original Filing; and

(ii) approximately 18% , as opposed to 17% as appeared in the Original Filing.

Relating to the Percentage of Net Sales to Sprint Nextel

- In the Business Segments portion of Item 1: Business of Part I of the Original Filing, references to purchases by Sprint Nextel have been changed as follows:

(i) the reference to 2005 purchases by Sprint Nextel as a percentage of Mobile Devices net sales has been corrected to read 13% , as opposed to 11% as appeared in the Original Filing;

(ii) the reference to the aggregate 2005 purchases by Networks five largest customers as a percentage of Networks net sales has been corrected to read 56% , as opposed to 53% as appeared in the Original Filing; and

(iii) the reference to 2005 purchases by Sprint Nextel as a percentage of Networks net sales has been corrected to read 25% , as opposed to 23% as appeared in the Original Filing.

- In the Segment Information portion of Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations of Part II of the Original Filing:

(i) the reference to 2005 purchases by Sprint Nextel as a percentage of Mobile Devices net sales has been corrected to read 13% , as opposed to 11% as appeared in the Original Filing;

(ii) the reference to 2004 purchases by Sprint Nextel as a percentage of Mobile Devices net sales has been corrected to read 16% , as opposed to 14% as appeared in the Original Filing;

(iii) the reference to the aggregate 2005 purchases by Networks five largest customers as a percentage of Networks net sales has been corrected to read 56% , as opposed to 53% as appeared in the Original Filing;

(iv) the reference to 2005 purchases by Sprint Nextel as a percentage of Networks net sales has been corrected to read 25% , as opposed to 23% as appeared in the Original Filing;

(v) the reference to the aggregate 2004 purchases by Networks five largest customers as a percentage of Networks net sales has been corrected to read 55% , as opposed to 54% as appeared in the Original Filing ; and

(vi) the reference to 2004 purchases by Sprint Nextel as a percentage of Networks net sales has been corrected to read 22% , as opposed to 20% as appeared in the Original Filing.

Consistent with Rule 12b-15 under the Securities Exchange Act of 1934, new certifications of the principal executive officer and principal financial officer are attached as Exhibits 31.1 and 31.2.

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PART I

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

We are making forward-looking statements in this report. Beginning on page 19 we discuss some of the risk factors that could cause actual results to differ materially from those stated in the forward-looking statements.

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

Item 1: Business

General

Motorola is a communications company providing end-to-end seamless mobility products. We build, market and sell products, services and applications that enable telephony, data and video to be experienced across multiple domains including home, enterprise, auto and mobile-me . Our vision is to create the mobile Internet experience through seamless mobility.

Motorola is known around the world for innovation and leadership in wireless, broadband and automotive communications.

Wireless

Handsets: We are one of the world s leading providers of wireless handsets, which transmit and receive voice, text, images, multimedia and other forms of information, communication and entertainment.

Wireless Networks: We develop, manufacture and market public and enterprise wireless infrastructure communications systems, including hardware, software and services.

Mission-Critical: We are a leading provider of customized, mission-critical end-to-end wireless communications and information systems.

Broadband

We are a global leader in developing and deploying end-to-end digital broadband entertainment, communication and information systems for the home and for the office. Motorola wireless and wireline broadband technology enables network operators and retailers to deliver products and services that connect consumers to what they want, when they want it.

Automotive

We are a market leader in embedded telematics systems that enable automated roadside assistance, navigation and advanced safety features for automobiles. We also provide integrated electronics for the powertrain, chassis, sensors and interior controls.

Motorola is a corporation organized under the laws of the State of Delaware as the successor to an Illinois corporation organized in 1928. Motorola s principal executive offices are located at 1303 East Algonquin Road, Schaumburg, Illinois 60196.

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Business Segments

Motorola reports financial results for the following four operating business segments:

Mobile Devices Segment

The Mobile Devices segment (Mobile Devices or the segment) designs, manufactures, sells and services wireless handsets, with integrated software and accessory products. In 2005, the segment s net sales represented 58% of the Company s consolidated net sales.

Principal Products and Services

Our wireless subscriber products include wireless handsets, with related software and accessory products. We market our products worldwide to carriers and consumers through direct sales, distributors, dealers, retailers and, in certain markets, through licensees.

Our Industry

We believe that total industry shipments of wireless handsets (also referred to as industry sell-in) increased to approximately 815 million units in 2005, an increase of approximately 17% compared to 2004. Demand from new subscribers was strong in emerging markets, including China, Latin America and Eastern Europe. Replacement sales in highly-penetrated markets were also strong due to generally improved economic conditions, as well as compelling new handset designs, attractive handset features and the increased roll-out in high-speed data networks, all creating a greater opportunity for personalization. In this environment, we were able to grow faster than the market and increase our overall market share.

Industry forecasters predict that the wireless handset industry will continue to grow over the next several years. Continued growth will be driven by demand from new subscribers in emerging markets and replacement sales from a current subscriber base of over two billion users worldwide.

Our Strategy

The Mobile Devices segment is focused on profitable and sustainable growth. We believe we can accomplish our strategy by driving our seamless mobility vision, creating valuable differentiation of our products through design, and providing compelling, rich experiences to consumers and carriers. Motorola s vision of seamless mobility is to create an environment where end users are able to interact wirelessly using a handheld device to realize the experience of a mobile Internet.

We are differentiating through design by offering the most compelling products in the six primary form factors in GSM, CDMA, iDEN® and 3G technologies. Motorola originally invented the clamshell phone and has reinvented it with the RAZR (V3) and PEBL (U6). We have also reinvented the candy bar phone with the SLVR (L7) to show leadership in that category, and the Q will launch in 2006, reinventing QWERTY-based productivity products.

Our approach to providing rich experiences involves both partnerships and in-house initiatives. To deliver compelling experiences to the mobile user in the productivity, imaging and music segments, we have partnered with Microsoft, Kodak and Apple, as well as other leaders. Recent announcements with Yahoo! and Google maintain this momentum by enhancing the messaging and searching experience. We have already launched Screen 3 to enable our carrier customers to offer rich services such as music and entertainment offerings to consumers with one-click access.

Underpinning all of these activities is our investment in our Linux-based platform, which provides cost advantages, flexibility for carriers, and access to the world s leading community of application and software developers.

We are extending our vision with our Connect the Unconnected strategy to bring mobile communications to underserved markets. This strategy has resulted in two major contracts with the GSM Association to provide mass-market handsets to developing regions of the world.

Customers

The Mobile Devices segment customer partnership strategy continues to focus on strengthening relationships with our top customers. The segment has several large customers worldwide, the loss of one or more of which could have a material adverse effect on the segment s business. In 2005, purchases of iDEN® products by Sprint Nextel Corporation and its affiliates (Sprint Nextel) comprised approximately 13% of our segment s net sales.

The largest of our end customers (including sales through distributors) are Sprint Nextel, Cingular, China Mobile, América Móvil and T-Mobile. In addition to selling directly to carriers and operators, Mobile Devices also sells products through a variety of third-party distributors and retailers, which account for approximately 36% of the segment s net sales. The largest of these distributors, Brightstar Corporation, is our primary distributor in Latin America.

Although the U.S. market continued to be the segment s largest individual market, many of our customers, and more than 60% of our net sales, are outside the U.S. The largest of these international markets are China, the United Kingdom, Brazil, Germany and Mexico. Compared to 2004, the segment experienced substantial sales growth in all regions of the world as a result of an improved product portfolio, strong market growth in emerging markets, and high replacement sales in more mature markets.

On August 12, 2005, Sprint Corporation and Nextel Communications, Inc. completed their merger transaction (the Sprint Nextel Merger) that was announced in December 2004. The combined company, Sprint Nextel, is the segment s largest customer and Motorola has been its sole supplier of iDEN handsets and core iDEN network infrastructure equipment for over ten years. Sprint Nextel uses Motorola s proprietary iDEN technology to support its nationwide wireless service business. Motorola is currently operating under supply agreements for iDEN handsets and infrastructure equipment that cover the period from January 1, 2005 through December 31, 2007. The segment did not experience any significant impact to its business in 2005 as a result of the Sprint Nextel Merger.

Competition

The segment believes it increased its overall market share in 2005 and solidified its hold on the second-largest worldwide market share of wireless handsets. The segment experiences intense competition in worldwide markets from numerous global competitors, including some of the world s largest companies. The segment s primary competitors are European and Asian manufacturers. Currently, its largest competitors include Nokia, Samsung, LG and Sony Ericsson.

Our strategy of driving our seamless mobility vision, creating valuable differentiation of our products through design, and providing compelling, rich experiences (what we call mobile me) to consumers and carriers is intended to enhance our market position. We also believe that it is critical to invest in research and development (R&D) of leading technologies and services to remain competitive. In 2005, the segment s total investment in R&D increased to support new product development.

General competitive factors in the market for our products include: time-to-market; brand awareness; technology offered; price; product performance, features, design, quality, delivery and warranty; the quality and availability of service; company image and relationships with key customers.

Payment Terms

The segment s customers and distributors buy from us regularly with payment terms that are competitive with current industry practices. These terms vary globally and range from cash-with-order to 60 days. Payment terms allow the customer or distributor to purchase products from us on a periodic basis and pay for those products at the end of the agreed term applicable to each purchase. A customer s outstanding credit at any point in time is limited to a predetermined amount as established by management. Extended payment terms beyond 60 days are provided to customers on a case-by-case basis. Such extended terms are not related to a significant portion of our revenues.

Regulatory Matters

Radio frequencies are required to provide wireless services. The allocation of frequencies is regulated in the U.S. and other countries throughout the world, and limited spectrum space is allocated to wireless services. The

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growth of the wireless and personal communications industry may be affected if adequate frequencies are not allocated or, alternatively, if new technologies are not developed to better utilize the frequencies currently allocated for such use. Industry growth may also be affected by the cost of the new licenses required to use frequencies and any related frequency relocation costs.

The U.S. leads the world in spectrum deregulation, allowing new wireless communications technologies to be developed and offered for sale. Examples include Wireless Local Area Network systems, such as WiFi, and Wide Area Network systems, such as WiMax. Other countries have also deregulated portions of the available spectrum to allow these and other new technologies, which can be offered without spectrum license costs. Deregulation may introduce new competition and new opportunities for Motorola and our customers.

Backlog

The segment s backlog was $3.0 billion at December 31, 2005, compared to $1.5 billion at December 31, 2004. The 2005 backlog is believed to be generally firm and 100% of that amount is expected to be recognized as revenue in 2006. The forward-looking estimate of the firmness of such orders is subject to future events that may cause the amount recognized to change. In 2005, the segment had strong order growth and backlog increased due to: (i) high levels of customer demand for new products during the fourth quarter, certain of which were unable to be shipped in significant quantities due to supply constraints for select components, and (ii) the segment s higher level of general order input in the fourth quarter of 2005 compared to the fourth quarter of 2004.

Intellectual Property Matters

Patent protection is extremely important to the segment s operations. The segment has an extensive portfolio of patents relating to its products, technologies and manufacturing processes. The segment licenses certain of its patents to third parties and generates revenue from these licenses. Motorola is also licensed to use certain patents owned by others. Royalty and licensing fees vary from year to year and are subject to the terms of the agreements and sales volumes of the products subject to licenses. The protection of these licenses is also important to the segment s operations. Reference is made to the material under the heading Other Information for additional information relating to patents and trademarks and research and development activities with respect to this segment.

Inventory, Raw Materials, Right of Return and Seasonality

The segment s practice is to carry reasonable amounts of inventory in distribution centers around the world in order to meet customer delivery requirements in a manner consistent with industry standards. At the end of 2005, the segment had a slightly higher inventory balance than at the end of 2004. The increased inventory was due to select component shortages in the fourth quarter of 2005 and the need to support higher anticipated first-quarter 2006 sales compared to the first quarter of 2005.

Availability of materials and components required by the segment is relatively dependable, but fluctuations in supply and market demand could cause selective shortages and affect results. We currently source certain materials and components from single vendors. Any material disruption from a single-source vendor may have a material adverse impact on our results of operations.

Energy necessary for the segment s manufacturing facilities consists primarily of electricity and natural gas, which are currently in generally adequate supply for the segment s operations. In addition, the cost to operate our facilities and freight costs are dependent on world oil prices. A substantial increase in worldwide oil prices could have a negative impact on our results of operations. Labor is generally available in reasonable proximity to the segment s manufacturing facilities. However, difficulties in obtaining any of the aforementioned items could affect the segment s results.

The segment permits returns under certain circumstances, generally pursuant to warranties which we consider to be competitive with current industry practices.

The segment typically experiences increased sales in the fourth calendar quarter and lower sales in the first calendar quarter of each year. However, the segment expects less than normal seasonal sales decline in the first quarter of 2006 due to the strength of the new product portfolio.

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Our Facilities/Manufacturing

Our headquarters are located in Libertyville, Illinois. Our major facilities are located in Libertyville, Illinois; Flensburg, Germany; Tianjin, China; Singapore; Jaguariuna, Brazil and Malaysia. During the year, we ceased manufacturing and/or distribution in our facilities in Plantation, Florida and Seoul, Korea. We also maintain an interest in a joint venture in Hangzhou, China.

We also use several electronics manufacturing suppliers (EMS) and original design-manufacturers (ODM) to enhance our ability to lower our costs and deliver products that meet consumer demands in the rapidly-changing technological environment. On a unit basis, approximately one-third of our handsets were manufactured (either completely or substantially) by non-affiliated EMS and ODM manufacturers.

In 2005, our handsets were primarily manufactured in Asia. We expect this to continue in 2006. Our largest manufacturing facilities are located in China, Singapore, Brazil and Malaysia. Each of these facilities serves multiple countries and regions of the world. During the year, we stopped manufacturing handsets in Korea. In addition to our own manufacturing in Asia, the EMS and ODM manufacturers we utilize primarily manufacture in Asia.

Government and Enterprise Mobility Solutions Segment

The Government and Enterprise Mobility Solutions segment (the segment) is a leading provider of: (i) mission-critical wireless communications systems for government and public safety markets worldwide, (ii) business-critical wireless devices, networks and applications focused around mobile computers and the mobile office for world-class enterprise organizations, and (iii) electronics and telematics systems that enable automated roadside assistance, navigation and advanced safety features for automobile manufacturers worldwide. In 2005, the segment s net sales represented 18% of the Company s consolidated net sales.

Principal Products and Services

Government: We design, manufacture, sell, install and service two-way radio, voice and data communications products and systems to a wide range of public safety and government customers worldwide. Other offerings include: biometrics, integrated information management, computer-aided dispatch systems and records management systems.

Enterprise: We provide business-critical wireless mobility devices, networks and applications that enable an enterprise customer to seamlessly connect its people, assets and information. Enterprise customers include utility, courier, transportation, field services and other companies with disseminated workforces. Offerings include: mobile office devices, rugged mobile computing handhelds, private and public business communication networks, enterprise-grade wireless security systems, and end-to-end systems and applications that deliver enterprise mobility.

Automotive: We deliver embedded telematics systems that enable automated roadside assistance and advanced safety features for automobiles. Additionally, we provide integrated electronics for the powertrain, chassis, sensors and interior controls within the vehicle.

The segment s products are sold directly through our own distribution force or through independent authorized distributors and dealers, commercial mobile radio service operators and independent commission sales representatives. The segment s distribution organization provides systems engineering and installation and other technical and systems management services to meet our customers particular needs. The customer may also choose to install and maintain the equipment with its own employees, or may obtain installation, service and parts from a network of our authorized service stations (most of whom are also authorized dealers) or from other non-Motorola service stations.

Our Industries

Government: Natural disasters and terrorist-related worldwide events in 2005 continued to place an emphasis on mission-critical communications systems at the local, state and nationwide levels. As a global leader in mission-critical communications, we expect to continue to grow as spending increases worldwide for mission-critical communications systems. To date, Motorola has been awarded contracts for digital, statewide interoperable mission-critical networks in the U.S. Additionally, the segment has received significant contracts throughout many international markets. Motorola continues to be well-positioned to serve the increased worldwide demand for these systems in 2006 and beyond.

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Enterprise: Increasingly, businesses are requiring more complex communications systems to support business-critical communications. Motorola s heritage of providing complex, secure, mission-critical communications makes us uniquely qualified to provide the business-critical reliability, security and connectivity that enterprise customers demand.

Automotive: 2005 was a challenging year for automobile manufacturers and suppliers, primarily in North America. A number of our key automotive customers lost market share in 2005, which impacted our business results. As a leading global supplier in the automotive electronics industry, Motorola is constantly assessing ways to enhance the strategy of its automotive electronics business.

Our Strategy

The segment is the leading provider of mission-critical systems worldwide, with more than 65 years of experience in custom, rugged devices, public safety-grade private networks, sophisticated encryption technology, interoperable voice and broadband data, and complex network design, optimization and implementation. We believe that Motorola is best positioned to deliver seamless, secure and integrated point solutions across the enterprise, vehicle and home, as well as across other wireless applications and communications systems.

Government: Key elements in our government strategy include: (i) providing integrated voice, data and broadband over wireless systems at the local, state and national levels, (ii) benefiting from the ongoing migration from analog to digital end-to-end radio systems, (iii) providing Project 25 and TETRA standards-based voice and data networking systems around the world, and (iv) implementing interoperable communications and information systems, especially related to global homeland security.

Enterprise: Key elements in our enterprise strategy include offering a comprehensive portfolio of products and services to help businesses: (i) streamline their supply chains, (ii) improve customer service in the field, (iii) increase data collection accuracy, and (iv) enhance worker productivity.

Automotive: Key elements in our automotive strategy include: (i) optimizing Motorola s automotive product portfolio, (ii) investing in and protecting our core automotive business, (iii) enhancing Telematics to secure next-generation platforms, and (iv) expanding our business in Asia, particularly in China.

Customers

The principal Government customers are public safety agencies, such as police, fire, emergency management services and military. The principal Enterprise customers include enterprise businesses engaging in manufacturing, transportation, utilities, courier services, field services and financial services. The principal Automotive customers are large automobile manufacturers, primarily in North America.

Net sales to our top five customers represented approximately 20% of our total net sales. The loss of one or more of these customers could have a material adverse effect on the segment s business. Net sales to customers in North America represented 69% of the segment s net sales.

Competition

Government: We provide communications and information systems compliant with both existing industry digital standards, TETRA and Project 25. We experience widespread competition from numerous competitors ranging from some of the world s largest diversified companies to foreign, state-owned telecommunications companies to many small, specialized firms. Many competitors have their principal manufacturing operations located outside the U.S., which may serve to reduce their manufacturing costs and enhance their brand recognition in their locale. Major competitors include: M/ A-Com, EADS Telecommunications, Kenwood, EF Johnson and large system integrators.

We may also act as a subcontractor to a large system integrator based on a number of competitive factors and customer requirements. As demand for fully-integrated voice, data and broadband over wireless systems at the local, state and national government levels continues, we may face additional competition from public telecommunications carriers.

Competitive factors for our Government products and systems include: price; technology offered and standards compliance; product features, performance, quality and availability; and the quality and availability of support services and systems engineering, with no one factor being dominant. An additional factor is the availability of vendor financing, as customers continue to look to equipment vendors as an additional source of financing.

Enterprise: Demand for enterprise mobility products is driven by a number of competitors who deliver products in certain segments of the total Enterprise market. We believe that we have a unique portfolio to seamlessly connect people, assets and information to enable customers to grow their business, increase efficiency and improve customer satisfaction. Security and manageability are common throughout our portfolio, and we have the experience and expertise to deliver seamless, secure and rugged end-to-end solutions to the enterprise. Primary competitors include: Cisco, Nokia, Symbol and Intermec. Competitive factors for our Enterprise products and systems include: price; technology offered and standards compliance; network convergence and compatibility; product features, performance, quality and availability; and responsiveness to customers.

Automotive: Demand for our automotive electronics products is linked to automobile sales in the United States and other countries and the level of electronic content per vehicle. Motorola is a leading provider of automotive electronics worldwide. Primary competitors in automotive electronics include: Bosch, Delphi, Visteon, Siemens and Denso. Competitive factors for our Automotive products and systems include: price; product quality; performance and delivery; supply integrity; quality reputation; responsiveness to customers; and design and manufacturing technology.

Payment Terms

Payment terms vary worldwide. Generally, contract payment terms range from net 30 to 60 days. As required for competitive reasons, we may provide or work with third-party lenders to arrange for long-term financing in connection with equipment purchases. Financing may cover all or a portion of the purchase price.

Regulatory Matters

Users of two-way radio communications are regulated by a variety of governmental and other regulatory agencies throughout the world. In the U.S., users of two-way radios are licensed by the FCC, which has broad authority to make rules and regulations and prescribe restrictions and conditions to carry out the provisions of the Communications Act of 1934. Regulatory agencies in other countries have similar types of authority. Consequently, the business and results of this segment could be affected by the rules and regulations adopted by the FCC or regulatory agencies in other countries from time to time. Motorola has developed products using trunking and data communications technologies to enhance spectral efficiencies. The growth and results of the two-way radio communications industry may be affected by the regulations of the FCC or other regulatory agencies relating to access to allocated frequencies for land mobile communications users, especially in urban areas where such frequencies are heavily used.

The U.S. leads the world in spectrum deregulation, allowing new wireless communications technologies to be developed and offered for sale. Examples include Wireless Local Area Network systems, such as WiFi, and Wide Area Network systems, such as Wi4. Other countries have also deregulated portions of the available spectrum to allow these and other technologies, which can be offered without spectrum license costs. Deregulation may introduce new competition and new opportunities for Motorola and our customers.

On February 7, 2005, Sprint Nextel agreed to a plan by federal regulators designed to address interference from iDEN phones with hundreds of public safety communications systems in the U.S. According to the FCC, the agreement should dramatically reduce the likelihood of interference. Sprint Nextel will be required to fund certain costs necessary to relocate those impacted users into the 800MHz spectrum. The segment will continue to work with our customers that are impacted by this plan and expects that this will have a neutral to positive impact on the segment s business over the next several years. However, the short-term impact remains uncertain and is yet to be quantified, as all of the details of the plan are not finalized.

In February 2006, federal legislation was adopted setting February 17, 2009 as the date by which key 700MHz spectrum must be available for first responders throughout the U.S. This spectrum has historically supported broadcast television. It was designated for public safety back in 1997, however, prior to this new legislation, there was no certainty as to when it actually would be cleared for public safety use in major markets. Clearing TV from this band will significantly increase the spectrum public safety entities have available for communications systems capable of covering their jurisdictions. This new public safety spectrum is configured to support both voice and data. Motorola already has both infrastructure and mobiles/portables shipping for deployment of public safety voice and data systems in this band.

Backlog

The segment s backlog was $2.4 billion at both December 31, 2005 and December 31, 2004. The 2005 backlog amount is believed to be generally firm, and 75% is expected to be recognized as revenue during 2006. The forward-looking estimate of the firmness of such orders is subject to future events that may cause the amount recognized to change.

Intellectual Property Matters

Patent protection is important to the segment s business. The segment has an extensive portfolio of patents relating to its products, technologies and manufacturing processes. Reference is made to the material under the heading Other Information for information relating to patents and trademarks and research and development activities with respect to this segment.

We actively participate in the development of open standards for interoperable, mission-critical digital two-way radio systems. We have published our technology and licensed patents to signatories of the industry s two primary memorandums of understanding defined by the Telecommunications Industry Association (TIA) Project 25 and European Telecommunications Standards Institute (ETSI) Terrestrial Trunked Radio (TETRA). Royalties associated with these licenses are not expected to be material to the segment s financial results.

Inventory, Raw Materials, Right of Return and Seasonality

The segment provides custom products based on assembling basic units into a large variety of models or combinations. This requires the stocking of inventories and large varieties of piece parts and replacement parts, as well as a variety of basic level assemblies in order to meet delivery requirements. Relatively short delivery requirements and historical trends determine the amounts of inventory to be stocked. To the extent suppliers product life cycles are shorter than the segment s, stocking of lifetime buy inventories is required. In addition, replacement parts are stocked for delivery on customer demand within a short delivery cycle.

Availability of materials and components required by the segment is relatively dependable, but fluctuations in supply and market demand could cause selective shortages and affect results. We currently source certain materials and components from single vendors. Any material disruption from a single-source vendor may have a material adverse impact on our results of operations.

Natural gas, electricity and, to a lesser extent, oil are the primary sources of energy for the segment s operations, which are currently in generally adequate supply for the segment s operations. In addition, the cost to operate our facilities and freight costs are dependent on world oil prices. A substantial increase in worldwide oil prices could have a negative impact on our results of operations. Labor is generally available in reasonable proximity to the segment s manufacturing facilities. However, difficulties in obtaining any of these items could affect the segment s results.

Generally, we do not permit customers to return products. We typically have stronger sales in the fourth quarter of the year because of government and commercial spending patterns.

Our Facilities/ Manufacturing

Our headquarters are located in Schaumburg and Deer Park, Illinois. Our major integration, manufacturing and distribution facilities are located in: Schaumburg, Illinois; Tianjin, China; Penang, Malaysia; Berlin and Taunusstein, Germany; Arad, Israel; Sequin, Texas; Elma, New York; Nogales, Mexico; and Angers, France. In addition to our own manufacturing, we utilize EMS manufacturers, primarily in Asia, in order to enhance our ability to lower our costs and deliver products that meet consumer demands.

Networks Segment

The Networks segment (Networks or the segment) designs, manufactures, sells, installs and services: (i) cellular infrastructure systems, including hardware and software, (ii) fiber-to-the-premise (FTTP) and fiber-to-the-node (FTTN) transmission systems supporting high-speed data, video and voice, and (iii) wireless broadband systems. In addition, the segment designs, manufactures and sells embedded communications computing platforms. In 2005, the segment s net sales represented 17% of the Company s consolidated net sales.

Principal Products and Services

The segment provides end-to-end cellular networks, including radio base stations, base site controllers, associated software and services, mobility soft switching, application platforms and third-party switching for CDMA, GSM, iDEN® and UMTS technologies. The segment also provides: optical line terminals (OLT) and optical network terminals (ONT) for passive optical networks (PON); access points, subscriber modules and backhaul modules for wireless broadband systems; and advanced TCA and micro TCA communications servers. These products and services are marketed to wireless and wireline service providers worldwide through a direct sales force, licensees and agents.

Our Industry

We participate in multiple global markets within the wireline and wireless segments of the telecommunications industry. Our primary market is radio access cellular infrastructure systems. This market grew by approximately 10% in 2005 compared to 2004. This was the industry s second year of growth after three previous years of decline. We expect single digit growth for the worldwide cellular infrastructure industry in 2006. We also participate in the emerging PON and wireless broadband systems markets, which are expected to experience high growth in 2006.

The majority of installed cellular infrastructure systems are based upon three fundamental technologies: CDMA, GSM and iDEN. We supply systems based on each of these technologies and are the sole supplier of proprietary iDEN networks. Advanced infrastructure systems based on these technologies include: GPRS, CDMA1X, and EDGE. We also supply systems based on these technologies.

Some segments of the cellular infrastructure industry are in the process of migrating to 3G systems, which are high-capacity radio access wireless networks providing enhanced data services, improved Internet access and increased voice capacity. The primary 3G technologies are: W-CDMA (based on either UMTS or Freedom of Mobile Multimedia Access (FOMA) technologies) and CDMA2000 1xEVDO. An additional 3G technology standard is TD-SCDMA, driven primarily by the Chinese government and local Chinese vendors. 3G licenses are expected to be awarded in China during the second half of 2006. We supply systems based on UMTS and CDMA2000 1xEVDO technologies. Advanced infrastructure systems based on 3G technologies include High Speed Downlink Packet Access (HSDPA) and High Speed Uplink Packet Access (HSUPA). We are investing in HSDPA and HSUPA technologies. Commercial service of 3G technologies was first introduced in Asia and has expanded to Western Europe and North America.

Industry standards bodies are in the process of defining the next-generation of wireless broadband systems after 3G. The Institute of Electrical and Electronic Engineers (IEEE) is currently developing fixed and mobile broadband standards (802.16d and 802.16e) based on Orthogonal Frequency Division Multiplexing (OFDM technology), which offer systems performance utilizing wider channels enabling triple play services (voice, data, video). Networks recently announced its MotoWi4 product portfolio that will be based the 802.16e standard.

A new industry segment of non-traditional wireless broadband providers has emerged to provide alternative access in targeted markets. These new providers are using alternative access technologies such as Metro WiFi with 802.11 standards-based technology. In addition, alternative broadband providers are using non-standards based solutions such as Motorola s Canopy in licensed and unlicensed spectrum.

The International Telecommunications Union (ITU) is also developing next-generation cellular wireless access standards (4G) for the cellular infrastructure industry, also anticipated to be based upon OFDM technology.

Emerging markets such as China, India, the Middle East, Africa and Latin America are expected to begin their migration to next-generation technologies in 2006 and 2007. Because of the performance offered by OFDM and other alternative technologies, some emerging markets may forego the deployment of 3G systems and move directly to other technologies.

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Our Strategy

We are executing on a strategy to enable seamless mobility across multiple access technologies, including cellular, PON and wireless broadband. The segment continues to invest in the major cellular radio access technologies: CDMA, GSM, iDEN®, CDMA2000 1x, GPRS, WiDEN, EDGE, CDMA2000 1x EVDO, UMTS, HSDPA and HSUPA. Wireline carriers such as Verizon, are expanding their strategic footprint. We are investing in PON technologies which will enable these carriers to deliver voice, data and video over fiber, replacing traditional copper wire connections.

Many cellular operators, particularly in emerging markets, have not begun their migration to next-generation access technologies. In addition, wireline operators, such as cable providers, are looking for new ways to enhance their customer offering with the addition of a wireless option. Because of its projected early availability, low cost and superior performance, wireless broadband technology based on IEEE standard 802.16e represents a compelling alternative. In 2005, we announced our portfolio of MotoWi4 wireless broadband products based on this IEEE standard to address this fast growing market opportunity.

A new industry segment of non-traditional wireless providers has also emerged. These new providers are using alternative access technologies such as Metro WiFi which is based on the IEEE s 802.11 standard to blanket entire geographic areas with broadband wireless coverage. Some alternative broadband providers are also using non-standards based solutions. We continue to invest in our MotoWi4 Canopy product which enables low cost, high speed Internet access to customers served by these providers.

In addition to access, the seamless mobility strategy requires a converged core network capable of delivering a multiplicity of applications and services to consumers across multiple access technologies. This strategy enables consumers to receive these services seamlessly as they move from one access methodology to another. The segment will leverage its strong position in multiple access technologies and cellular Internet protocol (IP) core network capability to deliver next-generation converged core networks based on IP Multimedia Subsystem (IMS) architectures supporting seamless mobility.

To facilitate rapid delivery of applications and services to consumers through the IMS core, Networks has developed the Global Applications Management Architecture (GAMA) platform providing a standard interface allowing third-party providers easy integration and deployment of their value-added services. Examples of these IP-based services include voice over IP (VoIP), Push-to-Talk, multi-party gaming, videoconferencing, messaging and content sharing. Networks has also compiled its own suite of internally, as well as externally, developed applications which will complete our end-to-end product offering.

Our network products are further enhanced by a portfolio of services that reduce operator capital expenditure requirements, increase network capacity and improve system quality. These quality improvements benefit operators through increased customer satisfaction, greater usage and lower churn, all of which can have a positive impact on operator financial results.

We also continue to build on our industry-leading position in push-to-talk over cellular (PoC) technology. We have executed agreements to launch our PoC product application on both GSM and CDMA2000 networks. Networks deployed PoC technology for 44 wireless carriers in 33 countries and territories in 2005. In addition, Networks has begun executing on its seamless mobility strategy with major contract wins in PON and wireless broadband. In 2005, we announced an agreement with Verizon to supply FTTP access equipment and related services enabling their triple play offering (voice, data and video). We also signed a contract with Earthlink to deliver equipment and services enabling them to become a Metro WiFi broadband provider in Philadelphia, Pennsylvania, Anaheim, California and other cities.

Customers

Due to the nature of the segment s business, the agreements we enter into are primarily long-term contracts with major operators that require sizeable investments by our customers. In 2005, five customers represented approximately 56% of the segment s net sales (Sprint Nextel; KDDI, a service provider in Japan; China Mobile; Verizon; and China Unicom). The loss of any of the segment s large customers, in particular these customers, could have a material adverse effect on the segment s business. Further, because contracts are long-term, the loss of a major customer would impact revenue and earnings over several quarters.

Sprint Nextel is our largest customer, representing 25% of the segment s net sales in 2005. On August 12, 2005, Sprint Corporation and Nextel Communications, Inc. completed their merger transaction (the Sprint Nextel Merger) that was announced in December 2004. The combined company, Sprint Nextel, is the segment s largest customer and Motorola has been its sole supplier of iDEN handsets and core iDEN network infrastructure equipment for over ten years. Sprint Nextel uses Motorola s proprietary iDEN technology to support its nationwide wireless service business. Motorola is currently operating under supply agreements for iDEN handsets and infrastructure equipment that cover the period from January 1, 2005 through December 31, 2007. The segment did not experience any significant impact to its business in 2005 as a result of the Sprint Nextel Merger.

Competition

Networks experiences competition in worldwide markets from numerous competitors, ranging in size from some of the world s largest companies to small specialized firms. In the cellular infrastructure industry, Ericsson is the market leader, followed by Nokia and four vendors with similar market share positions, including Motorola, Siemens, Lucent and Nortel. Alcatel, Samsung and NEC are also significant competitors. We also experience price competition for both 2G and 3G systems from Chinese vendors, such as Huawei and ZTE.

Competitive factors in the market for the segment s products include: technology offered; price; payment terms; availability of vendor financing; product and system performance; product features, quality, delivery, availability and warranty; the quality and availability of service; company image; relationship with key customers; and time-to-market. Price is a major area of competition and often impacts margins for initial system bids, particularly in emerging markets. Time-to-market has also been an important competitive factor, especially for new systems and technologies.

Payment Terms

The segment s contracts typically include implementation milestones, such as delivery, installation and system acceptance. Generally, these milestones can take anywhere from 30 to 180 days to complete. Customer payments are typically tied to the completion of these milestones. Once a milestone is reached, payment terms are generally 30 to 60 days. As required for competitive reasons, we may arrange or provide for extended payment terms or long-term financing.

Regulatory Matters

Radio frequencies are required to provide wireless services. The allocation of frequencies is regulated in the U.S. and other countries throughout the world, and limited spectrum space is allocated to wireless services. The growth of the wireless and personal communications industry may be affected if adequate frequencies are not allocated or, alternatively, if new technologies are not developed to better utilize the frequencies currently allocated for such use. Industry growth may also be affected by the cost of the new licenses required to use frequencies and any related frequency relocation costs.

The U.S. leads the world in spectrum deregulation, allowing new wireless communications technologies to be developed and offered for sale. Examples include Wireless Local Area Network systems, such as WiFi, and Wide Area Network systems, such as Wi4. Other countries have also deregulated portions of the available spectrum to allow for new technologies, which can be offered without spectrum license costs. Deregulation may introduce new competition and new opportunities for Motorola and our customers.

Backlog

The segment s backlog was $2.0 billion at both December 31, 2005 and December 31, 2004. The 2005 order backlog is believed to be generally firm and 100% of that amount is expected to be recognized as revenue during 2006. The forward-looking estimate of the firmness of such orders is subject to future events that may cause the amount recognized to change.

Intellectual Property Matters

Patent protection is extremely important to the segment s operations. The segment has an extensive portfolio of patents relating to its products, systems, technologies and manufacturing processes. The segment licenses certain

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of its patents to third parties and generates modest revenue from these licenses. Motorola is also licensed to use certain patents owned by others. Royalty and licensing fees vary from year to year and are subject to the terms of the agreements and sales volumes of the products subject to licenses. Reference is made to the material under the heading Other Information for information relating to patents and trademarks and research and development activities with respect to this segment.

Inventory, Raw Materials, Right of Return and Seasonality

The segment s practice is to carry reasonable amounts of inventory in order to meet customer delivery requirements in a manner consistent with industry standards. At the end of 2005, the segment had a slightly higher inventory balance as compared to the end of 2004, primarily as result of growth in its Wireline Networks and Embedded Communications Computing businesses.

Availability of materials and components required by the segment is relatively dependable, but fluctuations in supply and market demand could cause selective shortages and affect results. We currently source certain materials and components from single vendors. Any material disruption from a single-source vendor may have a material adverse impact on our results of operations.

Natural gas, electricity and, to a lesser extent, oil are primary sources of energy for the segment s operations, which are currently in generally adequate supply for the segment s operations. In addition, the cost to operate our facilities and freight costs are dependent on world oil prices. A substantial increase in worldwide oil prices could have a negative impact on our results of operations. Labor is generally available in reasonable proximity to the segment s manufacturing facilities. However, difficulties in obtaining any of these items could affect the segment s results.

Generally the segment s contracts do not include a right of return other than for standard warranty provisions. For new product introductions, we may enter into milestone contracts wherein if we do not achieve the milestones, the product could be returned.

The business does not have seasonal patterns for sales.

Our Facilities/ Manufacturing

Our headquarters are located in Arlington Heights, Illinois. Major design centers include Arlington Heights and Schaumburg, Illinois; Chandler and Tempe, Arizona; Fort Worth, Texas; Tewksbury and Andover, Massachusetts; Cork, Ireland; Bangalore, India; and Swindon, U.K. We operate major manufacturing facilities in Schaumburg, Illinois; Fort Worth, Texas; Hangzhou and Tianjin, China; Swindon, U.K.; Munich, Germany and Nogales, Mexico. A majority of our manufacturing is conducted in China, with nearly 100% of printed circuit board assembly for the segment performed by third-party manufacturers in China.

Connected Home Solutions Segment

The Connected Home Solutions segment (the segment) designs, manufactures and sells a wide variety of broadband products, including: (i) digital systems and set-top boxes for cable television, Internet Protocol (IP) video and broadcast networks, (ii) high speed data products, including cable modems and cable modem termination systems (CMTS), and IP-based telephony products, (iii) hybrid fiber coaxial network transmission systems used by cable television operators, (iv) digital satellite program distribution systems, (v) direct-to-home (DTH) satellite networks and private networks for business communications, and (vi) advanced video communication products. In 2005, the segment s net sales represented 8% of the Company s consolidated net sales.

Principal Products and Services

The segment is a leading provider of end-to-end networks used for the delivery of video, voice and data services over hybrid fiber coaxial networks. Within the home, the segment provides interactive digital set-top boxes and Internet gateways that provide access to entertainment and two-way communications services. Our in-home products support mobility of content between devices within the home, integrated access to broadcast, Internet and personal content, and allow access to wireline and wireless services using integrated devices within the home.

The segment s broadband networks include products used to transport programming by broadcasters and programmers, products used at the cable operator s and telephone carrier s headends (central office) and products used at the cable operator s outside transmission plant. These products include digital encoders, multiplexers, satellite receivers/transcoders, content encryption and access control systems, cable modem termination systems (CMTS), amplifiers, taps, passives and optoelectronics.

Our interactive digital set-top boxes for the end customer s home enable advanced interactive entertainment and informational services, including video-on-demand (VOD), digital video recording (DVR), Internet access, e-mail, e-commerce, chat rooms, pay-per view, and decoding and processing of high-definition television (HD). Our interactive digital set-top boxes also deliver advanced interactive services focused on digital video broadcast-compliant (DVB-compliant) markets around the world. We also provide digital system control equipment, encoders, access control equipment and a wide range of digital satellite receivers. Our digital business (set-top boxes and video infrastructure equipment) accounted for approximately 65% of the segment s revenue in 2005 and is expected to account for a substantial portion of the segment s revenues for the foreseeable future.

Our cable modems deliver high-speed Internet access to subscribers over cable networks. These products also include wireless networking devices with high-speed Internet access for a complete home, small office or small-to-medium enterprise communications system. Our products also include voice gateways and cable modems with embedded voice gateways to enable voice communications over IP using broadband networks.

Our products are marketed primarily to cable television operators, satellite television programmers, telephone carriers and other communications providers worldwide and are sold primarily by our skilled sales personnel. We have also expanded our traditional distribution channels by selling directly to consumers in a variety of retail markets. Through retail, we market and sell primarily cable modems, cordless telephones and advanced digital set-top boxes.

Our Industry

Demand for our products depends primarily on: (i) capital spending by providers of broadband services for constructing, rebuilding or upgrading their communications systems, and (ii) the marketing of advanced communications services by those providers. The amount of spending by these providers, and therefore a majority of our sales and profitability, are affected by a variety of factors, including: (i) general economic conditions, (ii) the continuing trend of consolidation within the cable and telecommunications industries, (iii) the financial condition of cable television system operators and alternative communications providers, including their access to financing, (iv) the rate of digital penetration, (v) technological developments, (vi) standardization efforts that impact the deployment of new equipment, and (vii) new legislation and regulations affecting the equipment sold by the segment. In 2005, our customers increased their spending on our products, primarily due to the increase in digital video and data subscribers and the deployment of advanced video platforms by cable operators for HD/DVR applications.

Our Strategy

Our strategy is to be the global leader in broadband connected home solutions and services, enabling customers to be seamlessly informed, connected and entertained. We continue to focus on our strategy to innovate and enhance our end-to-end network portfolio, provide for convergence of services and applications across delivery platforms within the home and develop new services that leverage our platforms. We are focused on accelerating the rate of digital penetration by broadband operators in North America through the introduction of an enhanced suite of digital set-top boxes, including more cost-effective products designed to increase the number of set-top boxes per household, as well as higher-end products for advanced services, including supporting the growing HD and DVR markets. During 2005, we shipped the first digital set-top boxes capable of supporting integrated exchange of stored content among devices in a consumer s home.

We also continue to focus on growing our business in regions outside of North America, including the development of digital video products compliant with technology required in these regions. During 2005, the segment launched digital video in Chile with VTR, provided interactive digital terrestrial receivers for use in Italy and provided end-to-end equipment to support the launch of the first digital cable system in Hungary. We have also expanded our relationship with Cablevision in Mexico, adding DVRs to their service portfolio.

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The segment is capitalizing upon the introduction of video services by telecommunication operators to their subscribers (Telco TV or IPTV) with products that support delivery of video content using both copper-outside-plant and fiber-to-the-premises networks. During the year, the segment provided end-to-end equipment for the launch of Verizon s FiOS service and won a contract to supply advanced IP interactive set-top boxes to AT&T.

We are focused on enhancing and expanding our voice and data offerings to offer end-to-end solutions for fixed-mobile convergence and next-generation converged IP based voice, data and video delivery. These solutions include: (i) stand-alone and integrated voice/data/WiFi gateways with support for handing off a mobile voice or data call to a WiFi access point and a carrier s VoIP network, and (ii) next-generation infrastructure products in the CMTS and fiber optic network markets which expand the bandwidth delivered to a home or business. Sales of our CMTS infrastructure products increased over 20% in 2005 as cable operators built out their networks to accommodate high-availability VoIP, higher speed data offerings and multimedia applications such as streaming video and music as well as interactive gaming. Our voice gateway business experienced significant growth in 2005 as cable television operators, as well as non-facilities based VoIP service providers, aggressively launched and expanded their services. We expect this trend to continue in 2006 as the rich capabilities and value of these services result in continued adoption by mainstream consumers.

Customers

The vast majority of our sales are in the U.S., where a small number of large cable television multiple system operators (MSOs) own a large portion of the cable systems and account for a significant portion of the total capital spending in the industry. We are dependent upon a small number of customers for a significant portion of our sales. Comcast Corporation accounted for approximately 31% of the segment s net sales in 2005. The loss of business in the future from Comcast or any of the other major MSOs could have a material adverse effect on the segment s business. Sales of video headend equipment and set-top boxes to telephone carriers accounted for approximately 5% of our revenue in 2005. The opportunity in this market segment is expected to continue to grow as carriers around the world expand to offer video services.

Competition

The businesses in which we operate are highly competitive. The rapid technological changes occurring in each of the markets in which we compete are expected to lead to the entry of many new competitors.

We compete worldwide in the market for digital set-top boxes for broadband and satellite networks. Based on 2005 annual sales, we believe we are the leading provider of digital cable set-top boxes in North America. Our digital cable set-top boxes compete with products from a number of different companies, including: (i) those that develop and sell substitute products that are distributed by direct broadcast satellite (DBS) service providers through retail channels, (ii) those that develop, manufacture and sell products of their own design, and (iii) those that license technology from us or other competitors. In North America, our largest competitor is Scientific-Atlanta. Other competitors in North America include Cisco, ARRIS and C-COR. Outside of North America, where we have a smaller market position, we compete with many equipment suppliers, including several consumer electronics companies. Cisco, a major competitor to the segment s IP products, home gateways and systems, announced that it will acquire Scientific-Atlanta, our largest competitor in conventional hybrid fiber coaxial cable technology. This combination strengthens Cisco, enabling it to offer end-to-end solutions in both hybrid fiber coaxial cable and IP networks, and encompasses a broad set of customer relationships around the world.

The traditional competitive environment in the North American cable market continues to change for several reasons. Based on our customers requirements, we have begun and will continue to license certain of our technology to certain competitors. In 2005, we formed a joint venture with Comcast Corporation. This joint venture licenses certain of our technologies to competitors to build set-top boxes and elements of headend equipment. Comcast and other network operators can then purchase these products from these licensees.

Historically, reception of digital television programming from the cable broadband network required a set-top box with security technology that was compatible with the network. This security technology has limited the availability of set-top boxes to those manufactured by a few cable network manufacturers, including Motorola. The FCC has enacted regulations requiring separation of security functionality from set-top boxes by July 1, 2007. To meet this requirement, we have developed security modules for sale to cable operators for use with our own and third-party set-top boxes. As a step towards this implementation, in 2002, the cable industry and consumer electronic manufacturers agreed to a uni-directional security interface that allows third-party devices to access broadcast programming (not pay-per-view or VOD) with a security device. These devices became widely available in 2004 and to date have seen limited use. The limited use of the devices has not had a significant impact on our business. A full two-way security interface specification is in development, and compliant devices are likely to be available in late 2006. These changes are expected to increase competition and encourage the sale of set-top boxes to consumers in the retail market. Traditionally, cable service providers have leased the set-top box to their customers. These changes could adversely impact our competitive position and our sales and profitability. Most of our sales and profits arise from the sale of our set-top boxes.

We also compete worldwide in the market for broadband data and voice products. We believe that we are the leading provider of cable modems worldwide, competing with a number of consumer electronic companies and various original design manufacturers worldwide.

Competitive factors for our products and systems include: technology offered; product and system performance, features, quality, delivery and availability; and price. We believe that we enjoy a strong competitive position because of our large installed cable television equipment base, strong relationships with major communication system operators worldwide, technological leadership and new product development capabilities.

Payment Terms

Generally, our payment terms are consistent with the industry and range from 30 to 60 days. Extended payment terms are provided to customers from time to time on a case-by-case basis. Such extended terms are isolated in nature and historically have not related to a significant portion of our revenues.

Regulatory Matters

Many of our products are subject to regulation by the FCC or other communications regulatory agencies. 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 operators and telephone carriers to offer certain services, or the terms on which the companies offer the services and conduct their business, may affect the segment s results. Regulatory actions also have impacted competition, as discussed above.

Backlog

The segment s backlog was $424 million at December 31, 2005, compared to $304 million at December 31, 2004. The increase in backlog and related orders primarily reflects increased orders from our customers for advanced set-top boxes. The 2005 order backlog is believed to be generally firm and 100% of that amount is expected to be recognized as revenue in 2006. The forward-looking estimates of the firmness of such orders is subject to future events, which may cause the amount recognized to change.

Intellectual Property Matters

We seek to build upon our core enabling technologies, such as digital compression, encryption and conditional access systems, in order to lead worldwide growth in the market for broadband communications networks. Our policy is to protect our proprietary position by, among other methods, filing U.S. and foreign patent applications to protect technology and improvements that we consider important to the development of our business. We also rely on our proprietary knowledge and ongoing technological innovation to develop and maintain our competitive position, and will periodically seek to include our proprietary technologies in certain patent pools that support the implementation of standards. We are a founder of MPEG LA, the patent licensing authority established to foster broad deployment of MPEG-2 compliant systems. We have also licensed our digital conditional access technology, DigiCipher® II, to other equipment suppliers and have formed joint ventures with Comcast Corporation for development and licensing of conditional access technology. We also enter into other license agreements, both as licensor and licensee, covering certain products and processes with various companies. These license agreements require the payment of certain royalties that are not expected to be material to the segment s financial results.

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Inventory, Raw Materials, Right of Return and Seasonality

Substantially all of our products are manufactured at our facilities in Taipei, Taiwan and Nogales, Mexico. Inventory levels are managed in line with existing business conditions.

Availability of materials and components required by the segment is relatively dependable, but fluctuations in supply and market demand could cause selective shortages and affect results. We currently source certain materials and components from single vendors. Any material disruption from a single-source vendor may have a material adverse impact on our results of operations.

Electricity is the primary source of energy required for our manufacturing operations, which is currently in generally adequate supply for the segments operations. In addition, the cost to operate our facilities and freight costs are dependent on world oil prices. A substantial increase in world-wide oil prices could have a negative impact on our results of operations. Labor is generally available in reasonable proximity to the segment s manufacturing facilities. However, difficulties in obtaining any of the aforementioned terms could affect the segments results.

Generally, we do not permit customers to return products. We have not experienced seasonal buying patterns for our products recently. However, as our retail cable modem and digital set-top box sales increase, we may have increased sales during the holiday season at the end of each year.

Our Facilities/ Manufacturing

Our headquarters are located in Horsham, Pennsylvania. We also have research and development and administrative offices in San Diego, San Jose and Sunnyvale, California; Lexington and Marlboro, Massachusetts; and Lawrenceville, Georgia. We have several sales offices throughout North America, Europe, Latin America and Asia, and we operate manufacturing facilities in Taipei, Taiwan and Nogales, Mexico. We also use contract manufacturers with plants in China for a portion of our cable modem/voice module production in order to enhance our ability to lower our costs and deliver products that meet consumer demand.

Other Information

2005 Change in Organizational Structure. Effective on January 1, 2005, the Company reorganized its businesses and functions to align with the Company s seamless mobility strategy. The Company was organized into four main business groups, focused on mobile devices, government and enterprise, networks and the connected home. The Mobile Devices business is primarily comprised of the former Personal Communications segment and the Energy Systems group from the former Integrated Electronic Systems segment (IESS). The Government and Enterprise Mobility Solutions business is primarily comprised of the former Commercial, Government and Industrial Solutions segment and the Automotive Communications and Electronics Systems group from the former IESS. The Networks business is primarily comprised of the former Global Telecom Solutions segment, the Embedded Computing and Communications group from the former IESS, and the next-generation wireline networks business from the former Broadband Communications segment (BCS). The Connected Home Solutions business is primarily comprised of the former BCS, excluding the next-generation wireline networks business. In addition, the Company s key support functions, including supply-chain operations, information technology, finance, human resources, legal, strategy and business development, marketing, quality and technology have been architected centrally and distributed throughout the Company.

Financial Information About Segments. The response to this section of Item 1 incorporates by reference Note 10, Information by Segment and Geographic Region, of Part II, Item 8: Financial Statements and Supplementary Data of this document.

Customers. Motorola has several large customers, the loss of one or more of which could have a material adverse effect on the Company. Motorola s largest end customers (including sales through distributors) are Sprint Nextel, Cingular, China Mobile, América Móvil and T-Mobile. Motorola sold approximately 12% of its products and services to Sprint Nextel in 2005.

Approximately 2% of Motorola s net sales in 2005 were to various branches and agencies, including the armed services, of the U.S. Government. All contracts with the U.S. Government are subject to cancellation at the convenience of the Government.

Government contractors, including Motorola, are routinely subjected to numerous audits and investigations, which may be either civil or criminal in nature. The consequences of these audits and investigations may include administrative action to suspend business dealings with the contractor and to exclude it from receiving new business. In addition, Motorola, like other contractors, reviews aspects of its government contracting operations, and, where appropriate, takes corrective actions and makes voluntary disclosures to the U.S. Government. These audits and investigations could adversely affect Motorola s ability to obtain new business from the U.S. Government.

Backlog. Motorola s aggregate backlog position for all Motorola segments, as of the end of the last two fiscal years was approximately as follows:

December 31, 2005	$7.8 billion
December 31, 2004	$6.3 billion

Except as previously discussed in this Item 1, the orders supporting the 2005 backlog amounts shown in the foregoing table are believed to be generally firm, and approximately 92% of the backlog on hand at December 31, 2005 is expected to be shipped or earned, with respect to contracts accounted for under the percentage of completion or completed contract accounting, during 2006. However, this is a forward-looking estimate of the amount expected to be shipped or earned, and future events may cause the percentage actually shipped or earned to change.

Research and Development. Motorola s business segments participate in very competitive industries with constant changes in technology. Throughout its history, Motorola has relied, and continues to rely, primarily on its research and development (R&D) programs for the development of new products, and on its production engineering capabilities for the improvement of existing products. Technical data and product application ideas are exchanged among Motorola s business segments on a regular basis. Management believes, looking forward, that Motorola s commitment to R&D programs, both to improve existing products and services and to develop new products and services, together with its utilization of state-of-the-art technology, should allow each of its segments to remain competitive.

R&D expenditures relating to new product development or product improvement were approximately $3.7 billion in 2005, compared to $3.4 billion in 2004 and $3.0 billion in 2003. R&D expenditures increased 8% in 2005 as compared to 2004, after increasing 15% in 2004 as compared to 2003. Motorola continues to believe that a strong commitment to research and development is required to drive long-term growth. Approximately 25,000 professional employees were engaged in such research activities during 2005.

Patents and Trademarks. Motorola seeks to obtain patents and trademarks to protect our proprietary position whenever possible and practical. As of December 31, 2005, Motorola owned 8,557 utility and design patents in the U.S. and 12,801 patents in foreign countries. These foreign patents are mostly counterparts of Motorola s U.S. patents, but a number result from research conducted outside the U.S. and are originally filed in the country of origin. During 2005, Motorola was granted 548 U.S. utility and design patents. Many of the patents owned by Motorola are used in its operations or licensed for use by others, and Motorola is licensed to use certain patents owned by others. Royalty and licensing fees vary from year to year and are subject to the terms of the agreements and sales volumes of the products subject to licenses.

Environmental Quality. Compliance with federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has no material effect on capital expenditures, earnings or the competitive position of Motorola.

Employees. At December 31, 2005, there were approximately 69,000 employees of Motorola and its subsidiaries, as compared to approximately 68,000 employees at December 31, 2004.

Financial Information About Foreign and Domestic Operations and Export Sales. Domestic export sales to third parties were $2.1 billion, $2.7 billion and $1.9 billion for the years ended December 31, 2005, 2004 and 2003, respectively. Domestic export sales to affiliates and subsidiaries, which are eliminated in consolidation, were $2.6 billion, $1.8 billion and $1.8 billion for the years ended December 31, 2005, 2004 and 2003, respectively.

The remainder of the response to this section of Item 1 incorporates by reference Note 9, Commitments and Contingencies and Note 10, Information by Segment and Geographic Region of Part II, Item 8: Financial Statements and Supplementary Data of this document, the Results of Operations 2005 Compared to 2004 and

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Results of Operations 2004 Compared to 2003 sections of Part II, Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations of this document.

Available Information

We make available free of charge through our website, *www.motorola.com/investor*, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, other reports filed under the Securities Exchange Act of 1934 (Exchange Act) and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). Our reports are also available free of charge on the SEC s website, *www.sec.gov*. Also available free of charge on our website are the following corporate governance documents:

- Motorola, Inc. Restated Certificate of Incorporation
- Motorola, Inc. Amended and Restated Bylaws
- Motorola, Inc. Board Governance Guidelines
- Motorola, Inc. Director Independence Guidelines
- Principles of Conduct for Members of the Motorola, Inc. Board of Directors
- Motorola Code of Business Conduct, which is applicable to all Motorola employees, including the principal executive officer, the principal financial officer and the controller (principal accounting officer)
- Audit and Legal Committee Charter
- Compensation and Leadership Committee Charter
- Governance and Nominating Committee Charter

All of our reports and corporate governance documents may also be obtained without charge by contacting Investor Relations, Motorola, Inc., Corporate Offices, 1303 East Algonquin Road, Schaumburg, Illinois 60196, E-mail: *investors@motorola.com*, phone: 1-800-262-8509. Our Internet website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

PART II

Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion and analysis of our financial position and results of operations for each of the three years in the period ended December 31, 2005. This commentary should be read in conjunction with our consolidated financial statements and the notes thereto which appear beginning under Item 8: Financial Statements and Supplementary Data.

Executive Overview

What businesses are we in?

Motorola reports financial results for the following four operating business segments:

The **Mobile Devices** segment designs, manufactures, sells and services wireless handsets, with integrated software and accessory products. The segment s net sales in 2005 were $21.5 billion, representing 58% of the Company s consolidated net sales.*

The **Government and Enterprise Mobility Solutions** segment designs, manufactures, sells, installs and services analog and digital two-way radio, voice and data communications products and systems to a wide range of public safety, government, utility, transportation and other worldwide markets, and participates in the expanding market for integrated information management, mobile and biometric applications and services. The segment also designs, manufactures and sells automotive electronics systems, as well as telematics systems that enable communication and advanced safety features for automobiles. The segment s net sales in 2005 were $6.6 billion, representing 18% of the Company s consolidated net sales.*

The **Networks** segment designs, manufactures, sells, installs and services: (i) cellular infrastructure systems, including hardware and software, (ii) fiber-to-the-premise (FTTP) and fiber-to-the-node (FTTN) transmission systems supporting high-speed data, video and voice, and (iii) wireless broadband systems. In addition, the segment designs, manufactures, and sells embedded communications computing platforms. The segment s net sales in 2005 were $6.3 billion, representing 17% of the Company s consolidated net sales.*

The **Connected Home Solutions** segment designs, manufactures and sells a wide variety of broadband products, including: (i) digital systems and set-top boxes for cable television, Internet Protocol (IP) video and broadcast networks, (ii) high speed data products, including cable modems and cable modem termination systems (CMTS) and IP-based telephony products, (iii) hybrid fiber coaxial network transmission systems used by cable television operators, (iv) digital satellite program distribution systems, (v) direct-to-home (DTH) satellite networks and private networks for business communications, and (vi) advanced video communications products. The segment s net sales in 2005 were $2.8 billion, representing 8% of the Company s consolidated net sales.*

What were our 2005 financial highlights?

Net Sales Increased 18%: Our net sales were $36.8 billion in 2005, up 18% from $31.3 billion in 2004. Sales increased in all four of our operating segments.

Operating Earnings Increased 50%: We generated operating earnings of $4.7 billion in 2005, an increase of 50% compared to operating earnings of $3.1 billion in 2004. Operating margin increased to 12.7% in 2005, compared to 10.0% in 2004.

Earnings From Continuing Operations Increased by 110%: We generated earnings from continuing operations of $4.6 billion in 2005, an increase of 110% compared to earnings from continuing operations of $2.2 billion in 2004.

* When discussing the net sales of each of our four segments, we express the segment s net sales as a percentage of the Company s consolidated net sales. Because certain of our segments sell products to other Motorola businesses, our intracompany sales were eliminated as part of the consolidation process in 2005. As a result, the percentages of consolidated net sales for each of our business segments sums to greater than 100% of the Company s consolidated net sales.

Earnings From Continuing Operations of $1.82 per Share: Our earnings from continuing operations per diluted common share were $1.82 in 2005, compared to earnings from continuing operations per diluted common share of $0.90 in 2004.

Net Cash Increased by $5.1 Billion:* We increased our net cash position by $5.1 billion during 2005 and ended the year with a record net cash position of $10.5 billion.

What drove the $2.4 billion increase in earnings from continuing operations?

The key contributors to the substantial increase in earnings from continuing operations were:

Gross Margin: A $1.4 billion increase in gross margin, primarily driven by the 18% increases in net sales.

Recognized Gains on Sales of Investments and Businesses: A $1.4 billion increase in gains recognized on our equity investments, primarily due to a $1.3 billion net gain recognized when we received cash and shares of Sprint Nextel Corporation in exchange for our shares of Nextel Communications, Inc. (Nextel) when Sprint Corporation and Nextel completed their merger in August 2005.

Other Income: A $554 million increase in other income, primarily due to $500 million received for the settlement of financial and legal claims against Telsim.

Net Interest Income: A $270 million improvement in net interest income, primarily due to significantly lower levels of total debt in 2005 compared to 2004 and an increase in interest income due to higher average cash, cash equivalents and Sigma Funds at higher interest rates.

What were the financial highlights for our four operating segments in 2005?

In Mobile Devices: Net sales increased by $4.3 billion, or 25%, to $21.5 billion and operating earnings increased by 27% to $2.2 billion. We shipped 146 million handsets in 2005, up 40% from 2004 and solidified our position as the second largest worldwide supplier of wireless handsets with an estimated 18% global market share. The increase in unit shipments was attributed to an increase in the size of the total market and a gain in the segment s market share. The gain in market share reflected strong demand for GSM handsets and consumers desire for the segment s compelling products that combine innovative style leading technology. The segment had increased net sales in all regions of the world as a result of an improved product portfolio, strong market growth in emerging markets, and high replacement sales in more mature markets. Average selling price (ASP) decreased approximately 10% compared to 2004, driven primarily by a higher percentage of lower-tier, lower-priced handsets in the overall sales mix.

In Government and Enterprise Mobility Solutions: Net sales increased $369 million, or 6%, to $6.6 billion and operating earnings increased by 5% to $882, primarily due to increased sales to the segment s government and enterprise markets, partially offset by a decrease in sales to the automotive electronics market, reflecting weak automobile industry conditions. The increase in net sales in the government market was driven by customer spending on enhanced mission-critical communications and the continued focus on homeland security initiatives. The increase in net sales in the enterprise market reflects enterprise customers demand for business-critical communications. The overall increase in net sales reflects net sales growth in the Americas and Asia.

In Networks: Net sales increased $306 million, or 5%, to $6.3 billion and operating earnings increased by 38% to $990 million, primarily driven by increased customer purchases of cellular infrastructure equipment, as well as increased sales of wireless broadband systems and embedded computing communications systems. On a geographic basis, net sales increased in the Europe, Middle East and Africa region (EMEA) and North America, which offset lower sales in Asia and Latin America. The segment s 5% increase in net sales was reflective of the overall sales growth in the industry, yet resulted in a slight loss of market share for the segment. The 38% increase in operating earnings was primarily related to an increase in gross margin, which was due to: (i) the 5% increase in net sales, and (ii) improvements in cost structure.

* Net Cash = Cash and cash equivalents + Sigma Funds + Short-term investments - Notes payable and current portion of long-term debt - Long-term Debt

In Connected Home Solutions: Net sales increased $551 million, or 25%, to $2.8 billion and operating earnings increased by 27% to $185 million, primarily driven by increases in both ASP and unit shipments of digital set-top boxes. The segment experienced an increase in net sales in the North America, Latin America and Asia regions, which was partially offset by a slight decrease in net sales in the EMEA region. Net sales of digital set-top boxes increased 34%, driven by a product-mix shift towards higher-end products, particularly HD/DVR set-top boxes. The segment continued to be the worldwide leader in market share for digital cable set-top boxes. Net sales of cable modems increased 9%, primarily due to an increase in cable modem unit shipments, which was partially offset by the decline in ASP for cable modems. The segment retained its leading worldwide market share in cable modems.

What were our other major accomplishments in 2005?

In 2005, we were focused first and foremost on increasing profitable sales and growing market share. We realigned our structure to better enable our vision of seamless mobility, now serving our customers through four business units: Mobile Devices, Government and Enterprise Mobility Solutions, Networks and Connected Home Solutions.

Mobile Devices: During 2005, Motorola expanded its global market share in mobile handsets to approximately 18%. The Company is a strong, profitable and growing #2. For example, during the year, Motorola grew unit shipments faster than the market and faster than all competitors. Motorola ended 2005 as the market-share leader in North America and Latin America, as the clear #2 in Europe, as the new #2 in North Asia, and as the rapidly growing #3 in the world s high-growth markets. In India, the Company announced a new distribution partnership with Bharti to expand and extend Motorola s reach to consumers. Around the world, Motorola is driving profitable and sustainable growth through a strategy that focuses on design and the re-invention of each of the six primary handset form factors: clamshell, candy bar, PDA, QWERTY, slider and rotator.

Motorola launched this strategy at the end of 2004 with MOTORAZR, using the innovative clamshell design to strengthen the brand, and transformed 2005 into the Year of the RAZR . RAZR is available worldwide across the leading mobile-interface technologies: GSM, GPRS, UMTS, CDMA 1X, EV-DO and Dual-Mode UMA. Additionally, Motorola built consumer excitement and demand for MOTORAZR with an expanding series of highly sought after fashionable colors from silver to black, blue, three shades of pink and the exclusive Dolce & Gabbana gold edition. Since its launch, Motorola has sold more than 23 million RAZRs.

Motorola expanded the ultra-thin platform in 2005 to include an additional clamshell the fashionable Motorola PEBL U6 and the game-changing candy-bar design known as SLVR. In addition to great design, Motorola is delivering compelling mobile experiences from mobile music and mobile imaging to mobile search and hands-free/wire-free seamless mobility. For example, during 2005, Motorola launched mobile music 1.0 with Motorola ROKR E1 the world s first iTunes-enabled mobile handset. The Company also created a new category of wireless wearables joining forces with brands such as Burton for a Bluetooth-enabled, mobile music winter-sports jacket and with Oakley to create a new category of wireless, Bluetooth-enabled eyewear with MOTORAZR sunglasses.

Additionally, Motorola is expanding to markets that have previously been underserved. In February 2005, the GSM Association (GSMA) named Motorola as its partner in the GSMA s drive to Connect the Unconnected with the Emerging Market Handset program. The program focuses on enabling economic and social development by providing affordable, high-quality access to mobile communications in such markets as India, the Philippines, Indonesia and Africa. By the end of 2006, Motorola and the GSMA expect to have connected more than 20 million people for whom wireless communications had previously been only an unaffordable and unattainable dream.

Government and Enterprise Mobility Solutions: The Government and Enterprise Mobility Solutions business once again delivered solid results in 2005, solidifying its leadership in the markets it serves. Motorola remains the market leader in embedded telematics systems and is #1 in mission-critical wireless communications systems and two-way radio systems. In 2005, we introduced our first entry into the commercial, off-the-shelf rugged handheld mobile computing market.

Networks: At our Networks business, Motorola maintained momentum in 2005 by delivering outstanding technologies and services for wireless and wireline carriers. The Networks business deployed push-to-talk over cellular (PoC) technology for 44 wireless carriers in 33 countries and territories in 2005. Based on IMS technology, Motorola s PoC solution lays the foundation for further Push-To applications. Networks also introduced its MOTOwi4 product portfolio for unlicensed spectrum and WiMAX broadband solutions designed to meet the different needs of operators for lower-cost delivery of data rich multimedia applications and services.

Connected Home Solutions: The Connected Home Solutions business is the world s leading provider of digital video set-top boxes and cable modems. In 2005, Motorola shipped its 40 millionth digital video set-top box and its 30 millionth cable modem, both significant milestones. We shipped over 6.4 million set-top boxes in the year, almost half of which were high-definition TV (HDTV) capable, and 9 million cable modems, of which 1.6 million were voice-over-IP (VoIP) capable.

Motorola also entered into joint ventures with Comcast for the development and licensing of next-generation conditional access technologies. We began implementing a multi-year contract to build Verizon s digital video network infrastructure and provide advanced consumer products, including the first digital set-top boxes to incorporate home media networking. We were named a set-top box supplier for AT&T s IPTV deployment, our digital video delivery platform was selected by VTR in Chile for the launch of digital cable services, and we launched a digital terrestrial television (DTT) set-top box for use in Europe.

During 2005, Motorola was awarded the National Medal of Technology for its outstanding contributions to America s technological innovation and competitiveness over its more than 75-year history. The National Medal of Technology, established in 1980 by an act of Congress, is the highest honor awarded by the President to America s leading innovators. The award recognizes that since its founding in 1928, Motorola has stood on the cutting edge of innovation in areas such as two-way radios, cellular communication, paging, space flight communication, semiconductors and integrated, digital enhanced networks. As a result, the Company has helped establish entirely new industries and driven the phenomenal growth of mobile communications.

Looking Forward

In 2006, we will build upon our 2005 achievements with our continued commitment to quality and our unrelenting focus on innovation. We will continue to pursue profitable market share growth across all our businesses.

We are focused on our seamless mobility strategy. Seamless mobility recognizes that the boundaries between work, home, entertainment and leisure continue to dissolve. As we move between different environments, devices and networks, seamless mobility will deliver fluid experiences across the home, vehicle, office and beyond. Motorola is a thought leader on digital convergence.

As we develop seamless mobility, we remain committed to delivering compelling products in all our businesses. We will continue to build on the success of the MOTORAZR with ultra thin products, including the introduction of the QWERTY design known as the Q, in 2006. We will continue to invest in next-generation, mission-critical data, video and security, and mesh technology to enable us to offer the most compelling products to public-safety agencies and other government customers. We will continue to build our enterprise business by offering products that enable the mobile enterprise. We will continue to develop and offer next-generation infrastructure networks that enable the mobile Internet and lead us to a seamless world.

2006 will not be without challenges. We conduct our business in highly-competitive markets, facing new and established competitors. We also face technological and other industry challenges in developing seamless mobility products. Full digital convergence will require technological advancements and significant investment in research and development. The research and development of new, technologically advanced product is a complex process requiring high levels of innovations, as well as accurate anticipation of technological and market trends. During the year, we will continue to focus on improving the quality of our products and on enhancing our supply chain to ensure that we can meet customer demand and improve efficiency. However, we believe that despite these challenges, our seamless mobility strategy and our compelling products will result in a successful 2006.

Results of Operations

(Dollars in millions, except per share amounts)	***2005***	***% of sales***	*2004*	*% of sales*	*2003*	*% of sales*
	Years Ended December 31					
Net sales	**$ 36,843**		$ 31,323		$ 23,155	
Costs of sales	**25,066**	**68.0%**	20,969	66.9%	15,652	67.6%
Gross margin	**11,777**	**32.0%**	10,354	33.1%	7,503	32.4%
Selling, general and administrative expenses	**3,859**	**10.5%**	3,714	11.9%	3,285	14.1%
Research and development expenditures	**3,680**	**10.0%**	3,412	10.9%	2,979	12.9%
Other charges(income)	**(458)**	**(1.2)%**	96	0.3%	(34)	(0.1)%
Operating earnings	**4,696**	**12.7%**	3,132	10.0%	1,273	5.5%
Other income (expense):						
Interest income (expense), net	**71**	**0.2%**	(199)	(0.6)%	(294)	(1.3)%
Gains on sales of investments and businesses, net	**1,861**	**5.1%**	460	1.5%	539	2.3%
Other	**(108)**	**(0.3)%**	(141)	(0.5)%	(142)	(0.6)%
Earnings from continuing operations before income taxes	**6,520**	**17.7%**	3,252	10.4%	1,376	5.9%
Income tax expense	**1,921**	**5.2%**	1,061	3.4%	448	1.9%
Earnings from continuing operations	**4,599**	**12.5%**	2,191	7.0%	928	4.0%
Loss from discontinued operations, net of tax	**(21)**	**(0.1)%**	(659)	(2.1)%	(35)	(0.1)%
Net earnings	**$ 4,578**	**12.4%**	$ 1,532	4.9%	$ 893	3.9%
Earnings (loss) per diluted common share:						
Continuing operations	**$ 1.82**		$ 0.90		$ 0.39	
Discontinued operations	**(0.01)**		(0.26)		(0.01)	
	$ 1.81		$ 0.64		$ 0.38	

Geographic market sales measured by the locale of the end customer as a percent of total net sales for 2005, 2004 and 2003 are as follows:

Geographic Market Sales by Locale of End Customer

	2005	*2004*	*2003*
United States	**46%**	47%	56%
Europe	**19%**	19%	13%
Latin America	**10%**	9%	8%
Asia, excluding China	**9%**	10%	10%
China	**8%**	10%	9%
Other Markets	**8%**	5%	4%
	100%	100%	100%

Results of Operations 2005 Compared to 2004

Net Sales

Net sales were $36.8 billion in 2005, up 18% from $31.3 billion in 2004. Net sales increased in all four of the Company s segments in 2005 compared to 2004. The overall increase in net sales reflected: (i) a $4.3 billion increase in net sales by the Mobile Devices segment, driven by a 40% increase in unit shipments, reflecting strong demand for GSM handsets and consumers desire for the segment s compelling products that combine innovative style and leading technology, (ii) a $551 million increase in net sales by the Connected Home Solutions segment, primarily driven by increases in both average selling price (ASP) and unit shipments of digital set-top boxes, (iii) a $369 million increase in net sales by the Government and Enterprise Mobility Solutions segment, reflecting increased sales to the segment s government and enterprise markets, partially offset by a decrease in sales to the automotive electronics market, and (iv) a $306 million increase in net sales by the Networks segment, driven by increased customer purchases of cellular infrastructure equipment, as well as increased sales of wireless broadband systems and embedded computing communications systems.

Gross Margin

Gross margin was $11.8 billion, or 32.0% of net sales, in 2005, compared to $10.4 billion, or 33.1% of net sales, in 2004. Two of the Company s four operating segments had a decrease in gross margin as a percentage of net sales: (i) Mobile Devices, primarily due to a higher percentage of lower-tier, lower-priced, lower margin handsets in the overall sales mix and a charge for past use of Kodak intellectual property, and (ii) Connected Home Solutions, primarily due to increased sales of high-definition digital video recording (HD/DVR) products, which carry lower margins. These changes in gross margin percentage were partially offset by increased gross margin as a percentage of net sales by Networks, primarily due to the increase in net sales and cost savings from improvements in supply-chain management. Gross margin as a percentage of net sales was relatively flat in 2005 compared to 2004 for the Government and Enterprise Mobility Solutions segment.

The Company s overall gross margin as a percentage of net sales can be impacted by the proportion of overall net sales generated by its various businesses. The decrease in overall gross margin as a percentage of net sales in 2005 compared to 2004 can be partially attributed to the fact that an increased percentage of the Company s net sales were generated by the Mobile Devices and Connected Home Solutions segments, two segments that generate lower gross margins than the overall Company average.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenditures increased 4% to $3.9 billion, or 10.5% of net sales, in 2005, compared to $3.7 billion, or 11.9% of net sales, in 2004. All four of the Company s segments had increased SG&A expenditures in 2005 compared to 2004. These increases in SG&A for the segments were offset by a decrease in SG&A expenditures related to corporate functions. The increase in SG&A expenditures in 2005 compared to 2004 was due to: (i) increased advertising and promotional expenditures in Mobile Devices to support higher sales and promote brand awareness, (ii) increased selling and sales support expenditures in all four operating segments, driven by the increase in sales commissions resulting from the increase in net sales, and (iii) increased marketing expenditures in three of the four of the segments. SG&A expenditures as a percentage of net sales decreased in two of the four segments.

Research and Development Expenditures

Research and development (R&D) expenditures increased 8% to $3.7 billion, or 10.0% of net sales, in 2005, compared to $3.4 billion, or 10.9% of net sales, in 2004. All four of the Company s segments had increased R&D expenditures in 2005 compared to 2004, although R&D expenditures as percentage of net sales decreased in three of the four segments. The increase in R&D expenditures was primarily due to developmental engineering expenditures for new product development and investment in next-generation technologies across all segments.

Other Charges (Income)

The Company recorded net Other income of $458 million in Other charges (income) in 2005, compared to net charges of $96 million in 2004. The net other income of $458 million in 2005 primarily consisted of $500 million in income from the settlement of financial and legal claims against Telsim. This item was partially offset by a $66 million net charge for reorganization of businesses. The reorganization of businesses costs are discussed in further detail in the Reorganization of Businesses section below.

The net charges of $96 million in 2004 primarily consisted of: (i) a $125 million charge for goodwill impairment, related to the sensor business that was divested in 2005, and (ii) $34 million of charges for in-process research and development. These items were partially offset by: (i) $44 million in income from the reversal of financing receivable reserves due to the partial collection of the previously-uncollected receivable from Telsim, and (ii) $15 million in net reorganization of businesses reversals for reserves no longer needed. The reorganization of businesses costs are discussed in further detail in the Reorganization of Businesses section below.

Net Interest Income (Expense)

Net interest income was $71 million in 2005, compared to net interest expense of $199 million in 2004. The Company generated net interest income in 2005 and the Company currently expects to have net interest income in 2006 as well. Net interest income in 2005 included interest income of $396 million, partially offset by interest expense of $325 million. Net interest expense in 2004 included interest expense of $353 million, partially offset by interest income of $154 million. The increase in net interest income in 2005 compared to 2004 reflects: (i) an increase in interest income due primarily to higher average cash, cash equivalents and Sigma Funds balances at higher interest rates, and (ii) the significantly lower levels of total debt in 2005 compared to 2004.

Gains on Sales of Investments and Businesses

Gains on sales of investments and businesses were $1.9 billion in 2005, compared to $460 million in 2004. The 2005 net gains were primarily: (i) a $1.3 billion net gain recognized when the Company received 69.3 million shares of Sprint Nextel Corporation (Sprint Nextel), as well as $46 million in cash, in exchange for the Company s shares of Nextel Communications, Inc. (Nextel) when Sprint Corporation and Nextel completed their merger in August 2005, and (ii) a $609 million net gain recognized on the sale of a portion of the Company s shares in Nextel during the first half of 2005. These gains were partially offset by a net loss of $70 million on the sale of a portion of the Company s shares in Sprint Nextel in the fourth quarter of 2005.

The 2004 net gains were primarily: (i) a $130 million gain on the sale of the Company s remaining shares in Broadcom Corporation, (ii) a $122 million gain on the sale of a portion of the Company s shares in Nextel, (iii) an $82 million gain on the sale of a portion of the Company s shares in Telus Corporation, and (iv) a $68 million gain on the sale of a portion of the Company s shares in Nextel Partners, Inc. (Nextel Partners)

Other

Charges classified as Other, as presented in Other income (expense), were $108 million in 2005, compared to $141 million in 2004. The $108 million of net charges in 2005 primarily were (i) $137 million of debt retirement costs, (ii) foreign currency losses of $38 million, and (iii) $25 million of investment impairment charges. These items were partially offset by: (i) $51 million in income recognized in connection with a derivative relating to a portion of the Company s investment in Sprint Nextel, and (ii) $30 million in income from the repayment of a previously-reserved loan related to Iridium.

The $141 million of net charges in 2004 primarily were: (i) charges of $81 million for costs related to the redemption of debt, (ii) foreign currency losses of $44 million, and (iii) $36 million of investment impairment charges.

Effective Tax Rate

The effective tax rate was 29% in 2005, representing a $1.9 billion net tax expense, compared to a 33% effective tax rate in 2004, representing a $1.1 billion net tax expense. The 2005 tax rate reflects a $265 million net tax benefit related to the repatriation of foreign earnings under the provisions of the American Jobs Creation Act of 2004 and an $81 million net tax benefit on the stock sale of a sensor business that was divested in 2005.

The 2004 effective tax rate reflects a $241 million benefit from the reversal of previously-accrued income taxes as the result of settlements reached with taxing authorities and a reassessment of tax exposures based on the status of current audits, offset by nondeductible charges of $125 million for goodwill impairment related to a sensor business that was divested in 2005 and $31 million for in-process research and development (IPR&D) charges related to acquisitions.

Earnings from Continuing Operations

The Company had earnings from continuing operations before income taxes of $6.5 billion in 2005, compared to earnings from continuing operations before income taxes of $3.3 billion in 2004. After taxes, the Company had earnings from continuing operations of $4.6 billion, or $1.82 per diluted share from continuing operations, in 2005, compared to earnings from continuing operations of $2.2 billion, or $0.90 per diluted share from continuing operations, in 2004.

The $3.3 billion increase in earnings from continuing operations before income taxes is primarily attributed to: (i) a $1.4 billion increase in gains on sales of investments and businesses, due primarily to a $1.3 billion net gain recognized by the Company when it received cash and shares of Sprint Nextel in exchange for its shares of Nextel when Sprint and Nextel completed their merger in August 2005, (ii) a $1.4 billion increase in gross margin, primarily due to the $5.5 billion increase in total net sales, (iii) a $554 million increase in income classified as Other, primarily due to $500 million received from the settlement of financial and legal claims against Telsim, (iv) a $270 million increase in net interest income, driven primarily by the reduction in total debt and increased interest income due to higher average cash, cash equivalents and Sigma Funds balances at higher interest rates, and (v) a $33 million decrease in Other Charges. These improvements in earnings were partially offset by: (i) a $268 million increase in R&D expenditures, due primarily to an increase in developmental engineering expenditures as a result of additional investment in new product development and increased investment in new technologies across all segments, and (ii) a $145 million increase in SG&A expenditures.

Results of Operations 2004 Compared to 2003

Net Sales

Net sales were $31.3 billion in 2004, up 35% from $23.2 billion in 2003. Net sales increased in all four segments in 2004 compared to 2003. The overall increase in net sales was primarily related to: (i) a $5.9 billion increase in net sales by the Mobile Devices segment, primarily driven by a 39% increase in unit shipments, reflecting strong consumer demand for new products, partially offset by a 15% decrease in ASP, (ii) a $1.2 billion increase in net sales by the Networks segment, driven by a continued increase in spending by the segment s wireless service provider customers and reflecting sales growth in all technologies and regions, (iii) a $660 million increase in net sales by the Government and Enterprise Mobility Solutions segment, reflecting increased spending by customers in the segment s government, enterprise and automotive markets, and (iv) a $469 million increase in net sales by the Connected Home Solutions segment, primarily due to increased purchases of digital cable set-top boxes by cable operators and an increase in ASP for digital set-top boxes due to a mix shift towards higher-end products.

Gross Margin

Gross margin was $10.4 billion, or 33.1% of net sales, in 2004, compared to $7.5 billion, or 32.4% of net sales, in 2003. All four segments had increased gross margin compared to 2004. Three of the four segments had a higher gross margin as a percentage of net sales, including: (i) Mobile Devices, primarily due to the increase in net sales and cost savings from ongoing cost-reduction activities and improvements in supply-chain management, (ii) Networks, primarily due to the increase in net sales and cost savings from improvements in supply-chain management, and (iii) Government and Enterprise Mobility Solutions, primarily due to the increase in net sales, cost savings from supply-chain efficiencies and overall cost structure improvements. These improvements in gross margin percentage were partially offset by a decrease in gross margin as a percentage of net sales in Connected Home Solutions, primarily due to higher sales of new, higher-tier products carrying lower initial margins.

Selling, General and Administrative Expenses

SG&A expenditures increased 13% to $3.7 billion, or 11.9% of net sales, in 2004, compared to $3.3 billion, or 14.2% of net sales, in 2003. Three of the Company s four segments had increased SG&A expenditures in 2004 compared to 2003, although SG&A expenditures as percentage of net sales decreased in all four segments. The increase in SG&A expenditures in 2004 compared to 2003 was due to: (i) increased advertising and promotional expenditures in Mobile Devices to support higher sales and promote brand awareness, (ii) increased selling and sales support expenditures in three of the four segments, driven by the increase in sales commissions resulting from the increase in net sales, and (iii) increased marketing expenditures in all four segments.

Research and Development Expenditures

R&D expenditures increased 15% to $3.4 billion, or 10.9% of net sales, in 2004, compared to $3.0 billion, or 12.9% of net sales, in 2003. All four of the Company s segments had increased R&D expenditures in 2004 compared to 2003, although R&D expenditures as a percentage of net sales decreased in three of the four segments. The increase in R&D expenditures was primarily due to increased expenditures by: (i) Mobile Devices, reflecting an increase in developmental engineering expenditures due to additional investment in new product development, and (ii) Government and Enterprise Mobility Solutions driven by increased investment in new technologies.

Other Charges (Income)

The Company recorded net charges of $96 million in Other charges (income) in 2004, compared to net other income of $34 million in 2003. The net charges of $96 million in 2004 primarily consisted of: (i) a $125 million charge for goodwill impairment, related to the sensor business that was divested in 2005, and (ii) $34 million of charges for IPR&D related to the acquisitions of MeshNetworks, Inc., CRISNET, Inc., Quantum Bridge and Force Computers. These items were partially offset by: (i) $44 million in income from the reversal of financing receivable reserves due to the partial collection of the previously-uncollected receivable from Telsim, and (ii) $15 million in net reorganization of businesses reversals for reserves no longer needed. The reorganization of businesses costs are discussed in further detail in the Reorganization of Businesses section below.

The net other income of $34 million in 2003 primarily consisted of: (i) $69 million in income from the reversal of accruals no longer needed due to a settlement with the Company s insurer on items related to previous environmental claims, (ii) $59 million in income due to the reassessment of remaining reserve requirements as a result of a litigation settlement agreement with The Chase Manhattan Bank regarding Iridium, and (iii) $41 million in income from the sale of Iridium-related assets that were previously written down. These items were partially offset by: (i) a $73 million impairment charge relating to goodwill, (ii) $32 million of IPR&D charges, and (iii) a $23 million net charge for reorganization of businesses. The reorganization of businesses costs are discussed in further detail in the Reorganization of Businesses section below.

Net Interest Expense

Net interest expense was $199 million in 2004, compared to $294 million in 2003. Net interest expense in 2004 included interest expense of $353 million, partially offset by interest income of $154 million. Net interest expense in 2003 included interest expense of $423 million, partially offset by interest income of $129 million. The decrease in net interest expense in 2004 compared to 2003 reflects: (i) a reduction in total debt during 2004, (ii) benefits derived from fixed-to-floating interest rate swaps, and (iii) an increase in interest income due to higher average cash, cash equivalents and Sigma Funds balances.

Gains on Sales of Investments and Businesses

Gains on sales of investments and businesses were $460 million in 2004, compared to $539 million in 2003. The 2004 net gains were primarily: (i) a $130 million gain on the sale of the Company s remaining shares in Broadcom Corporation, (ii) a $122 million gain on the sale of a portion of the Company s shares in Nextel, (iii) an $82 million gain on the sale of a portion of the Company s shares in Telus Corporation, and (iv) a $68 million gain on the sale of a portion of the Company s shares in Nextel Partners.

The 2003 net gains were primarily: (i) a $255 million gain on the sale of a portion of the Company s shares in Nextel, (ii) an $80 million gain on the sale of the Company s shares in Symbian Limited, (iii) a $65 million gain on the sale of the Company s shares in UAB Omnitel of Lithuania, and (iv) a $61 million gain on the sale of a portion of the Company s shares in Nextel Partners.

Other

Charges classified as Other, as presented in Other income (expense), were $141 million in 2004, compared to $142 million in 2003. The $141 million of charges in 2004 primarily were: (i) charges of $81 million for costs related to the redemption of debt, (ii) foreign currency losses of $44 million, and (iii) $36 million of investment impairment charges.

The $142 million of charges in 2003 primarily related to: (i) $96 million of investment impairment charges, and (ii) foreign currency losses of $73 million.

Effective Tax Rate

The effective tax rate was 33% in both 2004 and 2003, representing net tax expense of $1.1 billion and $448 million, in 2004 and 2003, respectively. The 2004 effective tax rate reflects a $241 million benefit from the reversal of previously-accrued income taxes as the result of settlements reached with taxing authorities and a reassessment of tax exposures based on the status of current audits. The 2004 effective tax rate also reflects non-deductible charges of $125 million for goodwill impairment related to the sensor business that was divested in 2005 and $31 million for IPR&D charges related to acquisitions.

The 2003 effective tax rate reflected a $61 million benefit from the reversal of previously-accrued income taxes as the result of settlements reached with taxing authorities and $32 million of IPR&D charges related to acquisitions in 2003.

Earnings from Continuing Operations

The Company had earnings from continuing operations before income taxes of $3.3 billion in 2004, compared to earnings from continuing operations before income taxes of $1.4 billion in 2003. After taxes, the Company had earnings from continuing operations of $2.2 billion, or $0.90 per diluted share from continuing operations, in 2004, compared to earnings from continuing operations of $928 million, or $0.39 per diluted share from continuing operations, in 2003.

The $1.9 billion increase in earnings from continuing operations before income taxes is primarily attributed to: (i) a $2.9 billion increase in gross margin, primarily due to the $8.2 billion increase in total net sales, as well as cost savings from improved supply-chain execution, overall cost structure improvements and ongoing cost reduction activities, and (ii) a $95 million decrease in net interest expense, driven primarily by the reduction in total debt in 2004. These improvements in earnings were partially offset by: (i) a $429 million increase in SG&A expenditures, primarily driven by increases in: (a) sales commissions resulting from the increase in net sales, (b) advertising and promotions expenditures in Mobile Devices, and (c) marketing expenditures, (ii) a $433 million increase in R&D expenditures, due primarily to an increase in developmental engineering expenditures in Mobile Devices due to additional investment in new product development, and increased investment in new technologies by Government and Enterprise Mobility Solutions, (iii) a $130 million increase in Other charges, primarily due to charges of $125 million for the impairment of goodwill related to the sensor business that was divested in 2005 and $34 million in IPR&D charges related to 2004 acquisitions, and (iv) a $79 million decrease in gains on sales of investments and businesses.

Reorganization of Businesses

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. Each separate reduction-in-force has qualified for severance benefits under the Severance Plan and, therefore, such benefits are accounted for in accordance with Statement No. 112, Accounting for Postemployment Benefits (SFAS 112). Under the provisions of SFAS 112, 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 primarily consist of future minimum lease payments on vacated facilities. At each reporting date, the Company evaluates its accruals for exit costs and employee separation costs to ensure the accruals are still appropriate. In certain circumstances, accruals are no longer required 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. The Company reverses accruals through the income statement line item where the original charges were recorded when it is determined they are no longer required.

The Company realized cost-saving benefits of approximately $34 million in 2005 from the plans that were initiated during 2005, representing $16 million of savings in Costs of sales, $7 million of savings in research and development (R&D) expenditures, and $11 million of savings in Selling, general and administrative (SG&A) expenditures. Beyond 2005, the Company expects the reorganization plans initiated during 2005 to provide annualized cost savings of approximately $172 million, representing $97 million of savings in Cost of sales, $27 million of savings in R&D expenditures, and $48 million of savings in SG&A expenditures.

2005 Charges

During the year ended December 31, 2005, the Company initiated various productivity improvement plans aimed principally at improving manufacturing and distribution efficiencies and reducing costs in its integrated supply-chain organization, as well as reducing other operating expenses. The Company recorded net reorganization of business charges of $106 million, including $40 million of charges in Costs of sales and $66 million of charges under Other charges in the Company s consolidated statement of operations. Included in the aggregate $106 million are charges of $102 million for employee separation costs, $15 million for fixed asset adjustments and $5 million for exit costs, partially offset by $16 million of reversals for accruals no longer needed. Total employees impacted by these actions are 2,625.

The following table displays the net reorganization of business charges by segment:

Segment	*Year Ended December 31, 2005*
Mobile Devices	$ 27
Government and Enterprise Mobility Solutions	64
Networks	3
Connected Home Solutions	4
	98
General Corporate	8
	$ 106

The following table displays a rollforward of the reorganization of business accruals established for exit costs and employee separation costs from January 1, 2005 to December 31, 2005:

	Accruals at January 1, 2005	*2005 Additional Charges*	*2005(1) Adjustments*	*2005 Amount Used*	*Accruals at December 31, 2005*
Exit costs lease terminations	$ 84	$ 5	$ (7)	$ (27)	$ 55
Employee separation costs	46	102	(16)	(79)	53
	$ 130	$ 107	$ (23)	$ (106)	$ 108

(1) Includes translation adjustments.

Exit Costs Lease Terminations

At January 1, 2005, the Company had an accrual of $84 million for exit costs attributable to lease terminations. The 2005 additional charges of $5 million were primarily related to a lease cancellation by the Government and Enterprise Mobility Solutions segment. The 2005 adjustments of $7 million represent reversals of $1 million for accruals no longer needed and $6 million of translation adjustments. The $27 million used in 2005 reflects cash payments to lessors. The remaining accrual of $55 million, which is included in Accrued liabilities in the Company s consolidated balance sheet at December 31, 2005, represents future cash payments for lease termination obligations.

Employee Separation Costs

At January 1, 2005, the Company had an accrual of $46 million for employee separation costs, representing the severance costs for approximately 500 employees, of which 50 were direct employees and 450 were indirect employees. The 2005 additional charges of $102 million represent costs for an additional 2,625 employees, of which 1,350 were direct employees and 1,275 were indirect employees. The adjustments of $16 million represent reversals of accruals no longer needed.

During 2005, approximately 1,500 employees, of which 300 were direct employees and 1,200 were indirect employees, were separated from the Company. The $79 million used in 2005 reflects cash payments to these separated employees. The remaining accrual of $53 million, which is included in Accrued Liabilities in the Company s consolidated balance sheet at December 31, 2005, is expected to be paid to approximately 1,600 employees to be separated in 2006.

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2004 Charges

During the year ended December 31, 2004, the Company recorded net reorganization of business reversals of $12 million, including $3 million of charges in Costs of sales and $15 million of reversals under Other charges in the Company s consolidated statement of operations. Included in the aggregate $12 million are charges of $59 million for employee separation costs and $5 million for fixed asset adjustment income, partially offset by $66 million of reversals for accruals no longer needed. Total employees impacted by these actions were approximately 900.

The following table displays the net reorganization of business charges by segment for employee separation and exit cost reserves:

Segment	*Year Ended December 31, 2004*
Mobile Devices	$ (27)
Government and Enterprise Mobility Solutions	9
Networks	
Connected Home Solutions	(4)
	(22)
General Corporate	15
	$ (7)

The following table displays a rollforward of the reorganization of business accruals established for exit costs and employee separation costs from January 1, 2004 to December 31, 2004:

	Accruals at January 1, 2004	*2004 Additional Charges*	*2004(1) Adjustments*	*2004 Amount Used*	*Accruals at December 31, 2004*
Exit costs lease terminations	$ 143	$	$ (21)	$ (38)	$ 84
Employee separation costs	116	59	(34)	(95)	46
	$ 259	$ 59	$ (55)	$ (133)	$ 130

(1) Includes translation adjustments.

Exit Costs Lease Terminations

At January 1, 2004, the Company had an accrual of $143 million for exit costs attributable to lease terminations. The 2004 adjustments of $21 million represent reversals of $32 million for accruals no longer needed, partially offset by an $11 million translation adjustment. The $38 million used in 2004 reflects cash payments to lessors. The remaining accrual of $84 million, which is included in Accrued liabilities in the Company s consolidated balance sheet at December 31, 2004, represents future cash payments for lease termination obligations.

Employee Separation Costs

At January 1, 2004, the Company had an accrual of $116 million for employee separation costs, representing the severance costs for approximately 2,100 employees, of which 1,000 were direct employees and 1,100 were indirect employees. The 2004 additional charges of $59 million represented the severance costs for approximately 900 employees, of which 100 were direct employees and 800 were indirect employees. The adjustments of $34 million represent reversals of accruals no longer needed.

During 2004, approximately 2,500 employees, of which 1,000 were direct employees and 1,500 were indirect employees, were separated from the Company. The $95 million used in 2004 reflects cash payments to these separated employees. The remaining accrual of $46 million, was included in Accrued liabilities in the Company s consolidated balance sheet at December 31, 2004.

2003 Charges

During the year ended December 31, 2003, the Company recorded net reorganization of business charges of $39 million, including $16 million of charges in Costs of sales and $23 million of charges under Other charges in the Company s consolidated statement of operations. Included in the aggregate $39 million are charges of $212 million, partially offset by $173 million of reversals for accruals no longer needed. The charges primarily consisted of: (i) $85 million in the Mobile Devices segment, primarily related to the exit of certain manufacturing activities in Flensburg, Germany and the closure of an engineering center in Boynton Beach, Florida, (ii) $50 million in the Government and Enterprise Mobility Solutions segment for segment-wide employee separation costs, and (iii) $39 million in General Corporate, primarily for the impairment of assets classified as held-for-sale and employee separation costs. The $212 million of charges were partially offset by reversals of previous accruals of $173 million, consisting of: (i) $125 million relating to unused accruals of previously-expected employee separation costs across all segments, (ii) $28 million, primarily for assets that the Company intended to use that were previously classified as held-for-sale, and (iii) $20 million for exit cost accruals no longer required across all segments.

The following table displays the net reorganization of business charges by segment:

Segment	*Year Ended December 31, 2003*
Mobile Devices	$ 51
Government and Enterprise Mobility Solutions	32
Networks	(40)
Connected Home Solutions	(7)
Other Products	4
	40
General Corporate	(1)
	$ 39

The following table displays a rollforward of the reorganization of business accruals established for exit costs and employee separation costs from January 1, 2003 to December 31, 2003:

	Accruals at January 1, 2003	*2003 Additional Charges*	*2003(1) Adjustments*	*2003 Amount Used*	*Accruals at December 31, 2003*
Exit costs lease terminations	$ 209	$ 11	$ (20)	$ (57)	$ 143
Employee separation costs	336	163	(125)	(258)	116
	$ 545	$ 174	$ (145)	$ (315)	$ 259

(1) Includes translation adjustments.

Exit Costs Lease Terminations

At January 1, 2003, the Company had an accrual of $209 million for exit costs attributable to lease terminations. The 2003 additional charges of $11 million were primarily related to the exit of certain manufacturing activities in Germany by the Mobile Devices segment. The 2003 adjustments of $20 million represent reversals for accruals no longer needed. The $57 million used in 2003 reflects cash payments to lessors. The remaining accrual of $143 million, which is included in Accrued liabilities in the Company s consolidated balance sheet at December 31, 2003, represents future cash payments for lease termination obligations.

Employee Separation Costs

At January 1, 2003, the Company had an accrual of $336 million for employee separation costs, representing the severance costs for approximately 5,700 employees, of which 2,000 were direct employees and 3,700 were indirect employees. The 2003 additional charges of $163 million represented the severance costs for approximately 3,200 employees, of which 1,200 were direct employees and 2,000 were indirect employees. The adjustments of $125 million represent the severance costs for approximately 1,600 employees previously identified for separation who resigned from the Company and did not receive severance or were redeployed due to circumstances not foreseen when the original plans were approved.

During 2003, approximately 5,200 employees, of which 2,000 were direct employees and 3,200 were indirect employees, were separated from the Company. The $258 million used in 2003 reflects $254 million of cash payments to these separated employees and $4 million of non-cash utilization. The remaining accrual of $116 million was included in Accrued liabilities in the Company s consolidated balance sheet at December 31, 2003.

Liquidity and Capital Resources

As highlighted in the consolidated statements of cash flows, the Company s liquidity and available capital resources are impacted by four key components: (i) current cash and cash equivalents, (ii) operating activities, (iii) investing activities, and (iv) financing activities.

Cash and Cash Equivalents

During 2005, the Company s cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) increased by $928 million to $3.8 billion at December 31, 2005, compared to $2.8 billion at December 31, 2004. At December 31, 2005, $169 million of this amount was held in the U.S. and $3.6 billion was held by the Company or its subsidiaries in other countries.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was signed into law. The Act provided for a special one-time tax incentive for U.S. multinationals to repatriate accumulated earnings from their foreign subsidiaries by providing an 85% dividends received deduction for certain qualifying dividends. During 2005, the Company repatriated approximately $4.6 billion of accumulated foreign earnings and recorded an associated net income tax benefit of $265 million. The net income tax benefit included a $303 million tax benefit relating to the repatriation under the Act, offset by a $38 million tax charge for the reassessment of the Company s cash position and related tax liability associated with the remaining foreign undistributed earnings. Repatriation of additional funds held outside the U.S. could be subject to delay and could have potential adverse tax consequences.

Reclassification of Sigma Funds: The Company and its wholly-owned subsidiaries invest most of their excess cash in two funds (the Sigma Funds), which are funds similar to a money market fund. Until the first quarter of 2005, the Sigma Funds marketable securities balances were classified together with other money-market type cash investments as cash and cash equivalents. In the first quarter of 2005, to provide enhanced disclosure, the Company reclassified the Sigma Funds investments out of cash and cash equivalents and into a separate statement line entitled Sigma Funds as described below in Investing Activities. The Sigma Funds balance was $10.9 billion at December 31, 2005, compared to $7.7 billion at December 31, 2004. At December 31, 2005, $8.7 billion of the Sigma Funds investments were held in the U.S. and $2.2 billion were held by the Company or its subsidiaries in other countries.

Operating Activities

The Company has generated positive cash flow from continuing operations in each of the last 5 years. The cash provided by operating activities from continuing operations in 2005 was $4.6 billion, compared to $3.1 billion in 2004 and $2.0 billion in 2003. The primary contributors to cash flow from operations in 2005 were: (i) earnings from continuing operations (adjusted for non-cash items) of $4.6 billion, of which $500 million was received for the settlement of financial and legal claims against Telsim, (ii) a $2.3 billion increase in accounts payable and accrued liabilities and (iii) a $23 million decrease in inventories. These positive contributors to operating cash flow were partially offset by: (i) a $1.3 billion increase in accounts receivable, (ii) a $703 million increase in other current assets, and (iii) $371 million increase in other assets and other liabilities.

Accounts Receivable: The Company s net accounts receivable were $5.8 billion at December 31, 2005, compared to $4.5 billion at December 31, 2004. The Company s days sales outstanding (DSO), including net long-term receivables, were 50 days at December 31, 2005, compared to 46 days at December 31, 2004. The Company s businesses sell their products in a variety of markets throughout the world. Payment terms can vary by market type and geographic location. Accordingly, the Company s levels of accounts receivable and DSO can be impacted by the timing and level of sales that are made by its various businesses and by the geographic locations in which those sales are made.

Inventory: The Company s net inventory was $2.5 billion at both December 31, 2005 and December 31, 2004. The Company s inventory turns increased to 11.3 at December 31, 2005, compared to 9.3 at December 31, 2004. Inventory turns were calculated using an annualized rolling three months of cost of sales method. The increase in overall inventory turns was driven by an increase in turns by Mobile Devices, primarily due to the significant growth in net sales and effective inventory management programs, and is evidence of benefits from the continued focus on inventory and supply-chain management processes throughout the Company. Inventory management continues to be an area of focus as the Company balances the need to maintain strategic inventory levels to ensure competitive delivery performance to its customers against the risk of inventory obsolescence due to rapidly changing technology and customer spending requirements.

Reorganization of Businesses: The Company has implemented reorganization of businesses plans. Cash payments for exit costs and employee separations in connection with these plans were $106 million in 2005, as compared to $133 million in 2004. Of the $108 million reorganization of businesses accrual at December 31, 2005, $53 million relates to employee separation costs and is expected to be paid in 2006. The remaining $55 million in accruals relate to lease termination obligations that are expected to be paid over a number of years.

Benefit Plan Contributions: The Company contributed $370 million to its pension plans during 2005, compared to $652 million in 2004. The Company expects to make cash contributions of approximately $275 million to its U.S. pension plans and $44 million to its non-U.S. pension plans during 2006. The Company contributed $43 million to its retiree healthcare plan in 2005 and expects to contribute $45 million to this plan in 2006. Retirement-related benefits are further discussed below in the Significant Accounting Policies Retirement-Related Benefits section.

Investing Activities

The most significant components of the Company s investing activities include: (i) proceeds from sales of investments and businesses, (ii) purchases of Sigma Funds investments, (iii) strategic acquisitions of, or investments in, other companies, and (iv) capital expenditures.

Net cash used for investing activities from continuing operations was $2.4 billion in 2005, as compared to net cash used of $1.7 billion in 2004 and $6.1 billion in 2003. The $699 million increase in cash used for investing activities in 2005 compared to 2004 was due to: (i) a $1.6 billion increase in cash used for the purchase of Sigma Funds investments, (ii) an $89 million increase in capital expenditures, and (iii) a $35 million decrease in proceeds received from the disposition of property, plant and equipment, partially offset by: (i) an $875 million increase in proceeds from the sales of investments and businesses, (ii) a $164 million decrease in cash used for acquisitions and investments, and (iii) a $21 million increase in proceeds from the sale of short-term investments. The $6.1 billion in cash used for investing activities from continuing operations in 2003 was primarily due to the initial purchase of Sigma Funds investments.

Sales of Investments and Businesses: The Company received $1.6 billion in proceeds from the sales of investments and businesses in 2005, compared to proceeds of $682 million in 2004 and $665 million in 2003. The $1.6 billion in proceeds in 2005 were primarily comprised of: (i) $679 million from the sale of a portion of the Company s shares in Nextel Communications, Inc. (Nextel) during the first half of 2005, (ii) $391 million from the sale of a portion of the Company s shares in Sprint Nextel Corporation during the fourth quarter of 2005, (iii) $232 million from the sale of a portion of the Company s shares in Semiconductor Manufacturing International Corporation, and (iv) $96 million received in connection with the merger of Sprint Corporation and Nextel. The $682 million in proceeds generated in 2004 were primarily comprised of: (i) $216 million from the sale of the Company s remaining shares in Broadcom Corporation, (ii) $141 million from the sale of a portion of the Company s shares in Nextel, (iii) $117 million from the sale of a portion of the Company s shares in Telus Corporation, and (iv) $77 million from the sale of a portion of the Company s shares in Nextel Partners, Inc. (Nextel Partners).

Sigma Funds: The Company and its wholly-owned subsidiaries invest most of their excess cash in two funds (the Sigma Funds), which are funds similar to a money market fund. The Company used $3.2 billion in net cash for the purchase of Sigma Funds investments in 2005, compared to $1.5 billion in net cash for the purchase of Sigma Funds investments in 2004. The Sigma Funds balance was $10.9 billion at December 31, 2005, compared to $7.7 billion at December 31, 2004.

The Sigma Funds portfolios are managed by five major outside investment management firms and include investments in high quality (rated at least A/ A-1 by S&P or A2/ P-1 by Moody s at purchase date), U.S. dollardenominated debt obligations including certificates of deposit, bankers acceptances and fixed time deposits, government obligations, asset-backed securities and commercial paper or short-term corporate obligations. The Sigma Funds investment policies require that floating rate instruments acquired must have a maturity at purchase date that does not exceed thirty-six months with an interest rate reset at least annually. The average maturity of the investments held by the funds must be 120 days or less with the actual average maturity of the investments being 74 days and 64 days at December 31, 2005 and December 31, 2004, respectively. Certain investments with maturities beyond one year have been classified as short-term based on their highly-liquid nature and because such marketable securities represent the investment of cash that is available for current operations.

Strategic Acquisitions and Investments: The Company used cash for acquisitions and new investment activities of $312 million in 2005, compared to cash used of $476 million in 2004 and $279 million in 2003. The largest components of the $312 million in 2005 expenditures were: (i) the acquisition of the remaining interest of MIRS Communications Israel LTD. by the Government and Enterprise Mobility Solutions segment, (ii) the acquisition of Wireless Valley Communications, Inc. by the Government and Enterprise Mobility Solutions segment, (iii) the acquisition of certain IP assets and R&D workforce from Sendo by the Mobile Devices segment, (iv) the acquisition of Ucentric Systems, Inc. by the Connected Home Solutions segment, and (v) the funding of joint ventures formed by Motorola and Comcast that will focus on developing the next-generation of conditional access technologies. The largest components of the $476 million in 2004 expenditures were: (i) $169 million for the acquisition of MeshNetworks, Inc., a leading developer of mobile mesh networking and position-location technologies by the Government and Enterprise Mobility Solutions segment, (ii) $121 million, net of cash assumed, the acquisition of Force Computers by the Networks segment, (iii) the acquisition of Quantum Bridge Communications, Inc. by the Networks segment, and (iv) the acquisition of the remaining interest of Appeal Telecom of Korea by the Mobile Devices segment.

Capital Expenditures: Capital expenditures were $583 million in 2005, compared to $494 million in 2004 and $344 million in 2003. The increase in capital expenditures is primarily due to: (i) increased corporate spending on facility and asset upgrades, and (ii) increased spending in the Mobile Devices segment. The Company s emphasis in making capital expenditures is to focus on strategic investments driven by customer demand and new design capability.

Short-Term Investments: At December 31, 2005, the Company had $144 million in short-term investments (which are highly-liquid fixed-income investments with an original maturity greater than three months but less than one year), compared to $152 million of short-term investments at December 31, 2004.

Available-For-Sale Securities: In addition to available cash and cash equivalents, Sigma Funds and short-term investments, the Company views its available-for-sale securities as an additional source of liquidity. The majority of these securities represent investments in technology companies and, accordingly, the fair market values of these securities are subject to substantial price volatility. In addition, the realizable value of these securities is subject to market and other conditions. At December 31, 2005, the Company s available-for-sale securities portfolio had an approximate fair market value of $1.2 billion, which represented a cost basis of $1.1 billion and a net unrealized gain of $157 million. At December 31, 2004, the Company s available-for-sale securities portfolio had an approximate fair market value of $2.9 billion, which represented a cost basis of $616 million and a net unrealized gain of $2.3 billion.

Nextel Investment: During the first half of 2005, the Company sold 22.5 million shares of common stock of Nextel Communications, Inc. (Nextel). The Company received approximately $679 million in cash and realized a pre-tax gain of $609 million from these sales. Subsequent to these sales, the Company owned 25 million shares of common stock and 29.7 million shares of non-voting common stock of Nextel.

On August 12, 2005, Sprint Corporation completed its merger (the Sprint Nextel Merger) with Nextel. In connection with the Sprint Nextel Merger, Motorola received $46 million in cash, 31.7 million voting shares and 37.6 million non-voting shares of Sprint Nextel Corporation (Sprint Nextel), in exchange for its remaining

54.7 million shares of Nextel. As a result of this transaction, the Company realized a gain of $1.3 billion, comprised of a $1.7 billion gain recognized on the receipt of cash and the 69.3 million shares of Sprint Nextel in exchange for its shares of Nextel, net of a $418 million loss recognized on its hedge of 25 million shares of common stock of Nextel, as described below.

On December 14, 2004, in connection with the announcement of the definitive agreement relating to the Sprint Nextel Merger, Motorola, a Motorola subsidiary and Nextel entered into an agreement pursuant to which Motorola and its subsidiary agreed not dispose of their 29.7 million non-voting shares of Nextel (now 37.6 million shares of non-voting common stock of Sprint Nextel issued in exchange for Nextel non-voting common stock pursuant to the Sprint Nextel Merger) for a period of no longer than two years. In exchange for this agreement, Nextel paid Motorola a fee of $50 million in the third quarter 2005.

In March 2003, the Company entered into agreements with multiple investment banks to hedge up to 25 million of its voting shares of Nextel common stock over periods of three, four and five years, respectively. Although the precise number of shares of Nextel common stock the Company was required to deliver to satisfy the contracts was dependent upon the price of Nextel common stock on the various settlement dates, the maximum aggregate number of shares was 25 million and the minimum number of shares was 18.5 million. Prior to August 12, 2005, changes in the fair value of these variable share forward purchase agreements (the Variable Forwards) were recorded in Non-owner changes to equity included in Stockholders equity. As a result of the Sprint Nextel Merger, the Company realized the cumulative $418 million loss relating to the Variable Forwards that had previously been recorded in Stockholder s equity. In addition, the Variable Forwards were adjusted to reflect the underlying economics of the Sprint Nextel Merger. The Company did not designate the adjusted Variable Forwards as a hedge of the Sprint Nextel shares received as a result of the merger. Accordingly, the Company recorded $51 million of gains reflecting the change in value of the Variable Forwards from August 12, 2005 through the settlement of the Variable Forwards with the counterparties during the fourth quarter of 2005.

During the fourth quarter of 2005, the Company elected to settle the Variable Forwards by delivering 30.3 million shares of Sprint Nextel common stock, with a value of $725 million, to the counterparties and selling the remaining 1.4 million Sprint Nextel common shares in the open market. The Company received aggregate cash proceeds of $391 million and realized a loss of $70 million in connection with the settlement and sale.

Total gains recognized in 2005 related to its investment in Nextel and Sprint Nextel as described above were approximately $1.8 billion included in Gains on sales of investments and businesses in Other income (expense) in the Company s consolidated statement of operations plus $51 million of gains related to the Variable Forwards included in Other in Other income (expense) in the Company s consolidated statement of operations.

Financing Activities

The most significant components of the Company s financing activities are: (i) net proceeds from (or repayment of) commercial paper and short-term borrowings, (ii) net proceeds from (or repayment of) long-term debt securities, (iii) the payment of dividends, (iv) proceeds from the issuances of stock due to the exercise of employee stock options and purchases under the employee stock purchase plan, and (v) the purchase of the Company s common stock under its share repurchase program.

Net cash used for financing activities was $1.2 billion in 2005, compared to $237 million of cash used in 2004 and $757 million of cash used in 2003. Cash used for financing activities in 2005 was primarily: (i) $1.1 billion of cash used to repay debt, (ii) $874 million of cash used for the purchase of the Company s common stock under the share repurchase program, and (iii) $394 million of cash used to pay dividends, partially offset by proceeds of $1.2 billion received from the issuance of common stock in connection with the Company s employee stock option plans and employee stock purchase plan.

Cash used for financing activities in 2004 was primarily attributable to: (i) $2.3 billion to repay debt (including commercial paper), (ii) $500 million to redeem all outstanding Trust Originated Preferred Securities^{sm} (the TOPrS), and (iii) $378 million to pay dividends, partially offset by: (i) $1.7 billion in proceeds received from the issuance of common stock in connection with the Company s employee stock option plans and employee stock purchase plan, and (ii) $1.3 billion in distributions from discontinued operations.

Short-term Debt: At December 31, 2005, the Company s outstanding notes payable and current portion of long-term debt was $448 million, compared to $717 million at December 31, 2004. In the fourth quarter of 2004, $398 million of 6.5% Debentures due 2025 (the 2025 Debentures) were reclassified to current maturities of long-term debt, as the holders of the debentures had the right to put their debentures back to the Company on September 1, 2005.

$1 million of the 2025 Debentures were submitted for redemption on September 1, with the remaining put options expiring unexercised. The remaining $397 million of 2025 Debentures were reclassified back to long-term debt in the third quarter of 2005. In addition, the remaining $118 million of 7.6% Notes due January 1, 2007 (the 2007 Notes) were reclassified to current maturities of long-term debt.

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Net cash proceeds from the sale of commercial paper and short-term borrowings were $11 million in 2005, compared to net cash used of $19 million in 2004. The Company had $300 million of outstanding commercial paper on both December 31, 2005 and December 31, 2004.

Long-term Debt: At December 31, 2005, the Company had outstanding long-term debt of $3.8 billion, compared to $4.6 billion at December 31, 2004. The change can be primarily attributed to: (i) the repurchase of $1.0 billion principal amount of long-term debt in 2005, (ii) the reclassification of the $397 million of outstanding 2025 Debentures back to long-term debt as described above, and (iii) the reclassification of the $118 million of outstanding 2007 Notes from long-term debt to current maturities of long-term debt as described above. The Company used $1.1 billion to repurchase an aggregate principal amount of $1.0 billion of long-term debt in 2005, compared to net cash used of $2.8 billion in 2004 to retire an aggregate principal amount of $2.2 billion of debt and $500 million of TOPrS.sm

Although the Company believes that it can continue to access the capital markets in 2006 on acceptable terms and conditions, its flexibility with regard to short-term and long-term financing activity could be limited by: (i) the Company s current levels of outstanding long-term debt, and (ii) the Company s credit ratings. In addition, many of the factors that affect the Company s ability to access the capital markets, such as the liquidity of the overall capital markets and the current state of the economy, in particular the telecommunications industry, are outside of the Company s control. There can be no assurances that the Company will continue to have access to the capital markets on favorable terms.

Redemptions and Repurchases of Outstanding Debt Securities: In August 2005, the Company commenced cash tender offers for up to $1.0 billion of certain of its outstanding long-term debt. The tender offers expired on September 28, 2005 and the Company repurchased an aggregate principal amount of $1.0 billion of its outstanding long-term debt for an aggregate purchase price of $1.1 billion. Included in the $1.0 billion of long-term debt repurchased were repurchases of a principal amount of: (i) $86 million of the $200 million of 6.50% Notes due 2008 outstanding, (ii) $241 million of the $325 million of 5.80% Notes due 2008 outstanding, and (iii) $673 million of the $1.2 billion of 7.625% Notes due 2010 outstanding. In addition, the Company terminated a notional amount of $1.0 billion fixed-to-floating interest rate swaps associated with the debt repurchased, resulting in an expense of approximately $22 million. The aggregate charge for the repurchase of the debt and the termination of the associated interest rate swaps, as presented in Other income (expense), was $137 million.

On September 1, 2005, the Company retired $1 million of the $398 million of the 2025 Debentures in connection with the holders of the debentures right to put their debentures back to the Company. The residual put options expired unexercised and the remaining $397 million of 2025 Debentures were reclassified back to long-term debt.

In 2004, the Company: (i) repaid, at maturity, all $500 million aggregate principal amount outstanding of 6.75% Debentures due 2004, (ii) repurchased a principal amount of $110 million of the $409 million aggregate principal amount outstanding of its 6.50% Debentures due 2028, (iii) repurchased a principal amount of $182 million of the $300 million aggregate principal amount outstanding of its 7.6% Notes due 2007, (iv) redeemed all $1.4 billion aggregate principal amount outstanding of its 6.75% Notes due 2006, and (v) redeemed all outstanding Liquid Yield Option Notes due September 7, 2009 and all outstanding Liquid Yield Option Notes due September 27, 2013 for an aggregate redemption price of approximately $4 million. In addition, Motorola Capital Trust I, a Delaware statutory business trust and wholly-owned subsidiary of the Company, redeemed all outstanding Trust Originated Preferred Securitiessm (TOPrS) for an aggregate redemption price of $500 million, plus accrued interest. Also, pursuant to the terms of the 7.00% Equity Security Units (the MEUs), the $1.2 billion of 6.50% Senior Notes due 2007 (the 2007 MEU Notes) that comprised a portion of the MEUs were remarketed to a new set of holders. In connection with the remarketing, the interest rate on the 2007 MEU Notes was reset to 4.608%. Additionally, in November 2004, pursuant to the terms of the MEUs, the Company sold 69.4 million shares of common stock to the holders of the MEUs. The purchase price per share was $17.30 resulting in aggregate proceeds of $1.2 billion.

Given the Company s cash position, it may from time to time seek to opportunistically retire certain of its outstanding debt through open market cash purchases, privately-negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company s liquidity requirements, contractual restrictions and other factors. Subject to these factors, the Company has announced a goal to further reduce its total debt by an additional $1.0 billion during 2006.

Share Repurchase Program: On May 18, 2005, the Company announced that its Board of Directors authorized the Company to purchase up to $4 billion of its outstanding common stock over a 36-month period ending on May 31, 2008, subject to market conditions. During 2005, the Company has paid $874 million to repurchase 41.7 million shares at an average price of $20.94 per share; all shares repurchased have been retired.

Credit Ratings: Three independent credit rating agencies, Fitch Investors Service (Fitch), Moody s Investor Services (Moody s), and Standard & Poor s (S&P), assign ratings to the Company s short-term and long-term debt. The following chart reflects the current ratings assigned to the Company s senior unsecured non-credit enhanced long-term debt and the Company s commercial paper by each of these agencies.

	Long-Term Debt			
Name of Rating Agency	*Rating*	*Outlook*	*Commercial Paper*	*Date of Last Action*
Moody s	Baa2	stable	P-2	June 2, 2005 (upgrade)
S&P	BBB+	stable	A-2	May 31, 2005 (upgrade)
Fitch	BBB+	positive	F-2	January 20, 2005 (upgrade)

In June 2005, Moody s upgraded the Company s long-term debt rating to Baa2 with a stable outlook from Baa3 with a positive outlook. Moody s also upgraded the Company s short-term debt rating to P-2 from P-3 . In May 2005, S&P upgraded the Company s long-term debt rating to BBB+ with a stable outlook from BBB with a positive outl There was no change in the short-term rating of A-2 . In January 2005, Fitch upgraded the Company s long-term debt rating to BBB+ with a positive outlook from BBB with a positive outlook. There was no change in the short-term rating of F-2 .

The Company s debt ratings are considered investment grade. If the Company s senior long-term debt were rated lower than BBB- by S&P or Fitch or Baa3 by Moody s (which would be a decline of two levels from current Moody s ratings), the Company s long-term debt would no longer be considered investment grade. If this were to occur, the terms on which the Company could borrow money would become more onerous. The Company would also have to pay higher fees related to its domestic revolving credit facility. The Company has never borrowed under its domestic revolving credit facilities.

The Company continues to have access to the commercial paper and long-term debt markets. However, the Company generally has had to pay a higher interest rate to borrow money than it would have if its credit ratings were higher. The Company has maintained commercial paper balances of between $300 million and $500 million for the past four years. This reflects the fact that the market for commercial paper rated A-2/ P-2/ F-2 is smaller than that for commercial paper rated A-1/ P-1/ F-1 and commercial paper or other short-term borrowings may be of limited availability to participants in the A-2/ P-2/ F-2 market from time-to-time or for extended periods.

As further described under Customer Financing Arrangements below, for many years the Company has utilized a number of receivables programs to sell a broadly-diversified group of short-term receivables to third parties. Certain of the short-term receivables are sold to a multi-seller commercial paper conduit. This program provides for up to $300 million of short-term receivables to be outstanding with the conduit at any time. The obligations of the conduit to continue to purchase receivables under this short-term receivables program could be terminated if the Company s long-term debt was rated lower than BB+ by S&P or Ba1 by Moody s (which would be a decline of three levels from the current Moody s rating). If this short-term receivables program were terminated, the Company would no longer be able to sell its short-term receivables to the conduit in this manner, but it would not have to repurchase previously-sold receivables.

Credit Facilities

At December 31, 2005, the Company s total domestic and non-U.S. credit facilities totaled $2.9 billion, of which $95 million was considered utilized. These facilities are principally comprised of: (i) a $1.0 billion three-year revolving domestic credit facility maturing in May 2007 (the 3-Year Credit Facility) which is not utilized, and (ii) $1.9 billion of non-U.S. credit facilities (of which $95 million was considered utilized at December 31, 2005). Unused availability under the existing credit facilities, together with available cash, cash equivalents, Sigma Funds balances and other sources of liquidity, are generally available to support outstanding commercial paper, which was $300 million at December 31, 2005.

In order to borrow funds under the 3-Year Credit Facility, the Company must be in compliance with various conditions, covenants and representations contained in the agreements. Important terms of the 3-Year Credit

Facility include covenants relating to net interest coverage and total debt-to-book capitalization ratios. The Company was in compliance with the terms of the 3-Year Credit Facility at December 31, 2005. The Company has never borrowed under its domestic revolving credit facilities. Utilization of the non-U.S. credit facilities may also be dependent on the Company s ability to meet certain conditions at the time a borrowing is requested.

Contractual Obligations, Guarantees, and Other Purchase Commitments

Contractual Obligations

Summarized in the table below are the Company s obligations and commitments to make future payments under debt obligations (assuming earliest possible exercise of put rights by holders), lease payment obligations, and purchase obligations as of December 31, 2005.

	Payments Due by Period(1)						
(in millions)	*Total*	*2006*	*2007*	*2008*	*2009*	*2010*	*Thereafter*
Long-Term Debt Obligations	$ 4,033	$ 119	$ 1,222	$ 200	$ 2	$ 529	$ 1,961
Lease Obligations	1,150	438	190	134	109	84	195
Purchase Obligations	992	418	28	3	2	2	539
Total Contractual Obligations	**$ 6,175**	**$ 975**	**$ 1,440**	**$ 337**	**$ 113**	**$ 615**	**$ 2,695**

(1) Amounts included represent firm, non-cancelable commitments.

Debt Obligations: At December 31, 2005, the Company s long-term debt obligations, including current maturities and unamortized discount and issue costs, totaled $4.0 billion, as compared to $5.0 billion at December 31, 2004. A table of all outstanding long-term debt securities can be found in Note 4, Debt and Credit Facilities, to the Company s consolidated financial statements. As previously discussed, the decrease in the long-term debt obligations as compared to December 31, 2004, was due to the redemptions and repurchases of $1.0 billion principal amount of outstanding securities during 2005. Also, as previously discussed, the remaining $118 million of 7.6% Notes due January 1, 2007 were reclassified to current maturities of long-term debt.

Lease Obligations: The Company owns most of its major facilities, but does lease certain office, factory and warehouse space, land, and information technology and other equipment under principally non-cancelable operating leases. At December 31, 2005, future minimum lease obligations, net of minimum sublease rentals, totaled $1.2 billion. Rental expense, net of sublease income, was $254 million in 2005, $217 million in 2004 and $223 million in 2003.

Purchase Obligations: The Company has entered into agreements for the purchase of inventory, license of software, promotional agreements, and research and development agreements which are firm commitments and are not cancelable. The longest of these agreements extends through 2015. Total payments expected to be made under these agreements total $992 million.

Commitments Under Other Long-Term Agreements: The Company has entered into certain long-term agreements to purchase software, components, supplies and materials from suppliers. Most of the agreements extend for periods of one to three years (three to five years for software). However, generally these agreements do not obligate the Company to make any purchases, and many permit the Company to terminate the agreement with advance notice (usually ranging from 60 to 180 days). If the Company were to terminate these agreements, it generally would be liable for certain termination charges, typically based on work performed and supplier on-hand inventory and raw materials attributable to canceled orders. The Company s liability would only arise in the event it terminates the agreements for reasons other than cause.

In 2003, the Company entered into outsourcing contracts for certain corporate functions, such as benefit administration and information technology related services. These contracts generally extend for 10 years and are expected to expire in 2013. The total payments under these contracts are approximately $3 billion over 10 years; however, these contracts can be terminated. Termination would result in a penalty substantially less than the annual contract payments. The Company would also be required to find another source for these services, including the possibility of performing them in-house.

As is customary in bidding for and completing network infrastructure projects and pursuant to a practice the Company has followed for many years, the Company has a number of performance/bid bonds and standby letters of credit outstanding, primarily relating to projects of Government and Enterprise Mobility Solutions segment and the Networks segment. These instruments normally have maturities of up to three years and are standard in the industry as a way to give customers a convenient mechanism to seek resolution if a contractor does not satisfy performance requirements under a contract. A customer can draw on the instrument only if the Company does not fulfill all terms of a project contract. If such an occasion occurred, the Company would be obligated to reimburse the financial institution that issued the bond or letter of credit for the amounts paid. The Company is not generally required to post any cash in connection with the issuance of these bonds or letters of credit. In its long history, it has been extraordinarily uncommon for the Company to have a performance/bid bond or standby letter of credit drawn upon. At December 31, 2005, outstanding performance/bid bonds and standby letters of credit totaled approximately $1.1 billion, compared to $1.0 billion at the end of 2004.

Off-Balance Sheet Arrangements: Under the definition contained in Item 303(a)(4) (ii) of Regulation S-K, the Company does not have any off-balance sheet arrangements.

Adequate Internal and External Funding Resources: The Company believes that it has adequate internal and external resources available to fund expected working capital and capital expenditure requirements for the next twelve months as supported by the level of cash, cash equivalents and Sigma Funds in the U.S., the ability to repatriate cash, cash equivalents and Sigma Funds from foreign jurisdictions, the ability to borrow under existing or future credit facilities, the ability to issue commercial paper, access to the short-term and long-term debt markets, and proceeds from sales of available-for-sale securities and other investments.

Customer Financing Commitments and Guarantees

Outstanding Commitments: Certain purchasers of the Company s infrastructure equipment continue to request that suppliers provide financing in connection with equipment purchases. Financing may include all or a portion of the purchase price of the equipment as well as working capital. Periodically, the Company makes commitments to provide financing to purchasers in connection with the sale of equipment. However, the Company s obligation to provide financing is often conditioned on the issuance of a letter of credit in favor of the Company by a reputable bank to support the purchaser s credit or a pre-existing commitment from a reputable bank to purchase the receivable from the Company. The Company had outstanding commitments to extend credit to third-parties totaling $689 million at December 31, 2005, compared to $294 million at December 31, 2004. Of these amounts, $594 million was supported by letters of credit or by bank commitments to purchase receivables at December 31, 2005, compared to $162 million at December 31, 2004.

Guarantees of Third-Party Debt: In addition to providing direct financing to certain equipment customers, the Company also assists customers in obtaining financing directly from banks and other sources to fund equipment purchases. The Company had committed to provide financial guarantees relating to customer financing totaling $115 million and $78 million at December 31, 2005 and December 31, 2004, respectively (including $66 million and $70 million, respectively, relating to the sale of short-term receivables). Customer financing guarantees outstanding were $71 million and $29 million at December 31, 2005 and December 31, 2004, respectively (including $42 million and $25 million, respectively, relating to the sale of short-term receivables).

Customer Financing Arrangements

Outstanding Finance Receivables: The Company had net finance receivables of $260 million at December 31, 2005, compared to $170 million at December 31, 2004 (net of allowances for losses of $12 million at December 31, 2005 and $2.0 billion at December 31, 2004). These finance receivables are generally interest bearing, with rates ranging from 3% to 10%. Interest income recognized on finance receivables for the years ended December 31, 2005, 2004 and 2003 was $7 million, $9 million and $18 million, respectively.

Telsim Loan: On October 28, 2005, the Company announced that it settled the Company s and its subsidiaries financial and legal claims against Telsim Mobil Telekomunikasyon Hizmetleri A.S. (Telsim). The Government of Turkey and the Turkish Savings and Deposit Insurance Fund (TMSF) are third-party beneficiaries of the settlement agreement. In settlement of its claims, the Company received $500 million in cash and the right to receive 20% of any proceeds in excess of $2.5 billion from any sale of Telsim. On December 13, 2005, Vodafone agreed to purchase

Telsim for $4.55 billion, pursuant to a sales process organized by the TMSF. This purchase has not yet been completed. Accordingly, Motorola expects to receive an additional cash payment of $410 million upon the completion of the sale. Although there can be no assurances as to when or if the sale will close, the Company currently expects to receive the $410 million in the second quarter of 2006. The gross receivable outstanding from Telsim was zero at December 31, 2005. The Company is permitted to, and will continue to, enforce its U.S. court judgment against the Uzan family, except in Turkey and three other countries. As a result of difficulties in collecting the amounts due from Telsim, the Company had previously recorded charges reducing the net receivable from Telsim to zero. The net receivable from Telsim has been zero since 2002.

Sales of Receivables and Loans: From time to time, the Company sells short-term receivables, long-term loans and lease receivables under sales-type leases (collectively, finance receivables) to third parties in transactions that qualify as true-sales. Certain of these finance receivables are sold to third parties on a one-time, non-recourse basis, while others are sold to third parties under committed facilities that involve contractual commitments from these parties to purchase qualifying receivables up to an outstanding monetary limit. Committed facilities may be revolving in nature. Certain sales may be made through separate legal entities that are also consolidated by the Company. The Company may or may not retain the obligation to service the sold finance receivables.

In the aggregate, at December 31, 2005, these committed facilities provided for up to $1.1 billion to be outstanding with the third parties at any time, as compared to up to $724 million provided at December 31, 2004 and up to $598 million provided at December 31, 2003. As of December 31, 2005, $585 million of these committed facilities were utilized, compared to $305 million utilized at December 31, 2004 and $295 million utilized at December 31, 2003. Certain events could cause one of these facilities to terminate. In addition, before receivables can be sold under certain of the committed facilities they may need to meet contractual requirements, such as credit quality or insurability.

Total finance receivables sold by the Company were $4.5 billion in 2005 (including $4.2 billion of short-term receivables), compared to $3.8 billion sold in 2004 (including $3.8 billion of short-term receivables) and $2.8 billion sold in 2003 (including $2.7 billion of short-term receivables). As of December 31, 2005, there were $1.0 billion of receivables outstanding under these programs for which the Company retained servicing obligations (including $838 million of short-term receivables), compared to $720 million outstanding at December 31, 2004 (including $589 of short-term receivables) and $557 million outstanding at December 31, 2003 (including $378 of short-term receivables).

Under certain of the receivables programs, the value of the receivables sold is covered by credit insurance obtained from independent insurance companies, less deductibles or self-insurance requirements under the policies (with the Company retaining credit exposure for the remaining portion). The Company s total credit exposure to outstanding short-term receivables that have been sold was $66 million at December 31, 2005 as compared to $25 million at December 31, 2004. Reserves of $4 million were recorded for potential losses on sold receivables at both December 31, 2005 and December 31, 2004.

Other Contingencies

Potential Contractual Damage Claims in Excess of Underlying Contract Value: In certain circumstances, our businesses may enter into contracts with customers pursuant to which the damages that could be claimed by the other party for failed performance might exceed the revenue the Company receives from the contract. Contracts with these sorts of uncapped damage provisions are fairly rare, but individual contracts could still represent meaningful risk. Although it has not previously happened to the Company, there is a possibility that a damage claim by a counterparty to one of these contracts could result in expenses to the Company that are far in excess of the revenue received from the counterparty in connection with the contract.

Legal Matters: The Company has several lawsuits filed against it relating to the Iridium program, as further described under Item 3: Legal Proceedings of this document. The Company has not reserved for any potential liability that may arise as a result of litigation related to the Iridium program. While the still pending cases are in preliminary stages and the outcomes are not predictable, an unfavorable outcome of one or more of these cases could have a material adverse effect on the Company s consolidated financial position, liquidity or results of operations.

The Company is a defendant in various other lawsuits, including product-related suits, and is subject to various claims which arise in the normal course of business. In the opinion of management, and other than discussed above with respect to the still pending Iridium cases, the ultimate disposition of these matters will not have a material adverse effect on the Company s consolidated financial position, liquidity or results of operations.

Segment Information

The following commentary should be read in conjunction with the financial results of each reporting segment as detailed in Note 10, Information by Segment and Geographic Region, to the Company s consolidated financial statements. Net sales and operating results for the Company s four operating segments for 2005, 2004 and 2003 are presented below.

Mobile Devices Segment

The **Mobile Devices** segment designs, manufactures, sells and services wireless handsets, with integrated software and accessory products. In 2005, Mobile Devices net sales represented 58% of the Company s consolidated net sales, compared to 55% in 2004 and 49% in 2003.

	Years Ended December 31			*Percent Change*	
(Dollars in millions)	***2005***	*2004*	*2003*	***2005 2004***	*2004 2003*
Segment net sales	**$ 21,455**	$ 17,108	$ 11,238	**25%**	52%
Operating earnings	**2,198**	1,728	511	**27%**	238%

Segment Results 2005 Compared to 2004

In 2005, the segment s net sales increased 25% to $21.5 billion, compared to $17.1 billion in 2004. This 25% increase in net sales was driven by a 40% increase in unit shipments in 2005, reflecting strong consumer demand for GSM handsets and consumers desire for the segment s compelling products that combine innovative style and leading technology. The segment had increased net sales in all regions as a result of an improved product portfolio, strong market growth in emerging markets and high replacement sales in more mature markets.

The segment s operating earnings increased to $2.2 billion in 2005, compared to operating earnings of $1.7 billion in 2004. The 27% increase in operating earnings was primarily related to an increase in gross margin, driven by the 25% increase in net sales. The improvements in operating results were partially offset by: (i) an increase in selling, general and administrative (SG&A) expenses, reflecting increased advertising and promotion expenditures to support higher sales and brand awareness, and (ii) an increase in total research and development (R&D) expenditures, as a result of increased investment in new product development. The segment s industry typically experiences short life cycles for new products. Therefore, it is vital to the segment s success that new, compelling products are constantly introduced. Accordingly, a strong commitment to R&D is required to fuel long-term growth.

The segment s backlog was $3.0 billion at December 31, 2005, compared to $1.5 billion at December 31, 2004. During the year, the segment had strong order growth and backlog increased due to: (i) high levels of customer demand for new products during the fourth quarter, certain of which were unable to be shipped in significant quantities due to supply constraints for select components, and (ii) the segment s higher level of general order input in the fourth quarter of 2005 compared to the fourth quarter of 2004.

Unit shipments increased by 40% to 146.0 million in 2005, compared to 104.5 million in 2004. The increase in unit shipments was attributed to a 17% increase in the size of the total worldwide handset market and a gain in the segment s market share. The gain in market share was attributed to broad acceptance of the segment s product offering, particularly a strong demand for GSM handsets. For the full year 2005, unit shipments by the segment increased in all regions.

In 2005, average sales price (ASP) decreased approximately 10% compared to 2004. The overall decrease in ASP was driven primarily by a higher percentage of lower-tier, lower-priced handsets in the overall sales mix. By comparison, ASP increased approximately 15% in 2004 and declined 8% in 2003. ASP is impacted by numerous factors, including product mix, market conditions and competitive product offerings, and ASP trends often vary over time.

A few customers represent a significant portion of the segment s net sales. During 2005, purchases of iDEN® products by Sprint Nextel Corporation and its affiliates (Sprint Nextel) comprised approximately 13% of the segment s net sales. On August 12, 2005, Sprint Corporation and Nextel Communications, Inc. completed their merger transaction (the Sprint Nextel Merger) that was announced in December 2004. The combined company, Sprint Nextel, is the segment s largest customer and Motorola has been its sole supplier of iDEN handsets and core iDEN® network infrastructure equipment for over ten years. Sprint Nextel uses Motorola s proprietary iDEN technology to support its nationwide wireless service business. Motorola is currently operating under supply agreements for iDEN handsets and infrastructure equipment that cover the period from January 1, 2005 through December 31, 2007. The segment did not experience any significant impact to its business in 2005 as a result of the Sprint Nextel Merger.

The largest of the segment s end customers (including sales through distributors) are Sprint Nextel, Cingular, China Mobile, América Móvil and T-Mobile. Besides selling directly to carriers and operators, Mobile Devices also sells products through a variety of third-party distributors and retailers, which account for approximately 36% of the segment s net sales. The largest of these distributors, Brightstar Corporation, is our primary distributor in Latin America. The loss of any of the segment s key customers could have a significant impact on the segment s business.

Although the U.S. market continued to be the segment s largest individual market, many of our customers, and more than 60% of our segment s total net sales, are outside the U.S. The largest of these international markets are China, the United Kingdom, Brazil, Germany and Mexico.

Segment Results 2004 Compared to 2003

In 2004, the segment s net sales increased 52% to $17.1 billion, compared to $11.2 billion in 2003. This 52% increase in net sales was driven by increases in both unit shipments and ASP compared to 2003, and reflected strong consumer demand for new products. The strong demand for these new handsets was reflected by increased net sales in all regions.

The segment s operating earnings increased to $1.7 billion in 2004, compared to operating earnings of $511 million in 2003. The 238% increase in operating earnings was primarily related to an increase in gross margin, which was driven by: (i) the 52% increase in net sales, and (ii) a decrease in reorganization of business charges, primarily due to: (a) charges recorded in 2003 for employee severance and exit costs, which were primarily related to the exit of certain manufacturing activities in Flensburg, Germany, and (b) reversals of accruals recorded in 2004 that were related to accruals for exit costs and employee severance which were no longer needed. These improvements to operating results were partially offset by: (i) an increase in SG&A expenditures, reflecting increased advertising, promotion and marketing expenditures to support higher sales and brand awareness, and (ii) an increase in R&D expenditures, primarily reflecting increased developmental engineering expenditures due to additional investment in new product development.

The segment s backlog was $1.5 billion at December 31, 2004, compared to $2.2 billion at December 31, 2003. The decline in backlog was driven primarily by the segment s improved ability to meet demand for new products in a more timely manner. In addition, the backlog at December 31, 2003 was unusually high due to the impact of a key component supply constraint that resulted in the segment s inability to meet the demand for certain new products in the fourth quarter of 2003.

Unit shipments increased by 39% to 104.5 million in 2004, compared to 75.3 million in 2003. The overall increase was driven by increased unit shipments in all regions. Correspondingly, the segment s market share was estimated to have increased in 2004 compared to 2003.

Also contributing to the increase in net sales in 2004 was an improvement in the segment s ASP, which increased approximately 15% in 2004 compared to 2003. The overall increase in ASP was driven primarily by a shift in product mix during 2004 towards higher-tier handsets. By comparison, ASP declined approximately 8% in 2003 and 5% in 2002.

The largest of the segment s end customers (including sales through distributors) were Sprint Nextel, Cingular, China Mobile and Vodafone. During 2004, purchases of iDEN® products by Sprint Nextel comprised approximately 16% of the segment s net sales. Besides selling directly to carriers and operators, the segment also sold products through a variety of third-party distributors and retailers, which accounted for approximately 30% of the segment s net sales. The largest of these distributors, Brightstar Corporation, and was our primary distributor in Latin America.

Although the U.S. market continued to be the segment s largest market, sales into non-U.S. markets represented approximately 60% of the segment s total net sales in 2004, compared to 52% in 2003. The largest of these international markets in 2004 were China, the United Kingdom and Brazil. In North America, the industry saw consolidation of some major telecommunications carriers in 2004, involving some of the segment s largest customers. However, the segment did not see any significant impact on their business in 2004 due to these consolidations.

Government and Enterprise Mobility Solutions Segment

The **Government and Enterprise Mobility Solutions** segment designs, manufactures, sells, installs and services analog and digital two-way radio, voice and data communications products and systems to a wide range of public-safety, government, utility, transportation and other worldwide markets, and participates in the market for integrated information management, mobile and biometric applications and services. The segment also designs, manufactures and sells automotive electronics systems, as well as telematics systems that enable communication and advanced safety features for automobiles. In 2005, the segment net sales represented 18% of the Company s consolidated net sales, compared to 20% in 2004 and 24% in 2003.

	Years Ended December 31			*Percent Change*	
(Dollars in millions)	***2005***	*2004*	*2003*	***2005 2004***	*2004 2003*
Segment net sales	**$ 6,597**	$ 6,228	$ 5,568	**6%**	12%
Operating earnings	**882**	842	663	**5%**	27%

Segment Results 2005 Compared to 2004

In 2005, the segment s net sales increased 6% to $6.6 billion, compared to $6.2 billion in 2004. The increase in net sales reflects increased sales to the segment s government and enterprise markets, partially offset by a decrease in sales to the automotive electronics market, driven primarily by weak automobile industry conditions. The increase in net sales in the government market was driven by increased customer spending on enhanced mission-critical communications and the continued focus on homeland security initiatives. The increase in net sales in the enterprise market reflects enterprise customers demand for business-critical communications. The overall increase in net sales was driven by net sales growth in the Americas and Asia.

The segment s operating earnings increased to $882 million in 2005, compared to operating earnings of $842 million in 2004. The 5% increase in operating earnings was primarily due to a 6% increase in net sales. This improvement in operating results was partially offset by: (i) an increase in SG&A expenditures, (ii) an increase in reorganization of business charges, primarily relating to employee severance, and (iii) an increase in R&D expenditures, driven by increased investment in next-generation technologies across the segment.

Net sales in North America continue to comprise a significant portion of the segment s business, accounting for 69% of the segment s net sales in both 2005 and 2004. The principal Automotive customers are large automobile manufacturers, primarily in North America. Net sales to five such customers represented approximately 20% of the segment s net sales in 2005. The segment s backlog was $2.4 billion at both December 31, 2005 and December 31, 2004.

Natural disasters and terrorist-related worldwide events in 2005 continued to place an emphasis on mission-critical communications systems. Spending by the segment s government and public safety customers is affected by government budgets at the national, state and local levels. The segment will continue to work closely with all pertinent government departments and agencies to ensure that two-way radio and wireless communications is positioned as a critical need for public safety and homeland security. As a global leader in mission-critical communications, we expect to continue to grow as spending increases worldwide for mission-critical communications systems. The segment continues to be well-positioned to serve the increased worldwide demand for these systems in 2006 and beyond.

The scope and size of systems requested by some of the segment s customers continue to increase, including requests for country-wide and statewide systems. These larger systems are more complex and include a wide range of capabilities. Large-system projects will impact how contracts are bid, which companies compete for bids and how companies partner on projects.

Segment Results 2004 Compared to 2003

In 2004, the segment s net sales increased 12% to $6.2 billion, compared to $5.6 billion in 2003. The increase in net sales reflected: (i) continued emphasis on spending by customers in the segment s government market on enhanced mission-critical communications and the continued focus on homeland security initiatives, (ii) increased spending by the segment s enterprise customers on business-critical communications needs, and (iii) an increase in automotive-related sales. The overall increase in net sales reflected net sales growth in all regions.

The segment s operating earnings increased to $842 million in 2004, compared to operating earnings of $663 million in 2003. The 27% increase in operating earnings was primarily due to: (i) the 12% increase in net sales, (ii) cost savings from supply-chain efficiencies, and (iii) overall cost structure improvements. Also contributing to the increase in operating earnings was a decrease in reorganization of business charges, primarily due to a decrease in charges related to segment-wide employee severance. These improvements in operating results were partially offset by: (i) an increase in R&D expenditures driven by increased investment in new technologies, (ii) an increase in SG&A expenditures, primarily due to an increase in selling and sales support expenditures, resulting from the 12% increase in net sales, and (iii) $17 million of in-process research and development charges related to the acquisitions of MeshNetworks, Inc. (MeshNetworks) and CRISNET, Inc. (CRISNET)

Net sales in North America continued to comprise a significant portion of the segment s business, accounting for 67% of the segment s net sales in both 2004 and 2003. The segment s backlog was $2.4 billion at December 31, 2004, compared to $2.0 billion at December 31, 2003. The increase in backlog at the end of 2004 was driven by the awarding of large, multi-year projects in the segment s government market during the latter half of 2004.

In the fourth quarter of 2004, the Company completed the acquisitions of MeshNetworks and CRISNET. MeshNetworks is a leading developer of mobile mesh networking and position-location technologies. CRISNET has a suite of advanced software applications for law enforcement, justice and public safety agencies.

Networks Segment

The **Networks** segment designs, manufactures, sells, installs and services: (i) cellular infrastructure systems, including hardware and software, (ii) fiber-to-the-premise (FTTP) and fiber-to-the-node (FTTN) transmission systems supporting high-speed data, video and voice, and (iii) wireless broadband systems. In addition, the segment designs, manufactures, and sells embedded communications computing platforms. In 2005, the segment s net sales represented 17% of the Company s consolidated net sales compared to 19% in 2004 and 21% in 2003.

	Years Ended December 31			*Percent Change*	
(Dollars in millions)	***2005***	*2004*	*2003*	***2005 2004***	*2004 2003*
Segment net sales	**$ 6,332**	$ 6,026	$ 4,846	**5%**	24%
Operating earnings (loss)	**990**	718	148	**38%**	385%

Segment Results 2005 Compared to 2004

In 2005, the segment s net sales increased 5% to $6.3 billion, compared to $6.0 billion in 2004. The 5% increase in sales was driven by increased customer purchases of cellular infrastructure equipment, as well as increased sales of wireless broadband systems and embedded computing communications systems. On a geographic basis, net sales increased in the Europe, Middle East and Africa region (EMEA) and North America, which offset lower sales in Asia and Latin America. Sales into non-U.S. markets represented approximately 58% of the segment s total net sales in 2005, compared to approximately 66% in 2004. The segment s backlog was $2.0 billion at both December 31, 2005, and December 31, 2004.

The segment s operating earnings increased to $990 million in 2005, compared to operating earnings of $718 million in 2004. The 38% increase in operating earnings was primarily related to an increase in gross margin, which was due to: (i) the 5% increase in net sales, and (ii) improvements in cost structure. These improvements in operating results were partially offset by an increase in SG&A expenditures, primarily due to increased selling and sales support expenditures, as a result of the 5% increase in net sales. R&D expenditures also increased compared to 2004, due to additional investment in the growth businesses of wireless broadband systems and passive optical networks.

The cellular infrastructure industry experienced its second straight year of growth in 2005, with estimated worldwide industry growth of 10%. The segment s 5% increase in net sales was reflective of the overall sales growth in the industry, yet resulted in a slight loss of market share for the segment in 2005.

The nature of the segment s business is long-term contracts with major operators that require sizeable investments by its customers. In 2005, five customers Sprint Nextel; KDDI; China Mobile; Verizon; and China Unicom represented approximately 56% of the segment s net sales. The loss of one of these major customers could have a significant impact on the segment s business and, because contracts are long-term in nature, could impact revenue and earnings over several quarters.

On August 12, 2005, Sprint Corporation and Nextel Communications, Inc. completed their merger transaction (the Sprint Nextel Merger) that was announced in December 2004. The combined company, Sprint Nextel, is the segment s largest customer, representing 25% of the segment s net sales in 2005. Motorola has been Sprint Nextel s sole supplier of iDEN® handsets and core iDEN network infrastructure equipment for over ten years. Sprint Nextel uses Motorola s proprietary iDEN technology to support its nationwide wireless service business. Motorola is currently operating under supply agreements for iDEN handsets and infrastructure equipment that cover the period from January 1, 2005 through December 31, 2007. The segment did not experience any significant impact to its business in 2005 as a result of the Sprint Nextel Merger.

We also continue to build on our industry-leading position in push-to-talk over cellular (PoC) technology. We have executed agreements to launch our PoC product application on both GSM and CDMA2000 networks. The Networks business deployed PoC technology for 44 wireless carriers in 33 countries and territories in 2005. In addition, the Networks segment has begun executing on its seamless mobility strategy with major contract wins in PON and Wireless Broadband. In 2005, we announced an agreement with Verizon to supply FTTP access equipment and related services enabling their triple play offering (voice, data and video). We also signed a contract with Earthlink to deliver equipment and services enabling them to become a Metro WiFi broadband provider in Philadelphia, Anaheim and other cities.

Segment Results 2004 Compared to 2003

In 2004, the segment s net sales increased 24% to $6.0 billion, compared to $4.8 billion in 2003. The 24% increase in net sales in 2004 was driven by an increase in spending by the segment s wireless service provider customers and reflects increased net sales in both the segment s mature and emerging markets. Net sales growth occurred in all technologies and in all regions. Sales into non-U.S. markets represented approximately 66% of the segment s total net sales in 2004, compared to approximately 63% in 2003. The segment s backlog was $2.0 billion at December 31, 2004, compared to $1.7 billion at December 31, 2003.

The segment s operating earnings increased to $718 million in 2004, compared to operating earnings of $148 million in 2003. The 385% increase in operating earnings was primarily related to an increase in gross margin, which was due to: (i) the 24% increase in net sales, and (ii) continued cost containment in the segment s supply chain. These improvements in operating results were partially offset by: (i) an increase in SG&A expenditures, primarily due to increased selling and sales support expenditures, as a result of the 24% increase in net sales, and (ii) an increase in R&D expenditures in 2004 compared to 2003.

The wireless infrastructure industry experienced significant growth in 2004 after three years of decline. The segment believes that the 24% increase in net sales outpaced overall sales growth in the industry, and resulted in increased market share for the segment in 2004.

In 2004, five customers China Mobile; China Unicom; KDDI; Sprint Nextel; and Verizon represented approximately 55% of the segment s net sales. Sprint Nextel was the segment s largest customer in 2004, representing 22% of the segment s net sales.

In May 2004, the Company completed the acquisition of Quantum Bridge, a leading provider of fiber-to-the-premise (FTTP) solutions. The acquisition complements Motorola s existing multiservice technology, enabling the Company to offer a full-service access platform that broadband network operators can deploy to deliver the next generation of advanced services. The Quantum Bridge business became a part of the Networks segment in 2005 as part of the realignment of the segments that was effective January 1, 2005.

Connected Home Solutions Segment

The **Connected Home Solutions** segment designs, manufactures and sells a wide variety of broadband products, including: (i) digital systems and set-top boxes for cable television, Internet Protocol (IP) video and broadcast networks, (ii) high speed data products, including cable modems and cable modem termination systems (CMTS) and IP-based telephony products, (iii) hybrid fiber coaxial network transmission systems used by cable television operators, (iv) digital satellite program distribution systems, (v) direct-to-home (DTH) satellite networks and private networks for business communications, and (vi) advanced video communications products. In 2005, the segment s net sales represented 8% of the Company s consolidated net sales, compared to 7% in 2004 and 8% in 2003.

	Years Ended December 31			*Percent Change*	
(Dollars in millions)	***2005***	*2004*	*2003*	***2005 2004***	*2004 2003*
Segment net sales	**$ 2,765**	$ 2,214	$ 1,745	**25%**	27%
Operating earnings (loss)	**185**	146	48	**27%**	204%

Segment Results 2005 Compared to 2004

In 2005, the segment s net sales increased 25% to $2.8 billion, compared to $2.2 billion in 2004. The increase in overall net sales was driven by increases in both ASP and unit shipments of digital set-top boxes. Net sales increased in North America, Latin America and Asia, partially offset by a slight decrease in net sales in EMEA. Net sales in North America continue to comprise a significant portion of the segment s business, accounting for 84% of the segment s total net sales in 2005, compared to 83% in 2004. The segment s backlog was $424 million at December 31, 2005, compared to $305 million at December 31, 2004.

The segment generated operating earnings of $185 million in 2005, compared to $146 million in 2004. The improvement in operating results was primarily due to the 25% increase in net sales, partially offset by increased product costs due to increased sales of higher-end products, mainly HD/DVR set-top boxes. Although HD/ DVR set-top boxes carry a higher ASP, the higher costs on the HD/DVR set-top box line caused gross margin as a percentage of sales to decrease in 2005, compared to 2004. R&D and SG&A expenditures increased in total, but decreased as a percentage of net sales, primarily due to the increase in net sales.

In 2005, net sales of digital set-top boxes increased 34%, due to increases in both ASP and unit shipments. The increase in ASP was driven by a product-mix shift towards higher-end products, particularly HD/ DVR set-top boxes. The increase in unit shipments was primarily due to the increased spending by cable operators. The segment continued to be the worldwide leader in market share for digital cable set-top boxes.

In 2005, net sales of cable modems increased 9%. The increase in net sales was due to an increase in cable modem unit shipments, which was partially offset by the decline in ASP for cable modems. The decrease in ASP was primarily due to increased competition. The segment retained its leading worldwide market share in cable modems.

Demand for the segment s products depends primarily on the level of capital spending by broadband operators for constructing, rebuilding or upgrading their communications systems and services. After a number of years of decreased capital spending, in 2004 and 2005 our cable operator customers increased their purchases of the segment s products and services, primarily due to increased demand for advanced digital set-top boxes to provide HD/ DVR functionality.

The segment is dependent upon a small number of customers for a significant portion of its sales. Because of continuing consolidation within the cable industry, a small number of large cable television multiple system operators (MSOs) own a large portion of the cable systems and account for a significant portion of the total capital spending. In 2005, net sales to the segment s top five customers represented 53% of the segment s total net sales. Net sales to the segment s largest customer, Comcast, accounted for 31% of the total net sales of the segment. The loss of business from any major MSO could have a significant impact on the segment s business.

During the first quarter of 2005, Motorola and Comcast entered into a broader strategic relationship that includes an agreement for a multi-year set-top box commitment. This agreement extended Comcast and Motorola s agreement for Comcast to purchase set-top boxes and network equipment, including HD/ DVR and standard-definition entry-level set-top box models. As part of this strategic relationship, Motorola and Comcast also formed two joint ventures that will focus on developing and licensing the next generation of conditional access technologies.

On February 24, 2006, the segment completed the acquisition of Kreatel Communications AB (Kreatel), a leading developer of innovative IP based digital set-top boxes. IPTV, or the video component of the triple play, is expected to be the primary focus for telecommunication companies around the world as it offers a significant competitive tool versus cable operators. The segment plans to integrate Kreatel s set-top boxes into its current suite of digital systems and set-top boxes for cable television, IP video and broadcast networks, enabling the segment to offer a full range of connected home solutions which enable customers to be seamlessly connected, informed and entertained.

Segment Results 2004 Compared to 2003

In 2004, the segment s net sales increased 27% to $2.2 billion, compared to $1.7 billion in 2003. The increase in overall net sales was primarily due to: (i) increased purchases of digital cable set-top boxes by cable operators, (ii) an increase in ASP due to a mix shift in digital set-top boxes towards higher-end products, and (iii) an increase in retail sales. The increase in net sales reflects net sales growth in all regions, primarily in North America. Net sales in North America continued to comprise a significant portion of the segment s business, accounting for 83% of the segment s total net sales in 2004, compared to 85% in 2003. The segment s backlog was $305 million at December 31, 2004, compared to $288 million at December 31, 2003.

The segment generated operating earnings of $146 million in 2004, compared to operating earnings of $48 million in 2003. The improvement in operating results was due to: (i) an increase in gross margin, which was driven by the 27% increase in net sales, (ii) a $73 million charge for impairment of goodwill related to the infrastructure business that occurred in 2003, and (iii) a decrease in SG&A expenditures. The decrease in SG&A expenditures was primarily due to: (i) a decrease in intangible amortization, and (ii) a decrease in administrative expenses due to benefits from prior cost-reduction actions. Although gross margin increased, the segment s gross margin as a percentage of net sales decreased, primarily due to sales of new higher-tier products carrying lower initial margins, which is typical in the early phases of the segment s product life cycles.

In 2004, net sales of digital set-top boxes increased 29%, due to increases in both ASP and unit shipments. The increase in ASP was driven by a product-mix shift towards higher-end products, particularly HD/ DVR set-top boxes. The increase in unit shipments was primarily due to the increased spending by cable operators. The segment continued to be the worldwide leader in market share for digital cable set-top boxes.

In 2004, net sales of cable modems increased 20%. The increase in net sales was due to an increase in cable modem unit shipments, which was partially offset by the decline in ASP for cable modems. The decrease in ASP was primarily due to increased competition. The segment retained its leading worldwide market share in cable modems.

The segment was dependent upon a small number of customers for a significant portion of its sales in 2004. Because of continuing consolidation within the cable industry, a small number of MSOs own a large portion of the cable systems and account for a significant portion of the total capital spending. In 2004, net sales to the segment s top five customers represented 47% of the segment s total net sales. Net sales to the segment s largest customer, Comcast, accounted for 30% of the total net sales of the segment in 2004.

Significant Accounting Policies

Management s Discussion and Analysis of Financial Condition and Results of Operations discuss the Company s consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period.

Management bases its estimates and judgments on historical experience, current economic and industry conditions and on various other factors that are believed to be reasonable under the circumstances. This forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following significant accounting policies require significant judgment and estimates:

- Revenue recognition
- Allowance for losses on finance receivables
- Inventory valuation reserves

Deferred tax asset valuation

Valuation of investments and long-lived assets
Restructuring activities
Retirement-related benefits

Revenue Recognition

The Company s arrangements with customers may differ in nature and complexity and may contain multiple deliverables including products, equipment, services and software that may be essential to the functionality of the other deliverables, which requires the Company to make judgments and estimates in recognizing revenues.

Product and equipment sales may contain discounts, price protection, return provisions and other customer incentives. The Company s recorded revenues are reduced by allowances for these items at the time the sales are recorded. The allowances are based on management s best estimate of the amount of allowances that the customer will ultimately earn and is based on historical experience taking into account the type of products sold, the type of customer and the type of transaction specific to each arrangement.

The Company s long-term contracts involve the design, engineering, manufacturing and installation of wireless networks and two-way radio voice and data systems. These systems are designed to meet specific customer requirements and specifications and generally require extended periods to complete. If the Company can reliably estimate revenues and contract costs and the technology is considered proven, revenue is recognized under the percentage of completion method as work progresses towards completion. Estimates of contract revenues, contract costs and progress towards completion are based on estimates that consider historical experience and other factors believed to be relevant under the circumstances. Management regularly reviews these estimates and considers the impact of recurring business risks and uncertainties inherent in the contracts, such as system performance and implementation delays due to factors within or outside the control of management.

Generally, multiple element arrangements are separated into specific accounting units when delivered elements have value to the customer on a stand-alone basis, objective and reliable evidence of fair value exists for the undelivered element(s), and delivery of the undelivered element(s) is probable and substantially within the control of the Company. Total arrangement consideration is allocated to the separate accounting units based on their relative fair values (if the fair value of each accounting unit is known) or using the residual method (if the fair value of the undelivered element(s) is known). Revenue is recognized for a separate accounting unit when the revenue recognition criteria are met for that unit. In certain situations, judgment is required in determining both the number of accounting units and fair value of the elements, although generally the fair value of an element can be objectively determined if the Company sells the element on a stand alone basis.

Changes in these estimates could negatively impact the Company s operating results. In addition, unforeseen conditions could arise over the contract term that may have a significant impact on the operating results. It is reasonably likely that different operating results would be reported if the Company used other acceptable revenue recognition methodologies, such as the completed-contract method, or applied different assumptions.

Allowance for Losses on Finance Receivables

The Company has historically provided financing to certain customers in connection with purchases of the Company s infrastructure equipment where the contractual terms of the note agreements are greater than one year. Financing provided has included all or a portion of the equipment purchase price, as well as working capital for certain purchasers.

Gross financing receivables were $272 million at December 31, 2005 and $2.1 billion at December 31, 2004, with an allowance for losses on these receivables of $12 million and $2.0 billion, respectively. Of the receivables at December 31, 2005, $10 million (zero net of allowances for losses of $10 million) were considered impaired based on management s determination that the Company will be unable to collect all amounts in accordance with the contractual terms of the relevant agreement. By comparison, impaired receivables at December 31, 2004 were $2.0 billion ($7 million, net of allowance for losses of $2.0 billion).

Management periodically reviews customer account activity in order to assess the adequacy of the allowances provided for potential losses. Factors considered include economic conditions, collateral values and each customer s payment history and credit worthiness. Adjustments, if any, are made to reserve balances following the completion of these reviews to reflect management s best estimate of potential losses. The resulting net finance receivable balance is intended to represent the estimated realizable value as determined based on: (i) the fair value of the underlying collateral, if the receivable is collateralized, or (ii) the present value of expected future cash flows discounted at the effective interest rate implicit in the underlying receivable.

Inventory Valuation Reserves

The Company records valuation reserves on its inventory for estimated obsolescence or unmarketability. The amount of the reserve is equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. On a quarterly basis, management in each segment performs an analysis of the underlying inventory to identify reserves needed for excess and obsolescence and, for the remaining inventory, assesses the net realizable value. Management uses its best judgment to estimate appropriate reserves based on this analysis.

Inventories consisted of the following:

December 31	***2005***	*2004*
Finished goods	**$ 1,287**	$ 1,429
Work-in-process and production materials	**1,784**	1,665
	3,071	3,094
Less inventory reserves	**(549)**	(548)
	$ 2,522	$ 2,546

The Company balances the need to maintain strategic inventory levels to ensure competitive delivery performance to its customers against the risk of inventory obsolescence due to rapidly changing technology and customer requirements. As indicated above, the Company s inventory reserves represented 18% of the gross inventory balance at December 31, 2005 and 2004. These reserve levels are maintained by the Company to provide for unique circumstances facing our businesses. The Company has inventory reserves for pending cancellations of product lines due to technology changes, long-life cycle products, lifetime buys at the end of supplier production runs, business exits, and a shift of production to outsourcing.

If actual future demand or market conditions are less favorable than those projected by management, additional inventory writedowns may be required. Likewise, as with other reserves based on management s judgment, if the reserve is no longer needed, amounts are reversed into income. There were no significant reversals into income of this type in 2005 or 2004.

Deferred Tax Asset Valuation

The Company recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax-planning strategies. If the Company is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Company could be required to increase its valuation allowance against its deferred tax assets resulting in an increase in its effective tax rate and an adverse impact on operating results.

At December 31, 2005 and 2004, the Company s deferred tax assets related to tax carryforwards were $2.1 billion and $2.2 billion, respectively. The tax carryforwards are comprised of net operating loss carryforwards, foreign tax credit and other tax credit carryovers for both U.S. and non-U.S. subsidiaries. A majority of the net operating losses and other tax credits can be carried forward for 20 years. The carryforward period for foreign tax credits was extended to ten years, from five years, during 2004 with the enactment of the American Jobs Creation Act of 2004.

The Company has recorded valuation allowances totaling $896 million and $892 million as of December 31, 2005 and 2004, respectively, for certain state credits and state tax loss carryforwards with carryforward periods of seven years or less, tax loss carryforwards of acquired entities that are subject to limitations and tax loss carryforwards and other deferred tax assets of certain non-U.S. subsidiaries. The Company believes that the deferred tax assets for the remaining tax carryforwards are considered more likely than not to be realizable based on estimates of future taxable income and the implementation of tax planning strategies.

Valuation of Investments and Long-Lived Assets

The Company assesses the impairment of investments and long-lived assets, which includes identifiable intangible assets, goodwill and property, plant and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include: (i) underperformance relative to expected historical or projected future operating results; (ii) changes in the manner of use of the assets or the strategy for our overall business; (iii) negative industry or economic trends; (iv) declines in stock price of an investment for a sustained period; and (v) our market capitalization relative to net book value.

When the Company determines that the carrying value of intangible assets, goodwill and long-lived assets may not be recoverable, an impairment charge is recorded. Impairment is generally measured based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model or prevailing market rates of investment securities, if available.

At December 31, 2005 and 2004, the net book values of these assets were as follows (in millions):

December 31	***2005***	*2004*
Property, plant and equipment	**$ 2,271**	$ 2,332
Investments	**1,654**	3,241
Intangible assets	**233**	233
Goodwill	**1,349**	1,283
	$ 5,507	$ 7,089

The Company recorded fixed asset impairment charges of $15 million in 2005, compared to no charges in 2004 and charges of $10 million in 2003. The 2003 charges primarily related to certain information technology equipment that was deemed to be impaired.

The Company recorded impairment charges related to its investment portfolio of $25 million, $36 million and $96 million in 2005, 2004 and 2003, respectively, representing other-than-temporary declines in the value of the Company s investment portfolio. The impairment charges in 2005 and 2004 are primarily related to cost-based investment write-downs. The $96 million impairment charge in 2003 was primarily comprised of a $29 million charge to write down to zero the Company s debt security holding in a European cable operator and other cost-based investment writedowns. Additionally, the available-for-sale securities portfolio reflected a net pre-tax unrealized gain position of $157 million and $2.3 billion at December 31, 2005 and 2004, respectively.

The Company performs a goodwill impairment test at the reporting unit level at least annually as of October, or more often should triggering events occur. In determining the fair value of the reporting unit, the Company utilizes independent appraisal firms who employ a combination of present value techniques and quoted market prices of comparable businesses. No impairment charges were required in 2005. During 2004, the Company determined that goodwill related to a sensor business, which was subsequently divested in 2005, was impaired by $125 million. During 2003, the Company determined that the goodwill at the infrastructure reporting unit of the Connected Home Solutions segment was impaired by $73 million.

The Company cannot predict the occurrence of future impairment-triggering events nor the impact such events might have on these reported asset values. Such events may include strategic decisions made in response to the economic conditions relative to product lines or operations and the impact of the economic environment on our customer base.

Restructuring Activities

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. Each separate reduction-in-force has qualified for severance benefits under the Severance Plan and, therefore, such benefits are accounted for in accordance with Statement No. 112, Accounting for Postemployment Benefits (SFAS 112). Under the provisions of SFAS 112, 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 primarily consist of future minimum lease payments on vacated facilities.

At each reporting date, the Company evaluates its accruals for exit costs and employee separation costs to ensure the accruals are still appropriate. In certain circumstances, accruals are no longer required 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. The Company reverses accruals through the income statement line item where the original charges were recorded when it is determined they are no longer required.

Retirement-Related Benefits

The Company s noncontributory pension plan (the Regular Pension Plan) covers U.S. employees who became eligible after one year of service. The benefit formula is dependent upon employee earnings and years of service. Effective January 1, 2005, newly-hired employees were not eligible to participate in the Regular Pension Plan. The Company also provides defined benefit plans to some of its foreign entities (the Non-U.S. Plans).

The Company also has a noncontributory supplemental retirement benefit plan (the Officers Plan) for its elected officers. The Officers Plan contains provisions for funding the participants expected retirement benefits when the participants meet the minimum age and years of service requirements. Elected officers who were not yet vested in the Officers Plan as of December 31, 1999 had the option to remain in the Officers Plan or elect to have their benefit bought out in restricted stock units. Effective December 31, 1999, no new elected officers were eligible to participate in the Officers Plan. Effective June 30, 2005, salaries were frozen for this plan.

The Company has an additional noncontributory supplemental retirement benefit plan, the Motorola Supplemental Pension Plan (MSPP), which provides supplemental benefits in excess of the limitations imposed by the Internal Revenue Code on the Regular Pension Plan. All newly-elected officers are participants in MSPP. Elected officers covered under the Officers Plan or who participated in the restricted stock buy-out are not eligible to participate in MSPP.

Certain healthcare benefits are available to eligible domestic employees meeting certain age and service requirements upon termination of employment (the Postretirement Healthcare Benefits Plan). For eligible employees hired prior to January 1, 2002, the Company offsets a portion of the postretirement medical costs to the retired participant. As of January 1, 2005, the Postretirement Healthcare Benefits Plan has been closed to new participants.

The Company accounts for its pension benefits and its postretirement health care benefits using actuarial models required by SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, respectively. These models use an attribution approach that generally spreads individual events over the service lives of the employees in the plan. Examples of events are plan amendments and changes in actuarial assumptions such as discount rate, expected long-term rate of return on plan assets, and rate of compensation increases. The principle underlying the required attribution approach is that employees render service over their service lives on a relatively consistent basis and, therefore, the income statement effects of pension benefits or postretirement health care benefits are earned in, and should be expensed in, the same pattern.

There are various assumptions used in calculating the net periodic benefit expense and related benefit obligations. One of these assumptions is the expected long-term rate of return on plan assets. The required use of expected long-term rate of return on plan assets may result in recognized pension income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and therefore result in a pattern of income and expense recognition that more closely matches the pattern of the services provided by the employees. Differences between actual and expected returns are recognized in the net periodic pension calculation over five years.

The Company uses long-term historical actual return experience with consideration of the expected investment mix of the plans   assets, as well as future estimates of long-term investment returns to develop its expected rate of return assumption used in calculating the net periodic pension cost and the net retirement healthcare expense. The

Company s investment return assumption for the Regular Pension Plan and Postretirement Health Care Benefits Plan was 8.50% in both 2005 and 2004. The investment return assumption for the Officers Plan was 6.00% in both 2005 and 2004. At December 31, 2005, the Regular Pension Plan investment portfolio was predominantly equity investments and the Officers Plan investment portfolio was predominantly fixed-income securities.

A second key assumption is the discount rate. The discount rate assumptions used for pension benefits and postretirement health care benefits accounting reflects, at December 31 of each year, the prevailing market rates for high-quality, fixed-income debt instruments that, if the obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The Company s discount rate for measuring the pension obligations was 6.00% both at December 31, 2005 and December 31, 2004. The Company s discount rate for measuring the retirement healthcare obligation was 5.75% at December 31, 2005, compared to 6.00% at December 31, 2004.

A final set of assumptions involves the cost drivers of the underlying benefits. The rate of compensation increase is a key assumption used in the actuarial model for pension accounting and is determined by the Company based upon its long-term plans for such increases. In both 2005 and 2004, the Company s rate for future compensation increase was 4.00% for non-officer employees. The Company s 2005 rate for future compensation increase for the Officers Plan was 0% as salaries have been frozen for this plan. The Company s 2004 rate for future compensation increase for the Officers Plan was 3.00%. For retiree medical plan accounting, the Company reviews external data and its own historical trends for health care costs to determine the health care cost trend rates. Based on this review, the health care cost trend rate used to determine the December 31, 2005 accumulated postretirement benefit obligation was 10% for 2006 with a declining trend rate of 1% each year until it reaches 5% by 2011, with a flat 5% rate for 2011 and beyond.

Negative financial market returns during 2000 through 2002 resulted in a decline in the fair-market value of plan assets. This, when combined with declining discount rate assumptions in the last several years, has resulted in a decline in the funded status of the Company s domestic and certain non-U.S. plans. Consequently, the Company s accumulated benefit obligation for various plans exceeded the fair-market value of the plan assets for these plans at December 31, 2005. The Company recorded a non-cash, after-tax, net charge of $208 million to equity relating to the Regular Pension Plan, the Officers Plan, and certain non-U.S. subsidiaries retirement programs in the fourth quarter of 2005. This charge was included in Non-owner changes to equity in the consolidated balance sheets, and did not impact the Company s pension expense, earnings or cash contribution requirements in 2005.

For the Regular Pension Plan, the Company currently estimates 2006 expenses for continuing operations will be approximately $230 million. The 2005 and 2004 actual expenses, which include discontinued operations, were $177 million and $167 million, respectively. Cash contributions of $275 million were made to the Regular Pension Plan in 2005. The Company expects to make cash contributions of $270 million to this plan during 2006. In addition, the Company expects to make cash contributions of $5 million to its Officers and MSPP plans, collectively, and $44 million to its Non-U.S. Plans in 2006.

For the Postretirement Health Care Benefits Plan, the Company currently estimates 2006 expenses for continuing operations will be approximately $31 million. The 2005 and 2004 actual expenses, which include discontinued operations, were $27 million and $39 million, respectively. The Company has partially funded its accumulated benefit obligation of $496 million with plan assets valued at $212 million at December 31, 2005. Motorola is obligated to transfer to Freescale Semiconductor $68 million in cash or plan assets, as permitted by law without adverse tax consequences to Motorola, with such transfer expected to occur in 2006, plus investment returns earned on this amount, which was approximately $7 million as of December 31, 2005. Cash contributions of $43 million were made to this plan in 2005. No cash contributions were required in 2004. The Company expects to make a cash contribution of approximately $45 million to the Postretirement Health Care Benefits Plan in 2006.

The impact on the future financial results of the Company in relation to retirement-related benefits is dependent on economic conditions, employee demographics, interest rates and investment performance. The Company s measurement date of its plan assets and obligations is December 31. Thus, during the fourth quarter of each year, management reviews and, if necessary, adjusts the assumptions associated with its benefit plans.

Recent Accounting Pronouncements

In October 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections (SFAS 154), which replaces APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statement . SFAS 154 retained accounting guidance related to changes in estimates, changes in a reporting entity and error corrections; however, changes in accounting principles must be accounted for retrospectively by modifying the financial statements of prior periods. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company does not believe adoption of SFAS 154 will have a material impact on our financial condition, results of operations, or cash flows.

In December 2004, the FASB issued Statement No. 123R (SFAS 123R), a revision to Statement No. 123, Accounting for Stock-Based Compensation. This standard requires the Company to measure the cost of employee services received in exchange for equity awards based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards. The standard provides for a prospective application. Under this method, the Company will begin recognizing compensation cost for equity based compensation for all new or modified grants after the date of adoption. In addition, the Company will recognize the unvested portion of the grant date fair value of awards issued prior to adoption based on the fair values previously calculated for disclosure purposes. At December 31, 2005, the aggregate value of unvested options, as determined using a Black-Scholes option valuation model, was $467 million. Upon adoption of SFAS 123R, a majority of this amount will be recognized over the remaining vesting period of these options. The Company will adopt SFAS 123R as of January 1, 2006. The Company believes that the adoption of this standard will result in a reduction of earnings per share by $0.06 to $0.08 in 2006. This estimate is based on many assumptions including the level of stock option grants expected in 2006, the Company s stock price, and significant assumptions in the option valuation model including volatility and the expected life of options. Actual expenses could differ from the estimate.

In November 2004, the FASB issued Statement No. 151, Inventory Costs (SFAS 151). SFAS 151 requires that abnormal amounts of idle facility expense, freight, handling costs, and spoilage, be charged to expense in the period they are incurred rather than capitalized as a component of inventory costs. In addition, SFAS 151 requires the allocation of fixed production overheads to the costs of conversions based on the normal capacity of the production facilities. The Company is required to adopt provisions of SFAS 151, on a prospective basis, as of January 1, 2006. The Company does not believe the adoption of SFAS 151 will have a material impact on the future results of operations.

Realignment of Segments Effective January 1, 2005

The Company announced its decision, effective January 1, 2005, to realign its businesses into four operating business groups: (i) Mobile Devices, (ii) Government and Enterprise Mobility Solutions, (iii) Networks, and (iv) Connected Home Solutions. The historical segment financial information presented in the filing has been reclassified to reflect the realigned segments. The realignment had no impact on the Company s previously-reported historical consolidated net sales, operating earnings(loss), earnings(loss) from continuing operations, net earnings(loss) or earnings(loss) per share.

Reclassification of Incentive Compensation Costs

The consolidated statements of operations include reclassified incentive compensation costs, which were previously reported as a component of Selling, general and administrative (SG&A) expenditures, to Cost of sales and Research and development (R&D) expenditures based upon the function in which the related employees operate. The impact of this reclassification was: (i) a reduction in Gross margin of $89 million, $143 million and $64 million in 2005, 2004 and 2003, respectively, (ii) a decrease in SG&A expenditures of $334 million, $495 million and $244 million in 2005, 2004 and 2003, respectively, and (iii) an increase in R&D expenditures of $245 million, $352 million and $180 million in 2005, 2004 and 2003, respectively. The reclassification has also been reflected within the quarterly financial information provided in Note 15. The reclassifications did not affect Net sales, Operating earnings, Earnings from continuing operations, Net earnings or Earnings per share.

Forward-Looking Statements

Except for historical matters, the matters discussed in this Form 10-K are forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements under the following headings: (1) Mobile Devices Segment, about industry growth, including in emerging markets and for replacement sales, the impact from the loss of key customers, the allocation and regulation of frequencies the availability of materials, energy supplies and labor, the seasonality of the business, and the firmness of the segment s backlog; (2) Government and Enterprise Mobility Solutions Segment, about spending for mission-critical wireless products and the Company s ability to meet demand, impact from the loss of key customers, competition from system integrators, the impact of regulatory matters, allocation and regulation of frequencies, the availability of materials, energy supplies and labor, the seasonality of the business and the firmness of the segment s backlog; (3) Networks Segment, about the impact from the loss of key customers, the impact of the segment s strategy, the allocation and regulation of frequencies, the availability of materials, energy supplies and labor and the firmness of the segment s backlog; (4) Connected Home Solutions Segment, about future sales of digital products, the impact of the segment s strategy, the impact from the loss of key customers, sales to telephone carriers, the impact of demand and competitive changes, the impact of regulatory matters, the availability of materials, energy supplies and labor, the seasonality of the business and the firmness of the segment s backlog; (5) Other Information, about the impact from the loss of key customers, the firmness of the aggregate backlog position, the competitiveness through research and development and utilization of technology; (6) Properties, about the consequences of a disruption in manufacturing; (7) Legal Proceedings, about the ultimate disposition of pending legal matters; (8) Management s Discussion and Analysis, about: (a) the success of our business strategy, (b) future payments, charges, use of accruals and expected cost-saving benefits associated with our reorganization of business programs, (c) the Company s ability and cost to repatriate funds, (d) the impact of the timing and level of sales and the geographic location of such sales, (e) future cash contributions to pension plans or retiree health benefit plans, (f) outstanding commercial paper balances, (g) the Company s ability and cost to access the capital markets, (h) the Company s ability to retire outstanding debt, (i) adequacy of resources to fund expected working capital and capital expenditure measurements, (j) expected payments pursuant to commitments under long-term agreements, (k) the outcome of ongoing and future legal proceedings (l) the impact of recent accounting pronouncements on the Company, and (m) the impact of the loss of key customers; and (9) Quantitative and Qualitative Disclosures about Market Risk, about: (a) the impact of foreign currency exchange risks, (b) future hedging activity and expectations of the Company, and (c) the ability of counterparties to financial instruments to perform their obligations.

Some of the risk factors that affect the Company s business and financial results are discussed in Item 1A: Risk Factors. We wish to caution the reader that the risk factors discussed in Item 1A: Risk Factors , and those described elsewhere in this report or our other Securities and Exchange Commission filings, could cause our actual results to differ materially from those stated in the forward-looking statements.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Motorola, Inc. has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

MOTOROLA, INC.

/s/ David W. Devonshire
David W. Devonshire
Executive Vice President,
Chief Financial Officer

March 6, 2006

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EXHIBIT INDEX

Exhibit No.	Exhibit
*31.1	Certification of Edward J. Zander pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of David W. Devonshire pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

* Filed herewith