MOTOROLA INC
Form 10-Q/A
March 08, 2004

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q/A

**Amendment No. 1**

**(Mark One)**

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

**For the period ended September 27, 2003**

**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**<br>(State of Incorporation) | **36-1115800**<br>(I.R.S. Employer Identification No.) |
| **1303 E. Algonquin Road**<br>**Schaumburg, Illinois**<br>(Address of principal executive offices) | **60196**<br>(Zip Code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on September 27, 2003:

| **Class** | **Number of Shares** |
|---|---|

| | |
|---|---|
| **Common Stock; $3 Par Value** | **2,327,767,030** |

**Index**



**Explanatory Note:**

This Amendment No. 1 to Form 10-Q for the period ended September 27, 2003 (this "Amendment"), originally filed with the Securities and Exchange Commission (the "SEC") on November 6, 2003 (the "Original Filing"), reflects certain changes to the disclosure contained in Item 2 and Item 4 of the Original Filing. **This Amendment does not amend or restate our previously reported financial statements.**

As required under SEC rules, this Amendment sets forth the complete text of "Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations," as amended, and "Item 4: Controls and Procedures," as amended. In addition, as required by Rule 12b-15 under the Securities and Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are being filed with this Amendment.

Except as expressly stated herein, this Amendment does not update any of the disclosures contained in the Original Filing to reflect any events that occurred after the date of the Original Filing. In addition, as stated above this Amendment does not amend or restate our previously reported financial statements. The filing of this Amendment shall not be deemed an admission that the Original Filing when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.



**Motorola, Inc. And Subsidiaries**
**Management's Discussion and Analysis**
**of Financial Condition and Results of Operations**

This commentary should be read in conjunction with the Company's condensed consolidated financial statements for the three months and nine months ended September 27, 2003 and September 28, 2002 as well as the Company's consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations incorporated by reference in the Company's Form 10-K for the year ended December 31, 2002.

**Results of Operations**

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | September 27, 2003 | % of Sales | September 28, 2002 | % of Sales | September 27, 2003 | % of Sales | September 28, 2002 | % of Sales |

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| Net sales | $ 6,829 | | $ 6,532 | | $ 19,035 | | $ 19,582 | |
| Costs of sales | 4,507 | 66.0% | 4,212 | 64.5% | 12,729 | 66.9% | 13,169 | 67.3% |
| Gross margin | 2,322 | 34.0% | 2,320 | 35.5% | 6,306 | 33.1% | 6,413 | 32.7% |
| Selling, general and administrative expenses | 1,078 | 15.8% | 1,105 | 16.9% | 2,912 | 15.3% | 3,390 | 17.3% |
| Research and development expenditures | 941 | 13.8% | 948 | 14.5% | 2,839 | 14.9% | 2,779 | 14.2% |
| Reorganization of businesses | 44 | 0.6% | 11 | 0.2% | 65 | 0.3% | 1,677 | 8.6% |
| Other charges (income) | (4) | (0.1)% | (85) | (1.3)% | (74) | (0.4)% | 827 | 4.2% |
| Operating earnings (loss) | 263 | 3.9% | 341 | 5.2% | 564 | 3.0% | (2,260) | (11.5)% |
| Other income (expense): | | | | | | | | |
| Interest expense, net | (84) | (1.2)% | (92) | (1.4)% | (236) | (1.2)% | (300) | (1.5)% |
| Gains on sales of investments and businesses, net | 31 | 0.5% | 37 | 0.6% | 338 | 1.8% | 72 | 0.4% |
| Other | (32) | (0.5)% | (71) | (1.1)% | (119) | (0.6)% | (1,238) | (6.3)% |
| Total other income (expense) | (85) | (1.2)% | (126) | (1.9)% | (17) | (0.1)% | (1,466) | (7.5)% |
| Earnings (loss) before income taxes | 178 | 2.6% | 215 | 3.3% | 547 | 2.9% | (3,726) | (19.0)% |
| Income tax expense (benefit) | 62 | 0.9% | 104 | 1.6% | 143 | 0.8% | (1,067) | (5.4)% |
| Net earnings (loss) | $ 116 | 1.7% | $ 111 | 1.7% | $ 404 | 2.1% | $ (2,659) | (13.6)% |
| Diluted earnings (loss) per common share | $ 0.05 | | $ 0.05 | | $ 0.17 | | $ (1.17) | |

***Results of Operations Three months ended September 27, 2003 compared to three months ended September 28, 2002***

*Net Sales*

Net sales were $6.8 billion in the third quarter of 2003, up 5% from $6.5 billion in the third quarter of 2002. Net sales increased in four of the Company's six major segments in the third quarter of 2003 compared to the third quarter of 2002. The overall increase was primarily due to: (i) a $209 million increase in net sales by the Personal Communications segment, reflecting strengthened demand for handsets in the Americas, (ii) a $151 million increase in net sales by the Commercial, Government and Industrial Solutions segment, reflecting increased customer spending due to activity in homeland security initiatives, and (iii) a $25 million increase in net sales by the Global Telecom Solutions segment, primarily due to increased spending by network operators. These increases were partially offset by: (i) a $98 million decline in net sales by the Broadband Communications segment, primarily due to continuing decreased capital spending by cable service providers, and (ii) a $50 million



decline in net sales by the Semiconductor Products segment, primarily due to decreased expenditures by customers in the segment's networking and wireless markets.

*Gross margin*

Gross margin was $2.3 billion in the third quarter of both 2003 and 2002. Gross margin as a percentage of net sales declined to 34% in the third quarter of 2003, compared to 36% in the third quarter of 2002. The decline in gross margin as a percentage of net sales is primarily due to: (i) a decline in gross margin percentage in the Personal Communications segment, primarily driven by decreased margins in Asia where margins were driven down by lower volume, competitive pricing pressures, particularly in China, and unusually high sales of low-margin, end-of-life products, and (ii) a decline in gross margin percentage in the Semiconductor Products segment, primarily driven by the decline in sales and lower factory utilization, though partially offset by cost reductions from factory restructuring programs. These decreases in gross margin percentage were partially offset by: (i) an increase in gross margin percentage in the Commercial, Government and Industrial Solutions segment, reflecting a favorable shift in product mix towards higher-margin products, as well as benefits from prior cost-reduction activities, and (ii) an increase in gross margin percentage in the Global Telecom Solutions segment, primarily from increased sales of higher margin products.

*Selling, general and administrative expenses*

Selling, general and administrative (SG&A) expenses were $1.1 billion, or 15.8% of net sales, in the third quarter of 2003, compared to $1.1 billion, or 16.9% of net sales, in the third quarter of 2002. The decrease in SG&A expenses as a percentage of net sales during the third quarter of 2003 is attributable to: (i) the increase in net sales, and (ii) a decline in overall administrative spending, reflecting benefits from prior cost-reduction efforts, partially offset by an increase in incentive program costs due to higher anticipated incentive payouts.

*Research and development expenditures*

Research and development (R&D) expenditures decreased to $941 million, or 13.8% of net sales, in the third quarter of 2003, compared to $948 million, or 14.5% of net sales, in the third quarter of 2002. The decrease in R&D expenditures primarily reflects decreased R&D spending, as a percentage of sales, in the Global Telecom Solutions and Commercial, Government and Industrial Solutions segments, due to benefits from prior restructuring plans, partially offset by increased R&D expenditures in the Personal Communications segment, where R&D expenditures are reflected in a high volume of new product offerings.

*Reorganization of businesses*

The Company recorded net total reorganization of business charges in the third quarter of 2003 of $43 million, including a $44 million charge reflected in the condensed consolidated statements of operations under Reorganization of Businesses and a $1 million reversal reflected in Costs of Sales. The $43 million net charge for the third quarter of 2003 included $71 million of new reorganization of business charges, offset by $28 million of reversals of accruals no longer needed. The $28 million of reversals represented 16% of the Company's earnings before income taxes for the third quarter of 2003. Total reorganization of businesses charges in the third quarter of 2002 were $31 million, including an $11 million charge reflected in the condensed consolidated statements of operations under Reorganization of Businesses and a $20 million charge included in Costs of Sales. Expenses included under Reorganization of Businesses are expenses associated with plans to discontinue product lines, exit businesses and consolidate manufacturing and administrative operations. The reorganization of businesses charges included in Costs of Sales are severance charges for direct labor employees. These charges are discussed in further detail in the 2003 Reorganization of Businesses Charges section below.



*Other charges (income)*

The Company recorded income of $4 million in Other Charges (Income) in the third quarter of 2003, compared to income of $85 million in the third quarter of 2002. The income in the third quarter of 2003 primarily consists of income from the sale of assets related to the Iridium program that have been previously written down. The income in the third quarter of 2002 consisted of: (i) $60 million in income relating to Iridium vendor termination settlements and the related reduction of accruals no longer needed, and (ii) $24 million of income for the reduction of accruals no longer needed due to the settlement of certain environmental claims.

*Net interest expense*

Net interest expense was $84 million in the third quarter of 2003, compared to $92 million in the third quarter of 2002. Net interest expense in the third quarter of 2003 included interest expense of $173 million, partially offset by $89 million of interest income. Net interest expense in the third quarter of 2002 included interest expense of $173 million, partially offset by $81 million of interest income.

As further described under "Liquidity and Capital Resources", as mandated by FAS 150, beginning in the third quarter of 2003, $486 million of Trust Originated Preferred Securities[sm] (TOPrS[sm]) have been reclassified as long-term debt in the Company's condensed consolidated balance sheet as of September 27, 2003. In connection with this reclassification, beginning with the third quarter of 2003, the $8 million of quarterly distributions paid to holders of the TOPrS will be classified as interest expense in the Company's condensed consolidated statements of operations, rather than under SG&A expenses as was previously the case. Accordingly, while the TOPrS remain outstanding, interest expense for all periods beginning with the third quarter of 2003 will be higher than it otherwise would have been prior to the implementation of FAS 150.

The decrease in net interest expense for the third quarter of 2003 is primarily attributed to: (i) a $1.0 billion reduction in total debt since the third quarter of 2002, primarily due to the redemption of $825 million of Puttable Reset Securities (PURS)[sm] in the first quarter of 2003, and (ii) the benefits of favorable interest rate swaps.

*Gains on sales of investments and businesses*

Gains on sales of investments and businesses in the third quarter of 2003 were $31 million, compared to $37 million in the third quarter of 2002. In the third quarter of 2003, the gains primarily resulted from the sale of equity securities of other companies held for investment purposes. In the third quarter of 2002, the net gains primarily related to the sale of the CodeLink bioarray business and additional gains due to the settlement of contingencies associated with prior sales of certain businesses.

*Other*

Charges classified as Other, as presented in Other Income (Expense), include: (i) foreign currency transaction gains (losses), (ii) equity in net earnings (losses) of affiliated companies, and (iii) investment impairment charges. Other charges in the third quarter of 2003 declined to $32 million, compared to $71 million in the third quarter of 2002. This decrease was primarily attributable to a decline in investment impairments to $19 million in the third quarter of 2003, compared to $77 million in the third quarter of 2002.

*Effective tax rate*

The effective tax rate was 35% in the third quarter of 2003, representing a $62 million net tax expense, compared to a 48% effective tax rate, representing a $104 million net tax expense, in the third quarter of 2002. The higher effective tax rate in the third quarter of 2002 was due primarily to an



adjustment that reduced tax benefits previously recorded on employee severance costs, exit costs and asset impairments in countries where, due to loss positions, the Company was unable to realize associated tax benefits.

*Earnings (Loss)*

The Company had earnings before income taxes of $178 million in the third quarter of 2003, compared with earnings before income taxes of $215 million in the third quarter of 2002. After taxes, the Company had earnings of $116 million, or $0.05 per share, in the third quarter of 2003, compared with net earnings of $111 million, or $0.05 per share, in the third quarter of 2002.

The decrease in earnings before income taxes is primarily attributed to: (i) an $81 million reduction in Other Income, primarily reflecting income in the third quarter of 2002 that is not reflected in the third quarter of 2003, primarily due to reduction of accruals relating to Iridium vendor termination settlements and the settlement of certain environmental claims, and (ii) a $33 million increase in reorganization of business charges, primarily related to employee severance costs, partially offset by: (i) a $58 million reduction in investment impairments, (ii) benefits attributed to cost-reduction activities, predominantly reflected in the overall decrease of SG&A costs, and (iii) a decease in net interest expense.

The increase in the after tax earnings was due to the lower tax rate applied to earnings before income taxes, which declined by 17% in the third quarter of 2003 compared to the third quarter of 2002. As discussed above, the higher effective tax rate in the third quarter of 2002 is due to an adjustment that reduced tax benefits previously recorded on employee severance costs, exit costs and asset impairments in countries where, due to loss positions, the Company was unable to realize associated tax benefits.

***Results of Operations Nine months ended September 27, 2003 compared to nine months ended September 28, 2002***

*Net Sales*

Net sales were $19.0 billion for the first nine months of 2003, down 3% from $19.6 billion in the first nine months of 2002. Net sales declined in five of the Company's six major segments in the first nine months of 2003 compared to the first nine months of 2002. The overall decline in net sales was primarily due to: (i) a $363 million decrease in net sales by the Broadband Communications segment, reflecting continuing decreased capital spending by cable service providers, (ii) a $324 million decrease in net sales by the Global Telecom Solutions segment, reflecting reduced spending by wireless service providers, (iii) a $103 million decrease in net sales by the Personal Communications segment, reflecting the impact of increasing competitive pressure in Asia, particularly in China, and the impact of Severe Acute Respiratory

Syndrome (SARS) in the first half of 2003, and (iv) a $167 million decrease in net sales by the Semiconductor Products segment, reflecting a continued decrease in expenditures by customers in the industries served by the segment, and competitive pressures in Asia. These decreases were partially offset by a $319 million increase in net sales in the Commercial, Government and Industrial Solutions segment, reflecting increased customer spending due to activity in homeland security initiatives.

*Gross margin*

Gross margin was $6.3 billion for the first nine months of 2003, compared to $6.4 billion for the first nine months of 2002, due to the decrease in sales. Gross margin as a percentage of sales increased to 33.1% in the first nine months of 2003, compared to 32.7% in the first nine months of 2002. The increase in gross margin as a percentage of sales was primarily due to: (i) an increase in gross margin percentage in the Commercial, Government and Industrial Solutions segment, reflecting a favorable



shift in product mix towards higher-margin products, as well as benefits attributed to prior cost-reduction activities, and (ii) an increase in gross margin percentage in the Global Telecom Solutions segment, primarily due to benefits from prior restructuring efforts, partially offset by: (i) a decline in gross margin percentage in the Personal Communications segment, primarily in Asia, where margins were driven down by lower volume, competitive pricing pressures, particularly in China, and unusually high sales of low-margin, end-of-life products, and (ii) a decline in gross margin percentage in the Semiconductor Products segment, driven by the decrease in sales volume and lower factory utilization.

*Selling, general and administrative expenses*

Selling, general and administrative (SG&A) expenses were $2.9 billion, or 15.3% of net sales, for the first nine months of 2003, compared to $3.4 billion, or 17.3% of net sales, in the first nine months of 2002. The decrease in SG&A expenses for the first nine months of 2003 compared to the first nine months of 2002 is primarily due to: (i) a decline in overall administrative and general spending, reflecting benefits from prior cost-reduction efforts, and (ii) a decline in total selling and sales support costs, specifically in the Global Telecom Solutions segment, reflecting benefits from prior cost-reduction efforts, partially offset by an increase in incentive program costs due to higher anticipated incentive payouts.

*Research and development expenditures*

Research and development (R&D) expenditures increased slightly to $2.8 billion, or 14.9% of net sales, for the first nine months of 2003, compared to $2.8 billion, or 14.2% of net sales, in the first nine months of 2002. The increase in R&D expenditures was primarily due to: (i) an increase in R&D expenditures by the Personal Communications segment, where R&D expenditures are reflected in a high volume of new product offerings, and (ii) an increase in R&D expenditures by the Semiconductor Products segment, reflecting a focus on new products and a reduction in customer-funded R&D expenditures, primarily offset by a decrease in R&D expenditures by the Global Telecom Solutions segment, reflecting benefits from prior restructuring efforts.

*Reorganization of businesses*

The Company recorded net total reorganization of business charges in the first nine months of 2003 of $53 million, including a $65 million charge reflected in the condensed consolidated statements of operations under Reorganization of Business and a $12 million reversal reflected in Costs of Sales. The $53 million net charge for the first nine months of 2003 included $225 million of new reorganization of business charges, offset by $172 million of reversals of accruals no longer needed. The $172 million of reversals represented 31% of the Company's earnings before income taxes for the first nine months of 2003. Total reorganization of businesses charges in the first nine months of 2002 were $1.7 billion, including a $1.7 billion charge reflected in the condensed consolidated statements of operations under Reorganization of Businesses and a $68 million charge included in Costs of Sales. Expenses included under Reorganization of Businesses are expenses associated with plans to discontinue product lines, exit businesses and consolidate manufacturing and administrative operations. The reorganization of businesses charges included in Costs of Sales are severance charges for direct labor employees. These charges are discussed in further detail in the 2003 Reorganization of Businesses Charges section below.

*Other charges (income)*

The Company recorded income of $74 million in Other Charges (Income) in the first nine months of 2003, compared to charges of $827 million in the first nine months of 2002. The income in the first nine months of 2003 primarily consists of: (i) $59 million in income relating to the reassessment of the

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remaining reserve requirements as a result of the Iridium settlement agreement with the Chase Manhattan Bank, and (ii) $41 million in income from the sale of Iridium-related assets that were previously written down, partially offset by in-process research and development charges of $32 million related to the acquisition of Winphoria Networks, Inc. Other charges for the first nine months of 2002 were primarily comprised of: (i) a $526 million charge for potentially uncollectible finance receivables from Telsim, (ii) a $325 million charge for an intangible asset impairment of an intellectual property license, (iii) an $80 million charge for repayment of incentives related to impaired facilities, and (iv) an $11 million charge for acquired in-process research and development related to the acquisition of Synchronous, Inc, partially offset by: (i) $60 million in income relating to Iridium vendor termination settlements and the related reduction of accruals no longer needed, and (ii) $24 million of income for the reduction of accruals no longer needed due to the settlement of certain environmental claims.

*Net interest expense*

Net interest expense was $236 million in the first nine months of 2003, compared to $300 million in the first nine months of 2002. Net interest expense in the first nine months of 2003 included interest expense of $502 million, partially offset by interest income of $266 million. Net interest expense in the first nine months of 2002 included interest expense of $512 million, partially offset by interest income of $212 million. The decrease in net interest expense is primarily attributed to: (i) a $1.0 billion reduction in total debt since the third quarter of 2002, reflecting the redemption of $825 million of Puttable Reset Securities (PURS)[sm] offset by a $486 million increase in long-term debt due to the previously-described, FAS 150-mandated reclassification of the TOPrS[sm], (ii) the benefits of favorable interest rate swaps, and (iii) interest received on a tax refund.

*Gains on sales of investments and businesses*

Gains on sales of investments and businesses in the first nine months of 2003 were $338 million, compared to $72 million in the prior-year period. For the first nine months of 2003, the gains primarily resulted from the sale of 25 million shares of Nextel Communications, Inc, held by the Company for investment purposes. For the first nine months of 2002, the net gains primarily related to: (i) the sale of the CodeLink bioarray business, (ii) the sale of equity securities, and (ii) additional gains due to the settlement of contingencies associated with the prior sales of certain business.

*Other*

Other included in Other Income (Expense) includes (i) foreign currency transaction gains (losses), (ii) equity in net earnings (losses) of affiliated companies, and (iii) investment impairment charges. Other charges in the first nine months of 2003 were $119 million, compared to $1.2 billion in the first nine months of 2002. The decrease was primarily due to a decline in investment impairments.

*Effective tax rate*

The effective tax rate was 26% for the first nine months of 2003, representing a $143 million net tax expense, compared to a 29% effective tax rate, representing a $1.1 billion net tax benefit, in the first nine months of 2002. The lower effective tax rate in the first nine months of 2003 reflects a $61 million benefit from the reversal of previously accrued income taxes. The tax reversal relates to a reassessment of the Company's income tax requirements given the current status of its income tax audits. The tax rate for the first nine months of 2003, excluding the tax reversal and the impact of the non-deductible Winphoria Networks, Inc. acquisition charge, was 35%. This adjusted effective tax rate of 35% for the first nine months of 2003 is greater than the rate of 29% for the first nine months of 2002 due to a change in the mix of earnings and losses by geographic region.

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The Company currently expects the effective tax rate for the full year 2003 to be approximately 30%, as compared to 28% for the full year 2002. Excluding the tax reversal and impact of the non-deductible Winphoria Networks, Inc. acquisition charge, the adjusted effective tax rate for the full year 2003 is estimated to be 35%. The increase in the effective tax rate for the full year 2003, as compared to the full year 2002, is due primarily to the expected increase in the Company's earnings and the mix of earnings and losses by geographic region.

*Earnings (Loss)*

The Company had earnings before income taxes of $547 million in the first nine months of 2003, compared with a loss before income taxes of $3.7 billion in the first nine months of 2003. After taxes, the Company had earnings of $404 million, or $0.17 per share, in the first nine months of 2003, compared with a net loss of $2.7 billion, or ($1.17) per share, in the first nine months of 2002.

The improvement in financial results for the first nine months of 2003 primarily reflects the absence of a number of significant charges that occurred in the first nine months of 2002. The charges in the first nine months of 2002 primarily consisted of: (i) a $1.7 billion charge related to reorganization of business activities, (ii) a $1.2 billion charge for investment impairments, (iii) a $526 million charge for potentially uncollectible finance receivables from Telsim, and (iv) a $325 million charge for intangible asset impairments. Additional improvements in the financial results for the first nine months of 2003 resulted from: (i) a decline in SG&A expenses, reflecting benefits attributed to cost-reduction activities, and (ii) a decline in net interest expense. These cost improvements were partially offset by a 3% decrease in net sales.

***Earnings Outlook for Fourth Quarter 2003***

In the fourth quarter of 2003, the Company expects net sales to be between $7.5 billion and $7.8 billion, as compared to net sales of $7.7 billion in the fourth quarter of 2002. The company expects to achieve earnings per share in the range of $0.08 per share to $0.12 per share in the fourth quarter of 2003, compared to earnings of $0.08 per share in the fourth quarter of 2002.

**2003 Reorganization of Businesses Charges**

During the third quarter of 2003, the Company implemented cost-reduction plans by consolidating manufacturing and administrative operations and reducing its workforce. The Company expects to realize cost-saving benefits of approximately $17 million for the third and fourth quarters of 2003 from the plans implemented in the third quarter of 2003, representing $3 million of savings in Costs of Sales, $10 million of savings in Research and Development Expenditures and $4 million of savings in Selling, General and Administrative Expenses. Beyond 2003, the Company expects the third quarter 2003 reorganization of businesses programs to provide annualized cost savings of approximately $98 million, representing $37 million of savings in Costs of Sales, $39 million of savings in Research and Development Expenditures and $22 million of savings in Selling, General and Administrative Expenses.

In addition to the plans discussed above, the Company has implemented plans to reduce its workforce, discontinue product lines, exit businesses and consolidate manufacturing and administrative operations. Prior to January 1, 2003, the Company recorded provisions for employee separation costs and exit costs based on estimates prepared at the time the restructuring plans were approved by management. On January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which generally requires one-time termination benefits and exit costs to be expensed as incurred and it requires ongoing termination benefits and exit costs to be recognized when they are probable and estimatable. Exit costs primarily consist of future minimum lease payments on vacated facilities and facility closure costs. Employee separation costs consist primarily of ongoing termination benefits, primarily severance payments. At each reporting date, the



Company evaluates its accruals for exit costs and employee separation costs to ensure that 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 unexpectedly and did not receive severance, or were redeployed due to circumstances not foreseen when the original plans were initiated. The Company reverses accruals to income when it is determined they are no longer required.

***Three months ended September 27, 2003***

For the three months ended September 27, 2003, the Company recorded net charges of $43 million, of which $1 million of net reversals was included in Costs of Sales and $44 million of net charges were recorded under Reorganization of Businesses in the Company's condensed consolidated statements of operations. The aggregate $43 million of net charges is comprised of the following:

| | Exit Costs | Employee Separations | Asset Writedowns | Total |
|---|---|---|---|---|
| Discontinuation of product lines | $ | $ | $ (5) | $ (5) |
| Business exits | (1) | | | (1) |
| Manufacturing and administrative consolidations | (3) | 49 | 3 | 49 |

| | Exit Costs | Employee Separations | Asset Writedowns | Total |
|---|---|---|---|---|
| | $ (4) | $ 49 | $ (2) | $ 43 |

*Discontinuation of Product Lines*

For the three months ended September 27, 2003, the Semiconductor Products segment reversed $5 million of reserves previously established to cover facility decommissioning costs which are no longer needed.

*Business exits*

For the three months ended September 27, 2003, the Other Products segment reversed exit cost accruals of $1 million.

*Manufacturing and Administrative Consolidations*

The Company's actions to consolidate manufacturing operations and to implement strategic initiatives to streamline its global organization resulted in charges of $71 million ($49 million net of reversals) for the three months ended September 27, 2003. The charges consisted primarily of: (i) $33 million in the Semiconductor Products segment, primarily for segment-wide employee separation costs; (ii) $21 million in the Personal Communications segment for the impairment of assets classified as held-for-sale related to the announced exit of certain manufacturing activities in Germany, management's decision to sell a manufacturing facility in Mexico and segment-wide employee separation costs; and (iii) $17 million in the Integrated Electronic Systems and Commercial, Government and Industrial Solutions segments for employee separation costs. These charges were offset by reversals of $22 million, primarily for unused accruals relating to previously-expected employee separation costs across all segments.

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***Reorganization of Businesses Charges by Segment***

The following table displays the net charges (reversals) incurred by segment for the three months ended September 27, 2003:

| Segment | Exit Costs | Employee Separations | Asset Writedowns | Total |
|---|---|---|---|---|
| Personal Communications | $ (1) | $ 9 | $ 10 | $ 18 |
| Semiconductor Products | | 33 | (12) | 21 |
| Global Telecom Solutions | | (6) | | (6) |
| Commercial, Government and Industrial Solutions | (1) | 7 | | 6 |
| Integrated Electronic Systems | | 10 | | 10 |
| Broadband Communications | | | | |
| Other Products | (1) | (2) | | (3) |
| General Corporate | (1) | (2) | | (3) |
| | $ (4) | $ 49 | $ (2) | $ 43 |

***Nine months ended September 27, 2003***

For the nine months ended September 27, 2003, the Company recorded net charges of $53 million, of which $12 million of net reversals were included in Costs of Sales and $65 million of net charges were recorded under Reorganization of Businesses in the Company's condensed consolidated statements of operations. The aggregate $53 million net charge is comprised of the following:

| | Exit Costs | Employee Separations | Asset Writedowns | Total |
|---|---|---|---|---|
| Discontinuation of product lines | $ (1) | $ | $ (5) | $ (6) |

| | Exit Costs | Employee Separations | Asset Writedowns | Total |
|---|---|---|---|---|
| Business exits | (3) | | | (3) |
| Manufacturing and administrative consolidations | (19) | 40 | 41 | 62 |
| | $ (23) | $ 40 | $ 36 | $ 53 |

*Discontinuation of Product Lines*

For the nine months ended September 27, 2003, the Semiconductor Products segment reversed $6 million of reserves previously established primarily to cover facility decommissioning costs which are no longer needed.

*Business Exits*

For the nine months ended September 27, 2003, the Other Products segment reversed exit cost accruals of $3 million.

*Manufacturing and Administrative Consolidations*

The Company's actions to consolidate manufacturing operations and to implement strategic initiatives to streamline its global organization resulted in additional charges of $225 million ($62 million net of reversals) for the nine months ended September 27, 2003. These charges consisted primarily of: (i) $110 million in the Semiconductor Products segment, primarily for segment wide employee separation costs, impairment of an Austin, Texas manufacturing site and impairment of equipment classified as held-for-sale, (ii) $38 million in the Commercial, Government and Industrial Solutions segment for employee separation costs, (iii) $32 million in General Corporate, primarily for the impairment of assets classified as held-for-sale, and (iv) $25 million in the Personal



Communications segment for the impairment of assets classified as held-for-sale related to the announced exit of certain manufacturing activities in Germany, management's decision to sell a manufacturing facility in Mexico and segment wide employee separation costs. The $225 million of charges were partially offset by reversals of previous accruals of $163 million, consisting primarily of: (i) $98 million relating to unused accruals of previously expected employee separation costs across all segments, (ii) $44 million, primarily for assets which the Company intends to use that were previously classified as held-for-sale, as well as for reserves previously established to cover decommissioning costs which are no longer needed due to the sale of the facility in the Semiconductor Products segment, and (iii) $21 million for exit cost accruals no longer required across all segments.

***Reorganization of Businesses Charges by Segment***

The following table displays the net charges (reversals) incurred by segment for the nine months ended September 27, 2003:

| Segment | Exit Costs | Employee Separations | Asset Writedowns | Total |
|---|---|---|---|---|
| Personal Communications | $ (2) | $ (2) | $ 3 | $ (1) |
| Semiconductor Products | (6) | 44 | 21 | 59 |
| Global Telecom Solutions | (3) | (23) | (6) | (32) |
| Commercial, Government and Industrial Solutions | (3) | 27 | | 24 |
| Integrated Electronic Systems | (1) | (2) | | (3) |
| Broadband Communications | 2 | (6) | (4) | (8) |
| Other Products | (3) | 5 | | 2 |
| General Corporate | (7) | (3) | 22 | 12 |
| | $ (23) | $ 40 | $ 36 | $ 53 |

***Reorganization of Businesses Accruals***

The following table displays a rollforward of the accruals established for exit costs from January 1, 2003 to September 27, 2003:

*Exit Costs*

| | Accruals at January 1, 2003 | 2003 Additional Charges | 2003 Adjustments | 2003 Amount Used | Accruals at September 27, 2003 |
|---|---|---|---|---|---|
| Discontinuation of product lines | $ 6 | $ | (1) | $ (5) | $ |
| Business exits | 82 | | (3) | (13) | 66 |
| Manufacturing & administrative consolidations | 129 | 2 | (21) | (27) | 83 |
| | $ 217 | $ 2 | $ (25) | $ (45) | $ 149 |

The 2003 adjustments of $25 million primarily represent exit cost accruals across all segments which are no longer required. The $45 million used in 2003 reflects cash payments of $40 million and non-cash utilization of $5 million. The remaining accrual of $149 million, which is included in Accrued Liabilities in the Company's condensed consolidated balance sheets, represents future cash payments, primarily for lease termination obligations, which will extend over several years.



The following table displays a rollforward of the accruals established for employee separation costs from January 1, 2003 to September 27, 2003:

*Employee Separation Costs*

| | Accruals at January 1, 2003 | 2003 Additional Charges | 2003 Adjustments | 2003 Amount Used | Accruals at September 27, 2003 |
|---|---|---|---|---|---|
| Manufacturing & administrative consolidations | $ 419 | $ 138 | $ (98) | $ (328) | $ 131 |

At January 1, 2003, the Company had an accrual of $419 million for employee separation costs, representing the severance costs for approximately 7,200 employees. The 2003 additional charges of $138 million represent the severance costs for approximately an additional 2,800 employees.

During the nine months ended September 27, 2003, approximately 6,600 employees were separated from the Company. The $328 million used in 2003 reflects cash payments of $322 million and non-cash utilization of $6 million to these separated employees. The remaining accrual of $131 million, which is included in Accrued Liabilities in the Company's condensed consolidated balance sheets, is expected to be paid to approximately 2,400 separated employees throughout the remainder of 2003 and first quarter of 2004.

**Liquidity and Capital Resources**

As highlighted in the condensed 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*

At September 27, 2003, the Company's cash and cash equivalents (which are highly-liquid investments with an original maturity of 3 months or less) aggregated $7.1 billion, compared to $6.5 billion at December 31, 2002 and $6.3 billion at September 28, 2002. On September 27, 2003, $3.7 billion of this amount was held in the U.S. and $3.4 billion was held by the Company or its subsidiaries in other countries. Repatriation of some of the funds in other countries could be subject to delay and could have potential tax consequences.

*Operating Activities*

In the first nine months of 2003, the Company generated $1.9 billion in cash from operations, compared to $825 million generated in the first nine months of 2002. The primary contributors to cash flow from operations in the first nine months of 2003 were: (i) net earnings, adjusted for non-cash items, of $1.1 billion, (ii) a decrease of $529 million in accounts receivable, reflecting a decrease in all business segments except the Integrated Electronic Systems segment, (iii) a $210 million reduction in inventory, primarily related to inventory reductions in the Personal Communications, Global Telecom Solutions and Semiconductor Products segments, and (iv) a $407 million decrease in other net operating assets, primarily due to the repayment of finance receivables, partially offset by a $445 million decrease in accounts payable and accrued liabilities, primarily related to cash payments for employee severance, exit costs and income taxes.

The Company's net accounts receivable were $3.9 billion at September 27, 2003, compared to $4.4 billion at December 31, 2002 and $4.1 billion at September 28, 2002. The Company's days sales outstanding, excluding net long-term finance receivables, were 50.8 days outstanding at September 27, 2003, compared to 51.9 days outstanding at December 31, 2002 and 56.8 days outstanding at



September 28, 2002. The decrease in net accounts receivable at September 28, 2003 compared to December 31, 2002 was due to the improved performance in managing receivables.

The Company's net inventory was $2.7 billion at September 27, 2003, compared to $2.9 billion at both December 31, 2002 and September 28, 2002. The Company's inventory turns (calculated based on the 12-month rolling costs of sales divided by average inventory) were 6.2 at September 27, 2003, compared to 6.6 at December 31, 2002 and 6.7 at September 28, 2002. The decrease in net inventory reflects the decrease in sales, as well as benefits from improved supply-chain management processes. Inventory management continues to be an area of focus as the Company balances the need to maintain strategic inventory levels to ensure competitive lead-times with the risk of inventory obsolescence due to rapidly changing technology and customer requirements.

To improve its future profitability, the Company has implemented substantial cost-reduction and product-simplification plans. These plans involve exits from businesses, and consolidation of manufacturing facilities. Cash payments for exit costs and employee separations in connection with these plans were $362 million in the first nine months of 2003. All of the remaining $280 million Reorganization of Businesses accruals at September 27, 2003 are expected to result in future cash payments.

Cash contributions of $100 million have been made to the regular U.S. pension plan during the first nine months of 2003. The Company expects to make additional cash contributions of between $50 million and $100 million to this plan during the fourth quarter of 2003. The Company also expects to make cash contributions to this plan during 2004 of at least as much as was contributed during 2003.

*Investing Activities*

The most significant components of the Company's investing activities are: (i) capital expenditures, (ii) strategic acquisitions of, or investments in, other companies, and (iii) proceeds from dispositions of investments and businesses.

Net cash used by investing activities was $217 million for the first nine months of 2003, as compared to $322 million used by investing activities for the first nine months of 2002. The $105 million decrease in cash used for investing activities in the first nine months of 2003 compared to the first nine months of 2002 reflects an increase of $334 million in proceeds received from dispositions of investments and businesses, primarily due to the sale of 25 million shares of Nextel Communications, Inc. during the second quarter of 2003. This inflow of cash was partially offset by a $97 million increase in capital expenditures and a $184 million increase in spending on acquisitions and new investments.

*Capital Expenditures:* Capital expenditures in the first nine months of 2003 were $485 million, compared to $388 million in the first nine months of 2002. Capital expenditures in the Semiconductor Products segment continued to comprise the largest portion of these expenditures, representing $242 million in the first nine months of 2003, compared to $132 million in the first nine months of 2002.

*Strategic Acquisitions and Investments:* Cash consumed by the Company's acquisition and new investment activities increased to $251 million in the first nine months of 2003, compared to $67 million in the first nine months of 2002. The cash consumed in the first nine months of 2003 was primarily comprised of: (i) $179 million for the acquisition of Winphoria Networks, Inc., a core infrastructure provider of next-generation packet-based mobile switching centers for wireless networks, acquired by the Global Telecom Solutions segment, and (ii) $32 million in cash to acquire the remaining outstanding shares of Next Level Communications, Inc. The largest component of the 2002 expenditures was $22 million in cash for the acquisition of 4thpass Inc., a provider of software that enables wireless operators to manage and deliver applications and other mobile content over the air to mobile devices, by the Personal Communications segment.

*Dispositions of Investments and Businesses:* The Company received $391 million in proceeds from the disposition of investments and businesses during the first nine months of 2003, compared to proceeds of $57 million in the first nine months of 2002. The proceeds from the first nine months of 2003 were generated primarily from the sale of 25 million shares of Nextel Communications, Inc. (Nextel) that were held by the Company for investment purposes. The sale of these shares generated approximately $335 million in gross proceeds and a gain of approximately $255 million. The proceeds from the first nine months of 2002 were generated primarily from the sale of securities held in the Company's investment portfolio and from the sale of the Company's CodeLink bioarray business.

*Short-Term Investments:* At September 27, 2003, the Company had $75 million in short-term investments (which are highly-liquid fixed-income investments with an original maturity date greater than 3 months but less than one year), compared to $59 million at December 31, 2002, and $86 million at September 28, 2002.

*Available-for-Sale Securities:* In addition to its available cash, cash equivalents and short-term investments totaling $7.2 billion, 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. At September 27, 2003, the Company's available-for-sale securities had approximate fair market values of $2.2 billion, which represented a cost basis of $522 million and an unrealized net gain of $1.7 billion. At December 31, 2002, the Company's available-for-sale securities had approximate fair market values of $1.6 billion, which represented a cost basis of $615 million and an unrealized net gain of $953 million.



*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, and (iv) proceeds from the issuances of stock due to the exercise of employee stock options and purchases under the employee stock purchase plan.

Net cash used for financing activities was $1.1 billion in the first nine months of 2003, compared to $326 million used in the first nine months of 2002. Net cash used for financing activities in the first nine months of 2003 was primarily used: (i) to repay $950 million of total debt (including commercial paper), mainly reflecting the redemption of all of the Company's $825 million of Puttable Reset Securities (PURS)[sm] in the first quarter of 2003, and (ii) to pay dividends of $278 million, partially offset by proceeds of $79 million from the issuance of common stock in connection with the Company's employee stock option plans and employee stock purchase plan. Net cash used for financing activities in the first nine months of 2002 was primarily used: (i) to repay $401 million of total debt (including commercial paper), and (ii) to pay dividends of $272 million, partially offset by proceeds of $282 million from the issuance of common stock in connection with the Company's employee stock option plans and employee stock purchase plan.

At September 27, 2003, the Company's outstanding notes payable and current portion of long-term debt was $1.2 billion, compared to $1.6 billion at December 31, 2002 and $1.5 billion at September 28, 2002. The decrease in short-term debt during 2003 reflects the repayment of $825 million of Puttable Reset Securities (PURS)[sm] due February 1, 2011 in the first quarter of 2003, offset by the reclassification of $500 million of 6.75% debentures due June 2004 from long-term debt to the current portion of long-term debt in the second quarter of 2003.

At September 27, 2003, the Company had $504 million of outstanding commercial paper, compared to $495 million at December 31, 2002 and $496 million at September 28, 2002. The Company currently expects its outstanding commercial paper balances to average between $300 million and $500 million over the next year.

At September 27, 2003, the Company had long-term debt of $7.2 billion, compared to $7.2 billion at December 31, 2002 and $7.5 billion at September 28, 2002. The unchanged nature of long-term debt during 2003 reflects the reclassification of $500 million from long-term debt to the current portion of long-term debt as described above, offset by the reclassification of $486 million of TOPrS from "Company-obligated mandatorily redeemable preferred securities of subsidiary trust solely holding company-guaranteed debentures" in the Company's condensed consolidated balance sheets to long-term debt as mandated by SFAS 150.

On September 30, 2003, the Company announced the conclusion of its offer to purchase its Liquid Yield Option Notes due September 27, 2013 (Zero Coupon-Subordinated) (the "LYONs"). Pursuant to the indenture under which the LYONs were issued in September 1993, the holders' option to surrender the LYONs for repurchase that began on August 29, 2003 expired on September 29, 2003. LYONs with an aggregate principal amount at maturity of approximately $98 million were validly tendered and repurchased by Motorola. This leaves an aggregate principal amount at maturity of approximately $4.4 million of LYONs outstanding. The purchase price for the LYONs was $799.52 per $1,000 principal amount at maturity. Accordingly, the aggregate purchase price for all of the LYONs validly tendered was approximately $78.4 million. Motorola paid the purchase price with available cash.

Given the Company's significant 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.



*Debt Ratings:* Three independent credit rating agencies, Standard & Poor's ("S&P"), Moody's Investors Service ("Moody's") and Fitch Investors Service ("Fitch"), assign ratings to the Company's short-term and long-term debt. On October 10, 2003, Moody's downgraded the Company's senior unsecured non-credit enhanced long-term debt to "Baa3" from "Baa2" with a "negative" outlook and downgraded the Company's commercial paper rating to "P-3" from "P-2". On June 23, 2003, S&P affirmed its credit rating for the Company's senior unsecured non-credit enhanced long-term debt of "BBB", but revised its outlook to "negative" from "stable". S&P explicitly affirmed the Company's commercial paper rating of "A-2". On June 3, 2003, Fitch affirmed its credit rating for the Company's senior unsecured non-credit enhanced long-term debt of "BBB" with a "stable" outlook and the Company's commercial paper rating of "F-2".

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. Since the end of 2001, the Company has maintained greatly reduced levels of commercial paper outstanding than during its prior history. This reflects the fact that the market for commercial paper rated "A-2/P-3/F-2" is much 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-3/F-2" market from time-to-time or for extended periods.

The Company's debt rating is still considered "investment grade". If the Company's senior long-term debt was rated lower than "BBB-" by S&P or "Baa3" by Moody's or "BBB-" by Fitch (which would be a decline of one level from the current Moody's rating), 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. In addition, if these debt ratings were to be lower than "BBB-" by S&P or "Baa3" by Moody's (which would be a decline of one level from the current Moody's rating), the Company and its domestic subsidiaries would be obligated to provide the lenders in the Company's domestic revolving credit facilities with a pledge of, and security interest in, domestic inventories and receivables. The Company would also have to pay higher fees related to these facilities. The Company has never borrowed under its domestic revolving credit facilities.

As further described under "Customer Financing Arrangements" below, for many years the Company has utilized a receivables program to sell a broadly-diversified group of short-term receivables, through Motorola Receivables Corporation ("MRC"), to third parties. The obligations of the third parties to continue to purchase receivables under the MRC 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 two levels from the current Moody's rating). If the MRC short-term receivables program were terminated, the Company would no longer be able to sell its short-term receivables in this manner, but it would not have to repurchase previously-sold receivables.

The Company's ratio of net debt to net debt plus equity was 9.1% at September 27, 2003, compared to 19.6% at December 31, 2002 and 21.1% at September 28, 2002. The ratio of net debt to net debt plus equity is the sum of long-term debt plus notes payable and current maturities of long-term debt minus the sum of cash and cash equivalents plus marketable securities divided by the sum of stockholders equity and long-term debt plus notes payable and current maturities of long-term debt minus the sum of cash and cash equivalents plus marketable securities. For comparability purposes the historical ratios have been calculated to include the TOPrS as long-term debt as is now required under SFAS 150. The decrease in this ratio is primarily due to: (i) the Company's $900 million reduction in total debt, and (ii) the increase in cash. The Company's management uses the ratio of net debt to net debt plus equity as one measure of the strength of the Company's balance sheet. This ratio is only one of many possible measures and investors should analyze the balance sheet, and the accompanying notes thereto, in their entirety in order to reach their own conclusions about the Company's overall financial strength. In addition, the ratio of net debt to net debt plus equity is measured at a specific point in time. Since certain of its components, in particular the Company's cash balances, are subject to daily change, investors should recognize that this ratio is subject to volatility.

Although the Company believes that it can continue to access the capital markets over the next year on acceptable terms and conditions, its flexibility with regard to long-term and short-term financing activity could be limited by: (i) the Company's credit ratings, and (ii) the level of market demand for debt issued by telecommunications companies. 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 the Company's control. There can be no assurances that the Company will continue to have access to the capital markets on favorable terms.

At September 27, 2003, the Company's total domestic and non-U.S. credit facilities totaled $3.8 billion, of which $122 million was considered utilized. These facilities are principally comprised of: (i) a $700 million 364-day revolving domestic credit facility (expiring in May 2004) which was not utilized, (ii) a $900 million three-year revolving domestic credit facility (expiring in May 2005) which was not utilized, and (iii) $2.2 billion of non-U.S. credit facilities (of which $122 million was considered utilized at September 27, 2003). Unused availability under the existing credit facilities, together with available cash and cash equivalents and other sources of liquidity, are generally available to support outstanding commercial paper, which was $504 million at September 27, 2003. However, these agreements contain various conditions, covenants and representations with which the Company must be in compliance in order to borrow funds under the domestic revolving credit facilities and have this liquidity.

In May 2003, the Company completed the renewal of its 364-day revolving credit facility. Important terms of the credit agreement include a springing contingent lien and covenants related to net interest coverage and total debt-to-book capitalization ratios. Under the current facilities, if the Company's corporate credit ratings were to be lower than "BBB-" by S&P or "Baa3" by "Moody's" (which would be a decline of one level from the current Moody's rating), the Company and its domestic subsidiaries would be obligated to provide the lenders in the Company's domestic revolving credit facilities with a pledge of, and security interest in, domestic inventories and receivables. The Company's current corporate credit ratings are "BBB" with a "negative" outlook by S&P, "Baa3" with a "negative" outlook by Moody's, and "BBB" with a "stable" outlook by Fitch.

The Company's current ratio was 1.86 at September 27, 2003, compared to 1.75 at December 31, 2002 and 1.74 at September 28, 2002.

Based on cash and cash equivalents in the U.S., the ability to repatriate cash and cash equivalents 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, 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. The Company expects to have positive operating cash flow in the fourth quarter of 2003 and for the full year 2003.

*Customer Financing Arrangements*

*Outstanding Commitments:* Although the Company has greatly reduced the level of long-term financing it provides to customers over the past few years, certain purchasers of the Company's infrastructure equipment continue to require suppliers to provide financing in connection with equipment purchases. Financing may include all or a portion of the purchase price of the equipment and working capital. The Company had outstanding commitments to extend credit to third parties totaling $182 million and $175 million at September 27, 2003 and December 31, 2002, respectively. The Company made loans to customers of $1 million and $3 million for the three months ended



September 27, 2003 and September 28, 2002, respectively and $8 million and $84 million for the nine months ended September 27, 2003 and September 28, 2002, respectively.

*Outstanding Finance Receivables:* During the "telecom boom" that peaked in late 2000, numerous wireless equipment makers, including the Company, made loans to customers, some of which were very large. The Company had net finance receivables of $222 million and $467 million at September 27, 2003 and December 31, 2002 (net of allowances for losses of $2.2 billion at September 27, 2003 and $2.3 billion at December 31, 2002). These finance receivables are generally interest bearing, with rates ranging from 4% to 12%. Interest income on impaired finance receivables is recognized only when payments are received. Total interest income recognized on finance receivables was $3 million and $2 million for the three months ended September 27, 2003 and September 28, 2002, respectively, and $16 million and $7 million for the nine months ended September 27, 2003 and September 28, 2002, respectively.

*Telsim Loan:* At both September 27, 2003 and December 31, 2002, the Company had $2.0 billion of gross receivables from one customer, Telsim, in Turkey (the "Telsim Loan"). As a result of difficulties in collecting the amounts due from Telsim, the Company has previously recorded charges reducing the net receivable from Telsim to zero. At both September 27, 2003 and December 31, 2002, the net receivable from Telsim was zero. Although the Company continues to vigorously pursue its recovery efforts, it believes the litigation and collection process will be very lengthy in light of the Uzans' (the family which controls Telsim) repeated decisions to violate court orders.

*Guarantees of Third-Party Debt:* In addition to providing direct financing to certain equipment customers, the Company also assists customers in obtaining financing from banks and other sources to fund equipment purchases and working capital. The amount of loans from third parties for which the Company has committed to provide financial guarantees totaled $44 million at September 27, 2003, as compared to $50 million at December 31, 2002. Customer borrowings outstanding under these guaranteed third-party loan arrangements were $44 million at September 27, 2003, as compared to $50 million at December 31, 2002.

The Company evaluates its contingent obligations under these financial guarantees by assessing the customer's financial status, account activity and credit risk, as well as the current economic conditions and historical experience. The $44 million of guarantees discussed above is comprised of guarantees for two customers in the amounts of $29 million and $15 million and are now both scheduled to expire in 2005. Management's best estimate of probable losses of unrecoverable amounts, should these guarantees be called, was $27 million at September 27, 2003 as compared to $25 million at December 31, 2002.

*Sales of Receivables and Loans:* From time to time, the Company sells short-term receivables and long-term loans to third parties in transactions that qualify as "true-sales". Certain of these receivables are sold through a separate legal entity, Motorola Receivables Corporation ("MRC"). MRC is a special purpose entity and the financial results for MRC are fully consolidated in the Company's financial statements. This receivables funding program is, in turn, administered through separate multi-seller commercial paper conduits. Under FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", these conduits are variable interest entities. However, the Company has concluded that it is not the primary beneficiary of these entities and will not be required to consolidate them under Interpretation 46.

As of December 31, 2002, the Motorola Receivables Corporation ("MRC") short-term receivables program provided for up to $400 million of short-term receivables to be outstanding with third parties at any time. In February 2003, the MRC short-term receivables program was amended and the level of allowable outstanding short-term receivables was increased to $425 million. Total receivables sold through the MRC short-term program were $204 million and $219 million for the three months ended



September 27, 2003 and September 28, 2002, respectively, and $588 million and $752 million for the nine months ended September 27, 2003 and September 28, 2002, respectively. There were approximately $161 million of short-term receivables outstanding under the MRC short-term receivables program at September 27, 2003, compared to $240 million outstanding at December 31, 2002.

In addition to the MRC short-term receivables program, the Company also sells other short-term receivables directly to third parties. Total short-term receivables sold by the Company (including those sold directly to third parties and those sold through the MRC short-term receivables program) were $587 million and $672 million during the three months ended September 27, 2003 and September 28, 2002, respectively and $1.9 billion and $2.2 billion during the nine months ended September 27, 2003 and September 28, 2002, respectively. There were approximately $821 million of short-term receivables outstanding under these arrangements at September 27, 2003, compared to $802 million outstanding at December 31, 2002. The Company's total credit exposure to outstanding short-term receivables that have been sold was $24 million at September 27, 2003, compared to $40 million at December 31, 2002. The Company had reserves of $13 million recorded for potential losses pursuant to this credit exposure at September 27, 2003, compared to $19 million recorded at December 31, 2002.

Prior to 2002, the Company had sold a limited number of long-term receivables to an independent third party through Motorola Funding Corporation ("MFC"). In connection with the sale of long-term receivables, the Company retained obligations for the servicing, administering and collection of receivables sold. In May 2003, the Company voluntarily terminated the program for the sale of long-term receivables through MFC. In light of the significant decrease in long-term financing provided by the Company to customers in recent years, no long-term receivables were sold through this program in 2002 or 2003 and the benefits from maintaining the program no longer exceeded the costs. To effect this termination, the Company purchased all outstanding long-term receivables previously sold to, and held by, the independent third party and terminated the credit insurance related to these long-term receivables. Accordingly, at September 27, 2003, the Company had no finance receivables outstanding under this program.

**Iridium Program**

A committee of unsecured creditors (the "Creditors Committee") of Iridium LLC and its operating subsidiaries (collectively "Old Iridium"), was, over objections by Motorola, granted leave by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") to file a complaint on Old Iridium's behalf against Motorola. In March 2001, the Bankruptcy Court approved a settlement between the

Creditors Committee and Old Iridium's secured creditors that provides for the creation of a litigation fund to be used in pursuit of the claims against Motorola. In July 2001, the Creditors Committee filed its complaint against Motorola in Bankruptcy Court on behalf of Old Iridium's debtors and estates, seeking in excess of $4 billion in damages. Discovery in this case is ongoing.

Motorola has been named as one of several defendants in putative class action securities lawsuits pending in the District of Columbia arising out of alleged misrepresentations or omissions regarding the Iridium satellite communications business. The plaintiffs seek an unspecified amount of damages. In March 2001, the federal district court consolidated the various securities cases under *Freeland v. Iridium World Communications, Inc., et al.*, originally filed in April 1999. Motorola moved to dismiss the plaintiffs' complaint in July 2002, and that motion has not yet been decided. Plaintiffs have filed a motion for partial summary judgment, which is also pending.

In September 2002, Iridium India Telecom Ltd. ("Iridium India") filed a civil suit in the Bombay High Court against Motorola and Iridium LLC. The suit alleges fraud, intentional misrepresentation and negligent misrepresentation by Motorola and Iridium LLC in inducing Iridium India to purchase gateway equipment from Motorola, acquire Iridium stock, and invest in developing a market for



Iridium services in India. Iridium India claims in excess of $200 million in damages and interest. In August 2003, the court denied appeals by Iridium India seeking interim relief for a freeze on Motorola assets in India. Iridium India has filed another appeal on its motions for a freeze order on Motorola assets in India. In addition, in October 2001, the Iridium India investors filed a suit against Motorola, and certain current and former Motorola officers, in an India court under the India Penal Code, claiming cheating and conspiracy in connection with investments in Old Iridium and the purchase of gateway equipment. Under Indian law, if Iridium India were successful in the suit, Iridium India could recover compensation of the alleged financial losses. In August 2003, the Bombay High Court granted Motorola's petition to dismiss the criminal action as to Motorola and the individual defendants.

The Chase Manhattan Bank, as agent for the lenders under Old Iridium's $800 million Senior Secured Credit Agreement, filed four lawsuits against Motorola. In March 2003, the Company reached a settlement agreement with Chase, pursuant to which all four of the cases, including Motorola's counterclaim, were dismissed with prejudice. Under the settlement agreement, Motorola released to Chase its claim to $371 million that was previously paid into an escrow account in April 2002 and made an additional payment of $12 million.

The Company had reserves related to the Iridium program of $68 million and $152 million at September 27, 2003 and December 31, 2002, respectively. These reserves are included in Accrued Liabilities in the condensed consolidated balance sheets. The $84 million reduction in the reserve balance is comprised of $25 million in cash payments, of which $12 million relates to the Chase settlement agreement, and $59 million for the reduction of reserves after reassessment in light of the wind-down of the program and the settlement agreement reached with Chase. The remaining reserve balance of $68 million at September 27, 2003 relates primarily to termination claims and the settlement of remaining obligations. In addition to the amounts disclosed above, for the three months and nine months ended September 27, 2003, Motorola recognized $8 million of income and $41 million of income, respectively, for the sale of Iridium-related assets previously written down.

**Segment Information**

The following commentary should be read in conjunction with the financial results of each reporting segment for the three months and nine months ended September 27, 2003 as detailed in Note 8, "Segment Information," of the Company's condensed consolidated financial statements.

Orders, net sales, and operating results for the Company's major operations for the three months and nine months ended September 27, 2003 and September 28, 2002 are presented below. Order information as of any particular date may not be an accurate indicator of future results, as orders are subject to revision or cancellation to reflect changes in customer needs. Beginning in 2004, the Company will no longer be reporting order information for its major operating segments. Changes in business process cycle times have reduced the usefulness of order reporting as an indicator of the next quarter's sales.

For each of its major operating segments, the Company is only providing sales and earnings guidance for the fourth quarter of 2003 and is not providing or reaffirming sales and earnings guidance for any future periods. Any previous sales and earnings guidance provided by the Company in its SEC filings for any of the Company's operating segments should no longer be relied upon. In addition to sales and earnings guidance, the Company has previously provided forecasts for the growth rates in the end markets served by certain of its operating segments, as well as other specific segment-related guidance. Any previous guidance provided by the Company in its SEC filings relating to these items should no longer be relied upon.

**Personal Communications Segment**

The Personal Communications segment (PCS) designs, manufactures, sells and services wireless subscriber equipment, including wireless handsets and personal two-way radios, with related software and accessory products. For the third quarter of 2003 and 2002, PCS net sales represented 43% and 42% of the Company's consolidated net sales, respectively. For the first nine months of both 2003 and 2002, PCS net sales represented 40% of the Company's consolidated net sales.

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | September 27, 2003 | September 28, 2002 | % Change | September 27, 2003 | September 28, 2002 | % Change |
| | (Dollars in millions) | | | | | |
| Orders | $ 3,700 | $ 2,565 | 44% | $ 8,451 | $ 7,817 | 8% |
| Segment net sales | $ 2,924 | $ 2,715 | 8% | $ 7,702 | $ 7,805 | (1)% |
| Operating earnings | $ 147 | $ 241 | (39)% | $ 352 | $ 209 | 68% |

***Three months ended September 27, 2003 compared to three months ended September 28, 2002***

In the third quarter of 2003, segment net sales increased 8% to $2.9 billion, compared to $2.7 billion in the third quarter of 2002, and orders increased 44% to $3.7 billion, compared to $2.6 billion in the third quarter of 2002. The increase in sales was primarily driven by increased demand for handsets in the Americas, where sales were up 27%. This increase was offset by decreases in sales in Asia and Europe, where sales were down 21% and 7%, respectively. Competition remained intense in China, the world's largest handset market, where Motorola remained the market-share leader despite a decrease in market share. The increase in sales and orders in the third quarter of 2003 occurred despite the absence of sales and orders associated with the former paging business, the phase out of which was completed in the fourth quarter of 2002. In the third quarter of 2002, net sales for the paging business were $43 million and orders were $3 million.

Segment unit shipments in the third quarter of 2003 were 20.2 million, up 19% from 17.0 million units in the third quarter of 2002. Unit shipment growth was higher than sales growth because of a decline in average selling prices (ASPs). The segment's ASPs were down 8% in the third quarter of 2003 compared to the third quarter of 2002. This indicates a shift in product mix during the quarter toward lower-priced handsets and reflects the fact that the segment's broader portfolio of lower-priced handset models continue to be well received by wireless service providers and consumers. The ASP decline was also driven by unusually high sales of end-of-life products during the third quarter of 2003. Sales of these products generate a lower gross margin and had ASPs that were far lower than those of other handsets sold during the quarter. The Company expects the volume of sales of end-of-life products to decrease in the fourth quarter of 2003 compared to the third quarter of 2003. The 8% decline in ASPs is relatively reflective of historical reductions in selling prices. Over the last 5 years, the segment's ASPs have declined an average of 10% to 15% per year.

PCS's primary technologies are: (i) Global System for Mobile Communications (GSM), (ii) Code Division Multiple Access (CDMA), (iii) Time Division Multiple Access (TDMA), and (iv) iDEN® integrated digital enhanced network. In the third quarter of 2003 compared to the third quarter of 2002, sales were up 6% in GSM, up 16% in CDMA, down 9% in TDMA, and up 16% in iDEN.

The segment's operating earnings in the third quarter of 2003 were $147 million, compared to operating earnings of $241 million in the third quarter of 2002. The decline in operating earnings was primarily due to: (i) a decrease in gross margin, reflecting the decline in ASPs, (ii) an increase in R&D costs as a percentage of sales, and (iii) reorganization of business charges in the third quarter of 2003. In the third quarter of 2003, the segment recorded net reorganization of business charges of $18 million, consisting primarily of: (i) a net charge of $9 million for employee severance costs, and (ii) a net charge of $10 million related to fixed asset impairments which relate primarily to the planned sale of a manufacturing facility in Mexico and the planned exit of certain manufacturing activities in Germany. In conjunction with the exit of certain manufacturing activities in Germany, the Company will incur future employee severance charges. In the third quarter of 2002, the segment reduced $16 million of reorganization of business accruals no longer needed, primarily attributed to the redeployment of previously impaired fixed assets.



***Nine months ended September 27, 2003 compared to nine months ended September 28, 2002***

In the first nine months of 2003, segment net sales decreased 1% to $7.7 billion, compared to $7.8 billion in the first nine months of 2002, and orders increased 8% to $8.5 billion, compared to $7.8 billion in the first nine months of 2002.

On a geographic basis, in the first nine months of 2003 compared to the first nine months of 2002, sales in the Americas were up 33%, reflecting a sharp increase in unit shipments, partially offset by a decrease in ASPs. Sales in Asia and Europe were down 45% and 12%, respectively. Sales in Asia were down due to a decrease in unit shipments, primarily due to the impact of increased competition in China and the impact of Severe Acute Respiratory Syndrome (SARS) in the first half of 2003.

The overall decrease in sales for the first nine months of 2003 can be primarily attributed to the absence of sales from the exited paging business, which had $167 million of sales during the first nine months of 2002, before being phased out. Orders for the first nine months of 2003 increased despite the absence of orders from the paging business, the phase out of which was completed in the fourth quarter of 2002, which had $156 million of orders during the first nine months of 2002.

Segment unit shipments in the first nine months of 2003 were 52.8 million, up 10% from 47.9 million units in the first nine months of 2002. Unit shipment growth was higher than sales growth because of the decline in ASPs. The segment's ASPs were down 10% in the first nine months of 2003 compared to the first nine months of 2002. This indicates a shift in product mix during the period toward lower-priced handsets and reflects the fact that the segment's broader portfolio of lower-priced handset models has been well received by wireless service providers and consumers. The 10% decline in ASPs is reflective of historical reductions in selling prices. Over the last 5 years, the segment's ASPs have declined an average of 10% to 15% per year.

In the first nine months of 2003 compared to the first nine months of 2002, sales were down 16% in GSM, up 5% in CDMA, up 39% in TDMA and up 11% in iDEN.

The segment's operating earnings in the first nine months of 2003 were $352 million, compared to operating earnings of $209 million in the first nine months of 2002. The improvement in operating results was primarily due to charges that occurred in the first nine months of 2002 that did not occur in the first nine months of 2003, including: (i) a $147 million charge, primarily related to fixed asset impairments for the shut down of an engineering and distribution center in Harvard, Illinois, (ii) a $125 million charge related to a potentially uncollectible finance receivable from Telsim, and (iii) a net charge of $52 million for employee severance costs, primarily related to direct labor employees in the Harvard, Illinois facility. The improvement in operating results from the absence of these charges was partially offset by the decrease in net sales and an increase in R&D costs.

***PCS Fourth Quarter of 2003 Outlook***

For the fourth quarter of 2003, the segment expects sales to increase by less than 5% compared to the fourth quarter of 2002 and to increase by 15% to 20% compared to the third quarter of 2003. The expected increase is anticipated to be driven by the introduction of new products, including a number of mid-tier and high-tier handsets. During the fourth quarter, the segment expects to launch at least 18 new products including 15 handsets featuring color displays, with eight of those models featuring integrated cameras. ASPs are expected to increase sequentially in the fourth quarter of 2003 compared to the third quarter of 2003 due to a higher percentage of mid-tier and high-tier handsets, as well as a decrease in sales of end-of-life products. The segment expects operating earnings in the fourth quarter of 2003 to be roughly equal to operating earnings in the fourth quarter of 2002.



**Semiconductor Products Segment**

The Semiconductor Products segment (SPS) designs, produces and sells embedded processors for customers serving the wireless, networking and automotive markets and for standard products. For the third quarter of 2003 and 2002, SPS net sales represented 18% and 20% of the Company's consolidated net sales, respectively. For the first nine months of 2003 and 2002, SPS net sales represented 18% and 19% of the Company's consolidated net sales, respectively.

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | September 27, 2003 | September 28, 2002 | % Change | September 27, 2003 | September 28, 2002 | % Change |
| | | | (Dollars in millions) | | | |

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| Orders | $ 1,409 | $ 1,310 | 8% | $ 3,554 | $ 3,979 | (11)% |
| Segment net sales | $ 1,225 | $ 1,275 | (4)% | $ 3,491 | $ 3,658 | (5)% |
| Operating earnings (loss) | $ (76) | $ 13 | *** | $ (322) | $ (1,533) | 79% |

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*Percent change not meaningful*

***Three months ended September 27, 2003 compared to three months ended September 28, 2002***

In the third quarter of 2003, segment net sales decreased 4% to $1.2 billion, compared to $1.3 billion in the third quarter of 2002, and orders increased 8% to $1.4 billion, compared to $1.3 billion in the third quarter of 2002. The decline in sales was primarily due to increased competition and decreased expenditures by customers in the segment's networking and wireless markets.

On an end-market basis, in the third quarter of 2003 compared to the third quarter of 2002, sales were down 8% in the Networking and Computing Systems group, down 7% in the Wireless and Mobile Systems group and flat in the Transportation and Standard Products group.

On a geographic basis, in the third quarter of 2003 compared to the third quarter of 2002, sales were down 23% in the Americas, up 7% in Europe and up 12% in Asia.

The segment had an operating loss of $76 million in the third quarter of 2003, compared to operating earnings of $13 million in the third quarter of 2002. The decline in operating results was due to: (i) the decline in sales volume, (ii) a decline in gross margin as a percentage of sales, primarily related to reduced factory utilization, and (iii) net reorganization of business charges of $21 million, representing $33 million of employee severance charges offset by a $12 million reversal of reserves previously established to cover decommissioning costs.

Capital expenditures in the third quarter of 2003 were $87 million, or 7.1% of the segment's net sales, compared to $62 million, or 4.9% of net sales, in the third quarter of 2002.

***Nine months ended September 27, 2003 compared to nine months ended September 28, 2002***

In the first nine months of 2003, segment net sales decreased 5% to $3.5 billion, compared to $3.7 billion in the first nine months of 2002, and orders decreased 11% to $3.6 billion, compared to $4.0 billion in the first nine months of 2002. The decline in sales and orders was primarily due to increased competition and decreased expenditures by customers in the segment's networking and wireless markets.

On an end-market basis, in the first nine months of 2003 compared to the first nine months of 2002, sales were down 12% in the Networking and Computing Systems group, down 10% in the Wireless and Mobile Systems group and up 2% in the Transportation and Standard Products group.



On a geographic basis, in the first nine months of 2003 compared to the first nine months of 2002, sales were down 21% in the Americas, up 14% in Europe and up 2% in Asia.

The segment had an operating loss in the first nine months of 2003 of $322 million, compared to an operating loss of $1.5 billion in the first nine months of 2002. The improvement in operating results was primarily due to charges that occurred in the first nine months of 2002 that did not occur in the first nine months of 2003. The charges in the first nine months of 2002 primarily consisted of: (i) $1.1 billion of asset impairment charges related to facilities in Arizona, China and Scotland, (ii) $80 million for repayments of incentives, and (iii) a net charge of $18 million related to employee severance costs. Additional improvements in operating results in the first nine months of 2003 reflect benefits from cost-reduction activities, including: (i) a reduced number of manufacturing locations, and (ii) a reduced break-even sales level, partially offset by the decrease in sales and lower factory utilization.

Capital expenditures in the first nine months of 2003 were $242 million, or 6.9% of the segment's net sales, compared to $132 million, or 3.7% of net sales in the first nine months of 2002. The increase is primarily related to the segment's partnership with ST Microelectronics and Philips to develop advanced CMOS (Complementary Metal Oxide Semiconductor) process technology. The segment's emphasis in making capital expenditures is to focus on strategic investment driven by customer demand and new design capability.

The segment continues to implement its "asset light" business model, which is aimed at achieving substantial improvements in future profitability and cash flow performance by: (i) improving asset efficiency, (ii) maximizing the return on R&D expenditures, and (iii) reducing the segment's historical ratio of capital expenditures to sales. One focus of the segment's "asset light" business model has been to replace internal manufacturing capacity by outsourcing an increasing percentage of production to foundries and contract houses. At the beginning of 2003, the segment had 12 manufacturing facilities, 9 of which were wafer fabrication facilities. The segment closed a back-end manufacturing facility in Texas in the first quarter of 2003 and closed a wafer fabrication facility in Scotland in the second quarter of 2003. Accordingly, SPS has reduced its total manufacturing facilities to 10, of which 8 are wafer fabrication facilities.

***SPS Fourth Quarter of 2003 Outlook***

For the fourth quarter of 2003, the segment expects sales to decrease 5% to 10% compared to the fourth quarter of 2002 and to increase by less than 5% compared to the third quarter of 2003. The expected decrease in sales compared to the fourth quarter of 2002 reflects the continuing decrease in expenditures by customers in the telecommunications market, as well as increased competition in the wireless handset market. As a result of lower sales, the segment expects to break even in the fourth quarter of 2003, compared to generating operating earnings in the fourth quarter of 2002.

***Recent Developments***

In early October, shortly after the close of the quarter, the Company announced that it intends to move its semiconductor operations into a separate, publicly-traded company. The Company announced that it is considering an initial public offering of a portion of SPS, followed by a distribution of remaining shares to shareholders in a tax-free manner, subject to Motorola board approval, favorable market conditions, regulatory approvals and other customary conditions.

In late October, the Company announced the signing of an agreement to enter into a strategic relationship with Semiconductor Manufacturing International Corporation (SMIC), one of the largest semiconductor foundries in China. In connection with the transaction, Motorola will transfer its MOS-17 wafer fabrication ("fab") facility in Tianjin, China to SMIC, in exchange for SMIC shares. The closing of the transaction will not occur until requisite closing conditions have been met.



**Global Telecom Solutions Segment**

The Global Telecom Solutions segment (GTSS) designs, manufactures, sells, installs and services wireless infrastructure communication systems, including hardware and software. GTSS provides end-to-end wireless networks, including radio base stations, base site controllers, associated software and services, and third-party switching for Code Division Multiple Access (CDMA), Global System for Mobile Communications (GSM), iDEN® integrated digital enhanced network, and Universal Mobile Telecommunications Systems (UMTS) technologies. For the third quarter of 2003 and 2002, GTSS net sales represented 15% and 16% of the Company's consolidated net sales, respectively. For the first nine months of 2003 and 2002, GTSS net sales represented 16% and 17% of the Company's consolidated net sales, respectively.

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | **September 27, 2003** | **September 28, 2002** | **% Change** | **September 27, 2003** | **September 28, 2002** | **% Change** |
| | **(Dollars in millions)** | | | | | |
| Orders | $ 1,099 | $ 895 | 23% | $ 2,964 | $ 3,278 | (10)% |
| Segment net sales | $ 1,054 | $ 1,029 | 2% | $ 3,052 | $ 3,376 | (10)% |
| Operating earnings (loss) | $ 61 | $ (22) | *** | $ 109 | $ (599) | *** |

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*Percent change not meaningful*

***Three months ended September 27, 2003 compared to three months ended September 28, 2002***

In the third quarter of 2003, segment net sales increased 2% to $1.1 billion, compared to $1.0 billion in the third quarter of 2002, and orders increased 23% to $1.1 billion, compared to $895 million in the third quarter of 2002. The increase in total orders reflects increased orders in all regions.

On a geographic basis, in the third quarter of 2003 compared to the third quarter of 2002, sales were up 4% in the Americas, up 21% in Europe and down 4% in Asia.

The segment had operating earnings of $61 million in the third quarter of 2003, compared to an operating loss of $22 million in the third quarter of 2002. The increase in operating earnings was related to: (i) a decrease in R&D expenditures, (ii) an increase in gross margin as a percentage of sales, and (iii) reorganization of business charges in the third quarter of 2002 that did not occur in the third quarter of 2003. In the third quarter of 2002, the segment had reorganization of business charges of $27 million, which consisted of a $22 million net charge for employee severance costs and a $5 million charge for fixed asset impairments. In the third quarter of 2003, the segment had net reversals of $6 million in accruals for employee severance costs that were no longer needed.

***Nine months ended September 27, 2003 compared to nine months ended September 28, 2002***

In the first nine months of 2003, segment net sales decreased 10% to $3.1 billion, compared to $3.4 billion in the first nine months of 2002, and orders decreased 10% to $3.0 billion, compared to $3.3 billion in the first nine months of 2002. The decline in sales and orders is indicative of conditions in the overall wireless infrastructure industry, which continues to be impacted by a decline in capital expenditures by wireless service providers in all regions of the world.

On a geographic basis, in the first nine months of 2003 compared to the first nine months of 2002, sales were down 7% in the Americas, up 6% in Europe and down 16% in Asia.

The segment had operating earnings of $109 million in the first nine months of 2003, compared to an operating loss of $599 million in the first nine months of 2002. The increase in operating earnings was primarily due to charges that occurred in the first nine months of 2002 that did not occur in the first nine months of 2003. The 2002 charges primarily were: (i) a $401 million charge for a potentially



uncollectible finance receivable from Telsim, (ii) a $101 million net charge for employee severance costs, and (iii) a $55 million charge for exit costs related to a lease cancellation. In the first nine months of 2003, the segment had $32 million in net reversals of accruals for reorganization of business charges, consisting primarily of reversals of: (i) $23 million related to employee severance, (ii) $6 million related to fixed asset impairments, and (iii) $3 million related to exit costs, offset by a $32 million charge for in-process research and development charges related to the Winphoria acquisition. Additionally, the 2003 operating earnings reflect a decrease in R&D expenditures and an increase in gross margin as a percentage of sales.

***GTSS Fourth Quarter of 2003 Outlook***

For the fourth quarter of 2003, the segment expects sales to be roughly equal to sales in the fourth quarter of 2002 and up 15% to 20% compared to sales in the third quarter of 2003. The segment expects operating earnings in the fourth quarter of 2003, compared to an operating loss in the fourth quarter of 2002, primarily due to benefits from continuing cost-reduction efforts.

**Commercial, Government and Industrial Solutions Segment**

The Commercial, Government and Industrial Solutions segment (CGISS) designs, manufactures, sells, installs and services analog and digital two-way radio voice and data products, systems and solutions to a wide range of public-safety, government, utility, transportation and other worldwide enterprise markets. For the third quarter of 2003 and 2002, CGISS net sales represented 15% and 14% of the Company's consolidated net sales, respectively. For the first nine months of 2003 and 2002, CGISS net sales represented 15% and 13% of the Company's consolidated net sales, respectively.

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | September 27, 2003 | September 28, 2002 | % Change | September 27, 2003 | September 28, 2002 | % Change |
| | (Dollars in millions) | | | | | |
| Orders | $ 1,037 | $ 997 | 4% | $ 2,927 | $ 2,724 | 7% |
| Segment net sales | $ 1,035 | $ 884 | 17% | $ 2,894 | $ 2,575 | 12% |
| Operating earnings | $ 146 | $ 50 | *** | $ 322 | $ 124 | *** |

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*Percent change not meaningful*

***Three months ended September 27, 2003 compared to three months ended September 28, 2002***

In the third quarter of 2003, segment net sales increased 17% to $1.0 billion, compared to $884 million in the third quarter of 2002, and orders increased 4% to $1.0 billion, compared to $997 million in the third quarter of 2002. The increase in sales and orders primarily reflects increased spending by government customers due to activity in homeland security initiatives and reflects sales growth in the Americas and Europe.

On a geographic basis, in the third quarter of 2003 compared to the third quarter of 2002, sales were up 20% in the Americas, up 17% in Europe and flat in Asia. Net sales in the Americas accounted for 72% of the segment's total net sales in the third quarter of 2003, compared to 70% in the third quarter of 2002.

The segment's operating earnings increased to $146 million in the third quarter of 2003, compared to operating earnings of $50 million in the third quarter of 2002. The increase in earnings was due primarily to: (i) the increase in sales volumes, (ii) an improved gross margin as a percentage of sales due to a favorable product mix, (iii) decreased SG&A costs as a percentage of sales due to higher sales and benefits from previous restructuring actions, and (iv) reduced reorganization of business charges. In the third quarter of 2003, the segment recorded net reorganization of business charges of $6 million, consisting primarily of segment-wide employee severance costs. In the third quarter of 2002, the



segment recorded net reorganization of business charges of $26 million, primarily consisting of a $27 million charge for employee severance costs related to a facility in Germany.

***Nine months ended September 27, 2003 compared to nine months ended September 28, 2002***

In the first nine months of 2003, segment net sales increased 12% to $2.9 billion, compared to $2.6 billion in the first nine months of 2002, and orders increased 7% to $2.9 billion, compared to $2.7 billion in the first nine months of 2002. The increase in sales and orders primarily reflects increased spending by government customers due to activity in homeland security initiatives and reflects sales growth in the Americas and Europe.

On a geographic basis, in the first nine months of 2003 compared to the first nine months of 2002, sales were up 17% in Europe, up 13% in the Americas and down 4% in Asia. Net sales in the Americas accounted for 70% of the segment's total net sales in the first nine months of 2003, compared to 69% in the first nine months of 2002.

The segment's operating earnings increased to $322 million in the first nine months of 2003, compared to operating earnings of $124 million in the first nine months of 2002. The increase in earnings was due primarily to: (i) the increase in sales, (ii) an improved gross margin as a percentage of sales due to a favorable product mix, (iii) decreased SG&A costs as a percentage of sales due to higher sales and benefits from previous restructuring actions, and (iv) reduced reorganization of business charges. For the first nine months of 2003, the segment recorded net reorganization of business charges of $24 million, consisting of $27 million in employee severance costs, partially offset by a reduction in other reorganization of business accruals. In the first nine months of 2002, the segment recorded net reorganization of business charges of $64 million, consisting of $69 million in employee severance costs, partially offset by a reduction in other reorganization of business accruals.

In light of increasing safety and security concerns worldwide, customers remain very interested in standards-based, interoperable two-way radio solutions and integrated solutions to enhance prevention, detection, protection and emergency response capabilities. Customer interest is high and government business has increased. CGISS is well positioned to serve these customers as funding continues to become available.

***CGISS Fourth Quarter of 2003 Outlook***

For the fourth quarter of 2003, the segment expects sales to increase less than 5% compared to the fourth quarter of 2002 and to increase 15% to 20% compared to the third quarter of 2003. The expected increase in sales is due to continued growth in customer spending relating to homeland security programs. Despite the increase in sales, the segment expects operating earnings in the fourth quarter of 2003 to be approximately equal to operating earnings in the fourth quarter of 2002, primarily because the fourth quarter of 2002 included a net reversal of reorganization of business accruals of $19 million.

**Integrated Electronic Systems Segment**

The Integrated Electronic Systems segment (IESS) designs, manufactures and sells: (i) automotive and industrial electronics systems, (ii) telematics products, (iii) portable energy storage products and systems, and (iv) multi-function embedded board and computer system products. For the third quarter of both 2003 and 2002, IESS net sales represented 8% of the Company's consolidated net sales. For



the first nine months of both 2003 and 2002, IESS net sales also represented 8% of the Company's consolidated net sales.

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | September 27, 2003 | September 28, 2002 | % Change | September 27, 2003 | September 28, 2002 | % Change |
| | (Dollars in millions) | | | | | |
| Orders | $ 613 | $ 562 | 9% | $ 1,656 | $ 1,694 | (2)% |
| Segment net sales | $ 559 | $ 544 | 3% | $ 1,596 | $ 1,619 | (1)% |
| Operating earnings | $ 25 | $ 28 | (11)% | $ 95 | $ 26 | *** |

***
*Percent change not meaningful*

***Three months ended September 27, 2003 compared to three months ended September 28, 2002***

In the third quarter of 2003, segment net sales increased 3% to $559 million, compared to $544 million in the third quarter of 2002, and orders increased 9% to $613 million, compared to $562 million in the in the third quarter of 2002.

There are three primary business groups within the IESS segment: (i) the Automotive Communications and Electronic Systems Group (ACES), (ii) the Energy Systems Group (ESG), and (iii) the Motorola Computer Group (MCG). In the third quarter of 2003, ACES, ESG and MCG represented 61%, 24% and 15% of the segment's net sales, respectively, compared to 62%, 27% and 11% of the segment's net sales, respectively, in the third quarter of 2002.

Comparing the third quarter of 2003 to the third quarter of 2002: ACES sales were up 2% and ACES orders were up 12%, primarily due to new product introductions; ESG sales were down 7%, primarily due to competitive price reductions, and ESG orders were up 3%; and MCG sales were up 31% and MCG orders were up 10%, primarily due to increased demand in the medical and telecommunications industries.

The segment had operating earnings of $25 million in the third quarter of 2003, compared to operating earnings of $28 million in the third quarter of 2002. The small decline in operating results was primarily due to net charges for reorganization of business costs. In the third quarter of 2003, the segment recorded net reorganization of business costs of $10 million, which was related to employee severance costs. In the third quarter of 2002, the segment reversed $1 million of reorganization of business accruals related to severance.

***Nine months ended September 27, 2003 compared to nine months ended September 28, 2002***

In the first nine months of 2003, segment net sales decreased 1% to $1.6 billion, compared to $1.6 billion in the third quarter of last year, and orders decreased 2% to $1.7 billion, compared to $1.7 billion in the third quarter of last year.

In the first nine months of 2003, ACES, ESG and MCG represented 64%, 22% and 14% of the segment's net sales, respectively, compared to 60%, 28% and 12% of the segment's net sales, respectively, in the first nine months of 2002.

Comparing the first nine months of 2003 to the first nine months of 2002: ACES sales were up 6% and ACES orders were up 3%, primarily due to new product introductions; ESG sales were down 23% and ESG orders were down 22%, primarily due to competitive price reductions; and MCG sales were up 12% and MCG orders were up 17%, primarily due to increased demand in the medical and telecommunications industries and temporary supply-chain adjustments.

The segment had operating earnings of $95 million in the first nine months of 2003, compared to operating earnings of $26 million in the first nine months of 2002. The increase in operating earnings

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was primarily due to: (i) charges that occurred in the first nine months of 2002 that did not occur in the first nine months of 2003, and (ii) decreased SG&A costs as a percentage of sales, reflecting benefits from prior restructuring actions. In the first nine months of 2002, the segment recorded: (i) a $22 million charge for various fixed asset impairments, (ii) a $21 million charge for segment-wide employee separation costs, and (iii) a $19 million charge for exit costs. In the first nine months of 2003, the segment had a net reversal of $3 million in reorganization of business costs.

***IESS Fourth Quarter of 2003 Outlook***

For the fourth quarter of 2003, the segment expects sales to increase 5% to 10% compared to both the fourth quarter of 2002 and the third quarter of 2003. The segment also expects operating earnings to increase in the fourth quarter of 2003 compared to the fourth quarter of 2002 due to the increase in sales and benefits attributed to ongoing cost-reduction activities.

**Broadband Communications Segment**

The Broadband Communications segment (BCS) designs, manufactures and sells a wide variety of broadband products for the cable television industry, including: (i) digital systems and set-top terminals for cable television networks, (ii) high speed data products, including cable modems and cable modem termination systems (CMTS), as well as Internet Protocol (IP)-based telephony products, (iii) hybrid fiber coaxial network transmission systems used by cable television operators, (iv) digital satellite television systems for programmers, (v) direct-to-home (DTH) satellite networks and private networks for business communications, and (vi) digital broadcast products for the cable and broadcast industries. The primary distribution channel for these products is the network operator, although a small but growing segment of revenue is achieved from sales directly to consumers. For the third quarter of 2003 and 2002, BCS net sales represented 6% and 8% of the Company's consolidated net sales, respectively. For the first nine months of 2003 and 2002, BCS net sales also represented 6% and 8% of the Company's consolidated net sales, respectively.

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | **September 27, 2003** | **September 28, 2002** | **% Change** | **September 27, 2003** | **September 28, 2002** | **% Change** |
| | **(Dollars in millions)** | | | | | |
| Orders | $ 409 | $ 385 | 6% | $ 1,211 | $ 1,342 | (10)% |
| Segment net sales | $ 421 | $ 519 | (19)% | $ 1,235 | $ 1,598 | (23)% |
| Operating earnings (loss) | $ 24 | $ 66 | (64)% | $ 88 | $ (183) | *** |

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*Percent change not meaningful*

***Three months ended September 27, 2003 compared to three months ended September 28, 2002***

In the third quarter of 2003, segment net sales declined 19% to $421 million, compared to $519 million in the third quarter of 2002, and orders increased 6% to $409 million, compared to $385 million in the third quarter of 2002. The decrease in sales was due primarily to the continuing decline in capital spending by cable service providers. The increase in orders was primarily related to the segment's short order cycle business model, which was in the midst of transition during the third quarter of 2002, having achieved a stable order pattern.

In the third quarter of 2003, compared to the third quarter of 2002, sales of digital set-top boxes were down 37%. The decrease in sales was a result of a 24% decline in unit shipments and a decline in ASPs. The decline in unit shipments reflects the overall decline in set-top box industry sales and the segment retained its leading market share position. The decline in ASPs reflects overall product price reductions, as well as a shift in product mix towards less-expensive, lower-tier products.



In the third quarter of 2003, compared to the third quarter of 2002, sales of cable modems were down 1%. The decrease in sales was due to lower ASPs, offset by a 32% increase in unit shipments.

On a geographic basis, sales and orders in North America were 85% and 84%, respectively, of the segment total in the third quarter of 2003, compared to 85% and 91%, respectively, for the third quarter of 2002.

The segment had operating earnings of $24 million in the third quarter of 2003, compared to operating earnings of $66 million in the third quarter of 2002. The decline in operating results was primarily due to the 19% decline in sales.

***Nine months ended September 27, 2003 compared to nine months ended September 28, 2002***

In the first nine months of 2003, segment net sales declined 23% to $1.2 billion, compared to $1.6 billion in the first nine months of 2002, and orders decreased 10% to $1.2 billion, compared to $1.3 billion in the first nine months of 2002. The decrease in sales and orders was due primarily to the continuing decline in capital spending by cable service providers.

In the first nine months of 2003, compared to the first nine months of 2002, sales of digital set-top boxes were down 35%. The decrease in sales was a result of a 24% decline in unit shipments and a decline in ASPs. The decline in ASPs reflects overall product price reductions, as well as a shift in product mix towards less-expensive, lower-tier products.

In the first nine months of 2003, compared to the first nine months of 2002, sales of cable modems were up 4%. The increase in sales was due to a 41% increase in unit shipments, partially offset by lower ASPs.

On a geographic basis, sales and orders in North America were both 84% of the segment total for the first nine months of 2003, compared to 85% and 86%, respectively, for the first nine months of 2002.

The segment had operating earnings of $88 million in the first nine months of 2003, compared to an operating loss of $183 million in first nine months of 2002. The improvement in operating results was primarily due to charges that occurred in the first nine months of 2002 that did not occur in the first nine months of 2003. For the first nine months of 2002, the segment recorded: (i) a $325 million charge for an intangible asset impairment of an intellectual property license, (ii) a $23 million charge for employee separation costs, and (iii) an $11 million charge for in-process research and development related to the acquisition of Synchronous, Inc., partially offset by the recognition of pension curtailment income related to the General Instrument pension plan. For the first nine months of 2003, the segment had a net reversal of reorganization of business accruals of $8 million, which consisted of the reversal of: (i) $6 million of accruals for employee severance, and (ii) $4 million of accruals for fixed asset impairments, offset by a net charge of $2 million for exit costs.

***BCS Fourth Quarter of 2003 Outlook***

For the fourth quarter of 2003, the segment expects sales to decrease by less than 5% compared to the fourth quarter of 2002 and increase 10% to 15% compared to the third quarter of 2003. The segment expects operating earnings to decrease compared to the fourth quarter of 2002. The expected decrease in sales and operating earnings in the fourth quarter of 2003 compared to the fourth quarter of 2002 is primarily due to the reduction in ASPs on digital set-top boxes.

**Other**

Other is comprised of the Other Products segment and general corporate items. The Other Products segment includes: (i) Next Level Communications, which became a wholly-owned subsidiary of



the Company in April 2003, (ii) various corporate programs representing developmental businesses and research and development projects, which are not included in any major segment, and (iii) the Motorola Credit Corporation (MCC), the Company's wholly-owned finance subsidiary.

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| | **September 27, 2003** | **September 28, 2002** | **% Change** | **September 27, 2003** | **September 28, 2002** | **% Change** |
| | **(Dollars in millions)** | | | | | |
| Segment net sales | $ 108 | $ 120 | (10)% | $ 302 | $ 356 | (15)% |
| Operating earnings (loss) | $ (62) | $ (49) | (27)% | $ (70) | $ (316) | 78% |

***Three months ended September 27, 2003 compared to three months ended September 28, 2002***

In the third quarter of 2003, Other Products net sales declined 9% to $108 million, compared to $120 million in the third quarter of 2002.

The segment incurred an operating loss of $62 million in the third quarter of 2003, compared to an operating loss of $49 million in the third quarter of last year. In the third quarter of 2002, the segment recorded net reversals of reorganization of business accruals consisting primarily of reversals of: (i) $60 million for Iridium vendor termination settlements and the related reduction of accruals no longer needed, and (ii) $24 million for the reduction of accruals no longer needed due to the settlement of certain environmental claims. In the third quarter of 2003, the segment recorded reorganization of business net reversals of $6 million.

***Nine months ended September 27, 2003 compared to nine months ended September 28, 2002***

In the first nine months of 2003, Other Products net sales declined 15% to $302 million, compared to $356 million in the third quarter of 2002.

The segment incurred an operating loss of $70 million in the first nine months of 2003, compared to an operating loss of $316 million in the first nine months of 2002. The improvement in operating results was primarily due to: (i) a $273 million reduction in SG&A expenditures, (ii) a $57 million reduction in reorganization of business charges, and (iii) a $43 million reduction in R&D expenditures, partially offset by the decrease in sales and gross margin.

***Significant Accounting Policies and Critical Estimates***

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 and 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 critical accounting policies require significant judgment and estimates:

Valuation of investments and long-lived assets

Restructuring activities



Allowance for losses on finance receivables

Retirement-related benefits

Long-term contract accounting

Deferred tax asset valuation

Inventory valuation reserves

In the first nine months of 2003, there has been no change in the significant judgements and estimates inherent in the critical accounting policies identified above. With the exception of valuation of investments and long-lived assets, there has been no significant change in the underlying accounting assumptions and estimates used in the above critical accounting policies.

**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 which could trigger an impairment review include: (i) underperformance relative to 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 other 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 September 27, 2003 and December 31, 2002, the net book value of these assets were as follows (in millions):

| | September 27, 2003 | December 31, 2002 |
|---|---|---|
| Property, plant and equipment | $ 5,336 | $ 6,104 |
| Investments | 2,615 | 2,053 |
| Intangible assets | 255 | 232 |
| Goodwill | 1,496 | 1,375 |
| Total | $ 9,702 | $ 9,764 |

For the nine months ended September 27, 2003, net asset write-down charges were $36 million and primarily related to certain buildings and equipment that were deemed to be impaired, primarily in the Semiconductor Products segment, the Personal Communication segment and General Corporate. These charges were partially offset by revisions to prior asset write-downs, primarily for reserves previously established to cover decommissioning costs which are no longer needed due to the sale or exit of the facility by the Semiconductor Products segment, as well as for the correction in classification of assets the Company intends to use which were previously classified as held-for-sale.

Investment impairment charges for the nine months ended September 27, 2003 were $78 million and were 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 write-downs.

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, operations and the impact of the economic environment on our customer base.

***Recent Accounting Pronouncements***

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". Statement 150 requires that certain financial instruments with characteristics of both liabilities and equity be classified as a liability. The Company adopted Statement 150 on July 1, 2003, and as a result the Company has reclassified $486 million of TOPrS to Long-Term Debt within the condensed consolidated balance sheet as of September 27, 2003. However, Statement 150 does not permit the reclassification of the TOPrS into Long-Term Debt in financial statements prior to the effective date. Accordingly, the December 31, 2002 Long-Term Debt balance excludes TOPrS.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure", which amends SFAS Statement No. 123, "Accounting for Stock-Based Compensation". Statement 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement 148 amends the disclosure requirements of Statement 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The Company adopted the disclosure provisions of this statement in December 2002.

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". Statement 146 generally requires one-time termination benefits and exit costs to be expensed as incurred and it requires ongoing termination benefits to be recognized when they are probable and estimable. Statement 146 is effective for exit plans initiated after December 31, 2002. Statement 146 does not change the accounting for the Company's restructuring activities initiated prior to 2003. The Company adopted this statement January 1, 2003 with no material effect on the Company's financial position, results of operations or cash flows.

In November 2002, the FASB published Interpretation No. 45, "Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The interpretation requires the Company to recognize a liability for the fair value of certain guarantees issued or modified after December 31, 2002. In addition, certain disclosures are required for the nature of the guarantees, the maximum potential future payments that could be required under the guarantees, and the current liability recorded for these guarantees. The Company adopted this statement January 1, 2003 with no material effect on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," in an effort to expand upon and strengthen existing accounting guidance as to when a company should consolidate the financial results of another entity. Interpretation 46 requires "variable interest entities" as defined to be consolidated by a company if that company is subject to a majority of expected losses of the entity or is entitled to receive a majority of expected residual returns of the entity, or both. The company that is required to consolidate a variable interest entity is referred to as the entity's primary beneficiary. The interpretation also requires certain disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest.

The consolidation and disclosure requirements apply immediately to variable interest entities created after January 31, 2003. The Company is not the primary beneficiary of any variable interest entity created after January 31, 2003 nor does the company have a significant variable interest in a variable interest entity created after January 31, 2003.



For variable interest entities that existed prior to February 1, 2003, the consolidation requirements were initially effective for reporting periods beginning after June 15, 2003. On October 9, 2003, the FASB Staff issued Position No. FIN46-6 which delayed the effective date of consolidation provisions of Interpretation 46 for variable interest entities created before February 1, 2003 if the reporting entity had not yet issued financial statements reporting the variable interest entities in accordance with the consolidation provisions of Interpretation 46. The new effective date is for reporting periods ending after December 15, 2003. The Company will apply the provisions of FIN 46 to variable interest entities created before February 1, 2003 as of December 31, 2003.

Despite the deferral provisions, the Company has substantially completed its evaluation of variable interest entities created before February 1, 2003. Although this evaluation is not complete, based on the available information that the Company has to date, the Company does not believe that the adoption of FIN 46 will have a material impact on the Company's financial position, results of operations or cash flows.

***Reclassifications***

As described in a Form 8-K furnished to the SEC on April 8, 2003, beginning in the first quarter of 2003, Motorola made changes in the presentation format of its financial statements in order to align more closely with the financial statement presentation of other technology companies. As a result, and as reflected in the Form 8-K, the presentation format of historical financial information for 2001 and 2002 was changed so that the format was comparable to the presentation format adopted in 2003. This change in presentation format did not change the Company's operating earnings (loss), net earnings (loss) or earnings (loss) per share as historically reported.



**Item 4. Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.* Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to Motorola, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to Motorola's management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in internal control over financial reporting* There have been no changes in our internal control over financial reporting that occurred during the fiscal period ended September 27, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MOTOROLA and the Stylized M Logo are registered in the U.S. Patent and Trademark Office. All other trademarks indicated as such herein are the property of their respective owners.

Iridium® is a registered trademark and service mark of Iridium LLC.

"Puttable Reset Securities PURS" is a service mark of Goldman, Sachs & Co.

Motorola, Inc. 2003



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOTOROLA, INC.

Date: March 8, 2004

By: /s/ STEVEN J. STROBEL

Steven J. Strobel
Senior Vice President and
Corporate Controller
(Duly Authorized Officer and
Chief Accounting Officer of the Registrant)



## EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 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. |

* Document is filed herewith.