

EXHIBIT C

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

FORM 10-K

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

For the fiscal year ended December 31, 2003

or

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

For the transition period from _____ to _____

Commission File number 1-7221

MOTOROLA, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

36-1115800
(I.R.S. Employer Identification No.)

1303 East Algonquin Road, Schaumburg, Illinois 60196
(Address of principal executive offices)

(847) 576-5000
(Registrant's telephone number)

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

| <u>Title of Each Class</u> | <u>Name of Each Exchange on Which Registered</u> |
|---|---|
| Common Stock, \$3 Par Value per Share | New York Stock Exchange Chicago Stock Exchange |
| Rights to Purchase Junior Participating Preferred Stock, Series B | New York Stock Exchange Chicago Stock Exchange |
| Liquid Yield Option Notes due 2009 | New York Stock Exchange |
| Liquid Yield Option Notes due 2013 | New York Stock Exchange |

6.68% Trust Originated Preferred Securities
(issued by Motorola Capital Trust I and
guaranteed by Motorola, Inc.)

New York Stock Exchange

7.00% Equity Security Units

New York Stock Exchange

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

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 No .

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 27, 2003 was approximately \$21.8 billion (based on closing sale price of \$9.38 per share as reported for the New York Stock Exchange-Composite Transactions).

The number of shares of the registrant's Common Stock, \$3 par value per share, outstanding as of January 31, 2004 was 2,340,651,138.

DOCUMENTS INCORPORATED BY REFERENCE

Document

Location in Form 10-K

Portions of Registrant's Proxy Statement for 2004
Annual Meeting of Stockholders

Part III

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PART I

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

We are making forward-looking statements in this report. Beginning on page 76 we discuss some of the business risks and factors that could cause actual results to differ materially from those stated in the forward-looking statements.

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

Item 1: Business

General

Motorola, Inc. is a global leader in wireless, broadband and automotive communications technologies and embedded electronic products.

- **Wireless**

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

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

Mission-Critical Information Systems: In addition, we are a leading provider of customized, mission-critical radio communications and information systems.

- **Broadband**

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

- **Automotive**

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

- **Semiconductor**

We also are a leading producer of embedded processing and connectivity products for the automotive, networking and wireless communications industries.

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

Business Segments

Motorola reports seven segments as described below.

Personal Communications Segment

The Personal Communications segment ("PCS" or the "segment") designs, manufactures, sells and services wireless subscriber equipment. In 2003, PCS net sales represented 41% of the Company's consolidated net sales.

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Principal Products and Services

Our wireless subscriber products include wireless handsets and personal 2-way radios, with related software and accessory products. We market our products worldwide to carriers and consumers through direct sales, distributors, dealers, retailers, and, in certain markets, through licensees.

Our Industry

We believe that total industry shipments of wireless handsets increased in 2003 by approximately 20% compared to 2002. Demand from new subscribers was strong in emerging markets, including India, China, Latin America and Eastern Europe. Replacement sales in highly penetrated markets were also strong due to generally improved economic conditions and compelling new phone designs and attractive features, such as cameras, large color displays, expanded software applications, messaging functionality, advanced gaming features, and an increased opportunity for personalization.

Despite these market improvements, we believe our estimated market share declined, primarily due to increased competition in Asia and delays in shipments of certain new products, which was primarily caused by supply constraints for a key component. However, we did begin shipping many of our new products in the second half of 2003, including a CDMA push-to-talk handset and 3G UMTS handsets. The industry forecasters predict that the wireless handset industry will continue to grow over the next several years as the transition to next-generation data-rich services, such as point-to-point video and higher speed data, continues.

Our Strategy

PCS is focused on profitable and sustainable growth through close partnerships with our carrier customers, technology leadership and improving cost competitiveness. We are investing in the development of industry-leading GSM, CDMA, iDEN[®], and 3G UMTS products, with an emphasis on winning greater share of the market through compelling designs, more feature-rich phones, including phones with large color displays and cameras, and on-time delivery of products to our customers.

We are focused on enhanced partnerships with our customers by aligning with their business strategies and objectives. A core component of our "customer partnership" strategy is the expansion of opportunities for customers to increase Average Revenue per User (ARPU). By utilizing customizable platforms, we can enable our customers to go to market with handsets that feature differentiated user interfaces, such as consumer personalization, to help them build consumer loyalty. These platforms also generate revenue opportunities for our customers by supporting data productivity applications, gaming, music and other entertainment offerings and customized content.

During 2003, we continued to build on our technology leadership with the introduction of a CDMA push-to-talk handset and the delivery of 3G UMTS handsets. In addition, in 2003 we introduced our first handset with Windows Mobile[™] operating systems from Microsoft. These advanced handsets feature Microsoft Pocket Outlook, Pocket Internet Explorer, Windows Media Player and other software applications familiar to users of Microsoft's traditional computer software. We have also introduced products that use Bluetooth[®] technology to support advanced wireless functions, including wireless headsets. For handsets using iDEN technology, we introduced products directed towards the prepaid market and high-end, Limited Edition products.

As part of our efforts to improve our brand, we are developing youth-driven brand partnerships that will support a consumer-centric design philosophy and further reinforce the brand strength generated by our *MOTO* marketing activities. Additionally, PCS has played a key role in reinvigorating the Motorola brand among

consumers worldwide, which we expect will help fuel demand for new products and experiences during 2004 and beyond.

The success of our strategy is evidenced by our continued market leadership in North America and China. In Latin America, net sales increased very significantly for the full year 2003 compared to the full year 2002 and the segment is the overall market leader in Latin America. In the Europe, Middle East and Africa (EMEA) region, customer acceptance of our recently-launched products resulted in increased customer demand in the fourth quarter of 2003.

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Customers

The PCS “customer partnership” strategy continues to focus on strengthening relationships with our top customers. PCS has several customers, worldwide, the loss of which could have a negative impact on our results. In 2003, purchases of iDEN products by Nextel Communications, Inc. and its affiliates (collectively, “Nextel”) comprised approximately 18% of our segment’s net sales. In China, we sell our products to many distributors and retailers. These distributors and retailers in turn primarily sell our products for use on mobile systems operated by China Mobile and China Unicom, the two largest wireless operators in China. In 2003, approximately 9% of our wireless handsets sales were to the China market and were primarily used on these systems. The largest of our other customers (inclusive of related affiliates) are AT&T Wireless, Cingular, South Korea Telecom, Telcel Mexico, T-Mobile, Verizon and Vodafone. Many of our customers, and more than half of our net sales, are outside the United States.

Nextel is our largest customer and we have been their exclusive supplier of iDEN handsets and core network infrastructure equipment for over ten years. Nextel uses Motorola’s proprietary iDEN technology to support its nationwide wireless service business. Our agreements with Nextel have been non-exclusive. We are currently negotiating new agreements with Nextel for our products. Nextel is currently purchasing products from us under interim agreements, purchase orders and special development contracts. We cannot be assured at this time of the terms of new agreements with Nextel or Nextel’s continued exclusive long-term use of iDEN technology in its wireless business as it considers next-generation technology options.

Motorola has a contract with Nextel for the development of infrastructure software and wireless handsets that use a new 6:1 vocoder. The use of this new vocoder solution is expected to allow Nextel to increase capacity on its current system. Motorola has delivered 6:1 infrastructure software and initial subscriber units to Nextel. Nextel has announced that the performance and functionality of the 6:1 handsets has met or exceeded Nextel’s expectations in many respects. However, they have also indicated that in some operating conditions the voice quality while operating in 6:1 mode has not met their expectations. The Company continues to work closely with Nextel to optimize the 6:1 solution.

Competition

Although we believe our market share declined in 2003, we also believe we retained the second-largest worldwide market share of wireless handsets. The segment experiences intense competition in worldwide markets from numerous global competitors, including some of the world’s largest companies. The segment’s primary competitors are European and Asian manufacturers. Currently, its strongest competitors include Nokia, Samsung, Siemens, Sony-Ericsson and LG.

In Asia, particularly in China, we face intense competition from new and existing handset manufacturers. In 2003, as a result of this competition, our product portfolio and supply constraints, we believe the segment’s market share declined in China. However, we believe we maintained the top market position in China. To address the challenging market environment in China, we have continued to introduce several compelling new products with many attractive features that cover a wide range of tiers and market segments.

We believe the ability to differentiate our products and provide additional value to our customers will be increasingly realized, primarily through the addition of new features to enhance our products. Consumer experiences will be shaped by the user interface and software applications that can be delivered on handsets at point of purchase and beyond. The segment utilizes Java™ technology to better leverage the largest wireless developer community in the world. The segment has also selected the Microsoft Windows Mobile™ operating

system for its new MPx product line.

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

Payment Terms

The segment offers industry standard payment terms and generally does not grant extended payment terms.

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Regulatory Matters

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

Recent policy changes in the U.S. may encourage deregulation of frequency allocation, allowing new wireless communications technologies to be developed. Such policy changes may spread to other countries, and the reduced barriers to entry for the development of new technologies may introduce new competition for both Motorola and our customers.

Backlog

The segment's backlog was \$2.2 billion at December 31, 2003 and \$1.1 billion at December 31, 2002. The 2003 backlog is believed to be generally firm and 100% of that amount is expected to be recognized as revenue in 2004. The forward-looking estimates of the firmness of such orders is subject to future events which may cause the amount recognized to change. Backlog increased primarily as a result of demand for new products that were introduced in the second half of 2003, including handsets with integrated cameras. Backlog was also impacted by the component supply constraints which resulted in the segment's inability to meet the demand for certain new products in the fourth quarter.

Intellectual Property Matters

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

Inventory, Raw Materials, Right of Return and Seasonality

PCS's practice is to carry reasonable amounts of inventory in distribution centers in order to meet customer delivery requirements in a manner consistent with industry standards. At the end of 2003, the segment had a higher inventory balance than at the end of 2002. We increased inventory in part because we anticipated higher first quarter 2004 sales compared to the first quarter of 2003. We also made certain strategic purchases of critical components. In addition, due to supply constraints of a key component in the fourth quarter of 2003, impacted products could not be produced and shipped contributing to a higher work-in-process inventory balance at the end of 2003.

Where economically and technically feasible, materials used in the segment's operations are generally second-sourced to ensure a continuity of supply. Occasionally, shortages or extended delivery periods occur for various component parts, the effects of which are generally short in duration. In the fourth quarter of 2003, the segment experienced supply shortages impacting certain products. These shortages are improving in the first quarter of 2004.

Energy necessary for the segment's manufacturing facilities consists of electricity, natural gas and gasoline, all of which are currently in generally adequate supply. The segment's facilities contain automation and, therefore, require a reliable source of electrical power. Labor is generally available in reasonable proximity to the segment's manufacturing facilities. Difficulties in obtaining any of the aforementioned items could affect the segment's results.

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

The segment typically experiences increased sales in the fourth calendar quarter and lower sales in the first calendar quarter of each year. Sales of wireless handsets, two-way radios and related products increase during the

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year-end holiday season. During the fourth quarter of 2003, the segment did not experience its usual seasonal increase in sales as it was unable to meet demand for shipments of certain products, due to supply constraints for a key component. Correspondingly, for the first quarter of 2004, the segment expects higher sales than typical in a first quarter due to fulfillment of year-end 2003 backlog and strong demand for new products.

Our Facilities/Manufacturing

Our headquarters are located in Libertyville, Illinois. Our major facilities are located in Libertyville, Illinois; Plantation, Florida; Flensburg, Germany; Tianjin, China; Singapore; Chihuahua, Mexico; and Jaguariuna, Brazil. We also maintain interests in two Korean cellular handset design and manufacturing firms; and joint ventures in Hangzhou and Shanghai, China. Additional engineering, software development and administration offices are located in San Diego, California; South Plainfield, New Jersey; Champaign, Illinois; Ft. Worth, Texas; Boynton Beach, Florida; Basingstoke, England; Tokyo, Japan; Toulouse, France; Beijing, China; and Seoul, Korea. We also share a facility in Penang, Malaysia with the Commercial, Government and Industrial Solutions Segment. During 2003, we sold our Chihuahua, Mexico manufacturing facility to Foxconn International Holdings Group, and we are contracting with Foxconn for the manufacture of certain products. In addition, certain manufacturing will be ceased in Flensburg, Germany during the first quarter of 2004 and as part of a segment-wide research and development engineering optimization effort, our Boynton Beach, Florida facility is planned to be vacated by the end of 2004.

We also use several electronics manufacturing suppliers (EMS) and original design-manufacturers (ODM) to enhance our ability to lower our costs and deliver products that meet consumer demands in the rapidly-changing technological environment. These third parties operate in non-Motorola facilities.

In 2003, nearly three-fourths of our handsets were manufactured in Asia, including products manufactured for us by third parties. We expect this trend to continue in 2004. Our largest manufacturing facilities are located in China, Singapore, Brazil, Germany, Malaysia and Korea. Each of these facilities serves multiple countries and regions of the world. In 2003, approximately 20% of our handsets were manufactured by third parties, who primarily manufacture in Asia. In 2004, this percentage is expected to increase to approximately 30%.

Semiconductor Products Segment

The Semiconductor Products segment ("SPS" or the "segment") provides embedded processing and connectivity products to large, high-growth markets. It focuses on designing, producing and selling products to the automotive, networking and wireless communications industries. In 2003, SPS net sales represented 18% of the Company's consolidated net sales.

Principal Products and Services

The segment designs, develops, manufactures and markets a broad range of semiconductor products that are based on its core capabilities in embedded processing. Embedded processors, in their simplest forms, provide the basic intelligence for electronic devices. Examples of the segment's embedded processors include microcontrollers, digital signal processors and communications processors. In addition, the segment offers a broad portfolio of devices that complement its families of embedded processors, including sensors, radio frequency semiconductors, power management and other analog and mixed-signal integrated circuits. Through its embedded processors and complementary products it is also able to offer customers complex combinations of semiconductors and software, which are referred to as "platform-level products."

The segment uses these products to serve each of its main businesses. In the networking market, the segment

provides products for use in wireless infrastructure, enterprise switching and routing, network access and aggregation and pervasive computing applications. In the wireless market, wireless and mobile products focus on wireless handsets, personal digital assistants, global positioning systems, mobile gaming devices and machine-to-machine communication applications. In the automotive and standard products markets, SPS products include MCUs (microcontrollers), DSPs (digital signal processors), embedded MPUs (microprocessors), sensors and analog integrated circuits for use in automotive, consumer, and industrial applications.

The segment markets its products to original equipment manufacturers, to original design manufacturers and to contract manufacturers through a global network of sales offices and operations. The sales teams are augmented by a network of distributors, who extend the reach of products and services around the world.

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Our Industry

The semiconductor industry comprises a broad range of markets and products. Cumulatively, the markets within the overall semiconductor industry in which the segment participates grew at a slower rate, in 2003, than the overall industry. The market where the segment has the highest percentage of its sales is the automotive market, which traditionally has lower, but steadier, growth than the semiconductor industry as a whole. In 2003, the automotive market had single digit growth and the segment followed this trend for its automotive business. The networking market continued to have low growth rates as the market slowly recovered from the 2001 downturn, with continued lower capital spending levels by customers. The wireless communications market grew at a faster rate than the overall semiconductor industry in 2003; however, the segment's largest customer in this market, Motorola's Personal Communications segment, experienced delays in shipments of several new products.

The strength of the semiconductor industry during 2003 was reflected in a general increase in average selling price (ASP) for 2003, although the rate of increase slowed in the fourth quarter. During 2003, the segment's increase in ASP followed the industry pattern.

Our Strategy

While the segment intends to continue to focus on delivering products based on its core competencies in embedded processing and connectivity across its three target industries, the segment also plans to expand its presence in related large and high-growth markets where it can apply the broad technology and embedded processing capabilities that it has developed for its target industries. For example, it is applying its networking capabilities into areas such as passive optical networking and wireless local area network (WLAN). It is also applying its wireless expertise into handheld gaming, toys and machine-to-machine communications networks. However, even with these new applications, the segment has not been as successful as it hoped at attracting new customers in the wireless handset industry. The segment is also extending its automotive expertise in embedded control, power management and sensors into underrepresented markets such as appliances, robotics, computer peripherals and toys.

The segment continues to follow the business strategy it introduced in 2000 in response to the semiconductor industry downturn and the changes in the industry. The strategy is aimed at improving the financial results of the segment and is based on three activities/goals: (1) improving asset efficiency, by reducing the segment's internal manufacturing capacity to focus on leading-edge specialty process technologies and reduce future capital requirements, while establishing relationships to strategically outsource the manufacturing of the segment's products utilizing standard process technologies, (2) engaging in partnering and licensing activities to offset a portion of research and development spending and to facilitate a return on the segment's extensive collection of intellectual property, and (3) focusing on timely delivery of higher-value proprietary products.

In October of 2003, the Company announced that it intends to move its semiconductor operations into a separate, publicly-traded company. In December of 2003, a registration statement was filed with the U.S. Securities and Exchange Commission ("SEC") relating to a proposed initial public offering ("IPO") of stock of Freescale Semiconductor, Inc., the name given to the new entity that would be comprised of Motorola's Semiconductor operations. The registration statement is currently being reviewed by the SEC, and accordingly, there is no way to know when, or if, such an IPO may occur.

Customers

The segment sells its products worldwide to Original Equipment Manufacturers (OEMs) and a network of industrial distributors through its own sales force, agents and distributors. The segment generally targets as

customers the leaders in the market segments in which its products are used, as well as the companies that we believe will be future leaders in these segments. As these customers represent a significant share of the market opportunity, we believe that this approach provides us with the ability to best leverage our investments in research and development and to continually develop products that address market needs.

Products manufactured by the segment and supplied to other operating units of Motorola collectively constitute the segment's largest end customer at 23% of 2003 revenue (2002, 26%; 2001, 23%). The segment's largest customer within Motorola is the wireless handset business, PCS. No other customer accounted for 10% or more of the segment's revenue in 2003. The segment's top ten external end customers in 2003 were: Apple, Bosch, BMW,

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Continental Teves, Daimler Chrysler, Delphi, Hewlett Packard, Qualcomm, Siemens and Visteon. For products sold through the distribution channel, distributors Arrow, Avnet and Future accounted for more than 50% of our net sales to distributors. The volume of purchases by these end customers has affected, and could continue to affect, segment results.

Competition

The segment experiences intense competition from numerous competitors ranging from large companies offering a full range of products to small companies specializing in certain segments of the market, although few companies compete with the segment in all of its product areas. The competitive environment also is changing as a result of increased alliances between competitors, and it is expected that the environment will continue to evolve through alliances, strategic acquisitions or other agreements among our competitors. The top five competitors in the semiconductor industry comprised 36% of the total market in 2003, based on estimates published by the Semiconductor Industry Association and Gartner Dataquest. At 17%, Intel's share was almost three times the size of its nearest competitor, due to its major penetration in the desktop PC market. Intel is also a competitor in the wireless market. The next four largest semiconductor suppliers had market shares ranging from 4% to 6%. In 2003, based on net sales, the segment had an estimated 2.8% share of the overall semiconductor market. However, the segment's shares of its targeted sub-markets are much higher both in percentages and relative positions.

Important factors in competition include: price; technology offered; product features, quality, availability and warranty; the quality and availability of service; time-to-market; and company image. The ability to develop new products to meet customer requirements and to meet customer delivery schedules are also critical factors. New products represent the most important opportunity to overcome the pricing pressures inherent in the industry.

Payment Terms

Generally, the segment does not provide extended payment terms.

Backlog

The segment's backlog was \$1.2 billion at December 31, 2003 and \$1.1 billion at December 31, 2002. Orders may be and are placed by customers for delivery up to as much as 12 months in the future, but for purposes of calculating backlog, only the next 13 weeks requirements are reported. An order is removed from the backlog only when the product is shipped, the order is cancelled or the order is rescheduled beyond the 13-week delivery window used for backlog reporting. In the semiconductor industry, backlog quantities and shipment schedules under outstanding purchase orders are frequently revised to reflect changes in customer needs. Therefore, the segment believes that most of its order backlog is cancelable. For these reasons, the amount of backlog as of any particular date may not be an accurate indicator of future results. However, the segment expects most of its backlog at December 31, 2003 to be recognized as revenue in 2004 because the history of the segment indicates that a relatively small amount of backlog is cancelled or rescheduled once it falls within the 13-week delivery period.

Intellectual Property Matters

Patent protection is very important to the segment's operations and has become even more important under the segment's new business model discussed above. We intend to continue to license more of our intellectual property to third parties. The segment has a broad portfolio of patents and licenses, covering manufacturing processes, packaging technology, software systems and electrical circuit design. The patent portfolio evolves over time as older patents expire and new patents are obtained. There are no patents the segment regards as critical to

its business that expire in the next 12 months. In addition, Motorola is licensed to use certain patents owned by others and the segment benefits from those licenses. The protection of these licenses is also important to our operations.

Inventory, Raw Materials, Right of Return and Seasonality

A majority of the segment's products are built-to-order for our customers. The segment can have sizeable amounts of inventory on hand from time to time. The level of inventory reflects the long manufacturing process that is a feature of the semiconductor industry.

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The primary raw materials used by the segment are raw silicon and piece parts, which are largely sourced from the U.S., Japan and Singapore. The segment is not currently experiencing any shortages in obtaining raw materials. We purchase a substantial portion of certain supplies from Taiwan and contract with companies to test and assemble certain products in Taiwan. With respect to these and other supplies, the segment is constantly evaluating additional sources of supply to minimize the risk of obtaining materials from only a few sources.

Electricity, oil and natural gas are used extensively in the segment's operations. All of these energy sources are available in adequate quantities for current needs. Electricity and oil are the primary energy sources for the segment's foreign operations, and, presently, there are no shortages of these sources. Labor is generally available in reasonable proximity to the segment's manufacturing facilities. Difficulties in obtaining any of the aforementioned items could affect the segment's results.

The segment previously permitted distribution customers to return products under an allowance program that limits the period for return and the quantity that can be returned. This program now provides the distributors a defined allowance for product obsolescence without the requirement to physically return the product. The cost of the new program is expected to be very comparable with the previous program, but with lower program administration costs. OEM and distribution customers can return products under warranty for a period of up to 3 years after purchase except unpackaged die and probed wafers, which have a warranty period of only 90 days.

The segment as a whole does not have seasonal patterns for sales. However, at a business group level within the segment, there are some seasonal patterns. Transportation and Standard Products Group sales are typically weak during the third quarter when automakers shut down to retool for new model-year vehicles, while strong consumer sales in the fourth quarter drive higher sales for the Wireless and Mobile Systems Group. In addition, the segment's results are affected by the cyclical nature of the semiconductor industry.

Our Facilities/Manufacturing

The segment's headquarters are located in Austin, Texas. The major manufacturing facilities are located in or around Austin, Texas; Phoenix, Arizona; Tianjin, China; Toulouse, France; East Kilbride, Scotland; Sendai, Japan and Kuala Lumpur, Malaysia. In addition to its manufacturing locations, the segment has research and development centers in several countries in Asia, Europe and the Americas, and a network of sales offices around the world. Certain facilities in Texas and Scotland closed in 2003 as previously announced. In addition, on January 16, 2004, the segment sold a wafer fabrication facility in Tianjin, China. The segment has wafer manufacturing evenly distributed across the United States, Europe and Asia, however the majority of its products are packaged in Asia, primarily in Malaysia, Taiwan and China. The segment outsourced approximately 15% of wafer manufacturing in 2003, primarily to one outsourcer located in Taiwan. Additionally, approximately 50% of product packaging was outsourced in 2003, primarily with one outsourcer that utilized its facilities in Taiwan and Korea.

Global Telecom Solutions Segment

The Global Telecom Solutions segment ("GTSS" or the "segment") designs, manufactures, sells, installs and services wireless infrastructure communication systems, including hardware and software. In 2003, GTSS net sales represented 16% of the Company's consolidated net sales.

Principal Products and Services

GTSS provides end-to-end wireless networks, including radio base stations, base site controllers, associated software and services, mobility soft switching, application platforms and third-party switching for CDMA, GSM,

iDEN® and UMTS technologies. The 2003 acquisition of Winphoria Networks, Inc. now enables GTSS to provide a Motorola-branded soft switch product. The addition of soft switch technology will enable the segment to provide less expensive, yet more versatile, switching alternatives to operators. GTSS products are marketed to wireless service providers worldwide through a direct sales force, licensees and agents.

Our Industry

Overall, wireless infrastructure industry sales were down in 2003 compared to 2002. Operators spent less on new equipment because of the difficult economic environment, pressure to reduce costs, and declines in average revenue per user (ARPU). In addition, technology enhancements have greatly improved network capacity without necessitating corresponding increases in spending by the operators.

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The industry's migration to 3G systems, which are high-capacity wireless networks designed to provide enhanced data services, improved Internet access and increased voice capacity, is currently focused primarily on two technologies—CDMA2000 1X and UMTS. GTSS is a supplier for both of these technologies. While CDMA2000 1X has been extensively commercialized, service providers only began to commercialize their 3G UMTS investments in 2003. We expect service providers to continue to use GPRS (General Packet Radio Service), which is a 2.5G technology, to grow their data subscriber base and to build their business case for these next-generation systems. The industry continues to expect broader implementation of 3G UMTS over the next several years as operators transition to next-generation systems to expand voice capacity and to support new data services. In North America and other global markets, operators are now also giving serious consideration to the deployment of EDGE technology, which is a GSM derivative. EDGE provides data bandwidths higher than GPRS in the existing GSM spectrum assignments. In addition, some CDMA markets have begun to deploy CDMA2000 1X-DO technology. CDMA2000 1X-DO also provides increased data bandwidth compared to CDMA2000 1X. GTSS has added products that utilize both EDGE and CDMA2000 1X-DO technologies to its product portfolio.

Our Strategy

We are executing on a strategy to enhance our position as an end-to-end supplier in wireless infrastructure. GTSS continues to invest in key radio access technologies: CDMA2000 1X, CDMA2000 1X-DO, iDEN, GSM, GPRS, EDGE and UMTS. In 2003, Motorola purchased Winphoria Networks, Inc., a leading soft switch vendor, which positions GTSS as a leader in the evolution to next-generation IP networks. We began our first commercial deployments of the Motorola Soft Switch (MSS) in 2003. The market for wireless soft switch is still developing but network operators in emerging markets, as well as some service providers in mature markets, are considering the use of this new technology. As with all new technologies, there are risks, including performance and market acceptance. GTSS has also introduced a Global Applications Management Architecture (GAMA) platform, which enables operators to rapidly deploy new revenue-generating features using software applications.

Our network products are further enhanced by a portfolio of services which reduce operator capital expenditure requirements, increase network capacity and improve system quality. These quality improvements benefit operators through increased customer satisfaction, greater usage and lower churn, all of which can have a positive impact on operator revenue. GTSS has also established a market presence in emerging markets, many of which have had higher growth rates than those in mature markets.

We also continue to build on our industry-leading position in push-to-talk over cellular (PoC) technology. We have executed agreements to launch our PoC product application on both GPRS and CDMA1X networks. We have executed an agreement with Nextel Communications, Inc. to upgrade Nextel's existing iDEN network to WiDEN™ technology. WiDEN will enable Nextel to deliver cost-effective, high-speed wireless data service to its customers, similar to GPRS and CDMA2000 1X. The additions of these offerings are an important step in our ongoing strategy to further enhance our product portfolio.

Customers

Due to the nature of the segment's business, the agreements it enters into are primarily long-term contracts with major operators that require sizeable investments by its customers. In 2003, five customers represented approximately 55% of the segment's net sales (China Mobile; China Unicom; KDDI, a service provider in Japan; Nextel Communications, Inc. and its affiliates; and Verizon). The loss of any of the segment's large customers, in particular these customers, could have a material adverse effect on the segment's business. Further, because contracts are long-term, the loss of a major customer would impact revenue over several quarters.

Nextel is our largest customer and we have been their exclusive supplier of iDEN core network infrastructure equipment for over ten years. Nextel uses Motorola's proprietary iDEN technology to support its nationwide wireless service business. GTSS's contracts with Nextel have been non-exclusive. At the end of December 2003, the terms of our primary supply agreement with Nextel expired. We are currently negotiating new supply agreements with Nextel relating to products, software licensing and software support. Nextel is currently purchasing products from us under interim agreements, purchase orders and special development contracts, substantially on the same terms as contained in the expired agreement. On an interim basis, we have continued to provide software support in 2004, but we do not intend to recognize revenue for this software support until we have a contract with Nextel. We cannot be assured at this time of the terms of a supply contract renewal or Nextel's continued exclusive long-term use of iDEN technology in its wireless business as it considers next-generation technology options.

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Motorola has a contract with Nextel for the development of infrastructure software and wireless handsets that use a new 6:1 vocoder. The use of this new vocoder solution is expected to allow Nextel to increase capacity on its current system. Motorola has delivered 6:1 infrastructure software and initial subscriber units to Nextel. Nextel has announced that the performance and functionality of the 6:1 handsets has met or exceeded Nextel's expectations in many respects. However, they have also indicated that in some operating conditions the voice quality while operating in 6:1 mode has not met their expectations. The Company continues to work closely with Nextel to optimize the 6:1 solution.

Competition

We experience intense competition in worldwide markets from numerous competitors, ranging in size from some of the world's largest companies to small, specialized firms. Major competitors include Ericsson, Nokia, Siemens, Lucent, Nortel, Alcatel, NEC, and Samsung. Ericsson has maintained its market leadership position and Nokia has solidified a number two market share position. Four other vendors, including GTSS, vie for number three in total market share.

We have experienced significant competition in the market for our products and services, especially as the industry transitions to 3G technology. GTSS is a supplier of 3G equipment for both CDMA 1X and UMTS technologies although we have a stronger position in CDMA 1X.

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

Payment Terms

GTSS contracts for large system installations typically have implementation milestones, such as delivery, installation and system acceptance. Generally, these milestones can take anywhere from 30 days to 180 days to complete. Customer payments are typically tied to the completion of these milestones. Once a milestone is reached, payment terms are generally 30 days to 60 days. As required for competitive reasons, we may provide or arrange for extended payment terms or long-term financing in connection with equipment purchases. In limited situations, financing may include providing additional working capital. We directly provided long-term financing of approximately: \$16 million to two customers in 2003; \$47 million to four customers in 2002; and \$156 million to seven customers in 2001.

Regulatory Matters

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

Recent policy changes in the U.S. may encourage deregulation of frequency allocation, allowing new wireless communications technologies to be developed. Such policy changes may spread to other countries, and the

reduced barriers to entry for the development of new technologies may introduce new competition for both Motorola and our customers.

Backlog

The segment's backlog was \$1.6 billion at December 31, 2003 and \$1.2 billion at December 31, 2002. The 2003 order backlog is believed to be generally firm and 100% of that amount is expected to be recognized as revenue during 2004. The forward-looking estimates of the firmness of such orders is subject to future events that may cause the amount recognized to change.

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Intellectual Property Matters

Patent protection is extremely important to the segment's operations. The segment has an extensive portfolio of patents relating to its products, systems, technologies, and manufacturing processes. Motorola is also licensed to use certain patents owned by others. The protection of these licenses is also important to the segment's operations. Reference is made to the material under the heading "Other Information" for information relating to patents and trademarks and research and development activities with respect to this segment.

Inventory, Raw Materials, Right of Return and Seasonality

The segment's practice is to carry sufficient inventory to respond to customers' needs. In 2003, the segment reduced its inventory by 16% compared to 2002 levels. The reduction in inventory is in part due to reduced sales volume and continued improvement in our inventory management processes.

Materials used in the segment's operations are second-sourced where feasible to ensure a continuity of supply. Occasional shortages in purchased components do occur; however, these shortages have not had a large impact on our business.

Energy necessary for the segment's manufacturing facilities consists of electricity, natural gas and gasoline, all of which are currently in generally adequate supply. The segment's facilities are highly automated and, therefore, require a reliable source of electrical power. Labor is generally available in reasonable proximity to the segment's manufacturing facilities. Difficulties in obtaining any of the aforementioned items could affect the segment's results.

Generally, our contracts do not include a right of return other than for standard warranty provisions. For new product introductions, we may enter into milestone contracts wherein if we do not achieve the milestones, the product could be returned. Our business does not have seasonal patterns for sales.

Our Facilities/Manufacturing

Our headquarters are located in Arlington Heights, Illinois. Major design centers include Arlington Heights and Schaumburg, Illinois; Chandler, Arizona; Fort Worth, Texas; Cork, Ireland, and Swindon, U.K. We operate manufacturing facilities in Schaumburg, Illinois; Fort Worth, Texas; Hangzhou and Tianjin, China; Swindon, U.K., and Jaguariuna, Brazil. A majority of our manufacturing is conducted in China either in facilities we operate or in facilities operated by firms to which we outsource our manufacturing.

Commercial, Government and Industrial Solutions Segment

The Commercial, Government and Industrial Solutions segment ("CGISS" or the "segment") provides customized, mission-critical integrated communications and information systems. In 2003, CGISS net sales represented 15% of the Company's consolidated net sales.

Principal Products and Services

We design, manufacture, sell, install and service analog and digital two-way radio, voice and data communications products and systems to a wide range of public-safety, government, utility, transportation and other worldwide markets. In addition, the segment participates in the expanding market for integrated information management, mobile and biometric applications and services. These applications and services provide our customers with tools such as computer-aided dispatch, field based reporting, records management and fingerprint