

## Item 8: Financial Statements and Supplementary Data

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Motorola, Inc.:

We have audited the accompanying consolidated balance sheets of Motorola, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Motorola, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 9 to the consolidated financial statements, effective January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. Also, as discussed in Notes 1 and 7 to the consolidated financial statements, effective January 1, 2008, the Company adopted the provisions of Emerging Issues Task Force Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. Also, as discussed in Notes 1 and 6 to the consolidated financial statements, effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. Also, effective December 31, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Motorola, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**KPMG LLP**

Chicago, Illinois  
February 26, 2009

**Motorola, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**

	<i>Years Ended December 31</i>		
<i>(In millions, except per share amounts)</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Net sales	\$ 30,146	\$ 36,622	\$ 42,847
Costs of sales	21,751	26,670	30,120
Gross margin	8,395	9,952	12,727
Selling, general and administrative expenses	4,330	5,092	4,504
Research and development expenditures	4,109	4,429	4,106
Other charges	2,347	984	25
Operating earnings (loss)	(2,391)	(553)	4,092
Other income (expense):			
Interest income, net	48	91	326
Gains on sales of investments and businesses, net	82	50	41
Other	(376)	22	151
Total other income (expense)	(246)	163	518
Earnings (loss) from continuing operations before income taxes	(2,637)	(390)	4,610
Income tax expense (benefit)	1,607	(285)	1,349
Earnings (loss) from continuing operations	(4,244)	(105)	3,261
Earnings from discontinued operations, net of tax	—	56	400
Net earnings (loss)	\$ (4,244)	\$ (49)	\$ 3,661
<i>Earnings (loss) per common share:</i>			
Basic:			
Continuing operations	\$ (1.87)	\$ (0.05)	\$ 1.33
Discontinued operations	—	0.03	0.17
	<u>\$ (1.87)</u>	<u>\$ (0.02)</u>	<u>\$ 1.50</u>
Diluted:			
Continuing operations	\$ (1.87)	\$ (0.05)	\$ 1.30
Discontinued operations	—	0.03	0.16
	<u>\$ (1.87)</u>	<u>\$ (0.02)</u>	<u>\$ 1.46</u>
<i>Weighted average common shares outstanding:</i>			
Basic	2,265.4	2,312.7	2,446.3
Diluted	2,265.4	2,312.7	2,504.2
Dividends paid per share	\$ 0.20	\$ 0.20	\$ 0.18

See accompanying notes to consolidated financial statements.

**Motorola, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

<i>(In millions, except per share amounts)</i>	<i>December 31</i>	
	2008	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,064	\$ 2,752
Sigma Fund	3,690	5,242
Short-term investments	225	612
Accounts receivable, net	3,493	5,324
Inventories, net	2,659	2,836
Deferred income taxes	1,092	1,891
Other current assets	3,140	3,565
Total current assets	<u>17,363</u>	<u>22,222</u>
Property, plant and equipment, net	2,442	2,480
Sigma Fund	466	—
Investments	517	837
Deferred income taxes	2,428	2,454
Goodwill	2,837	4,499
Other assets	1,816	2,320
Total assets	<u>\$27,869</u>	<u>\$34,812</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Notes payable and current portion of long-term debt	\$ 92	\$ 332
Accounts payable	3,188	4,167
Accrued liabilities	7,340	8,001
Total current liabilities	<u>10,620</u>	<u>12,500</u>
Long-term debt	4,092	3,991
Other liabilities	3,650	2,874
<i>Stockholders' equity</i>		
Preferred stock, \$100 par value	—	—
Common stock, \$3 par value	6,831	6,792
Issued shares: 2008 — 2,276.9 and 2007 — 2,264.0 and		
Outstanding shares: 2008 — 2,276.5 and 2007 — 2,263.1		
Additional paid-in capital	1,003	782
Retained earnings	3,878	8,579
Non-owner changes to equity	(2,205)	(706)
Total stockholders' equity	<u>9,507</u>	<u>15,447</u>
Total liabilities and stockholders' equity	<u>\$27,869</u>	<u>\$34,812</u>

See accompanying notes to consolidated financial statements.

**Motorola, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**

(In millions, except per share amounts)	Shares	Common Stock and Additional Paid-In Capital	Non-Owner Changes To Equity				Retained Earnings	Comprehensive Earnings (Loss)
			Fair Value Adjustment To Available For Sale Securities, Net of Tax	Foreign Currency Translation Adjustments, Net of Tax	Retirement Benefits Adjustments, Net of Tax	Other Items, Net of Tax		
<b>Balances at January 1, 2006</b>	<b>2,502.7</b>	<b>12,199</b>	<b>97</b>	<b>(253)</b>	<b>(1,269)</b>	<b>2</b>	<b>5,897</b>	
Net earnings							3,661	\$ 3,661
Net unrealized losses on securities (net of tax of \$37)			(60)					(60)
Foreign currency translation adjustments (net of tax of \$1)				127				127
Year-end and other retirement adjustments (net of tax of \$150)					(308)			206
Issuance of common stock and stock options exercised	68.1	916						
Share repurchase program	(171.7)	(3,826)						
Excess tax benefits from share-based compensation		165						
Stock option and employee stock purchase plan expense		252						
Net gain on derivative instruments (net of tax of \$6)						14		14
Dividends declared (\$0.19 per share)							(472)	
<b>Balances at December 31, 2006</b>	<b>2,399.1</b>	<b>9,706</b>	<b>37</b>	<b>(126)</b>	<b>(1,577)</b>	<b>16</b>	<b>9,086</b>	<b>\$ 3,948</b>
Cumulative effect — FIN 48		93					27	
Effect of Non-U.S. pension plan measurement date change							(17)	
<b>Balances at January 1, 2007</b>	<b>2,399.1</b>	<b>9,799</b>	<b>37</b>	<b>(126)</b>	<b>(1,577)</b>	<b>16</b>	<b>9,096</b>	
Net loss							(49)	\$ (49)
Net unrealized losses on securities (net of tax of \$58)			(96)					(96)
Foreign currency translation adjustments (net of tax of \$3)				142				142
Amortization of retirement benefits adjustments (net of tax of \$39)					62			62
Year-end and other retirement adjustments (net of tax of \$328)					852			852
Issuance of common stock and stock options exercised	36.1	484						
Share repurchase program	(171.2)	(3,035)						
Excess tax benefits from share-based compensation		50						
Stock option and employee stock purchase plan expense		276						
Net loss on derivative instruments (net of tax of \$6)						(16)		(16)
Dividends declared (\$0.20 per share)							(468)	
<b>Balances at December 31, 2007</b>	<b>2,264.0</b>	<b>\$ 7,574</b>	<b>\$(59)</b>	<b>\$ 16</b>	<b>\$ (663)</b>	<b>\$ —</b>	<b>\$ 8,579</b>	<b>\$ 895</b>
Cumulative effect — Postretirement Insurance Plan					(41)		(4)	
<b>Balances at January 1, 2008</b>	<b>2,264.0</b>	<b>7,574</b>	<b>(59)</b>	<b>16</b>	<b>(704)</b>	<b>—</b>	<b>8,575</b>	
Net loss							(4,244)	\$(4,244)
Net unrealized gains on securities (net of tax of \$36)			61					61
Foreign currency translation adjustments (net of tax of \$39)				(149)				(149)
Amortization of retirement benefit adjustments (net of tax of \$10)					19			19
Effect of U.S. pension plan freeze curtailment (net of tax of \$25)					(42)			(42)
Year-end and other retirement adjustments (net of tax of \$793)					(1,340)			(1,340)
Issuance of common stock and stock options exercised	21.9	197						
Share repurchase program	(9.0)	(138)						
Tax shortfalls from share-based compensation		(6)						
Stock option and employee stock purchase plan expense		207						
Net loss on derivative instruments (net of tax of \$5)						(7)		(7)
Dividends declared (\$0.20 per share)							(453)	
<b>Balances at December 31, 2008</b>	<b>2,276.9</b>	<b>\$ 7,834</b>	<b>\$ 2</b>	<b>\$(133)</b>	<b>\$(2,067)</b>	<b>\$ (7)</b>	<b>\$ 3,878</b>	<b>\$(5,702)</b>

See accompanying notes to consolidated financial statements.



**Motorola, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

<i>(In millions)</i>	<i>Years Ended December 31</i>		
	<i>2008</i>	<i>2007</i>	<i>2006</i>
<b>Operating</b>			
Net earnings (loss)	\$ (4,244)	\$ (49)	\$ 3,661
Less: Earnings from discontinued operations	—	56	400
Earnings (loss) from continuing operations	(4,244)	(105)	3,261
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	831	903	558
Non-cash other charges	2,516	213	49
Share-based compensation expense	280	315	276
Gains on sales of investments and businesses, net	(82)	(50)	(41)
Deferred income taxes, including change in valuation allowance	1,698	(747)	838
Change in assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable	1,891	2,538	(1,775)
Inventories	(54)	556	(718)
Other current assets	466	(705)	(388)
Accounts payable and accrued liabilities	(1,631)	(2,303)	1,654
Other assets and liabilities	(1,429)	170	(215)
Net cash provided by operating activities from continuing operations	242	785	3,499
<b>Investing</b>			
Acquisitions and investments, net	(282)	(4,568)	(1,068)
Proceeds from sale of investments and businesses	93	411	2,001
Distributions from investments	113	—	—
Capital expenditures	(504)	(527)	(649)
Proceeds from sale of property, plant and equipment	133	166	85
Proceeds from sales (purchases) of Sigma Fund investments, net	853	6,889	(1,337)
Proceeds from sales (purchases) of short-term investments, net	388	8	(476)
Net cash provided by (used for) investing activities from continuing operations	794	2,379	(1,444)
<b>Financing</b>			
Proceeds from (repayment of) commercial paper and short-term borrowings, net	(50)	(242)	66
Repayment of debt	(225)	(1,386)	(18)
Proceeds from issuance of debt, net	7	1,415	—
Issuance of common stock	145	440	918
Purchase of common stock	(138)	(3,035)	(3,826)
Proceeds from settlement of financial instruments	158	—	—
Payment of dividends	(453)	(468)	(443)
Distribution to discontinued operations	(90)	(75)	(23)
Other, net	1	50	165
Net cash used for financing activities from continuing operations	(645)	(3,301)	(3,161)
Effect of exchange rate changes on cash and cash equivalents from continuing operations	(79)	73	148
Net increase (decrease) in cash and cash equivalents	312	(64)	(958)
Cash and cash equivalents, beginning of year	2,752	2,816	3,774
Cash and cash equivalents, end of year	\$ 3,064	\$ 2,752	\$ 2,816

*Cash Flow Information*

<b>Cash paid during the year for:</b>			
Interest, net	\$ 252	\$ 312	\$ 322
Income taxes, net of refunds	407	440	463

See accompanying notes to consolidated financial statements.

**Motorola, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
(Dollars in millions, except as noted)

## 1. Summary of Significant Accounting Policies

**Principles of Consolidation:** The consolidated financial statements include the accounts of the Company and all controlled subsidiaries. All intercompany transactions and balances have been eliminated.

**Revenue Recognition:** The Company's material revenue streams are the result of a wide range of activities, from the delivery of stand-alone equipment to custom design and installation over a period of time to bundled sales of equipment, software and services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility of the sales price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

*Products and Equipment*—For product and equipment sales, revenue recognition generally occurs when products or equipment have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and allowances for discounts, price protection, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. The Company bases its estimates on historical experience taking into consideration the type of products sold, the type of customer, and the type of transaction specific in each arrangement. Where customer incentives cannot be reliably estimated, the Company recognizes revenue at the time the product sells through the distribution channel to the end customer.

*Long-Term Contracts*—For long-term contracts that involve customization of the Company's equipment or software, the Company generally recognizes revenue using the percentage of completion method based on the percentage of costs incurred to date compared to the total estimated costs to complete the contract. In certain instances, when revenues or costs associated with long-term contracts cannot be reliably estimated or the contract involves unproven technologies or other inherent hazards, revenues and costs are deferred until the project is complete and customer acceptance is obtained. When current estimates of total contract revenue and contract costs indicate a contract loss, the loss is recognized in the period it becomes evident.

*Services*—Revenue for services is generally recognized ratably over the contract term as services are performed.

*Software and Licenses*—Revenue from pre-paid perpetual licenses is recognized at the inception of the arrangement, presuming all other relevant revenue recognition criteria are met. Revenue from non-perpetual licenses or term licenses is recognized ratably over the period that the licensee uses the license. Revenue from software maintenance, technical support and unspecified upgrades is generally recognized over the period that these services are delivered.

*Multiple Element Arrangements*—Arrangements with customers may include multiple deliverables, including any combination of products, equipment, services and software. For multiple element arrangements which include software or software-related elements, the Company applies the provisions of AICPA Statement of Position No. 97-2, "Software Revenue Recognition," to determine separate units of accounting and the amount of the arrangement fee to be allocated to those separate units of accounting. Multiple element arrangements that include software are separated into more than one unit of accounting when the following criteria are met: (i) the functionality of the delivered element(s) is not dependent on the undelivered element(s), (ii) there is vendor-specific objective evidence of the fair value of the undelivered element(s), and (iii) general revenue recognition criteria related to the delivered element(s) have been met. If any of these criteria are not met, revenue is deferred until the criteria are met or the last element has been delivered.

For all other multiple element arrangements, deliverables are separated into more than one unit of accounting when the following criteria are met: (i) the delivered element(s) have value to the customer on a stand-alone basis, (ii) objective and reliable evidence of fair value exists for the undelivered element(s), and (iii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. Revenue is allocated to each unit of accounting based on the relative fair value of each accounting unit or using the residual method if objective evidence of fair value does not exist for the delivered element(s). If any of these criteria are not met, revenue is deferred until the criteria are met or the last element has been delivered.

When elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

**Sales and Use Taxes**—The Company records taxes imposed on revenue-producing transactions, including sales, use, value added and excise taxes, on a net basis with such taxes excluded from revenue.

**Cash Equivalents:** The Company considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2008, and 2007, restricted cash was \$343 million and \$158 million, respectively.

**Sigma Fund:** The Company and its wholly-owned subsidiaries invest most of their U.S. dollar-denominated cash in a fund (the “Sigma Fund”) that is designed to provide investment returns similar to a money market fund. The Sigma Fund portfolio is managed by four premier independent investment management firms. The investment guidelines of the Sigma Fund require that purchased investments must be high-quality, investment grade (rated at least A/A-1 by Standard & Poor’s or A2/P-1 by Moody’s Investor Services) U.S. dollar-denominated debt obligations, including certificates of deposit, commercial paper, government bonds, corporate bonds and asset-backed and mortgaged-backed securities. Except for debt obligations of the U.S. treasury and U.S. agencies, no more than 5% of the Sigma Fund portfolio is to consist of debt obligations of a single issuer. The Sigma Fund investment policies further require that floating rate investments must have a maturity at purchase date that is not in excess of 36 months with an interest rate that is reset at least annually. The average interest rate that is reset of investments held in the Sigma Fund must be 120 days or less.

Investments in Sigma Fund are carried at fair value. The Company primarily relies on valuation pricing models and broker quotes to determine the fair value of investments in the Sigma Fund. The valuation models are developed and maintained by third-party pricing services, and use a number of standard inputs, including benchmark yields, reported trades, broker/dealer quotes where the counterparty is standing ready and able to transact, issuer spreads, benchmark securities, bids, offers and reference data. For each asset class, quantifiable inputs related to perceived market movements and sector news may also be considered in addition to the standard inputs.

The Company considers a decline in the fair value of a security in Sigma Fund to be temporary if it believes that it will collect all amounts it is owed on the security according to its contractual terms, which may be at maturity. If it becomes probable that the Company will not collect all amounts that it is owed according to a security’s contractual terms, it considers the security to be impaired and adjusts its cost basis of the security by the related impairment loss. Beginning in the fourth quarter of 2008, all changes in the fair value of Sigma Fund investments, including temporary unrealized gains (losses) and impairment charges, are recorded in Other within Other income (expense) in the Company’s consolidated statements of operations.

**Investments:** Investments in equity and debt securities classified as available-for-sale are carried at fair value. Debt securities classified as held-to-maturity are carried at amortized cost. Equity securities that are restricted for more than one year or that are not publicly traded are carried at cost. Certain investments are accounted for using the equity method if the company has significant influence over the issuing entity.

The Company assesses declines in the fair value of investments to determine whether such declines are other-than-temporary. This assessment is made considering all available evidence, including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition and the near-term prospects of the entity issuing the security, and the Company’s ability and intent to hold investment until recovery. Other-than-temporary impairments of investments are recorded to Other within Other income (expense) in the Company’s consolidated statements of operations in the period in which they become impaired.

**Inventories:** Inventories are valued at the lower of average cost (which approximates computation on a first-in, first-out basis) or market (net realizable value or replacement cost).

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is recorded using straight-line and declining-balance methods, based on the estimated useful lives of the assets (buildings and building equipment, 5-40 years; machinery and equipment, 2-10 years) and commences once the assets are ready for their intended use.

**Goodwill and Intangible Assets:** Goodwill is not amortized, but instead is tested for impairment at least annually. The goodwill impairment test is performed at the reporting unit level and is a two-step analysis. First, the fair value (“FV”) of each reporting unit is compared to its book value. If the FV of the reporting unit is less than

its book value, the Company performs a hypothetical purchase price allocation based on the reporting unit's FV to determine the FV of the reporting unit's goodwill. FV is determined using a combination of present value techniques and market prices of comparable businesses.

Intangible assets are generally amortized on a straight line basis over their respective estimated useful lives ranging from one to 14 years. The Company has no intangible assets with indefinite useful lives.

**Impairment of Long-Lived Assets:** Long-lived assets, which include intangible assets, held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset (group) to future net undiscounted cash flows to be generated by the asset (group). If an asset is considered to be impaired, the impairment to be recognized is equal to the amount by which the carrying amount of the asset exceeds the asset's fair value calculated using a discounted future cash flows analysis or market comparables. Assets held for sale, if any, are reported at the lower of the carrying amount or fair value less cost to sell.

**Income Taxes:** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in the period that includes the enactment date.

Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. Significant weight is given to evidence that can be objectively verified. The Company evaluates deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence. Deferred tax assets are realized by having sufficient future taxable income to allow the related tax benefits to reduce taxes otherwise payable. The sources of taxable income that may be available to realize the benefit of deferred tax assets are future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carry-forwards, taxable income in carry-back years and tax planning strategies that are both prudent and feasible.

On January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). Beginning January 1, 2007, the Company recognizes the effect of income tax positions only if sustaining those positions is more likely than not in accordance with the provisions of FIN 48. Changes in recognition or measurement are reflected in the period in which a change in judgment occurs. Prior to January 1, 2007, the Company recognized the effect of income tax positions only if such positions were probable of being sustained. The Company records interest related to unrecognized tax benefits in Interest expense and penalties in Selling, general and administrative expenses in the Company's consolidated statements of operations.

**Long-term Receivables:** Long-term receivables include trade receivables where contractual terms of the note agreement are greater than one year. Long-term receivables are considered impaired when management determines collection of all amounts due according to the contractual terms of the note agreement, including principal and interest, is no longer probable. Impaired long-term receivables are valued based on the present value of expected future cash flows, discounted at the receivable's effective rate of interest, or the fair value of the collateral if the receivable is collateral dependent. Interest income and late fees on impaired long-term receivables are recognized only when payments are received. Previously impaired long-term receivables are no longer considered impaired and are reclassified to performing when they have performed under a workout or restructuring for four consecutive quarters.

**Foreign Currency:** Certain of the Company's non-U.S. operations use their respective local currency as their functional currency. Those operations that do not have the U.S. dollar as their functional currency translate assets and liabilities at current rates of exchange in effect at the balance sheet date and revenues and expenses using rates that approximate those in effect during the period. The resulting translation adjustments are included as a component of Non-owner changes to equity in the Company's consolidated balance sheets. For those operations that have the U.S. dollar as their functional currency, transactions denominated in the local currency are measured in U.S. dollars using the current rates of exchange for monetary assets and liabilities and historical rates of exchange for nonmonetary assets. Gains and losses from remeasurement of monetary assets and liabilities are included in Other within Other income (expense) within the Company's consolidated statements of operations.

**Derivative Instruments:** Gains and losses on hedges of existing assets or liabilities are marked-to-market and the result is included in Other within Other income (expense) within the Company's consolidated statements of operations. Gains and losses on financial instruments that qualify for hedge accounting and are used to hedge firm future commitments or forecasted transactions are deferred until such time as the underlying transactions are recognized or recorded immediately when the transaction is no longer expected to occur. Gains or losses on financial instruments that do not qualify as hedges under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") are recognized immediately as income or expense.

**Earnings (Loss) Per Share:** The Company calculates its basic earnings (loss) per share based on the weighted-average effect of all common shares issued and outstanding. Net earnings (loss) is divided by the weighted average common shares outstanding during the period to arrive at the basic earnings (loss) per share. Diluted earnings (loss) per share is calculated by dividing net earnings (loss) by the sum of the weighted average number of common shares used in the basic earnings (loss) per share calculation and the weighted average number of common shares that would be issued assuming exercise or conversion of all potentially dilutive securities, excluding those securities that would be anti-dilutive to the earnings (loss) per share calculation. Both basic and diluted earnings (loss) per share amounts are calculated for earnings (loss) from continuing operations and net earnings (loss) for all periods presented.

**Share-Based Compensation Costs:** The Company has incentive plans that reward employees with stock options, stock appreciation rights, restricted stock and restricted stock units, as well as an employee stock purchase plan. Prior to January 1, 2006, the Company applied the intrinsic value method of accounting for share-based compensation. On January 1, 2006, the Company adopted SFAS No. 123R, "Share-Based Payment" ("SFAS 123R") using the modified prospective transition method. The Company had previously disclosed the fair value of its stock options in its footnotes. The amount of compensation cost for share-based awards is measured based on the fair value of the awards, as of the date that the share-based awards are issued and adjusted to the estimated number of awards that are expected to vest. The fair value of stock options and stock appreciation rights is generally determined using a Black-Scholes option pricing model which incorporates assumptions about expected volatility, risk free rate, dividend yield, and expected life. Compensation cost for share-based awards is recognized on a straight-line basis over the vesting period.

**Retirement Benefits:** The Company records annual expenses relating to its pension benefit and postretirement plans based on calculations which include various actuarial assumptions, including discount rates, assumed asset rates of return, compensation increases, turnover rates and health care cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends. The effects of the gains, losses, and prior service costs and credits are amortized over future service periods. The funding status, or projected benefit obligation less plan assets, for each plan, is reflected in the Company's consolidated balance sheets using a December 31 measurement date.

**Advertising Expense:** Advertising expenses, which are the external costs of marketing the Company's products, are expensed as incurred. Advertising expenses were \$790 million, \$1.1 billion and \$1.2 billion for the years ended December 31, 2008, 2007, and 2006, respectively.

**Use of Estimates:** The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable and long-term receivables, inventories, Sigma Fund, investments, goodwill, intangible and other long-lived assets, legal contingencies, guarantee obligations, indemnifications, and assumptions used in the calculation of income taxes, retirement and other post-employment benefits and allowances for discounts, price protection, product returns, and customer incentives, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity, foreign currency, energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting for continuing changes in the economic environment will be reflected in the financial statements in future periods.

**Reclassifications:** Certain amounts in prior years' financial statements and related notes have been reclassified to conform to the 2008 presentation.

**Recent Accounting Pronouncements:** The Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157") on January 1, 2008 for financial assets and liabilities, and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value as required by other accounting pronouncements and expands fair value measurement disclosures. The provisions of SFAS 157 were applied prospectively upon adoption and did not have a material impact on the Company's consolidated financial statements. The disclosures required by SFAS 157 are included in Note 9, "Fair Value Measurements," to the Company's consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position 157-2, which delays the effective date of SFAS 157 for non-financial assets and liabilities, which are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of adopting SFAS 157 for non-financial assets and liabilities on the Company's consolidated financial statements.

In October 2008, the FASB issued FASB Staff Position ("FSP") 157-3, which provided guidance to clarify the application of SFAS 157 in a market that is not active. The Company adopted this FSP in the fourth quarter of 2008. The net impact of this FSP was immaterial.

The Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" ("SFAS 159") as of January 1, 2008. SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value option for any assets or liabilities, which were not previously carried at fair value. Accordingly, the adoption of SFAS 159 had no impact on the Company's consolidated financial statements.

The Company adopted EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4") as of January 1, 2008. EITF 06-4 requires that endorsement split-dollar life insurance arrangements, which provide a benefit to an employee beyond the postretirement period be recorded in accordance with SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" or APB Opinion No. 12, "Omnibus Opinion—1967" ("the Statements") based on the substance of the agreement with the employee. Upon adoption of EITF 06-4, the Company recognized an increase in Other liabilities of \$45 million with the offset reflected as a cumulative-effect adjustment to January 1, 2008 Retained earnings and Non-owner changes to equity in the amounts of \$4 million and \$41 million, respectively, in the Company's consolidated statement of stockholders' equity.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS 141R"), a revision of SFAS 141, "Business Combinations." SFAS 141R establishes requirements for the recognition and measurement of acquired assets, liabilities, goodwill and non-controlling interests. SFAS 141R also provides disclosure requirements related to business combinations. SFAS 141R is effective for fiscal years beginning after December 15, 2008. SFAS 141R will be applied prospectively to business combinations with an acquisition date on or after the effective date.

In December 2007, the FASB issued SFAS No. 160, "Non-Controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes new standards for the accounting for and reporting of non-controlling interests (formerly minority interests) and for the loss of control of partially owned and consolidated subsidiaries. SFAS 160 does not change the criteria for consolidating a partially owned entity. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The provisions of SFAS 160 will be applied prospectively upon adoption except for the presentation and disclosure requirements, which will be applied retrospectively. The Company does not expect the adoption of SFAS 160 to have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133" ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the additional disclosures required by SFAS 161.

## 2. Discontinued Operations

During the year ended December 31, 2006, the Company completed the sale of its automotive electronics business to Continental AG for \$856 million in net cash received. The Company recorded a gain on sale of business of \$399 million before income taxes, which is included in Earnings (loss) from discontinued operations, net of tax, in the Company's consolidated statements of operations.

On December 2, 2004, the Company completed the separation and spin-off of Freescale Semiconductor, Inc. ("Freescale Semiconductor"). Under the terms of the Master Separation and Distribution Agreement entered into between Motorola and Freescale Semiconductor, Freescale Semiconductor has agreed to indemnify Motorola for substantially all past, present and future liabilities associated with the semiconductor business. The spin-off was effected by way of a pro rata non-cash dividend to Motorola stockholders, which reduced retained earnings by \$2.5 billion. The equity distribution was structured to be tax-free to Motorola stockholders for U.S. tax purposes (other than with respect to any cash received in lieu of fractional shares).

The financial results of the automotive electronics business and Freescale Semiconductor were reflected as discontinued operations in the consolidated financial statements and related notes thereto. During the year ended December 31, 2008, the discontinued operations activity primarily relates to the resolution and payment of certain indemnifications relating to a divestiture. During the year ended December 31, 2007, the discontinued operations activity primarily relates to resolutions of certain matters with the tax authorities and payments of post-retiree medical claims to former employees.

The following table displays summarized activity in the Company's consolidated statements of operations for discontinued operations during the years ended December 31, 2007 and 2006. The Company had no such activity during the year end December 31, 2008.

<i>Years Ended December 31</i>	<i>2007</i>	<i>2006</i>
Net sales	\$ —	\$860
Operating earnings	10	87
Gains on sales of investments and businesses, net	—	399
Earnings before income taxes	10	482
Income tax expense (benefit)	(46)	82
Earnings from discontinued operations, net of tax	56	400

## 3. Other Financial Data

### Statement of Operations Information

#### *Other Charges*

Other charges included in Operating earnings (loss) consist of the following:

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Other charges (income):			
Goodwill impairment	\$1,619	\$ —	\$ —
Intangibles amortization	318	369	100
Reorganization of businesses	248	290	172
Asset impairments	136	89	—
Separation-related transaction costs	59	—	—
Legal settlements and related insurance matters, net	14	140	50
In-process research and development charges	1	96	33
Gain on sale of property, plant and equipment	(48)	—	—
Charitable contribution to Motorola Foundation	—	—	88
Settlements and collections related to Telsim	—	—	(418)
	<u>\$2,347</u>	<u>\$984</u>	<u>\$ 25</u>

*Other Income (Expense)*

Interest income, net, and Other both included in Other income (expense) consist of the following:

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Interest income, net:			
Interest income	\$ 272	\$ 456	\$ 661
Interest expense	(224)	(365)	(335)
	<u>\$ 48</u>	<u>\$ 91</u>	<u>\$ 326</u>
Other:			
Investment impairments	\$(365)	\$ (44)	\$ (27)
Impairment charges on Sigma Fund investments	(186)	(18)	—
Temporary unrealized losses of the Sigma Fund investments	(101)	—	—
Foreign currency gain (loss)	(84)	97	60
U.S. pension plan freeze curtailment gain	237	—	—
Liability extinguishment gain	56	—	—
Gain on interest rate swaps	24	—	—
Gain on Sprint Nextel derivatives	—	—	99
Other	43	(13)	19
	<u>\$(376)</u>	<u>\$ 22</u>	<u>\$ 151</u>

*Earnings (Loss) Per Common Share*

Basic and diluted earnings (loss) per common share from both continuing operations and net earnings (loss), including discontinued operations, is computed as follows:

<i>Years Ended December 31</i>	<i>Continuing Operations</i>			<i>Net Earnings (Loss)</i>		
	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Basic earnings (loss) per common share:						
Earnings (loss)	\$ (4,244)	\$ (105)	\$ 3,261	\$ (4,244)	\$ (49)	\$ 3,661
Weighted average common shares outstanding	2,265.4	2,312.7	2,446.3	2,265.4	2,312.7	2,446.3
Per share amount	<u>\$ (1.87)</u>	<u>\$ (0.05)</u>	<u>\$ 1.33</u>	<u>\$ (1.87)</u>	<u>\$ (0.02)</u>	<u>\$ 1.50</u>
Diluted earnings (loss) per common share:						
Earnings (loss)	<u>\$ (4,244)</u>	<u>\$ (105)</u>	<u>\$ 3,261</u>	<u>\$ (4,244)</u>	<u>\$ (49)</u>	<u>\$ 3,661</u>
Weighted average common shares outstanding	2,265.4	2,312.7	2,446.3	2,265.4	2,312.7	2,446.3
Add effect of dilutive securities:						
Employee share-based awards	—	—	57.9	—	—	57.9
Diluted weighted average common shares outstanding	<u>2,265.4</u>	<u>2,312.7</u>	<u>2,504.2</u>	<u>2,265.4</u>	<u>2,312.7</u>	<u>2,504.2</u>
Per share amount	<u>\$ (1.87)</u>	<u>\$ (0.05)</u>	<u>\$ 1.30</u>	<u>\$ (1.87)</u>	<u>\$ (0.02)</u>	<u>\$ 1.46</u>

For the years ended December 31, 2008 and 2007, the Company was in a loss position and accordingly, the basic and diluted weighted average shares outstanding are equal because any increase to the basic shares would be antidilutive. Once the Company returns to profitability, the diluted impact of stock options, stock appreciation rights, and restricted stock units will be evaluated for their impact on the weighted average shares outstanding for purposes of computing diluted earnings (loss) per common share.

For the year ended December 31, 2006 in the computation of diluted earnings (loss) per common share from both continuing operations and on a net earnings (loss) basis, 76.6 million stock options were excluded because their inclusion would have been antidilutive.



## Balance Sheet Information

### Sigma Fund

Sigma Fund consists of the following:

	<u>Recorded Value</u>		<u>Temporary</u>	<u>Temporary</u>
	<u>Current</u>	<u>Non-current</u>	<u>Unrealized</u>	<u>Unrealized</u>
			<u>Gains</u>	<u>Losses</u>
<i>December 31, 2008</i>				
Cash	\$1,108	\$ —	\$—	\$ —
Certificates of deposit	20	—	—	—
Securities:				
U.S. government and agency obligations	752	—	—	—
Corporate bonds	1,616	366	25	(88)
Asset-backed securities	113	59	—	(24)
Mortgage-backed securities	81	41	—	(14)
	<u>\$3,690</u>	<u>\$466</u>	<u>\$25</u>	<u>\$(126)</u>
<i>December 31, 2007</i>				
Cash	\$ 16		\$—	\$ —
Certificates of deposit	156		—	—
Securities:				
Commercial paper	1,282		—	—
U.S. government and agency obligations	25		—	—
Corporate bonds	3,125		1	(48)
Asset-backed securities	420		—	(5)
Mortgage-backed securities	209		—	(5)
Other	9		—	—
	<u>\$5,242</u>		<u>\$ 1</u>	<u>\$(58)</u>

The fair market value of investments in the Sigma Fund was \$4.2 billion and \$5.2 billion at December 31, 2008 and 2007, respectively.

The Company considers unrealized losses in the Sigma Fund to be temporary, as these losses have resulted primarily from the ongoing disruptions in the capital markets. On the securities for which the unrealized losses are considered temporary (excluding impaired securities), the Company believes it is probable that it will be able to collect all amounts it is owed according to their contractual terms, which may be at maturity. Temporary unrealized losses in the Sigma Fund were \$101 million and \$57 million at December 31, 2008 and 2007, respectively.

If it becomes probable the Company will not collect amounts it is owed on securities according to their contractual terms, the Company considers the security to be impaired and adjusts the cost basis of the security accordingly. For the years ended December 31, 2008 and 2007, impairment charges in the Sigma Fund were \$186 million and \$18 million, respectively. The impairment charges were primarily related to investments in Lehman Brothers Holdings, Inc., Washington Mutual, Inc., and Sigma Finance Corporation, an unrelated special investment vehicle managed by United Kingdom-based Gordian Knot, Limited.

Securities with a significant temporary unrealized loss and a maturity greater than 12 months and impaired securities have been classified as non-current in the Company's consolidated balance sheets. At December 31, 2008, \$466 million of the Sigma Fund investments were classified as non-current, and the weighted average maturity of the Sigma Fund investments classified as non-current (excluding impaired securities) was 16 months. At December 31, 2007, none of the Sigma Fund investments were classified as non-current.

Prior to the three months ended December 31, 2008, the Company recognized impairment charges from Sigma Fund investments in its consolidated statements of operations and temporary unrealized losses in Sigma Fund investments as a component of Non-owner changes to equity in the consolidated statements of stockholders' equity. During the three months ended December 31, 2008, the Company determined that temporary unrealized losses in Sigma Fund investments should also be recognized in the Company's consolidated statements of

operations, even though the related securities were not considered impaired. Because the Sigma Fund uses investment-company accounting in its stand-alone financial statements, it marks the investments in the fund to market and records all unrealized gains or losses in earnings, whether or not the related securities are considered impaired. The Company has determined that the stand-alone accounting policies of the Sigma Fund should be retained in its consolidated financial statements. Accordingly, the Company recorded \$101 million of accumulated temporary unrealized losses in Sigma Fund investments in its consolidated statements of operations during the three months ended December 31, 2008, which represents all of the temporary unrealized gains and losses that have accumulated in Sigma Fund investments as of December 31, 2008. Portions of the temporary unrealized losses recognized in the three months ended December 31, 2008 arose in periods prior to the three months ended December 31, 2008 and should have been reflected in the Company's consolidated statements of operations in the periods in which they arose. The Company has determined that the impact of the amounts that arose in prior periods is not material to the consolidated results of operations of those prior periods.

During the year ended December 31, 2008, the Company recorded total charges related to Sigma Fund investments, including temporary unrealized losses and impairment charges, of \$287 million in its consolidated statement of operations. During the year ended December 31, 2007, the Company recorded total charges of \$18 million, all of which were impairment charges, in its consolidated statements of operations. There were no temporary unrealized losses or impairment charges in the Sigma Fund investment portfolio during the year ended December 31, 2006.

### Investments

Investments consist of the following:

	<u>Recorded Value</u>		<u>Less</u>		<u>Cost Basis</u>
	<u>Short-term Investments</u>	<u>Investments</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
<b>December 31, 2008</b>					
Certificates of deposit	\$225	\$ —	\$—	\$—	\$225
Available-for-sale securities:					
U.S. government and agency obligations	—	25	1	—	24
Corporate bonds	—	7	—	—	7
Asset-backed securities	—	1	—	—	1
Common stock and equivalents	—	128	5	(2)	125
	225	161	6	(2)	382
Other securities, at cost	—	296	—	—	296
Equity method investments	—	60	—	—	60
	<u>\$225</u>	<u>\$517</u>	<u>\$ 6</u>	<u>\$(2)</u>	<u>\$738</u>

	<u>Recorded Value</u>		<u>Less</u>		<u>Cost Basis</u>
	<u>Short-term Investments</u>	<u>Investments</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
<b>December 31, 2007</b>					
Certificates of deposit	\$509	\$ —	\$—	\$ —	\$ 509
Available-for-sale securities:					
U.S. government and agency obligations	19	—	—	—	19
Corporate bonds	1	—	—	—	1
Common stock and equivalents	—	333	40	(79)	372
Other	83	—	—	—	83
	612	333	40	(79)	984
Other securities, at cost	—	414	—	—	414
Equity method investments	—	90	—	—	90
	<u>\$612</u>	<u>\$837</u>	<u>\$40</u>	<u>\$(79)</u>	<u>\$1,488</u>

At December 31, 2008, the Company had \$225 million in short-term investments (which are highly-liquid fixed-income investments with an original maturity greater than three months but less than one year), compared to \$612 million of short-term investments at December 31, 2007.

At December 31, 2008, the Company's available-for-sale equity securities portfolio had an approximate fair market value of \$128 million, which represented a cost basis of \$125 million and a net unrealized gain of \$3 million. At December 31, 2007, the Company's available-for-sale securities portfolio had an approximate fair market value of \$333 million, which represented a cost basis of \$372 million and a net unrealized loss of \$39 million.

During the years ended December 31, 2008, 2007 and 2006, the Company recorded investment impairment charges of \$365 million, \$44 million and \$27 million, respectively, representing other-than-temporary declines in the value of the Company's available-for-sale investment portfolio. Investment impairment charges are included in Other within Other income (expense) in the Company's consolidated statements of operations.

Gains on sales of investments and businesses, consists of the following:

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Gains on sales of investments, net	\$82	\$17	\$41
Gains on sales of businesses, net	<u>—</u>	<u>33</u>	<u>—</u>
	\$82	\$50	\$41

During the year ended December 31, 2008, the \$82 million of net gains primarily relates to sales of a number of the Company's equity investments, of which \$29 million of gain was attributed to a single investment. During the year ended December 31, 2007, the \$50 million of net gains was primarily related to a \$34 million gain on the sale of the Company's embedded communication computing business. During the year ended December 31, 2006, the \$41 million of net gains was primarily related to a \$141 million gain on the sale of the Company's remaining shares in Telus Corporation, partially offset by a \$126 million loss on the sale of the Company's remaining shares in Sprint Nextel Corporation ("Sprint Nextel").

### *Accounts Receivable*

Accounts receivable, net, consists of the following:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Accounts receivable	\$3,675	\$5,508
Less allowance for doubtful accounts	<u>(182)</u>	<u>(184)</u>
	\$3,493	\$5,324

### *Inventories*

Inventories, net, consist of the following:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Finished goods	\$1,710	\$1,737
Work-in-process and production materials	<u>1,709</u>	<u>1,470</u>
	3,419	3,207
Less inventory reserves	<u>(760)</u>	<u>(371)</u>
	\$2,659	\$2,836

During the year ended December 31, 2008, the Company recorded a charge of \$291 million for excess inventory due to a decision to consolidate software and silicon platforms in the Mobile Devices segment.

### Other Current Assets

Other current assets consists of the following:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Costs and earnings in excess of billings	\$1,094	\$ 995
Contract related deferred costs	861	763
Contractor receivables	378	960
Value-added tax refunds receivable	278	321
Other	529	526
	<u>\$3,140</u>	<u>\$3,565</u>

### Property, plant, and equipment

Property, plant and equipment, net, consists of the following:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Land	\$ 148	\$ 134
Building	1,905	1,934
Machinery and equipment	5,687	5,745
	<u>7,740</u>	<u>7,813</u>
Less accumulated depreciation	(5,298)	(5,333)
	<u>\$ 2,442</u>	<u>\$ 2,480</u>

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was \$511 million, \$537 million and \$463 million, respectively.

### Other Assets

Other assets consists of the following:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Intangible assets, net of accumulated amortization of \$1,106 and \$819	\$ 869	\$1,260
Royalty license arrangements	289	364
Contract related deferred costs	136	180
Value-added tax refunds receivable	117	—
Long-term receivables, net of allowances of \$7 and \$5	52	68
Other	353	448
	<u>\$1,816</u>	<u>\$2,320</u>

### Accrued Liabilities

Accrued liabilities consists of the following:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Deferred revenue	\$1,533	\$1,235
Compensation	703	772
Customer reserves	599	972
Tax liabilities	545	234
Customer downpayments	496	509
Contractor payables	318	875
Warranty reserves	285	416
Other	2,861	2,988
	<u>\$7,340</u>	<u>\$8,001</u>

### Other Liabilities

Other liabilities consists of the following:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Defined benefit plans, including split dollar life insurance policies	\$2,202	\$ 562
Deferred revenue	316	393
Unrecognized tax benefits	312	933
Postretirement health care benefit plan	261	144
Royalty license arrangement	—	282
Other	559	560
	<u>\$3,650</u>	<u>\$2,874</u>

### Stockholders' Equity Information

#### Share Repurchase Program

*Share Repurchase Program:* During the year ended December 31, 2008, the Company repurchased 9.0 million of its common shares at an aggregate cost of \$138 million, or an average cost of \$15.32 per share, all of which were repurchased during the three months ended March 29, 2008. During the year ended December 31, 2007, the Company repurchased 171.2 million of its common shares at an aggregate cost of \$3.0 billion, or an average cost of \$17.74 per share. During the year ended December 31, 2006, the Company repurchased a total of 171.7 million of its common shares at an aggregate cost of \$3.8 billion, or an average cost of \$22.29 per share.

Since the inception of its share repurchase program in May 2005, the Company has repurchased a total of 394 million common shares for an aggregate cost of \$7.9 billion. All repurchased shares have been retired. As of December 31, 2008, the Company remained authorized to purchase an aggregate amount of up to \$3.6 billion of additional shares under the current stock repurchase program. The timing and amount of future purchases will be based on market and other conditions.

*Payment of Dividends:* The Company paid \$453 million in cash dividends to holders of its common stock in 2008. In January 2009, the Company paid \$114 million in cash dividends that were declared in November 2008. In February 2009, the Company announced that its Board of Directors voted to suspend the declaration of quarterly dividends on the Company's common stock.

## 4. Debt and Credit Facilities

### Long-Term Debt

<i>December 31</i>	<i>2008</i>	<i>2007</i>
6.5% notes due 2008	\$ —	\$ 114
5.8% notes due 2008	—	84
7.625% notes due 2010	527	527
8.0% notes due 2011	599	599
5.375% senior notes due 2012	400	400
6.0% senior notes due 2017	399	399
6.5% debentures due 2025	397	397
7.5% debentures due 2025	356	398
6.5% debentures due 2028	297	297
6.625% senior notes due 2037	596	596
5.22% debentures due 2097	195	195
Other long-term debt	178	145
	<u>3,944</u>	<u>4,151</u>
Adjustment for interest rate swaps <sup>(1)</sup>	151	38
Less: current portion	(3)	(198)
Long-term debt	<u>\$4,092</u>	<u>\$3,991</u>

- (1) At December 31, 2008, the balance primarily represents the unamortized gain associated with the termination of all interest rate swaps designated as fair value hedges. For detailed discussion please see Note 5, “Risk Management.” At December 31, 2007, the balance represents the fair value of the interest rate swaps.

#### Other Short-Term Debt

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Notes to banks	\$ 89	\$134
Add: current portion of long-term debt	3	198
Notes payable and current portion of long-term debt	\$ 92	\$332
<i>Weighted average interest rates on short-term borrowings throughout the year</i>		
Commercial paper <sup>(1)</sup>	—	5.3%
Other short-term debt	4.2%	4.6%

- (1) At December 31, 2008, the Company did not have any commercial paper outstanding.

In December 2008, the Company completed the open market purchase of \$42 million of the \$400 million aggregate principal amount outstanding of its 7.50% Debentures due 2025 (the “2025 Debentures”). The \$42 million principal amount of 2025 Debentures was purchased for an aggregate purchase price of approximately \$28 million, including accrued interest as of the redemption date. During the year ended December 31, 2008, the Company recognized a gain of approximately \$14 million related to this open market purchase in Other within Other income (expense) in the consolidated statements of operations.

In October 2008, the Company repaid, at maturity, the entire \$84 million aggregate principal amount outstanding of its 5.80% Notes due October 15, 2008. In March 2008, the Company repaid at maturity, the entire \$114 million aggregate principal amount outstanding of its 6.50% Notes due March 1, 2008.

In November 2007, the Company repaid, at maturity, the entire \$1.2 billion aggregate principal amount outstanding of its 4.608% Notes due November 16, 2007. In November 2007, the Company issued an aggregate face principal amount of: (i) \$400 million of 5.375% Senior Notes due November 15, 2012, (ii) \$400 million of 6.00% Senior Notes due November 15, 2017, and (iii) \$600 million of 6.625% Senior Notes due November 15, 2037. In January 2007, the Company repaid, at maturity, the entire \$118 million aggregate principal amount outstanding of its 7.6% Notes due January 1, 2007.

Aggregate requirements for long-term debt maturities during the next five years are as follows: 2009—\$3 million; 2010—\$536 million; 2011—\$609 million; 2012—\$410 million; and 2013—\$11 million.

In December 2006, the Company entered into a five-year domestic syndicated revolving credit facility (“5-Year Credit Facility”) for \$2.0 billion. At December 31, 2008 and 2007, the Company had no outstanding borrowings under the 5-Year Credit Facility. At December 31, 2008, the commitment fee assessed against the daily average amounts unused was 10.0 basis points. Important terms of the 5-Year Credit Facility include a covenant relating to the ratio of total debt to adjusted EBITDA. The Company was in compliance with the terms of the 5-Year Credit Facility at December 31, 2008.

Events over the past several months, including recent failures and near failures of a number of large financial service companies, have made the capital markets increasingly volatile. The Company also has access to uncommitted non-U.S. credit facilities (“uncommitted facilities”), but in light of the state of the financial services industry and the Company’s current financial condition, the Company does not believe it is prudent to assume the same level of funding will be available under those facilities going forward as has been available historically.

The Company’s current corporate credit ratings are “BBB–” with a negative outlook by Fitch Ratings (“Fitch”), “Baa3” with a negative outlook by Moody’s Investors Service (“Moody’s”), and “BB+” with a stable outlook by Standard & Poor’s (“S&P”).

## 5. Risk Management

### Derivative Financial Instruments

#### Foreign Currency Risk

The Company uses financial instruments to reduce its overall exposure to the effects of currency fluctuations on cash flows. The Company's policy prohibits speculation in financial instruments for profit on the exchange rate price fluctuation, trading in currencies for which there are no underlying exposures, or entering into transactions for any currency to intentionally increase the underlying exposure. Instruments that are designated as part of a hedging relationship must be effective at reducing the risk associated with the exposure being hedged and are designated as part of a hedging relationship at the inception of the contract. Accordingly, changes in market values of hedge instruments must be highly correlated with changes in market values of underlying hedged items both at the inception of the hedge and over the life of the hedge contract.

The Company's strategy related to foreign exchange exposure management is to offset the gains or losses on the financial instruments against losses or gains on the underlying operational cash flows or investments based on the operating business units' assessment of risk. The Company enters into derivative contracts for some of the Company's non-functional currency receivables and payables, which are primarily denominated in major currencies that can be traded on open markets. The Company uses forward contracts and options to hedge these currency exposures. In addition, the Company enters into derivative contracts for some firm commitments and some forecasted transactions, which are designated as part of a hedging relationship if it is determined that the transaction qualifies for hedge accounting under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." A portion of the Company's exposure is from currencies that are not traded in liquid markets and these are addressed, to the extent reasonably possible, by managing net asset positions, product pricing and component sourcing.

At December 31, 2008 and 2007, the Company had net outstanding foreign exchange contracts totaling \$2.6 billion and \$3.0 billion, respectively. Management believes that these financial instruments should not subject the Company to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset losses and gains on the underlying assets, liabilities and transactions, except for the ineffective portion of the instruments, which are charged to Other within Other income (expense) in the Company's consolidated statements of operations.

The following table shows the five largest net notional amounts of the positions to buy or sell foreign currency as of December 31, 2008 and the corresponding positions as of December 31, 2007:

<i>Net Buy (Sell) by Currency</i>	<i>Notional Amount</i>	
	<i>December 31, 2008</i>	<i>December 31, 2007</i>
Chinese Renminbi	\$(481)	\$(1,292)
Euro	(445)	(33)
Brazilian Real	(356)	(377)
Taiwan Dollar	124	112
Japanese Yen	542	384

The Company is exposed to credit-related losses if counterparties to financial instruments fail to perform their obligations. However, the Company does not expect any counterparties, all of whom presently have investment grade credit ratings, to fail to meet their obligations.

The ineffective portion of changes in the fair value of foreign currency fair value hedge positions for the periods presented were de minimis. These amounts are included in Other within Other income (expense) in the Company's consolidated statements of operations. The above amounts include the change in the fair value of derivative contracts related to the changes in the difference between the spot price and the forward price. These amounts are excluded from the measure of effectiveness. Expense (income) related to fair value hedges that were discontinued for the years ended December 31, 2008, 2007 and 2006 are included in the amounts noted above.

The Company recorded income (expense) of \$(2) million, \$1 million and \$13 million for the years ended December 31, 2008, 2007 and 2006, respectively, representing the ineffective portions of changes in the fair value of cash flow hedge positions. These amounts are included in Other within Other income (expense) in the Company's consolidated statements of operations. The above amounts include the change in the fair value of

derivative contracts related to the changes in the difference between the spot price and the forward price. These amounts are excluded from the measure of effectiveness. Expense (income) related to cash flow hedges that were discontinued for the years ended December 31, 2008, 2007 and 2006 are included in the amounts noted above.

During the years ended December 31, 2008, 2007 and 2006, on a pre-tax basis, income (expense) of \$3 million, \$(16) million and \$(98) million, respectively, was reclassified from equity to earnings in the Company's consolidated statements of operations.

At December 31, 2008, the maximum term of derivative instruments that hedge forecasted transactions was one year. The weighted average duration of the Company's derivative instruments that hedge forecasted transactions was seven months.

### *Interest Rate Risk*

At December 31, 2008, the Company's short-term debt consisted primarily of \$89 million of short-term variable rate foreign debt. The Company has \$4.1 billion of long-term debt, including the current portion of long-term debt, which is primarily priced at long-term, fixed interest rates.

As part of its liability management program, the Company historically entered into interest rate swaps ("Hedging Agreements") to synthetically modify the characteristics of interest rate payments for certain of its outstanding long-term debt from fixed-rate payments to short-term variable rate payments. During the fourth quarter of 2008, the Company terminated all of its Hedging Agreements. The termination of the Hedging Agreements resulted in cash proceeds of approximately \$158 million and a gain of approximately \$173 million, which has been deferred and will be recognized as a reduction of interest expense over the remaining term of the associated debt.

Prior to the termination of the Hedging Agreements in the fourth quarter of 2008, the Hedging Agreements were designated as part of fair value hedging relationships of the Company's long-term debt. As such, the changes in fair value of the Hedging Agreements and corresponding adjustments to the carrying amount of the debt were recognized in earnings. Interest expense on the debt was adjusted to include payments made or received under such Hedge Agreements. During 2008 (prior to the Hedging Agreements being terminated) and 2007, the Company recognized expense of \$1 million and \$2 million, respectively, representing the ineffective portion of changes in the fair value of the Hedging Agreements. These amounts are included in Other within Other income (expense) in the Company's consolidated statement of operations.

Certain of the terminated Hedging Agreements were originally entered into during the fourth quarter of 2007. The Company entered into the Hedging Agreements concurrently with issuance of long-term debt to convert the fixed rate interest cost on the newly issued debt to a floating rate. The Hedging Agreements were originally designated as fair value hedges of the underlying debt, including the Company's credit spread. During the first quarter of 2008, the swaps were no longer considered effective hedges because of the volatility in the price of the Company's fixed-rate domestic term debt and the swaps were dedesignated. In the same period, the Company was able to redesignate the same Hedging Agreements as fair value hedges of the underlying debt, exclusive of the Company's credit spread. For the period of time that the Hedging Agreements were deemed ineffective hedges, the Company recognized a gain of \$24 million in the Company's consolidated statements of operations, representing the increase in the fair value of the Hedging Agreements.

Additionally, one of the Company's European subsidiaries has outstanding interest rate agreements ("Interest Agreements") relating to a Euro-denominated loan. The interest on the Euro-denominated loan is variable. The Interest Agreements change the characteristics of interest rate payments from variable to maximum fixed-rate payments. The Interest Agreements are not accounted for as a part of a hedging relationship and, accordingly, the changes in the fair value of the Interest Agreements are included in Other income (expense) in the Company's consolidated statements of operations. The weighted average fixed rate payments on these Interest Agreements was 5.07%. The fair value of the Interest Agreements at December 31, 2008 and 2007 were \$(2) million and \$3 million, respectively.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to its swap contracts. The Company minimizes its credit risk concentration on these transactions by distributing these contracts among several leading financial institutions, all of whom presently have investment grade credit ratings, and having collateral agreements in place. The Company does not anticipate nonperformance.



### Stockholders' Equity

Derivative instruments activity, net of tax, included in Non-owner changes to equity within the consolidated statements of stockholders' equity for the years ended December 31, 2008, 2007 and 2006 is as follows:

	2008	2007	2006
Balance at January 1	\$—	\$ 16	\$ 2
Increase (decrease) in fair value	(9)	(6)	75
Reclassifications to earnings	2	(10)	(61)
Balance at December 31	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ 16</u>

### Net Investment in Foreign Operations Hedge

At December 31, 2008 and 2007, the Company did not have any hedges of foreign currency exposure of net investments in foreign operations.

### Investments Hedge

During the first quarter of 2006, the Company entered into a zero-cost collar derivative (the "Sprint Nextel Derivative") to protect itself economically against price fluctuations in its 37.6 million shares of Sprint Nextel Corporation ("Sprint Nextel") non-voting common stock. During the second quarter of 2006, as a result of Sprint Nextel's spin-off of Embarq Corporation through a dividend to Sprint Nextel shareholders, the Company received approximately 1.9 million shares of Embarq Corporation. The floor and ceiling prices of the Sprint Nextel Derivative were adjusted accordingly. The Sprint Nextel Derivative was not designated as a hedge under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Accordingly, to reflect the change in fair value of the Sprint Nextel Derivative, the Company recorded a net gain of \$99 million for the year ended December 31, 2006, included in Other income (expense) in the Company's consolidated statements of operations. In December 2006, the Sprint Nextel Derivative was terminated and settled in cash and the 37.6 million shares of Sprint Nextel were converted to common shares and sold. The Company received aggregate cash proceeds of approximately \$820 million from the settlement of the Sprint Nextel Derivative and the subsequent sale of the 37.6 million Sprint Nextel shares. The Company recognized a loss of \$126 million in connection with the sale of the remaining shares of Sprint Nextel common stock. As described above, the Company recorded a net gain of \$99 million in connection with the Sprint Nextel Derivative.

### Fair Value of Financial Instruments

The Company's financial instruments include cash equivalents, Sigma Fund investments, short-term investments, accounts receivable, long-term receivables, accounts payable, accrued liabilities, derivatives and other financing commitments. The Company's Sigma Fund, available-for-sale investment portfolios and derivatives are recorded in the Company's consolidated balance sheets at fair value. All other financial instruments, with the exception of long-term debt, are carried at cost, which is not materially different than the instruments' fair values.

Using quoted market prices and market interest rates, the Company determined that the fair value of long-term debt at December 31, 2008 was \$2.8 billion, compared to a carrying value of \$4.1 billion. Since considerable judgment is required in interpreting market information, the fair value of the long-term debt is not necessarily indicative of the amount which could be realized in a current market exchange.

### Equity Price Market Risk

At December 31, 2008, the Company's available-for-sale equity securities portfolio had an approximate fair market value of \$128 million, which represented a cost basis of \$125 million and a net unrealized loss of \$3 million. These equity securities are held for purposes other than trading.

## 6. Income Taxes

Components of earnings (loss) from continuing operations before income taxes are as follows:

<i>Years Ended December 31</i>	2008	2007	2006
United States	\$(3,880)	\$(2,540)	\$1,034
Other nations	1,243	2,150	3,576
	<u>\$(2,637)</u>	<u>\$ (390)</u>	<u>\$4,610</u>

Components of income tax expense (benefit) are as follows:

<i>Years Ended December 31</i>	2008	2007	2006
United States	\$ (618)	\$ 40	\$ 10
Other nations	532	402	488
States (U.S.)	(5)	20	13
Current income tax expense	<u>(91)</u>	<u>462</u>	<u>511</u>
United States	1,702	(633)	892
Other nations	49	(50)	(147)
States (U.S.)	(53)	(64)	93
Deferred income tax expense (benefit)	<u>1,698</u>	<u>(747)</u>	<u>838</u>
Total income tax expense (benefit)	<u>\$1,607</u>	<u>\$(285)</u>	<u>\$1,349</u>

Deferred tax charges (benefits) that were recorded within Non-owner changes to equity in the Company's consolidated balance sheets resulted from retirement benefit adjustments, currency translation adjustments, net gains (losses) on derivative instruments and fair value adjustments to available-for-sale securities. The adjustments were \$(738) million, \$306 million and \$(182) million for the years ended December 31, 2008, 2007 and 2006, respectively. Except for certain earnings that the Company intends to reinvest indefinitely, provisions have been made for the estimated U.S. federal income taxes applicable to undistributed earnings of non-U.S. subsidiaries. Undistributed earnings that the Company intends to reinvest indefinitely, and for which no U.S. federal income taxes have been provided, aggregate to \$2.9 billion, \$4.1 billion and \$4.0 billion at December 31, 2008, 2007 and 2006, respectively. The portion of earnings not reinvested indefinitely may be distributed without an additional U.S. federal income tax charge given the U.S. federal tax accrued on undistributed earnings and the utilization of available foreign tax credits.

Differences between income tax expense (benefit) computed at the U.S. federal statutory tax rate of 35% and income tax expense (benefit) are as follows:

<i>Years Ended December 31</i>	2008	2007	2006
Income tax expense (benefit) at statutory rate	\$ (923)	\$(137)	\$1,613
Taxes on non-U.S. earnings	125	(206)	(449)
State income taxes	(38)	(28)	77
Valuation allowances	2,321	(97)	(187)
Goodwill impairment	555	—	—
Tax on undistributed non-U.S. earnings	119	72	194
Other provisions	(541)	119	247
Research credits	(13)	(46)	(34)
Non-deductible acquisition charges	—	34	4
Taxes on sale of businesses	—	15	—
Tax benefit on qualifying repatriations	—	—	(68)
Charitable contributions	—	—	(28)
Foreign export sales and section 199 deduction	—	—	(22)
Other	2	(11)	2
	<u>\$1,607</u>	<u>\$(285)</u>	<u>\$1,349</u>

Gross deferred tax assets were \$9.8 billion and \$8.9 billion at December 31, 2008 and 2007, respectively. Deferred tax assets, net of valuation allowances, were \$7.2 billion and \$8.4 billion at December 31, 2008 and

2007, respectively. Gross deferred tax liabilities were \$3.7 billion and \$4.1 billion at December 31, 2008 and 2007, respectively.

Significant components of deferred tax assets (liabilities) are as follows:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Inventory	\$ 308	\$ 162
Accrued liabilities and allowances	483	551
Employee benefits	1,053	408
Capitalized items	650	621
Tax basis differences on investments	171	105
Depreciation tax basis differences on fixed assets	37	33
Undistributed non-U.S. earnings	(278)	(397)
Tax carryforwards	3,001	2,553
Available-for-sale securities	(1)	35
Business reorganization	70	78
Warranty and customer reserves	215	334
Deferred revenue and costs	184	205
Valuation allowances	(2,692)	(515)
Deferred charges	45	44
Other	225	95
	<u>\$ 3,471</u>	<u>\$ 4,312</u>

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of the temporary differences between the book and tax basis of recorded assets and liabilities. The Company makes estimates and judgments with regard to the calculation of certain income tax assets and liabilities. SFAS No. 109 requires that deferred tax assets be reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. Significant weight is given to evidence that can be objectively verified.

The Company evaluates deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence, including historical and projected taxable income and tax planning strategies that are both prudent and feasible. As of December 31, 2008, the Company's U.S. operations had generated two consecutive years of pre-tax losses, which are attributable to the Mobile Devices segment. During 2007 and 2008, the Home and Networks Mobility and Enterprise Mobility Solution businesses (collectively referred to as the "Broadband Mobility Solutions business") were profitable in the U.S. and worldwide. Because of the 2007 and 2008 losses at Mobile Devices and the near-term forecasts for the Mobile Devices business, the Company believes that the weight of negative historic evidence precludes it from considering any forecasted income from the Mobile Devices business in its analysis of the recoverability of deferred tax assets. However, based on the sustained profits of the Broadband Mobility Solutions business, the Company believes that the weight of positive historic evidence allows it to include forecasted income from the Broadband Mobility business in its analysis of the recoverability of its deferred tax assets. The Company also considered in its analysis tax planning strategies that are prudent and can be reasonably implemented. Based on all available positive and negative evidence, we concluded that a partial valuation allowance should be recorded against the net deferred tax assets of our U.S. operations. During fiscal 2008, we recorded a valuation allowance of \$2.1 billion for foreign tax credits, general business credits, capital losses and state tax carry forwards that are more likely than not to expire. The Company also recorded valuation allowances of \$126 million relating to tax carryforwards and deferred tax assets of non-U.S. subsidiaries, including Brazil, China and Spain, that the Company believes are more likely than not to expire or go unused.

At December 31, 2008 and 2007, the Company had valuation allowances of \$2.7 billion and \$515 million, respectively, against its deferred tax assets, including \$297 million and \$310 million, respectively, relating to deferred tax assets for non-U.S. subsidiaries. The Company's valuation allowances for its non-U.S. subsidiaries had a net decrease of \$13 million during 2008, which is comprised of \$139 million decrease primarily related to the utilization of United Kingdom tax carry forwards and changes in the valuation allowance balance due to exchange rate variances, partially offset by a \$126 million increase for new valuation allowances. The U.S. valuation allowance relates primarily to tax carryforwards, including foreign tax credits, general business credits, tax carryforwards of acquired businesses which have limitations upon their use, state tax carryforwards and future

capital losses related to certain investments. The Company believes that the remaining deferred tax assets are more likely than not to be realizable based on estimates of future taxable income and the implementation of tax planning strategies.

Tax carryforwards at December 31, 2008 are as follows:

	<i>Gross Tax Loss</i>	<i>Tax Effectuated</i>	<i>Expiration Period</i>
United States:			
U.S. tax losses	\$2,354	\$ 824	2017-2028
Foreign tax credits	n/a	1,111	2012-2018
General business credits	n/a	453	2018-2028
Minimum tax credits	n/a	102	Unlimited
State tax losses	3,616	112	2009-2028
State tax credits	n/a	56	2009-2024
Non-U.S. Subsidiaries:			
China tax losses	143	30	2012-2013
United Kingdom tax losses	223	63	Unlimited
Germany tax losses	316	91	Unlimited
Other subsidiaries tax losses	244	64	Various
Spain tax credits	n/a	32	2014-2022
Other subsidiaries tax credits	n/a	63	Unlimited
		<u>\$3,001</u>	

The Company adopted FIN 48 on January 1, 2007. The adoption resulted in a \$120 million reduction of the Company's unrecognized tax benefits and related interest accrual and has been reflected as an increase in the opening balance of Retained earnings of \$27 million and Additional paid-in capital of \$93 million as of January 1, 2007. Upon the adoption of FIN 48, the Company also reclassified unrecognized tax benefits of \$877 million from Deferred income tax to Other liabilities in the Company's consolidated balance sheets.

A reconciliation of unrecognized tax benefits, including those attributable to discontinued operations, is as follows:

	<i>2008</i>	<i>2007</i>
Balance at January 1	\$1,400	\$1,274
Additions based on tax positions related to current year	46	46
Additions for tax positions of prior years	141	197
Reductions for tax positions of prior years	(642)	(114)
Settlements	(31)	(3)
Balance at December 31	<u>\$ 914</u>	<u>\$1,400</u>

Included in the balance of total unrecognized tax benefits at December 31, 2008 and 2007, are potential benefits of approximately \$790 million and \$590 million, respectively, net of federal tax benefits that if recognized would affect the effective tax rate.

During the fourth quarter of 2008, the Company entered into closing agreements with the appellate level of the Internal Revenue Service ("IRS") on transfer pricing adjustments for tax years 1996 through 2003 and the IRS completed its review of the research credit, thereby resolving all significant IRS audit issues for years 1996-2003. The IRS also completed its field examination of the Company's 2004 and 2005 tax returns in July 2008, and there are no significant unagreed issues. As a result of the foregoing and resolution of Non-U.S. audits, the Company reduced its unrecognized income tax benefits. The Company expects to receive a net tax refund of \$126 million, primarily relating to refund claims that were held pending the resolution of the 1996-2003 tax years.

During the fourth quarter of 2008, the IRS started the field examination of the Company's 2006 and 2007 tax years. The Company also has several state and Non-U.S. audits pending. A summary of open tax years by major jurisdiction is presented below:

Jurisdiction:	
United States <sup>(1)</sup>	1996—2008
Brazil	2003—2008
China	1999—2008
France	2004—2008
Germany <sup>(1)</sup>	2004—2008
India	1996—2008
Israel	2004—2008
Japan	2002—2008
Malaysia	1998—2008
Singapore	1999—2008
United Kingdom	2006—2008

(1) Includes federal as well as state, provincial or similar local jurisdictions, as applicable.

Although the final resolution of the Company's global tax disputes is uncertain, based on current information, in the opinion of the Company's management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company's global tax disputes could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved.

Based on the potential outcome of the Company's global tax examinations, the expiration of the statute of limitations for specific jurisdictions, or the continued ability to satisfy tax incentive obligations, it is reasonably possible that the unrecognized tax benefits will decrease within the next 12 months. The associated net tax benefits, which would favorably impact the effective tax rate, are estimated to be in the range of \$0 to \$150 million, with cash payments not expected to exceed \$50 million.

At December 31, 2008, the Company had \$47 million and \$11 million accrued for interest and penalties, respectively, on unrecognized tax benefits. At December 31, 2007, the Company had \$86 million and \$10 million accrued for interest and penalties, respectively, on unrecognized tax benefits.

## 7. Retirement Benefits

### Pension Benefit Plans

The Company's noncontributory pension plan (the "Regular Pension Plan") covers U.S. employees who became eligible after one year of service. The benefit formula is dependent upon employee earnings and years of service. Effective January 1, 2005, newly-hired employees were not eligible to participate in the Regular Pension Plan. The Company also provides defined benefit plans which cover non-U.S. employees in certain jurisdictions principally the United Kingdom, Germany, Ireland, Japan and Korea (the "Non-U.S. Plans"). Other pension plans are not material to the Company either individually or in the aggregate.

The Company has a noncontributory supplemental retirement benefit plan (the "Officers' Plan") for its officers elected prior to December 31, 1999. The Officers' Plan contains provisions for vesting and funding the participants' expected retirement benefits when the participants meet the minimum age and years of service requirements. Elected officers who were not yet vested in the Officers' Plan as of December 31, 1999 had the option to remain in the Officers' Plan or elect to have their benefit bought out in restricted stock units. Effective December 31, 1999, newly elected officers are not eligible to participate in the Officers' Plan. Effective June 30, 2005, salaries were frozen for this plan.

The Company has an additional noncontributory supplemental retirement benefit plan, the Motorola Supplemental Pension Plan ("MSPP"), which provides supplemental benefits to individuals by replacing the Regular Pension Plan benefits that are lost by such individuals under the retirement formula due to application of the limitations imposed by the Internal Revenue Code. However, elected officers who are covered under the Officers' Plan or who participated in the restricted stock buy-out are not eligible to participate in MSPP. Effective

January 1, 2007, eligible compensation was capped at the IRS limit plus \$175,000 or, for those already in excess of the Cap as of January 1, 2007, the eligible compensation used to compute such employee's MSPP benefit for all future years will be the greater of: (i) such employee's eligible compensation as of January 1, 2007 (frozen at that amount), or (ii) the relevant Cap for the given year. Additionally, effective January 1, 2009, the MSPP was frozen as to any new participants after January 1, 2009 unless such participation was due to a prior contractual entitlement.

In February 2007, the Company amended the Regular Pension Plan and the MSPP, modifying the definition of average earnings. For the years ended prior to December 31, 2007, benefits were calculated using the rolling average of the highest annual earnings in any five years within the previous ten calendar year period. Beginning in January 2008, the benefit calculation was based on the set of the five highest years of earnings within the ten calendar years prior to December 31, 2007, averaged with earnings from each year after 2007. Also, effective January 2008, the Company amended the Regular Pension Plan, modifying the vesting period from five years to three years.

In December 2008, the Company amended the Regular Pension Plan, the Officers' Plan and the MSPP. Effective March 1, 2009, (i) no participant shall accrue any benefit or additional benefit on and after March 1, 2009, and (ii) no compensation increases earned by a participant on and after March 1, 2009 shall be used to compute any accrued benefit. Additionally, no service performed on and after March 1, 2009, shall be considered service for any purpose under the MSPP. The Company recognized a \$237 million curtailment gain associated with this plan amendment.

The net periodic pension cost (benefit) for the Regular Pension Plan, Officers' Plan and MSPP and Non-U.S. plans was as follows:

#### *Regular Pension Plan*

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Service cost	\$ 98	\$ 133	\$ 150
Interest cost	323	311	309
Expected return on plan assets	(391)	(350)	(329)
Amortization of:			
Unrecognized net loss	52	107	115
Unrecognized prior service cost	(31)	(27)	(5)
Curtailment gain	(232)	—	—
Net periodic pension cost (benefit)	<u>\$(181)</u>	<u>\$ 174</u>	<u>\$ 240</u>

#### *Officers' Plan and MSPP*

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Service cost	\$ 3	\$ 4	\$ 5
Interest cost	7	7	8
Expected return on plan assets	(2)	(3)	(4)
Amortization of:			
Unrecognized net loss	1	4	5
Unrecognized prior service cost	(1)	(1)	—
Curtailment gain	(5)	—	—
Settlement loss	5	6	4
Net periodic pension cost	<u>\$ 8</u>	<u>\$17</u>	<u>\$18</u>

*Non-U.S. Plans*

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Service cost	\$ 34	\$ 45	\$ 40
Interest cost	87	90	67
Expected return on plan assets	(84)	(76)	(54)
Amortization of unrecognized net loss	2	14	17
Settlement gain	(7)	—	—
Net periodic pension cost	\$ 32	\$ 73	\$ 70

The status of the Company's plans is as follows:

	<i>2008</i>			<i>2007</i>		
	<i>Regular</i>	<i>Officers' and MSPP</i>	<i>Non U.S.</i>	<i>Regular</i>	<i>Officers' and MSPP</i>	<i>Non U.S.</i>
<b>Change in benefit obligation:</b>						
Benefit obligation at January 1	\$ 4,879	\$118	\$1,689	\$5,481	\$137	\$1,798
Service cost	98	3	34	133	4	45
Interest cost	323	7	87	311	7	90
Plan amendments	—	—	1	(268)	(3)	1
Settlement/curtailment	(168)	(2)	—	—	—	(16)
Actuarial (gain) loss	207	7	(149)	(561)	(7)	(287)
Foreign exchange valuation adjustment	—	—	(353)	—	—	80
Employee contributions	—	—	6	—	—	14
Tax payments	—	(1)	—	—	(1)	—
Benefit payments	(229)	(16)	(94)	(217)	(19)	(36)
Benefit obligation at December 31	<u>5,110</u>	<u>116</u>	<u>1,221</u>	<u>4,879</u>	<u>118</u>	<u>1,689</u>
<b>Change in plan assets:</b>						
Fair value at January 1	4,674	66	1,403	4,285	78	1,178
Return on plan assets	(1,390)	4	(107)	336	4	98
Company contributions	240	3	54	270	4	135
Employee contributions	—	—	6	—	—	14
Foreign exchange valuation adjustment	—	—	(305)	—	—	14
Tax payments from plan assets	—	(1)	—	—	(1)	—
Benefit payments from plan assets	(229)	(16)	(94)	(217)	(19)	(36)
Fair value at December 31	<u>3,295</u>	<u>56</u>	<u>957</u>	<u>4,674</u>	<u>66</u>	<u>1,403</u>
Funded status of the plan	(1,815)	(60)	(264)	(205)	(52)	(286)
Unrecognized net loss	2,722	48	180	954	43	168
Unrecognized prior service cost	—	—	4	(263)	(5)	4
Prepaid (accrued) pension cost	<u>\$ 907</u>	<u>\$ (12)</u>	<u>\$ (80)</u>	<u>\$ 486</u>	<u>\$ (14)</u>	<u>\$ (114)</u>
<b>Components of prepaid (accrued) pension cost:</b>						
Prepaid benefit cost	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 19
Non-current benefit liability	(1,815)	(60)	(264)	(205)	(52)	(305)
Deferred income taxes	1,008	19	14	255	14	4
Non-owner changes to equity	<u>1,714</u>	<u>29</u>	<u>170</u>	<u>436</u>	<u>24</u>	<u>168</u>
Prepaid (accrued) pension cost	<u>\$ 907</u>	<u>\$ (12)</u>	<u>\$ (80)</u>	<u>\$ 486</u>	<u>\$ (14)</u>	<u>\$ (114)</u>

It is estimated that the net periodic cost for 2009 will include amortization of the unrecognized net loss and prior service costs for the Regular Plan, Officers' and MSPP Plans, and Non-U.S. Plans, currently included in Non-owner changes to equity, of \$83 million, \$3 million, and \$7 million, respectively.

The Company uses a five-year, market-related asset value method of amortizing asset-related gains and losses. Prior service costs are being amortized over periods ranging from 11 to 12 years. Benefits under all pension plans are valued based upon the projected unit credit cost method.

Certain actuarial assumptions such as the discount rate and the long-term rate of return on plan assets have a significant effect on the amounts reported for net periodic cost and benefit obligation. The assumed discount rates reflect the prevailing market rates of a universe of high-quality, non-callable, corporate bonds currently available that, if the obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The long-term rates of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income, cash and other investments similar to the actual investment mix. In determining the long-term return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the plan funds to be invested.

Weighted average actuarial assumptions used to determine costs for the plans were as follows:

<i>December 31</i>	<u>2008</u>		<u>2007</u>	
	<i>U.S.</i>	<i>Non U.S.</i>	<i>U.S.</i>	<i>Non U.S.</i>
Discount rate	6.75%	5.73%	6.00%	4.81%
Investment return assumption (Regular Plan)	8.50%	6.55%	8.50%	6.74%
Investment return assumption (Officers' Plan)	6.00%	N/A	6.00%	N/A

Weighted average actuarial assumptions used to determine benefit obligations for the plans were as follows:

<i>December 31</i>	<u>2008</u>		<u>2007</u>	
	<i>U.S.</i>	<i>Non U.S.</i>	<i>U.S.</i>	<i>Non U.S.</i>
Discount rate	6.75%	6.16%	6.75%	5.68%
Future compensation increase rate (Regular Plan)	0.00%	4.24%	4.00%	4.34%
Future compensation increase rate (Officers' Plan)	0.00%	N/A	0.00%	N/A

The accumulated benefit obligations for the plans were as follows:

<i>December 31</i>	<u>2008</u>			<u>2007</u>		
	<i>Regular</i>	<i>Officers' and MSPP</i>	<i>Non U.S.</i>	<i>Regular</i>	<i>Officers' and MSPP</i>	<i>Non U.S.</i>
Accumulated benefit obligation	\$5,110	\$116	\$1,163	\$4,694	\$118	\$1,608

The Company has adopted a pension investment policy designed to meet or exceed the expected rate of return on plan assets assumption. To achieve this, the pension plans retain professional investment managers that invest plan assets in equity and fixed income securities and cash. In addition, some plans invest in insurance contracts. The Company's measurement date of its plan assets and obligations is December 31. The Company has the following target mixes for these asset classes, which are readjusted at least quarterly, when an asset class weighting deviates from the target mix, with the goal of achieving the required return at a reasonable risk level as follows:

<i>Asset Category</i>	<u>Target Mix</u>	
	<i>2008</i>	<i>2007</i>
Equity securities	71%	71%
Fixed income securities	27%	27%
Cash and other investments	2%	2%

The weighted-average pension plan asset allocation at December 31, 2008 and 2007 by asset categories was as follows:

<i>Asset Category</i>	<u>Actual Mix</u>	
	<i>2008</i>	<i>2007</i>
Equity securities	63%	70%
Fixed income securities	34%	27%
Cash and other investments	3%	3%



Within the equity securities asset class, the investment policy provides for investments in a broad range of publicly-traded securities including both domestic and international stocks. Within the fixed income securities asset class, the investment policy provides for investments in a broad range of publicly-traded debt securities ranging from U.S. Treasury issues, corporate debt securities, mortgage and asset-backed securities, as well as international debt securities. In the cash and other investments asset class, investments may be in cash, cash equivalents or insurance contracts.

The Company expects to make cash contributions of approximately \$180 million to its U.S. pension plans and approximately \$50 million to its non-U.S. pension plans in 2009.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<i>Year</i>	<i>Regular</i>	<i>Officers and MSPP</i>	<i>Non U.S.</i>
2009	\$ 225	\$17	\$ 32
2010	232	14	34
2011	241	21	35
2012	252	22	37
2013	265	5	38
2014-2018	1,552	28	218

#### Postretirement Health Care and Other Benefit Plans

Certain health care benefits are available to eligible domestic employees meeting certain age and service requirements upon termination of employment (the "Postretirement Health Care Benefits Plan"). For eligible employees hired prior to January 1, 2002, the Company offsets a portion of the postretirement medical costs to the retired participant. As of January 1, 2005, the Postretirement Health Care Benefit Plan has been closed to new participants. The benefit obligation and plan assets for the Postretirement Health Care Benefit Plan have been measured as of December 31, 2008.

The assumptions used were as follows:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Discount rate for obligations	6.75%	6.50%
Investment return assumptions	8.50%	8.50%

Net Postretirement Health Care Benefit Plan expenses were as follows:

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Service cost	\$ 6	\$ 7	\$ 8
Interest cost	26	23	25
Expected return on plan assets	(20)	(19)	(18)
Amortization of:			
Unrecognized net loss	5	6	9
Unrecognized prior service cost	(2)	(2)	(2)
Net postretirement health care expense	\$ 15	\$ 15	\$ 22

The funded status of the plan is as follows:

	2008	2007
<b>Change in benefit obligation:</b>		
Benefit obligation at January 1	\$ 395	\$ 460
Service cost	6	7
Interest cost	26	23
Actuarial (gain) loss	35	(62)
Benefit payments	(33)	(33)
Benefit obligation at December 31	<u>429</u>	<u>395</u>
<b>Change in plan assets:</b>		
Fair value at January 1	251	243
Return on plan assets	(73)	20
Company contributions	16	15
Benefit payments made with plan assets	(26)	(27)
Fair value at December 31	<u>168</u>	<u>251</u>
Funded status of the plan	(261)	(144)
Unrecognized net loss	223	98
Unrecognized prior service cost	(5)	(8)
Accrued postretirement health care cost	<u>\$ (43)</u>	<u>\$ (54)</u>

Components of accrued postretirement health care cost:

<i>Years Ended December 31</i>	2008	2007
Non-current liability	\$(261)	\$(144)
Deferred income taxes	101	55
Non-owner changes to equity	<u>117</u>	<u>35</u>
Accrued postretirement health care cost	<u>\$ (43)</u>	<u>\$ (54)</u>

It is estimated that the net periodic cost for the Postretirement Health Care Benefit Plan in 2009 will include amortization of the unrecognized net loss and prior service costs, currently included in Non-owner changes in equity, of \$5 million.

The Company has adopted an investment policy for plan assets designed to meet or exceed the expected rate of return on plan assets assumption. To achieve this, the plan retains professional investment managers that invest plan assets in equity and fixed income securities and cash. The Company uses long-term historical actual return experience with consideration of the expected investment mix of the plans' assets, as well as future estimates of long-term investment returns, to develop its expected rate of return assumption used in calculating the net periodic pension cost and the net retirement healthcare expense. The Company has the following target mixes for these asset classes, which are readjusted at least quarterly, when an asset class weighting deviates from the target mix, with the goal of achieving the required return at a reasonable risk level as follows:

<i>Asset Category</i>	<i>Target Mix</i>	
	2008	2007
Equity securities	75%	75%
Fixed income securities	24%	24%
Cash and other investments	<u>1%</u>	<u>1%</u>

The weighted-average asset allocation for plan assets at December 31, 2008 and 2007 by asset categories were as follows:

<i>Asset Category</i>	<i>Actual Mix</i>	
	2008	2007
Equity securities	64%	74%
Fixed income securities	32%	25%
Cash and other investments	<u>4%</u>	<u>1%</u>

Within the equity securities asset class, the investment policy provides for investments in a broad range of publicly-traded securities including both domestic and international stocks. Within the fixed income securities asset class, the investment policy provides for investments in a broad range of publicly-traded debt securities ranging from U.S. Treasury issues, corporate debt securities, mortgages and asset-backed issues, as well as international debt securities. In the cash asset class, investments may be in cash and cash equivalents.

The Company expects to make no cash contributions to the retiree health care plan in 2009. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<i>Year</i>	
2009	\$ 42
2010	40
2011	39
2012	36
2013	34
2014-2018	161

The health care trend rate used to determine the December 31, 2008 accumulated postretirement benefit obligation is 8.5% for 2009. Beyond 2009, the rate is assumed to decrease by about 0.7% per year until it reaches 5% by 2014 and then remains flat. The health care trend rate used to determine the December 31, 2007 accumulated postretirement benefit obligation was 9%.

Changing the health care trend rate by one percentage point would change the accumulated postretirement benefit obligation and the net retiree health care expense as follows:

	<i>1% Point Increase</i>	<i>1% Point Decrease</i>
Effect on:		
Accumulated postretirement benefit obligation	\$15	\$(13)
Net retiree health care expense	1	(1)

The Company maintains a lifetime cap on postretirement health care costs, which reduces the liability duration of the plan. A result of this lower duration is a decreased sensitivity to a change in the discount rate trend assumption with respect to the liability and related expense.

The Company has no significant postretirement health care benefit plans outside the United States.

The Company maintains a number of endorsement split-dollar life insurance policies that were taken out on now-retired officers under a plan that was frozen prior to December 31, 2004. The Company had purchased the life insurance policies to insure the lives of employees and then entered into a separate agreement with the employees that split the policy benefits between the Company and the employee. Motorola owns the policies, controls all rights of ownership, and may terminate the insurance policies. To effect the split-dollar arrangement, Motorola endorsed a portion of the death benefits to the employee and upon the death of the employee, the employee's beneficiary typically receives the designated portion of the death benefits directly from the insurance company and the Company receives the remainder of the death benefits.

The Company adopted the provisions of EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements" ("EITF 06-4") as of January 1, 2008. EITF 06-4 requires that a liability for the benefit obligation be recorded because the promise of postretirement benefit had not been settled through the purchase of an endorsement split-dollar life insurance arrangement. As a result of the adoption of EITF 06-4, the Company recorded a liability representing the actuarial present value of the future death benefits as of the employees' expected retirement date of \$45 million with the offset reflected as a cumulative-effect adjustment to January 1, 2008 Retained earnings and Non-owner changes to equity in the amounts of \$4 million and \$41 million, respectively, in the Company's consolidated statement of stockholders' equity. It is currently expected that no further cash payments are required to fund these policies.

The 2008 Split-Dollar Life Insurance policy actual expense was \$6 million. As of December 31, 2008, the Company has recorded a liability representing the actuarial present value of the future death benefits as of the employees' expected retirement date of \$47 million with the offset reflected in Retained earnings and Non-owner

changes to equity in the amounts of \$4 million and \$37 million, respectively, in the Company's consolidated statement of stockholders' equity as of December 31, 2008.

### Defined Contribution Plan

The Company and certain subsidiaries have various defined contribution plans, in which all eligible employees participate. In the U.S., the 401(k) plan is a contributory plan. Matching contributions are based upon the amount of the employees' contributions. Effective January 1, 2005, newly hired employees have a higher maximum matching contribution at 4% on the first 5% of employee contributions, compared to 3% on the first 6% of employee contributions for employees hired prior to January 2005. Effective January 1, 2009, the Company temporarily suspended all matching contributions to the Motorola 401(k) plan. The Company's expenses, primarily relating to the employer match, for all defined contribution plans, for the years ended December 31, 2008, 2007 and 2006 were \$95 million, \$116 million and \$105 million, respectively.

## 8. Share-Based Compensation Plans and Other Incentive Plans

### *Stock Options, Stock Appreciation Rights and Employee Stock Purchase Plan*

The Company grants options to acquire shares of common stock to certain employees, and existing option holders in connection with the merging of option plans following an acquisition. Each option granted has an exercise price of no less than 100% of the fair market value of the common stock on the date of the grant. Option awards have a contractual life of five to ten years and vest over two to four years. For stock options and stock appreciation rights issued under plans prior to the 2006 Omnibus Plan, upon the occurrence of a change in control, each stock option and stock appreciation right outstanding on the date on which the change in control occurs will immediately become exercisable in full. Under the 2006 Omnibus Plan, the stock option or stock appreciation right only becomes exercisable if the holder is also involuntarily terminated within 24 months of the change in control.

The Company grants stock appreciation rights to acquire shares of common stock to certain employees. Each stock appreciation right granted has an exercise price of 100% of the fair market value of the common stock on the date of the grant. Upon the occurrence of a change in control, each stock appreciation right outstanding on the date on which the change in control occurs will immediately become exercisable in full.

The employee stock purchase plan allows eligible participants to purchase shares of the Company's common stock through payroll deductions of up to 10% of eligible compensation on an after-tax basis. Plan participants cannot purchase more than \$25,000 of stock in any calendar year. The price an employee pays per share is 85% of the lower of the fair market value of the Company's stock on the close of the first trading day or last trading day of the purchase period. The plan has two purchase periods, the first one from October 1 through March 31 and the second one from April 1 through September 30. For the years ended December 31, 2008, 2007 and 2006, employees purchased 18.9 million, 10.2 million and 8.3 million shares, respectively, at purchase prices of \$7.91 and \$6.07, \$14.93 and \$15.02, and \$19.07 and \$19.82, respectively.

The Company calculates the value of each employee stock option, estimated on the date of grant, using the Black-Scholes option pricing model. The weighted-average estimated fair value of employee stock options granted during 2008, 2007 and 2006 was \$3.47, \$5.95 and \$9.23, respectively, using the following weighted-average assumptions:

	2008	2007	2006
Expected volatility	56.4%	28.3%	36.2%
Risk-free interest rate	2.4%	4.5%	5.0%
Dividend yield	2.7%	1.1%	0.8%
Expected life (years)	5.5	6.5	6.5

In 2006, the Company began using the implied volatility for traded options on the Company's stock as the expected volatility assumption required in the Black-Scholes model. The selection of the implied volatility approach was based upon the availability of actively traded options on the Company's stock and the Company's assessment that implied volatility is more representative of future stock price trends than historical volatility.

The risk-free interest rate assumption is based upon the average daily closing rates during the year for U.S. treasury notes that have a life which approximates the expected life of the option. The dividend yield

assumption is based on the Company's historical expectation of dividend payouts. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding based on the simplified method permitted under Staff Accounting Bulletin No. 110, "Shared-Based Payment".

The Company has applied a forfeiture rate, estimated based on historical data, of 25%-35% to the option fair value calculated by the Black-Scholes option pricing model. This estimated forfeiture rate may be revised in subsequent periods if actual forfeitures differ from this estimate.

Stock option activity was as follows (in thousands, except exercise price and employee data):

<i>Years Ended December 31</i>	<i>2008</i>		<i>2007</i>		<i>2006</i>	
	<i>Shares Subject to Options</i>	<i>Wtd. Avg. Exercise Price</i>	<i>Shares Subject to Options</i>	<i>Wtd. Avg. Exercise Price</i>	<i>Shares Subject to Options</i>	<i>Wtd. Avg. Exercise Price</i>
Options outstanding at January 1	224,255	\$19	233,445	\$18	267,755	\$17
Options granted	39,764	8	40,257	18	37,202	21
Options exercised	(1,920)	7	(26,211)	11	(59,878)	13
Options terminated, canceled or expired	(33,954)	18	(23,236)	19	(11,634)	19
Options outstanding at December 31	228,145	17	224,255	19	233,445	18
Options exercisable at December 31	148,072	19	138,741	19	135,052	19
Approx. number of employees granted options	3,300		32,000		28,900	

At December 31, 2008, the Company had \$283 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock option plans and the employee stock purchase plan that will be recognized over the weighted average period of approximately two years. Cash received from stock option exercises and the employee stock purchase plan was \$145 million, \$440 million and \$918 million for the years ended December 31, 2008, 2007 and 2006, respectively. The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 2006 was \$2 million, \$177 million and \$568 million, respectively. The aggregate intrinsic value for options outstanding and exercisable as of December 31, 2008 was \$1 million and \$1 million, respectively, based on a December 31, 2008 stock price of \$4.43 per share.

The significant decrease in the number of employees that were granted options in 2008 is due to the broad based equity grant being issued in restricted stock units.

At December 31, 2008 and 2007, 72.2 million shares and 88.0 million shares, respectively, were available for future share-based award grants under the 2006 Motorola Omnibus Plan, covering all equity awards to employees and non-employee directors.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008 (in thousands, except exercise price and years):

<i>Exercise price range</i>	<i>Options Outstanding</i>			<i>Options Exercisable</i>	
	<i>No. of options</i>	<i>Wtd. avg. Exercise Price</i>	<i>Wtd. avg. contractual life (in yrs.)</i>	<i>No. of options</i>	<i>Wtd. avg. Exercise Price</i>
Under \$7	12,602	\$ 4	5	538	\$ 4
\$7-\$13	73,630	10	6	46,474	10
\$14-\$20	88,155	17	7	59,463	16
\$21-\$27	26,066	22	7	13,905	22
\$28-\$34	1,659	32	1	1,659	32
\$35-\$41	25,696	39	6	25,696	39
\$42-\$48	301	44	2	301	44
\$49-\$55	36	51	1	36	51
	228,145			148,072	

The weighted average contractual life for options outstanding and exercisable as of December 31, 2008 was six and five years, respectively.

### *Restricted Stock and Restricted Stock Units*

Restricted stock ("RS") and restricted stock unit ("RSU") grants consist of shares or the rights to shares of the Company's common stock which are awarded to employees and non-employee directors. The grants are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer by the employee. For shares of RS and RSUs issued under plans prior to the 2006 Omnibus Plan, upon the occurrence of a change in control, the restrictions on all shares of RS and RSUs outstanding on the date on which the change in control occurs will lapse. Under the 2006 Omnibus Plan, the shares of RS or RSUs only become exercisable if the holder is also involuntarily terminated within 24 months of the change in control.

Restricted stock and restricted stock unit activity was as follows (in thousands, except fair value and employee data):

<i>Years Ended December 31</i>	<i>2008</i>		<i>2007</i>		<i>2006</i>	
	<i>RS and RSU</i>	<i>Wtd. Avg. Grant Date Fair Value</i>	<i>RS and RSU</i>	<i>Wtd. Avg. Grant Date Fair Value</i>	<i>RS and RSU</i>	<i>Wtd. Avg. Grant Date Fair Value</i>
RS and RSU outstanding at January 1	10,755	\$17	6,016	\$19	4,383	\$16
Granted	27,102	9	7,766	18	2,761	22
Vested	(2,308)	17	(1,068)	19	(938)	15
Terminated, canceled or expired	(3,319)	13	(1,959)	19	(190)	18
RSU outstanding at December 31	32,230	11	10,755	17	6,016	19
Approx. number of employees granted RSUs	28,981		1,801		252	

At December 31, 2008, the Company had unrecognized compensation expense related to restricted stock units of \$213 million, net of estimated forfeitures, expected to be recognized over the weighted average period of approximately three years. An aggregate of approximately 27.1 million, 7.8 million and 2.8 million shares of restricted stock units were granted in 2008, 2007 and 2006, respectively. The total fair value of restricted stock and restricted stock unit shares vested during the years ended December 31, 2008, 2007 and 2006 was \$19 million, \$13 million and \$22 million, respectively. The aggregate intrinsic value of outstanding restricted stock units as of December 31, 2008 was \$143 million. The significant increase in the number of employees that were granted RSUs in 2008 is due to the broad based equity grant being issued in RSUs in lieu of stock options.

### *Total Share-Based Compensation Expense*

Compensation expense for the Company's employee stock options, stock appreciation rights, employee stock purchase plans, restricted stock and restricted stock units was as follows:

<i>Year Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Share-based compensation expense included in:			
Costs of sales	\$ 32	\$ 33	\$ 30
Selling, general and administrative expenses	155	188	162
Research and development expenditures	93	94	84
Share-based compensation expense included in Operating earnings (loss)	280	315	276
Tax benefit	86	99	85
Share-based compensation expense, net of tax	\$ 194	\$ 216	\$ 191
Decrease in Basic earnings per share	\$(0.09)	\$(0.09)	\$(0.08)
Decrease in Diluted earnings per share	\$(0.09)	\$(0.09)	\$(0.08)

### *Motorola Incentive Plan*

The Motorola Incentive Plan provides eligible employees with an annual payment, calculated as a percentage of an employee's eligible earnings, in the year after the close of the current calendar year if specified business goals and individual performance targets are met. The provisions for awards under these incentive plans for the years ended December 31, 2008, 2007 and 2006 were \$172 million, \$190 million and \$268 million, respectively.

### *Long-Range Incentive Plan*

The Long-Range Incentive Plan ("LRIP") rewards participating elected officers for the Company's achievement of specified business goals during the period, based on two performance objectives measured over three-year cycles. The provision for LRIP (net of the reversals of previously recognized reserves) for the years ended December 31, 2008, 2007 and 2006 was \$(13) million, \$(8) million and \$16 million, respectively. On April 21, 2008, the Compensation and Leadership Committee of the Board of Directors of Motorola, Inc. approved the cancellation of the 2006-2008 performance cycle and the 2007-2009 performance cycle under the Company's Long Range Incentive Plan of 2006 without the payment of awards for such performance cycles, as reported on Form 8-K, filed April 25, 2008.

## **9. Fair Value Measurements**

The Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157") on January 1, 2008 for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS 157 does not change the accounting for those instruments that were, under previous GAAP, accounted for at cost or contract value. In February 2008, the FASB issued staff position No. 157-2 ("FSP 157-2"), which delays the effective date of SFAS 157 one year for all non-financial assets and non-financial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis. The Company has no non-financial assets and liabilities that are required to be measured at fair value on a recurring basis as of December 31, 2008. Under FSP 157-2, the Company will apply the measurement criteria of SFAS 157 to the remaining assets and liabilities no later than the first quarter of 2009.

The Company holds certain fixed income securities, equity securities and derivatives, which must be measured using the SFAS 157 prescribed fair value hierarchy and related valuation methodologies. SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about current market conditions. The prescribed fair value hierarchy and related valuation methodologies are as follows:

*Level 1*—Quoted prices for identical instruments in active markets.

*Level 2*—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.

*Level 3*—Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

The levels of the Company's financial assets and liabilities that are carried at fair value were as follows:

<i>December 31, 2008</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets:				
Sigma Fund securities:				
U.S. government and agency obligations	\$ —	\$ 752	\$ —	\$ 752
Corporate bonds	—	1,880	102	1,982
Asset-backed securities	—	170	2	172
Mortgage-backed securities	—	92	30	122
Available-for-sale securities:				
U.S. government and agency obligations	—	25	—	25
Corporate bonds	—	7	—	7
Asset-backed securities	—	1	—	1
Common stock and equivalents	128	—	—	128
Derivative assets	—	60	—	60
Liabilities:				
Derivative liabilities	—	67	—	67

The following table summarizes the changes in fair value of our Level 3 assets:

	<i>2008</i>
Balance at January 1	\$ 35
Transfers to Level 3	138
Temporary unrealized losses in Sigma Fund investments included in Other income (expense)	(16)
Purchases, issuances, settlements and payments received	(11)
Impairment losses recognized on Sigma Fund investments included Other income (expense)	(12)
Balance at December 31	\$134

### *Valuation Methodologies*

Quoted market prices in active markets are available for investments in common stock and equivalents and, as such, these investments are classified within Level 1.

The securities classified above as Level 2 are primarily those that are professionally managed within the Sigma Fund. The Company primarily relies on valuation pricing models and broker quotes to determine the fair value of investments in the Sigma Fund. The valuation models are developed and maintained by third party pricing services and use a number of standard inputs to the valuation model including benchmark yields, reported trades, broker/dealer quotes where the party is standing ready and able to transact, issuer spreads, benchmark securities, bids, offers and other reference data. The valuation model may prioritize these inputs differently at each balance sheet date for any given security, based on the market conditions. Not all of the standard inputs listed will be used each time in the valuation models. For each asset class, quantifiable inputs related to perceived market movements and sector news may be considered in addition to the standard inputs.

In determining the fair value of the Company's interest rate swap derivatives, the Company uses the present value of expected cash flows based on market observable interest rate yield curves commensurate with the term of each instrument and the credit default swap market to reflect the credit risk of either the Company or the counterparty. For foreign currency derivatives, the Company's approach is to use forward contract and option valuation models employing market observable inputs, such as spot currency rates, time value and option volatilities. Since the Company primarily uses observable inputs in its valuation of its derivative assets and liabilities, they are considered Level 2.

Level 3 fixed income securities are debt securities that do not have actively traded quotes on the date the Company presents its consolidated balance sheets and require the use of unobservable inputs, such as indicative quotes from dealers and qualitative input from investment advisors, to value these securities.

At December 31, 2008, the Company has \$499 million of investments in money market mutual funds classified as Cash and cash equivalents in its consolidated balance sheets. The money market funds have quoted market prices that are generally equivalent to par.



## 10. Long-term Customer Financing and Sales of Receivables

### *Long-term Customer Financing*

Long-term receivables consist of trade receivables with payment terms greater than twelve months, long-term loans and lease receivables under sales-type leases. Long-term receivables consist of the following:

<i>December 31</i>	<i>2008</i>	<i>2007</i>
Long-term receivables	\$ 169	\$123
Less allowance for losses	(7)	(5)
	162	118
Less current portion	(110)	(50)
Non-current long-term receivables, net	\$ 52	\$ 68

The current portion of long-term receivables is included in Accounts receivable and the non-current portion of long-term receivables is included in Other assets in the Company's consolidated balance sheets. Interest income recognized on long-term receivables for the years ended December 31, 2008, 2007 and 2006 was \$3 million, \$7 million and \$9 million, respectively.

Certain purchasers of the Company's infrastructure equipment continue to request that suppliers provide long-term financing, defined as financing with terms greater than one year, in connection with equipment purchases. These requests may include all or a portion of the purchase price of the equipment. However, the Company's obligation to provide long-term financing is often conditioned on the issuance of a letter of credit in favor of the Company by a reputable bank to support the purchaser's credit or a pre-existing commitment from a reputable bank to purchase the long-term receivables from the Company. The Company had outstanding commitments to provide long-term financing to third parties totaling \$370 million and \$610 million at December 31, 2008 and 2007, respectively. Of these amounts, \$266 million and \$454 million were supported by letters of credit or by bank commitments to purchase long-term receivables at December 31, 2008 and 2007, respectively. In response to the recent tightening in the credit markets, certain customers of the Company have requested financing in connection with equipment purchases, and these types of requests have increased in volume and scope.

In addition to providing direct financing to certain equipment customers, the Company also assists customers in obtaining financing directly from banks and other sources to fund equipment purchases. The Company had committed to provide financial guarantees relating to customer financing totaling \$43 million and \$42 million at December 31, 2008 and 2007, respectively (including \$23 million at both December 31, 2008 and 2007 relating to the sale of short-term receivables). Customer financing guarantees outstanding were \$6 million and \$3 million at December 31, 2008 and 2007, respectively (including \$4 million and \$0 million at December 31, 2008 and 2007, respectively, relating to the sale of short-term receivables).

### *Sales of Receivables*

The Company sells accounts receivables and long-term receivables to third parties in transactions that qualify as "true-sales." Certain of these accounts receivables and long-term receivables are sold to third parties on a one-time, non-recourse basis, while others are sold to third parties under committed facilities that involve contractual commitments from these parties to purchase qualifying receivables up to an outstanding monetary limit. Committed facilities may be revolving in nature and, typically, must be renewed on an annual basis. The Company may or may not retain the obligation to service the sold accounts receivable and long-term receivables.

In the aggregate, at December 31, 2008, these committed facilities provided for up to \$967 million to be outstanding with the third parties at any time, as compared to up to \$1.4 billion and \$1.3 billion provided at December 31, 2007 and 2006, respectively. As of December 31, 2008, \$759 million of the Company's committed facilities were utilized, compared to \$497 million and \$817 million utilized at December 31, 2007 and 2006, respectively. Of the \$967 million of committed facilities at December 31, 2008, \$532 million were primarily revolving facilities associated with the sale of accounts receivables (of which \$497 million was utilized at December 31, 2008) and \$435 million were primarily committed facilities associated with the sale of specific long-term financing transactions to a single customer (of which \$262 million was utilized at December 31, 2008). In addition, before receivables can be sold under certain of the revolving committed facilities, they may need to meet contractual requirements, such as credit quality or insurability.

For many years the Company has utilized a number of receivables programs to sell a broadly-diversified group of accounts receivables to third parties. Certain of the accounts receivables are sold to a multi-seller commercial paper conduit. This program provided for up to \$400 million of accounts receivables to be outstanding with the conduit at any time. Subsequent to December 31, 2008, this \$400 million committed facility expired and the Company is negotiating a replacement facility under different terms. The Company is also negotiating an additional committed revolving receivable sales facility for European receivables, with the intent that the combined capacity of the two new facilities will be greater than the facility that expired. However, it is not certain when or if the Company will be successful in securing such facilities.

For the year ended December 31, 2008, 2007 and 2006, total accounts receivables and long-term receivables sold by the Company were \$3.7 billion, \$4.9 billion and \$6.4 billion, respectively (including \$3.4 billion, \$4.7 billion and \$6.2 billion, respectively, of accounts receivables). As of December 31, 2008 and 2007, there were \$1.0 billion and \$978 million, respectively, of receivables outstanding under these programs for which the Company retained servicing obligations (including \$621 million and \$587 million, respectively, of accounts receivable).

Under certain receivables programs, the value of the receivables sold is covered by credit insurance obtained from independent insurance companies, less deductibles or self-insurance requirements under the policies (with the Company retaining credit exposure for the remaining portion). The Company's total credit exposure to outstanding short-term receivables that have been sold was \$23 million at both December 31, 2008 and 2007. Reserves of \$4 million and \$1 million were recorded for potential losses at December 31, 2008 and 2007, respectively.

## 11. Commitments and Contingencies

### Legal

**Iridium Program:** The Company was named as one of several defendants in putative class action securities lawsuits arising out of alleged misrepresentations or omissions regarding the Iridium satellite communications business which, on March 15, 2001, were consolidated in the federal district court in the District of Columbia under *Freeland v. Iridium World Communications, Inc., et al.*, originally filed on April 22, 1999. In April 2008, the parties reached an agreement in principle, subject to court approval, to settle all claims against Motorola in exchange for Motorola's payment of \$20 million. During the three months ended March 29, 2008, the Company recorded a charge associated with this settlement. On October 23, 2008, the court granted final approval of the settlement and dismissed the claims with prejudice.

The Company was sued by the Official Committee of the Unsecured Creditors of Iridium (the "Committee") in the United States Bankruptcy Court for the Southern District of New York (the "Iridium Bankruptcy Court") on July 19, 2001. *In re Iridium Operating LLC, et al. v. Motorola* asserted claims for breach of contract, warranty and fiduciary duty and fraudulent transfer and preferences, and sought in excess of \$4 billion in damages. On May 20, 2008, the Bankruptcy Court approved a settlement in which Motorola is not required to pay anything, but released its administrative, priority and unsecured claims against the Iridium estate and withdrew its objection to the 2001 settlement between the unsecured creditors of the Iridium Debtors and the Iridium Debtors' pre-petition secured lenders. This settlement, and its approval by the Bankruptcy Court, extinguished Motorola's financial exposure and concluded Motorola's involvement in the Iridium bankruptcy proceedings.

**Telsim Class Action Securities:** In April 2007, the Company entered into a settlement agreement in regards to *In re Motorola Securities Litigation*, a class action lawsuit relating to the Company's disclosure of its relationship with Telsim Mobil Telekomunikasyon Hizmetleri A.S. Pursuant to the settlement, Motorola paid \$190 million to the class and all claims against Motorola by the class have been dismissed and released.

During the three months ended March 31, 2007, the Company recorded a charge of \$190 million for the legal settlement, partially offset by \$75 million of estimated insurance recoveries, of which \$50 million had been tendered by certain insurance carriers. During the three months ended June 30, 2007, the Company commenced actions against the non-tendering insurance carriers. In response to these actions, each insurance carrier who has responded denied coverage citing various policy provisions. As a result of this denial of coverage and related actions, the Company recorded a reserve of \$25 million in the three months ended June 30, 2007 against the receivable from insurance carriers. During the three months ended September 27, 2008, the Company received the \$50 million tendered by the insurance carriers. During the three months ended December 31, 2008, the Company received a net \$43 million tendered by other insurance carriers.

*Other:* The Company is a defendant in various other suits, claims and investigations that arise in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations.

#### *Other*

*Leases:* The Company owns most of its major facilities and leases certain office, factory and warehouse space, land, and information technology and other equipment under principally non-cancelable operating leases. Rental expense, net of sublease income, for the years ended December 31, 2008, 2007 and 2006 was \$181 million, \$231 million and \$241 million, respectively. At December 31, 2008, future minimum lease obligations, net of minimum sublease rentals, for the next five years and beyond are as follows: 2009—\$234 million; 2010—\$175 million; 2011—\$129 million; 2012—\$78 million; 2013—\$48 million; beyond—\$106 million.

*Indemnifications:* The Company is also a party to a variety of agreements pursuant to which it is obligated to indemnify the other party with respect to certain matters. Some of these obligations arise as a result of divestitures of the Company's assets or businesses and require the Company to hold the other party harmless against losses arising from the settlement of these pending obligations. The total amount of indemnification under these types of provisions is \$64 million, of which the Company accrued \$47 million as of December 31, 2008 for potential claims under these provisions.

In addition, the Company may provide indemnifications for losses that result from the breach of general warranties contained in certain commercial and intellectual property. Historically, the Company has not made significant payments under these agreements. However, there is an increasing risk in relation to patent indemnities given the current legal climate.

In indemnification cases, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. Further, the Company's obligations under these agreements for indemnification based on breach of representations and warranties are generally limited in terms of duration, and for amounts not in excess of the contract value, and, in some instances, the Company may have recourse against third parties for certain payments made by the Company.

*Other:* During the three months ended September 27, 2008, the Company recorded a \$150 million charge related to the settlement of a purchase commitment. During the three months ended December 31, 2007, the Company recorded a \$277 million charge for a legal settlement.

## 12. Information by Segment and Geographic Region

The Company reports financial results for the following business segments:

- The Mobile Devices segment designs, manufactures, sells and services wireless handsets with integrated software and accessory products, and licenses intellectual property.
- The Home and Networks Mobility segment designs, manufactures, sells, installs and services: (i) digital video, Internet Protocol ("IP") video and broadcast network interactive set-tops ("digital entertainment devices"), end-to-end video delivery systems, broadband access infrastructure platforms, and associated data and voice customer premise equipment ("broadband gateways") to cable television and telecom service providers (collectively, referred to as the "home business"), and (ii) wireless access systems ("wireless networks"), including cellular infrastructure systems and wireless broadband systems, to wireless service providers (collectively, referred to as the "networks business").
- The Enterprise Mobility Solutions segment designs, manufactures, sells, installs and services analog and digital two-way radio, voice and data communications products and systems for private networks, wireless broadband systems and end-to-end enterprise mobility solutions to a wide range of enterprise markets, including government and public safety agencies (which, together with all sales to distributors of two-way communication products, are referred to as the "government and public safety market"), as well as retail, utility, transportation, manufacturing, health care and other commercial customers (which, collectively, are referred to as the "commercial enterprise market").

Segment operating results are measured based on operating earnings adjusted, if necessary, for certain segment-specific items and corporate allocations. Intersegment and intergeographic sales are accounted for on an arm's-length pricing basis. Intersegment sales included in other and eliminations were:

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Mobile Devices	\$ 53	\$ 56	\$ 65
Home and Networks Mobility	2	14	13
Enterprise Mobility Solutions	86	58	31
	<u>\$141</u>	<u>\$128</u>	<u>\$109</u>

Identifiable assets (excluding intersegment receivables) are the Company's assets that are identified with classes of similar products or operations in each geographic region.

For the years ended December 31, 2008, 2007 and 2006, no single customer accounted for more than 10% of net sales.

### *Segment information*

<i>Years Ended December 31</i>	<i>Net Sales</i>			<i>Operating Earnings (Loss)</i>		
	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Mobile Devices	\$12,099	\$18,988	\$28,383	\$(2,199)	\$(1,201)	\$2,690
Home and Networks Mobility	10,086	10,014	9,164	918	709	787
Enterprise Mobility Solutions	8,093	7,729	5,400	1,496	1,213	958
	<u>30,278</u>	<u>36,731</u>	<u>42,947</u>	<u>215</u>	<u>721</u>	<u>4,435</u>
Other and Eliminations	(132)	(109)	(100)	(2,606)	(1,274)	(343)
	<u>\$30,146</u>	<u>\$36,622</u>	<u>\$42,847</u>			
Operating earnings (loss)				(2,391)	(553)	4,092
Total other income (expense)				(246)	163	518
Earnings (loss) from continuing operations before income taxes				\$(2,637)	\$ (390)	\$4,610

The Operating loss in Other and Eliminations consists of the following:

<i>Years Ended December 31</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Goodwill impairment	\$1,619	\$ —	\$ —
Amortization of intangible assets	318	369	100
Corporate expenses <sup>(1)</sup>	252	241	279
Share-based compensation expense <sup>(2)</sup>	224	284	254
Asset impairments	129	81	—
Separation-related transaction costs	59	—	—
Reorganization of business charges	38	63	7
Legal settlements, net	14	140	—
In-process research and development charges	1	96	33
Gain on sale of property, plant and equipment	(48)	—	—
Charitable contribution to Motorola Foundation	—	—	88
Settlements and collections related to Telsim	—	—	(418)
	<u>\$2,606</u>	<u>\$1,274</u>	<u>\$ 343</u>

(1) Primarily comprised of: (i) general corporate-related expenses, (ii) various corporate programs, representing developmental businesses and research and development projects, which are not included in any reporting segment, and (iii) the Company's wholly-owned finance subsidiary.

(2) Primarily comprised of: (i) compensation expense related to the Company's employee stock options, stock appreciation rights and employee stock purchase plans, and (ii) compensation expenses related to the restricted stock and restricted stock units granted to the corporate employees.

Years Ended December 31	Assets			Capital Expenditures			Depreciation Expense		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Mobile Devices	\$ 3,559	\$ 6,325	\$ 9,316	\$ 84	\$132	\$164	\$115	\$146	\$133
Home and Networks Mobility	7,024	7,451	6,746	147	160	149	135	141	165
Enterprise Mobility Solutions	6,000	8,694	3,268	166	113	190	158	167	92
	16,583	22,470	19,330	397	405	503	408	454	390
Other and Eliminations	11,286	12,342	19,263	107	122	146	103	83	73
	\$27,869	\$34,812	\$38,593	\$504	\$527	\$649	\$511	\$537	\$463

Assets in Other include primarily cash and cash equivalents, Sigma Fund, deferred income taxes, short-term investments, property, plant and equipment, investments, and the administrative headquarters of the Company.

### Geographic area information

Years Ended December 31	Net Sales <sup>(1)</sup>			Assets			Property, Plant, and Equipment		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
United States	\$14,708	\$18,548	\$18,776	\$17,938	\$22,385	\$24,212	\$1,240	\$1,252	\$1,089
China	2,011	2,632	4,664	3,307	3,926	4,649	294	311	278
Brazil	1,554	1,671	1,269	1,057	1,440	1,219	110	109	107
United Kingdom	936	1,070	1,306	1,314	1,305	1,773	85	121	134
Germany	322	516	874	467	644	1,195	57	75	131
Israel	696	741	659	1,268	1,374	1,195	141	165	156
Singapore	116	128	176	1,875	3,120	3,713	32	40	39
Other nations, net of eliminations	9,803	11,316	15,123	643	618	637	483	407	333
	\$30,146	\$36,622	\$42,847	\$27,869	\$34,812	\$38,593	\$2,442	\$2,480	\$2,267

(1) Net sales by geographic region are measured by the locale of end customer.

## 13. Reorganization of Businesses

The Company maintains a formal Involuntary Severance Plan (the "Severance Plan"), which permits the Company to offer eligible employees severance benefits based on years of service and employment grade level in the event that employment is involuntarily terminated as a result of a reduction-in-force or restructuring. The Company recognizes termination benefits based on formulas per the Severance Plan at the point in time that future settlement is probable and can be reasonably estimated based on estimates prepared at the time a restructuring plan is approved by management. Exit costs consist of future minimum lease payments on vacated facilities and other contractual terminations. At each reporting date, the Company evaluates its accruals for employee separation and exit costs to ensure the accruals are still appropriate. In certain circumstances, accruals are no longer needed because of efficiencies in carrying out the plans or because employees previously identified for separation resigned from the Company and did not receive severance or were redeployed due to circumstances not foreseen when the original plans were initiated. In these cases, the Company reverses accruals through the consolidated statements of operations where the original charges were recorded when it is determined they are no longer needed.

### 2008 Charges

During the year ended December 31, 2008, the Company committed to implement various productivity improvement plans aimed at achieving long-term, sustainable profitability by driving efficiencies and reducing operating costs. All three of the Company's business segments, as well as corporate functions, are impacted by these plans, with the majority of the impact in the Mobile Devices segment. The employees affected are located in all regions. The Company recorded net reorganization of business charges of \$334 million, including \$86 million of charges in Costs of sales and \$248 million of charges under Other charges in the Company's consolidated statements of operations. Included in the aggregate \$334 million are charges of \$324 million for employee separation costs, \$66 million for exit costs and \$9 million for fixed asset impairment charges, partially offset by \$65 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by business segment:

<i>Year Ended December 31,</i>	<i>2008</i>
Mobile Devices	\$216
Home and Networks Mobility	53
Enterprise Mobility Solutions	27
	<u>296</u>
Corporate	38
	<u>\$334</u>

The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2008 to December 31, 2008:

	<i>Accruals at January 1, 2008</i>	<i>2008 Additional Charges</i>	<i>2008<sup>(1)</sup> Adjustments</i>	<i>2008 Amount Used</i>	<i>Accruals at December 31, 2008</i>
Exit costs	\$ 42	\$ 66	\$ 1	\$ (29)	\$ 80
Employee separation costs	193	324	(60)	(287)	170
	<u>\$235</u>	<u>\$390</u>	<u>\$(59)</u>	<u>\$(316)</u>	<u>\$250</u>

(1) Includes translation adjustments.

#### *Exit Costs*

At January 1, 2008, the Company had an accrual of \$42 million for exit costs attributable to lease terminations. The 2008 additional charges of \$66 million are primarily related to: (i) the exit of leased facilities in the United Kingdom by the Mobile Devices segment, and (ii) the exit of leased facilities in Mexico by the Home and Networks Mobility segment. The adjustments of \$1 million reflect \$4 million of translation adjustments, partially offset by \$3 million of reversals of accruals no longer needed. The \$29 million used in 2008 reflects cash payments. The remaining accrual of \$80 million, which is included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2008, represents future cash payments, primarily for lease termination obligations.

#### *Employee Separation Costs*

At January 1, 2008, the Company had an accrual of \$193 million for employee separation costs, representing the severance costs for approximately 2,800 employees. The 2008 additional charges of \$324 million represent severance costs for approximately an additional 5,800 employees, of which 2,300 are direct employees and 3,500 are indirect employees.

The adjustments of \$60 million reflect \$62 million of reversals of accruals no longer needed, partially offset by \$2 million of translation adjustments. The \$62 million of reversals represent previously accrued costs for approximately 600 employees.

During the year ended December 31, 2008, approximately 6,200 employees, of which 3,000 were direct employees and 3,200 were indirect employees, were separated from the Company. The \$287 million used in 2008 reflects cash payments to these separated employees. The remaining accrual of \$170 million, which is included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2008, is expected to be paid to approximately 2,000 employees.

#### *2007 Charges*

During the year ended December 31, 2007, the Company committed to implement various productivity improvement plans aimed at achieving long-term, sustainable profitability by driving efficiencies and reducing operating costs. All three of the Company's business segments, as well as corporate functions, are impacted by these plans. The majority of the employees affected are located in North America and Europe. The Company recorded net reorganization of business charges of \$394 million, including \$104 million of charges in Costs of sales and \$290 million of charges under Other charges (income) in the Company's consolidated statements of

operations. Included in the aggregate \$394 million are charges of \$401 million for employee separation costs, \$42 million for fixed asset impairment charges and \$19 million for exit costs, offset by reversals for accruals no longer needed.

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

<i>Year Ended December 31,</i>	<i>2007</i>
Mobile Devices	\$229
Home and Networks Mobility	71
Enterprise Mobility Solutions	30
	<u>330</u>
General Corporate	64
	<u>\$394</u>

The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2007 to December 31, 2007:

	<i>Accruals at January 1, 2007</i>	<i>2007 Additional Charges</i>	<i>2007<sup>(1)(2)</sup> Adjustments</i>	<i>2007 Amount Used</i>	<i>Accruals at December 31, 2007</i>
Exit costs	\$ 54	\$ 19	\$ 2	\$ (33)	\$ 42
Employee separation costs	104	401	(64)	(248)	193
	<u>\$158</u>	<u>\$420</u>	<u>\$(62)</u>	<u>\$(281)</u>	<u>\$235</u>

(1) Includes translation adjustments.

(2) Includes \$6 million of accruals established through purchase accounting for businesses acquired, covering exit costs and separation costs for approximately 200 employees.

#### *Exit Costs*

At January 1, 2007, the Company had an accrual of \$54 million for exit costs attributable to lease terminations. The 2007 additional charges of \$19 million are primarily related to the exit of certain activities and leased facilities in Ireland by the Home and Networks Mobility segment. The 2007 adjustments of \$2 million represent accruals for exit costs established through purchase accounting for businesses acquired. The \$33 million used in 2007 reflects cash payments. The remaining accrual of \$42 million, which was included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2007, represented future cash payments for lease termination obligations.

#### *Employee Separation Costs*

At January 1, 2007, the Company had an accrual of \$104 million for employee separation costs, representing the severance costs for approximately 2,300 employees. The 2007 additional charges of \$401 million represent severance costs for approximately 6,700 employees, of which 2,400 were direct employees and 4,300 were indirect employees.

The adjustments of \$64 million reflect \$68 million of reversals of accruals no longer needed, partially offset by \$4 million of accruals for severance plans established through purchase accounting for businesses acquired. The \$68 million of reversals represent previously accrued costs for 1,100 employees, and primarily relates to a strategic change regarding a plant closure and specific employees previously identified for separation who resigned from the Company and did not receive severance or who were redeployed due to circumstances not foreseen when the original plans were approved. The \$4 million of accruals represents severance plans for approximately 200 employees established through purchase accounting for businesses acquired.

During the year ended December 31, 2007, approximately 5,300 employees, of which 1,700 were direct employees and 3,600 were indirect employees, were separated from the Company. The \$248 million used in 2007 reflects cash payments to these separated employees. The remaining accrual of \$193 million is included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2007.

## 2006 Charges

During the year ended December 31, 2006, the Company committed to implement various productivity improvement plans aimed principally at: (i) reducing costs in its supply-chain activities, (ii) integration synergies, and (iii) reducing other operating expenses, primarily relating to engineering and development costs. The Company recorded net reorganization of business charges of \$213 million, including \$41 million of charges in Costs of sales and \$172 million of charges under Other charges in the Company's consolidated statements of operations. Included in the aggregate \$213 million are charges of \$191 million for employee separation costs, \$15 million for fixed asset impairment charges and \$30 million for exit costs, partially offset by \$23 million of reversals for accruals no longer needed.

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

<i>Year Ended December 31,</i>	<i>2006</i>
Mobile Devices	\$ (1)
Home and Networks Mobility	124
Enterprise Mobility Solutions	83
	<u>206</u>
General Corporate	7
	<u>\$213</u>

The following table displays a rollforward of the reorganization of business accruals established for exit costs and employee separation costs from January 1, 2006 to December 31, 2006:

	<i>Accruals at January 1, 2006</i>	<i>2006 Additional Charges</i>	<i>2006<sup>(1)</sup> Adjustments</i>	<i>2006 Amount Used</i>	<i>Accruals at December 31, 2006</i>
Exit costs	\$ 50	\$ 30	\$ (7)	\$ (19)	\$ 54
Employee separation costs	53	191	(16)	(124)	104
	<u>\$103</u>	<u>\$221</u>	<u>\$(23)</u>	<u>\$(143)</u>	<u>\$158</u>

(1) Includes translation adjustments.

### *Exit Costs*

At January 1, 2006, the Company had an accrual of \$50 million for exit costs attributable to lease terminations. The 2006 additional charges of \$30 million were primarily related to a lease cancellation by the Enterprise Mobility Solutions segment. The 2006 adjustments of \$7 million represent reversals of accruals no longer needed. The \$19 million used in 2006 reflects cash payments to lessors. The remaining accrual of \$54 million, which was included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2006, represented future cash payments for lease termination obligations.

### *Employee Separation Costs*

At January 1, 2006, the Company had an accrual of \$53 million for employee separation costs, representing the severance costs for approximately 1,600 employees, of which 1,100 were direct employees and 500 were indirect employees. The 2006 additional charges of \$191 million represented costs for an additional 3,900 employees, of which 1,700 were direct employees and 2,200 were indirect employees. The adjustments of \$16 million represented reversals of accruals no longer needed.

During the year ended December 31, 2006, approximately 3,200 employees, of which 1,400 were direct employees and 1,800 were indirect employees, were separated from the Company. The \$124 million used in 2006 reflects cash payments to these separated employees. The remaining accrual of \$104 million was included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2006.



## 14. Acquisitions and Related Intangibles

The Company accounts for acquisitions using purchase accounting with the results of operations for each acquiree included in the Company's consolidated financial statements for the period subsequent to the date of acquisition. The pro forma effects of these acquisitions on the Company's consolidated financial statements were not significant individually nor in the aggregate.

The allocation of value to in-process research and development was determined using expected future cash flows discounted at average risk adjusted rates reflecting both technological and market risk as well as the time value of money. Historical pricing, margins and expense levels, where applicable, were used in the valuation of the in-process products. The in-process research and development acquired will have no alternative future uses if the products are not feasible.

The developmental products for the companies acquired have varying degrees of timing, technology, costs-to-complete and market risks throughout final development. If the products fail to become viable, the Company will unlikely be able to realize any value from the sale of incomplete technology to another party or through internal re-use. The risks of market acceptance for the products under development and potential reductions in projected sales volumes and related profits in the event of delayed market availability for any of the products exist. Efforts to complete all developmental products continue and there are no known delays to forecasted plans except as disclosed.

The Company did not have any significant acquisitions during the year ended December 31, 2008. The following is a summary of significant acquisitions during the years ended December 31, 2007 and 2006:

	<i>Quarter Acquired</i>	<i>Consideration, net</i>	<i>Form of Consideration</i>	<i>In-Process Research and Development Charge</i>
<b>2007 Acquisitions</b>				
Symbol Technologies, Inc.	Q1	\$3,528	Cash	\$95
Good Technology, Inc.	Q1	\$ 438	Cash	—
Netopia, Inc.	Q1	\$ 183	Cash	—
Terayon Communication Systems, Inc.	Q3	\$ 137	Cash	—
<b>2006 Acquisitions</b>				
Broadbus Technologies, Inc.	Q3	\$ 181	Cash	\$12
TTP Communications plc	Q3	\$ 193	Cash	\$17
Kreatel Communications AB	Q1	\$ 108	Cash	\$ 1

The following table summarizes net tangible and intangible assets acquired and the consideration paid for the acquisitions identified above:

<i>Years Ended December 31</i>	<i>2007</i>	<i>2006</i>
Tangible net assets	\$ 83	\$ 20
Goodwill	2,793	262
Other intangibles	1,315	170
In-process research and development	95	30
	<u>\$4,286</u>	<u>\$482</u>
Consideration, net:		
Cash	\$4,286	\$482
Stock	—	—
	<u>\$4,286</u>	<u>\$482</u>

### *Symbol Technologies, Inc.*

In January 2007, the Company acquired, for \$3.5 billion in net cash, the outstanding common stock of Symbol Technologies, Inc. ("Symbol"), a leader in designing, developing, manufacturing and servicing products and systems used in end-to-end enterprise mobility solutions featuring rugged mobile computing, advanced data capture, radio frequency identification ("RFID"), wireless infrastructure and mobility management.

The fair value of acquired in-process research and development was \$95 million. The acquired in-process research and development will have no alternative future uses if the products are not feasible and, as such, costs were expensed at the date of acquisition. At the date of acquisition, 31 projects were in process and were completed through 2008. The average risk adjusted rate used to value these projects is 15-16%. The allocation of value to in-process research and development was determined using expected future cash flows discounted at average risk adjusted rates reflecting both technological and market risk as well as the time value of money.

The fair value of the acquired intangible assets was \$1.0 billion at the time of acquisition. Intangible assets are included in Other assets in the Company's consolidated balance sheets. The intangible assets are being amortized over periods ranging from 1 to 8 years on a straight-line basis. The Company recorded \$2.3 billion of goodwill, none of which is expected to be deductible for tax purposes.

The results of the operations of Symbol have been included in the Enterprise Mobility Solutions segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

#### *Good Technology, Inc.*

In January 2007, the Company acquired Good Technology, Inc. ("Good"), a provider of enterprise mobile computing software and services, for \$438 million in net cash. The Company recorded \$296 million in goodwill, none of which is expected to be deductible for tax purposes and \$158 million in identifiable intangible assets. However, due to recent changes in software platform strategy, impairment charges of \$123 million were recorded for the year ended December 31, 2008, representing write-downs of: (i) \$121 million of intangible assets, primarily relating to completed technology and other intangibles, and (ii) \$2 million of property, plant and equipment.

The results of operations of Good have been included in the Enterprise Mobility Solutions segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

#### *Netopia, Inc.*

In February 2007, the Company acquired Netopia, Inc. ("Netopia"), a broadband equipment provider for DSL customers, which allows for phone, TV and fast Internet connections, for \$183 million in net cash. The Company recorded \$61 million in goodwill, none of which is expected to be deductible for tax purposes, and \$100 million in identifiable intangible assets. Intangible assets are included in Other assets in the Company's consolidated balance sheets. The intangible assets are being amortized over a period of 7 years on a straight-line basis.

The results of operations of Netopia have been included in the Home and Networks Mobility segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

#### *Terayon Communication Systems, Inc.*

In July 2007, the Company acquired Terayon Communication Systems, Inc. ("Terayon"), a provider of real-time digital video networking applications to cable, satellite and telecommunication service providers worldwide, for \$137 million in net cash. The Company recorded \$21 million in goodwill, none of which is expected to be deductible for tax purposes, and \$52 million in identifiable intangible assets. Intangible assets are included in Other assets in the Company's consolidated balance sheets. The intangible assets are being amortized over periods ranging from 4 to 6 years on a straight-line basis.

The results of operations of Terayon have been included in the Home and Networks Mobility segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

#### *Broadbus Technologies, Inc.*

In September 2006, the Company acquired Broadbus Technologies, Inc. ("Broadbus"), a provider of television on demand technology, for \$181 million in cash. The Company recorded \$131 million in goodwill, none of which

is expected to be deductible for tax purposes, a \$12 million charge for acquired in-process research and development costs, and \$30 million in identifiable intangible assets. The acquired in-process research and development will have no alternative future uses if the products are not feasible. At the date of the acquisition, two projects were in process. During the year ended December 31, 2008, one of the projects was completed while the other project was abandoned. The average risk adjusted rate used to value this project was 22%. The allocation of value to in-process research and development was determined using expected future cash flows discounted at average risk adjusted rates reflecting both technological and market risk as well as the time value of money. These research and development costs were expensed at the date of acquisition. Intangible assets are included in Other assets in the Company's consolidated balance sheets. The intangible assets are being amortized over periods ranging from 3 to 5 years on a straight-line basis.

The results of operations of Broadbus have been included in the Home and Networks Mobility segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

### *TTP Communications plc*

In August 2006, the Company acquired TTP Communications plc ("TTPCom"), a provider of wireless software platforms, protocol stacks and semiconductor solutions, for \$193 million in cash. The Company recorded \$52 million in goodwill, a portion of which is expected to be deductible for tax purposes, a \$17 million charge for acquired in-process research and development costs, and \$118 million in identifiable intangible assets. The acquired in-process research and development will have no alternative future uses if the products are not feasible. At the date of the acquisition, a total of four projects were in process. The average risk adjusted rate used to value these projects was 18%. These projects have since been completed. The allocation of value to in-process research and development was determined using expected future cash flows discounted at average risk adjusted rates reflecting both technological and market risk as well as the time value of money. These research and development costs were expensed at the date of acquisition. However, due to changes in software platform strategy, impairment charges of \$89 million were recorded for the year ended December 31, 2007, representing write-downs of:

- (i) \$81 million of intangible assets, primarily relating to completed technology and other intangibles, and
- (ii) \$8 million of property, plant and equipment.

The results of operations of TTPCom have been included in the Mobile Devices segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

### *Kreatel Communications AB*

In February 2006, the Company acquired Kreatel Communications AB ("Kreatel"), a leading developer of innovative Internet Protocol ("IP") based digital set-tops and software, for \$108 million in cash. The Company recorded \$79 million in goodwill, a portion of which is expected to be deductible for tax purposes, a \$1 million charge for acquired in-process research and development costs, and \$22 million in identifiable intangible assets. The acquired in-process research and development will have no alternative future uses if the products are not feasible. At the date of the acquisition, a total of two projects were in process. These projects have since been completed. The average risk adjusted rate used to value these projects was 19%. The allocation of value to in-process research and development was determined using expected future cash flows discounted at average risk adjusted rates reflecting both technological and market risk as well as the time value of money. These research and development costs were expensed at the date of acquisition. Intangible assets are included in Other assets in the Company's consolidated balance sheets. The intangible assets are being amortized over periods ranging from 2 to 4 years on a straight-line basis.

The results of operations of Kreatel have been included in the Home and Networks Mobility segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

## Intangible Assets

Amortized intangible assets were comprised of the following:

<i>December 31</i>	<i>2008</i>		<i>2007</i>	
	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>
Intangible assets:				
Completed technology	\$1,127	\$ 633	\$1,234	\$484
Patents	292	125	292	69
Customer-related	277	104	264	58
Licensed technology	129	118	123	109
Other intangibles	150	126	166	99
	<u>\$1,975</u>	<u>\$1,106</u>	<u>\$2,079</u>	<u>\$819</u>

Amortization expense on intangible assets, which is included within Other and Eliminations, was \$318 million, \$369 million \$100 million for the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008 future amortization expense is estimated to be \$278 million for 2009, \$256 million in 2010, \$242 million in 2011, \$50 million in 2012 and \$29 million in 2013.

Amortized intangible assets, excluding goodwill, by business segment:

<i>December 31</i>	<i>2008</i>		<i>2007</i>	
	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>
Mobile Devices	\$ 45	\$ 45	\$ 36	\$ 36
Home and Networks Mobility	722	522	712	455
Enterprise Mobility Solutions	<u>1,208</u>	<u>539</u>	<u>1,331</u>	<u>328</u>
	<u>\$1,975</u>	<u>\$1,106</u>	<u>\$2,079</u>	<u>\$819</u>

During the year ended December 31, 2008, the Company recorded an impairment of intangible assets of \$121 million due to a change in a technology platform strategy, relating to completed technology and other intangibles, in the Enterprise Mobility Solutions segment. During the year ended December 31, 2007 due to a change in software platform strategy, the Company recorded an impairment of intangible assets of \$81 million, primarily relating to completed technology and other intangibles, in the Mobile Devices segment.

## Goodwill

The following tables display a rollforward of the carrying amount of goodwill from January 1, 2007 to December 31, 2008, by business segment:

<i>Segment</i>	<i>January 1, 2008</i>	<i>Acquired</i>	<i>Adjustments<sup>(1)</sup></i>	<i>Impaired</i>	<i>December 31, 2008</i>
Mobile Devices	\$ 19	\$15	\$ 21	\$ (55)	\$ —
Home and Networks Mobility	1,576	12	(179)	—	1,409
Enterprise Mobility Solutions	<u>2,904</u>	<u>60</u>	<u>28</u>	<u>(1,564)</u>	<u>1,428</u>
	<u>\$4,499</u>	<u>\$87</u>	<u>\$(130)</u>	<u>\$(1,619)</u>	<u>\$2,837</u>

(1) Includes translation adjustments.

During the year ended December 31, 2008, the Company finalized its assessment of the Internal Revenue Code Section 382 Limitations ("IRC Section 382") relating to the pre-acquisition tax loss carry-forwards of its 2007 acquisitions. As a result of the IRC Section 382 studies, the company recorded additional deferred tax assets and a corresponding reduction in goodwill, which is reflected in the adjustment column above.

In the fourth quarter of 2008, we conducted our annual assessment of goodwill for impairment. The Company performed extensive valuation analyses, utilizing both income and market approaches, in our goodwill

assessment process. The goodwill impairment test is performed at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment. The Company has determined that the Mobile Devices segment meets the requirement of a reporting unit. For the Enterprise Mobility Solutions segment, the Company has identified two reporting units, the Government and Public Safety reporting unit and the Enterprise Mobility reporting unit. For the Home and Networks Mobility segment, the Company has identified two reporting units, the Home reporting unit and the Public Networks reporting unit.

During this quarter, we experienced a sustained, significant decline in our stock price that reduced the market capitalization below the book value of the Company. The reduced market capitalization reflected the macroeconomic declines coupled with the market view on the performance of the Mobile Devices reporting unit. The Company has considered this decline in our stock price in our impairment assessment.

The Company has weighted the valuation of its reporting units at 75% based on the income approach and 25% based on the market based approach consistent with prior periods. The Company believes that this weighting is appropriate since it is often difficult to find other appropriate market participants that are similar to our reporting units and the Company view of future discounted cash flows is more reflective of the value of the reporting units. If a heavier weighting was put on the market based approach for certain reporting units, a higher fair value would have been determined.

The determination of fair value of the reporting units and other assets and liabilities within the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the discount rate, terminal growth rates, earnings before depreciation and amortization, and capital expenditures forecasts. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates. The Company assigned discount rates ranging from 13 to 14% for the Home, Public Networks, Government and Public Safety and Enterprise Mobility Reporting units. The Company assigned a discount rate of 25% to the Mobile Devices reporting unit commensurate with development stage enterprises or turnaround opportunities. The Company believes this rate reflects the inherent uncertainties of the Mobile Devices reporting unit's projected cash flows. The Company evaluated the merits of each significant assumption, both individually and in the aggregate, used to determine the fair value of the reporting units, as well as the fair values of the corresponding assets and liabilities within the reporting units, and concluded they are reasonable.

Based on the results of Step One of our annual assessment of the recoverability goodwill, the fair values of the Home, Public Networks and Government and Public Safety reporting units exceeded their book value, indicating that there was no impairment of goodwill at these reporting units.

However, the fair value of the Enterprise Mobility and Mobile Devices reporting units was below their respective book values, indicating a potential impairment of goodwill and the requirement to perform Step Two of the analysis for these reporting units. The Company acquired the main components of the Enterprise Mobility reporting unit in 2007 at which time the book value and fair value of the reporting unit was the same. Because of this fact, the Enterprise Mobility reporting unit was most likely to experience a decline in its fair value below its book value as a result of lower values in the overall market and the deteriorating macroeconomic environment and the market's view of its near term impact on the reporting unit. The decline in the fair value of the Mobile Devices reporting unit below its book value is a result of the deteriorating macroeconomic environment, lower expected sales and cash flows as a result of the decision to consolidate platforms announced in the fourth quarter of 2008, and the uncertainty around the reporting unit's future cash flow. For the year ended December 31, 2008, the Company determined that goodwill relating to the Enterprise Mobility Solution and Mobile Devices segments were impaired, resulting in charges of \$1.6 billion and \$55 million, respectively. Additional impairment charges could be recognized in the near term if the Company's market capitalization continues to decline or macroeconomic conditions continue to deteriorate. No impairment charges were required for the years ended December 31, 2007 and 2006.

<i>Segment</i>	<i>January 1, 2007</i>	<i>Acquired</i>	<i>Dispositions</i>	<i>Adjustments</i>	<i>December 31, 2007</i>
Mobile Devices	\$ 69	\$ —	\$ —	\$(50)	\$ 19
Home and Networks Mobility	1,266	427	(119)	2	1,576
Enterprise Mobility Solutions	371	2,569	—	(36)	2,904
	<u>\$1,706</u>	<u>\$2,996</u>	<u>\$(119)</u>	<u>\$(84)</u>	<u>\$4,499</u>

## 15. Valuation and Qualifying Accounts

The following table presents the valuation and qualifying account activity for the years ended December 31, 2008, 2007 and 2006:

	<i>Balance at January 1</i>	<i>Charged to Earnings</i>	<i>Used</i>	<i>Adjustments<sup>(1)</sup></i>	<i>Balance at December 31</i>
<b>2008</b>					
Reorganization of Businesses	\$ 235	\$ 390	\$ (316)	\$ (59)	\$ 250
Allowance for Doubtful Accounts	184	63	(35)	(30)	182
Allowance for Losses on Long-term Receivables	5	5	—	(3)	7
Inventory Reserves	371	735	(366)	20	760
Warranty Reserves	416	452	(488)	(95)	285
Customer Reserves	972	1,587	(1,544)	(416)	599
<b>2007</b>					
Reorganization of Businesses	158	420	(281)	(62)	235
Allowance for Doubtful Accounts	78	130	(3)	(21)	184
Allowance for Losses on Long-term Receivables	10	2	—	(7)	5
Inventory Reserves	416	546	(524)	(67)	371
Warranty Reserves	530	756	(735)	(135)	416
Customer Reserves	1,305	2,809	(2,205)	(937)	972
<b>2006</b>					
Reorganization of Businesses	103	221	(143)	(23)	158
Allowance for Doubtful Accounts	101	50	(58)	(15)	78
Allowance for Losses on Long-term Receivables	12	5	(8)	1	10
Inventory Reserves	529	517	(490)	(140)	416
Warranty Reserves	467	977	(891)	(23)	530
Customer Reserves	1,171	4,218	(3,597)	(487)	1,305

(1) Includes translation adjustments.

## 16. Quarterly and Other Financial Data (unaudited)\*

	2008				2007			
	1st	2nd	3rd	4th <sup>(1)</sup>	1st	2nd	3rd	4th
<b>Operating Results</b>								
Net sales	\$7,448	\$8,082	\$7,480	\$ 7,136	\$9,433	\$8,732	\$8,811	\$9,646
Costs of sales	5,303	5,757	5,677	5,014	6,979	6,279	6,306	7,106
Gross margin	2,145	2,325	1,803	2,122	2,454	2,453	2,505	2,540
Selling, general and administrative expenses	1,183	1,115	1,044	988	1,313	1,296	1,210	1,273
Research and development expenditures	1,054	1,048	999	1,008	1,117	1,115	1,100	1,097
Other charges	177	157	212	1,801	390	200	205	189
Operating earnings (loss)	(269)	5	(452)	(1,675)	(366)	(158)	(10)	(19)
Earnings (loss) from continuing operations	(194)	4	(397)	(3,657)	(218)	(38)	40	111
Net earnings (loss)	(194)	4	(397)	(3,657)	(181)	(28)	60	100
<b>Per Share Data (in dollars)</b>								
Continuing Operations:								
Basic earnings (loss) per common share	\$ (0.09)	\$ 0.00	\$ (0.18)	\$ (1.61)	\$ (0.09)	\$ (0.02)	\$ 0.02	\$ 0.05
Diluted earnings (loss) per common share	(0.09)	0.00	(0.18)	(1.61)	(0.09)	(0.02)	0.02	0.05
Net Earnings:								
Basic earnings (loss) per common share	(0.09)	0.00	(0.18)	(1.61)	(0.08)	(0.01)	0.03	0.04
Diluted earnings (loss) per common share	(0.09)	0.00	(0.18)	(1.61)	(0.08)	(0.01)	0.03	0.04
Dividends declared	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Dividends paid	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Stock prices								
High	16.20	10.38	10.50	7.52	20.91	19.18	18.88	19.68
Low	8.98	7.20	6.52	3.00	17.45	17.32	15.61	14.87

(1) Includes: (i) a \$2.1 billion charge related to increase the U.S. deferred tax asset valuation allowance, as described in Note 6, "Income Taxes", (ii) a \$1.6 billion charge related to the impairment of goodwill, as described in Note 14, "Acquisitions and Related Intangibles", and (iii) accumulated temporary unrealized losses in Sigma Fund investments, as described in Note 3, "Other Financial Data".

\* Certain amounts in prior years' financial statements and related notes have been reclassified to conform to the 2008 presentation.

## Item 8: Financial Statements and Supplementary Data

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Motorola, Inc.:

We have audited the accompanying consolidated balance sheets of Motorola, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Motorola, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 9 to the consolidated financial statements, effective January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*). Also, as discussed in Notes 1 and 7 to the consolidated financial statements, effective January 1, 2008, the Company adopted the provisions of Emerging Issues Task Force Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (included in FASB ASC Topic 715, *Compensation—Retirement Benefits*).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Motorola Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 16, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Chicago, Illinois  
February 16, 2010



**Motorola, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**

	<i>Years Ended December 31</i>		
<i>(In millions, except per share amounts)</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Net sales	\$ 22,044	\$ 30,146	\$ 36,622
Costs of sales	14,987	21,751	26,670
Gross margin	7,057	8,395	9,952
Selling, general and administrative expenses	3,381	4,330	5,092
Research and development expenditures	3,183	4,109	4,429
Other charges	641	2,347	984
Operating loss	(148)	(2,391)	(553)
Other income (expense):			
Interest income (expense), net	(132)	48	91
Gains on sales of investments and businesses, net	88	82	50
Other	27	(372)	36
Total other income (expense)	(17)	(242)	177
Loss from continuing operations before income taxes	(165)	(2,633)	(376)
Income tax expense (benefit)	(77)	1,607	(285)
Loss from continuing operations	(88)	(4,240)	(91)
Earnings from discontinued operations, net of tax	60	—	56
Net loss	(28)	(4,240)	(35)
Less: Earnings attributable to noncontrolling interests	23	4	14
Net loss attributable to Motorola, Inc.	\$ (51)	\$ (4,244)	\$ (49)
<i>Amounts attributable to Motorola, Inc. common shareholders:</i>			
Loss from continuing operations, net of tax	\$ (111)	\$ (4,244)	\$ (105)
Earnings from discontinued operations, net of tax	60	—	56
Net loss	\$ (51)	\$ (4,244)	\$ (49)
<i>Earnings (loss) per common share:</i>			
Basic:			
Continuing operations	\$ (0.05)	\$ (1.87)	\$ (0.05)
Discontinued operations	0.03	—	0.03
	<u>\$ (0.02)</u>	<u>\$ (1.87)</u>	<u>\$ (0.02)</u>
Diluted:			
Continuing operations	\$ (0.05)	\$ (1.87)	\$ (0.05)
Discontinued operations	0.03	—	0.03
	<u>\$ (0.02)</u>	<u>\$ (1.87)</u>	<u>\$ (0.02)</u>
<i>Weighted average common shares outstanding:</i>			
Basic	2,295.6	2,265.4	2,312.7
Diluted	2,295.6	2,265.4	2,312.7
Dividends paid per share	\$ 0.05	\$ 0.20	\$ 0.20

See accompanying notes to consolidated financial statements.

**Motorola, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

<i>(In millions, except per share amounts)</i>	<i>December 31</i>	
	2009	2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,869	\$ 3,064
Sigma Fund	5,092	3,690
Short-term investments	2	225
Accounts receivable, net	3,495	3,493
Inventories, net	1,308	2,659
Deferred income taxes	1,082	1,092
Other current assets	2,184	3,140
Total current assets	16,032	17,363
Property, plant and equipment, net	2,154	2,442
Sigma Fund	66	466
Investments	459	517
Deferred income taxes	2,284	2,428
Goodwill	2,823	2,837
Other assets	1,785	1,816
Total assets	\$25,603	\$27,869
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Notes payable and current portion of long-term debt	\$ 536	\$ 92
Accounts payable	2,429	3,188
Accrued liabilities	5,296	7,340
Total current liabilities	8,261	10,620
Long-term debt	3,365	4,092
Other liabilities	4,094	3,562
<i>Stockholders' Equity</i>		
Preferred stock, \$100 par value	—	—
Common stock: 12/31/09—\$.01 par value; 12/31/08—\$3 par value	23	6,831
Authorized shares: 12/31/09—4,200.0; 12/31/08—4,200.0		
Issued shares: 12/31/09—2,314.2; 12/31/08—2,276.9		
Outstanding shares: 12/31/09—2,312.1; 12/31/08—2,276.5		
Additional paid-in capital	8,211	1,003
Retained earnings	3,827	3,878
Accumulated other comprehensive loss	(2,286)	(2,205)
Total Motorola, Inc. stockholders' equity	9,775	9,507
Noncontrolling interests	108	88
Total stockholders' equity	9,883	9,595
Total liabilities and stockholders' equity	\$25,603	\$27,869

See accompanying notes to consolidated financial statements.

# Motorola, Inc. and Subsidiaries

## Consolidated Statements of Stockholders' Equity

	Motorola, Inc. Shareholders								
			Accumulated Other Comprehensive Income (Loss)						
(In millions, except per share amounts)	Shares	Common Stock and Additional Paid-In Capital	Fair Value Adjustment To Available For Sale Securities, Net of Tax	Foreign Currency Translation Adjustments, Net of Tax	Retirement Benefits Adjustments, Net of Tax	Other Items, Net of Tax	Retained Earnings	Noncontrolling Interests	Comprehensive Earnings (Loss)
Balances at January 1, 2007	2,399.1	\$ 9,799	\$ 37	\$(126)	\$(1,577)	\$ 16	\$ 9,096	\$ 44	
Net earnings (loss)							(49)	14	\$ (35)
Net unrealized losses on securities, net of tax of (\$58)			(96)						(96)
Foreign currency translation adjustments, net of tax of \$3				142					142
Purchases of a Noncontrolling interest equity								20	
Amortization of retirement benefits adjustments, net of tax of \$39					62				62
Year-end and other retirement adjustments, net of tax of \$328					852				852
Issuance of common stock and stock options exercised	36.1	443							
Share repurchase program	(171.2)	(3,035)							
Excess tax benefits from share-based compensation		50							
Share-based compensation expense		317							
Net loss on derivative instruments, net of tax of (\$6)						(16)			(16)
Dividends declared (\$0.20 per share)							(468)		
Balances at December 31, 2007	2,264.0	\$ 7,574	\$(59)	\$ 16	\$(663)	\$ —	\$ 8,579	\$ 78	\$ 909
Cumulative effect—Postretirement Insurance Plan					(41)		(4)		
Balances at January 1, 2008	2,264.0	\$ 7,574	\$(59)	\$ 16	\$(704)	\$ —	\$ 8,575	\$ 78	
Net earnings (loss)							(4,244)	4	\$(4,240)
Net unrealized gains on securities, net of tax of \$36			61						61
Foreign currency translation adjustments, net of tax of \$39				(149)					(149)
Purchases of a Noncontrolling interest equity								6	
Amortization of retirement benefit adjustments net of tax of \$10					19				19
Effect of U.S. pension plan freeze curtailment, net of tax of (\$25)					(42)				(42)
Year-end and other retirement adjustments, net of tax of (\$793)					(1,340)				(1,340)
Issuance of common stock and stock options exercised	21.9	134							
Share repurchase program	(9.0)	(138)							
Tax shortfalls from share-based compensation		(6)							
Share-based compensation expense		270							
Net loss on derivative instruments, net of tax of (\$5)						(7)			(7)
Dividends declared (\$0.20 per share)							(453)		
Balances at December 31, 2008	2,276.9	\$ 7,834	\$ 2	\$(133)	\$(2,067)	\$ (7)	\$ 3,878	\$ 88	\$(5,698)
Net earnings (loss)							(51)	23	\$ (28)
Net unrealized gain on securities, net of tax of \$40			68						68
Foreign currency translation adjustments, net of tax of (\$17)				70					70
Amortization of retirement benefit adjustments, net of tax of (\$33)					(65)				(65)
Year-end and other retirement adjustments, net of tax of (\$22)					(163)				(163)
Issuance of common stock and stock options exercised	37.3	111							
Tax shortfalls from stock-based compensation		(12)							
Share-based compensation expense		301							
Net gain on derivative instruments, net of tax of \$6						9			9
Dividends paid to noncontrolling interest on subsidiary common stock								(3)	
Balances at December 31, 2009	2,314.2	\$ 8,234	\$ 70	\$(63)	\$(2,295)	\$ 2	\$ 3,827	\$108	\$ (109)

See accompanying notes to consolidated financial statements.

**Motorola, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

<i>(In millions)</i>	<i>Years Ended December 31</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
<b>Operating</b>			
Net loss attributable to Motorola, Inc.	\$ (51)	\$ (4,244)	\$ (49)
Less: Earnings attributable to noncontrolling interests	23	4	14
Net loss	(28)	(4,240)	(35)
Earnings from discontinued operations	60	—	56
Loss from continuing operations	(88)	(4,240)	(91)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	751	831	903
Non-cash other charges	38	2,516	213
Share-based compensation expense	296	280	315
Gain on sales of investments and businesses, net	(88)	(82)	(50)
Gain from extinguishment of long-term debt	(67)	—	—
Deferred income taxes	50	1,698	(747)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable	(10)	1,891	2,538
Inventories	1,349	(54)	556
Other current assets	960	466	(705)
Accounts payable and accrued liabilities	(2,618)	(1,631)	(2,303)
Other assets and liabilities	56	(1,433)	156
Net cash provided by operating activities	629	242	785
<b>Investing</b>			
Acquisitions and investments, net	(50)	(282)	(4,568)
Proceeds from sales of investments and businesses, net	315	93	411
Distributions from investments	—	113	—
Capital expenditures	(275)	(504)	(527)
Proceeds from sales of property, plant and equipment	41	133	166
Proceeds from sales (purchases) of Sigma Fund investments, net	(922)	853	6,889
Proceeds from sales of short-term investments, net	223	388	8
Net cash provided by (used for) investing activities	(668)	794	2,379
<b>Financing</b>			
Repayment of short-term borrowings, net	(86)	(50)	(242)
Repayment of debt	(132)	(225)	(1,386)
Proceeds from issuance of debt, net	6	7	1,415
Issuance of common stock	116	145	440
Purchase of common stock	—	(138)	(3,035)
Proceeds from settlement of financial instruments	—	158	—
Payment of dividends	(114)	(453)	(468)
Distributions to discontinued operations	—	(90)	(75)
Other, net	—	1	50
Net cash used for financing activities	(210)	(645)	(3,301)
Effect of exchange rate changes on cash and cash equivalents from continuing operations	54	(79)	73
Net increase (decrease) in cash and cash equivalents	(195)	312	(64)
Cash and cash equivalents, beginning of year	3,064	2,752	2,816
Cash and cash equivalents, end of year	\$ 2,869	\$ 3,064	\$ 2,752
<b>Cash Flow Information</b>			
Cash paid during the year for:			
Interest, net	\$ 320	\$ 252	\$ 312
Income taxes, net of refunds	159	407	440

See accompanying notes to consolidated financial statements.

## Motorola, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in millions, except as noted)

#### 1. Summary of Significant Accounting Policies

**Principles of Consolidation:** The consolidated financial statements include the accounts of the Company and all controlled subsidiaries. All intercompany transactions and balances have been eliminated.

**Revenue Recognition:** The Company's material revenue streams are the result of a wide range of activities, from the delivery of stand-alone equipment to custom design and installation over a period of time to bundled sales of equipment, software and services. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility of the sales price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

*Products and Equipment*—For product and equipment sales, revenue recognition generally occurs when products or equipment have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and allowances for discounts, price protection, returns and customer incentives can be reliably estimated. Recorded revenues are reduced by these allowances. The Company bases its estimates on historical experience taking into consideration the type of products sold, the type of customer, and the type of transaction specific in each arrangement. Where customer incentives cannot be reliably estimated, the Company recognizes revenue at the time the product sells through the distribution channel to the end customer.

*Long-Term Contracts*—For long-term contracts that involve customization of the Company's equipment or software, the Company generally recognizes revenue using the percentage of completion method based on the percentage of costs incurred to date compared to the total estimated costs to complete the contract. In certain instances, when revenues or costs associated with long-term contracts cannot be reliably estimated or the contract involves unproven technologies or other inherent hazards, revenues and costs are deferred until the project is complete and customer acceptance is obtained. When current estimates of total contract revenue and contract costs indicate a contract loss, the loss is recognized in the period it becomes evident.

*Services*—Revenue for services is generally recognized ratably over the contract term as services are performed.

*Software and Licenses*—Revenue from pre-paid perpetual licenses is recognized at the inception of the arrangement, presuming all other relevant revenue recognition criteria are met. Revenue from non-perpetual licenses or term licenses is recognized ratably over the period that the licensee uses the license. Revenue from software maintenance, technical support and unspecified upgrades is generally recognized over the period that these services are delivered.

*Multiple Element Arrangements*—Arrangements with customers may include multiple deliverables, including any combination of products, equipment, services and software. For multiple element arrangements including software or software-related elements, the Company applies the applicable authoritative accounting guidance to determine separate units of accounting and the amount of the arrangement fee to be allocated to those separate units of accounting. Multiple element arrangements that include software are separated into more than one unit of accounting when the following criteria are met: (i) the functionality of the delivered element(s) is not dependent on the undelivered element(s), (ii) there is vendor-specific objective evidence of the fair value of the undelivered element(s), and (iii) general revenue recognition criteria related to the delivered element(s) have been met. If any of these criteria are not met, revenue is deferred until the criteria are met or the last element has been delivered.

For all other multiple element arrangements, deliverables are separated into more than one unit of accounting when the following criteria are met: (i) the delivered element(s) have value to the customer on a stand-alone basis, (ii) objective and reliable evidence of fair value exists for the undelivered element(s), and (iii) delivery of the undelivered element(s) is probable and substantially in the control of the Company. Revenue is allocated to each unit of accounting based on the relative fair value of each accounting unit or using the residual method if

objective evidence of fair value does not exist for the delivered element(s). If any of these criteria are not met, revenue is deferred until the criteria are met or the last element has been delivered.

When elements of an arrangement are separated into more than one unit of accounting, revenue is recognized for each separate unit of accounting based on the nature of the revenue as described above.

**Sales and Use Taxes**—The Company records taxes imposed on revenue-producing transactions, including sales, use, value added and excise taxes, on a net basis with such taxes excluded from revenue.

**Cash Equivalents:** The Company considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2009, and 2008, restricted cash was \$206 million and \$343 million, respectively.

**Sigma Fund:** The Company and its wholly-owned subsidiaries invest most of their U.S. dollar-denominated cash in a fund (the “Sigma Fund”) that is designed to provide investment returns similar to a money market fund. The Sigma Fund portfolio is managed by four premier independent investment management firms. The investment guidelines of the Sigma Fund require that purchased investments must be high-quality, investment grade (rated at least A/A-1 by Standard & Poor’s or A2/P-1 by Moody’s Investor Services) U.S. dollar-denominated debt obligations, including certificates of deposit, commercial paper, government bonds, corporate bonds and asset-backed and mortgaged-backed securities. Except for debt obligations of the U.S. treasury and U.S. agencies, no more than 5% of the Sigma Fund portfolio is to consist of debt obligations of a single issuer. The Sigma Fund investment policies further require that floating rate investments must have a maturity at purchase date that is not in excess of 36 months with an interest rate that is reset at least annually. The average interest rate that is reset of investments held in the Sigma Fund must be 120 days or less.

Investments in Sigma Fund are carried at fair value with changes in fair value recorded in the consolidated statements of operations. The Company primarily relies on valuation pricing models and broker quotes to determine the fair value of investments in the Sigma Fund. The valuation models are developed and maintained by third-party pricing services, and use a number of standard inputs, including benchmark yields, reported trades, broker/dealer quotes where the counterparty is standing ready and able to transact, issuer spreads, benchmark securities, bids, offers and reference data. For each asset class, quantifiable inputs related to perceived market movements and sector news may also be considered in addition to the standard inputs.

**Investments:** Investments in equity and debt securities classified as available-for-sale are carried at fair value. Debt securities classified as held-to-maturity are carried at amortized cost. Equity securities that are restricted for more than one year or that are not publicly traded are carried at cost. Certain investments are accounted for using the equity method if the Company has significant influence over the issuing entity.

The Company assesses declines in the fair value of investments to determine whether such declines are other-than-temporary. This assessment is made considering all available evidence, including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition and the near-term prospects of the entity issuing the security, and the Company’s ability and intent to hold investment until recovery. Other-than-temporary impairments of investments are recorded to Other within Other income (expense) in the Company’s consolidated statements of operations in the period in which they become impaired.

**Inventories:** Inventories are valued at the lower of average cost (which approximates cost on a first-in, first-out basis) or market (net realizable value or replacement cost).

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is recorded using straight-line and declining-balance methods, based on the estimated useful lives of the assets (buildings and building equipment, 5-40 years; machinery and equipment, 2-10 years) and commences once the assets are ready for their intended use.

**Goodwill and Intangible Assets:** Goodwill is not amortized, but instead is tested for impairment at least annually. The goodwill impairment test is performed at the reporting unit level and is a two-step analysis. First, the fair value of each reporting unit is compared to its book value. If the fair value of the reporting unit is less than its book value, the Company performs a hypothetical purchase price allocation based on the reporting unit’s fair value to determine the fair value of the reporting unit’s goodwill. Fair value is determined using a combination of present value techniques and market prices of comparable businesses.

Intangible assets are generally amortized on a straight line basis over their respective estimated useful lives ranging from one to 14 years. The Company has no intangible assets with indefinite useful lives.

**Impairment of Long-Lived Assets:** Long-lived assets, which include intangible assets, held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset (group) to future net undiscounted cash flows to be generated by the asset (group). If an asset is considered to be impaired, the impairment to be recognized is equal to the amount by which the carrying amount of the asset exceeds the asset's fair value calculated using a discounted future cash flows analysis or market comparables. Assets held for sale, if any, are reported at the lower of the carrying amount or fair value less cost to sell.

**Income Taxes:** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in the period that includes the enactment date.

Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. Significant weight is given to evidence that can be objectively verified. The Company evaluates deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence. Deferred tax assets are realized by having sufficient future taxable income to allow the related tax benefits to reduce taxes otherwise payable. The sources of taxable income that may be available to realize the benefit of deferred tax assets are future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carry-forwards, taxable income in carry-back years and tax planning strategies that are both prudent and feasible.

The Company recognizes the effect of income tax positions only if sustaining those positions is more likely than not. Changes in recognition or measurement are reflected in the period in which a change in judgment occurs. The Company records interest related to unrecognized tax benefits in Interest expense and penalties in Selling, general and administrative expenses in the Company's consolidated statements of operations.

**Long-term Receivables:** Long-term receivables include trade receivables where contractual terms of the note agreement are greater than one year. Long-term receivables are considered impaired when management determines collection of all amounts due according to the contractual terms of the note agreement, including principal and interest, is no longer probable. Impaired long-term receivables are valued based on the present value of expected future cash flows, discounted at the receivable's effective rate of interest, or the fair value of the collateral if the receivable is collateral dependent. Interest income and late fees on impaired long-term receivables are recognized only when payments are received. Previously impaired long-term receivables are no longer considered impaired and are reclassified to performing when they have performed under a workout or restructuring for four consecutive quarters.

**Foreign Currency:** Certain of the Company's non-U.S. operations use their respective local currency as their functional currency. Those operations that do not have the U.S. dollar as their functional currency translate assets and liabilities at current rates of exchange in effect at the balance sheet date and revenues and expenses using rates that approximate those in effect during the period. The resulting translation adjustments are included as a component of Accumulated other comprehensive income (loss) in the Company's consolidated balance sheets. For those operations that have the U.S. dollar as their functional currency, transactions denominated in the local currency are measured in U.S. dollars using the current rates of exchange for monetary assets and liabilities and historical rates of exchange for nonmonetary assets. Gains and losses from remeasurement of monetary assets and liabilities are included in Other within Other income (expense) within the Company's consolidated statements of operations.

**Derivative Instruments:** Gains and losses on hedges of existing assets or liabilities are marked-to-market and the result is included in Other within Other income (expense) within the Company's consolidated statements of operations. Gains and losses on financial instruments that qualify for hedge accounting and are used to hedge firm future commitments or forecasted transactions are deferred until such time as the underlying transactions are recognized or recorded immediately when the transaction is no longer expected to occur. Gains or losses on financial instruments that do not qualify as hedges are recognized immediately as income or expense.

**Earnings (Loss) Per Share:** The Company calculates its basic earnings (loss) per share based on the weighted-average effect of all common shares issued and outstanding. Net earnings (loss) attributable to Motorola, Inc. is divided by the weighted average common shares outstanding during the period to arrive at the basic earnings (loss) per share. Diluted earnings (loss) per share is calculated by dividing net earnings (loss) attributable to Motorola, Inc. by the sum of the weighted average number of common shares used in the basic earnings (loss) per share calculation and the weighted average number of common shares that would be issued assuming exercise or conversion of all potentially dilutive securities, excluding those securities that would be anti-dilutive to the earnings (loss) per share calculation. Both basic and diluted earnings (loss) per share amounts are calculated for earnings (loss) from continuing operations and net earnings (loss) attributable to Motorola, Inc. for all periods presented.

**Share-Based Compensation Costs:** The Company has incentive plans that reward employees with stock options, stock appreciation rights, restricted stock and restricted stock units, as well as an employee stock purchase plan. The amount of compensation cost for these share-based awards is measured based on the fair value of the awards, as of the date that the share-based awards are issued and adjusted to the estimated number of awards that are expected to vest. The fair value of stock options, stock appreciation rights and the employee stock purchase plan is generally determined using a Black-Scholes option pricing model which incorporates assumptions about expected volatility, risk free rate, dividend yield, and expected life. Compensation cost for share-based awards is recognized on a straight-line basis over the vesting period.

**Retirement Benefits:** The Company records annual expenses relating to its pension benefit and postretirement plans based on calculations which include various actuarial assumptions, including discount rates, assumed asset rates of return, compensation increases, turnover rates and health care cost trend rates. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends. The effects of the gains, losses, and prior service costs and credits are amortized over future service periods. The funding status, or projected benefit obligation less plan assets, for each plan, is reflected in the Company's consolidated balance sheets using a December 31 measurement date.

**Advertising Expense:** Advertising expenses, which are the external costs of marketing the Company's products, are expensed as incurred. Advertising expenses were \$412 million, \$790 million and \$1.1 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

**Use of Estimates:** The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable and long-term receivables, inventories, Sigma Fund, investments, goodwill, intangible and other long-lived assets, legal contingencies, guarantee obligations, indemnifications, and assumptions used in the calculation of income taxes, retirement and other post-employment benefits and allowances for discounts, price protection, product returns, and customer incentives, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity, foreign currency, energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

**Reclassifications:** Certain amounts in prior years' financial statements and related notes have been reclassified to conform to the 2009 presentation.

**Recent Accounting Pronouncements:** In October 2009, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to the recognition of revenue for multiple-deliverable arrangements. Under the new guidance, revenue may be allocated to the different elements in an arrangement based on relative estimated sales price. In October 2009, the FASB issued new accounting standards altering the scope of revenue recognition guidance for software deliverables to exclude items sold that include hardware with software that is essential to the hardware's functionality. This new guidance will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is still assessing the potential impact of adopting this new guidance, but



anticipates adopting the guidance prospectively in the first quarter of 2010 and, as a result, deferring less revenue under the new guidance than in prior periods.

In June 2009, the FASB issued new authoritative guidance amending the accounting for transfers of financial assets. Key provisions of this amended guidance include (i) the removal of the concept of qualifying special purpose entities, (ii) the introduction of the concept of a participating interest, in circumstances in which a portion of a financial asset has been transferred, and (iii) the requirement that to qualify for sale accounting the transferor must evaluate whether it maintains effective control over transferred financial assets either directly or indirectly. Additionally, this guidance requires enhanced disclosures about transfers of financial assets and a transferor's continuing involvement. This guidance will be effective for the Company beginning January 1, 2010. The Company is still assessing the potential impact of adopting this guidance but does not expect adoption to have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued authoritative guidance to amend the manner in which entities evaluate whether consolidation is required for variable interest entities (VIEs). The model for determining whether an enterprise has a controlling financial interest and is the primary beneficiary of a VIE has changed significantly under the new guidance. Previously, variable interest holders had to determine whether they had a controlling financial interest in a VIE based on a quantitative analysis of the expected gains and/or losses of the entity. In contrast, the new guidance requires an enterprise with a variable interest in a VIE to qualitatively assess whether it has a controlling financial interest in the entity and, if so, whether it is the primary beneficiary. Furthermore, this guidance requires that companies continually evaluate VIEs for consolidation, rather than assessing VIEs based only upon the occurrence of triggering events. This guidance also requires enhanced disclosures about how a company's involvement with a VIE affects its financial statements and exposure to risks. The guidance will be effective for the Company beginning January 1, 2010. The Company is still assessing the potential impact of adopting this guidance but does not expect adoption to have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued guidance establishing general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance, among other things, sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted this guidance effective with the issuance of its financial statements for the quarterly period ended July 4, 2009. The Company has evaluated subsequent events after December 31, 2009, through the date and time the financial statements were issued on February 16, 2010.

In March 2008, the FASB issued new guidance related to disclosures about derivative instruments and hedging activities. This guidance, which enhances the disclosure related to derivative instruments and hedging activities to improve the transparency of financial reporting, is effective for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this guidance effective January 1, 2009. The disclosures required by this guidance are included in Note 5, "Risk Management."

In December 2007, the FASB issued new guidance related to the accounting for and reporting of non-controlling interests (formerly minority interests) and for the loss of control of partially owned and consolidated subsidiaries. This guidance, which does not change the criteria for consolidating a partially owned entity, is effective for fiscal years beginning after December 15, 2008. The Company adopted this guidance effective January 1, 2009. The adoption has not had a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued new guidance related to the accounting for business combinations. This guidance, which establishes requirements for the recognition and measurement of acquired assets, liabilities, goodwill and non-controlling interests and provides disclosure requirements related to business combinations, is effective for fiscal years beginning after December 15, 2008. The Company adopted this guidance effective January 1, 2009, and has applied the guidance prospectively to business combinations with an effective date on or after January 1, 2009. The adoption has not had a material impact on the Company's consolidated financial statements.

## 2. Discontinued Operations

During the year ended December 31, 2009, the Company completed the sales of: (i) Good Technology, and (ii) the Company's former biometrics business, which included its Printrak trademark. Collectively, the Company received \$163 million in net cash and recorded a net gain on sale of the businesses of \$175 million before income taxes. These amounts are included in Earnings from discontinued operations, net of tax, in the Company's consolidated statements of operations. The operating results of these businesses (each of which was formerly included as part of the Enterprise Mobility Solutions segment) through the date of their respective dispositions are reported as discontinued operations in the consolidated financial statements for the period ending December 31, 2009. For all other applicable prior periods, the operating results of these businesses have not been reclassified as discontinued operations since the results are not material to the Company's consolidated financial statements.

During the year ended December 31, 2006, the Company completed the sale of its automotive electronics business to Continental AG. During the year ended December 31, 2004, the Company completed the separation and spin-off of Freescale Semiconductor, Inc. ("Freescale Semiconductor"). The financial results of the automotive electronics business and Freescale Semiconductor were reflected as discontinued operations in the consolidated financial statements and related notes thereto. During the year ended December 31, 2008, the discontinued operations activity reflected in the consolidated statements of cash flows primarily relates to the resolution and payment of certain indemnifications relating to a divestiture. During the year ended December 31, 2007, the discontinued operations activity primarily relates to resolutions of certain matters with the tax authorities and payments of post-retiree medical claims to former employees.

The following table displays summarized activity in the Company's consolidated statements of operations for discontinued operations during the years ended December 31, 2009, 2008 and 2007.

<i>Years Ended December 31</i>	2009	2008	2007
Net sales	\$ 19	\$—	\$ —
Operating earnings	(11)	—	10
Gains on sales of investments and businesses, net	175	—	—
Earnings before income taxes	162	—	10
Income tax expense (benefit)	102	—	(46)
Earnings from discontinued operations, net of tax	60	—	56

## 3. Other Financial Data

### Statement of Operations Information

#### Other Charges

Other charges included in Operating earnings (loss) consist of the following:

<i>Years Ended December 31</i>	2009	2008	2007
Other charges (income):	\$278	\$ 318	\$369
Intangibles amortization	258	248	290
Reorganization of businesses	42	59	—
Separation-related transaction costs	39	—	—
Facility impairment	24	—	—
Environmental reserve charge	—	1,619	—
Goodwill impairment	—	136	89
Intangible asset impairments	—	14	140
Legal settlements and related insurance matters, net	—	1	96
In-process research and development charges	—	(48)	—
Gain on sale of property, plant and equipment	—	—	—
	\$641	\$2,347	\$984

**Other Income (Expense)**

Interest income, net, and Other both included in Other income (expense) consist of the following:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Interest income, net:			
Interest expense	\$(213)	\$(224)	\$(365)
Interest income	81	272	456
	<u>\$(132)</u>	<u>\$ 48</u>	<u>\$ 91</u>
Other:			
Gain (loss) on Sigma Fund investments	\$ 80	\$(101)	\$ —
Gain from the extinguishment of the Company's outstanding long-term debt	67	14	—
Investment impairments	(77)	(365)	(44)
Foreign currency gain (loss)	(52)	(84)	97
Impairment charges on Sigma Fund investments	—	(186)	(18)
U.S. pension plan freeze curtailment gain	—	237	—
Liability extinguishment gain	—	56	—
Gain on interest rate swaps	—	24	—
Other	9	33	1
	<u>\$ 27</u>	<u>\$(372)</u>	<u>\$ 36</u>

**Loss Per Common Share**

Basic and diluted loss per common share from both continuing operations and net loss attributable to Motorola, Inc., including discontinued operations, is computed as follows:

<i>Years Ended December 31</i>	<i>Continuing Operations</i>			<i>Net Loss attributable to Motorola, Inc.</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Basic loss per common share:						
Loss	\$ (111)	\$ (4,244)	\$ (105)	\$ (51)	\$ (4,244)	\$ (49)
Weighted average common shares outstanding	2,295.6	2,265.4	2,312.7	2,295.6	2,265.4	2,312.7
Per share amount	<u>\$ (0.05)</u>	<u>\$ (1.87)</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>	<u>\$ (1.87)</u>	<u>\$ (0.02)</u>
Diluted loss per common share:						
Loss	\$ (111)	\$ (4,244)	\$ (105)	\$ (51)	\$ (4,244)	\$ (49)
Diluted weighted average common shares outstanding	2,295.6	2,265.4	2,312.7	2,295.6	2,265.4	2,312.7
Per share amount	<u>\$ (0.05)</u>	<u>\$ (1.87)</u>	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>	<u>\$ (1.87)</u>	<u>\$ (0.02)</u>

For the years ended December 31, 2009, 2008 and 2007, the Company was in a net loss position and, accordingly, the basic and diluted weighted average shares outstanding are equal because any increase to the basic shares would be antidilutive. In the computation of diluted loss per common share from both continuing operations and on a net loss basis for the years ended December 31, 2009, 2008, and 2007, the assumed exercise of 176.4 million, 218.5 million and 209.6 million stock options, respectively, were excluded because their inclusion would have been antidilutive. In the computation of diluted loss per common share from both continuing operations and on a net loss basis for the years ended December 31, 2009, 2008 and 2007, 56.3 million, 32.6 million and 9.8 million restricted stock and restricted stock units, respectively, were excluded because their inclusion would have been antidilutive.

## Balance Sheet Information

### Sigma Fund

Sigma Fund consists of the following:

<i>Fair Value</i>	<i>December 31, 2009</i>		<i>December 31, 2008</i>	
	<i>Current</i>	<i>Non-current</i>	<i>Current</i>	<i>Non-Current</i>
Cash	\$ 202	\$—	\$1,108	\$ —
Certificates of deposit	—	—	20	—
Securities:				
U.S. government and agency obligations	4,408	—	752	—
Corporate bonds	367	63	1,616	366
Asset-backed securities	66	—	113	59
Mortgage-backed securities	49	3	81	41
	<u>\$5,092</u>	<u>\$66</u>	<u>\$3,690</u>	<u>\$466</u>

During the year ended December 31, 2009, the Company recorded gains related to the Sigma Fund investments of \$80 million in Other income (expense) in the consolidated statement of operations.

During the year ended December 31, 2008, the Company recorded total charges related to Sigma Fund investments, including temporary unrealized losses and impairment charges, of \$287 million in its consolidated statement of operations. During the year ended December 31, 2007, the Company recorded total charges of \$18 million, all of which were impairment charges, in its consolidated statements of operations.

During the fourth quarter of 2008, the Company changed its accounting for changes in the fair value of investments in the Sigma Fund. Prior to the fourth quarter of 2008, the Company distinguished between declines it considered temporary and declines it considered permanent. When it became probable that the Company would not collect all amounts it was owed on a security according to its contractual terms, the Company considered the security to be impaired and recorded the permanent decline in fair value in earnings. During 2008, the Company recorded \$186 million of permanent impairments of Sigma Fund investments in the consolidated statement of operations. Beginning in the fourth quarter of 2008, the Company began recording all changes in the fair value of investments in the Sigma Fund in the consolidated statements of operations. In its stand-alone financial statements, the Sigma Fund uses “investment company” accounting practices and records all changes in the fair value of the underlying investments in earnings, whether such changes are considered temporary or permanent. The Company determined the underlying accounting practices of the Sigma Fund in its stand-alone financial statements should be retained in the Company’s consolidated financial statements. Accordingly, the Company recorded the cumulative loss of \$101 million on investments in the Sigma Fund investments in its consolidated statement of operations during the fourth quarter of 2008. The Company determined amounts that arose in periods prior to the fourth quarter of 2008 were not material to the consolidated results of operations in those periods.

Securities with a significant temporary unrealized loss and a maturity greater than 12 months and defaulted securities have been classified as non-current in the Company’s consolidated balance sheets. At December 31, 2009, \$66 million of the Sigma Fund investments were classified as non-current, and the weighted average maturity of the Sigma Fund investments classified as non-current (excluding defaulted securities) was 24 months. At December 31, 2008, \$466 million of the Sigma Fund investments were classified as non-current, and the weighted average maturity of the Sigma Fund investments classified as non-current (excluding defaulted securities) was 16 months.

## Investments

Investments consist of the following:

<i>December 31, 2009</i>	<i>Recorded Value</i>		<i>Less</i>		<i>Cost Basis</i>
	<i>Short-term Investments</i>	<i>Investments</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	
Available-for-sale securities:					
U.S. government and agency obligations	\$ —	\$ 23	\$ 1	\$—	\$ 22
Corporate bonds	2	10	—	—	12
Mortgage-backed securities	—	3	—	—	3
Common stock and equivalents	—	147	111	(1)	37
	2	183	112	(1)	74
Other securities, at cost	—	223	—	—	223
Equity method investments	—	53	—	—	53
	\$ 2	\$ 459	\$112	\$ (1)	\$350

<i>December 31, 2008</i>	<i>Recorded Value</i>		<i>Less</i>		<i>Cost Basis</i>
	<i>Short-term Investments</i>	<i>Investments</i>	<i>Unrealized Gains</i>	<i>Unrealized Losses</i>	
Certificates of deposit	\$225	\$ —	\$—	\$—	\$225
Available-for-sale securities:					
U.S. government and agency obligations	—	28	1	—	27
Corporate bonds	—	11	—	—	11
Asset-backed securities	—	1	—	—	1
Mortgage-backed securities	—	4	—	—	4
Common stock and equivalents	—	117	5	(2)	114
	225	161	6	(2)	382
Other securities, at cost	—	296	—	—	296
Equity method investments	—	60	—	—	60
	\$225	\$517	\$ 6	\$ (2)	\$738

At December 31, 2009 and 2008, the Company had \$2 million and \$225 million, respectively, in short-term investments (which are highly-liquid fixed-income investments with an original maturity greater than three months but less than one year).

At December 31, 2009, the Company's available-for-sale securities portfolio had an approximate fair market value of \$185 million, which represented a cost basis of \$74 million and a net unrealized gain of \$111 million. At December 31, 2008, the Company's available-for-sale securities portfolio had an approximate fair market value of \$161 million, which represented a cost basis of \$157 million and a net unrealized gain of \$4 million.

During the years ended December 31, 2009, 2008 and 2007, the Company recorded investment impairment charges of \$77 million, \$365 million and \$44 million, respectively, representing other-than-temporary declines in the value of the Company's available-for-sale investment portfolio. Investment impairment charges are included in Other within Other income (expense) in the Company's consolidated statements of operations.

Gains on sales of investments and businesses, consists of the following:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Gains on sales of investments, net	\$92	\$82	\$17
Gains (loss) on sales of businesses, net	(4)	—	33
	\$88	\$82	\$50

During the year ended December 31, 2009, the \$88 million of net gains primarily relates to sales of certain of the Company's equity investments, of which \$32 million of gain was attributable to a single investment. These gains were partially offset by a net loss on the sale of specific businesses. During the year ended December 31, 2008, the \$82 million of net gains primarily related to sales of a number of the Company's equity investments, of which \$29 million of gain was attributable to a single investment. During the year ended December 31, 2007, the \$50 million of net gains was primarily related to a \$34 million gain on the sale of the Company's embedded communication computing group.

### ***Accounts Receivable***

Accounts receivable, net, consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Accounts receivable	\$3,637	\$3,675
Less allowance for doubtful accounts	(142)	(182)
	<u>\$3,495</u>	<u>\$3,493</u>

### ***Inventories***

Inventories, net, consist of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Finished goods	\$1,062	\$1,710
Work-in-process and production materials	<u>1,062</u>	<u>1,709</u>
	2,124	3,419
Less inventory reserves	(816)	(760)
	<u>\$1,308</u>	<u>\$2,659</u>

During the year ended December 31, 2008, the Company recorded a charge of \$291 million for excess inventory due to a decision to consolidate software and silicon platforms in the Mobile Devices segment.

### ***Other Current Assets***

Other current assets consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Costs and earnings in excess of billings	\$ 686	\$1,094
Contract related deferred costs	616	861
Contractor receivables	342	378
Value-added tax refunds receivable	95	278
Other	<u>445</u>	<u>529</u>
	<u>\$2,184</u>	<u>\$3,140</u>

### ***Property, plant, and equipment***

Property, plant and equipment, net, consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Land	\$ 127	\$ 148
Building	1,823	1,905
Machinery and equipment	<u>5,187</u>	<u>5,687</u>
	7,137	7,740
Less accumulated depreciation	(4,983)	(5,298)
	<u>\$ 2,154</u>	<u>\$ 2,442</u>

Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was \$471 million, \$511 million and \$537 million, respectively.

*Other Assets*

Other assets consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Intangible assets, net of accumulated amortization of \$1,375 and \$1,106	\$ 593	\$ 869
Contract related deferred costs	345	136
Royalty license arrangements	255	289
Value-added tax refunds receivable	127	117
Long-term receivables, net of allowances of \$9 and \$7	117	52
Other	348	353
	<u>\$1,785</u>	<u>\$1,816</u>

*Accrued Liabilities*

Accrued liabilities consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Deferred revenue	\$1,325	\$1,533
Compensation	634	703
Customer reserves	424	599
Billings in excess of costs and earnings	336	210
Tax liabilities	258	545
Customer downpayments	178	496
Contractor payables	240	318
Warranty reserves	226	285
Other	1,675	2,651
	<u>\$5,296</u>	<u>\$7,340</u>

*Other Liabilities*

Other liabilities consists of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Defined benefit plans, including split dollar life insurance policies	\$2,450	\$2,202
Deferred revenue	713	316
Postretirement health care benefit plan	287	261
Unrecognized tax benefits	196	312
Other	448	471
	<u>\$4,094</u>	<u>\$3,562</u>

**Stockholders' Equity Information**

*Share Repurchase Program:* During the year ended December 31, 2009, the Company did not repurchase any of its common shares. During the year ended December 31, 2008, the Company repurchased 9.0 million of its common shares at an aggregate cost of \$138 million, or an average cost of \$15.32 per share, all of which were repurchased during the three months ended March 29, 2008. During the year ended December 31, 2007, the Company repurchased 171.2 million of its common shares at an aggregate cost of \$3.0 billion, or an average cost of \$17.74 per share.

Through actions taken in July 2006 and March 2007, the Board of Directors had authorized the Company to repurchase an aggregate amount of up to \$7.5 billion of its outstanding shares of common stock over a period of time. This authorization expired in June 2009 and was not renewed. The Company has not repurchased any shares since the first quarter of 2008. All repurchased shares have been retired.

*Payment of Dividends:* During the year ended December 31, 2009, the Company paid \$114 million in cash dividends to holders of its common stock, all of which was paid during the three months ended April 4, 2009, related to the payment of a dividend declared in November 2008. In February 2009, the Company announced that its Board of Directors suspended the declaration of quarterly dividends on the Company's common stock. The Company paid no cash dividends during the nine months ended December 31, 2009.

*Par Value Change:* On May 4, 2009, Motorola stockholders approved a change in the par value of Motorola common stock from \$3.00 per share to \$.01 per share. The change did not have an impact on the amount of the Company's Total stockholders' equity, but it did result in a reclassification of \$6.9 billion between Common stock and Additional paid-in capital.

## 4. Debt and Credit Facilities

### Long-Term Debt

<i>December 31</i>	<i>2009</i>	<i>2008</i>
7.625% notes due 2010	\$ 527	\$ 527
8.0% notes due 2011	600	599
5.375% senior notes due 2012	400	400
6.0% senior notes due 2017	399	399
6.5% debentures due 2025	377	397
7.5% debentures due 2025	346	356
6.5% debentures due 2028	283	297
6.625% senior notes due 2037	444	596
5.22% debentures due 2097	196	195
Other long-term debt	214	178
	<u>3,786</u>	<u>3,944</u>
Adjustments, primarily unamortized gain on interest rate swap termination	110	151
Less: current portion	(531)	(3)
Long-term debt	<u>\$3,365</u>	<u>\$4,092</u>

### Other Short-Term Debt

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Notes to banks	\$ 5	\$ 89
Add: current portion of long-term debt	531	3
Notes payable and current portion of long-term debt	<u>\$ 536</u>	<u>\$ 92</u>
Weighted average interest rates on short-term borrowings throughout the year	3.1%	4.2%

During 2009, the Company repurchased \$199 million of its outstanding long-term debt for an aggregate purchase price of \$133 million, including \$4 million of accrued interest, all of which occurred during the three months ended April 4, 2009. The \$199 million of long-term debt repurchased included principal amounts of: (i) \$11 million of the \$358 million then outstanding of the 7.50% Debentures due 2025 (the "2025 Debentures"), (ii) \$20 million of the \$399 million then outstanding of the 6.50% Debentures due 2025, (iii) \$14 million of the \$299 million then outstanding of the 6.50% Debentures due 2028, and (iv) \$154 million of the \$600 million then outstanding of the 6.625% Senior Notes due 2037. The Company recognized a gain of approximately \$67 million related to these open market purchases in Other within Other income (expense) in the consolidated statements of operations.

In December 2008, the Company completed the open market purchase of \$42 million of the \$400 million then aggregate principal amount outstanding of its 2025 Debentures. The \$42 million principal amount of 2025 Debentures was purchased for an aggregate purchase price of approximately \$28 million, including accrued interest as of the redemption date. During the year ended December 31, 2008, the Company recognized a gain of approximately \$14 million related to this open market purchase in Other within Other income (expense) in the consolidated statements of operations.



In October 2008, the Company repaid, at maturity, the entire \$84 million aggregate principal amount outstanding of its 5.80% Notes due October 15, 2008. In March 2008, the Company repaid at maturity, the entire \$114 million aggregate principal amount outstanding of its 6.50% Notes due March 1, 2008.

Aggregate requirements for long-term debt maturities during the next five years are as follows: 2010—\$531 million; 2011—\$604 million; 2012—\$405 million; 2013—\$5 million; and 2014—\$4 million.

### *Credit Facilities*

In June 2009, the Company elected to amend its domestic syndicated revolving credit facility (as amended from time to time, the “Credit Facility”) that is scheduled to mature in December 2011. As part of the amendment, the Company reduced the size of the Credit Facility to the lesser of: (i) \$1.5 billion, or (ii) an amount determined based on eligible domestic accounts receivable and inventory. If the Company elects to borrow under the Credit Facility, it would be required to pledge its domestic accounts receivables and, at its option, domestic inventory. As amended, the Credit Facility does not require the Company to meet any financial covenants unless remaining availability under the Credit Facility is less than \$225 million. In addition, until borrowings are made under the Credit Facility, the Company is able to use its working capital assets in any capacity in conjunction with other capital market funding alternatives that may be available to the Company. As of and during the year ended December 31, 2009, there were no outstanding borrowings under this Credit Facility.

At December 31, 2009, the commitment fee assessed against the daily average amounts unused was 75 basis points.

The Company’s current corporate credit ratings are “BBB-” with a negative outlook by Fitch Ratings (“Fitch”), “Baa3” with a negative outlook by Moody’s Investors Service (“Moody’s”), and “BB+” with a stable outlook by Standard & Poor’s (“S&P”).

## **5. Risk Management**

### **Derivative Financial Instruments**

#### *Foreign Currency Risk*

The Company uses financial instruments to reduce its overall exposure to the effects of currency fluctuations on cash flows. The Company’s policy prohibits speculation in financial instruments for profit on the exchange rate price fluctuation, trading in currencies for which there are no underlying exposures, or entering into transactions for any currency to intentionally increase the underlying exposure. Instruments that are designated as part of a hedging relationship must be effective at reducing the risk associated with the exposure being hedged and are designated as part of a hedging relationship at the inception of the contract. Accordingly, changes in the market values of hedge instruments must be highly correlated with changes in market values of the underlying hedged items both at the inception of the hedge and over the life of the hedge contract.

The Company’s strategy related to foreign exchange exposure management is to offset the gains or losses on the financial instruments against losses or gains on the underlying operational cash flows or investments based on the operating business units’ assessment of risk. The Company enters into derivative contracts for some of the Company’s non-functional currency receivables and payables, which are primarily denominated in major currencies that can be traded on open markets. The Company typically uses forward contracts and options to hedge these currency exposures. In addition, the Company enters into derivative contracts for some firm commitments and some forecasted transactions, which are designated as part of a hedging relationship if it is determined that the transaction qualifies for hedge accounting under the provisions of the authoritative accounting guidance for derivative instruments and hedging activities. A portion of the Company’s exposure is from currencies that are not traded in liquid markets and these are addressed, to the extent reasonably possible, by managing net asset positions, product pricing and component sourcing.

At December 31, 2009, the Company had outstanding foreign exchange contracts totaling \$1.7 billion, compared to \$2.2 billion outstanding at December 31, 2008. Management believes that these financial instruments should not subject the Company to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset losses and gains on the underlying assets, liabilities and transactions, except for the ineffective portion of the instruments, which are charged to Other within Other income (expense) in the Company’s consolidated statements of operations.

The following table shows the five largest net notional amounts of the positions to buy or sell foreign currency as of December 31, 2009 and the corresponding positions as of December 31, 2008:

<i>Net Buy (Sell) by Currency</i>	<i>Notional Amount</i>	
	<i>December 31, 2009</i>	<i>December 31, 2008</i>
Euro	\$ (377)	\$ (445)
Brazilian Real	(342)	(356)
Chinese Renminbi	(297)	(481)
Japanese Yen	(236)	111
British Pound	143	122

The Company did not have any fair value hedge activity during 2009. For the year ended December 31, 2009, income representing the ineffective portions of changes in the fair value of cash flow hedge positions was de minimus compared to expense of \$2 million and income of \$1 million for the years ended December 31, 2008 and 2007, respectively. These amounts are included in Other within Other income (expense) in the Company's consolidated statements of operations. The above amounts include the change in the fair value of derivative contracts related to the changes in the difference between the spot price and the forward price. These amounts are excluded from the measure of effectiveness. Expense (income) related to cash flow hedges that were discontinued for the years ended December 31, 2009, 2008 and 2007 are included in the amounts noted above.

During the years ended December 31, 2009, 2008 and 2007, on a pre-tax basis, income (expense) of \$(18) million, \$3 million and \$(16) million, respectively, was reclassified from equity to earnings in the Company's consolidated statements of operations.

At December 31, 2009, the maximum term of derivative instruments that hedge forecasted transactions was 13 months. The weighted average duration of the Company's derivative instruments that hedge forecasted transactions was six months.

### ***Interest Rate Risk***

At December 31, 2009, the Company's short-term debt consisted primarily of \$5 million of short-term variable rate foreign debt. The Company has \$3.9 billion of long-term debt, including the current portion of long-term debt, which is primarily priced at long-term, fixed interest rates.

As part of its liability management program, the Company historically entered into interest rate swaps ("Hedging Agreements") to synthetically modify the characteristics of interest rate payments for certain of its outstanding long-term debt from fixed-rate payments to short-term variable rate payments. During the fourth quarter of 2008, the Company terminated all of its Hedging Agreements. The termination of the Hedging Agreements resulted in cash proceeds of approximately \$158 million and a gain of approximately \$173 million, which has been deferred and will be recognized as a reduction of interest expense over the remaining term of the associated debt.

Prior to the termination of the Hedging Agreements in the fourth quarter of 2008, the Hedging Agreements were designated as part of fair value hedging relationships of the Company's long-term debt. As such, the changes in fair value of the Hedging Agreements and corresponding adjustments to the carrying amount of the debt were recognized in earnings. Interest expense on the debt was adjusted to include payments made or received under such Hedging Agreements. During 2008 (prior to the Hedging Agreements being terminated) the Company recognized expense of \$1 million, representing the ineffective portion of changes in the fair value of the Hedging Agreements. This amount is included in Other within Other income (expense) in the Company's consolidated statement of operations.

Certain of the terminated Hedging Agreements were originally entered into during the fourth quarter of 2007. The Company entered into the Hedging Agreements concurrently with the issuance of long-term debt to convert the fixed rate interest cost on the newly issued debt to a floating rate. The Hedging Agreements were originally designated as fair value hedges of the underlying debt, including the Company's credit spread. During the first quarter of 2008, the swaps were no longer considered effective hedges because of the volatility in the price of the Company's fixed-rate domestic term debt and the swaps were dedesignated. In the same period, the Company was able to redesignate the same Hedging Agreements as fair value hedges of the underlying debt, exclusive of the Company's credit spread. For the period of time that the Hedging Agreements were deemed ineffective hedges, the Company recognized a gain of \$24 million in the Company's consolidated statements of operations, representing the increase in the fair value of the Hedging Agreements.

Additionally, one of the Company's European subsidiaries has outstanding interest rate agreements ("Interest Agreements") relating to a Euro-denominated loan. The interest on the Euro-denominated loan is variable. The Interest Agreements change the characteristics of interest rate payments from variable to maximum fixed-rate payments. The Interest Agreements are not accounted for as a part of a hedging relationship and, accordingly, the changes in the fair value of the Interest Agreements are included in Other income (expense) in the Company's consolidated statements of operations. During the second quarter of 2009, the Company's European subsidiary terminated a portion of the Interest Agreements to ensure that the notional amount of the Interest Agreements matched the amount outstanding under the Euro-denominated loan. The termination of the Interest Agreements resulted in an expense of approximately \$2 million. The weighted average fixed rate payments on these Interest Agreements was 5.34%. The fair value of the Interest Agreements at December 31, 2009 and December 31, 2008 were \$(4) million and \$(2) million, respectively.

### Counterparty Risk

The use of derivative financial instruments exposes the Company to counterparty credit risk in the event of nonperformance by counterparties. However, the Company's risk is limited to the fair value of the instruments when the derivative is in an asset position. The Company actively monitors its exposure to credit risk. At present time, all of the counterparties have investment grade credit ratings. The Company is not exposed to material credit risk with any single counterparty. As of December 31, 2009, the Company was exposed to an aggregate credit risk of \$8 million with all counterparties.

The following table summarizes the fair values and location in our consolidated balance sheet of all derivative financial instruments held by the Company:

	<i>Fair Values of Derivative Instruments</i>			
	<i>Assets</i>		<i>Liabilities</i>	
	<i>Fair Value</i>	<i>Balance Sheet Location</i>	<i>Fair Value</i>	<i>Balance Sheet Location</i>
<i>December 31, 2009</i>				
Derivatives designated as hedging instruments:				
Foreign exchange contracts	\$ 5	Other assets	\$ 1	Other liabilities
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	10	Other assets	16	Other liabilities
Interest agreement contracts	—	Other assets	4	Other liabilities
Total derivatives not designated as hedging instruments	10		20	
Total derivatives	\$15		\$21	

The following table summarizes the effect of derivative instruments in our consolidated statements of operations:

<i>Year Ended December 31, 2009</i>	<i>Loss on the Derivative Instrument</i>	<i>Statement of Operations Location</i>
Derivatives designated as hedging instruments:		
Foreign exchange contracts	\$ —	Foreign currency income (expense)
Derivatives not designated as hedging instruments:		
Interest rate contracts	(16)	Other income (expense)
Foreign exchange contracts	(166)	Other income (expense)
Total derivatives not designated as hedging instruments	\$(182)	

The following table summarizes the losses recognized in the consolidated financial statements:

<i>Year Ended December 31, 2009</i>	<i>Foreign Exchange Contracts</i>	<i>Financial Statement Location</i>
Derivatives in cash flow hedging relationships:		
Loss recognized in Accumulated other comprehensive loss (effective portion)	\$ —	Accumulated other comprehensive loss
Loss reclassified from Accumulated other comprehensive loss into Net earnings (loss) (effective portion)	(18)	Cost of sales/Sales
Gain (loss) recognized in Net earnings (loss) on derivative (ineffective portion and amount excluded from effectiveness testing)	—	Other income (expense)

### *Stockholders' Equity*

Derivative instruments activity, net of tax, included in Accumulated other comprehensive income (loss) within the consolidated statements of stockholders' equity for the years ended December 31, 2009, 2008 and 2007 is as follows:

	<i>2009</i>	<i>2008</i>	<i>2007</i>
Balance at January 1	\$ (7)	\$ —	\$ 16
Increase (decrease) in fair value	21	(9)	(6)
Reclassifications to earnings	(12)	2	(10)
Balance at December 31	\$ 2	\$ (7)	\$ —

### *Fair Value of Financial Instruments*

The Company's financial instruments include cash equivalents, Sigma Fund investments, short-term investments, accounts receivable, long-term receivables, accounts payable, accrued liabilities, derivative financial instruments and other financing commitments. The Company's Sigma Fund, available-for-sale investment portfolios and derivative financial instruments are recorded in the Company's consolidated balance sheets at fair value. All other financial instruments, with the exception of long-term debt, are carried at cost, which is not materially different than the instruments' fair values.

Using quoted market prices and market interest rates, the Company determined that the fair value of long-term debt at December 31, 2009 was \$3.7 billion, compared to a face value of \$3.9 billion. Since considerable judgment is required in interpreting market information, the fair value of the long-term debt is not necessarily indicative of the amount which could be realized in a current market exchange.

### *Equity Price Market Risk*

At December 31, 2009, the Company's available-for-sale equity securities portfolio had an approximate fair market value of \$147 million, which represented a cost basis of \$37 million and a net unrealized gains of \$110 million. These equity securities are held for purposes other than trading.

## **6. Income Taxes**

Components of earnings (loss) from continuing operations before income taxes are as follows:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
United States	\$(882)	\$(3,880)	\$(2,540)
Other nations	717	1,247	2,164
	\$(165)	\$(2,633)	\$ (376)

Components of income tax expense (benefit) are as follows:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
United States	\$ (314)	\$ (618)	\$ 40
Other nations	181	532	402
States (U.S.)	6	(5)	20
Current income tax expense	(127)	(91)	462
United States	4	1,702	(633)
Other nations	97	49	(50)
States (U.S.)	(51)	(53)	(64)
Deferred income tax expense (benefit)	50	1,698	(747)
Total income tax expense (benefit)	\$ (77)	\$1,607	\$(285)

Deferred tax charges (benefits) that were recorded within Accumulated other comprehensive income (loss) in the Company's consolidated balance sheets resulted from retirement benefit adjustments, currency translation adjustments, net gains (losses) on derivative instruments and fair value adjustments to available-for-sale securities. The adjustments were (\$25) million, (\$738) million and \$306 million for the years ended December 31, 2009, 2008 and 2007, respectively. Except for certain earnings that the Company intends to reinvest indefinitely, provisions have been made for the estimated U.S. federal income taxes applicable to undistributed earnings of non-U.S. subsidiaries. Undistributed earnings that the Company intends to reinvest indefinitely, and for which no U.S. federal income taxes have been provided, aggregate to \$2.4 billion, \$2.9 billion and \$4.1 billion at December 31, 2009, 2008 and 2007, respectively. The portion of earnings not reinvested indefinitely may be distributed without an additional U.S. federal income tax charge given the U.S. federal tax accrued on undistributed earnings and the utilization of available foreign tax credits.

Differences between income tax expense (benefit) computed at the U.S. federal statutory tax rate of 35% and income tax expense (benefit) are as follows:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Income tax expense (benefit) at statutory rate	\$(58)	\$ (921)	\$(131)
Taxes on non-U.S. earnings	(15)	123	(212)
State income taxes	(29)	(38)	(28)
Valuation allowances	(28)	2,321	(97)
Goodwill impairment	—	555	—
Tax on undistributed non-U.S. earnings	96	119	72
Other provisions	(48)	(541)	119
Research credits	(18)	(13)	(46)
Non-deductible acquisition charges	13	—	34
Taxes on sale of businesses	—	—	15
Other non-deductible costs	11	—	—
Section 199 deduction	(8)	—	—
Other	7	2	(11)
	\$(77)	\$1,607	\$(285)

Gross deferred tax assets were \$8.9 billion and \$9.8 billion at December 31, 2009 and 2008, respectively. Deferred tax assets, net of valuation allowances, were \$6.0 billion and \$7.2 billion at December 31, 2009 and 2008, respectively. Gross deferred tax liabilities were \$2.7 billion and \$3.7 billion at December 31, 2009 and 2008, respectively.

Significant components of deferred tax assets (liabilities) are as follows:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Inventory	\$ 312	\$ 308
Accrued liabilities and allowances	358	483
Employee benefits	1,388	1,235
Capitalized items	551	468
Tax basis differences on investments	90	171
Depreciation tax basis differences on fixed assets	29	37
Undistributed non-U.S. earnings	(235)	(278)
Tax carryforwards	3,240	3,001
Available-for-sale securities	(41)	(1)
Business reorganization	53	70
Warranty and customer reserves	210	215
Deferred revenue and costs	199	184
Valuation allowances	(2,907)	(2,692)
Deferred charges	51	45
Other	35	225
	<u>\$ 3,333</u>	<u>\$ 3,471</u>

The Company accounts for income taxes by recognizing deferred tax assets and liabilities using enacted tax rates for the effect of the temporary differences between the book and tax basis of recorded assets and liabilities. The Company makes estimates and judgments with regard to the calculation of certain income tax assets and liabilities. Deferred tax assets are reduced by valuation allowances if, based on the consideration of all available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. Significant weight is given to evidence that can be objectively verified.

The Company evaluates deferred income taxes on a quarterly basis to determine if valuation allowances are required by considering available evidence, including historical and projected taxable income and tax planning strategies that are both prudent and feasible. As of December 31, 2009, the Company's U.S. operations had generated three consecutive years of pre-tax losses, which are attributable to the Mobile Devices segment. During 2007, 2008 and 2009, the Home and Networks Mobility and Enterprise Mobility Solution businesses were profitable in the U.S. and worldwide. Because of the 2007, 2008 and 2009 losses at Mobile Devices, the Company believes that the weight of negative historic evidence precludes it from considering any forecasted income from the Mobile Devices business in its analysis of the recoverability of deferred tax assets. However, based on the sustained profits of the other businesses, the Company believes that the weight of positive historic evidence allows it to include forecasted income from the other businesses in its analysis of the recoverability of its deferred tax assets. The Company also considered in its analysis tax planning strategies that are prudent and can be reasonably implemented. During 2008, the Company recorded a partial valuation allowance of \$2.1 billion against a portion of its U.S. tax carry forwards that were more likely than not to expire. During 2009, the Company increased its U.S. valuation allowance by \$90 million, primarily relating to capital losses realized from the disposition of a subsidiary, which is accounted for as part of discontinued operations, offset by a decrease in the valuation allowance for refundable general business credits. The Company recorded additional valuation allowances relating to tax carryforwards and deferred tax assets of non-U.S. subsidiaries, including Brazil and Mexico that the Company believes are more likely than not to expire or go unused.

At December 31, 2009 and 2008, the Company had valuation allowances of \$2.9 billion and \$2.7 billion, respectively, against its deferred tax assets, including \$422 million and \$297 million, respectively, relating to deferred tax assets for non-U.S. subsidiaries. The Company's valuation allowances for its non-U.S. subsidiaries had a net increase of \$125 million during 2009. The increase is primarily caused by exchange rate variances and the creation of additional valuation allowances in Brazil and Mexico. The U.S. valuation allowance relates primarily to tax carryforwards, including foreign tax credits, general business credits and tax carryforwards of acquired businesses which have limitations upon their use, state tax carryforwards and future capital losses related to certain investments. The Company believes that the remaining deferred tax assets are more likely than not to be realizable based on estimates of future taxable income and the implementation of tax planning strategies.

Tax carryforwards are as follows:

<i>December 31, 2009</i>	<i>Gross Tax Loss</i>	<i>Tax Effected</i>	<i>Expiration Period</i>
United States:			
U.S. tax losses	\$ 694	\$ 243	2018-2028
Foreign tax credits	n/a	1,972	2011-2019
General business credits	n/a	343	2017-2029
Minimum tax credits	n/a	109	Unlimited
State tax losses	3,758	115	2010-2029
State tax credits	n/a	51	2010-2025
Non-U.S. Subsidiaries:			
Brazil tax losses	195	66	Unlimited
China tax losses	76	16	2012-2014
United Kingdom tax losses	272	76	Unlimited
Germany tax losses	290	84	Unlimited
Singapore tax losses	138	23	Unlimited
Other subsidiaries tax losses	84	26	Various
Spain tax credits	n/a	32	2014-2022
Other subsidiaries tax credits	n/a	84	Unlimited
		<u>\$3,240</u>	

The Company had unrecognized tax benefits of \$466 million and \$914 million at December 31, 2009 and December 31, 2008, respectively, of which approximately \$100 million and \$580 million, respectively, if recognized, would affect the effective tax rate, net of resulting changes to valuation allowances.

A roll-forward of unrecognized tax benefits, including those attributable to discontinued operations, is as follows:

	<i>2009</i>	<i>2008</i>
Balance at January 1	\$ 914	\$1,400
Additions based on tax positions related to current year	29	46
Additions for tax positions of prior years	60	141
Reductions for tax positions of prior years	(96)	(642)
Settlements	(439)	(31)
Lapse of statute of limitations	(2)	—
Balance at December 31	<u>\$ 466</u>	<u>\$ 914</u>

During the second quarter of 2009, the Company concluded its Internal Revenue Service ("IRS") audits for tax years 1996-2003. As a result of the foregoing and resolution of certain Non-U.S. audits, the Company reduced its unrecognized tax benefits by \$463 million, of which \$31 million was recognized as a tax benefit and the remainder primarily reduced tax carry forwards and other deferred tax assets. In relation to the Company's 1996-2003 IRS audit resolution, the Company received a \$126 million tax refund and \$62 million interest refund during the third quarter of 2009. The refunds primarily relate to tax refund claims dating prior to the 1996-2003 audit cycle, which were held pending the final resolution of the 1996-2003 audit cycle. In the fourth quarter of 2009, the Company recognized \$16 million of previously unrecognized tax benefits, which resulted from the favorable resolution of a matter with Non-U.S. tax authorities.

The IRS is currently examining the Company's 2006 and 2007 tax years. The Company also has several state and non-U.S. audits pending. A summary of open tax years by major jurisdiction is presented below:

<i>Jurisdiction</i>	<i>Tax Years</i>
United States	2004—2009
Brazil	2004—2009
China	2000—2009
France	2004—2009
Germany	2005—2009
India	1996—2009
Israel	2007—2009
Japan	2003—2009
Malaysia	1998—2009
Singapore	1999—2009
United Kingdom	2007—2009

Above amounts include federal as well as state, provincial or similar local jurisdictions, as applicable.

Although the final resolution of the Company's global tax disputes is uncertain, based on current information, in the opinion of the Company's management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company's global tax disputes could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved.

Based on the potential outcome of the Company's global tax examinations, the expiration of the statute of limitations for specific jurisdictions, or the continued ability to satisfy tax incentive obligations, it is reasonably possible that the unrecognized tax benefits will decrease within the next 12 months. The associated net tax benefits, which would favorably impact the effective tax rate, excluding changes to valuation allowances, are estimated to be in the range of \$0 to \$225 million, with cash payments in the range of \$0 to \$125 million.

At December 31, 2009, the Company had \$25 million and \$15 million accrued for interest and penalties, respectively, on unrecognized tax benefits. At December 31, 2008, the Company had \$47 million and \$11 million accrued for interest and penalties, respectively, on unrecognized tax benefits.

## 7. Retirement Benefits

### Pension Benefit Plans

The Company's noncontributory pension plan (the "Regular Pension Plan") covers U.S. employees who became eligible after one year of service. The benefit formula is dependent upon employee earnings and years of service. Effective January 1, 2005, newly-hired employees were not eligible to participate in the Regular Pension Plan. The Company also provides defined benefit plans which cover non-U.S. employees in certain jurisdictions, principally the United Kingdom, Germany, Ireland, Japan and Korea (the "Non-U.S. Plans"). Other pension plans are not material to the Company either individually or in the aggregate.

The Company has a noncontributory supplemental retirement benefit plan (the "Officers' Plan") for its officers elected prior to December 31, 1999. The Officers' Plan contains provisions for vesting and funding the participants' expected retirement benefits when the participants meet the minimum age and years of service requirements. Elected officers who were not yet vested in the Officers' Plan as of December 31, 1999 had the option to remain in the Officers' Plan or elect to have their benefit bought out in restricted stock units. Effective December 31, 1999, newly elected officers are not eligible to participate in the Officers' Plan. Effective June 30, 2005, salaries were frozen for this plan.

The Company has an additional noncontributory supplemental retirement benefit plan, the Motorola Supplemental Pension Plan ("MSPP"), which provides supplemental benefits to individuals by replacing the Regular Pension Plan benefits that are lost by such individuals under the retirement formula due to application of the limitations imposed by the Internal Revenue Code. However, elected officers who are covered under the Officers' Plan or who participated in the restricted stock buy-out are not eligible to participate in MSPP. Effective January 1, 2007, eligible compensation was capped at the IRS limit plus \$175,000 (the "Cap") or, for those



already in excess of the Cap as of January 1, 2007, the eligible compensation used to compute such employee's MSPP benefit for all future years will be the greater of: (i) such employee's eligible compensation as of January 1, 2007 (frozen at that amount), or (ii) the relevant Cap for the given year. Additionally, effective January 1, 2009, the MSPP was closed to new participants unless such participation was required under a prior contractual entitlement.

In February 2007, the Company amended the Regular Pension Plan and the MSPP, modifying the definition of average earnings. For the years ended prior to December 31, 2007, benefits were calculated using the rolling average of the highest annual earnings in any five years within the previous ten calendar year period. Beginning in January 2008, the benefit calculation was based on the set of the five highest years of earnings within the ten calendar years prior to December 31, 2007, averaged with earnings from each year after 2007. In addition, effective January 2008, the Company amended the Regular Pension Plan, modifying the vesting period from five years to three years.

In December 2008, the Company amended the Regular Pension Plan, the Officers' Plan and the MSPP. Effective March 1, 2009, (i) no participant shall accrue any benefit or additional benefit on and after March 1, 2009, and (ii) no compensation increases earned by a participant on and after March 1, 2009 shall be used to compute any accrued benefit. Additionally, no service performed on and after March 1, 2009, shall be considered service for any purpose under the MSPP. The Company recognized a \$237 million curtailment gain associated with this plan amendment in 2008.

The net periodic pension cost (benefit) for the Regular Pension Plan, Officers' Plan and MSPP and Non-U.S. plans was as follows:

#### *Regular Pension Plan*

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Service cost	\$ 14	\$ 98	\$ 133
Interest cost	336	323	311
Expected return on plan assets	(380)	(391)	(350)
Amortization of:			
Unrecognized net loss	78	52	107
Unrecognized prior service cost	—	(31)	(27)
Curtailment gain	—	(232)	—
Net periodic pension cost (benefit)	\$ 48	\$ (181)	\$ 174

#### *Officers' Plan and MSPP*

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Service cost	\$—	\$ 3	\$ 4
Interest cost	6	7	7
Expected return on plan assets	(2)	(2)	(3)
Amortization of:			
Unrecognized net loss	3	1	4
Unrecognized prior service cost	—	(1)	(1)
Curtailment gain	—	(5)	—
Settlement loss	17	5	6
Net periodic pension cost	\$24	\$ 8	\$17

*Non-U.S. Plans*

<i>Years Ended December 31</i>	2009	2008	2007
Service cost	\$ 26	\$ 34	\$ 45
Interest cost	77	87	90
Expected return on plan assets	(69)	(84)	(76)
Amortization of:			
Unrecognized net loss	7	1	14
Unrecognized prior service cost	1	1	—
Settlement/curtailment gain	(1)	(7)	—
Net periodic pension cost	\$ 41	\$ 32	\$ 73

The status of the Company's plans is as follows:

	2009			2008		
	Regular	Officers' and MSPP	Non U.S.	Regular	Officers' and MSPP	Non U.S.
<b>Change in benefit obligation:</b>						
Benefit obligation at January 1	\$ 5,110	\$116	\$1,221	\$ 4,879	\$118	\$1,689
Service cost	14	—	26	98	3	34
Interest cost	336	6	77	323	7	87
Plan amendments	—	—	2	—	—	1
Settlement/curtailment	—	—	(7)	(168)	(2)	—
Actuarial (gain) loss	592	(20)	214	207	7	(149)
Foreign exchange valuation adjustment	—	—	87	—	—	(353)
Employee contributions	—	—	6	—	—	6
Tax payments	—	(1)	—	—	(1)	—
Benefit payments	(231)	(49)	(50)	(229)	(16)	(94)
Benefit obligation at December 31	5,821	52	1,576	5,110	116	1,221
<b>Change in plan assets:</b>						
Fair value at January 1	3,295	56	957	4,674	66	1,403
Return on plan assets	754	1	123	(1,390)	4	(107)
Company contributions	80	10	39	240	3	54
Employee contributions	—	—	6	—	—	6
Foreign exchange valuation adjustment	—	—	72	—	—	(305)
Tax payments from plan assets	—	(1)	—	—	(1)	—
Benefit payments from plan assets	(231)	(49)	(50)	(229)	(16)	(94)
Fair value at December 31	3,898	17	1,147	3,295	56	957
Funded status of the plan	(1,923)	(35)	(429)	(1,815)	(60)	(264)
Unrecognized net loss	2,863	13	342	2,722	48	180
Unrecognized prior service cost	—	—	6	—	—	4
Prepaid (accrued) pension cost	\$ 940	\$ (22)	\$ (81)	\$ 907	\$ (12)	\$ (80)
<b>Components of prepaid (accrued) pension cost:</b>						
Non-current benefit liability	\$(1,923)	\$(35)	\$(429)	\$(1,815)	\$(60)	\$(264)
Deferred income taxes	1,062	6	24	1,008	19	14
Accumulated other comprehensive income (loss)	1,801	7	324	1,714	29	170
Prepaid (accrued) pension cost	\$ 940	\$ (22)	\$ (81)	\$ 907	\$ (12)	\$ (80)

It is estimated that the net periodic cost for 2010 will include amortization of the unrecognized net loss and prior service costs for the Regular Plan, Officers' and MSPP Plans, and Non-U.S. Plans, currently included in Accumulated other comprehensive income (loss), of \$151 million, \$2 million, and \$15 million, respectively.

The Company uses a five-year, market-related asset value method of amortizing asset-related gains and losses. Prior service costs are being amortized over periods ranging from 11 to 12 years. Benefits under all pension plans are valued based upon the projected unit credit cost method.

Certain actuarial assumptions such as the discount rate and the long-term rate of return on plan assets have a significant effect on the amounts reported for net periodic cost and benefit obligation. The assumed discount rates reflect the prevailing market rates of a universe of high-quality, non-callable, corporate bonds currently available that, if the obligation were settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due. The long-term rates of return on plan assets represents an estimate of long-term returns on an investment portfolio consisting of a mixture of equities, fixed income, cash and other investments similar to the actual investment mix. In determining the long-term return on plan assets, the Company considers long-term rates of return on the asset classes (both historical and forecasted) in which the Company expects the plan funds to be invested.

Weighted average actuarial assumptions used to determine costs for the plans were as follows:

<i>December 31</i>	<i>2009</i>		<i>2008</i>	
	<i>U.S.</i>	<i>Non U.S.</i>	<i>U.S.</i>	<i>Non U.S.</i>
Discount rate	6.75%	6.23%	6.75%	5.73%
Investment return assumption (Regular Plan)	8.25%	6.86%	8.50%	6.55%
Investment return assumption (Officers' Plan)	6.00%	N/A	6.00%	N/A

Weighted average actuarial assumptions used to determine benefit obligations for the plans were as follows:

<i>December 31</i>	<i>2009</i>		<i>2008</i>	
	<i>U.S.</i>	<i>Non U.S.</i>	<i>U.S.</i>	<i>Non U.S.</i>
Discount rate	6.00%	5.46%	6.75%	6.16%
Future compensation increase rate (Regular Plan)	0.00%	4.28%	0.00%	4.24%
Future compensation increase rate (Officers' Plan)	0.00%	N/A	0.00%	N/A

The accumulated benefit obligations for the plans were as follows:

<i>December 31</i>	<i>2009</i>			<i>2008</i>		
	<i>Regular</i>	<i>Officers' and MSPP</i>	<i>Non U.S.</i>	<i>Regular</i>	<i>Officers' and MSPP</i>	<i>Non U.S.</i>
Accumulated benefit obligation	\$5,821	\$52	\$1,527	\$5,110	\$116	\$1,163

The Company has adopted a pension investment policy designed to meet or exceed the expected rate of return on plan assets assumption. To achieve this, the pension plans retain professional investment managers that invest plan assets in equity and fixed income securities and cash. In addition, some plans invest in insurance contracts. The Company's measurement date of its plan assets and obligations is December 31. The Company has the following target mixes for these asset classes, which are readjusted periodically, when an asset class weighting deviates from the target mix, with the goal of achieving the required return at a reasonable risk level:

<i>Asset Category</i>	<i>Target Mix</i>	
	<i>2009</i>	<i>2008</i>
Equity securities	63%	71%
Fixed income securities	35%	27%
Cash and other investments	2%	2%

The weighted-average pension plan asset allocation by asset categories:

<i>December 31</i>	<i>Actual Mix</i>	
	<i>2009</i>	<i>2008</i>
Equity securities	65%	63%
Fixed income securities	32%	34%
Cash and other investments	3%	3%

Within the equity securities asset class, the investment policy provides for investments in a broad range of publicly-traded securities including both domestic and international stocks. Within the fixed income securities asset class, the investment policy provides for investments in a broad range of publicly-traded debt securities ranging from U.S. Treasury issues, corporate debt securities, mortgage and asset-backed securities, as well as international debt securities. In the cash and other investments asset class, investments may be in cash, cash equivalents or insurance contracts.

The Company expects to make cash contributions of approximately \$150 million to its U.S. pension plans and approximately \$50 million to its non-U.S. pension plans in 2010.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<i>Year</i>	<i>Regular</i>	<i>Officers and MSPP</i>	<i>Non U.S.</i>
2010	\$ 267	\$ 8	\$ 45
2011	247	5	47
2012	256	7	49
2013	272	5	51
2014	285	2	53
2015-2019	1,714	22	303

#### Postretirement Health Care Plan

Certain health care benefits are available to eligible domestic employees meeting certain age and service requirements upon termination of employment (the "Postretirement Health Care Benefits Plan"). For eligible employees hired prior to January 1, 2002, the Company offsets a portion of the postretirement medical costs to the retired participant. As of January 1, 2005, the Postretirement Health Care Benefit Plan has been closed to new participants. The benefit obligation and plan assets for the Postretirement Health Care Benefit Plan have been measured as of December 31, 2009.

The assumptions used were as follows:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Discount rate for obligations	5.75%	6.75%
Investment return assumptions	8.25%	8.50%

Net Postretirement Health Care Benefit Plan expenses were as follows:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Service cost	\$ 6	\$ 6	\$ 7
Interest cost	27	26	23
Expected return on plan assets	(18)	(20)	(19)
Amortization of:			
Unrecognized net loss	7	5	6
Unrecognized prior service cost	(2)	(2)	(2)
Net postretirement health care expense	\$ 20	\$ 15	\$ 15

The funded status of the plan is as follows:

	2009	2008
<b>Change in benefit obligation:</b>		
Benefit obligation at January 1	\$ 429	\$ 395
Service cost	6	6
Interest cost	27	26
Actuarial (gain) loss	32	35
Benefit payments	(33)	(33)
Benefit obligation at December 31	461	429
<b>Change in plan assets:</b>		
Fair value at January 1	168	251
Return on plan assets	35	(73)
Company contributions	—	16
Benefit payments made with plan assets	(29)	(26)
Fair value at December 31	174	168
Funded status of the plan	(287)	(261)
Unrecognized net loss	231	223
Unrecognized prior service cost	(3)	(5)
Accrued postretirement health care cost	\$ (59)	\$ (43)

Components of accrued postretirement health care cost:

<i>Years Ended December 31</i>	2009	2008
Non-current liability	\$(287)	\$(261)
Deferred income taxes	101	101
Accumulated other comprehensive income (loss)	127	117
Accrued postretirement health care cost	\$ (59)	\$ (43)

It is estimated that the net periodic cost for the Postretirement Health Care Benefit Plan in 2010 will include amortization of the unrecognized net loss and prior service costs, currently included in Accumulated other comprehensive income (loss), of \$8 million.

The Company has adopted an investment policy for plan assets designed to meet or exceed the expected rate of return on plan assets assumption. To achieve this, the plan retains professional investment managers that invest plan assets in equity and fixed income securities and cash. The Company uses long-term historical actual return experience with consideration of the expected investment mix of the plans' assets, as well as future estimates of long-term investment returns, to develop its expected rate of return assumption used in calculating the net periodic cost and the net retirement healthcare expense. The Company has the following target mixes for these asset classes, which are readjusted at least periodically, when an asset class weighting deviates from the target mix, with the goal of achieving the required return at a reasonable risk level:

<i>Asset Category</i>	<i>Target Mix</i>	
	2009	2008
Equity securities	65%	75%
Fixed income securities	34%	24%
Cash and other investments	1%	1%

The weighted-average asset allocation for plan assets by asset categories:

<i>December 31</i>	<i>Actual Mix</i>	
	<i>2009</i>	<i>2008</i>
Equity securities	67%	64%
Fixed income securities	30%	32%
Cash and other investments	3%	4%

Within the equity securities asset class, the investment policy provides for investments in a broad range of publicly-traded securities including both domestic and international stocks. Within the fixed income securities asset class, the investment policy provides for investments in a broad range of publicly-traded debt securities ranging from U.S. Treasury issues, corporate debt securities, mortgages and asset-backed issues, as well as international debt securities. In the cash asset class, investments may be in cash and cash equivalents.

The Company expects to make no cash contributions to the Postretirement Health Care plan in 2010. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<i>Year</i>	
2010	\$ 40
2011	38
2012	36
2013	34
2014	33
2015-2019	163

The health care trend rate used to determine the December 31, 2009 accumulated postretirement benefit obligation is 8.5% for 2010. Beyond 2010, the rate is assumed to decrease by about 0.7% per year until it reaches 5% by 2015 and then remains flat. The health care trend rate used to determine the December 31, 2008 accumulated postretirement benefit obligation was 8.5%.

Changing the health care trend rate by one percentage point would change the accumulated postretirement benefit obligation and the net retiree health care expense as follows:

	<i>1% Point Increase</i>	<i>1% Point Decrease</i>
Increase (decrease) in:		
Accumulated postretirement benefit obligation	\$17	\$(14)
Net retiree health care expense	1	(1)

The Company maintains a lifetime cap on postretirement health care costs, which reduces the liability duration of the plan. A result of this lower duration is a decreased sensitivity to a change in the discount rate trend assumption with respect to the liability and related expense.

The Company has no significant postretirement health care benefit plans outside the United States.

### Other Benefit Plans

The Company maintains a number of endorsement split-dollar life insurance policies that were taken out on now-retired officers under a plan that was frozen prior to December 31, 2004. The Company had purchased the life insurance policies to insure the lives of employees and then entered into a separate agreement with the employees that split the policy benefits between the Company and the employee. Motorola owns the policies, controls all rights of ownership, and may terminate the insurance policies. To effect the split-dollar arrangement, Motorola endorsed a portion of the death benefits to the employee and upon the death of the employee, the employee's beneficiary typically receives the designated portion of the death benefits directly from the insurance company and the Company receives the remainder of the death benefits.

The Company adopted new accounting guidance on accounting for split-dollar life insurance arrangements as of January 1, 2008. This guidance requires that a liability for the benefit obligation be recorded because the promise of postretirement benefit had not been settled through the purchase of an endorsement split-dollar life

insurance arrangement. As a result of the adoption of this new guidance, the Company recorded a liability representing the actuarial present value of the future death benefits as of the employees' expected retirement date of \$45 million with the offset reflected as a cumulative-effect adjustment to January 1, 2008 Retained earnings and Accumulated other comprehensive income (loss) in the amounts of \$4 million and \$41 million, respectively, in the Company's consolidated statement of stockholders' equity. It is currently expected that minimal, if any, further cash payments will be required to fund these policies.

The net periodic cost for these split-dollar life insurance arrangements was \$6 million in both the years ended December 31, 2009 and 2008. The Company has recorded a liability representing the actuarial present value of the future death benefits as of the employees' expected retirement date of \$48 million and \$47 million as of December 31, 2009 and December 31, 2008, respectively.

### Defined Contribution Plan

The Company and certain subsidiaries have various defined contribution plans, in which all eligible employees participate. In the U.S., the 401(k) plan is a contributory plan. Matching contributions are based upon the amount of the employees' contributions. Effective January 1, 2005, newly hired employees have a higher maximum matching contribution at 4% on the first 5% of employee contributions, compared to 3% on the first 6% of employee contributions for employees hired prior to January 2005. Effective January 1, 2009, the Company temporarily suspended all matching contributions to the Motorola 401(k) plan. The Company's expenses, primarily relating to the employer match, for all defined contribution plans, for the years ended December 31, 2009, 2008 and 2007 were \$8 million, \$95 million and \$116 million, respectively.

## 8. Share-Based Compensation Plans and Other Incentive Plans

### *Stock Options, Stock Appreciation Rights and Employee Stock Purchase Plan*

The Company grants options to acquire shares of common stock to certain employees, and existing option holders in connection with the merging of option plans following an acquisition. Each option granted and stock appreciation right has an exercise price of no less than 100% of the fair market value of the common stock on the date of the grant. The awards have a contractual life of five to ten years and vest over two to four years. Stock options and stock appreciation rights assumed or replaced with comparable stock options or stock appreciation rights in conjunction with a change in control only become exercisable if the holder is also involuntarily terminated (for a reason other than cause) or quits for good reason within 24 months of a change in control.

The employee stock purchase plan allows eligible participants to purchase shares of the Company's common stock through payroll deductions of up to 10% of eligible compensation on an after-tax basis. Plan participants cannot purchase more than \$25,000 of stock in any calendar year. The price an employee pays per share is 85% of the lower of the fair market value of the Company's stock on the close of the first trading day or last trading day of the purchase period. The plan has two purchase periods, the first one from October 1 through March 31 and the second one from April 1 through September 30. For the years ended December 31, 2009, 2008 and 2007, employees purchased 29.4 million, 18.9 million and 10.2 million shares, respectively, at purchase prices of \$3.60 and \$3.68, \$7.91 and \$6.07, and \$14.93 and \$15.02, respectively.

The Company calculates the value of each employee stock option, estimated on the date of grant, using the Black-Scholes option pricing model. The weighted-average estimated fair value of employee stock options granted during 2009, 2008 and 2007 was \$2.78, \$3.47 and \$5.95, respectively, using the following weighted-average assumptions:

	2009	2008	2007
Expected volatility	57.1%	56.4%	28.3%
Risk-free interest rate	1.9%	2.4%	4.5%
Dividend yield	0.0%	2.7%	1.1%
Expected life (years)	3.9	5.5	6.5

The Company uses the implied volatility for traded options on the Company's stock as the expected volatility assumption required in the Black-Scholes model. The selection of the implied volatility approach was based upon the availability of actively traded options on the Company's stock and the Company's assessment that implied volatility is more representative of future stock price trends than historical volatility.

The risk-free interest rate assumption is based upon the average daily closing rates during the year for U.S. treasury notes that have a life which approximates the expected life of the option. The dividend yield assumption is based on the Company's future expectation of dividend payouts. The expected life of employee stock options represents the average of the contractual term of the options and the weighted-average vesting period for all option tranches.

The Company has applied a forfeiture rate, estimated based on historical data, of 13%-45% to the option fair value calculated by the Black-Scholes option pricing model. This estimated forfeiture rate is applied to grants based on their remaining vesting term and may be revised in subsequent periods if actual forfeitures differ from this estimate.

Stock option activity was as follows (in thousands, except exercise price and employee data):

<i>Years Ended December 31</i>	<i>2009</i>		<i>2008</i>		<i>2007</i>	
	<i>Shares Subject to Options</i>	<i>Wtd. Avg. Exercise Price</i>	<i>Shares Subject to Options</i>	<i>Wtd. Avg. Exercise Price</i>	<i>Shares Subject to Options</i>	<i>Wtd. Avg. Exercise Price</i>
Options outstanding at January 1	228,145	\$17	224,255	\$19	233,445	\$18
Options granted	62,576	6	39,764	8	40,257	18
Options exercised	(1,439)	6	(1,920)	7	(26,211)	11
Options terminated, canceled or expired	(127,855)	18	(33,954)	18	(23,236)	19
Options outstanding at December 31	161,427	12	228,145	17	224,255	19
Options exercisable at December 31	77,260	17	148,072	19	138,741	19
Approx. number of employees granted options	22,095		3,300		32,000	

At December 31, 2009, the Company had \$171 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock option plans and the employee stock purchase plan that will be recognized over the weighted average period of approximately one year. Cash received from stock option exercises and the employee stock purchase plan was \$116 million, \$145 million and \$440 million for the years ended December 31, 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was \$1 million, \$2 million and \$177 million, respectively. The aggregate intrinsic value for options outstanding and exercisable as of December 31, 2009 was \$128 million and \$27 million, respectively, based on a December 31, 2009 stock price of \$7.76 per share.

At December 31, 2009 and 2008, 60.5 million shares and 72.2 million shares, respectively, were available for future share-based award grants under the 2006 Motorola Omnibus Plan, covering all equity awards to employees and non-employee directors.



The following table summarizes information about stock options outstanding and exercisable at December 31, 2009 (in thousands, except exercise price and years):

Exercise price range	Options Outstanding			Options Exercisable	
	No. of options	Wtd. avg. Exercise Price	Wtd. avg. contractual life (in yrs.)	No. of options	Wtd. avg. Exercise Price
Under \$7	69,423	\$ 6	9	5,786	\$ 4
\$7-\$13	54,552	10	6	36,414	10
\$14-\$20	18,192	17	5	16,426	16
\$21-\$27	2,775	21	6	2,149	21
\$28-\$34	878	32	1	878	32
\$35-\$41	15,476	39	5	15,476	39
\$42-\$48	116	44	0	116	44
\$49-\$55	15	49	0	15	49
	161,427			77,260	

The weighted average contractual life for options outstanding and exercisable as of December 31, 2009 was six and four years, respectively.

#### Stock Option Exchange

On May 14, 2009, the Company initiated a tender offer for certain eligible employees (excluding executive officers and directors) to exchange certain out-of-the-money options for new options with an exercise price equal to the fair market value of the Company's stock as of the grant date. In order to be eligible for the exchange, the options had to have been granted prior to June 1, 2007, expire after December 31, 2009 and have an exercise price equal to or greater than \$12.00. The offering period closed on June 12, 2009. On that date, 97 million options were tendered and exchanged for 43 million new options with an exercise price of \$6.73 and a ratable annual vesting period over two years. The exchange program was designed so that the fair market value of the new options would approximate the fair market value of the options exchanged. The resulting incremental compensation expense was not material to the Company's consolidated financial statements.

#### Restricted Stock and Restricted Stock Units

Restricted stock ("RS") and restricted stock unit ("RSU") grants consist of shares or the rights to shares of the Company's common stock which are awarded to employees and non-employee directors. The grants are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer by the employee. Shares of RS and RSUs assumed or replaced with comparable shares of RS or RSUs in conjunction with a change in control will only have the restrictions lapse if the holder is also involuntarily terminated (for a reason other than cause) or quits for good reason within 24 months of a change in control.

Restricted stock and restricted stock unit activity was as follows (in thousands, except fair value and employee data):

Years Ended December 31	2009		2008		2007	
	RS and RSU	Wtd. Avg. Grant Date Fair Value	RS and RSU	Wtd. Avg. Grant Date Fair Value	RS and RSU	Wtd. Avg. Grant Date Fair Value
RS and RSU outstanding at						
January 1	32,230	\$11	10,755	\$17	6,016	\$19
Granted	38,344	6	27,102	9	7,766	18
Vested	(6,917)	11	(2,308)	17	(1,068)	19
Terminated, canceled or expired	(7,227)	9	(3,319)	13	(1,959)	19
RSU outstanding at December 31	56,430	8	32,230	11	10,755	17
Approx. number of employees granted RSUs	26,969		28,981		1,801	

At December 31, 2009, the Company had unrecognized compensation expense related to RSUs of \$269 million, net of estimated forfeitures, expected to be recognized over the weighted average period of approximately three years. The total fair value of RS and RSU shares vested during the years ended December 31, 2009, 2008 and 2007 was \$44 million, \$19 million and \$13 million, respectively. The aggregate fair value of outstanding RSUs as of December 31, 2009 was \$438 million.

### *Total Share-Based Compensation Expense*

Compensation expense for the Company's employee stock options, stock appreciation rights, employee stock purchase plans, RS and RSUs was as follows:

<i>Year Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Share-based compensation expense included in:			
Costs of sales	\$ 32	\$ 32	\$ 33
Selling, general and administrative expenses	170	155	188
Research and development expenditures	94	93	94
	<u>296</u>	<u>280</u>	<u>315</u>
Share-based compensation expense included in Operating earnings (loss)	95	86	99
Tax benefit	<u>\$ 201</u>	<u>\$ 194</u>	<u>\$ 216</u>
Share-based compensation expense, net of tax	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>
Increase in basic loss per share	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>
Increase in diluted loss per share	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>

### *Motorola Incentive Plan*

The Motorola Incentive Plan provides eligible employees with an annual payment, calculated as a percentage of an employee's eligible earnings, in the year after the close of the current calendar year if specified business goals and individual performance targets are met. The provisions for awards under these incentive plans for the years ended December 31, 2009, 2008 and 2007 were \$190 million, \$172 million and \$190 million, respectively.

### *Long-Range Incentive Plan*

The Long-Range Incentive Plan ("LRIP") rewards participating elected officers for the Company's achievement of specified business goals during the period, based on two performance objectives measured over three-year cycles. The provision for LRIP (net of the reversals of previously recognized reserves) for the years ended December 31, 2009, 2008 and 2007 was \$9 million, \$(13) million and \$(8) million, respectively.

## **9. Fair Value Measurements**

The Company adopted new accounting guidance on measuring fair value on January 1, 2008 for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. This does not change the accounting for those instruments that were, under previous U.S. GAAP, accounted for at cost or contract value. The Company has no non-financial assets and liabilities that are required to be measured at fair value on a recurring basis as of December 31, 2009.

The Company holds certain fixed income securities, equity securities and derivatives, which must be measured using the authoritative accounting guidance for fair value hierarchy and related valuation methodologies. The guidance specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about current market conditions. The prescribed fair value hierarchy and related valuation methodologies are as follows:

*Level 1*—Quoted prices for identical instruments in active markets.

*Level 2*—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.

*Level 3*—Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

The fair values of the Company's financial assets and liabilities by level in the fair value hierarchy as of December 31, 2009 and 2008 were as follows:

<i>December 31, 2009</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets:				
Sigma Fund securities:				
U.S. government and agency obligations	\$ —	\$4,408	\$—	\$4,408
Corporate bonds	—	411	19	430
Asset-backed securities	—	66	—	66
Mortgage-backed securities	—	52	—	52
Available-for-sale securities:				
U.S. government and agency obligations	—	23	—	23
Corporate bonds	—	10	—	10
Mortgage-backed securities	—	3	—	3
Common stock and equivalents	136	11	—	147
Derivative assets	—	15	—	15
Liabilities:				
Derivative liabilities	—	21	—	21

<i>December 31, 2008</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Assets:				
Sigma Fund securities:				
U.S. government and agency obligations	\$ —	\$ 752	\$ —	\$ 752
Corporate bonds	—	1,880	102	1,982
Asset-backed securities	—	170	2	172
Mortgage-backed securities	—	92	30	122
Available-for-sale securities:				
U.S. government and agency obligations	—	28	—	28
Corporate bonds	—	11	—	11
Asset-backed securities	—	1	—	1
Mortgage-backed securities	—	4	—	4
Common stock and equivalents	117	—	—	117
Derivative assets	—	60	—	60
Liabilities:				
Derivative liabilities	—	67	—	67

The following table summarizes the changes in fair value of our Level 3 assets:

	<i>2009</i>	<i>2008</i>
Balance at January 1	\$134	\$ 35
Transfers to Level 3	11	138
Transfers from Level 3	(27)	—
Purchases, sales, issuances, settlements and payments received	(78)	(11)
Losses on Sigma Fund investments included in Other income (expense)	(21)	(28)
Balance at December 31	\$ 19	\$134

### *Pension and Postretirement Health Care Plan Assets*

The fair value of the various pension and postretirement health care plans' assets by level in the fair value hierarchy as of December 31, 2009 were as follows:

#### **Regular Plan**

<i>December 31, 2009</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Common stock and equivalents	\$1,225	\$ —	\$ 6	\$1,231
Commingled equity funds	—	1,416	—	1,416
Preferred stock	3	—	1	4
U.S. government and agency obligations	—	119	—	119
Other government bonds	—	3	—	3
Corporate bonds	—	121	—	121
Mortgage-backed bonds	—	178	—	178
Asset-backed bonds	—	36	—	36
Commingled bond funds	—	718	—	718
Commingled short-term investment funds	—	49	—	49
Invested cash	—	17	—	17
Total investment securities	\$1,228	\$2,657	\$ 7	\$3,892
Accrued income receivable				6
Fair value plan assets				\$3,898

The table above includes securities on loan as part of a securities lending arrangement of \$137 million of common stock and equivalents, \$106 million of U.S. government and agency obligations and \$15 million of corporate bonds. All securities on loan are fully cash collateralized.

The following table summarizes the changes in fair value of the Regular Plan assets measured using Level 3 inputs:

	<i>2009</i>
Balance at January 1	\$ 7
Actual return on plan assets:	
Gain on assets held at December 31	9
Losses on assets sold during the period	(2)
Purchases	6
Sales	(6)
Transfers out, net	(7)
Balance at December 31	\$ 7

#### **Officers' Plan**

<i>December 31, 2009</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
U.S. government and agencies	\$—	\$10	\$—	\$10
Corporate bonds	—	2	—	2
Mortgage-backed bonds	—	3	—	3
Commingled short-term investment funds	—	1	—	1
Total investment securities	\$—	\$16	\$—	\$16
Other assets and liabilities, net				1
Fair value plan assets				\$17

## Non-U.S. Plans

<i>December 31, 2009</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Common stock and equivalents	\$302	\$ —	\$—	\$ 302
Commingled equity funds	—	359	—	359
Corporate bonds	—	80	—	80
Government and agency obligations	—	100	—	100
Commingled bond funds	—	227	—	227
Short-term investment funds	—	3	—	3
Insurance contracts	—	—	65	65
Total investment securities	\$302	\$769	\$65	\$1,136
Cash				6
Accrued income receivable				4
Other assets and liabilities, net				1
Fair value plan assets				\$1,147

The following table summarizes the changes in fair value of the Non-U.S. pension plan assets measured using Level 3 inputs:

	<i>2009</i>
Balance at January 1	\$ 63
Gain on assets held	2
Balance at December 31	\$ 65

## Postretirement Health Care Plan

<i>December 31, 2009</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Common stock and equivalents	\$54	\$ —	\$—	\$ 54
Commingled equity funds	—	62	—	62
U.S. government and agency obligations	—	5	—	5
Corporate bonds	—	5	—	5
Mortgage-backed bonds	—	8	—	8
Asset-backed bonds	—	2	—	2
Commingled bond funds	—	32	—	32
Commingled short-term investment funds	—	5	—	5
Invested cash	—	1	—	1
Fair value plan assets	\$54	\$120	\$—	\$174

The table above includes securities on loan as part of a securities lending arrangement of \$6 million of common stock and equivalents, \$4 million of U.S. government and agency obligations and \$1 million of corporate bonds. All securities on loan are fully cash collateralized.

## Valuation Methodologies

*Level 1*—Quoted market prices in active markets are available for investments in common and preferred stock and common stock equivalents. As such, these investments are classified within Level 1.

*Level 2*—The securities classified as Level 2 are comprised primarily of corporate, government and agency bonds. The Company primarily relies on valuation pricing models, recent bid prices, and broker quotes to determine the fair value of these securities. The valuation models for Level 2 assets are developed and maintained by third party pricing services and use a number of standard inputs to the valuation model including benchmark yields, reported trades, broker/dealer quotes where the party is standing ready and able to transact, issuer spreads, benchmark securities, bids, offers and other reference data. The valuation model may prioritize these inputs differently at each balance sheet date for any given security, based on the market conditions. Not all of the standard inputs listed will be used each time in the valuation models. For each asset class, quantifiable inputs related to perceived market movements and sector news may be considered in addition to the standard inputs.

Corporate bonds held within the pension plan assets are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

In determining the fair value of the Company's foreign currency derivatives, the Company uses forward contract and option valuation models employing market observable inputs, such as spot currency rates, time value and option volatilities. Since the Company primarily uses observable inputs in its valuation of its derivative assets and liabilities, they are classified as Level 2 assets.

The fair values of investments in collective trust funds are valued based on their reported net asset value. Such net asset values are based on the value of the underlying securities. For investments in collective trust funds, the fair value of underlying securities reflect the unit prices of actual purchase and sale transactions occurring as of or close to the financial statement date. As such, these assets are valued using Level 2 inputs.

*Level 3*—Fixed income securities are debt securities that do not have actively traded quotes as of the financial statement date. Determining the fair value of these securities requires the use of unobservable inputs, such as indicative quotes from dealers, extrapolated data, proprietary models and qualitative input from investment advisors. As such, these securities are classified within Level 3. Level 3 assets also include certain stocks that are not traded on a nationally recognized securities exchange and insurance contracts valued using proprietary models.

## 10. Long-term Customer Financing and Sales of Receivables

### *Long-term Customer Financing*

Long-term receivables consist of trade receivables with payment terms greater than twelve months, long-term loans and lease receivables under sales-type leases. Long-term receivables consist of the following:

<i>December 31</i>	<i>2009</i>	<i>2008</i>
Long-term receivables	\$154	\$ 169
Less allowance for losses	(9)	(7)
	<u>145</u>	<u>162</u>
Less current portion	(28)	(110)
Non-current long-term receivables, net	<u>\$117</u>	<u>\$ 52</u>

The current portion of long-term receivables is included in Accounts receivable and the non-current portion of long-term receivables is included in Other assets in the Company's consolidated balance sheets. Interest income recognized on long-term receivables for the years ended December 31, 2009, 2008 and 2007 was \$2 million, \$3 million and \$7 million, respectively.

Certain purchasers of the Company's infrastructure equipment may request that the Company provide long-term financing (defined as financing with terms greater than one year) in connection with the sale of equipment. These requests may include all or a portion of the purchase price of the equipment. The Company's obligation to provide long-term financing may be conditioned on the issuance of a letter of credit in favor of the Company by a reputable bank to support the purchaser's credit or a pre-existing commitment from a reputable bank to purchase the long-term receivables from the Company. The Company had outstanding commitments to provide long-term financing to third parties totaling \$406 million at December 31, 2009, compared to \$370 million at December 31, 2008. Of these amounts, \$13 million was supported by letters of credit or by bank commitments to purchase long-term receivables at December 31, 2009, compared to \$266 supported at December 31, 2008. The majority of the outstanding commitments at December 31, 2009 are to a small number of network operators in the Middle East region. In response to the recent tightening in the credit markets, certain customers of the Company have requested financing in connection with equipment purchases, and these types of requests have increased in volume and scope.

In addition to providing direct financing to certain equipment customers, the Company also assists customers in obtaining financing directly from banks and other sources to fund equipment purchases. The Company had committed to provide financial guarantees relating to customer financing totaling \$31 million at December 31, 2009, compared to \$43 million at December 31, 2008 (including \$27 million and \$23 million at December 31, 2009 and 2008, respectively, relating to the sale of short-term receivables). Customer financing guarantees outstanding were \$4 million at December 31, 2009, compared to \$6 million at December 31, 2008 (including

\$2 million and \$4 million at December 31, 2009 and 2008, respectively, relating to the sale of short-term receivables).

### *Sales of Receivables*

From time to time, the Company sells accounts receivable and long-term receivables in transactions that qualify as “true-sales.” Certain of these accounts receivable and long-term receivables are sold to third parties on a one-time, non-recourse basis, while others are sold to third parties under committed facilities that involve contractual commitments from these parties to purchase qualifying receivables up to an outstanding monetary limit. Committed facilities may be revolving in nature and, typically, must be renewed annually. The Company may or may not retain the obligation to service the sold accounts receivable and long-term receivables.

At December 31, 2009, the Company had \$200 million of committed revolving facilities for the sale of accounts receivable, of which \$60 million was utilized. At December 31, 2008 and 2007, the Company had \$532 million and \$1.4 billion, respectively, of committed revolving facilities for the sale of accounts receivable, of which \$497 and \$817 million, respectively, were utilized. In addition, as of December 31, 2008, the Company had \$435 million of committed facilities associated with the sale of long-term financing receivables primarily for a single customer, of which \$262 million was utilized. At December 31, 2009, the Company had no significant committed facilities for the sale of long-term receivables. During the first quarter of 2009, a \$400 million committed accounts receivable facility expired and was not renewed. During the second quarter of 2009, a \$132 million committed accounts receivable facility was terminated. In June 2009, the Company initiated a new \$200 million committed revolving domestic accounts receivable facility.

In 2009, the Company made a strategic decision to significantly reduce its volume of accounts receivables sold.

Total sales of accounts receivable and long-term receivables were \$1.3 billion for the year ended December 31, 2009 (including \$1.2 billion of sales of accounts receivable), compared to \$3.7 billion for the year ended December 31, 2008 (including \$3.4 billion of sales of accounts receivable) and \$4.9 billion for the year ended December 31, 2007 (including \$4.7 billion of sales of accounts receivable). At December 31, 2009, the Company retained servicing obligations for \$195 million of sold accounts receivables and \$297 million of long-term receivables, compared to \$621 million of accounts receivables and \$400 million of long-term receivables at December, 31, 2008.

Under certain arrangements, the value of accounts receivable sold is covered by credit insurance purchased from third-party insurance companies, less deductibles or self-insurance requirements under the insurance policies. The Company's total credit exposure, less insurance coverage, to outstanding accounts receivables that have been sold was \$27 million and \$23 million at December 31, 2009 and 2008, respectively.

## **11. Commitments and Contingencies**

### *Legal*

*Iridium Program:* The Company was named as one of several defendants in putative class action securities lawsuits arising out of alleged misrepresentations or omissions regarding the Iridium satellite communications business which, on March 15, 2001, were consolidated in the federal district court in the District of Columbia under *Freeland v. Iridium World Communications, Inc., et al.*, originally filed on April 22, 1999. In April 2008, the parties reached an agreement in principle, subject to court approval, to settle all claims against Motorola in exchange for Motorola's payment of \$20 million. During the three months ended March 29, 2008, the Company recorded a charge associated with this settlement. On October 23, 2008, the court granted final approval of the settlement and dismissed the claims with prejudice.

The Company was sued by the Official Committee of the Unsecured Creditors of Iridium (the “Committee”) in the United States Bankruptcy Court for the Southern District of New York (the “Iridium Bankruptcy Court”) on July 19, 2001. *In re Iridium Operating LLC, et al. v. Motorola*, plaintiffs asserted claims for breach of contract, warranty and fiduciary duty and fraudulent transfer and preferences, and sought in excess of \$4 billion in damages. On May 20, 2008, the Bankruptcy Court approved a settlement in which Motorola is not required to pay anything, but released its administrative, priority and unsecured claims against the Iridium estate and withdrew its objection to the 2001 settlement between the unsecured creditors of the Iridium Debtors and the Iridium Debtors' pre-petition secured lenders. This settlement, and its approval by the Bankruptcy Court,

extinguished Motorola's financial exposure and concluded Motorola's involvement in the Iridium bankruptcy proceedings.

*Telsim Class Action Securities:* In April 2007, the Company entered into a settlement agreement in regards to *In re Motorola Securities Litigation*, a class action lawsuit relating to the Company's disclosure of its relationship with Telsim Mobil Telekomunikasyon Hizmetleri A.S. Pursuant to the settlement, Motorola paid \$190 million to the class and all claims against Motorola by the class have been dismissed and released.

During the three months ended March 31, 2007, the Company recorded a charge of \$190 million for the legal settlement, partially offset by \$75 million of estimated insurance recoveries, of which \$50 million had been tendered by certain insurance carriers. During the three months ended June 30, 2007, the Company commenced actions against the non-tendering insurance carriers. In response to these actions, each insurance carrier who has responded denied coverage citing various policy provisions. As a result of this denial of coverage and related actions, the Company recorded a reserve of \$25 million in the three months ended June 30, 2007 against the receivable from insurance carriers. During the three months ended September 27, 2008, the Company received the \$50 million tendered by the insurance carriers. During the three months ended December 31, 2008, the Company received a net \$43 million tendered by other insurance carriers.

*Other:* The Company is a defendant in various other suits, claims and investigations that arise in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations.

#### *Other*

*Leases:* The Company owns most of its major facilities and leases certain office, factory and warehouse space, land, and information technology and other equipment under principally non-cancelable operating leases. Rental expense, net of sublease income, for the years ended December 31, 2009, 2008, and 2007 was \$153 million, \$181 million, and \$231 million, respectively. At December 31, 2009, future minimum lease obligations, net of minimum sublease rentals, for the next five years and beyond are as follows: 2010—\$208 million; 2011—\$161 million; 2012—\$109 million; 2013—\$59 million; 2014—\$38 million; beyond—\$93 million.

*Indemnifications:* The Company is also a party to a variety of agreements pursuant to which it is obligated to indemnify the other party with respect to certain matters. Some of these obligations arise as a result of divestitures of the Company's assets or businesses and require the Company to hold the other party harmless against losses arising from the settlement of these pending obligations. The total amount of indemnification under these types of provisions is \$141 million, of which the Company accrued \$53 million as of December 31, 2009 for potential claims under these provisions.

In addition, the Company may provide indemnifications for losses that result from the breach of general warranties contained in certain commercial and intellectual property. Historically, the Company has not made significant payments under these agreements. However, there is an increasing risk in relation to patent indemnities given the current legal climate.

In indemnification cases, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. Further, the Company's obligations under these agreements for indemnification based on breach of representations and warranties are generally limited in terms of duration, and for amounts not in excess of the contract value, and, in some instances, the Company may have recourse against third parties for certain payments made by the Company.

*Other:* During the three months ended September 27, 2008, the Company recorded a \$150 million charge related to the settlement of a purchase commitment. During the three months ended December 31, 2007, the Company recorded a \$277 million charge for a legal settlement.



## 12. Information by Segment and Geographic Region

The Company reports financial results for the following business segments:

- The Mobile Devices segment designs, manufactures, sells and services wireless handsets, including smartphones, with integrated software and accessory products, and licenses intellectual property.
- The Home and Networks Mobility segment designs, manufactures, sells, installs and services: (i) digital video, Internet Protocol (“IP”) video and broadcast network interactive set-tops (“digital entertainment devices”), end-to-end video distribution systems, broadband access infrastructure platforms, and associated data and voice customer premise equipment (“broadband gateways”) to cable television and telecom service providers (collectively, referred to as the “home business”), and (ii) wireless access systems (“wireless networks”), including cellular infrastructure systems and wireless broadband systems, to wireless service providers (collectively, referred to as the “networks business”).
- The Enterprise Mobility Solutions segment designs, manufactures, sells, installs and services analog and digital two-way radios, wireless LAN and security products, voice and data communications products and systems for private networks, wireless broadband systems and end-to-end enterprise mobility solutions to a wide range of customers, including government and public safety agencies (which, together with all sales to distributors of two-way communication products, are referred to as the “government and public safety market”), as well as retail, energy and utilities, transportation, manufacturing, healthcare and other commercial customers (which, collectively, are referred to as the “commercial enterprise market”).

Segment operating results are measured based on operating earnings adjusted, if necessary, for certain segment-specific items and corporate allocations. Intersegment and intergeographic sales are accounted for on an arm’s-length pricing basis. Intersegment sales included in other and eliminations were:

<i>Years Ended December 31</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Mobile Devices	\$45	\$ 53	\$ 56
Home and Networks Mobility	4	2	14
Enterprise Mobility Solutions	35	86	58
	<u>\$84</u>	<u>\$141</u>	<u>\$128</u>

Identifiable assets (excluding intersegment receivables) are the Company’s assets that are identified with classes of similar products or operations in each geographic region.

For the year ended December 31, 2009, approximately 11% of net sales were to one customer. No single customer accounted for more than 10% of net sales for the years ended December 31, 2008 and 2007.

### *Segment information*

<i>Years Ended December 31</i>	<i>Net Sales</i>			<i>Operating Earnings (Loss)</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Mobile Devices	\$ 7,146	\$12,099	\$18,988	\$(1,077)	\$(2,199)	\$(1,201)
Home and Networks Mobility	7,963	10,086	10,014	558	918	709
Enterprise Mobility Solutions	7,008	8,093	7,729	1,057	1,496	1,213
	<u>22,117</u>	<u>30,278</u>	<u>36,731</u>	<u>538</u>	<u>215</u>	<u>721</u>
Other and Eliminations	(73)	(132)	(109)	(686)	(2,606)	(1,274)
	<u>\$22,044</u>	<u>\$30,146</u>	<u>\$36,622</u>			
Operating earnings (loss)				(148)	(2,391)	(553)
Total other income (expense)				(17)	(242)	177
Earnings (loss) from continuing operations before income taxes				\$ (165)	\$ (2,633)	\$ (376)

The Operating loss in Other and Eliminations consists of the following:

<i>Years Ended December 31</i>	2009	2008	2007
Amortization of intangible assets	\$278	\$ 318	\$ 369
Share-based compensation expense	206	224	284
Corporate expenses	181	252	240
Separation-related transaction costs	42	59	—
Reorganization of business charges	30	38	64
Environmental reserve charge	24	—	—
Legal settlements, net	(75)	14	140
Goodwill impairment	—	1,619	—
Asset impairments	—	129	81
In-process research and development charges	—	1	96
Gain on sale of property, plant and equipment	—	(48)	—
	<u>\$686</u>	<u>\$2,606</u>	<u>\$1,274</u>

Share-based compensation expense is primarily comprised of: (i) compensation expense related to the Company's employee stock options, stock appreciation rights and employee stock purchase plans, and (ii) compensation expenses related to the restricted stock and restricted stock units granted to the corporate employees.

Corporate expense are primarily comprised of: (i) general corporate-related expenses, (ii) various corporate programs, representing developmental businesses and research and development projects, which are not included in any reporting segment, and (iii) the Company's wholly-owned finance subsidiary.

<i>Years Ended December 31</i>	<i>Assets</i>			<i>Capital Expenditures</i>			<i>Depreciation Expense</i>		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Mobile Devices	\$ 2,589	\$ 3,559	\$ 6,325	\$ 35	\$ 84	\$132	\$104	\$115	\$146
Home and Networks Mobility	5,861	7,024	7,451	85	147	160	130	135	141
Enterprise Mobility Solutions	5,559	6,000	8,694	141	166	113	152	158	167
	<u>14,009</u>	<u>16,583</u>	<u>22,470</u>	<u>261</u>	<u>397</u>	<u>405</u>	<u>386</u>	<u>408</u>	<u>454</u>
Other and Eliminations	11,594	11,286	12,342	14	107	122	85	103	83
	<u>\$25,603</u>	<u>\$27,869</u>	<u>\$34,812</u>	<u>\$275</u>	<u>\$504</u>	<u>\$527</u>	<u>\$471</u>	<u>\$511</u>	<u>\$537</u>

Assets in Other include primarily cash and cash equivalents, Sigma Fund, deferred income taxes, short-term investments, property, plant and equipment, investments, and the administrative headquarters of the Company.

### *Geographic area information*

<i>Years Ended December 31</i>	<i>Net Sales</i>			<i>Assets</i>			<i>Property, Plant, and Equipment, net</i>		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
United States	\$11,834	\$14,708	\$18,548	\$18,480	\$17,938	\$22,385	\$1,050	\$1,240	\$1,252
China	1,393	2,011	2,632	2,785	3,307	3,926	252	294	311
Brazil	910	1,554	1,671	860	1,057	1,440	100	110	109
United Kingdom	579	936	1,070	1,317	1,314	1,305	48	85	121
Israel	531	696	741	1,330	1,268	1,374	173	141	165
Singapore	93	116	128	720	1,875	3,120	20	32	40
Other nations, net of eliminations	6,704	10,125	11,832	111	1,110	1,262	511	540	482
	<u>\$22,044</u>	<u>\$30,146</u>	<u>\$36,622</u>	<u>\$25,603</u>	<u>\$27,869</u>	<u>\$34,812</u>	<u>\$2,154</u>	<u>\$2,442</u>	<u>\$2,480</u>

Net sales by geographic region are measured by the locale of end customer.

## **13. Reorganization of Businesses**

The Company maintains a formal Involuntary Severance Plan (the "Severance Plan"), which permits the Company to offer eligible employees severance benefits based on years of service and employment grade level in

the event that employment is involuntarily terminated as a result of a reduction-in-force or restructuring. Effective August 1, 2009, the Company amended and restated the Severance Plan. Under the amended Severance Plan, severance benefits will be paid in bi-weekly installments to impacted employees rather than in lump sum payments. The Company recognizes termination benefits based on formulas per the Severance Plan at the point in time that future settlement is probable and can be reasonably estimated based on estimates prepared at the time a restructuring plan is approved by management. Exit costs consist of future minimum lease payments on vacated facilities and other contractual terminations. At each reporting date, the Company evaluates its accruals for employee separation and exit costs to ensure the accruals are still appropriate. In certain circumstances, accruals are no longer needed because of efficiencies in carrying out the plans or because employees previously identified for separation resigned from the Company and did not receive severance or were redeployed due to circumstances not foreseen when the original plans were initiated. In these cases, the Company reverses accruals through the consolidated statements of operations where the original charges were recorded when it is determined they are no longer needed.

### 2009 Charges

During the year ended December 31, 2009, in light of the macroeconomic decline that adversely affected sales, the Company continued to implement various productivity improvement plans aimed at achieving long-term, sustainable profitability by driving efficiencies and reducing operating costs. All three of the Company's business segments, as well as corporate functions, are impacted by these plans, with the majority of the impact in the Mobile Devices segment. The employees affected are located in all geographic regions.

During the year ended December 31, 2009, the Company recorded net reorganization of business charges of \$336 million, including \$78 million of charges in Costs of sales and \$258 million of charges under Other charges in the Company's consolidated statements of operations. Included in the aggregate \$336 million are charges of \$363 million for employee separation costs, \$36 million for exit costs and \$20 million for fixed asset impairment charges, partially offset by \$83 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by business segment:

<i>Year Ended December 31</i>	<i>2009</i>
Mobile Devices	\$184
Home and Networks Mobility	52
Enterprise Mobility Solutions	70
	306
Corporate	30
	<u>\$336</u>

The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2009 to December 31, 2009:

<i>2009</i>	<i>Accruals at January 1</i>	<i>Additional Charges</i>	<i>Adjustments</i>	<i>Amount Used</i>	<i>Accruals at December 31</i>
Exit costs	\$ 80	\$ 36	\$ (9)	\$ (49)	\$ 58
Employee separation costs	170	363	(70)	(383)	80
	<u>\$250</u>	<u>\$399</u>	<u>\$(79)</u>	<u>\$(432)</u>	<u>\$138</u>

Adjustments include translation adjustments.

### Exit Costs

At January 1, 2009, the Company had an accrual of \$80 million for exit costs attributable to lease terminations. The additional 2009 charges of \$36 million are primarily related to the exit of leased facilities and contractual termination costs. The adjustments of \$9 million reflect: (i) \$8 million of reversals of accruals no longer needed, and (ii) \$1 million of translation adjustments. The \$49 million used in 2009 reflects cash payments. The remaining accrual of \$58 million, which is included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2009, represents future cash payments, primarily for lease termination obligations.

### Employee Separation Costs

At January 1, 2009, the Company had an accrual of \$170 million for employee separation costs, representing the severance costs for approximately 2,000 employees. The additional 2009 charges of \$363 million represent severance costs for approximately an additional 9,000 employees, of which 3,400 are direct employees and 5,600 are indirect employees.

The adjustments of \$70 million reflect \$75 million of reversals of accruals no longer needed, partially offset by \$5 million of translation adjustments.

During the year ended December 31, 2009, approximately 9,600 employees, of which 4,100 were direct employees and 5,500 were indirect employees, were separated from the Company. The \$383 million used in 2009 reflects cash payments to these separated employees. The remaining accrual of \$80 million, which is included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2009, is expected to be paid in 2010 to: (i) severed employees who began receiving payments in 2009, and (ii) approximately 1,200 employees who will begin receiving payments in 2010.

### 2008 Charges

During the year ended December 31, 2008, the Company implemented various productivity improvement plans aimed at achieving long-term, sustainable profitability by driving efficiencies and reducing operating costs. All three of the Company's business segments, as well as corporate functions, were impacted by these plans, with the majority of the impact in the Mobile Devices segment. The employees affected were located in all regions. The Company recorded net reorganization of business charges of \$334 million, including \$86 million of charges in Costs of sales and \$248 million of charges under Other charges in the Company's consolidated statements of operations. Included in the aggregate \$334 million are charges of \$324 million for employee separation costs, \$66 million for exit costs and \$9 million for fixed asset impairment charges, partially offset by \$65 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by business segment:

<i>Year Ended December 31,</i>	<i>2008</i>
Mobile Devices	\$216
Home and Networks Mobility	53
Enterprise Mobility Solutions	27
	<u>296</u>
Corporate	38
	<u>\$334</u>

The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2008 to December 31, 2008:

<i>2008</i>	<i>Accruals at January 1</i>	<i>Additional Charges</i>	<i>Adjustments</i>	<i>Amount Used</i>	<i>Accruals at December 31</i>
Exit costs	\$ 42	\$ 66	\$ 1	\$ (29)	\$ 80
Employee separation costs	193	324	(60)	(287)	170
	<u>\$235</u>	<u>\$390</u>	<u>\$(59)</u>	<u>\$(316)</u>	<u>\$250</u>

Adjustments include translation adjustments.

### Exit Costs

At January 1, 2008, the Company had an accrual of \$42 million for exit costs attributable to lease terminations. The 2008 additional charges of \$66 million were primarily related to: (i) the exit of leased facilities in the United Kingdom by the Mobile Devices segment, and (ii) the exit of leased facilities in Mexico by the Home and Networks Mobility segment. The adjustments of \$1 million reflect \$4 million of translation adjustments, partially offset by \$3 million of reversals of accruals no longer needed. The \$29 million used in 2008 reflects cash payments. The remaining accrual of \$80 million, which was included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2008, represented cash payments, primarily for lease termination obligations.

### Employee Separation Costs

At January 1, 2008, the Company had an accrual of \$193 million for employee separation costs, representing the severance costs for approximately 2,800 employees. The additional 2008 charges of \$324 million represent severance costs for approximately an additional 5,800 employees, of which 2,300 were direct employees and 3,500 were indirect employees.

The adjustments of \$60 million reflect \$62 million of reversals of accruals no longer needed, partially offset by \$2 million of translation adjustments. The \$62 million of reversals represent previously accrued costs for approximately 600 employees.

During the year ended December 31, 2008, approximately 6,200 employees, of which 3,000 were direct employees and 3,200 were indirect employees, were separated from the Company. The \$287 million used in 2008 reflects cash payments to these separated employees. The remaining accrual of \$170 million, was included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2008.

### 2007 Charges

During the year ended December 31, 2007, the Company committed to implement various productivity improvement plans aimed at achieving long-term, sustainable profitability by driving efficiencies and reducing operating costs. All three of the Company's business segments, as well as corporate functions, are impacted by these plans. The majority of the employees affected are located in North America and Europe. The Company recorded net reorganization of business charges of \$394 million, including \$104 million of charges in Costs of sales and \$290 million of charges under Other charges (income) in the Company's consolidated statements of operations. Included in the aggregate \$394 million are charges of \$401 million for employee separation costs, \$42 million for fixed asset impairment charges and \$19 million for exit costs, offset by reversals for accruals no longer needed.

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

<i>Year Ended December 31</i>	<i>2007</i>
Mobile Devices	\$229
Home and Networks Mobility	71
Enterprise Mobility Solutions	30
	<u>330</u>
Corporate	64
	<u>\$394</u>

The following table displays a rollforward of the reorganization of businesses accruals established for exit costs and employee separation costs from January 1, 2007 to December 31, 2007:

<i>2007</i>	<i>Accruals at January 1</i>	<i>Additional Charges</i>	<i>Adjustments</i>	<i>Amount Used</i>	<i>Accruals at December 31</i>
Exit costs	\$ 54	\$ 19	\$ 2	\$ (33)	\$ 42
Employee separation costs	104	401	(64)	(248)	193
	<u>\$158</u>	<u>\$420</u>	<u>\$(62)</u>	<u>\$(281)</u>	<u>\$235</u>

Adjustments include translation adjustments and \$6 million of accruals established through purchase accounting for businesses acquired, covering exit costs and separation costs for approximately 200 employees.

### Exit Costs

At January 1, 2007, the Company had an accrual of \$54 million for exit costs attributable to lease terminations. The 2007 additional charges of \$19 million are primarily related to the exit of certain activities and leased facilities in Ireland by the Home and Networks Mobility segment. The 2007 adjustments of \$2 million represent accruals for exit costs established through purchase accounting for businesses acquired. The \$33 million used in 2007 reflects cash payments. The remaining accrual of \$42 million, which was included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2007, represented future cash payments for lease termination obligations.

### Employee Separation Costs

At January 1, 2007, the Company had an accrual of \$104 million for employee separation costs, representing the severance costs for approximately 2,300 employees. The additional 2007 charges of \$401 million represent severance costs for approximately 6,700 employees, of which 2,400 were direct employees and 4,300 were indirect employees.

The adjustments of \$64 million reflect \$68 million of reversals of accruals no longer needed, partially offset by \$4 million of accruals for severance plans established through purchase accounting for businesses acquired. The \$68 million of reversals represent previously accrued costs for 1,100 employees, and primarily relates to a strategic change regarding a plant closure and specific employees previously identified for separation who resigned from the Company and did not receive severance or who were redeployed due to circumstances not foreseen when the original plans were approved. The \$4 million of accruals represents severance plans for approximately 200 employees established through purchase accounting for businesses acquired.

During the year ended December 31, 2007, approximately 5,300 employees, of which 1,700 were direct employees and 3,600 were indirect employees, were separated from the Company. The \$248 million used in 2007 reflects cash payments to these separated employees. The remaining accrual of \$193 million was included in Accrued liabilities in the Company's consolidated balance sheets at December 31, 2007.

## 14. Intangible Assets and Goodwill

The Company accounts for acquisitions using purchase accounting with the results of operations for each acquiree included in the Company's consolidated financial statements for the period subsequent to the date of acquisition. The pro forma effects of these acquisitions on the Company's consolidated financial statements were not significant individually nor in the aggregate.

The allocation of value to in-process research and development was determined using expected future cash flows discounted at average risk adjusted rates reflecting both technological and market risk as well as the time value of money. Historical pricing, margins and expense levels, where applicable, were used in the valuation of the in-process products. The in-process research and development acquired will have no alternative future uses if the products are not feasible.

The developmental products for the companies acquired have varying degrees of timing, technology, costs-to-complete and market risks throughout final development. If the products fail to become viable, the Company will unlikely be able to realize any value from the sale of incomplete technology to another party or through internal re-use. The risks of market acceptance for the products under development and potential reductions in projected sales volumes and related profits in the event of delayed market availability for any of the products exist. Efforts to complete all developmental products continue and there are no known delays to forecasted plans except as disclosed.

The Company did not have any significant acquisitions during the years ended December 31, 2009 and 2008. The following is a summary of significant acquisitions during the year ended December 31, 2007:

	<i>Quarter Acquired</i>	<i>Consideration, net</i>	<i>Form of Consideration</i>	<i>In-Process Research and Development Charge</i>
<b>2007 Acquisitions</b>				
Symbol Technologies, Inc.	Q1	\$3,528	Cash	\$95
Good Technology, Inc.	Q1	\$ 438	Cash	—
Netopia, Inc.	Q1	\$ 183	Cash	—
Terayon Communication Systems, Inc.	Q3	\$ 137	Cash	—

The following table summarizes net tangible and intangible assets acquired and the consideration paid for the acquisitions identified above:

<i>Years Ended December 31</i>	<i>2007</i>
Tangible net assets	\$ 83
Goodwill	2,793
Other intangibles	1,315
In-process research and development	95
	<u>\$4,286</u>
Consideration, net:	
Cash	\$4,286
Stock	—
	<u>\$4,286</u>

#### *Symbol Technologies, Inc.*

In January 2007, the Company acquired, for \$3.5 billion in net cash, the outstanding common stock of Symbol Technologies, Inc. ("Symbol"), a leader in designing, developing, manufacturing and servicing products and systems used in end-to-end enterprise mobility solutions featuring rugged mobile computing, advanced data capture, radio frequency identification ("RFID"), wireless infrastructure and mobility management.

The fair value of acquired in-process research and development was \$95 million. The acquired in-process research and development will have no alternative future uses if the products are not feasible and, as such, costs were expensed at the date of acquisition. At the date of acquisition, 31 projects were in process and were completed through 2008. The average risk adjusted rate used to value these projects was 15-16%. The allocation of value to in-process research and development was determined using expected future cash flows discounted at average risk adjusted rates reflecting both technological and market risk as well as the time value of money.

The fair value of the acquired intangible assets was \$1.0 billion at the time of acquisition. Intangible assets are included in Other assets in the Company's consolidated balance sheets. The intangible assets are being amortized over periods ranging from 1 to 8 years on a straight-line basis. The Company recorded \$2.3 billion of goodwill, none of which is expected to be deductible for tax purposes.

The results of the operations of Symbol have been included in the Enterprise Mobility Solutions segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

#### *Good Technology, Inc.*

In January 2007, the Company acquired Good Technology, Inc. ("Good"), a provider of enterprise mobile computing software and services, for \$438 million in net cash. The Company recorded \$296 million in goodwill, none of which was expected to be deductible for tax purposes and \$158 million in identifiable intangible assets. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant. Due to changes in software platform strategy, impairment charges of \$123 million were recorded for the year ended December 31, 2008, representing write-downs of: (i) \$121 million of intangible assets, primarily relating to completed technology and other intangibles, and (ii) \$2 million of property, plant and equipment.

The results of operations of Good had been included in the Enterprise Mobility Solutions segment in the Company's consolidated financial statements subsequent to the date of acquisition. During the year ended December 31, 2009, the Company completed the sale of Good Technology. For the year ending December 31, 2009, the operating results of this business through the date of its disposition are reported as discontinued operations in the consolidated financial statements. For all other applicable prior periods, the operating results of this business have not been reclassified as discontinued operations, since the results are not material to the Company's consolidated financial statements.

### *Netopia, Inc.*

In February 2007, the Company acquired Netopia, Inc. ("Netopia"), a broadband equipment provider for DSL customers, which allows for phone, TV and fast Internet connections, for \$183 million in net cash. The Company recorded \$61 million in goodwill, none of which was expected to be deductible for tax purposes, and \$100 million in identifiable intangible assets. Intangible assets are included in Other assets in the Company's consolidated balance sheets. The intangible assets are being amortized over a period of 7 years on a straight-line basis.

The results of operations of Netopia have been included in the Home and Networks Mobility segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

### *Terayon Communication Systems, Inc.*

In July 2007, the Company acquired Terayon Communication Systems, Inc. ("Terayon"), a provider of real-time digital video networking applications to cable, satellite and telecommunication service providers worldwide, for \$137 million in net cash. The Company recorded \$21 million in goodwill, none of which is expected to be deductible for tax purposes, and \$52 million in identifiable intangible assets. Intangible assets are included in Other assets in the Company's consolidated balance sheets. The intangible assets are being amortized over periods ranging from 4 to 6 years on a straight-line basis.

The results of operations of Terayon have been included in the Home and Networks Mobility segment in the Company's consolidated financial statements subsequent to the date of acquisition. The pro forma effects of this acquisition on the Company's consolidated financial statements were not significant.

### **Intangible Assets**

Amortized intangible assets were comprised of the following:

	2009		2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<i>December 31</i>				
Intangible assets:				
Completed technology	\$1,123	\$ 792	\$1,127	\$ 633
Patents	288	179	292	125
Customer-related	278	145	277	104
Licensed technology	130	122	129	118
Other intangibles	149	137	150	126
	<u>\$1,968</u>	<u>\$1,375</u>	<u>\$1,975</u>	<u>\$1,106</u>

Amortization expense on intangible assets, which is included within Other charges in the consolidated statement of operations, was \$278 million, \$318 million and \$369 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2008 future amortization expense is estimated to be \$257 million in 2010, \$243 million in 2011, \$50 million in 2012 and \$29 million in 2013 and \$9 million in 2014.



Amortized intangible assets, excluding goodwill, by business segment:

<i>December 31</i>	2009		2008	
	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>
Mobile Devices	\$ 45	\$ 45	\$ 45	\$ 45
Home and Networks Mobility	716	572	722	522
Enterprise Mobility Solutions	1,207	758	1,208	539
	<u>\$1,968</u>	<u>\$1,375</u>	<u>\$1,975</u>	<u>\$1,106</u>

During the year ended December 31, 2008, the Company recorded an impairment of intangible assets charge of \$136 million, primarily due to a change in a technology platform strategy, relating to completed technology and other intangibles, in the Enterprise Mobility Solutions segment. During the year-ended December 31, 2007, due to a change in software platform strategy, the Company recorded an impairment of intangible assets of \$81 million, primarily related to completed technology and other intangibles, in the Mobile Devices segment.

### Goodwill

The following table displays a rollforward of the carrying amount of goodwill by reportable segment from January 1, 2007 to December 31, 2009:

	<i>Mobile Devices</i>	<i>Home and Networks Mobility</i>	<i>Enterprise Mobility Solutions</i>	<i>Total Motorola</i>
<b>Balances as of January 1, 2007:</b>				
Aggregate goodwill acquired	\$ 69	\$1,339	\$ 371	\$ 1,779
Accumulated impairment losses	—	(73)	—	(73)
Goodwill, net of impairment losses	69	1,266	371	1,706
Goodwill acquired	—	427	2,569	2,996
Dispositions	—	(119)	—	(119)
Impairment losses	—	—	—	—
Adjustments	(50)	2	(36)	(84)
<b>Balance as of December 31, 2007:</b>				
Aggregate goodwill acquired	19	1,649	2,904	4,572
Accumulated impairment losses	—	(73)	—	(73)
Goodwill, net of impairment losses	19	1,576	2,904	4,499
Goodwill acquired	15	12	60	87
Impairment losses	(55)	—	(1,564)	(1,619)
Adjustments	21	(179)	28	(130)
<b>Balance as of December 31, 2008:</b>				
Aggregate goodwill acquired	55	1,482	2,992	4,529
Accumulated impairment losses	(55)	(73)	(1,564)	(1,692)
Goodwill, net of impairment losses	—	1,409	1,428	2,837
Goodwill acquired	—	—	—	—
Impairment losses	—	—	—	—
Adjustments	—	(3)	(11)	(14)
<b>Balance as of December 31, 2009:</b>				
Aggregate goodwill acquired	55	1,479	2,981	4,515
Accumulated impairment losses	(55)	(73)	(1,564)	(1,692)
Goodwill, net of impairment losses	\$ —	\$1,406	\$ 1,417	\$ 2,823

During the year ended December 31, 2008, the Company finalized its assessment of the Internal Revenue Code Section 382 Limitations ("IRC Section 382") relating to the pre-acquisition tax loss carry-forwards of its 2007 acquisitions. As a result of the IRC Section 382 studies, the Company recorded additional deferred tax assets and a corresponding reduction in goodwill, which is reflected in the adjustment row above.

The Company conducts its annual assessment of goodwill for impairment in the fourth quarter of each year. The goodwill impairment test is performed at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment. The Company has determined that the Mobile Devices segment meets the requirement of a reporting unit. For the Enterprise Mobility Solutions segment, the Company has identified two reporting units, the Government and Public Safety reporting unit and the Enterprise Mobility reporting unit. For the Home and Networks Mobility segment, the Company has identified two reporting units, the Home reporting unit and the Networks reporting unit. The Company performs extensive valuation analyses, utilizing both income and market-based approaches, in its goodwill assessment process. The determination of the fair value of the reporting units and other assets and liabilities within the reporting units requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the discount rate, terminal growth rate, earnings before depreciation and amortization, and capital expenditures forecasts specific to each reporting unit. Due to the inherent uncertainty involved in making these estimates, actual results could differ from those estimates.

The Company has weighted the valuation of its reporting units at 75% based on the income approach and 25% based on the market-based approach, consistent with prior periods. The Company believes that this weighting is appropriate since it is often difficult to find other appropriate market participants that are similar to our reporting units and it is the Company's view that future discounted cash flows are more reflective of the value of the reporting units.

With respect to the primary assumptions made in determining the fair value of its reporting units, for the Home, Networks, Government and Public Safety and Enterprise Mobility reporting units, the Company assigned discount rates ranging from 12.5% to 13.5% in 2009 and 13.0% to 14.0% in 2008. The Company assigned a discount rate of 17.5% to the Mobile Devices reporting unit in 2009 and, commensurate with development stage enterprises or turnaround opportunities, 25% in 2008. The Company believes this rate reflects the inherent uncertainties of the Mobile Devices reporting unit's projected cash flows. The Company evaluated the merits of each significant assumption, both individually and in the aggregate, used to determine the fair value of the reporting units, as well as the fair values of the corresponding assets and liabilities within the reporting units, and concluded they are reasonable.

Based on the results of our 2009 annual assessments of the recoverability goodwill, the fair values of all reporting units exceeded their book values, indicating that there was no impairment of goodwill.

Following is a discussion of the goodwill impairment charges recorded for the year ended December 31, 2008.

During the fourth quarter of 2008, the Company experienced a sustained, significant decline in its stock price that reduced the market capitalization below the book value of the Company. The reduced market capitalization reflected the macroeconomic declines coupled with the market view on the performance of the Mobile Devices reporting unit. The Company considered this decline in its stock price in the impairment assessment.

Based on the results of Step One of the 2008 annual assessment of the recoverability goodwill, the fair values of the Home, Networks and Government and Public Safety reporting units exceeded their book value, indicating that there was no impairment of goodwill at these reporting units.

However, the fair values of the Enterprise Mobility and Mobile Devices reporting units were below their respective book values, indicating a potential impairment of goodwill and the requirement to perform Step Two of the analysis for these reporting units. The Company acquired the main components of the Enterprise Mobility reporting unit in 2007 at which time the book value and fair value of the reporting unit was the same. Because of this fact, the Enterprise Mobility reporting unit was most likely to experience a decline in its fair value below its book value as a result of lower values in the overall market and the deteriorating macroeconomic environment and the market's view of its near term impact on the reporting unit. The decline in the fair value of the Mobile Devices reporting unit below its book value was a result of the deteriorating macroeconomic environment, lower than expected sales and cash flows as a result of the decision to consolidate platforms announced in the fourth quarter of 2008, and the uncertainty around the reporting unit's future cash flow. For the year ended December 31, 2008, the Company determined that the goodwill relating to the Enterprise Mobility and Mobile

Devices reporting units was impaired, resulting in charges of \$1.6 billion and \$55 million, respectively in the Enterprise Mobility Solutions and Mobile Devices reportable segments.

## 15. Valuation and Qualifying Accounts

The following table presents the valuation and qualifying account activity for the years ended December 31, 2009, 2008 and 2007:

	<i>Balance at January 1</i>	<i>Charged to Earnings</i>	<i>Used</i>	<i>Adjustments</i>	<i>Balance at December 31</i>
<b>2009</b>					
Reorganization of Businesses	\$ 250	\$ 399	\$ (432)	\$ (79)	\$138
Allowance for Doubtful Accounts	182	32	(52)	(20)	142
Allowance for Losses on Long-term Receivables	7	6	—	(4)	9
Inventory Reserves	760	421	(300)	(65)	816
Warranty Reserves	285	301	(311)	(49)	226
Customer Reserves	599	1,115	(1,094)	(196)	424
<b>2008</b>					
Reorganization of Businesses	235	390	(316)	(59)	250
Allowance for Doubtful Accounts	184	63	(35)	(30)	182
Allowance for Losses on Long-term Receivables	5	5	—	(3)	7
Inventory Reserves	371	735	(366)	20	760
Warranty Reserves	416	452	(488)	(95)	285
Customer Reserves	972	1,587	(1,544)	(416)	599
<b>2007</b>					
Reorganization of Businesses	158	420	(281)	(62)	235
Allowance for Doubtful Accounts	78	130	(3)	(21)	184
Allowance for Losses on Long-term Receivables	10	2	—	(7)	5
Inventory Reserves	416	546	(524)	(67)	371
Warranty Reserves	530	756	(735)	(135)	416
Customer Reserves	1,305	2,809	(2,205)	(937)	972

Adjustments include translation adjustments.

## 16. Quarterly and Other Financial Data (unaudited)\*

	2009				2008			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
<b>Operating Results</b>								
Net sales	\$5,371	\$5,497	\$5,453	\$5,723	\$7,448	\$8,082	\$7,480	\$ 7,136
Costs of sales	3,875	3,787	3,645	3,680	5,303	5,757	5,677	5,014
Gross margin	1,496	1,710	1,808	2,043	2,145	2,325	1,803	2,122
Selling, general and administrative expenses	869	822	800	890	1,183	1,115	1,044	988
Research and development expenditures	847	775	768	793	1,054	1,048	999	1,008
Other charges	229	103	112	197	177	157	212	1,801
Operating earnings (loss)	(449)	10	128	163	(269)	5	(452)	(1,675)
Earnings (loss) from continuing operations**	(291)	26	12	142	(194)	4	(397)	(3,657)
Net earnings (loss)**	(231)	26	12	142	(194)	4	(397)	(3,657)
<b>Per Share Data (in dollars)</b>								
Continuing Operations:								
Basic earnings (loss) per common share	\$ (0.13)	\$ 0.01	\$ 0.01	\$ 0.06	\$ (0.09)	\$ 0.00	\$ (0.18)	\$ (1.61)
Diluted earnings (loss) per common share	(0.13)	0.01	0.01	0.06	(0.09)	0.00	(0.18)	(1.61)
Net Earnings:								
Basic earnings (loss) per common share	(0.10)	0.01	0.01	0.06	(0.09)	0.00	(0.18)	(1.61)
Diluted earnings (loss) per common share	(0.10)	0.01	0.01	0.06	(0.09)	0.00	(0.18)	(1.61)
Dividends declared	—	—	—	—	0.05	0.05	0.05	0.05
Dividends paid	0.05	—	—	—	0.05	0.05	0.05	0.05
Stock prices								
High	4.95	6.95	9.45	9.36	16.20	10.38	10.50	7.52
Low	2.98	4.25	5.91	7.67	8.98	7.20	6.52	3.00

Operating results for the fourth quarter of 2008 include: (i) a \$2.1 billion charge related to increase the U.S. deferred tax asset valuation allowance, as described in Note 6, "Income Taxes," (ii) a \$1.6 billion charge related to the impairment of goodwill, as described in Note 14, "Acquisitions and Related Intangibles," and (iii) accumulated temporary unrealized losses in Sigma Fund investments, as described in Note 3, "Other Financial Data."

\* Certain amounts in prior years' financial statements and related notes have been reclassified to conform to the 2009 presentation.

\*\* Amounts attributable to Motorola, Inc. common shareholders.