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

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

FORM 10-K/A

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

For the fiscal year ended December 31, 2005
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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EXPLANATORY NOTE

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

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

Specifically, the corrections are as follows:

Relating to Mobile Devices Market Share:

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

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

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

Relating to the Percentage of Net Sales to Sprint Nextel

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

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

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

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

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

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

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

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

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

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

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

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

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PART I

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

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

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

Item 1: Business

General

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

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

Wireless

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

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

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

Broadband

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

Automotive

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

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

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Business Segments

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

Mobile Devices Segment

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

Principal Products and Services

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

Our Industry

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

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

Our Strategy

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

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

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

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

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

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Customers

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

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

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

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

Competition

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

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

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

Payment Terms

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

Regulatory Matters

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

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

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

Backlog

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

Intellectual Property Matters

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

Inventory, Raw Materials, Right of Return and Seasonality

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

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

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

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

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

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Our Facilities/Manufacturing

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

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

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

Government and Enterprise Mobility Solutions Segment

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

Principal Products and Services

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

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

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

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

Our Industries

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

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

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

Our Strategy

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

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

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

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

Customers

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

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

Competition

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

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

Competitive factors for our Government products and systems include: price; technology offered and standards compliance; product features, performance, quality and availability; and the quality and availability of support

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services and systems engineering, with no one factor being dominant. An additional factor is the availability of vendor financing, as customers continue to look to equipment vendors as an additional source of financing.

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

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

Payment Terms

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

Regulatory Matters

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

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

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

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

covering their jurisdictions. This new public safety spectrum is configured to support both voice and

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data. Motorola already has both infrastructure and mobiles/portables shipping for deployment of public safety voice and data systems in this band.

Backlog

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

Intellectual Property Matters

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

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

Inventory, Raw Materials, Right of Return and Seasonality

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

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

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

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

Our Facilities/ Manufacturing

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

Networks Segment

The Networks segment (Networks or the segment) designs, manufactures, sells, installs and services: (i) cellular infrastructure systems, including hardware and software, (ii) fiber-to-the-premise (FTTP) and

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fiber-to-the-node (FTTN) transmission systems supporting high-speed data, video and voice, and (iii) wireless broadband systems. In addition, the segment designs, manufactures and sells embedded communications computing platforms. In 2005, the segment s net sales represented 17% of the Company s consolidated net sales.

Principal Products and Services

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

Our Industry

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

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

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

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

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

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

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

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Our Strategy

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

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

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

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

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

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

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

Customers

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

have a material adverse effect on the segment s business. Further, because contracts are long-term, the loss of a major customer would impact revenue and earnings over several quarters.

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

Competition

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

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

Payment Terms

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

Regulatory Matters

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

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

Backlog

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

Intellectual Property Matters

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

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

Inventory, Raw Materials, Right of Return and Seasonality

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

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

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

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

The business does not have seasonal patterns for sales.

Our Facilities/ Manufacturing

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

Connected Home Solutions Segment

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

Principal Products and Services

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

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

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

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

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

Our Industry

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

Our Strategy

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

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

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

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

Customers

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

Competition

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

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

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

Historically, reception of digital television programming from the cable broadband network required a set-top box with security technology that was compatible with the network. This security technology has limited the availability of set-top boxes to thos