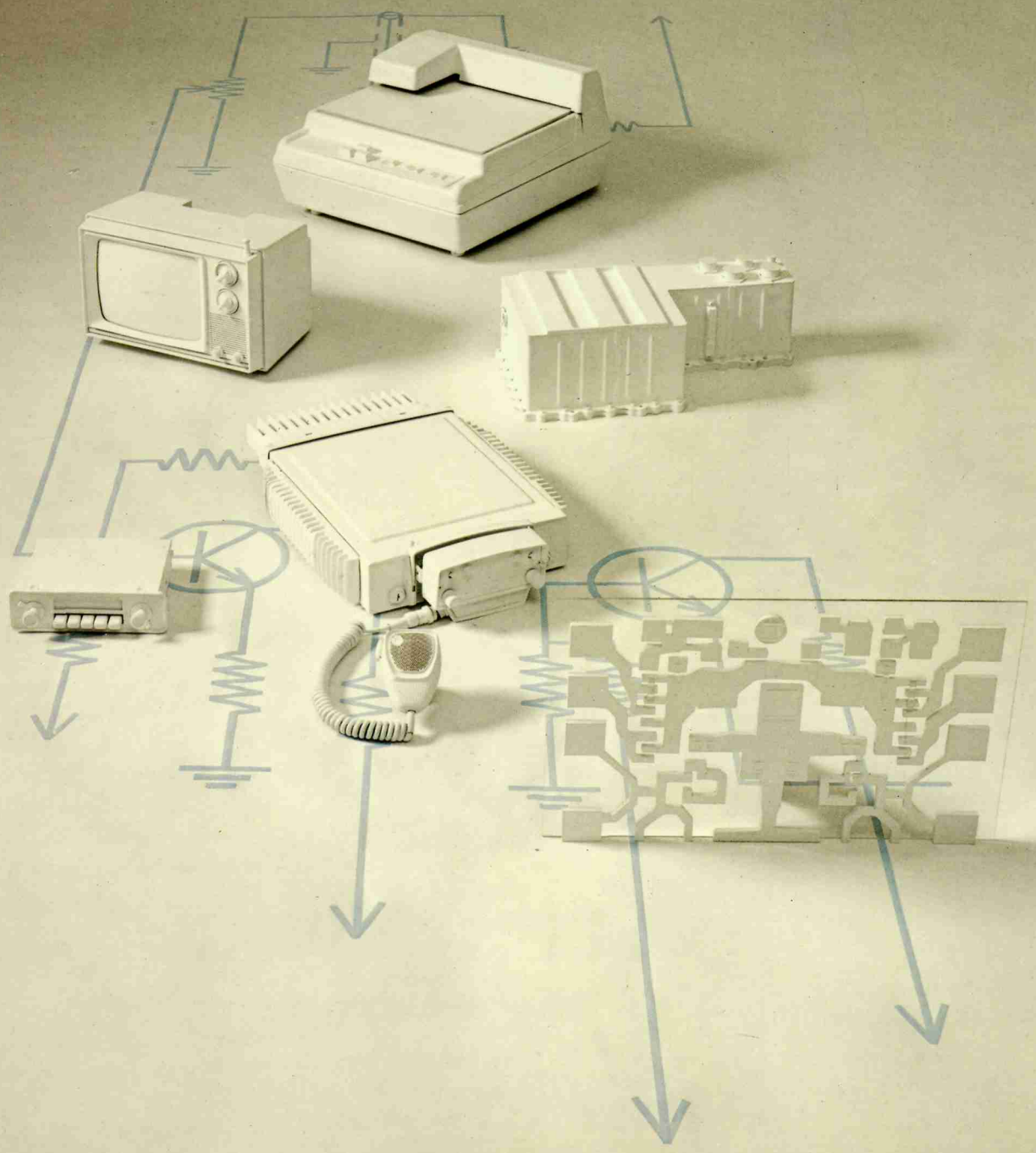
Motorola annual report 1968



creativity and diversification in electronics

Forty years in electronics . . .

From its inception, Motorola concentrated in electronics. Yet, with unusual creativity, the company diversified into many applications of electronics to serve ever more diversified markets.

The cover background typifies this concentration in electronics and the products symbolize the broad diversification of Motorola's six divisions. The types and models of successfully developed products number in the thousands.

contents

financial highlights

	1968	1967
	(dollar amounts in thousands except per share data)	
Sales and other revenues	**$ 775,124**	$ 629,975
Income before taxes	**57,376**	34,571
% to sales	**7.40%**	5.49%
Income taxes	**26,413**	15,755
New surtax	**2,702**	—
Earnings	**28,261**	18,816
% to shareholders' equity	**11.84%**	9.12%
per share of common stock	**4.61**	3.08
Capital expenditures	**32,009**	28,091
Working capital	**176,315**	131,208
Current ratio	**2.08**	1.88
Shareholders' equity	**238,778**	206,286
Average common shares outstanding	**6,133,470**	6,112,101
Book value per share	**38.84**	33.69
Year-end employment	**41,000**	36,000

to our shareholders and friends:

The company achieved improved performance in 1968. Record sales of $775,124,336 were 23% greater than in the previous year and earnings increased 50% to $28,261,196. Earnings per share rose from $3.08 in 1967 to $4.61 per share in 1968. The new surtax in 1968 amounted to 44 cents per share.

While the earnings improvement reflects recovery in our consumer products business, significant earnings increases were recorded in three of our five other businesses.

In 1968, each of the company's six divisions increased sales, with five divisions establishing new records. The semiconductor products division attained a sales increase greater than 35%, while total factory dollar sales for the industry were estimated to be up only 6%. Our people can be justifiably proud of this achievement.

The communications division established another annual sales record while involved in an eighteen month expansion program. This included the construction and occupation of the new main plant and division headquarters in Schaumburg, Illinois. The division is ready with highly efficient facilities to accommodate the expanding markets for its products and services.

Sales of the automotive products division exceeded the previous record by 25%. From practically a one-product, three-customer business a few years ago, this division has grown and diversified in both product line and markets served.

The significantly improved performance of the consumer products division was due largely to the "Quasar" color television. A marketing program was launched nationally in September after being carefully tested in nine markets early in the year.

Our people in the government electronics division, as well as throughout the company, can be justifiably proud of their equipment which performed so perfectly on the Apollo 8 mission. The division's space equipment, for both manned and unmanned programs, continues to enjoy an excellent performance record.

The control systems division has been engaged in further diversification of its product line, with hopeful results. Several of its new products are pictured on page 14.

Capital expenditures in 1968 exceeded $32 million. They are expected to be approximately $45 million in 1969, with an increasing amount being required for overseas expansion.

In July a newly formed subsidiary, Motorola International Development Corporation, sold $30 million of 4½% convertible debentures outside this country. This will permit us to proceed with our long-range international expansion program while complying with government limitations on direct foreign investment. The debentures are convertible into the parent company's common stock of which 187,500 shares (approximately 3% of total outstanding) have been reserved.

To provide greater flexibility for future domestic planning, we obtained a two-year extension of the date when our revolving credit must be terminated or converted into a term loan.

An agreement was reached with the Columbia Broadcasting System whereby Motorola will manufacture and market the CBS Electronic Video Recording (EVR) player. This exciting move into a new product area can provide opportunities for several of our divisions.

Initially, we will launch this program in the educational, industrial and hospital markets where our communications division has an excellent position and the personnel to support such a new product program. Our consumer products division will pursue opportunities in the home entertainment and hotel/motel markets.

EVR is a convenient, flexible and inexpensive method of storing audio-visual material on cartridged film for display on any existing television receiver when the player is connected to the antenna terminals.

Our facility in Vail, Arizona provides a long-range educational program for management personnel. The program is of broad scale to help equip the individual executive to act more decisively and more effectively, and to meet the company's changing needs in a shifting economy. Approximately 100 executives attended the institute in 1968, strengthening the company's management resources.

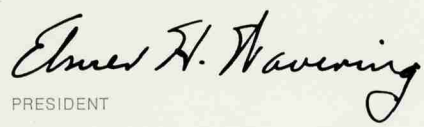
In a major switch from general industrial practices, the company announced a plan effective January 1, 1969 to eliminate hourly rated payroll and time clocks in all domestic facilities. This places all production and maintenance employes on a weekly salary basis, giving them the same status as office and technical personnel.

Also part of the plan is a five-day attendance bonus. An employe with a perfect attendance record, or an unused portion of his allotment, will receive an extra paycheck just before Christmas.

We are encouraged by the determination of the new federal administration to regain proper control of monetary and fiscal policy in order to restrain inflation. When implemented, it is generally expected to moderate the boom conditions of the economy as a necessary corollary of avoiding more serious consequences. While this will naturally affect all of our businesses, we nonetheless will be sustained by natural growth inherent in most phases of the electronics field. We are therefore planning for further growth both in sales and earnings for 1969, encouraged by the renewed vigor and management capability in all of our divisions.

For the Board of Directors,

CHAIRMAN OF THE BOARD



PRESIDENT

March 21, 1969

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communications division

Both sales and earnings for the communications division rose to new highs in 1968. These increases were due in part to our entrance into new markets, both domestically and internationally.

Technical advances in product design and capability have kept the division in its position as the leading manufacturer of two-way radio communication systems. These advances were in response to the many communication needs cited by government agencies, industries, institutions and commercial businesses. In fulfilling these needs with newly designed products, the division emphasized its total communications system capability—ability to provide research, engineering, installation, maintenance, training and financing.

In Chicago, a new computerized radio-electronic alarm system is being built for 500 Chicago Transit Authority buses to decrease crime and to

1. mobile two-way radio
2. hospital communications control center
3. customized communications console for centralized control
4. portable two-way radio and pager

(major product lines)

mobile and portable two-way radio communications systems

hospital communications systems

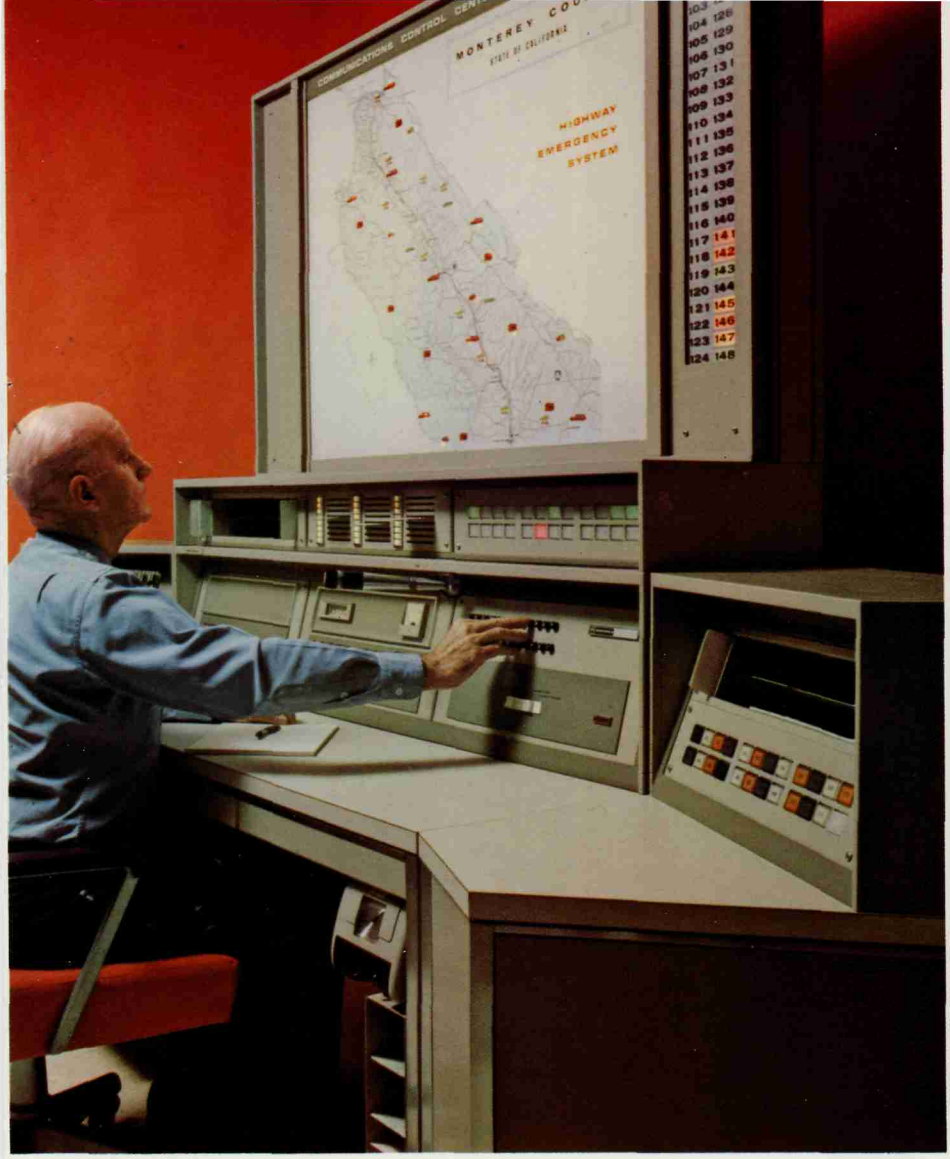
closed circuit television systems

microwave communications systems

pushbutton car telephone

signaling and remote control systems

precision instruments and components



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improve bus schedules. This will become part of a $2,000,000 demonstration project sponsored by the Department of Transportation and the CTA. This unique system will automatically provide identification, location and alarm status for every bus at a centralized control point, as well as provide direct two-way communication with each bus.

Typical of many major contract awards received in other market areas during the past year were: a large order for mobile and portable radio units from the Southern Railway System; a contract from the Washington, D.C. Metropolitan Police Department for the nation's model communications control center which utilizes the latest available technology; a complete security radio system for all Chrysler Corporation plants in the Detroit area; and a complete audio and visual communications system throughout the Fairfax Hospital of Falls Church, Virginia.

International awards included outstanding contracts for radio systems from the Korean National Railways, South African Railway Police and Argentina Federal Police.

New products introduced during the past year include: economy mobile radios designed for the small business user; a solid state 12-channel UHF mobile radio; three vehicular repeater systems and a voice scrambler for public safety applications; a field command post and a portable repeater system for civil emergencies; a nine-channel VHF marine radio and a 12-channel HF-SSB marine radio for maritime customers; a mobile teleprinter for on-the-move printed messages via radio; a hands-free intercom system and several visual communication products for hospitals; and a closed circuit television camera for light industrial and commercial use.

Plans were announced to begin manufacturing subassemblies in Fort Lauderdale, Florida during the second quarter of 1969. In the future, complete products may be manufactured there for direct shipment to the customer.

The division is planning further significant technical advances in its product line during 1969, and for continued growth in both sales and earnings for the coming year.

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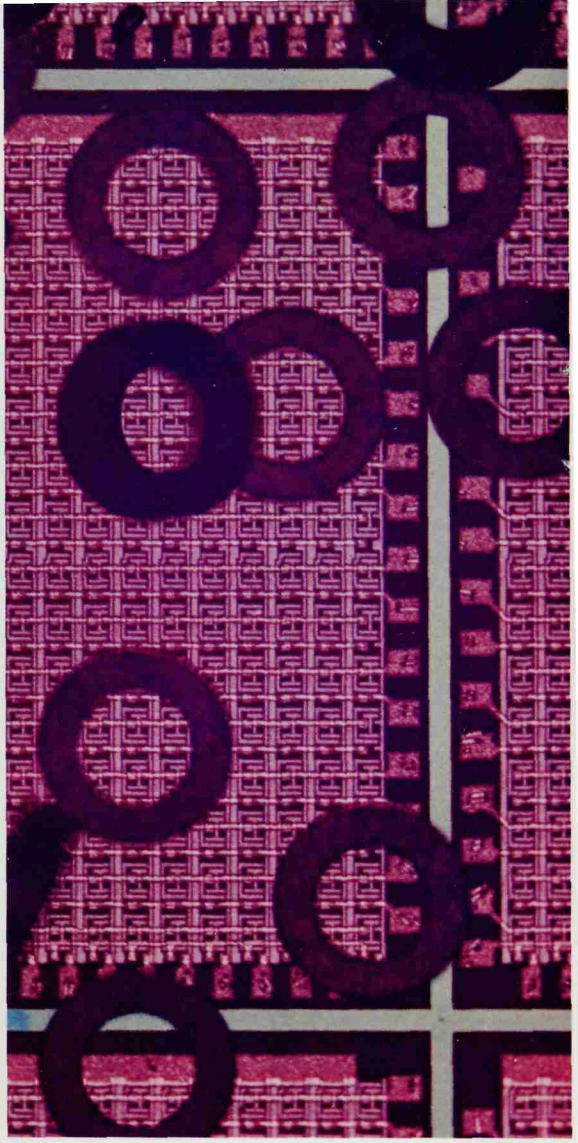


2

semiconductor products division

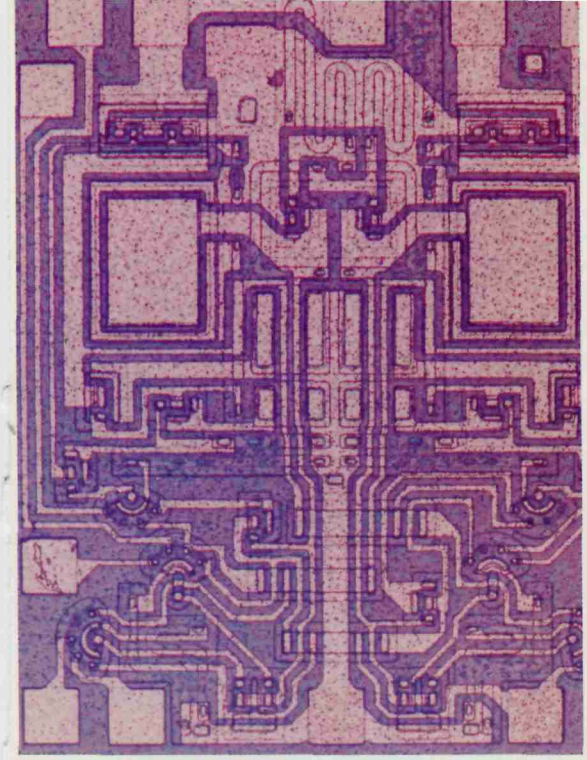
1. leader in plastic encapsulated devices
2. Large Scale Integration . . . 6x8 mil cell replaces 30 mil core
3. magnified integrated circuit
4. cutting hundreds of circuits from 2″ wafer
5. packaged integrated circuits (over 1500 standard types)

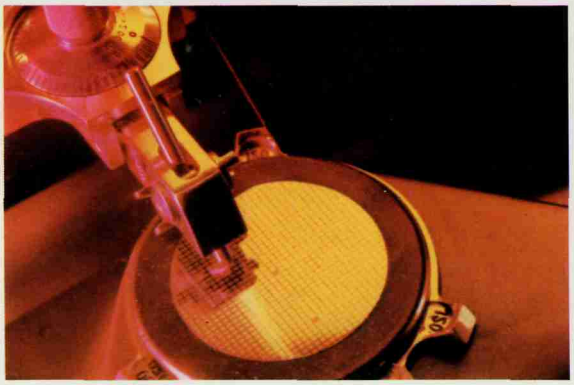
(major product lines)
integrated circuits
transistors
diodes and rectifiers
thyristors and triggers
multiple devices
special devices

The year 1968 marked a decade of continuous and extraordinary growth for Motorola's semiconductor products division. This milestone year was highlighted by two significant accomplishments.

First, the division set its tenth consecutive record-year in sales. The dollar sales for the division increased more than 35 per cent, while sales for the semiconductor industry increased by approximately 6 per cent according to Electronic Industries Association figures. Second, it is believed the division became the country's largest domestic producer of semiconductors.

Throughout the year, the division continued to diversify its product line, to increase production efficiency which resulted in larger quantities and lower cost, and to increase its share of domestic and foreign markets. Important advances in the develop-





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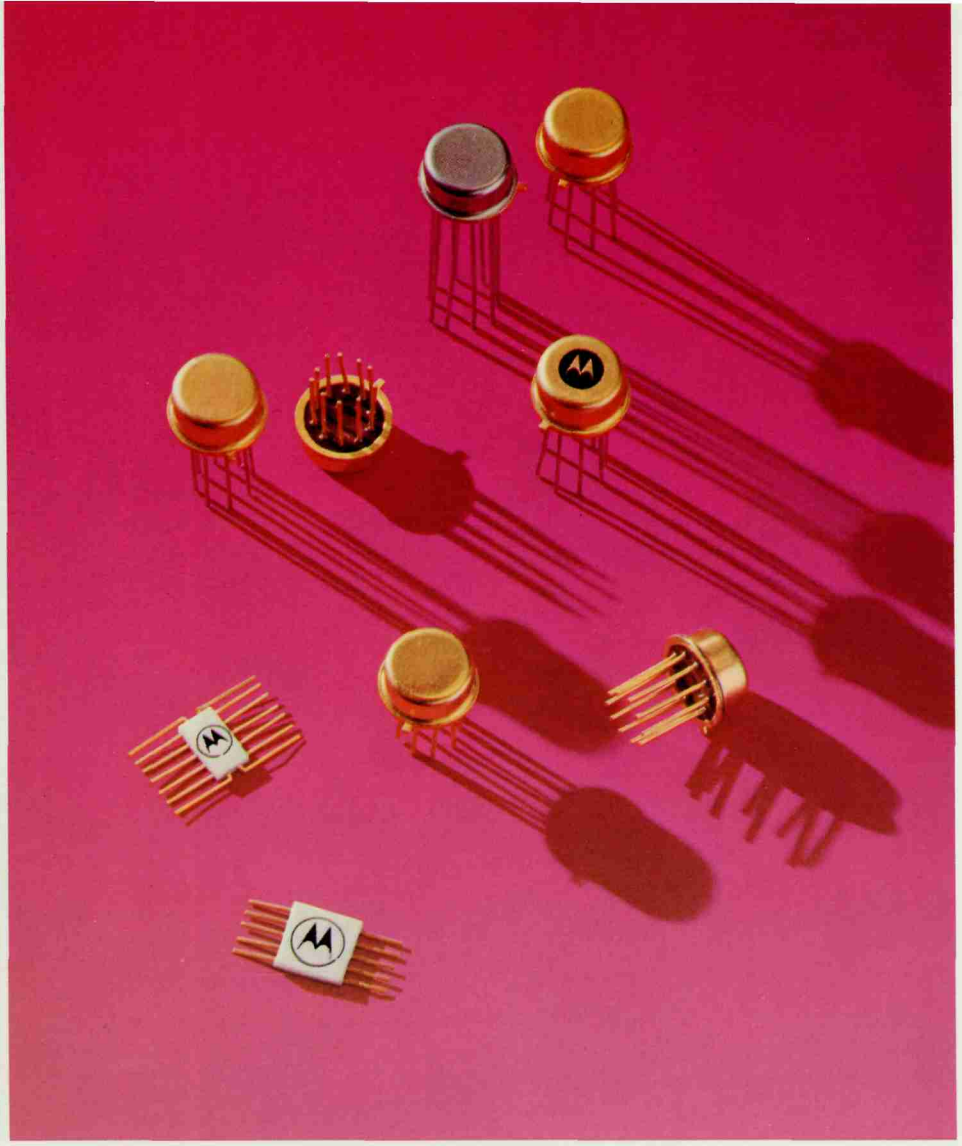

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ment of highly complex integrated circuits, which account for an increasing portion of the total dollar sales were made during the year. The division, which is believed to have the broadest line of integrated circuits in the industry, now produces over 1,500 different standard integrated devices, plus hundreds of specialized circuits for unique applications, with the list growing at the rate of 200 new integrated circuits per year.

Emphasis also continued on future product development and increasing both domestic and foreign production capacity to better serve today's expanding worldwide demand for semiconductors. The integrated circuit center in Mesa, Arizona was increased by 100,000 square feet during the year, bringing the total footage to nearly half a million. Another 133,000 square feet of production and support facilities is presently under construction at the site. In addition, the applications engineering laboratories and computer services department were centralized in a new 50,000 square foot building in Tempe, Arizona for more efficient operation. Early in the year, production was brought on stream at manufacturing facilities in Seoul, Korea and Toulouse, France.

Also during the year, the division began the enlargement of its Nogales, Mexico facility from 5,000 to 25,000 square feet, and firmed plans for the construction of a 40,000 square foot production facility in Guadalajara, Mexico.

The division is intent on further growth through the pattern of product diversity, production capability and marketing depth that has resulted in fine performance over the past ten years.

1

2

consumer products division

1. *Quasar* color television with "the works in the drawer"

2. stereophonic high fidelity phonographs

and for the *active* ones . . .
portable phonographs (3)
television (4) and radios (5)

(not shown)
table and clock radios
tape players
car radios

The consumer products division made significant progress during 1968 in sales, earnings, product, personnel and programs.

The "Quasar" color television marketing program, which had been carefully and rewardingly tested in nine markets early in the year, was launched nationally in September. For the total year of 1968 this program more than doubled Motorola's previous year's share of the above $600 console color television market. This remains an important segment of the total color television business. With important consumer benefits of relatively fast and economical service, due to the modular, mini-circuit design of the "works in the drawer," the "Quasar" concept has clearly demonstrated its singular and strong appeal to retailers and consumers alike.

Another service-convenient color

3,4

5

television chassis has been introduced under the promotional banner of "Fast-Back," for those consumers shopping in a price range under the "Quasar" line.

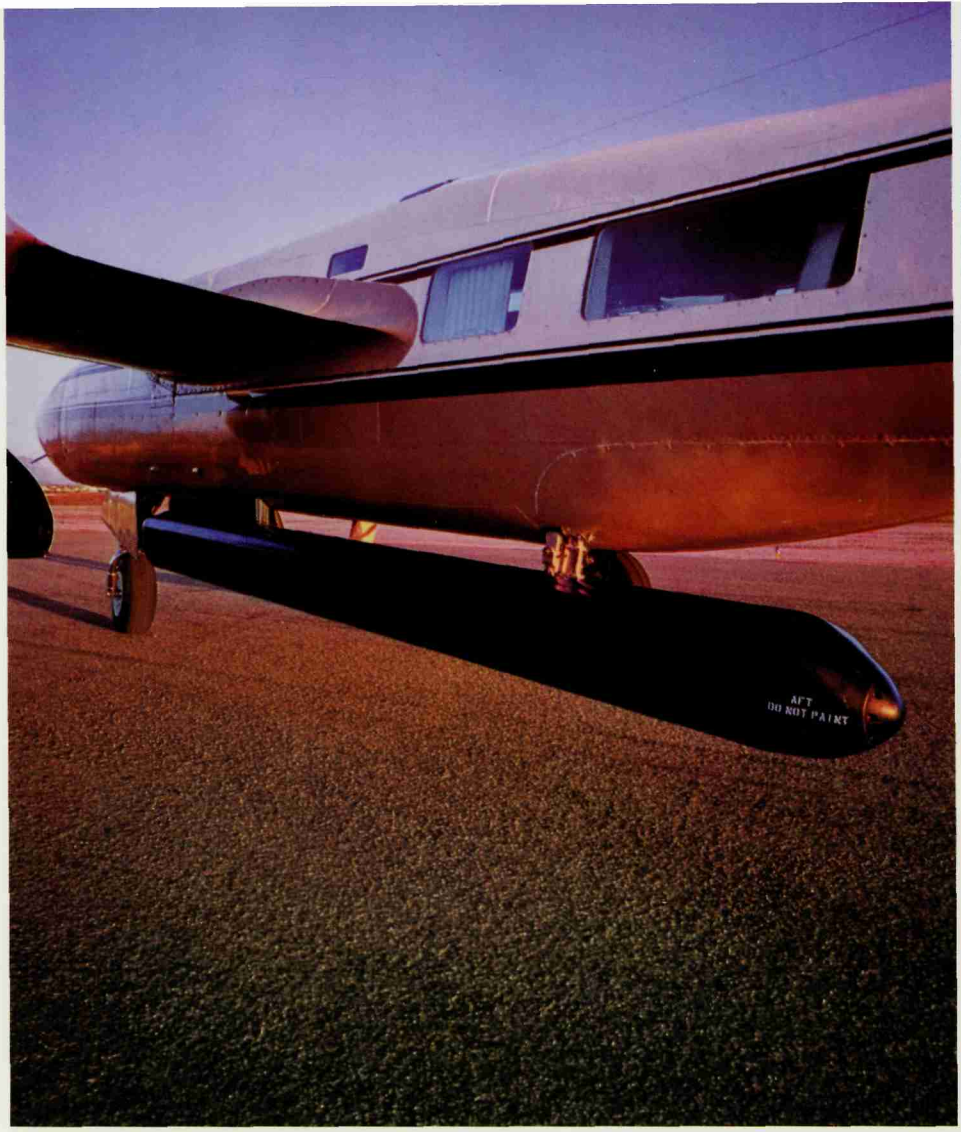
The division has allocated considerable funds during the past few years to the expansion of the field service training organization, seeking to keep retail service technicians informed on current and developing technology. An important part of the total "Quasar" marketing program includes an after-sale follow-through into the home to increase consumer satisfaction.

The product development program for all the division's products has been pointed in the same direction, seeking designs that produce greater customer satisfaction through service simplicity.

A management organizational structure, by product, was adopted during the year and significant steps were taken toward full implementation of this management concept. Product management groups were formed with separate and skilled staffs for television, radio and audio and auto sound products. At the same time, the marketing department added experienced managers at several key positions.

During 1968, the Motorola color tube facility supplied the majority of the division's needs for 20- and 23-inch color picture tubes, and also sold a portion of the output of 20-inch tubes to other set manufacturers. Continuing improvement in cost enabled the color tube facility to remain profitable while industry prices for picture tubes were reduced.

The sales and earnings achieved by the division during 1968 are planned to show further gains during 1969.



1

government electronics division

1. advanced side-looking airborne radar surveillance system
2. vital moon mission communication and tracking units with model of Apollo/Saturn
3. rugged radar transmitting and receiving set in 40mm shell

(major product lines)

aerospace communications systems

range instrumentation equipment

missile guidance systems

electronic ordnance devices

tactical radar and communications systems

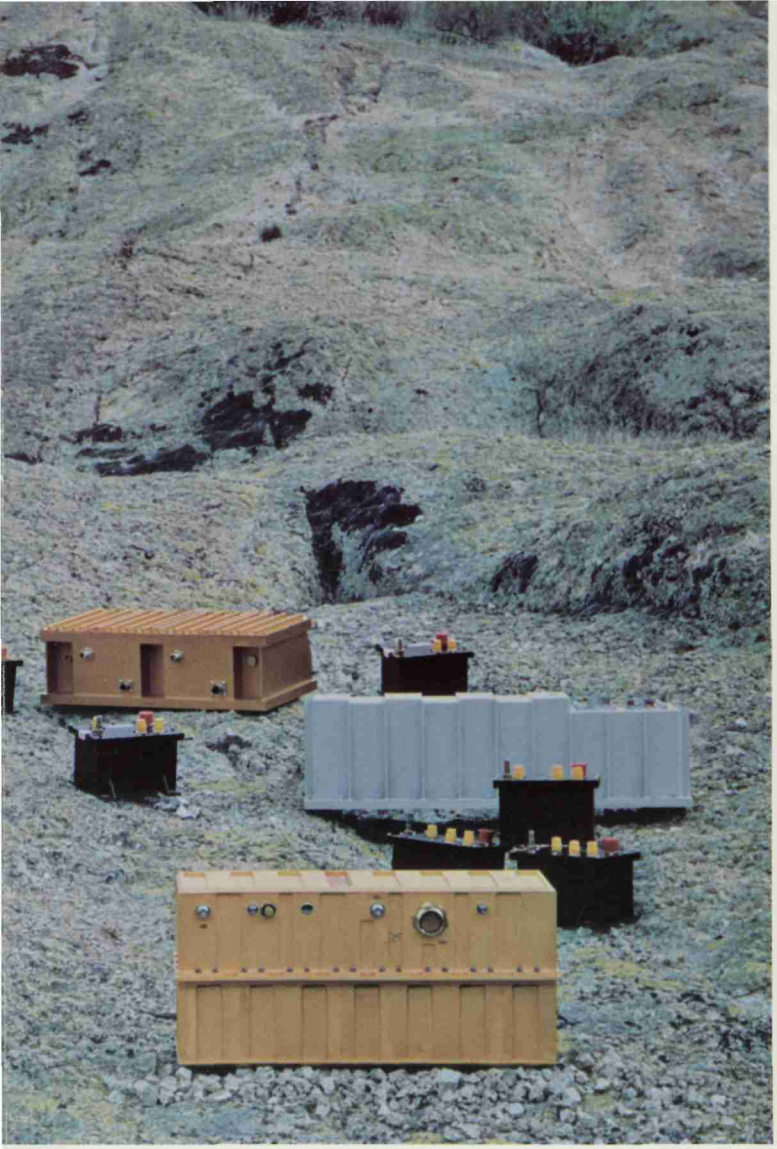
spacecraft tracking devices

undersea electronic systems

The division achieved significant improvements in sales and earnings during 1968.

To improve long-range profitability, a move was begun in August to consolidate all division operations. This consolidation of the division's Chicago-based operations with the division headquarters operation in Scottsdale, Arizona eliminated the requirement for duplicating overheads and substantial investments in facilities. In addition, combining the division's entire engineering capability at a single location will provide opportunities to participate in more of the larger, increasingly complex systems contracts being awarded by the government.

All research and development programs for the division were moved to Scottsdale during the fall of 1968 with only a few production contracts



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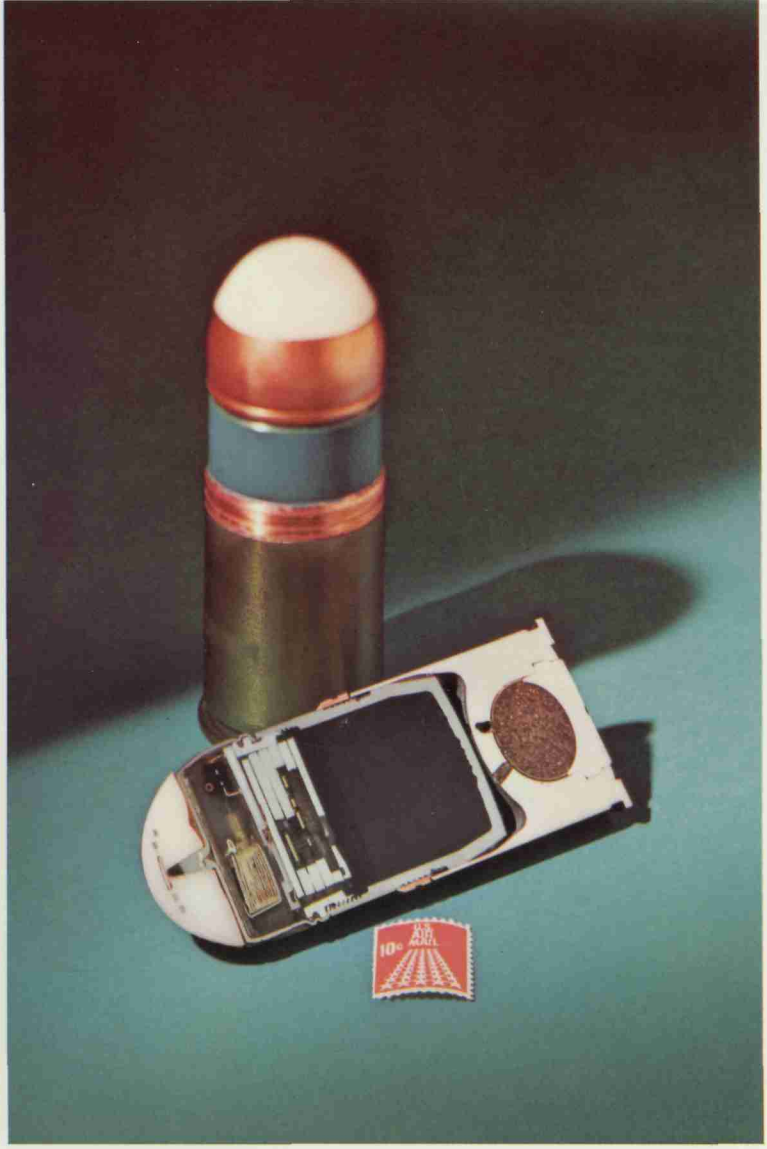

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remaining to be completed in Chicago during 1969.

In 1968, sales of an increased variety of products were made in more countries throughout the free world. Activities of the international office in Brussels were supported by the opening of a sales and service operation in Paris and a sales office in Canada.

The division continues to focus its efforts on obtaining advanced technology programs with a high probability of being continued following a cease-fire agreement in Viet Nam. Typical of the present business mix are: civilian and military spaceborne and ground station equipment for both manned and unmanned space programs; airborne side-looking radar surveillance systems; an expanding line of proprietary transponder products; a new system for drone control, called MINTACTS, designed to fit military needs for the 1970's; programs further extending the division's proven capability in developing and building in-flight data transfer systems for handling optical, infrared and radar imagery; production of solid state radar displays for the Navy; the Motorola environmental telemetry system, a new proprietary product; production of electronic proximity fuzes based on research begun in 1964, with total bookings to to date on this program alone now over 50 million dollars; and continuing work on other advanced electronic fuzing systems for small ordnance.

Continued profitable growth for the division is projected based on these and similar high technology programs.

1

automotive products division

The division achieved record sales in 1968, exceeding the previous high by 25 per cent. The division expanded its product lines and added new original equipment manufacturer, fleet, and aftermarket accounts.

Major strides were taken to gain a larger share of the original equipment auto tape player and private label home and automotive markets. Significant progress was made in penetrating the AM/FM car radio market. The underhood product line made important inroads into the military, truck, tractor, heavy machinery, industrial, agricultural, and marine markets.

Technological innovation, service, and excellent manufacturing capability are enabling growth at an accelerated rate.

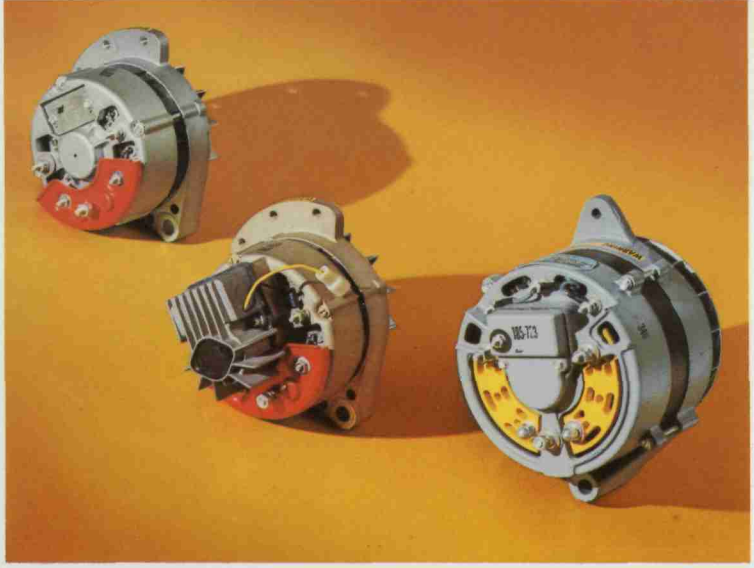
The division achieved an increased percentage of the total non-captive automobile radio business, supplying

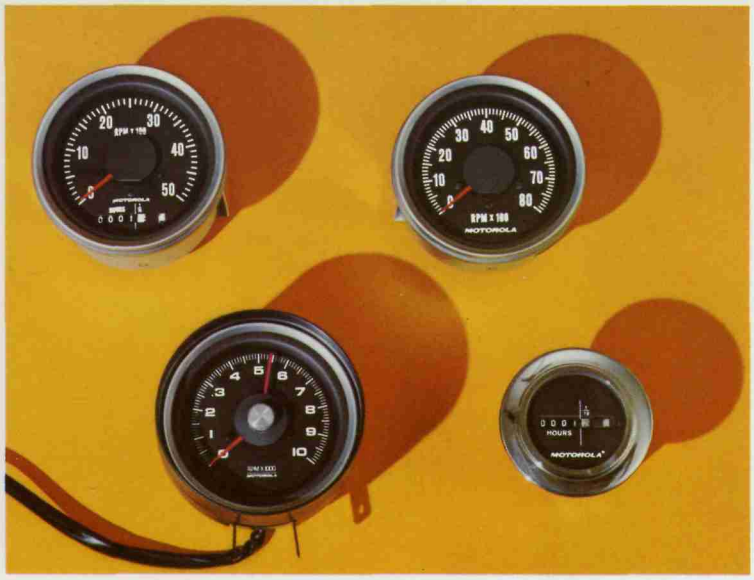
1. eight-track tape players
2. car radios
3. alternator systems
4. electronic tachometers and hour meters

(not shown)

capacitor discharge ignition systems

2





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100 per cent of the AM and AM/FM radios for American Motors Corporation, Volkswagen Distributors of America and Volkswagen of Canada, and others. Substantial quantities of radios were sold to Chrysler, Ford Motor Company, International Harvester, White Truck, Volvo, and Kaiser Jeep Corporation. A milestone was reached in September when the Midland, Ontario plant shipped its 1,000,000th car radio.

Auto, home, and portable tape players are being manufactured for many nationally known manufacturers and private label customers. A major highlight was a 3-year contract from Ford to continue to supply 100 per cent of Ford's 8-track tape players through 1971. Motorola is the sole supplier of tape players for American Motors and Volvo in the United States, and substantial quantities are supplied to Chrysler. Shipment of Playtape tape players for Volkswagen vehicles commenced in June.

The sale of alternators, capacitor discharge ignition systems, solid state hourmeters, tachometers, and hourmeter-tachometer combinations continued to grow at a steady pace.

An extensive investment is being made in research and development to enhance existing products and to develop new product lines. Our excellent advanced research staff should assure a technological vanguard position.

Internationally, the division continues to grow and carefully search out new markets. A global concept is applied to the development and marketing of all new products to serve all major world marketplaces with joint ventures, licensees, and other active programs.

Current commitments from major original equipment manufacturers for 1970 models, as well as other sales forecasts, indicate another year of growth in sales and earnings.

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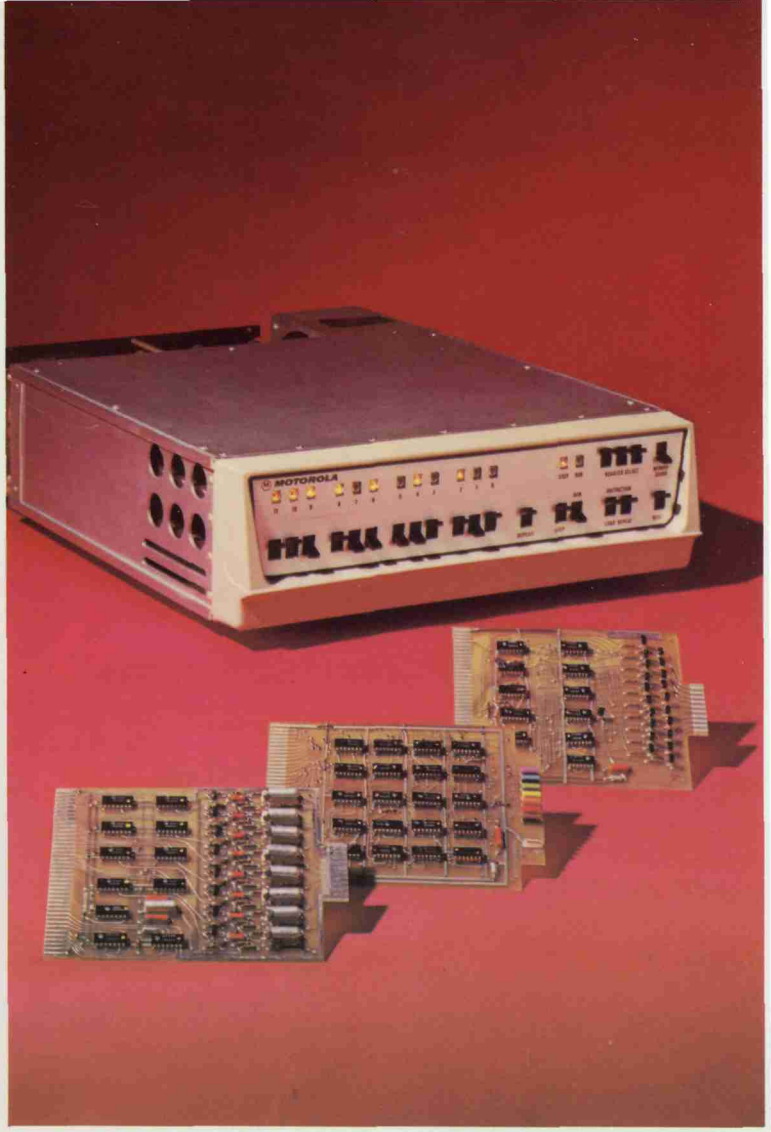


2

control systems division

The division increased its product diversification and announced major new technical contributions in three of its principal areas of activity.

Information systems, the major new product area, got off to an excellent start in 1968. The division's "Indiscriminate Reader," industry's first low-cost answer to data-input problems, has application in such high-density markets as communications, transportation, hospital, telephone, food, insurance, petroleum, and education.

Also in 1968, the division introduced its first computer — a small-scale, general-purpose, modestly priced unit. Orders were received from several sources, including oil companies, the telephone industry, and the management information field.

In phase with the development of the

1. optical reader provides low-cost means of source-data input
2. small computer for control systems and data collection
3. first fully automated bulk-loading terminal uses Motorola computer
4. VERITRAK system controls crystal-growing process for Motorola SPD

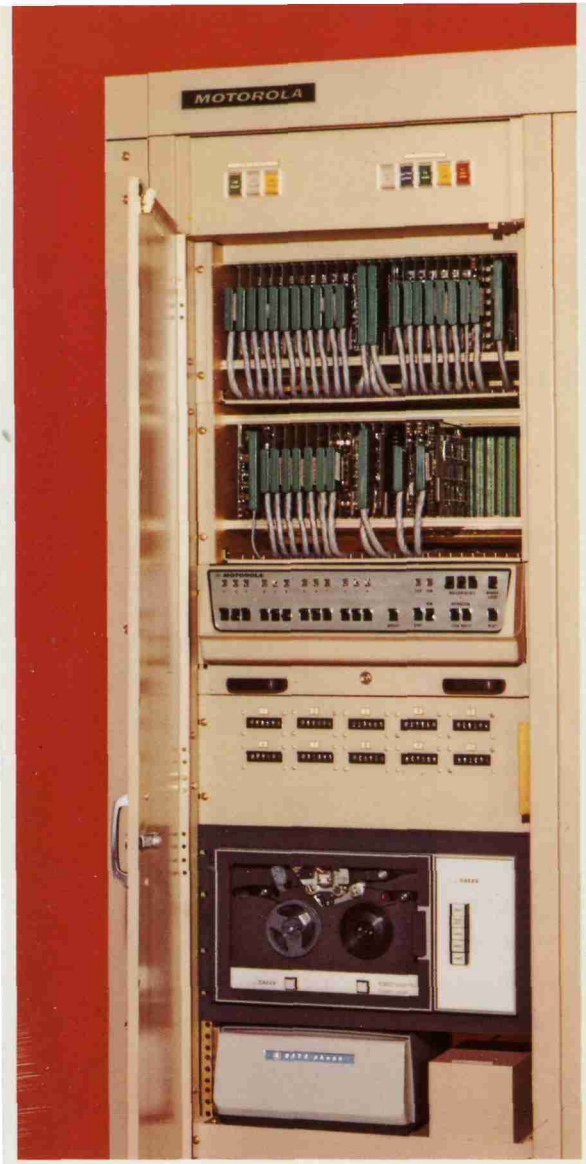
(major product lines)

process control systems and instrumentation

supervisory control systems

information systems

industrial automation systems



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computer has been another significant innovation in Motorola data systems activity, that of computerized industrial automation. Recently developed for a major oil company was the industry's first computer-controlled bulk loading terminal. This system will greatly increase efficiency of bulk loading terminal operation since it provides instant credit and product quota information, and facilitates completely automated direct billing from a remotely located central computer.

In addition, the data systems line is experiencing interest from new markets such as the agricultural chemical market and the automated fueling of jet aircraft.

In the process control field, Motorola's basic VERITRAK line of all-electronic instrumentation, introduced in 1962, continued to outpace the controls industry. At a recent Instrument Society of America Show Motorola introduced a generically new instrument for continuous process optimizing. Called the VERITRAK Performance Optimizing Controller, it represents the first industrial application of self-corrective techniques. This equipment has application in automated oil and petrochemical plants and in many other continuous-process industries.

Historically, the TELEMEMORY line of supervisory control products represents the earliest established business of the division. Included among the TELEMEMORY systems developed are some of the most sophisticated pipeline and electrical utility supervisory networks. Work is in progress to define a new generation of advanced supervisory control equipment to satisfy the markets of the 1970's.

Looking ahead, the division anticipates increased sales in the areas of process control systems, information systems and industrial automation. Substantial additional investment has been scheduled to expand our penetration into the burgeoning electronic data processing market with the sale of computer ancillary hardware and software systems.

CONSOLIDATED BALANCE SHEET

as of December 31

Motorola, Inc. and Subsidiaries

ASSETS	1968	1967
Current Assets		
Cash	**$ 23,369,706**	$ 22,132,822
Short-term investments, at cost (approximating market)	**26,254,590**	596,230
Accounts receivable		
United States government	**17,006,595**	17,955,600
Other	**124,218,265**	110,155,708
Allowance for doubtful accounts	**(3,512,000)**	(2,801,000)
Costs recoverable under United States government contracts, less progress billings	**11,377,685**	13,625,424
Inventories, at the lower of cost (first-in, first-out) or market	**121,063,571**	103,434,437
Future income tax benefits (note 2)	**10,894,516**	9,166,538
Other current assets	**8,612,627**	5,525,907
TOTAL CURRENT ASSETS	**339,285,555**	279,791,666
Plant and Equipment, at Cost		
Land	**8,437,157**	8,299,360
Buildings	**111,993,701**	103,341,055
Machinery and equipment	**107,455,665**	92,291,504
Accumulated depreciation (note 3)	**(82,304,817)**	(66,969,132)
NET PLANT AND EQUIPMENT	**145,581,706**	136,962,787
Sundry assets, net (note 4)	**13,482,988**	3,194,847
	$498,350,249	$419,949,300

Notes To Financial Statements

1 The accounts of all majority-owned foreign subsidiaries are included in the consolidated financial statements. At December 31, 1968 the net assets of subsidiaries operating outside of the United States and Canada aggregated $43,600,000 (including $30,000,000 net current assets) before deducting $30,000,000 of 4½% convertible debentures guaranteed by Motorola, Inc. and included in consolidated long-term debt (see note 4).

2 Future income tax benefits may result from the deduction from taxable income of reserves which have been provided on the books of the company but are not yet allowable as deductions in determining income taxes currently payable. Such benefits have been reclassified in the 1967 balance sheet to conform to the 1968 presentation.

3 Depreciation of plant and equipment is provided on the basis of the estimated useful lives generally by the declining-balance method for items acquired subsequent to December 31, 1953 and by the straight-line method for items acquired prior to that date.

4 Long-term debt at December 31 consisted of the following:

	1968	1967
4½% convertible guaranteed debentures due July 1, 1983	$30,000,000	$ —
4¾% debentures due April 1, 1986 (less $500,000 debentures held in treasury for sinking fund payment)	28,500,000	29,000,000
Revolving credit notes (U.S.)	30,000,000	30,000,000
Revolving credit notes (foreign) due $1,020,408 annually, 1971 to 1973	3,061,224	—
Notes payable		
3¾%, due $500,000 annually to 1972	2,000,000	2,500,000
4⅜% due $500,000 annually to 1976	4,000,000	4,500,000
Real estate mortgage	79,491	243,584
	97,640,715	66,243,584
Less current maturities, included in current liabilities	1,039,421	1,164,104
Noncurrent portion of long-term debt	$96,601,294	$65,079,480

LIABILITIES AND SHAREHOLDERS' EQUITY	1968	1967
Current Liabilities		
Notes payable	**$ 35,575,139**	$ 52,000,000
Current maturities of long-term debt	**1,039,421**	1,164,104
Accounts payable	**54,304,795**	38,788,540
Accrued compensation	**13,637,898**	8,748,066
Federal income taxes	**12,206,674**	7,596,079
Other (including withheld) taxes	**6,955,838**	5,586,580
Contribution to employees' profit sharing funds	**9,884,454**	4,956,347
Product and service warranties	**7,533,464**	5,121,682
Other	**21,833,201**	24,622,041
TOTAL CURRENT LIABILITIES	**162,970,884**	148,583,439
Long-Term Debt (note 4)	**96,601,294**	65,079,480
Shareholders' Equity		
Capital stock, $3.00 par value (note 5) Authorized: 10,000,000 shares Outstanding: 1968, 6,148,371 shares; 1967, 6,122,483 shares	**18,445,113**	18,367,449
Additional paid-in capital	**28,002,604**	17,712,959
Retained earnings (notes 1 and 4)	**192,330,354**	170,205,973
TOTAL SHAREHOLDERS' EQUITY	**238,778,071**	206,286,381
	$498,350,249	$419,949,300

In July, 1968, a subsidiary formed for the purpose of financing international activities of Motorola, Inc. and its subsidiaries operating outside the United States issued $30,000,000 of 4½% convertible guaranteed debentures due in 1983. The debentures are convertible into common stock of Motorola, Inc. at the rate of 6.25 shares of common stock for each $1,000 principal amount, subject to adjustment in certain events, and are guaranteed as to the payment of principal and interest by Motorola, Inc. The debentures are redeemable at various dates under varying conditions at redemption prices reducing from 104½% to 100% of the principal amount thereof. Proceeds of $8,550,000 are attributable to the conversion feature and have been credited to additional paid-in capital; debt discount in that amount (included in sundry assets) will be charged to earnings over the term of the debentures.

Under the terms of the revolving credit (U.S.), the company has the option of converting the notes to a five-year term loan on or prior to February 1, 1971; no reduction is contemplated in 1969. The agreement contains provisions restricting, among other things, the payment of cash dividends which are not to exceed $10,000,000 plus earnings (as defined) after December 31, 1965. It also requires the company to maintain consolidated working capital of not less than $75,000,000. At December 31, 1968, $72,000,000 of retained earnings was not restricted as to dividend payments.

5 In 1968 the shareholders approved a stock option plan providing for the granting of options through May 5, 1973, to key employees to purchase 300,000 Motorola, Inc. shares at not less than market value on date of grant. These options become exercisable one year from date of grant and expire at the end of five years. Options granted through 1965 under a former plan are all currently exercisable and expire at various dates through 1973.

During 1968 options to purchase 187,050 shares were granted, options on 18,600 shares were terminated, and options on 21,160 shares were exercised. The excess ($1,185,765) of the option price over the par value of shares issued was credited to additional paid-in capital. At year end 222,975 shares were under option at an aggregate option price of $23,080,909, of which 54,525 shares were currently exercisable in the amount of $3,328,284; 131,550 shares were reserved for future grants.

6 An Executive Incentive Plan, adopted in 1968, provides that certain of the companies may reserve up to 4% of their annual consolidated net earnings (as defined) for the payment of cash incentive awards. Such awards are payable generally in equal annual installments over a period of five years and are generally subject to the recipients' continued employment. At December 31, 1968 a reserve was provided for such awards reducing net earnings by $706,000.

7 The companies are obligated under repurchase and other agreements principally in connection with the financing of sales of products to consumers, and are defendants in suits and claims, which it is believed will have no material effect on the business of the companies.

CONSOLIDATED EARNINGS AND RETAINED EARNINGS

Motorola, Inc. and Subsidiaries

Years Ended December 31	1968	1967
Sales and other revenues	**$775,124,336**	$629,975,344
Manufacturing and other costs of sales	**542,172,890**	460,922,148
Selling, service, and administrative expenses	**137,754,304**	105,132,184
Depreciation of plant and equipment (note 3)	**20,071,002**	17,771,882
Contribution to employees' profit sharing funds	**9,884,454**	4,956,347
Interest and amortization of debenture expense	**7,865,490**	6,621,636
TOTAL COSTS AND OTHER EXPENSES	**717,748,140**	595,404,197
Income before federal income taxes	**57,376,196**	34,571,147
Federal income taxes, net of investment credit of $1,157,000 in 1968; $1,230,000 in 1967	**29,115,000**	15,755,000
Earnings		
(per share outstanding during the year: 1968, $4.61; 1967, $3.08)	**28,261,196**	18,816,147
Retained earnings at beginning of year	**170,205,973**	157,503,963
	198,467,169	176,320,110
Less cash dividends declared—$1.00 per share	**6,136,815**	6,114,137
Retained earnings at end of year (notes 1 and 4)	**$192,330,354**	$170,205,973

CONSOLIDATED ADDITIONAL PAID-IN CAPITAL	1968	1967
Balance at beginning of year	**$17,712,959**	$16,781,521
Excess of proceeds over the par value of shares issued under share option plan	**1,185,765**	931,438
Excess of market value over the par value of 4,728 shares issued in acquisition of a subsidiary's stock	**553,880**	—
Proceeds from sale of convertible debentures attributable to conversion feature (note 4)	**8,550,000**	—
Balance at end of year	**$28,002,604**	$17,712,959

See accompanying notes to financial statements.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
111 West Monroe Street
Chicago, Illinois 60603

The Board of Directors and Shareholders of Motorola, Inc.:

We have examined the consolidated balance sheet of Motorola, Inc. and subsidiaries as of December 31, 1968 and the related statements of earnings and retained earnings and additional paid-in capital and the statement of source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm accounts receivable from United States government departments or agencies by communication with them but we satisfied ourselves as to such accounts by means of other auditing procedures.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and retained earnings and additional paid-in capital present fairly the financial position of Motorola, Inc. and subsidiaries at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of consolidated source and use of funds for the year ended December 31, 1968 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.

February 26, 1969

CONSOLIDATED SOURCE AND USE OF FUNDS

Motorola, Inc. and Subsidiaries

Years Ended December 31	1968	1967
Source of Funds		
Earnings	**$28,261,196**	$18,816,147
Depreciation	**20,071,002**	17,771,882
Increase (decrease) in long-term debt	**31,521,814**	(1,664,092)
Additional capital	**10,367,309**	986,098
TOTAL	**90,221,321**	35,910,035
Use of Funds		
Additions to plant and equipment, net	**28,689,921**	27,515,450
Cash dividends	**6,136,815**	6,114,137
Increase (decrease) in sundry assets	**10,288,141**	(769,237)
Increase in working capital	**45,106,444**	3,049,685
TOTAL	**$90,221,321**	$35,910,035

TEN YEAR FINANCIAL SUMMARY

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968
Sales and Other Revenues	$293,081,127	301,049,185	298,219,845	346,881,779	377,852,809	419,066,694	516,973,065	682,374,719	629,975,344	**775,124,336**
Income Before Income Taxes	$ 27,756,237	26,548,813	19,900,308	26,514,514	27,126,526	38,926,724	57,838,678	60,012,843	34,571,147	**57,376,196**
Earnings	$ 14,171,237	12,633,813	9,517,308	13,206,514	12,926,526	20,666,724	31,838,678	32,952,843	18,816,147	**28,261,196**
Earnings Per Share*	$ 2.39	2.09	1.57	2.02	2.14	3.41	5.23	5.40	3.08	**4.61**
Working Capital	$ 63,336,998	73,790,019	95,078,616	96,804,189	92,358,852	107,625,939	118,014,680	128,158,542	131,208,227	**176,314,671**
Net Investment In Plant and Equipment	$ 33,436,676	44,594,599	48,427,446	54,783,818	67,283,543	67,836,835	81,082,588	127,219,219	136,962,787	**145,581,706**
Shareholders' Equity	$ 83,338,386	97,166,850	102,655,506	111,835,713	120,735,367	137,533,422	165,002,282	192,598,273	206,286,381	**238,778,071**

** Earnings per share are based on shares outstanding during the respective years, adjusted for share distributions.*
The conversion of 4½% debentures and the exercise of outstanding stock options would not result in a significant dilution of earnings per share.
Earnings per share shown above for 1962 do not include 17¢ of nonrecurring capital gain from sale of finance subsidiary.

Major Facilities Located At:

Chicago, Franklin Park, Quincy, Elgin, Pontiac, and Schaumburg, Illinois
Phoenix, Scottsdale, Mesa and Tempe, Arizona
Arcade, New York
Midland and Toronto, Canada
Toulouse, France
Seoul, Korea
Nogales, Mexico

Annual Meeting

The annual meeting will be held on Monday, May 5, 1969. A notice of the meeting, together with a form of proxy and a proxy statement, will be mailed to shareholders on or about April 7, 1969, at which time proxies will be solicited by management.

Transfer Agents

Harris Trust and Savings Bank,
111 W. Monroe St.,
Chicago, Illinois 60690

Chemical Bank New York
Trust Company,
165 Broadway,
New York, New York 10015

Registrars

Continental Illinois National Bank
and Trust Company of Chicago,
231 S. LaSalle St.,
Chicago, Illinois 60690

Irving Trust Company,
1 Wall St.,
New York, New York 10015

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DANIEL E. NOBLE

ARTHUR L. REESE

ELMER H. SCHULZ

WALTER B. SCOTT

EDWIN P. VANDERWICKEN

ELMER H. WAVERING

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ELMER H. WAVERING
President

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Vice Chairman of the Board and
Group Executive, Technical Divisions

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Executive Vice President, Finance
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Consumer Products Division

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THOMAS J. CONNORS
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Vice President and Manager,
Television Products,
Consumer Products Division

HOMER L. MARRS
Vice President and Director of Distribution,
Communications Division

JOHN F. MITCHELL
Vice President and Director of
Communications Products,
Communications Division

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Vice President, Human Relations

EDWARD P. REAVEY, JR.
Vice President, Marketing,
Consumer Products Division

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Vice President, Assistant to the President

ROGER C. SMITH
Vice President and Treasurer

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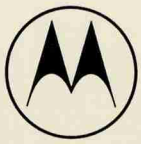
Vice President and General Attorney

ROBERT N. SWIFT
Vice President and Director of
Domestic Sales,
Communications Division

JAMES A. TORRENCE
Vice President and Manager,
Color Tube Plant

JOHN R. WELTY
Vice President and Director of Operations
and Services,
Semiconductor Products Division



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