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## Handsets: It's Motorola's Year to Shine

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With new models and faster networks, it looks like handsets in the class of 2005 have more than a Razr's edge over last year's bunch.

Mobile-phone sales hit an all-time high of 630 million units last year, riding a worldwide surge in demand for compact, colorful camera phones. If new features from **Nokia (NOK)** and sleek designs from **Motorola (MOT)** and **Samsung** helped pump up demand in 2004, then the second half of this year promises to be another huge event for wireless-device makers.

Going well beyond cameras, the newest batch of phones offers video, music, hard-drive storage, flash memory, Blackberry-inspired email and Wi-Fi access. In other words, the cell phone takes a step closer to becoming the all-in-one mobile device.

Motorola got the fashion party started last year with the hugely popular, super-thin, metal Razr phone. An estimated 3.5 million were sold in the second quarter ended in June, according to RBC Capital Markets analyst Mark Sue. The runaway success of the new status phone has helped turn the once-doddering wireless shop into the industry's design leader.

Motorola hopes to build on the Razr momentum with a few flashy phone due out this year. Among the offerings is Slvr, a non-folding version of Razr with video and music features. Also coming soon: the Pebl, a distinctly rounded take on the clamshell phone with a camera and an MP3 player. And for the email dependent, a phone unofficially called RazrBerry, Motorola's answer to **Research In Motion's (RIMM)** Blackberry, with a Windows Mobile operating system and a tiny Qwerty keypad.

But probably the biggest attention-grabber in Motorola's new lineup is Rokr, the iTunes-equipped music phone collaboration with **Apple (AAPL)**.

Bowing to pressure from Apple and unfinished commercial agreements with telcos, Motorola pulled the phone from two planned introductions earlier this year. But the delays have only fueled greater anticipation over the marriage of the iconic iPod and the ubiquitous cell phone.

Analysts say **Cingular**, the wireless joint venture between Bells **SBC (SBC)** and **BellSouth (BLS)**, will debut the iTunes phone after Motorola unveils it as early as this month.

While Motorola grabs all of the attention, No.1 handset maker Nokia has been busy trying to recapture its design prowess.

The Finnish tech giant started the year promising sweeping changes to its phone stylings, but a few stumbles have marred the recovery story.

Last week, in an ominous beginning to the second-half push, Nokia said it expected to delay for one month the introduction of its N90 camera phone. The new folding phone with swivel screen and gun-barrel camera lens is expected to jump-start the more expensive side of Nokia's product roster.

And looking ahead to the winter holiday season, gadget watchers await the second in the N-series, the N91. Aiming to crush the category, Nokia has loaded this expensive slider phone with a 4-gigabit hard drive for music and video storage as well as enabling Wi-Fi to connect to home and office computer networks.

But while Nokia has been getting all blinged up with a couple of fashion phones, it's failed to make much headway in mass markets like the U.S. where code division multiple access, or the CDMA standard, is big. Nokia vowed to reverse its market share losses in North America this year, but so far the performance has been a disappointment.

"We had expected stronger competition from Nokia starting this quarter but that has not materialized," Charter Equity Research analyst Ed Snyder wrote in a recent note. All that could change if Nokia gets its act together by the fourth quarter, but until then Motorola will continue to gain share and hold prices, says Snyder, who turned bullish on Motorola in June because of strong Razr sales and an improving profit margin.

Analysts are looking for Motorola to post net income of 24 cents a share on revenue of \$8.45 billion in the second quarter ended June 30. For Nokia, the Street expects a second-quarter profit of 24 cents a share on \$10.4 billion in revenue when the company reports later this month.

Close watchers say they will be looking at Motorola's second-quarter shipment tally. If the number of units exceeds 31 million, it would be a strong sign that Motorola's Razr is cutting into Nokia's lead.

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