

Sweet Music at Sony Ericsson

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Cell phone sales keep rockin' as **Sony Ericsson** turns up the music.

The mobile-phone joint venture of **Sony** (SNE) and **Ericsson** (ERICY) reported blowout numbers Thursday for the second quarter, which ended in June. The Stockholm-based company also boosted its industrywide handset sales forecast for 2006 to 950 million units from 900 million.

Analysts point to Sony Ericsson's sleeker phone designs and the strength of its music players for the company's second-quarter success. The report also gives industry watchers a good temperature reading as mobile phones continue to conquer the world.

For the quarter, Sony Ericsson shipped 15.7 million phones. That's a third more than a year ago and an 18% sequential increase from the first quarter. Revenue for the period was 2.27 billion euros (\$2.89 billion), well ahead of analysts' expectations for 2.13 billion euros. Net income in the quarter rose to 143 million euros, from 109 million in the prior quarter, and nearly double the year-ago level.

The company claims it added market share in the quarter. Lehman Brothers analyst Tim Luke figures Sony Ericsson captured 6.8% of the market, up from 6.2% in the previous quarter. The gains may have come at the expense of larger rivals like **Nokia** (NOK) and **Motorola** (MOT).

No. 2 player Motorola in particular has enjoyed nearly two years of market-share success, riding on the popularity of its slim Razr phones. But some observers see a strong challenger in Sony Ericsson's Walkman phones.

Music is coming up huge for Sony Ericsson, says Charter Equity Research analyst Ed Snyder in a note Thursday.

"Its success in spurring much higher sales, revenue and profits is an early indication of what will happen in the wider market once Nokia and Motorola release sleek handsets with strong MP3 functions," writes Snyder of Sony Ericsson's Walkman effort.

One sour note, though not alarming, is that the average price per Sony Ericsson phone fell to \$183 from \$190 in the first quarter, as the company introduced cheaper phones. But observers expect the average phone prices to stabilize and possibly rise as Sony Ericsson introduces more expensive models later this year.

Nokia shares fell 37 cents to \$18.81, while Motorola rose a quarter to \$19.25 in late-morning trading Thursday.

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