

## Miles to Go at Motorola

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Not fully three weeks in, 2007 is already shaping up as a tough year for **Motorola** (MOT).

The flagship Razr was already sinking before **Apple's** (AAPL) introduction of the iPhone finally buried the once-hot phone. Motorola shares hit a 52-week low last week just after the iPhone introduction.

But Motorola fans are hopeful that the Schaumburg, Ill., wireless giant has reached the bottom of this unhappy cycle. The company is due to report fourth-quarter results before the market opens Friday. And since Motorola already announced a profit shortfall -- marking its third financial disappointment in as many quarters -- there's some optimism that maybe all the bad news is out.

For some, Motorola's rebound could be just a phone or two away -- assuming the company can find a popular successor to the Razr.

"Most of Motorola's issues remain product-mix related, something that can be readily fixed with revamped handsets and better tiered-pricing," RBC analyst Mark Sue writes in a research note Thursday.

Motorola's willingness to slash phone prices sacrificed the bottom line in the latest quarter, but fans say the No. 2 handset maker may have clawed its way above the crucial 20% market share mark. This is an impressive feat, given the dominance of **Nokia** (NOK) and the design advances among rivals **Samsung**, **LG** and **Sony Ericsson**.

But the price cuts needed to sell 66 million phones in the fourth quarter might not be sustainable. In that regard, without a hot new phone, Motorola may have worked itself into a corner.

Some observers worry that the first quarter may reveal a big drop off in either sales volume or operating margin -- or perhaps even both.

"We don't see any easy way around low margins," says Charter Equity Research analyst Ed Snyder. "Motorola is likely to endure substandard margins to hold market share."

If Motorola says it can sell more than 59 million phones in the first quarter and keep operating margins above 7%, the bulls will have reason to cheer, Snyder writes. But if the number of phones sold in the first quarter falls below 54 million and operating margin shrinks under 6%, then the stock takes a beating, according to Snyder.

For the fourth quarter, analysts expect Motorola to post an adjusted profit of 25 cents a share on \$11.7 billion in sales.

Motorola shares were up 17 cents to \$18.64 in early afternoon trading Thursday.

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