

## Muddy Trails for Motorola

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Rapid recovery probably isn't at hand, but **Motorola** (MOT) fans are optimistic that most of the dreadful downside drama is over.

The No. 2 mobile phone giant is due to report first-quarter earnings before the market opens Wednesday, giving investors another installment of the great Motorola collapse story.

Last month the Schaumburg, Ill., wireless tech shop slashed \$1 billion off its first-quarter sales estimates, dismissed its CFO and poured \$3 billion more into a stock repurchase program. The stunning turn of events capped the company's fourth consecutive quarterly disappointment.

Analysts have warned investors to brace for a little more negative news out of the company's all-important handset unit for the most recent quarter. A full report may show negative margins as the company tried to mop up a big surplus of phones to bring inventory back to normal, say the Wall Street researchers.

But don't expect the glut problem to disappear completely.

In a recent research report, Charter Equity Research analyst Ed Snyder says the company's outlook will still be gloomy. "Our most recent checks suggest that Motorola will fall short of even preannounced expectations and provide exceptionally weak guidance for the June period," Snyder writes.

Analysts are looking for adjusted earnings of 2 cents a share on \$9.3 billion in sales for the first quarter ended last month, according to Reuters Research.

The news comes as Motorola CEO Ed Zander comes under fire from activist investor Carl Icahn, who said Friday that he now holds a 2.8% stake in the company. Icahn is strongly pushing for a place on the board and a chance to hold management accountable for the deteriorating business.

Icahn changed his call for a big dividend to a call for an immediate fix to what he called "operational failures."

Motorola has tumbled for the past year as its once-hot Razr phone fell out of fashion. And as luck would have it, none of the new designs have caught on with similar intensity. To make it worse, Motorola ran into snags with its new Scpl platform that was to be the basis for a whole family of slim, inexpensive phones.

But taking the long view, some analysts see the possibility for a bit of a reprieve.

"We believe fundamentals, and the stock, could begin to trend back up again in the back half of the year as the business gets rescaled and the company launches newer handset models," J.P. Morgan analyst Ehud Gelblum wrote in a research note.

Demand for mobile phones is still strong and the sales are growing at an annual clip of 10% to 15%, according to analysts and industry executives. Phone rivals like No. 1 **Nokia** (NOK) and chipmakers like **Qualcomm** (QCOM) are flourishing amid the spread of wireless calling worldwide.

But Motorola will continue to sit on the sidelines until it delivers phones that really grab the consumer, says Merrill Lynch analyst Tal Liani in a note last week.

"Given the poor handset portfolio, we see little upside potential in the stock until the company refreshes its portfolio," Liani writes. "In our view, past experience suggests that it would be more prudent to wait for hard evidence of such success rather than speculate on its timing."

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