

Qualcomm ban

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By Sinead Carew - Analysis

NEW YORK (Reuters) - When the U.S. International Trade Commission ruled against Qualcomm Inc. (QCOM.O: [Quote](#), [Profile](#), [Research](#)) and banned imports of new advanced cell phones using some of its chips, its shares rose to the surprise of many analysts.

Investors were relieved the ban -- on Qualcomm chips that the ITC said infringed on a Broadcom Corp. (BRCM.O: [Quote](#), [Profile](#), [Research](#)) patent -- did not apply to phone models that were already in the U.S. market. Qualcomm shares rose 2.07 percent on Friday.

But analysts said the early celebration may be misguided, and Wall Street could be underestimating the risks for Qualcomm and its clients if the company does not succeed in appealing the ruling or finding a work-around solution quickly.

Major U.S. mobile service providers like Verizon Wireless and Sprint Nextel Corp. (S.N: [Quote](#), [Profile](#), [Research](#)) depend on Qualcomm chips for the vast majority of their high-speed wireless phones.

The ban could also stunt sales of new advanced phones from Motorola Inc. (MOT.N: [Quote](#), [Profile](#), [Research](#)), Samsung Electronics (005930.KS: [Quote](#), [Profile](#), [Research](#)) and LG Electronics (066570.KS: [Quote](#), [Profile](#), [Research](#)) -- just as they need to compete with Apple Inc.'s (AAPL.O: [Quote](#), [Profile](#), [Research](#)) hotly anticipated iPhone, which is to be launched on AT&T Inc.'s (T.N: [Quote](#), [Profile](#), [Research](#)) network on June 29.

"The share move speaks to the optimism people want to apply to Qualcomm. This is bad news," said Charter Equity Research analyst Ed Snyder, adding that the ITC ruling could spark more legal action against the wireless chip maker.

Qualcomm, which is the dominant maker of chips based on the CDMA mobile standard, is already facing patent suits from Nokia (NOK1V.HE: [Quote](#), [Profile](#), [Research](#)) and competition complaints from six firms including Texas Instruments Inc. (TXN.N: [Quote](#), [Profile](#), [Research](#)) and Ericsson (ERICb.ST: [Quote](#), [Profile](#), [Research](#)).

"I would see this emboldening their opponents and may bring other lawsuits," Snyder said.

Qualcomm Chief Executive Paul Jacobs told a conference call on Thursday night that the ITC ban could stop the sale of "tens of millions" of phones in future, though it not have an immediate impact.

The chip maker and Verizon Wireless are requesting an emergency stay on the ban and a veto from the Bush administration, which has 60 days to review the ruling.

Shares of rival chip maker Texas Instruments rose 4.59 percent on Friday as investors bet it would benefit from Qualcomm's woes.

"If Qualcomm loses out, the company that gains is Texas Instruments," Stifel Nicolaus analyst Cody Acree said. Texas Instruments leads the market for chips based on W-CDMA, the technology AT&T uses.

ALTERNATIVE DESIGNS

Qualcomm said it was working on designs to avoid infringing the Broadcom patent, but noted that manufacturers and providers would have to agree to changes. "The work-around is not a panacea," Qualcomm general counsel Lou Lupin said.

Stifel's Acree said there was no clear indication that a technology fix would be ready for new phones this year. Any new design may not come in time to compete with the iPhone, which does not use the Qualcomm chips at issue.

"Whether it's the iPhone or just refreshed models, it leaves Sprint and Verizon selling the phones they're selling today," Acree said.

But analyst Matt Hoffman of Cowen & Co was more optimistic that a fix could come soon.

"We believe the potential 'fixes' still need to go through a few weeks of operator testing," Hoffman said. AT&T and Sprint said they were working with suppliers, but did not give details. Verizon would not comment on technology fixes.

Motorola said it had already been working to address a potential ban to mitigate the impact but did not give details.

Shares of Verizon Communications Inc. (VZ.N: [Quote](#), [Profile](#), [Research](#)), which owns Verizon Wireless with Vodafone Group Plc. (VOD.L: [Quote](#), [Profile](#), [Research](#)), closed up 1.13 percent. Sprint rose 0.87 percent and Motorola rose 1.13 percent.

Lawrence Harris of Oppenheimer cut his estimate for Qualcomm's 2008 earnings per share to \$2.05 from \$2.15 because of uncertainties introduced by the ban and dropped his 12-month share price target to \$49 from \$52.

He said the ITC ban hampered Verizon Wireless' ability to launch new phones to compete with the iPhone, and AT&T's plan to offer a Qualcomm mobile television service this year.

"Unfortunately, the ITC ruling, if left standing, could have all kinds of unanticipated consequences," Harris said.