

# Analyst sees increased risk for Qualcomm

## Downgrade based on Motorola technology shift, legal battles

By [Dan Gallagher](#), MarketWatch

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**SAN FRANCISCO (MarketWatch) -- A growing number of legal losses has done little to dampen Wall Street's enthusiasm for Qualcomm Inc., but American Technology Research sounded a note of caution Monday, removing its buy rating on the wireless-technology firm's stock.**

Analyst Mark McKechnie downgraded Qualcomm to a neutral rating. American Technology Research had carried a buy recommendation on the shares since April 2004. Spurring the move was news that wireless handset maker Motorola Inc. is moving away from using San Diego-based Qualcomm's technology in the development of third-generation, or 3G, mobile phones.

"We have confirmed that Motorola has already begun to shift resources away from Qualcomm's 3G efforts," McKechnie wrote, adding that components supplier Texas Instruments appears to be the beneficiary.

"Checks suggest a dramatic about-face on business rather than technical issues, with designers now encouraged to minimize Qualcomm in new products," McKechnie told clients.

The analyst also noted the string of recent legal setbacks for Qualcomm against rivals such as Broadcom Corp. and Nokia Corp. in the companies' long-running intellectual-property wars.

"We are confident of Qualcomm's long-term patent position, but would wait for signs of a legal victory before committing new money given the removal of Motorola as a chipset customer and now as a potential new threat to Qualcomm's royalty model," he wrote.

### Growing wariness

Shares of Qualcomm lost nearly 2% in afternoon trading. They're more than 20% since peaking above the \$47 mark in late May.

American Technology Research marked the second firm to downgrade Qualcomm in the last two months.

Ed Snyder of Charter Equity Research cut his rating on the stock to neutral on July 25 after Verizon Wireless

VOD struck a deal to pay Broadcom royalties based on handsets powered by Qualcomm's chips, which Broadcom says infringes on several of its patents.

Broadcom has secured an injunction from the International Trade Commission banning the import of handsets containing Qualcomm's chips. The commission began hearings on Monday in another case involving Nokia, which Qualcomm has accused of infringing its patents.

In the face of the growing number of legal setbacks, Wall Street has nonetheless remained overwhelmingly bullish on Qualcomm's shares. Of 31 analysts covering Qualcomm, 24 rate the stock as a buy while six carry neutral ratings and one has a sell rating, according to Thomson Financial data.

"The legal uncertainty notwithstanding, the underlying business appears strong with the company's product roadmap putting it in a leading position to capitalize as 3G demand accelerates," wrote Ittai Kidron of CIBC World Markets in a note to clients last month.

"It's disappointing, though, that the performance is not receiving any credit from investors, given the legal issues," said Kidron, who maintained an outperform rating on the stock. ■

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