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Moto: Still Looking For Mojo

Time to hang up on Motorola.

By TIERNAN RAY

MOTOROLA'S SHARES JOINED the parade of tech stocks heading higher last week, after the Schaumburg, Ill.-based cellphone maker bested Wall Street's third-quarter profit forecast and projected better-than-expected earnings for the current quarter. Its stock (ticker: MOT) shot up 4% Thursday, and closed the week up 0.31%, to 19.24.

A closer look at the company's latest numbers may be in order, however. The challenges [Motorola](#) faces in fixing its phone business are deeper than the pop in its stock suggests.

While Motorola, the world's third-largest maker of cellphones behind [Nokia](#) (NOK) and Samsung (005930.Korea), sold 5% more phones in September than in the prior quarter, the company continued to lose market share. It has relinquished a staggering 10 points of market share this year, more than all the business it gained on the success of its Razr phone.

Edward Snyder of Charter Equity Research raised his rating on Motorola to Market Perform from Underperform, based on the earnings beat. But he warned, "Market share is easy to give up and difficult to regain."

Yes, the cellphone market is vast and getting bigger. Total cellphone sales rose 15% in the third quarter, says the research firm iSuppli. But Motorola isn't cashing in on these boom times to the degree its fans had expected.

The follow-on to the Razr -- theRazr2 -- is strikingly similar to the original design, and its introduction in August failed to alleviate the impression that Moto's portfolio is long in the tooth. Unlike Samsung, the company won't have new phones on the market until the second quarter of 2008, Snyder figures.

Worse, Samsung can undercut Motorola on the price of components such as liquid-crystal displays and flash-memory chips because it is vertically integrated. It is precisely that advantage that helped push Moto into deep discounting, leading to massive operating losses in handsets. Let's not forget, after all, that the company's third-quarter earnings from operations of six cents a share were but a shadow of the 34 cents Motorola earned in the year-earlier quarter, even if reported profits were two cents higher this year than the pessimists on Wall Street had expected.

Nokia, meanwhile, has gone from strength to strength. In the September quarter the company sold 11% more phones than in the prior quarter, which is more than the

combined increase in the phone shipments of its four closest competitors, Motorola included, according to iSuppli. Unlike Motorola, Nokia continues to lower the average selling price of its phones, while raking in higher profits as sales volume surges.

[Apple](#) (AAPL), too, entered the market this year with its iPhone, a gadget offering the sex appeal once reserved for the Razr.

Another concern: Third-generation cellular networks are being rolled out, offering fast Web-browsing and e-mail. "3-G is a huge technological change, and Motorola is behind," says Mark McKechnie of American Technology Research.

[Research In Motion](#) (RIMM), which is tops in e-mail on a phone, just announced it is going to sell the BlackBerry in China, a tremendous growth market. As for Moto, it lost market share in Asia in the latest quarter.

In short, while Motorola seems to have stemmed the losses in its business, the company seems even less fit to compete these days, and its shares are unlikely to keep climbing. With blue chips like [Microsoft](#) (MSFT) back in favor, there are better ways to play tech's revival.