

# Motorola Plays a Weak Hand

**THESE ARE SAD DAYS FOR MOTOROLA -- THE AMERICAN** electronics pioneer largely responsible for inventing the cellphone.

While new Chief Executive Greg Brown had few options to salvage the company's mobile-phone business, hanging a "For Sale" sign on the free-falling wireless handset division wasn't the best way to seek survival. He threw in the towel.

It's no secret that **Motorola** (ticker: MOT) was shopping the handset unit. But going public not only told the world there were no serious suitors, it also alerted the company's talented engineers to update their resumes and bail. If there's no buyer, there will be little to spin off. Defections from the handset division were running high even before Brown went public. His move was a short-sighted attempt to pop the stock for shareholders like Carl Icahn, jeopardizing a merger or spinoff that could save jobs and keep customers and suppliers. Motorola shares jumped 10.35% on the news, closing Friday at 12.69.

**IT MIGHT BE THE BEGINNING** of the end for that division, if not the entire company. Investment in the unit will get slashed and higher losses for the group are nearly certain. "Why work nights and weekends on a crash course to bring a company-saving new phone platform to market when a new boss will probably sack you or a new manager could kill your concept?" asks **Charter Equity research analyst Ed Snyder**.

It's unlikely that any of the major handset makers will try to buy the business. There is so little value left in the unit that the major handset manufacturers are going to be thrilled to grab market share at little cost. The biggest winners are the Korean giants: **Samsung** (005930.Korea), No. 2 behind **Nokia** in handset market-share, and No. 5 **LG** (066570.Korea). They're both strong in the American market and sell Code Division Multiple Access (CDMA) handsets, the more prevalent standard in North America and Motorola's forte.

**Nokia** (NOK), which is on fire, will benefit a tad. It sold only 8 million CDMA handsets worldwide last year and has relatively weak relationships in the U.S. No. 4 Sony-Ericsson, a handset joint-venture between those two behemoths, is also a small player in the U.S. and doesn't concentrate on CDMA handsets, a possible -- but unlikely -- reason to pursue Motorola.

Motorola's CDMA handsets wouldn't overlap with Sony-Ericsson's products or geography, but that probably wouldn't be enough attraction for the joint venture to buy damaged goods. Ericsson Chief Executive Carl-Henric Svanberg said last week that Ericsson "would take a very cautious view on such a thing because we do believe you are better off doing it on your own."

The last resort: An offshore (probably Chinese) original design manufacturer -- a company that dreams up and makes products branded by others for sale -- could buy Motorola's handset operations or assets.

Former Chief Exec Ed Zander -- once a computer-marketing star -- is getting much of the blame for the implosion at Motorola, as he should. But the real blame lies with Motorola's board, which sacked former CEO Chris Galvin just as the handset unit was starting to turn around. They fired the wrong guy at the wrong time, and then hired the wrong guy, passing on former No. 2 Mike Zafirovski, now CEO of Nortel. Too bad they won't lose their jobs, too.