Should Motorola Hang It Up in Handsets?

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THE TROUBLES AT MOTOROLA CONTINUE TO DEEPEN, and there are growing concerns on Wall Street that the hole the company has dug for itself in the mobile-phone business has become so deep it might never climb out. That is hardly good news for Motorola 's already battered shares (ticker: MOT), which sank 12% last week, to 3.88. Motorola's woes have been well chronicled in *Barron's*, in columns and feature stories.

Last week the company reported yet another miserable quarter, with revenue falling about 26% from a year ago, to $7.14 billion. Most of the trouble, as usual, involved the mobile-phone business, which sold 19.2 million handsets, down from 25.4 million in the third quarter and 28 million in the second. The handset unit lost $595 million in the quarter, and $2.2 billion for the full year. Motorola projected a larger-than-expected first-quarter loss, suspended its dividend and announced the exit of its chief financial officer, Paul J. Liska.

Bulls note Motorola is cutting costs aggressively, and say its handset business should see some recovery in 2010 after the company finally unveils a line of smartphones based on the Google Android operating-system software. But in the mobile business, that is light years from now. Moreover, once the Motorola entry arrives, it will face competition from Apple, Research In Motion, Palm and a host of others.

Charter Equity Research analyst Edward Snyder cut his rating on the stock last week to Market Underperform from Market Perform, and figures the company will keep cutting the size of its mobile business until it "coalesces around a small, profitable product core or disappears." The bigger fear is the disease infecting that unit will infiltrate the rest of Motorola. Snyder says recent moves suggest management's new priority is to preserve the health of the consolidated company and prevent a liquidity crunch. Shuttering the handset business might help on both counts.

-- *Eric J. Savitz*