

Motorola Q4 outlook raises hope of turnaround

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By Sinead Carew

NEW YORK (Reuters) - Motorola Inc (MOT.N: [Quote](#), [Profile](#), [Research](#)) forecast a higher-than-expected profit for the current quarter, as it begins to sell two phones based on Google Inc's (GOOG.O: [Quote](#), [Profile](#), [Research](#)) Android software in a bid to regain ground lost to Apple's (AAPL.O: [Quote](#), [Profile](#), [Research](#)) iPhone.

After surprising Wall Street with a third-quarter profit, Motorola, whose shares rose almost 12 percent, forecast fourth-quarter operating earnings per share of 7 cents to 9 cents, compared with the average analyst estimate of 6 cents.

Analysts were quick to point out that Motorola has yet to prove that its phones can be popular again, but said results so far indicate that Co-Chief Executive Sanjay Jha will make sure the company delivers on its promises in the tough market.

Charter Equity Research analyst Ed Snyder said all units of Motorola showed improvement, and the company appeared to be making big strides in turning around the handset business, which has been losing ground for more than two years.

"The company's been losing market share and money. It looks like it may lose a little more market share but they're clearly on the path to making money again," Snyder said, referring to the handset business.

Jha, who runs the phone unit, said Motorola would sell fewer phones this quarter as it focuses on more expensive smartphones over mass-market, money-losing phones.

The cellphone unit's operating loss would therefore narrow this quarter, Jha said on a conference call, adding that the unit would break even for at least one quarter in 2010.

"Our smartphone traction is the critical driver of our financial performance" said Jha, who promised more new devices and supply deals in the first quarter.

MORE U.S. ANDROID DEALS

Jha told Reuters he expects deals with more major phone carriers in the first half of 2010, after sealing agreements to sell the new Droid phone with Verizon Wireless and another Android phone with T-Mobile USA this quarter.

"I'm very hopeful we'll have relationships with all the (big) U.S. operators with our Android devices in the first half of 2010," he said in a telephone interview.

Jha, who has reorganized the cellphone business around Google's Android system, said Motorola still plans to split off the phone unit from the rest of the company, which makes network gear and TV set-top boxes, but he did not say when.

Analysts said Motorola's smartphone sales in the current quarter could come at the expense of rivals such as BlackBerry maker Research In Motion (RIM.TO: [Quote](#), [Profile](#), [Research](#)) and Palm Inc (PALM.O: [Quote](#), [Profile](#), [Research](#)).

Top U.S. operator Verizon Wireless, a unit of Verizon Communications (VZ.N: [Quote](#), [Profile](#), [Research](#)) and Vodafone Group Plc (VOD.L: [Quote](#), [Profile](#), [Research](#)), is already advertising the Droid as an alternative to the iPhone.

Verizon will have the Droid in stores on November 6, while T-Mobile USA, a Deutsche Telekom (DTEGn.DE: [Quote](#), [Profile](#), [Research](#)) unit, will have Motorola's Cliq Android phone in stores on Monday. Other big U.S. mobile carriers include AT&T Inc (T.N: [Quote](#), [Profile](#), [Research](#)) and Sprint Nextel Corp (S.N: [Quote](#), [Profile](#), [Research](#)).

Sprint Chief Executive Dan Hesse told Reuters his company was hopeful it could do more business with Motorola but declined comment on its

Motorola posted a third-quarter profit of \$12 million, or 1 cent per share, compared with a loss of \$397 million, or 18 cents a share, a year earlier.

Excluding one-time items, the profit was 2 cents per share, compared with the average analyst expectation of break-even, according to Thomson Reuters I/B/E/S.

Motorola's third-quarter revenue fell 27 percent to \$5.45 billion, compared with Wall Street expectations of \$5.54 billion.

The phone unit's operating loss narrowed to \$183 million, from \$840 million last year and \$253 million in the second quarter.

Phone shipments fell to 13.6 million in the third quarter from 25.4 million a year ago. While this was below analyst expectations, investors focused on this quarter.

RBC Capital analyst Mark Sue said the timely delivery of new phones and carrier endorsements were key to Motorola's turnaround, adding that it may not be a smooth ride.

"We remain encouraged the arrows are pointing in the right direction and with improving execution focus, we believe Motorola's multiple may reach peer group levels," he wrote in a note to clients.

Motorola shares have almost tripled in value since March on high hopes for its Android phones. Its shares were up 92 cents at \$8.88 on the New York Stock Exchange Thursday afternoon.

In comparison, its biggest rival, Nokia (NOK1V.HE: [Quote](#), [Profile](#), [Research](#)) (NOK.N: [Quote](#), [Profile](#), [Research](#)), has seen its U.S. shares rise 50 percent.

Motorola also deepened its 2009 cost-cutting plan by \$100 million to \$1.9 billion and appointed Edward Fitzpatrick chief financial officer. He had been its acting CFO.

(Editing by Derek Caney and Steve Orlofsky)