

Pressured, Motorola Splits in Two

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After a two-month strategic review of its businesses, Motorola said on Wednesday that it would split itself into two separate publicly traded companies, spinning off its unprofitable mobile phone unit to investors.

The activist investor Carl C. Icahn, who has pressured Motorola to make such a move, said in a letter to its board that the announcement was "clearly a step in the right direction." But he questioned Motorola's commitment to moving quickly to solve its problems.

Gregory Q. Brown, Motorola's chief executive, conceded that the main problem facing the company was its inability to come up with new products to replace the highly successful Razr, which was once a must-have phone but has faded from the scene.

He said he hoped that by turning the mobile devices business into its own unit, the company would have better luck attracting a new chief executive to run it and revive Motorola's reputation.

"I think the challenges around Motorola have been about consistent execution," Mr. Brown said. "That is why it is so important for us to expand and improve our product portfolio."

Motorola's influence and stock price have declined as rivals have taken the lead in creating interesting devices. Apple and its popular iPhone, for example, have captured the attention of buyers in the high-end market.

Executives of Motorola, which is based in Schaumburg, Ill., declined to talk about what new handsets it planned to offer consumers in the coming months.

Next week is a big one for the mobile business, as all of the top handset makers and wireless companies are gathering in Las Vegas for the industry's largest American trade show, CTIA Wireless 2008. Many will take the opportunity to unveil flashy new phones that consumers will be snapping up over the next year.

But when it comes to Motorola, expectations are low.

"It will be interesting to see if they announce anything at CTIA," said Roger Entner, a senior vice president at IAG Research.

Rivals aside, Motorola is also facing pressure from investors — in particular Mr. Icahn — who are dissatisfied with Motorola's weak stock performance; the shares have dropped 44 percent in the last year. Cellphone production is the largest division of the company, with \$18.99 billion in net sales in 2007, a 33 percent decline from a year earlier. Last year, the division lost \$1.2 billion. Motorola's other two units are smaller but profitable.

Analysts have questioned what effect a split would have on operations and on attracting solid executives to the troubled company. Already there has been an exodus of executives from Motorola, among them Stu Reed, the former chief of the mobile devices division.

"The danger is they are getting rid of the underperforming part of the business just to get rid of it," Mr. Entner of IAG said. "The fear is in a year or two the operations will cease to exist."

The profitable side of Motorola is decidedly less well known than the mobile devices division. It makes set-top boxes and products used by businesses and law enforcement officials for scanning and fingerprinting, as well as data and video communications systems for public agencies like fire departments.

Motorola expects to have the spinoff, which will be a tax-free distribution to shareholders, completed by 2009.

The move to split the company has long been advocated by Mr. Icahn, who led a fight last year for a seat on Motorola's board. That effort failed, but it helped lead to the departure of the chief executive, Edward J. Zander, who was succeeded by Mr. Brown.

This week, Mr. Icahn sued Motorola, demanding internal board documents that he believed would show that it was lax in its oversight of management. Mr. Icahn is now leading a proxy fight for four Motorola board seats ahead of the company's annual meeting in May.

In his letter to the board, Mr. Icahn also questioned why it would take so long to complete the split, and why it took "the threat of a proxy fight for you to make promises we all want to hear." He did not return calls seeking comment.

There is still the chance that Mr. Brown and his board could decide to sell the mobile phone division if they do not find a suitable chief executive to run it. Selling it to a competitor was one option that Motorola pursued, according to a person involved in those discussions, but there were no takers.

Mr. Brown declined to discuss whether the division could be sold. "We've never had a 'For Sale' sign on it," he said. "After our review, we believe this is the appropriate action."

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