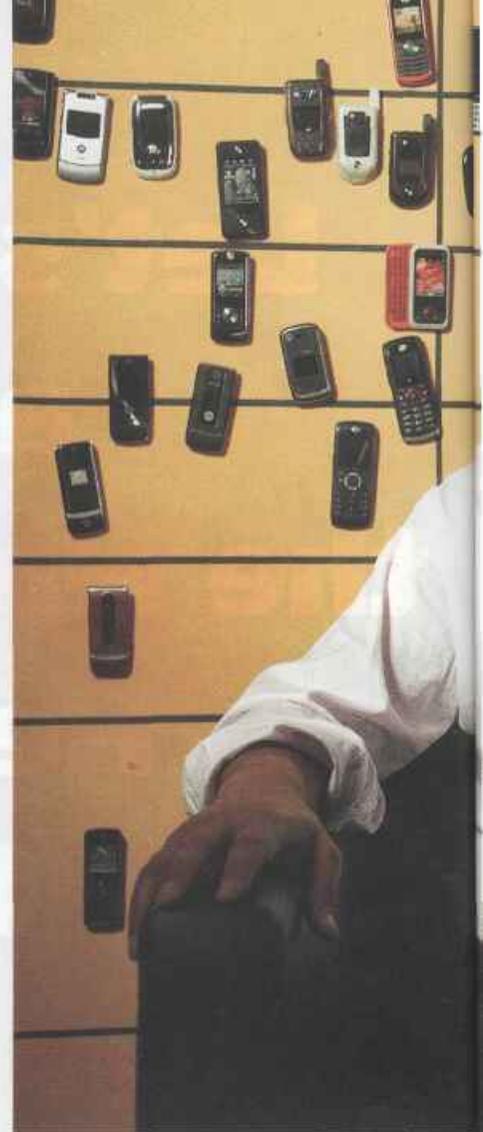


Motorola GETS IN THE Game

A NEW TECH WIZARD, SANJAY JHA, IS FIGHTING TO RETURN THE AILING CELLPHONE MAKER TO RELEVANCE WITH A SLATE OF NEW PHONES—AND A LITTLE HELP FROM GOOGLE.

By Jessi Hempel

Photograph by Michael Lewis

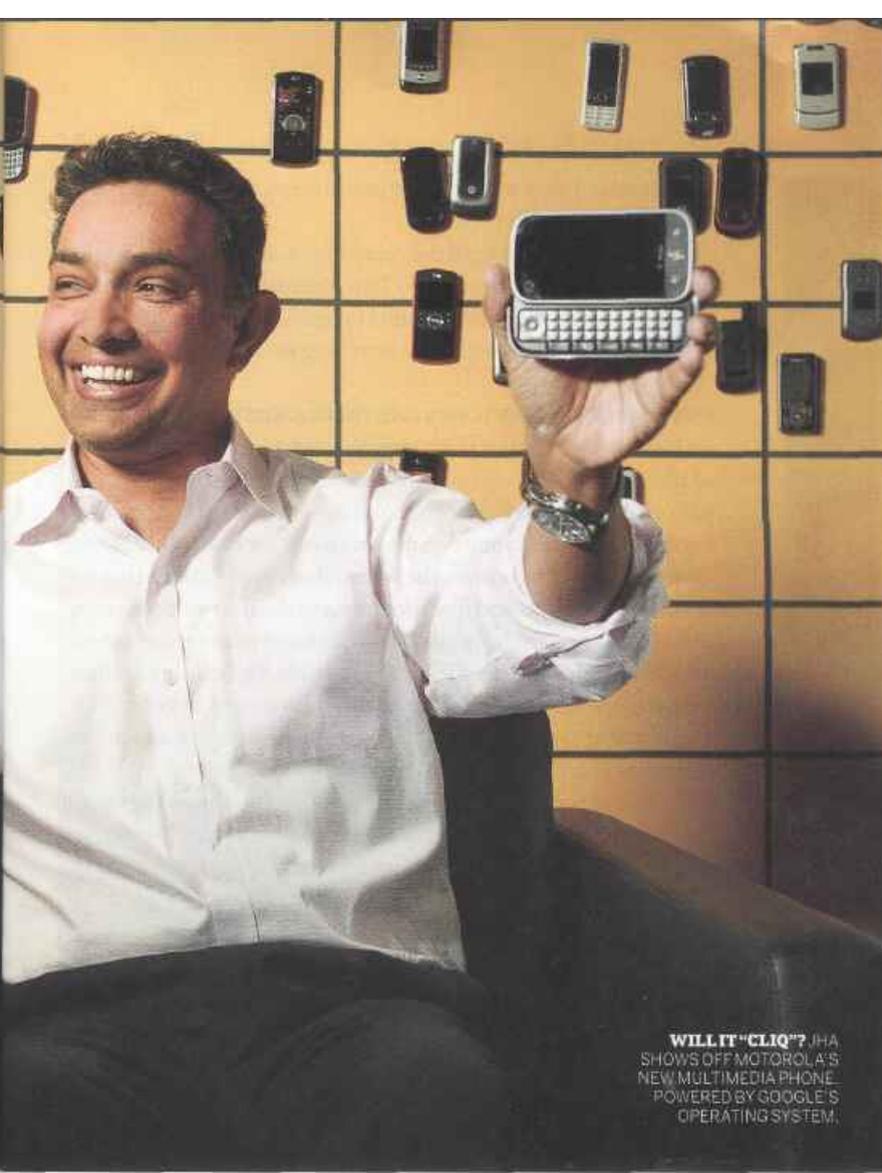


THE VIBE AT THE MOBILE INDUSTRY conference in San Francisco was a mix of anticipation and skepticism as Sanjay Jha, co-CEO and putative savior of Motorola, took the stage to discuss its newest wireless phones. In recent years the 81-year-old company had done little to excite the iPhone-brandishing set, but Jha's early September appearance held real promise for the gadget-loving audience. Jha, 46, an engineer who joined Motorola from wireless chip maker Qualcomm in August 2008, has bona fide technology chops. And it wasn't lost on the crowd that Jha had picked Apple's backyard to reveal the devices that would form the centerpiece of his strategy for turning around the company's moribund handset business. Google even sent its mobile czar, Andy Rubin, to sprinkle some extra high-tech pixie dust on Jha's presentation.

The mood quickly turned to disappointment. After describing two upcoming phones, Jha demonstrated only one: a smartphone with a slide-out keyboard, a touchscreen, and software that pulls

together different social-networking sites. If the device was cool-looking, the audience couldn't tell. It was barely visible in Jha's fist as he waved it aloft. Then he announced the full name: Cliq with Motoblur. (It will be branded "Dext with Motoblur" outside the U.S.) Huh? "So is 'blur' the name of the phone or the software?" a woman in the back row asked me.

With so much riding on its new handsets, such confusion spells trouble for Motorola, based in Schaumburg, Ill. (For the record, Cliq is the name of the phone; Motoblur is the software.) Once the undisputed king of all things wireless (astronaut Neil Armstrong announced his "giant leap for mankind" on a Motorola radio), the company should have been perfectly positioned to capitalize on the mobility revolution. Instead, through a series of missteps, it ceded its standing as the No. 1 provider of wireless phones to Nokia in 1998. It scored big in 2004 with its super-thin Razr, but its failure to produce another hit has been nearly fatal: In the second quarter Motorola's share of the global handset market was a mere 5.6%, down from 10% a year earlier. Even more problematic: In the most important sector for any device maker, the fast-growing market for web-browsing smartphones, Motorola is



Perhaps Jha's modest goals ("We don't need to hit a home run," he tells me) indicate just how daunting the Motorola turnaround is going to be. Unfortunately for Jha, there's nothing modest about Motorola's competitors. More than 20 Android-powered phones will come to market in the next year alone, and many of the manufacturers at least aspire to rival the iPhone or take down Research in Motion's BlackBerry. (For more on leading smartphones, see "BlackBerry vs. iPhone" on fortune.com.) If Motorola can't blow consumers' minds with a true breakthrough of a product—the kind of gadget high-schoolers beg their parents to buy for them or the "it" device that makes executives abandon their BlackBerries—its devices could end up collecting dust on retailers' shelves, along with dozens of other wannabes. Jha may have found himself captaining a farm team at the playoffs, but if he's going to save Motorola, he must find a way to make his team compete like champions.

LONG BEFORE JHA BECAME A CLOSELY scrutinized CEO, he was a superstar in tech circles—the rare engineer who could sell like a marketer and think like a businessman. Born in India and educated in Britain, he got his Ph.D. in electrical engineering before decamping to San Diego to work

nowhere. The handset division, which accounts for about 30% of Motorola revenue (it also makes cable set-top boxes, police radios, and other gear), was in such bad shape that the board of directors in January actually considered closing it down.

The board instead endorsed Jha and his strategy for reviving Motorola's best-known business. His straightforward plan: Build a series of user-friendly multimedia phones powered exclusively by Google's Android operating system, a computing platform that makes it easy for software developers to create applications for phones. These Google-driven smartphones will help Motorola "be in the game," Jha tells *Fortune* in one of a series of conversations—his most extensive interviews since joining the company more than a year ago. Sitting in a sunny conference room in Libertyville, Ill., where the handset division is based, Jha confides that he didn't know exactly what he was getting into when he agreed to try to turn around Motorola. He inherited, among other things, a dispirited workforce and an executive team lacking in smartphone experience.

for a small company. In 1994, Jha took an engineering job at Qualcomm, where he ran with a brash young crowd of mobile elite who included founder Irwin Jacobs's second son, future Qualcomm CEO Paul Jacobs. During Jha's 14-year tenure, he rose to become chief operating officer, working with nearly everyone in the industry along the way. He helped

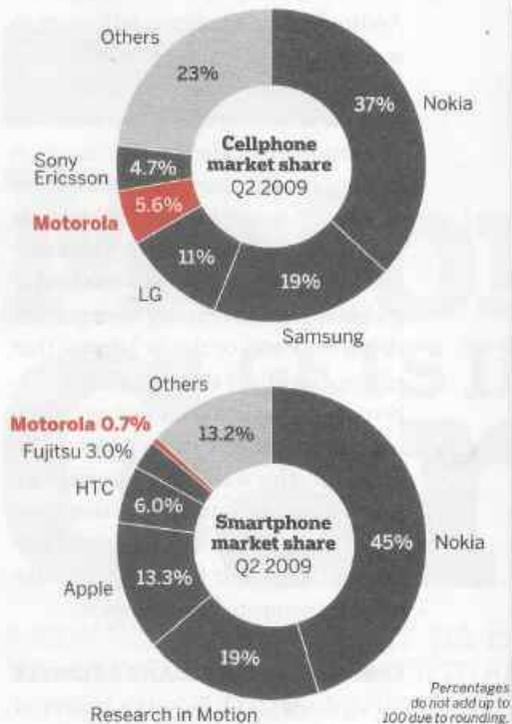
JHA, MOTOROLA'S 10TH HANDSET CHIEF IN RECENT YEARS, WAS "AS CLOSE TO PERFECT" AS IT GETS, SAYS A BOARD MEMBER.

T-Mobile chief technology officer Cole Brodman get devices to market in the U.S. and collaborated with Google engineering vice president Rubin on a chipset to support Android.

One person he hadn't really worked with was Motorola CEO Greg Brown, who was elevated to the position in 2008. They'd spoken exactly twice when Brown hopped a jet to San Diego to meet him for lunch on a wharf with a crazy proposition. In effect,

HOLD THE (SMART) PHONE!

Motorola's share in cellphones is low; its smartphone share is almost nil.



he invited Jha to become his co-CEO and help him clean up a mess so big that even private equity firms had passed on the chance to buy the company. The handset division had cycled through 10 presidents in 12 years; under former Motorola CEO Ed Zander the division struggled to get products to market and failed to innovate. Motorola's handset sales have plunged 68% since 2006, and in 2007 an unexpected new rival, Apple, introduced a completely different kind of mobile phone, reshaping the market entirely. To sweeten the deal, Motorola offered Jha an incredibly lucrative pay package worth up to \$104 million in cash and stock if he achieves certain targets.

He took the gig—"I had a feeling I could make a difference," he shrugs—and two months later the financial markets collapsed. Jha had to shelve plans to spin the handset division off as a separate stock. He streamlined his strategy and cut down his ambitious global goals to focus on just the U.S., Latin America, and China. He stripped \$1.4 billion in costs from his budget, laying off 30% of the division's employees and contractors.

Still, he knew it was on track to lose money in 2009. At a board meeting on Jan. 28, Jha felt he had to give the directors an unalloyed assessment of the handset unit and its prospects. "I presented every single option, including shutting down mobile devices, spinning it off, reducing the scope of the business even more," Jha explained. The division was a massive lag, but closing it would have been an expensive proposition too.

Jha promised that with proper investment, he could help the division break even in 2010.

The board voted to fund the company for another year. "I don't know if anyone is perfect," says Tom Meredith, a board member who had also served as acting chief financial officer in 2007. "But he was as close to perfection as anything we had."

PUT SIMPLY, JHA KNEW THAT MOTOROLA'S FUTURE DEPENDED on his ability to change the company from a mere manufacturer of phones to a provider of software and services. People used to buy their phones based on looks; now cool form factors have become the lowest common denominator for handset makers. Customers want to browse the web and use applications that let them check e-mails and find directions to the nearest Starbucks. But Motorola was in no position to build its own operating system and create a developer ecosystem a la Apple. By building around an open operating system like Android, launched in 2007, Motorola would be able to tap into the developer network already in place and provide more of these services to customers.

This strategy, along with Jha's upbringing at fast-moving Qualcomm, has demanded a radical culture change at Motorola. The company has done away with printed stacks of materials in favor of projected slide shows—not that Jha has much patience for presentations. He requires every discussion to begin with recommendations. "Very often Greg [Brown] and I will agree on a recommendation. We don't even go through the presentation," he says. As an engineer, he has incredibly high standards for physical design and is known to carry a caliper in his pocket so that he can measure the width of any device. Jha has also insisted that Motorolans work more closely with carriers to come up with products. "We used to take a bunch of phones and we'd say, 'Pick one,' or 'Pick seven,'" he explains. "We now almost have design workshops with them."

Plans to spin out the handset business are still in the works. Of course, things have to get a lot better for the U.S.—and for Jha's division—before that can happen. After all the uncertainty of the past year, Jha is reluctant to speculate about dates, but analysts think a spin could happen in late 2010—if the new handsets succeed. Meanwhile, among the Libertyville employees, there's a cautious but growing enthusiasm, a sense that there is once again much to be excited about. Says handset division CFO Marc Rothman: "Sanjay's passion resonates. You now hear people say, 'I think we've turned a corner.'"

Silicon Valley remains skeptical. Tech blogs slammed the San Francisco presentation as short on gee-whiz details. Jha himself admitted it took analysts and reviewers more than 15 minutes before they understood the value of the Cliq. (Google's Rubin calls the phone the "first state-of-the-art example" of how to incorporate Android in a device.) Jha thinks they'll also like what they see in a few weeks when the company launches its second Android-powered phone, this one for business users. The final judges, of course, will be consumers. If the Cliq and subsequent phones click with customers, Motorola's stock (and Jha's bank account) could be on the rise.