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Nortel Shuffle Gets Under Way

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Nortel's (NT) new hard-charging chief isn't wasting any time putting his stamp on the company's rebuilding efforts.

Barely two weeks into his job as Nortel's CEO, Mike Zafirovski has shaken up the organization by firing two top executives: research chief Brian McFadden and services head Sue Spradley. The company says the "organizational changes" were effective Monday.

Some analysts say Zafirovski's initial strike seems to take aim at some of Nortel's poorly performing businesses. McFadden had previously led the company's optical networking unit, and Spradley once ran Nortel's old-line telecom equipment division.

More cuts are likely, says UBS analyst Nikos Theodosopoulos in a research note Wednesday.

"We believe these steps are early signs of a more significant reorganization with further executive and non-executive reductions and changes expected," writes Theodosopoulos.

A Nortel representative said there are no plans for layoffs in these groups but added that the company was constantly reviewing its business strategy.

Others see the move as a positive sign for the company's turnaround.

These are the "first steps in what we believe will be a large reorganization of Nortel to increase efficiency and focus on markets where it stands a reasonable chance of making money," Charter Equity Research analyst Ed Snyder writes in a note Wednesday.

McFadden was replaced by Peter Carbone, who will fill in until the company finishes its search for a chief technology officer. And Spradley will be replaced by David Downing, who will run the company's global services unit.

McFadden was unavailable for comment, and Spradley did not return a call.

Zafirovski joined Nortel after the company's tortuous journey through an industry collapse and a bonusgate scandal. The latter brought on several accounting fraud investigations and led to the dismissal of at least a dozen executives.

While at **Motorola** (MOT), Zafirovski was credited with making sharp cost cuts and unambiguous decisions to shutdown laggard portions of the business.

Upon his arrival at Nortel, Zafirovski laid out a few goals for the company, including the expansion of operating margins into the range of 14% to 18%. Investors have since questioned how Nortel could pull off the huge leap from the 2% margin the company currently captures.

UBS analyst Theodosopoulos says the company would need to narrow its focus on a few strong product lines to achieve those profit levels.

Nortel shares were down 3 cents to \$2.81 and rival **Lucent** (LU) fell 2 cents to \$2.80 in midday trading Wednesday.

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