

Motorola Back in the Saddle

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Motorola's (MOT) third-straight quarterly shortfall has spurred CEO Ed Zander into action.

Deeming the fourth-quarter earnings performance "not acceptable," Zander announced a plan to cut 3,500 middle managers worldwide. Shares rose 3% as investors applauded the company's long-awaited gallop into action.

The layoffs are part of companywide effort to trim \$400 million in costs and return Motorola's operating margins to around 13% sometime in the second half of the year, Zander told analysts on a conference call Friday. Margins in the latest quarter sank to less than half that level.

Zander said he and his team were confident they could make changes, but he added that the process was not without challenges.

"It's like falling off the horse real hard," Zander said on the conference call. "Getting back on isn't so easy."

Motorola also provided full-year guidance, calling for earnings per share to be flat to slightly up from 2006 levels of \$1.13. Analysts were looking for 2007 adjusted profit of \$1.26, according to Reuters Research.

For the full year, Motorola CFO Dave Devonshire said he expected revenue somewhere between \$46 billion to \$49 billion. That's above the \$46 billion analysts were looking for in 2007.

On the cuts, Devonshire said the company was targeting middle managers "so decisions can be made faster." He expects the firings to be complete by the end of the second quarter.

Observers had anticipated that Motorola woes may have reached their full depth in the fourth quarter. And some were optimistic that the company could eventually find its footing in a very healthy mobile market.

But critics say it is a difficult year ahead for Motorola as it tried to keep its sales engine humming while its flagship Razr phone falls out of fashion.

Mobile-phone margins shrank dramatically in the fourth quarter as the company battled rivals such as **Nokia** (NOK) in a heated price war. As a result, operating margins in the handset division fell to 4.4%, dragging total company operating margins to 6.4%.

"This collapse in margins will be a big problem for investors as phones and related accessories are now 66% of all company sales," American Technology Research analyst Albert Lin wrote Friday.

The margin problem won't be reversing anytime soon, warned Zander, saying that first quarter phone pricing was already in effect.

Some analysts say a slow rebound could tax investors' patience as the company tries to align prices and costs.

"As we expected, there is no quick fix," Charter Equity Research analyst Ed Snyder wrote in a note Friday. "Current product line up won't see higher prices, while new, lower cost phones will take several quarters to hit the market.

Motorola shares rose 58 cents to \$19.29 in late morning trading Friday.

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