

Motorola's vision for spin-off may take too long

Commentary: Icahn stands better chance to win seats in second proxy battle

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SAN FRANCISCO (MarketWatch) - Motorola's decision Wednesday to spin-off its mobile phone business as a separate company is clearly the result of pressure from activist investor Carl Icahn, but the slow-moving company is not giving any indication that it will execute any better on this new strategy.

Motorola, which has been sparring with the billionaire investor for over a year, is also being disingenuous when it says that pressure from Icahn, who has commenced his second proxy fight with the company, did not play a role in its move. The two are again headed into one of this year's biggest proxy battles.

Icahn, who owns a 6.3% stake in Motorola, has been advocating for major changes at the telecommunications equipment company since last year, when he began amassing his stake.

Last May, Icahn called for former chief executive Ed Zander to step down if he failed to turn around the cell-phone business. Zander, who came to Motorola from Silver Lake and Sun Microsystems, got the company rallied around launching a hot phone, the Razr, in 2004, which helped Motorola regain lost market share. But its inability to follow up with another hit phone led to further market-share declines and falling profits for the Motorola unit. In June, Apple launched the iPhone, adding an even hotter rival to Motorola's growing list of issues.

During last spring's proxy fight, Icahn did not gain any board seats, but he got the attention of the board. Zander resigned as CEO in November and will step down as chairman at the company's annual meeting this May. Icahn also lobbied for Motorola to step up its share buyback plans, and called for the company to spin off the cell phone unit.

Activist investors, the polite moniker for those once known in the go-go 1980s as corporate raiders, have had more success in recent years propelling stodgy or stubborn companies into making new moves, or look at different strategies. Icahn himself also had an impact at BEA Systems Inc., where as the largest shareholder of the business software maker, he sued BEA after the company rejected a \$17 a share offer from Oracle Corp..

Oracle ultimately raised its bid to \$19, and BEA settled with Icahn.

Another example in the tech arena is investor Ralph Whitworth, who agitated for change at National Semiconductor the Santa Clara, Calif.-based chipmaker, in 2003. Indeed, National Semi divested the businesses that were not seen as crucial to its core analog chip business and became more focused.

But, not all activist shareholders and their ideas have had a positive impact on the companies they target. Six Flags Inc., a target of Washington Redskins owner Dan Snyder, has been reporting losses and its stock has tumbled in the last two years to \$1.70. Icahn himself has shown a propensity to flip-flop on some of the issues at Motorola, a possible indication of how complex its problems are. Still, he has had an impact. After initially calling on the board to increase the stock buyback program, a few months later he said the company should focus on its management issues. At the end of January, Motorola said it was exploring the structural "realignment" of its handset business.

On Wednesday, Motorola said its decision was not a reaction to pressure from Icahn. "The company has been reviewing opportunities to enhance shareholder value for quite a while," said Maya Komadina, a Motorola spokeswoman. In a recent letter to Icahn, Motorola said he had not stated his purpose. Others have suggested he is a short-term investor, or that he has too many other investments to pay enough attention to Motorola and its issues.

The company is still headed for a showdown with Icahn in May, where shareholders will vote on the board of directors. Icahn has nominated a slate of four board members, and Motorola said it would accept two of them, if he would drop his proxy fight. "Targets of contests often adopt positive corporate governance changes or agree to make strategic changes to forestall the contest's success," said Robert McCormick, president of Glass Lewis, a proxy advisory firm in San Francisco.

It is possible that this time around, Icahn has a better chance of winning seats on the board in the battle in May. He has pointed to the holes in Motorola's plans to execute the spin-off plan. He asked to know why the company thought it would take until "sometime in 2009" to complete the separation.

"Time is of the essence," he wrote in a letter to Motorola's board on Wednesday. There are other valid questions shareholders need to consider to determine whether the current board and management are the best to get the company moving more quickly. Motorola has not said whether or not the Motorola brand will reside with the handset business, while many on Wall Street are arguing that is a key to success. The company is also searching for a new CEO to head the handset business

If Motorola is taking so long to address these basic issues, perhaps it does need some new blood on its board, to help accomplish the very difficult task that it faces in spinning off and turning around its troubled cell phone business. ■

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