

Nortel Loss Grows, but It Expects to Meet Targets

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Nortel Networks posted a bigger first-quarter loss Friday as a series of charges weighed on results, but the telecommunications equipment maker reassured investors that it still expects to meet its full-year targets.

Nortel reported a loss of \$138 million, or 28 cents a share, compared with a loss of \$103 million, or 23 cents a share, a year earlier.

Wall Street initially reacted positively to the earnings, sending shares up to as high as \$9.36 before plunging in late-morning trade.

The latest results included a number of one-time items, including special charges of \$88 million for restructuring, a charge of \$12 million related to a patent lawsuit settlement, and a loss of \$19 million due to changes in foreign exchange rates.

Revenue was \$2.76 billion, up 11.1 percent. The boost included a release of deferred revenue related to the completion of a big contract in Nortel's joint venture with LG Electronics that was previously expected to happen in the second quarter, the company said.

"The financials were very much better than people expected," said Edward Snyder, principal analyst at Charter Equity Research.

Nortel's shares surged by about 5 percent early Friday morning on the Toronto Stock Exchange. However, they soon reversed direction to drop 45 Canadian cents, or 5 percent, to C\$8.42.

Lehman Brothers analyst Inder Singh also called the Toronto-based company's results "solid," adding "most importantly, Nortel kept its annual outlook unchanged."

Chief Executive Mike Zafirovski told analysts during a conference call that revenue from CDMA wireless technology was "down 2 only percent...despite a pretty tough environment in North America."

Demand for wireless technology products that Nortel makes has been tepid as carriers have remained reluctant to spend big on large-scale upgrades or expansions for now.

"For as far out as we can see, it's definitely going to stay that way," Snyder said. "You're not going to see a big increase in spending with carriers, for a bunch of fundamental reasons -- they're not making much more money, so they're not going to spend much more money."

The tight hold that carriers are keeping on their purse strings and stiff competition from low-cost Asian vendors have been among the key reasons behind Nortel's difficulties.

Despite the loss in the quarter, Nortel said it was pleased with the results and expects to achieve its full-year forecasts. These include revenue growth in the low single digits, gross margin of about 43 percent of revenue, and operating margin as a percentage of revenue to increase by about 300 basis points.

"We've started the year off with a good quarter in a pretty tough macro environment and we remain firmly focused in achieving our 2008 objectives," Zafirovski said.

The comparable 2007 quarter included special charges of \$80 million for restructuring.

Toronto-based Nortel has spent the majority of this decade trying to repair itself after the technology bubble burst in 2001, taking the company's fortunes with it. It has thus far failed to return to profitable growth, despite thousands of layoffs and the efforts of several management teams.

In late February, it said it would slash an additional 2,100 jobs as it tries to cope with persistently weak demand for the equipment it produces.