

CEO of Nortel steps down as company liquidates

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FILE - In this June 18, 2009 file photo, Nortel Networks Corp. CEO Mike Zafirovski speaks at a parliamentary committee in Ottawa. Zafirovski is stepping down as CEO of Nortel Networks, which is currently liquidating, it was announced Monday, Aug. 10, 2009. Additionally, Nortel's board of directors will be reduced from nine to three.(AP Photo/The Canadian Press, Sean Kilpatrick, file)

(AP) -- Nortel Networks CEO Mike Zafirovski is stepping down from the troubled telecommunications company, saying "a natural transition point" has been reached as the company continues to liquidate.

The company also announced Monday that its board of directors will be reduced to three, from nine, and that its second-quarter losses more than doubled, partly on reorganization costs.

Zafirovski, a protege of former [General Electric](#) Co. head Jack Welch, was named CEO in 2005 after serving as an executive at [Motorola](#) Inc. and GE.

He tried to transform Nortel but said the economic crisis changed the outlook dramatically, forcing Nortel to become the first major technology company to seek bankruptcy protection in this global downturn.

Zafirovski, 55, presided over a disheartening series of work force cuts and restructurings during his tenure, and most recently the selling off of assets. Swedish telecom company LM Ericsson agreed last month to buy parts of Nortel's wireless business for \$1.13 billion. The deal is subject to approval by the Canadian government.

With Zafirovski gone, Nortel said the company will ask accountants at Ernst & Young "to take on an enhanced role with respect to the oversight of the business, sales processes and other restructuring activities."

Zafirovski said Nortel expects to find bidders for most of the remaining assets by the end of next month.

"It's bittersweet," Zafirovski said in an interview with The Associated Press. "We did come with aspirations to fix what many people thought was a broken icon. Many people thought it was impossible and frankly we thought we gave it a great run. A year ago this time we thought we were on the verge of a pretty significant turnaround but the world turned upside down on us."

Nortel is winding down a company with a 127-year history in Canada and has been in advanced talks to sell the rest of its operations.

Zafirovski had hoped to restructure and preserve Nortel since seeking

bankruptcy protection in Canada and the United States in January, but then decided to sell the company off in pieces rather than attempt to emerge from bankruptcy as a restructured company.

Zafirovski said in a statement earlier Monday that the "capital structure and legacy costs coupled with the economic downturn proved too difficult to surmount" and said that maximizing the value through the sale of the businesses is the best outcome for creditors, customers and employees.

"The direction has been set and we are now at a natural transition point as we continue to service customers, maximize value through sales and continue [restructuring](#) activities," he said.

Nortel employs more than 25,000 people around the world. During the 1990s telecom and Internet boom, Nortel had more than 95,000 employees.

At one point in 2000 it accounted for one-third of the market value on the entire Toronto Stock Exchange and had a market capitalization of \$297 billion. These days, the stock is trading for pennies, and its market capitalization is down to about \$26 million.

After the dot-com bust in the early part of this decade, Nortel had problems of its own: an accounting crisis that sparked shareholder lawsuits, regulatory investigations and the firing of key executives, including CEO Frank Dunn.

Nortel Chairman Harry Pearce said in a statement Monday that Zafirovski made progress on getting the company past its prior accounting scandals and legal issues during his tenure. He said it was unfortunate the transformation was derailed by a deteriorating economic climate and the company's legacy cost structure.

"We've reached a logical departure point," Pearce said in a statement. "Mike made a commitment to see the process through the stabilization of the company, sale of its largest assets and the right plans and people to continue operating our business and serving customers. He has done so."

Zafirovski said he gave it everything he had. He told the AP he'll take some time to reflect on his future, but has no plans to retire.

Nortel was founded as Northern Electric and Manufacturing in 1895, supplying equipment for Canada's telephone system. The company pioneered digital network switches in the 1970s and grew into a major telecommunications supplier after the U.S. breakup of AT&T in 1984 expanded competition in the industry.

By 1997, Nortel had become the world's second-largest telecommunications gear maker behind AT&T spinoff Lucent Technologies.

But Nortel grew too quickly, overpaying for acquisitions with its inflated stock. The company was bleeding revenue as the dot-com bubble burst and spending on network gear vanished early this decade.

Zafirovski was brought in to resurrect the company, but the latest recession hit information-technology spending worldwide, and frozen credit markets made it more difficult to sell off business units to raise cash.

Nortel announced Monday it lost \$274 million, or 55 cents per share, in the second quarter, partly on reorganization costs of \$130 million. That compared with a loss of \$113 million, or 23 cents per share, a year earlier.

Revenues slid 25 percent to \$1.97 billion.

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