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NEWS ANALYSIS
By Arik Hesseldahl

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Symbol: Signs of a Job Half-Done

CEO William Nuti's sudden departure to take the top post at NCR leaves the bar-code and RFID technology provider stuck in mid-turnaround

About a year ago, William Nuti was winning praise for what appeared to be healthy turnaround of fortunes at Symbol Technologies. Now, his sudden departure to head NCR makes his time at Symbol look like a job left unfinished -- especially given the \$30 million second-quarter loss it announced Aug. 1.

Nuti will take over as NCR's ([NCR](#)) CEO on Aug. 8. He fills the space left by Mark Hurd, who earlier this year left NCR to head up Hewlett-Packard ([HPQ](#)) (see [BW Online, 3/28/05, "HPs Next Chief: One Tough Call"](#)). An NCR spokesman said Nuti was spending the day meeting with employees and executives at the company and unavailable to be interviewed for this story. NCR's stock closed down 3.6%, to \$33.47, on Aug. 1.

SLASHING JOBS. Once a vice-president at Cisco Systems ([CSCO](#)) who was widely considered a possible successor to John Chambers, Nuti took over the corner office at Symbol ([SBL](#)) during a period when nothing seemed to be going right. At the time he joined Symbol in 2003, the outfit was reeling from an accounting scandal concerning channel stuffing and overly aggressive revenue recognition that saw two senior execs plead guilty to fraud charges. This eventually caused the company to restate five years worth of earnings and revenue.

Clearly, Nuti leaves Symbol in better shape than he found it. Sales during his tenure were up more than 23%, from \$1.4 billion in 2002 to \$1.73 billion at the close of 2004. And he turned a \$45 million 2002 loss into an \$82 million 2004 profit.

Nuti departs at a time when Symbol is cutting earnings estimates and jobs -- in June it announced it would slash headcount by 700 before the end of 2005. Prior to the Aug. 1 announcement of a \$30.5 million loss on sales of \$427.8 million in the second quarter, it had already cut earnings estimates twice. Symbol says it expects sales to be flat in the current quarter.

DEPRESSED DEMAND. With its stock trading near the bottom of its 52-week range -- it closed at \$9.85 on Aug. 1, down more than 15% -- the company could become an acquisition target, according to analysts. It has a rich legacy of patents in the bar-code business but has sputtered in areas relating to Radio Frequency ID tags (RFID) technology, which, over the long term, appears to be the successor to bar codes.

And despite Nuti's restructuring efforts, selling, general, and administrative costs

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nearly doubled on his watch. The company cited higher compensation and benefits costs in its salesforce and investments in technology and financial systems as part of the reason for the run-up in its most recent 10K filing. And its flagship bar-code scanning business is no longer the powerful profit center it once was.

Chris Quilty, an analyst at Raymond James in St. Petersburg, Fla., says the Holtville (N.Y.)-based manufacturer of laser bar-code scanning equipment is hurting from depressed demand for its products, particularly in the retail-equipment market, which accounts for more than half its sales.

LATE TO THE PARTY. Symbol also faces higher-than-expected operational costs, plus an increasingly competitive environment from other companies, such as Intermec Technologies, a unit of Unova ([UNA](#)). "Symbol has basically built its business around a patent-litigation strategy surrounding laser bar-code scanning," Quilty says. "What's happening is that some of the patents are expiring, and some competitors have introduced competitive alternative technologies."

Meanwhile, Symbol has failed to capitalize on RFID, which retail giant Wal-Mart has instituted as a requirement for its suppliers. Wal-Mart's announcement in 2003 that it was embracing RFID caught Symbol off guard, Quilty says.

One response was an acquisition of an RFID startup called Matrics Systems in July, 2004, for which Symbol paid an eye-popping \$230 million. But "that deal has turned out to be nothing but a disaster," says Pete Abell, an RFID industry consultant with EPC Group in Boston. By taking over Matrics, Symbol also inherited a preexisting lawsuit with Intermec concerning RFID patents.

LEGAL CHALLENGES. Meanwhile, Intermec has pressed its offensive against Symbol on the RFID front, having acquired IBM's ([IBM](#)) RFID patent portfolio in 1997. It's currently offering a one-time opportunity for companies to license some 150 patents necessary to comply with Wal-Mart's RFID standards, but that window closes at the end of this month, and Symbol still hasn't taken out a license.

"Symbol has taken a confrontational approach with Intermec," Quilty says. "It's used to being the company with the strong hand squeezing the necks of its competitors." It isn't alone, though -- only a few companies have taken up Intermec's offer.

Last week Unova, Intermec's parent, disclosed that the U.S. International Trade Commission had launched an investigation into Symbol over its import into the U.S. of some handheld-computing devices that may violate some Intermec patents. Intermec also scored a shot on Symbol by winning a five-year, \$250 million contract to provide RFID data-capture devices to the U.S. Defense Dept.

STALLED PROGRESS. Quilty has maintained a sell rating on Symbol, while other analysts remain cautious on its prospects. "The stock may prove to have been undervalued if the company can deliver on promises," writes JP Morgan's Paul Coster in an Aug. 1 research note. "However, we believe the burden of proof is on [the] management."

That will put pressure on Symbol to complete the turnaround that Nuti began. The company says it has retained the executive-search firm Heidrick & Struggles to begin the hunt for a replacement. Meanwhile, CFO Sal Ianuzzi has been named interim CEO. This shake-up in the executive suite won't make the process of getting Symbol back on track any faster or easier.

[Hesseldahl](#) is a writer for BusinessWeek Online in New York

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