



Sun Micro's New Chief Schwartz Pledges to Revive Sales Growth

April 25 (Bloomberg) -- Sun Microsystems Inc.'s new chief executive officer, Jonathan Schwartz, pledged to revive sales growth and reverse five years of market-share losses.

Schwartz, who was named yesterday to replace Scott McNealy as CEO, said he will review spending over the next 90 days and that he doesn't plan to cut a lot of jobs at the fourth-largest maker of server computers. McNealy will remain chairman.

"We're going to be ramping up the business," Schwartz, 40, said yesterday in an interview. "A lot of what we've focused on over the past four years was recovering the product line."

Schwartz's pledge echoes that of McNealy, who bought companies to add technologies and to keep Sun's products competitive in the market for servers, the computers used to run Web sites and corporate networks. While McNealy's strategy boosted sales, it failed to stem losses that totaled \$4.51 billion over four years. Sun is also falling behind rivals Hewlett-Packard Co. and Dell Inc.

Shares of Sun gained 44 cents, or 8.8 percent, to \$5.42 in extended trading yesterday after the change was announced. They added 5 cents to \$4.98 in regular Nasdaq Stock Market composite trading and have risen 19 percent this year.

Schwartz's remarks about status quo may not satisfy some analysts and investors looking for quicker improvement.

"I feel there's a change under way at Sun, I just wish it would happen faster," said Brent Bracelin, an analyst at Pacific Crest Securities in Portland, Oregon. "There doesn't seem to be a sense of urgency."

The company may need to eliminate as much as 25 percent, or 10,000, of almost 39,000 employees before Sun can boost profit, according to Sanford C. Bernstein & Co. analyst Toni Sacconaghi in New York.

New Look?

Schwartz, a blogger who wears his hair in a ponytail, joined Santa Clara, California-based Sun in 1996 when it acquired his company, Lighthouse Design Ltd. He orchestrated the 1999 purchase of Forte Software Inc. for \$700 million, Sun's biggest at that point. He also is credited with developing the Solaris 10 operating system.

Former Merrill Lynch & Co. analyst Steven Milunovich, who criticized McNealy in a 2003 note, called Schwartz "brilliant" and suggested then that Sun put him in a position to talk to the public more.

Schwartz, president since April 2004, yesterday used humor to downplay the differences between himself and McNealy.

"Scott has a short haircut," Schwartz said on a conference call. "And unless he pulls something out that mandates it as a part of my employment contract, I'm keeping my haircut."

Sun has reported a net loss in 16 of the past 20 quarters, and analysts predict another loss this quarter. The company yesterday reported a wider third-quarter loss of \$217 million, or 6 cents a share, versus \$28 million, or 1 cent, a year ago, as costs rose for acquisitions meant to boost sales growth.

Execution

"Execution remains key at Sun," said Bracelin, who rates Sun's shares "sector perform" and doesn't own them. The removal of McNealy, he said, is meant to restore investor confidence. "By no means does this signal a major change at Sun Micro."

McNealy, who co-founded Sun in 1982, said it was his decision to step down after 22 years at the helm. Sun, the world's fourth-largest maker of server computers, behind International Business Machines Corp., Hewlett-Packard and Dell, has seen sales growth rise the past three quarters after struggling to win orders after the dot-com bust.

"I wasn't going to hand someone a falling dagger," McNealy, 51, said in an interview. "We took all the hits and got this thing sorted out."

McNealy's decision to step aside comes after years of complaints that he was reluctant to share power. Edward Zander spent more than a decade at Sun and served as president from 1995 to 2002 before departing. He is now CEO of Schaumburg, Illinois-based Motorola Inc., the world's No. 2 maker of cell phones.

Making Changes

McNealy said Zander's departure and that of others helped convince him it was time to make a change.

``What was my alternative? People come to Sun to recruit CEOs," McNealy said. ``Jonathan would be the most able and ready person to run something else."

Schwartz leads a management team that's already seen some transition. In February, Michael Lehman, who served as chief financial officer from 1998 to 2002 as Sun's sales and share price soared, returned as finance chief in February. Schwartz said yesterday that Chief Technology Officer Gregory Papadopoulos has been promoted to executive vice president for research and development, helping to oversee the company's \$1.79 billion research budget.

McNealy said he plans to devote himself to the role of ``evangelist," traveling to meet with customers and selling them on Sun's products and services.

``With Mike, Greg Papadopoulos, myself and Jon all 100 percent engaged, we've got a more proven team," McNealy said.

Still, that team has a lot to prove, said Eric Johnson, professor of management and director of the Center for Digital Strategies at Dartmouth College's Tuck School of Business.

``Somehow along the way from the crash of the dot-com days, Sun fell out of the conversation of enterprise computing CIOs," Johnson said. ``They've done lots of things on the margin to get back in the discussion. They almost right now seem irrelevant."

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