

Nortel Fires Executives, Will Restate Earnings

Carrie Johnson, Washington Post

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Nortel Networks Corp. yesterday fired its chief executive and two finance officials as an investigation into the telecommunications equipment maker's accounting expanded.

Toronto-based Nortel said chief executive Frank A. Dunn, chief financial officer Douglas C. Beatty and controller Michael J. Gollogly had been terminated "for cause." The company declined to provide the rationale for the dismissals.

Separately, four other senior finance workers were placed on paid leave yesterday pending the results of an ongoing probe by Nortel's audit committee, the company said in a written statement.

Lynton R. "Red" Wilson, chairman of Nortel's board of directors, told analysts in an early-morning conference call that the firings were related to "accountability for financial reporting."

At the same time, Nortel said it would delay the release of its earnings for the first quarter of 2004, scheduled for today, and would restate earnings for all of 2003, slashing in half a previously reported profit of \$732 million. The company said a net gain for the first half of 2003 that reportedly helped top executives meet bonus targets instead will become an unspecified net loss. Yesterday's move marks the second time in a year that Nortel has announced a financial restatement.

Nortel immediately appointed as its new chief executive William A. Owens, a former president of Science Applications International Corp. and onetime vice chairman of the U.S. Joint Chiefs of Staff, a job in which he was responsible for helping to reshape the armed forces.

"I want to see this company meet the highest standards of integrity and transparency in its financial reporting," Owens said in a written statement.

The Securities and Exchange Commission and the Ontario Securities Commission launched probes into Nortel's accounting earlier this year. The company and some of its executives also are the target of class-action lawsuits.

Nortel yesterday also made official the appointments of William R. Kerr as chief financial officer and MaryAnne E. Pahapill as controller. They had been serving in those roles on an interim basis after Beatty and Gollogly were put on paid leave March 15.

The departing Nortel executives could not be reached for comment. Dunn, who had served as the company's finance chief before being promoted to the top post in 2001, drew attention within the industry for cutting thousands of jobs in an attempt to return the telecommunications firm to profitability.

Nortel officials did not give a timetable for the release of corrected financial statements but said in a statement that the figures would be disclosed "as soon as practicable." The company said yesterday that much of the income taken from 2003's reported results will be reported for parts of 2001 and 2002, resulting in a reduction in losses for those periods.

Anthony Scilipoti, an analyst at **Veritas Investment Research Corp.**, an independent research firm in Toronto, said the unusual executive purge leaves several questions unanswered.

"What has really caused me concern is that these executives were terminated for cause," **Scilipoti** said. "This is not just looking for a scapegoat -- this is, 'You were it.' "

Standard & Poor's yesterday cut Nortel's long-term credit rating to B- from B. And Timm P. Bechter, an analyst at Baltimore's Legg Mason Wood Walker Inc. downgraded Nortel from "buy" to "hold" until more information about the departures becomes clear.

"The market hates uncertainty in every color, shape and form," Bechter said. "Investors want to understand what happened. We don't really know."

Bechter said that Nortel's financial picture is "sound" and that he is "fairly confident that we're talking about numbers moving around from quarter to quarter. What looked like a steeper growth path probably isn't as steep."

Nortel's stock price closed at \$4.05, down \$1.59, or 28.2 percent.