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Phoenix Technologies Boots Up a Turnaround

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After a scary 2006, firmware developer Phoenix Technologies' financial deterioration seems to have stabilized.

A major hedge fund, Ramius Capital Group LLC, has even been trying to buy the company, increasing its bid from \$5.05 per share to \$5.25. Ramius -- already Phoenix's largest shareholder, with a 13.7% stake -- has excellent reasons for wanting the whole thing.

Phoenix reported first-quarter revenues that fell from \$18.6 million in the same period last year to \$9.7 million. However, that was an increase from the fourth quarter, which saw revenues of \$8.3 million.

The company also posted a net loss of \$8 million, or \$0.31 per share, which compares to a loss of \$7.9 million or \$0.32 per share in the same period a year ago. One reason for the loss is big expenses in its restructuring efforts.

Phoenix develops specialized software that is embedded into a computer's chips, helping to control the keyboard, monitor, and serial ports. The company leads this particular space, with more than 50% of the global market; more than 125 million devices use its firmware. Phoenix maintains key relationships with companies like Microsoft, Intel and AMD.

For the past year, the firm has been undergoing a major restructuring. In fact, the core management team -- including the CEO, CTO, and CFO -- were let go.

The new CEO, Woodson Hobbs, is a seasoned turnaround pro. He most recently led the comeback of Intellisync Corporation, which was sold to Nokia in February 2006. Over a four-year period, Intellisync's stock price increased almost 10-fold.

The good news is that the Phoenix restructuring has been swift and dramatic. A 35% reduction in operating expenses over the past year has brought total expenses in line with current revenue levels. Hobbs has also closed unprofitable segments and established a much more focused product roadmap.

Good value, good drama

According to a recent letter (filed with the SEC), Ramius does have respect for Hobbs and the Phoenix management team. But the letter goes on to say that the company "faces a difficult and risky operational turnaround." Ramius also charges that its paltry \$143 million market cap makes Phoenix is too small to be a public company, especially in light of the high costs of SEC compliance.

But given the new CEO's background, Hobbs looks like someone who wants to build real value, not try for a quick flip. Besides, with the launch of Microsoft's Windows Vista operating system, Phoenix's revenue might just pick up in 2007.

What's more, Phoenix's valuation looks cheap to me, trading for about 1.7 times revenues (if you exclude the \$50 million in cash on the balance sheet). I'll be watching closely to see how the Ramius saga plays out.