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BlackBerry flap not likely to hurt RIM over time

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By Susan Taylor

OTTAWA (Reuters) - Research In Motion(RIM.TO: [Quote](#), [Profile](#), [Research](#)) shares have slid this week as Saudi Arabia and other countries have stepped up threats to shut down the BlackBerry, but the flap over the super-secure handset is unlikely to stymie RIM's international ambitions.

A growing chorus of governments is demanding RIM provide them with access to BlackBerry communications on national security grounds. RIM claims the system's design prevents third parties, even itself, from seeing the encrypted material.

Despite RIM's steady decline in recent sessions, industry experts say fears of a RIM service disruption in any part of the world are overblown. Concerns over the BlackBerry as a security threat are not new, but they have never led to a blackout before. That suggests the company was able to resolve any previous conflicts quietly.

"I don't even think it's a PR nightmare. ... If it gets banned, then it's a nightmare. If it's a bunch of people talking about it being banned, then it's a dandelion fluff on a summer's day," said Duncan Stewart, Deloitte Canada's director of research in technology, media and telecommunications.

"This is a political issue that, over time, has gone back and forth, and it's not just RIM that has to deal with this. Google has had to deal with this kind of stuff in China."

While making no comments on any specific talks, RIM has said its technology won't allow a third party to monitor communications running through the BlackBerry's enterprise servers. The setup makes its network different from others.

The company has said in a statement that claims it has provided unique wireless services or access to any one government are unfounded.

Saudi Arabia's announcement that it would block the BlackBerry Messenger service on Friday helped knock 3.85 percent off RIM shares on Wednesday. India and other countries are making similar threats.

The secretive nature of such negotiations make it especially difficult to predict the outcome and impact on RIM's stock, markets and prospects, analysts say.

"In the past when people have made similar threats, either they withdrew completely, without RIM doing anything, or perhaps, behind the scenes, RIM was able to come to some sort of an arrangement," Stewart said. "And that's never publicized."

"WALK THE FINE LINE"

RIM has to "walk that fine line" and protect the security-heavy image its customers value while allaying government concerns, said Avian Securities analyst Matt Thornton.

"Big picture, I think RIM will go to resolution with all these governments," he said.

Still, the security tussle has already damaged the stock at a time when concerns about its market position are taking their toll.

RIM's stock has shed about 25 percent of its value over the past 12 months, dropping about 19 percent since the year began as the company's competitive position grew more exposed.

"Even if this is resolved tomorrow, it definitely dampens some enthusiasm and creates risk to some people who may just not want to deal with the headache and go elsewhere," he said. "We've probably already seen some marginal damage."

The stock closed on Nasdaq on Wednesday at \$53.39, down \$3.85, and ended at C\$54.24 on the Toronto Stock Exchange, a drop of C\$2.53, or 4.5 percent.

Part of the decline reflects a lackluster response to the BlackBerry Torch, unveiled at a slick New York event on Tuesday.

It's designed to stem an erosion of BlackBerry's North American market share to Apple's iPhone and handsets using Google's Android software. But analysts and bloggers said there was little "wow" factor in the new phone.

That said, the Torch could lift RIM's upcoming financial results as the company launched it earlier than expected and in time for the back-to-school season.

Analysts are waiting to see whether consumers warm to the device, which is expected to get a big marketing push from carrier partner AT&T (T.N: [Quote](#), [Profile](#), [Research](#)) when it goes on sale next week in the United States.

The phone's success or failure is far more meaningful to RIM's fortunes than government security issues, said Charter Equity



Research analyst Ed Snyder.

"If the Middle East changed their tune and told everybody they should do nothing but buy RIM (phones), if the (new) phone tanks, the stock is not going up," he said.

(Reporting by Susan Taylor; editing by Peter Galloway)

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