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## As RIM struggles, talk of a change at top surfaces

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By [Alastair Sharp](#)

TORONTO (Reuters) - The two men who made BlackBerry a household name may not have the luxury of time to fix Research In Motion's flagging fortunes.

Investors are clamoring for RIM to come up with a credible response to Apple's iPhone and smartphones based on Google's Android operating system.

As its market share erodes, RIM's shares are sinking, setting the stage for a deep-pocketed activist like Carl Icahn to step in, buy on the cheap and press for big changes.

Meanwhile, the co-chief executives -- Mike Lazaridis and Jim Balsillie -- could start feeling the heat.

Grumbings about their strategic missteps were audible in the bars and breakout rooms at RIM's BlackBerry World conference in Orlando, Florida, earlier this month.

"These guys are very emotionally invested, taxed for time, and feel the pressure of being left behind and seeing your market fade away," said an investor at a top-30 fund that would likely support but not instigate an activist play.

In an open letter ahead of the BlackBerry conference, Northern Securities analyst Sameet Kanade asked RIM to consider dropping Balsillie as a co-CEO, among other recommendations.

Shareholder activism in the tech industry is in the air. Last week, influential hedge fund manager David Einhorn of Greenlight Capital called for Microsoft chief Steve Ballmer to step down, saying it was time for fresh ideas.

RIM's chief executive pairing -- Lazaridis founded the company and Balsillie joined soon after -- are by far the largest investors. They also share the role of chairman of the board, making them difficult to dislodge.

RIM's BlackBerry, once the most desirable brand in mobile communication, was blindsided by the success of Apple's iPhone and is struggling to respond to the numerous major handset makers putting out Android devices.

"Jim and Mike brought the company to where it is ... which is part of the biggest problem they're facing," said Charter Equity analyst Ed Snyder, who has covered RIM since its public listing in 1997, two years before the BlackBerry was launched.

"They're stuck in the past. They know what worked and keep playing that card and it's not working any more, and they don't seem to have any ideas," he said.

Staging a successful coup, however, would be difficult and ultimately unsatisfying unless a better strategic plan was hatched, Snyder said.

"The mechanics of it are difficult, but then even after you master those you have to figure out what you are trying to accomplish."

He said the only way to help RIM's stock is to deliver a smartphone capable of challenging the iPhone and premier Android devices.

That is a proposition easier identified than fixed.

"I expect to see the Maple Leafs win a Stanley Cup before RIM builds a number one phone," said Bing Gordon of Kleiner Perkins, the Silicon Valley venture firm that helped launch Google.

Toronto's hockey team has not won a National Hockey League championship in more than 40 years.

### DEEP POCKETS REQUIRED

RIM's capitalization of about \$23 billion means that buying a stake large enough to force change would cost more than \$1 billion, out of reach for all but the most flush outsiders.

"That being said, there are activists that have a very good reputation for making changes and will attract like-minded investors," said Damien Park from Hedge Fund Solutions, which advises both activists and their targets.

He named famed corporate raider Carl Icahn and Elliott Associates as contenders with experience investing in tech companies. Others with the funds to play include Jana Partners, Nelson Pelts' Trian Group, Bill Ackman's Pershing Square and Starboard Capital, formerly known as Ramius.

Icahn would seem to be a prime candidate. His run at Motorola a few years ago ultimately led to the company spinning off its mobile phone business.

RIM ticks many of the boxes on Park's checklist of attributes that make a company attractive for an activist.

The company, whose stock lost a quarter of its value in the past year, is undervalued, Park said, and it has a strong balance sheet and no debt. A struggle to communicate long-term strategy also might pique interest, and investor fatigue could help an activist win support.

At its current price below \$45, RIM is trading at six times its own earnings forecast of \$7.50 a share for the fiscal year that started in late March. The ratio only jumps to seven at the \$6.46 a share analysts expect, far below the ratio of its peers.

With a 5 percent stake, an activist could force RIM to host a meeting to shake up the board or realign its strategy.

But a smaller share and an upfront attitude could also pressure management to change tack. Any investor can raise concerns at RIM's annual general meeting, due on July 12.

While an activist may seek board seats or radical change, most would be happy with a renewed focus on value creation.

"The best defense against an activist investor is a rising stock price," Park said.

The alternative could be dire, with RIM becoming "a footnote in history," said Northern's Kanade, adding rhetorically: "Remember those guys that had wireless email? Whatever happened to them?"

(\$1=\$0.98 Canadian)

(Additional reporting by [Pav Jordan](#) in Vancouver; editing by Frank McGurty and Rob Wilson)

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