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ANALYSIS-Will RIM's cash hold out long enough?

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- * RIM needs enough cash to complete BB10 transition
- * Cash pile, now at \$2.2 bln, could last two years
- * Cash burn likely to start before year's end
- * Global subscriber revenue may falter as buffer
- * Delay in BB10 launch seen as difficult but needed

By Alastair Sharp

TORONTO, June 29 (Reuters) - For the next year or two, Research In Motion Ltd (RIM.TO: [Quote](#), [Profile](#), [Research](#)) (RIMM.O: [Quote](#), [Profile](#), [Research](#)) is as much about preserving cash as about selling BlackBerrys. Its very survival depends on it.

The company, which released dreadful quarterly results on Thursday and delayed the launch of the next-generation BlackBerry 10s until early 2013, is frantically cutting costs to align with a revenue stream that has dropped 43 percent over the past year.

Even so, RIM at best may have only enough cash to last two years, analysts and insiders estimate, though it currently sits on a cache of \$2.2 billion and holds no debt.

"They're going to hemorrhage cash," predicted Edward Snyder from Charter Equity.

RIM needs to hold out long enough to complete the biggest technology shift in its history as it introduces the long-promised BlackBerry 10, now due out in early 2013. That assumes of course that the market warms to the devices.

"I don't know how many carriers will care at that point," said Jefferies analyst Peter Misek. "It's just a disaster."

RIM also has a \$500 million credit facility that expires in September. The company is working with its banks to renew it, Chief Financial Officer Brian Bidulka said on a conference call after the results on Thursday.

Bidulka was adamant that RIM would not start burning cash in the current quarter, notwithstanding costs related to 5,000 job cuts, or about 30 percent of its workforce.

But if the cash burn doesn't start this quarter, it's certainly to hit in the three months that follow, analysts say, as the company tries to hold on until the BlackBerry 10s arrive.

SUBSCRIBER BASE SET TO SHRINK

To do so, RIM has essentially been giving away its older devices for next to nothing as it seeks to protect its subscriber base from shrinking too drastically ahead of the rollout. [ID:nL2E8HSFN0]

That strategy has already produced one quarterly operating loss, with no respite in sight until the Canadian company finally gets the BlackBerry 10 out. The launch has already been postponed twice.

Surprisingly, RIM's cash pile grew last quarter to \$2.2 billion as it leaned on its service revenue to offset slumping handset sales and pushed hard to collect on outstanding invoices from its partners.

But analysts see that as a clever piece of accounting that is unsustainable. "It's like scooping for change under your couch," said Colin Gillis from BGC Partners in New York. "You can do that once."

Meanwhile, RIM is facing rising pressure to accept an alliance with Microsoft Corp (MSFT.O: [Quote](#), [Profile](#), [Research](#)) or sell its high-margin network business, according to three sources familiar with the situation. [ID:nL2E8HT07G]

Each passing day that RIM sticks to its plan to go it alone diminishes the value of its assets - including the cash - in any eventual sale, analysts say.

"I don't think it'll be zero but it'll be sure close," Jefferies' Misek said about the value that could be extracted from RIM by early next year.

"It depends on how much cash they burn between now and March next year, and by then it could be too late."

A DIFFERENT MODEL

Unlike its handset peers, RIM can survive quarters in which it sells far fewer phones than it builds, because it still receives around \$1 billion in revenue from subscription fees for the use of its network, which compresses and encrypts data sent to and from BlackBerry devices.

But global subscriber growth appears to be waning. RIM can no longer count on international momentum in countries such as India and Indonesia to offset sharp defections in the United States, once RIM's main market.



Even worse, RIM is warning that fees it can charge per user will also drop this year, further limiting the defensive strength of 78 million locked-in subscribers.

"It looks like a slow, gradual death," said one senior executive in the British mobile industry, who declined to be named so as not to damage a working relationship with RIM. "BlackBerry desperately need something sexy to launch soon."

DELAYED LAUNCH

Even as the cash-burn issue looms, RIM is taking a difficult but necessary decision to delay the launch, said Lawrence Perkins, who runs West Coast operations including technology for restructuring firm Conway MacKenzie. "It's high stakes poker," he said.

The alternative is to risk releasing another product before it is ready, a complaint leveled at the company's PlayBook tablet last year, and at earlier software and hardware releases.

Perkins said a faulty product, even if to schedule, could prove a death knell for the company.

"Releasing a poor product is probably more dangerous than not releasing one at all," he said.

(Additional reporting by Kate Holton in London; Editing by Frank McGurty)

((alastair.sharp@reuters.com)(+1 416 941 8118)(Reuters Messaging: alastair.sharp.reuters.com@reuters.net)) Keywords: RIM RESULTS/CASH

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