

Gaudreau, Gail: SBTMS-SMTPE

From: Aitken, Jenifer: SBTMS-SMTPE
Sent: Thursday, February 16, 2012 17:45
To: Machida, Kevin: CMB-DGCM; Bercier, Tania: CMB-DGCM
Cc: Thivierge, Marie-Josée: SBTMS-SMTPE; Lajeunesse, Richard: IRSP-DGEIPS
Subject: FW: Media request: BNN/ICA & RIM/Today

Kevin and Tania,

The lines below for question number 2 are OK and consistent with what has been said publicly before about "strategic assets" under the ICA.

Jenifer

From: Lajeunesse, Richard: IRSP-DGEIPS
Sent: Thursday, February 16, 2012 3:20 PM
To: Aitken, Jenifer: SBTMS-SMTPE
Subject: FW: Media request: BNN/ICA & RIM/Today
Importance: High

See text below...

From: Machida, Kevin: CMB-DGCM
Sent: Thursday, February 16, 2012 3:13 PM
To: Lajeunesse, Richard: IRSP-DGEIPS
Cc: Bercier, Tania: CMB-DGCM
Subject: FW: Media request: BNN/ICA & RIM/Today
Importance: High

Richard,

As discussed, here is my draft answer for Jenifer's approval: All except for the first line was pulled from your latest Q&A.

Thanks
Kevin

REQUEST:

Q1: When can we expect to get clarification of the criteria in connection with foreign takeovers under the investment Canada Act, as promised by Minister Clement after the government rejected BHP's bid for Potash?

TO BE ANSWERED BY SPS

Q2: Is RIM a strategic asset to Canada?

The Investment Canada Act makes no reference to "strategic assets".

When reviewing an investment under the Act, the Minister must determine whether the

2012-04-25

investment is likely to be of net benefit to Canada. In doing so, the Minister considers the factors listed in the Act, which are:

a) the effect of the investment on the level and nature of economic activity in Canada, including the effect on employment, on resource processing, and on the utilization of parts, components and services produced in Canada;

(b) the degree and significance of participation by Canadians in the Canadian business;

(c) the effect of the investment on productivity, industrial efficiency, technological development, product innovation and product variety in Canada;

(d) the effect of the investment on competition within any industry or industries in Canada;

(e) the compatibility of the investment with national industrial, economic and cultural policies; and

(f) the contribution of the investment to Canada's ability to compete in world markets.

Gaudreau, Gall: SBTMS-SMTPE

From: Diaz, Linda: IRSP-DGEIPS
Sent: Wednesday, February 8, 2012 14:28
To: Beaudoin, Alain: SITT-STIT
Cc: Aitken, Jenifer: SBTMS-SMTPE; Lajeunesse, Richard: IRSP-DGEIPS
Subject: RE: For note re meeting

Attachments: MIN Mtg RIM ICA Responsive Spkg Points V2.wpd

Alain,

Please find attached an updated version of the document Jenifer sent you yesterday. The points have been revised based on feedback we received from our ADM.

Thank you,
Linda



MIN Mtg RIM ICA
Responsive Spk...

Linda Diaz

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Linda.Diaz@ic.gc.ca

From: Aitken, Jenifer: SBTMS-SMTPE
Sent: Tuesday, February 7, 2012 9:52 AM
To: Beaudoin, Alain: SITT-STIT
Cc: Diaz, Linda: IRSP-DGEIPS; Lajeunesse, Richard: IRSP-DGEIPS; Brady, Patricia: SPS
Subject: For note re meeting

<< File: MIN Mtg RIM ICA Responsive Spkg Points.wpd >>

Alain,

Further to our discussion yesterday. The first answers are provided by SPS (Tricia) and the second by IRD.

Please let us know if you have any questions.

Jenifer

Jenifer Aitken

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ICA Speaking Points (Responsive)

What is the status of changes to the ICA

- The Act was updated in 2009 in response to recommendations by the Competition Policy Review Panel. Those updates included improvements to the transparency of our foreign investment review process.
- We continuously examine all of our marketplace framework laws to ensure they are up to date and effective.
- It is premature to make comments on any specific additional changes

- The Minister of Industry is responsible for determining whether an acquisition is likely to be of net benefit to Canada.
-
- Speaking in general terms, under the *Investment Canada Act*, when a non-Canadian wishes to acquire control of a Canadian business with an asset value of \$330 million or more, the investment is subject to review under the Act.
- Where an investment is subject to review under the Act, the investment cannot be implemented without the approval of the Minister which is based on likely net benefit to Canada.
- I examine proposed investments on a case-by-case basis and make my decisions based on the facts and merits of each proposed investment in light of the factors specified in the Act.

Gaudreau, Gail: SBTMS-SMTPE

From: Beaudoin, Alain: SITT-STIT
Sent: Tuesday, February 7, 2012 9:57
To: Aitken, Jenifer: SBTMS-SMTPE
Cc: Diaz, Linda: IRSP-DGEIPS; Lajeunesse, Richard: IRSP-DGEIPS; Brady, Patricia: SPS; de Tonnancour, Sylvain: ICT-TIC
Subject: RE: For note re meeting

Thanks so much to all. I will get back to you if warranted.

From: Aitken, Jenifer: SBTMS-SMTPE
Sent: Tuesday, February 7, 2012 9:52 AM
To: Beaudoin, Alain: SITT-STIT
Cc: Diaz, Linda: IRSP-DGEIPS; Lajeunesse, Richard: IRSP-DGEIPS; Brady, Patricia: SPS
Subject: For note re meeting

<< File: MIN Mtg RIM ICA Responsive Spkg Points.wpd >>

Alain,

Further to our discussion yesterday. The first answers are provided by SPS (Tricia) and the second by IRD.

Please let us know if you have any questions.

Jenifer

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Gaudreau, Gail: SBTMS-SMTPE

From: Chen, Sylvia: IRSP-DGEIPS
Sent: Tuesday, January 17, 2012 13:38
To: Lajeunesse, Richard: IRSP-DGEIPS; Aitken, Jenifer: SBTMS-SMTPE
Subject: FYI

Tech blog says RIM eyes sale to Samsung; shares jump

282 words

17 January 2012

13:29

Reuters News

LBA

English

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Jan 17 (Reuters) - Shares of Research In Motion jumped more than 8 percent on Tuesday after a **tech blog said the BlackBerry maker was actively seeking to sell itself to South Korean smartphone rival Samsung Electronics.**

The Boy Genius Report website cited an unidentified source saying that RIM co-Chief Executive Jim Balsillie was meeting with companies interested in either licensing its software or buying a part or all of RIM, with Samsung leading the pack.

RIM's Nasdaq-listed shares were up 8.5 percent at \$17.55 by early afternoon, while the Toronto-listed stock rose 5.4 percent to C\$17.77, adding to its gains on Monday when U.S. markets were closed.

RIM has been the target of a steady stream of takeover speculation in recent months as its market valuation has crawled along at multi-year lows amid product delays and profit warnings.

Samsung, which has emerged as the No. 1 smartphone manufacturer on the back of booming demand for its Android-based models, said on Tuesday it plans to merge its own "bada" operating system with an open-source platform supported by chipmaker Intel.

Android, the world's most popular smartphone operating system, is owned by Google and used by a slew of handset manufacturers, including Motorola Mobility and HTC, as well as Samsung.

RIM's stock has jumped more than 6 percent four times since Dec. 21, when Reuters reported that Amazon.com and other possible buyers had considered a bid. It is still down almost 75 percent from a year ago.

(Reporting by Alastair Sharp; editing by Rob Wilson)

RIM/

Reuters Limited

Document LBA0000020120117e81h000yc

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Gaudreau, Gail: SBTMS-SMTPE

From: Beaudoin, Alain: SITT-STIT
Sent: Wednesday, December 28, 2011 15:36
To: Thivierge, Marie-Josée: SBTMS-SMTPE; Aitken, Jenifer: SBTMS-SMTPE
Cc: McDonald, Helen: SITT-STIT; Bincoletto, Susan: CAS-SCA; Macartney, Nancy: ICT-TIC
Subject: Follow-up RIM

Attachments: SITT-STIT-#213472-v22-RIM_Profile_(Detailed).DOC

As discussed last week, find attached our up-to-date profile on RIM which includes Q3 2012 results made public December 15.

If you have any questions or follow-up, you can reach me until the end of the week, or alternatively Nancy next week as I will be away.



SITT-STIT-#213472
-v22-RIM_Prof...

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SITT/STIT
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Research in Motion (RIM) Profile

Highlights

- In Q3 of fiscal 2012 (ended 27 November 2011), RIM reported revenues of US\$5.2 billion, up 24% from the previous quarter. For the first nine months of its fiscal year 2012, the company reported revenues of US\$ 14.2 billion, down 1% year-over-year, [REDACTED] 20(1)(c).21(1)(b)
[REDACTED] 20(1)(c).21(1)(b) Net income for the first nine months was down 48% year-over-year.
- RIM [REDACTED] 20(1)(c).21(1)(b) delayed the release of the PlayBook 2.0 from October 2011 to February 2012. RIM announced that its new “superphones” using the BlackBerry 10 operating system will not be released until the second half of calendar 2012.
- RIM slipped to fifth position in the global smartphone market in the third quarter of calendar 2011 with a 10% share, down from 12% the previous quarter and 15% a year ago. RIM peaked in terms of smartphone market share (at 22.5%) in the first quarter of calendar 2009.
- [REDACTED] 20(1)(c)
- RIM watchers suggest that to turn the company’s fortunes around it must: 1) release competitive products (starting with the transition to the BB10 operating system, sooner than later); 2) improve management’s execution (product launches and marketing); 3) improve its financial performance; and 4) address the company’s corporate governance structure. The company could also look at developing new revenue streams based on cloud services or its intellectual property. A few activist investors are pushing for a change in senior management and the splitting of the company into multiple businesses.
- According to Reuters, RIM recently turned down takeover overtures from Amazon, while the Wall Street Journal reported that Microsoft and Nokia also considered the idea of making a joint bid for RIM. RIM's Board of Directors has reportedly instructed management to focus on turning around the business, not on a sale.

Business Description

Research in Motion (RIM), headquartered in Waterloo, designs, manufactures, and markets wireless solutions under the BlackBerry brand. RIM’s portfolio of products, services and embedded technologies are used by organizations in more than 160 countries and include the BlackBerry wireless solution, the RIM Wireless Handheld product line, software development tools and other software and hardware. BlackBerry devices use

wireless, push-based technology to deliver both business and consumer applications to mobile users.

The BlackBerry wireless solution is centered on RIM’s Network Operations Centre (NOC) and provided via its carriers partner’s networks. Its services revenues are primarily generated by billing carriers a monthly fee for each BlackBerry subscriber.

Revenues & Earnings

Millions US\$ (except for earning/share)	Q1 to Q3 FY 2012	Q1 to Q3 FY 2011	Δ	FY 2011	FY 2010	Δ
Revenues:	14,245	14,351	-1%	19,907	14,953	33%
Net Income(Loss):	1,289	2,477	-48%	3,411	2,457	39%
Current Assets:	7,202	7,299	-1%	7,488	5,813	29%
Cash and cash equivalents:	1,123	1,435	-22%	1,791	1,551	15%
Short Term Investments	184	340	-46%	330	360	-8%
Current Liabilities:	3,564	3,834	-7%	3,630	2,432	49%
Research and Development:	1,173	968	21%	1,351	965	40%
Earnings (Losses) /share:	\$2.46	\$4.59	-46%	\$6.36	\$4.35	46%

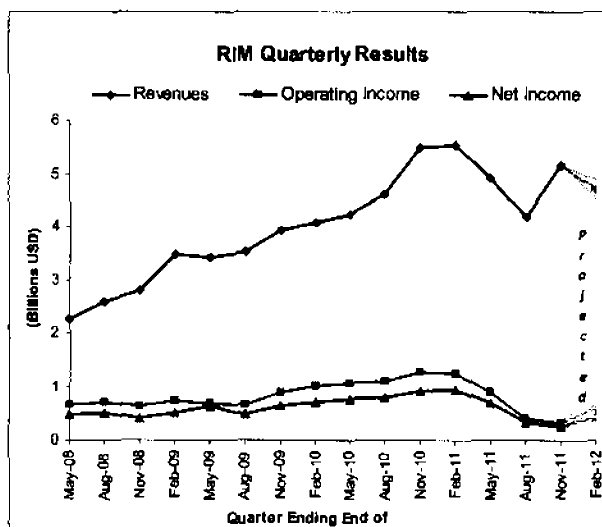
RIM grew very quickly in the late 2000’s with revenues increasing from US\$ 3 billion in fiscal year 2007 to US\$ 19.9 billion in fiscal year 2011. The company expanded its sales beyond the corporate market and its core geographic markets of North America and Western Europe to achieve this growth. BlackBerry device unit shipments reached 52.3 million in fiscal 2011, up 43% from the 36.6 million units shipped in fiscal 2010 although revenues only grew by 33%.

Fiscal Year 2012 to Date

20(1)(c) Sales declined in the first two quarters of fiscal 2012 before bouncing back in the third quarter helped by the release of new devices using the new BB7 operating system. For the first nine months of its fiscal year 2012 (period ending November 27, 2011), RIM reported revenues of US\$ 14.2 billion, down 1% compared to the same period in fiscal year 2011.

The company saw its gross margin decline to 36.3% compared to 44.4% for the same nine months of fiscal 2011 as the average price of smartphones and tablets are declining. 20(1)(c),21(1)(b)

20(1)(c),21(1)(b) As a result, margins have dropped, lowering net income for the first nine months of fiscal 2012 to US\$ 1.3 billion, down 48% year-over-year.



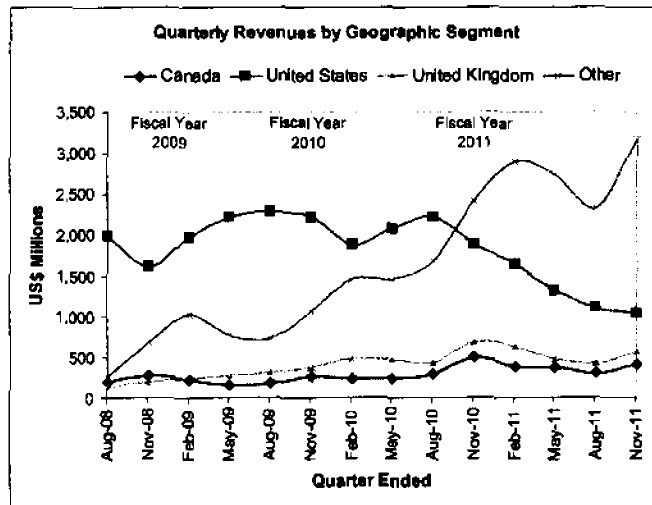
Q3 2012

As mentioned earlier, RIM reported improved revenues in Q3. The company reported revenues of US\$ 5.2 billion, up 24% over the previous quarter. Net income, however, was down 19.5% to only US\$ 265 million. Net income in Q3 was negatively affected by charges related to last October service interruption and PlayBook inventory provision. The number of subscribers reached a new high of almost 75 million in Q3 but is still declining in the U.S.

BlackBerry smartphone shipments increased 33% from Q2 to 14.1 million units, however, PlayBook shipments dropped by 25% to 150,000 units, due to high levels of inventory in the channel from the first and second quarter. Since September, several retailers have cut the price of the PlayBook, offering some models of the tablet for under \$200 (down from an original price of \$500).

In Q3, RIM continued to see a pronounced shift away from the US and towards other markets. Sales to the US declined by 6.9% in Q3 while they strongly increased in all other markets. International sales (sales outside Canada, the US and the UK) accounted for 61% of total sales and 82% of the growth in Q3.

As shown on the chart (next right), international sales have reached a new high in Q3 while US sales declined for a fifth consecutive quarter. Sales to Canada and the UK recovered after three consecutive quarters of decline.



Q4 & FY 2012 Outlook

RIM is expecting lower revenues for its fourth quarter (ending in February 2012), between US\$ 4.6 billion and US\$ 4.9 billion based on shipments of 11 to 12 million smartphones, down from 14 million units in the third quarter. Net income is expected to be in the range of US\$ 420 to US\$ 500 million. Full year results are expected to see revenues in the range of US\$ 18.9 to 19.1 billion and net income of between US\$1.7 to 1.75 billion (down about 30% from the previous fiscal year).

Position in the market

Smartphones

The smartphone market is growing quickly; shipments are expected to increase from 305 million units in 2010 to 1,033 million units in 2015. However, competition is fierce,

21(1)(a).21(1)(b)

21(1)(a).21(1)(b)

20(1)(b)

20(1)(c).21(1)(b)

In terms of global market share by manufacturers, Samsung rose to first place in Q3 2011 with 20% of the smartphone market (up from 9% the previous year). Samsung posted a 223% year-over-year growth rate. Apple fell to second place with 14% of the market, down from 17% the previous year, although it overtook Nokia. Former market leader Nokia¹ found itself in third place with a 14% share (down from 32% in Q3 2010). HTC, a Chinese manufacturer, made significant gains reaching fourth place, with an 11% share, up from 7% a year earlier. RIM slipped to fifth position with a 10% share, down from 15% a year ago, ahead of Sony Ericsson and Motorola. RIM peaked in terms of market share (at 22.5%) in Q1 of 2009.

20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) Nokia (-36%) and RIM (-4.8%) both posted year-over-year growth rates below the smartphone market average (42%).

20(1)(b)

20(1)(b)

Mobile Phones

In the broader mobile phone market (which includes smartphones), the dominance of Nokia, Motorola and Sony-Ericsson has been greatly eroded as smartphones have gained in importance in the mobile space.

In the third quarter of 2011, Nokia retained its first place ranking (with 27%) in mobile phones; however its dominance has been massively reduced; down from 32% in Q3 2010 and 42% in Q3 2007. Samsung has seen significant growth in its position, second after Nokia with 22% of the market in Q3 2011 compared to 16% four years ago, as it has successfully transitioned to smartphones. LG holds 5% of the market down from 8% in Q3 2007, while ZTE took fourth place with a 5% share. Apple holds fifth place with 4% of the mobile phone market, down from fourth place in the previous quarter. HTC, Motorola and RIM hold 3% shares of the market. RIM fell out of the top five this quarter, down from 4% a year ago. The mobile phone market also has a large number of

¹ Nokia dropped its proprietary operating system and entered an agreement with Microsoft, which it hopes will turn around its performance in coming quarters.

new entrants, many using the Google’s Android software, which has expanded the share of “Other” to 25%.

20(1)(c).21(1)(b)

BlackBerry’s value proposition 21(1)(b)

RIM 20(1)(c) it released the first smartphone optimized for wireless email use and dominated the enterprise market, especially in North America. 20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

Applications

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) and Android

Market each have more than 500,000 apps, while RIM has about 45,000 apps. 20(1)(c).21(1)(b)

20(1)(c).21(1)(b) However, 20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b) RIM’s operating system now supports apps developed using HTML5, which is becoming the standard developing language for mobile apps (it allows developers to publish to multiple platforms including iOS, Android and BlackBerry).²

Security

BlackBerry remains the most popular smartphone brand in the corporate world with a 36% and (predicted) 37% share of the global corporate market in 2010 and 2011 respectively (as compared to 17% and 31% for iOS and 6% and 13% for Android). 20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) For example, Trelia, a Canadian software company, provides mobile device management and wireless cost control solutions that support the use of consumer smartphones (e.g., iOS or Android) and tablets on Enterprise networks. 3LM (now owned by Motorola Mobility/ Google) has developed software that performs a

² Chris Umiasowski, “RIM starts to build bridge over “app gap””, The Globe and Mail, October 20, 2011.

similar role for Android devices as RIM's server software does in bringing corporate data to BlackBerry devices.

Messaging Services

RIM has expanded its global reach by fostering relationships with key carriers, distributors and customers. [REDACTED]

20(1)(c).21(1)(b)

[REDACTED]

20(1)(c).21(1)(b)

Network Operations Centre (NOC)

RIM [REDACTED] devices reduce carriers' costs by directing data traffic across RIM's own infrastructure. The popularity of activities such as streaming video, social networking, sharing of large unstructured data (video, photo, office files), and mobile access to enterprise data (databases and files) has driving up network utilization. RIM's architecture maximizes utilization of network bandwidth as traffic meant for BlackBerry consumption passes through RIM's Network Operations Centre infrastructure where it is compressed and optimized. [REDACTED]

20(1)(c).21(1)(b)

[REDACTED]

20(1)(c).21(1)(b)

Challenges and Issues

[REDACTED]

20(1)(c).21(1)(b)

Involvement in legal issues

Although RIM settled various legal issues in recent times (e.g., Dolby patent infringement case), it continues to face issues related to infringement of patents. RIM has been the target of multiple allegations of patent infringement. 20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b) In April 2011, RIM was part of a consortium of companies (Rockstar Bidco LP) that successfully acquired Nortel’s portfolio of patent assets. Apple, Microsoft, EMC, Ericsson and Sony were the other companies in the consortium. Companies in the winning group are expected to try to maximize their return on the patents by using them to litigate against others, with Google and its Android mobile phone software the most obvious target. RIM has 20(1)(b).20(1)(c) patents in advanced wireless technology, security, enterprise mobility and software³.

Management Turnover

In the past year, several senior managers have departed RIM. 19(1).20(1)(c)

19(1).20(1)(c)

19(1) 21(1)(a).21(1)(b)
21(1)(a).21(1)(b)

What is coming?

RIM is expected to release its “superphone” in the latter part of calendar 2012; using a new operating system (BB10). QNX software, previously used as the OS for the PlayBook, is becoming the OS for all high end BlackBerry devices in 2012, with a name change to BB10. RIM announced that it is waiting for a particular chip to become available before it releases the new BB10 line of phones in order to ensure it gets the performance (battery life, etc.) it wants to be competitive in the US market. RIM has offered few details about BB10’s user interface although it should be similar to the PlayBook 2.0 software due out in February 2012.

20(1)(c).21(1)(b)

Nonetheless, RIM has said that it is in the market for the long haul and would not discontinue its tablet product. RIM is due to re-launch the PlayBook, as PlayBook 2.0, in February 2012.

³ RIM is the inventor or applicant in 20(1)(b).20(1)(c) patents worldwide based on information in the EPO database. RIM owns 20(1)(b).20(1)(c) US patents and 20(1)(b).20(1)(c) Canadian patents.

⁴ Alastair Sharp, “Two more senior staff leave BlackBerry maker RIM”, Reuters – September 29, 2011.

On October 7, 2011, RIM announced that it had acquired NewBay Software, an Ireland-based social media software company. Known for its media creation and cloud-access software, this acquisition will add to RIM's ability to offer cloud solutions. NewBay's technology is similar to the online storage options offered by Google with its Android software and Apple's iCloud software.

Investors and stock price

The value of RIM's stock has dropped significantly over the past year. RIM's market capitalization stands at about US\$ 7.3 billion, at a share price of US\$ 14.00 (Dec. 22, 2011). Over the past 52 weeks, RIM's share price has ranged from a high of US\$ 70.54 (Feb. 18, 2011) to a low of US\$ 12.45 (Dec 19, 2011).⁵

20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b) The company has announced plans to invest heavily in promoting Blackberry 7.0 devices in the US.

21(1)(b)

21(1)(b)

The delay of Blackberry 10 devices until the latter half of 2012 for an LTE chipset (which implies relatively high price devices) has many commentators questioning whether RIM can turn around its performance.

20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) Goldman Sach's analyst Simona Jankowski, known as a bear for RIM, estimates the value of RIM's IP at \$3.4 billion, including \$778 million for its share of the Nortel patents. She assigns a value of \$458,000 per patent for the company's US patents, based on comparable patent portfolios that either have been recently sold or are publicly traded (Interdigital). She estimates the net present value of the company's services cash flows at \$4.8 billion, assuming they go to zero in six years. RIM also has \$1.4 billion in cash and investments, which gives a total asset value of \$9.6 billion⁶, well above its current market cap.⁷

Although recent Microsoft's alliance with Nokia and Google's purchase of Motorola might limit the list of potential buyers for RIM, rumours are recurring. In October, a rumour that Vodafone was a suitor was dismissed by most analysts. Reuters recently reported that Amazon hired an investment bank over the summer to review a

⁵ The consensus rating of RIM shares is Hold (Neutral), with 34 of 53 brokerages that analyse the stock maintaining that position. The consensus target for the stock price is US\$16 (median) or US\$ 17.2 (average), with a high of US\$40 and low of US\$ 8.

⁶ Asset value is the net market value of a company's assets divided by the number of outstanding shares of that company's stock. Investors use asset value to determine if shares are overvalued or undervalued.

⁷ Eric Savitz "Research In Motion: Goldman Ups Rating To Neutral", *Forbes*, November 16, 2011.

potential merger with RIM, but did not make a formal offer. RIM's Board has reportedly instructed its co-chief executives to focus on turning around the business, not on a sale or joint venture. Reuters also reported that Wall Street bankers have tried to pitch RIM to other mobile phone makers, including Samsung and HTC in recent months. The Wall Street Journal reported in December that Microsoft and Nokia had also considered making a joint bid for RIM.

What needs to be done?

Analysts, industry “experts” and technology reporters have been vocal in providing instruction to the management at RIM. Many feel that RIM still has the potential to turnaround its performance, but that the window of opportunity is getting smaller. They point out that RIM still has strengths it can build on, such as the many carriers that still support RIM as their ‘3rd platform’. Advice on how to succeed in the future includes focussing on releasing competitive products and software (including successfully executing on the transition to BlackBerry 10) rather than just catching up to its competitors.

Many RIM watchers feel the company’s managements must focus on improving execution (product launches and marketing especially) and improving financial performance (and providing more credible guidance to investors). There are also voices raising concerns about RIM’s corporate governance suggesting the Board must become more active as a check to management, and perhaps the company should revisit its co-CEO structure.

The BlackBerry solution was developed as a cloud-based service and this architecture enables [redacted 21(1)(a),21(1)(b)] including real-time push services, strong security and back-end integration with carrier systems. According to industry estimates, the global cloud computing market is expected to grow from \$38 billion in 2010 to \$121 billion in 2015 at a CAGR of 26% from 2010 to 2015. RIM could leverage its cloud expertise to grow its presence as a cloud-based enterprise service provider through a variety of strategies including partnerships with other leading suppliers of cloud-based solutions.⁸ As mentioned earlier, Jaguar also suggested splitting RIM into separate public companies in networking, devices and a patent holder that could generate IP revenue.

Consideration: Employment and Ecosystem

Employment

RIM’s workforce increased significantly from 2007 to 2011, peaking at about 19,000 workers, [redacted 20(1)(b),20(1)(c)] RIM’s international employees are mainly in the US, UK, Germany, France, Italy, Russia, Spain, Turkey, Australia, Hong Kong, Singapore, Indonesia, and South Africa. The company announced a global workforce reduction of 2,000 workers (11% of its workforce) on July 25, 2011. About half the layoffs are expected to occur in the Waterloo region⁹. At this time RIM has not announced any further layoffs but many analysts think the company will have to let go additional workers.

⁸ Research in Motion, Datamonitor Company Profiles, 22 June 2011. <http://global.factiva.com>

⁹ The Record, Provincial funding aids former RIM workers, August 12, 2011

20(1)(b).20(1)(c).21(1)(b)

Ecosystem

RIM uses a truly global supply chain. Key suppliers are multinationals with facilities around the world. Very few Canadian technology companies are part of RIM's ecosystem. One major exception is Celestica which is one of the main assemblers of RIM products.

20(1)(b).20(1)(c).21(1)(b)

20(1)(b).20(1)(c).21(1)(b)

Impact on the Canadian Economy

RIM's impact on Canadian economy is mainly concentrated in the Waterloo region.

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) the company does buy some professional services in the Waterloo region and is also the largest employer in the region. Most of RIM's jobs in Waterloo are highly qualified and well paid. RIM is the largest Canadian private R&D performer, spending over US\$ 1.35 billion on R&D in fiscal 2011, with much of its R&D performed in Waterloo.

Both Wilfrid Laurier and the University of Waterloo have been boosted in step with RIM's success, in terms of recruitment, scholarships and academics. RIM is the largest private sector employer in UW's co-op education program. The increased supply of talent in the region has attracted other ICT companies in the Kitchener-Waterloo cluster, including some multinationals such as Google, Intel and SAP. The two RIM leaders have also funded a global physics research institute and an international governance and public policy think-tank in the region which are significant asset for the cluster ecosystem.

SOURCES

20(1)(b)

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Tse, Richard. Research in Motion Ltd., Cormark Securities, December 16, 2011.

Nadia Damouni, "Amazon weighed buying RIM but interest cooled-sources" Reuters – December 20, 2011.

Cote de sécurité :
Secret
Numéro CCM :
231000
Personne-ressource :
Alain Beaudoin, STIT, DGTIC, 613-954-5598
Mesure requise :
Pour votre réunion

AVIS AU MINISTRE

Rencontre avec M. Thorsten Heins, PDG de Research In Motion (RIM), le 16 février à 10 h à Waterloo

ENJEU

Vous rencontrerez M. Thorsten Heins, le nouveau PDG de RIM, et M. David Paterson (v.-p., Relations avec le gouvernement). Même s'il s'agira d'une prise de contact, M. Heins présentera ses priorités, après quoi nous proposons [21(1)(a).21(1)(b)]

[21(1)(a).21(1)(b)] Vous trouverez des points de discussion suggérés, une biographie et un profil de RIM dans les annexes.

CONTEXTE

Le 22 janvier 2012, [20(1)(c).21(1)(b)] M. Thorsten Heins a pris les fonctions de PDG en remplacement des coprésidents-directeurs généraux, Jim Balsillie et Mike Lazaridis. Barbara Stymiest (ancienne PDG de la Bourse de Toronto) est devenue la présidente indépendante du conseil d'administration. La réaction initiale des marchés à la nomination de M. Heins, qui était le chef de l'exploitation de RIM, [21(1)(b)]

[21(1)(b)]

Au cours de la dernière année, RIM a rencontré un certain nombre de difficultés, notamment des retards dans le lancement de ses produits, une concurrence féroce de la part des appareils Apple et des appareils équipés d'Android, des baisses importantes des ventes aux États-Unis ainsi qu'une réduction des parts de marché à l'échelle mondiale. Bien que les ventes sur les marchés de l'Asie et de l'Amérique latine aient augmenté, RIM est passée de la deuxième à la quatrième place sur le marché mondial (10,4 p. 100 de la part de marché en 2011, contre 19,8 p. 100 en 2009) au cours des trois dernières années.

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20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

L'entreprise a perdu 75 p. 100 de son cours de bourse au cours de la dernière année, ce qui a débouché sur des spéculations d'acquisition. Le 3 février 2012, le premier ministre Harper a dit qu'il voulait voir RIM continuer de croître « en tant qu'entreprise canadienne » et s'est demandé si des prises de contrôle hostile de grandes entreprises nationales sont dans l'intérêt du pays.

20(1)(c).21(1)(b)

nouveau PDG, M. Heins, a été actif dans les médias, insistant sur le fait qu'il accordera la priorité au perfectionnement de l'exécution et améliorera la performance de RIM sur le marché américain. Le 2 février, M. Heins a rencontré des analystes de marché pour présenter sa stratégie,

20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b)

POINTS À CONSIDÉRER

20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b)

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CCM 231000

20(1)(c).21(1)(a).21(1)(b)

Vous trouverez ci-joint des points de discussion suggérés et des éléments de réponse sur ces sujets.

Richard Dicerni
Sous-ministre
c.c. Simon Kennedy

Simon Kennedy
Sous-ministre délégué principal
c.c. Richard Dicerni

Pièce(s) jointe(s)

Speaking Points

Introduction

- I'm very happy that we were able to find time to meet.
- Congratulations on your appointment. RIM is a Canadian success and we want RIM to continue to be a world leader. I saw that you met with thousands of developers in Amsterdam last week during the BlackBerry DevCon Europe conference. I hope that you achieved your objectives.

1) Update on RIM's Priorities

- | | |
|-------------------|--|
| 20(1)(c),21(1)(a) | |
| 20(1)(c),21(1)(a) | I was wondering if you could tell me more about: |

 - What are your priorities for the next 6 to 12 months?
 - | |
|----------|
| 20(1)(c) |
|----------|
 -

2) Update on the Digital Economy Strategy/Growing the ICT Sector

- One of the Government's priorities is the Digital Economy Strategy. Increasing the adoption of digital technologies by Canadian firms and growing the ICT sector are key elements of the Strategy.
- The ICT sector is very important to me and I want Canada to have more flagship companies like yours. We want highly innovative companies that create high quality jobs for Canadians.
- I am currently holding roundtables with ICT companies across the country to hear from the industry about what the government could do to help the ICT sector grow.

21(1)(a)

21(1)(a)

- As a core foundation, our Government plans to eliminate the deficit in the medium term to maintain our economic advantage well into the future.

- In recent months, I have announced a number of measures supporting the Digital Economy Strategy such as:
 - New initiatives (Digital Technology Adoption Pilot Program (DTAPP) and BDC) to speed up the adoption of digital technologies by SMEs.
 - The modernization of the Copyright Act; a bill has been introduced and we intend to pass it as soon as possible.
 - I also plan to announce soon the rules guiding the next spectrum auctions to ensure Canadians and businesses have access to the next generation network.
- We are also looking at the talent question for the ICT sector. I have asked my officials to work with stakeholders to identify talent needs for the industry. 20(1)(c),21(1)(a)
20(1)(c),21(1)(a)
 - 20(1)(c)
- Our Government is also studying the Jenkins' recommendations closely and we will respond to it soon. 20(1)(c)
20(1)(c) I would like to get your views on how best the Government could encourage additional innovation.
 - 20(1)(c)

3) Time Permitting, and if RIM raises

21(1)(a)

Biographies

Thorsten Heins, President and CEO, Research In Motion

Mr. Thorsten Heins was named President and Chief Executive Officer at Research In Motion in January 2012. He previously served as Chief Operating Officer, Product Engineering, overseeing the BlackBerry smartphone portfolio world-wide.

Prior to joining RIM in 2007, Mr. Heins held several positions in the wireless arena including the Chief Technology Officer of Siemens' Communications Division and several general management positions in Hardware and Software businesses.

Mr. Heins holds a master's degree in Science and Physics from the University of Hannover in Germany. Thorsten also serves as a member of the Board of Directors for the Canadian German Chamber of Industry and Commerce Inc.¹

¹ <http://www.rim.com/newsroom/mediaexecutive/index.shtml>

Research In Motion Profile

Company Overview

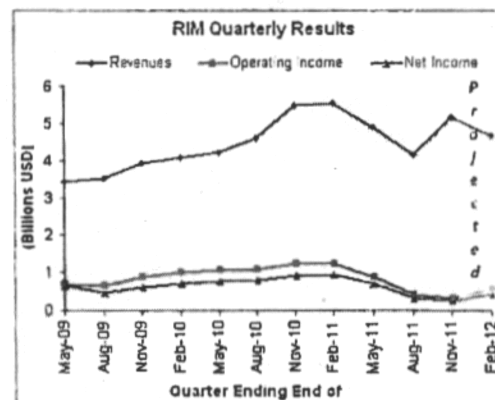
Research In Motion (RIM), headquartered in Waterloo, designs, manufactures, and markets wireless solutions under the BlackBerry brand. RIM's portfolio of products includes BlackBerry smartphones and PlayBook tablets, BlackBerry Enterprise Solution suites, and software development tools. BlackBerry devices use a push-based technology to deliver business and consumer applications to mobile users. RIM recently reported a 35% year-to-year increase in the BlackBerry subscriber base, which has now reached over 75 million. Most of its new subscribers come from international markets (not North America) and purchase lower-end products. RIM employs about 17,500 workers.

Financial Performance

RIM grew very quickly in the late 2000s; its revenues grew from US\$ 3 billion in fiscal year 2007 to US\$ 19.9 billion in fiscal year 2011. The company expanded its sales beyond the corporate market and North America and Western Europe to achieve this growth. BlackBerry device unit shipments reached 52.3 million in fiscal 2011, up 43% from fiscal 2010 although revenues only grew by 33%.

Fiscal Year 2012 to Date

20(1)(c)	
20(1)(c)	Sales declined in the first two quarters of fiscal 2012 before bouncing back in the third quarter helped by the release of new devices using the new BB7 operating system. For the first nine months of its fiscal year 2012 (period ending in November 2011), RIM reported revenues of US\$ 14.2 billion, down 1% compared to the same period in fiscal year 2011.



Year to date RIM's gross margin declined to 36.3%, compared to 44.4% for the first nine months of fiscal 2011, as the average price of smartphones and tablets declined.

As a result, net income for the first nine months of fiscal 2012 dropped to US\$ 1.3 billion, down 48% year-over-year.

Q4 & Future Outlook

RIM is expecting lower revenues for its fourth quarter (ending in February 2012), of between US\$ 4.6 billion and US\$ 4.9 billion based on shipments of 11 to 12 million smartphones, down from 14 million units in the third quarter. Net income is expected to be in the range of US\$ 420 to US\$ 500 million. Full year results for fiscal 2012 are expected to see revenues in the range of US\$ 18.9 to 19.1 billion (down about 4.5% from previous fiscal year) and net income of between US\$1.7 to 1.75 billion (down about 30% from the previous fiscal year). In fiscal 2013, RIM expects to see better sales for its PlayBook tablet based on a software update due in February 2012 and higher sales of

smartphones in the second half of calendar year 2012 (Q3 and Q4 FY 2013) with the release of its long awaited BB10 devices.

Market Position

Smartphone Shipments

Global shipments of new smartphones are expected to increase from 490 million in 2011 to 1,033 million in 2015. Competition in the market is fierce,

21(1)(a),21(1)(b)

20(1)(b)

21(1)(a),21(1)(b) In terms of manufacturers, Samsung rose to first place for 2011 with 19.1% of the global smartphone market (up from 7.5% for 2010). Apple rose to second place with 19.0% of the market, up from 15.6% the previous year.

Former market leader Nokia dropped to third place with a 15.7% share (from 32.9% for 2010). RIM fell to fourth position with a 10.4% share, down from 16% for 2010. RIM peaked in terms of market share (at 22.5%) in Q1 of 2009. HTC held fifth place, with an 8.9% share, up from 7.1% for the previous year.

20(1)(c),21(1)(b)

20(1)(c),21(1)(b) Nokia (-22.8%) and RIM (4.7%) both posted year-over-year shipment growth rates well below the smartphone market average (61.3%).

Business Market

In the past BlackBerry was synonymous with business smartphones and RIM dominated the business market well ahead of any competitors.

20(1)(b),21(1)(b)

20(1)(b),21(1)(b)

Investors and Analysts

20(1)(c),21(1)(b) Over the last 52 weeks, RIM's share price has ranged from a high of US\$ 70.54 (Feb. 18, 2011) to a low of US\$ 12.45 (Dec 19, 2011) and was at US\$ 16.71 on February 7, 2012.

On January 22nd 2012, 20(1)(c),21(1)(b) RIM made changes to its management. Thorsten Heins took over from co-Chief Executive Officers Jim Balsillie and Mike Lazaridis as CEO. While Barbara Stymiest (formerly an executive with the Royal Bank of Canada and CEO of the Toronto Stock Exchange) became the independent Board Chair and Prem Watsa (known as "the Warren Buffett of the North") of Fairfax Financial Holdings was appointed as a director.

The company has addressed its corporate governance structure and made the management changes which were seen by many analysts as needed to improved performance.

20(1)(c),21(1)(b)

20(1)(c),21(1)(b)

Ecosystem

RIM uses a global supply chain. Key suppliers are multinationals with facilities around the world. Very few Canadian technology companies are part of RIM's ecosystem. One major exception is Celestica which is one of the main assemblers of RIM products.

20(1)(b),20(1)(c),21(1)(b)

20(1)(b),20(1)(c),21(1)(b)

Impact on the Canadian Economy

20(1)(b),20(1)(c)

RIM's largest economic impact is therefore in the Waterloo region.

20(1)(c),21(1)(a),21(1)(b)

20(1)(c),21(1)(a),21(1)(b)

the company does buy professional services and is also the largest ICT employer. Most of RIM's jobs in Waterloo are highly qualified and well paid. RIM is the largest Canadian private R&D performer, spending over US\$ 1.35 billion on R&D in fiscal 2011, with much of its R&D performed in Waterloo.

Both Wilfrid Laurier and the University of Waterloo have been boosted in step with RIM's success, in terms of recruitment, scholarships and academics. RIM is the largest private sector employer in UW's co-op education program.

Security classification: Secret
CCM Number: 233064
Contact: Alain Beaudoin, SITT, ICTB, 613-954-5598
Action Required: For your meeting

ADVICE TO THE MINISTER

Telephone Call with Mr. Thorsten Heins, CEO of Research In Motion (RIM)
March 22, 2012, XX:XX x.m.

ISSUE

You will be speaking with Mr. Thorsten Heins, RIM's newly appointed CEO. While this will be an introductory conversation, we expect Mr. Heins will highlight his priorities after which we propose that [21(1)(a)] [21(1)(a)] You will find attached suggested speaking points, a biography and a profile of RIM in the annexes.

BACKGROUND

On January 22, 2012, [20(1)(c).21(1)(b)] Mr. Thorsten Heins took over from co-Chief Executive Officers Jim Balsillie and Mike Lazaridis as CEO. Barbara Stymiest (former CEO of the Toronto Stock Exchange) became the independent Board Chair. The markets' initial reaction to Mr. Heins' appointment – who was RIM's Chief Operating Officer – [21(1)(b)]

[21(1)(b)]

Over the last year, RIM has been experiencing a number of challenges, notably product launch delays, fierce competition from Apple and Android-based devices, as well as large declines in US sales and shrinking global market shares. Although sales in Asian and Latin American markets have increased, RIM has slipped from second to fourth position in the global market (10.4 percent of the market in 2011, down from 19.8 percent for 2009) in the last three years. [20(1)(c).21(1)(b)]

[20(1)(c).21(1)(b)] [20(1)(c).21(1)(b)]

[20(1)(c).21(1)(b)] The company has lost 75 percent of its market value in the last year, leading to acquisition speculation. On February 3, 2012, Prime Minister Harper said he wanted to see RIM grow “as a Canadian company” and questioned whether hostile takeovers of key domestic firms are in the country's best interests.

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20(1)(c),21(1)(b)

20(1)(c),21(1)(b) New CEO Heins has been active in the media, emphasizing that he will focus on better execution and improve RIM's performance in the US market.

On February 2, 2012, Mr. Heins met with financial analysts to outline his strategy, 20(1)(c),21(1)(a),21(1)(b) In March a number of analysts reduced their price targets for RIM's stock in advance of its fourth quarter results release on March 29th. The lowest target for RIM's stock comes from Northern Securities at \$7, based on expectations that RIM's margins will decline over the next year as carriers reduce the per subscriber service fees paid to RIM. Northern expects RIM's total number of subscribers will rise, but believe BlackBerry will be reduced to a second-tier niche brand. Many other analysts have expressed concerns that the release of BlackBerry 10 devices will come too late to defend RIM's market position. The average price target for the stock is now \$15.

CONSIDERATIONS

20(1)(c),21(1)(a),21(1)(b)

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CCM 233064

20(1)(c).21(1)(a).21(1)(b)

You will find attached proposed speaking points and responsive lines on these specific topics.

Richard Dicerni
Deputy Minister
c.c. Simon Kennedy

Simon Kennedy
Senior Associate Deputy Minister
c.c. Richard Dicerni

Attachments

CCM 233064

Speaking Points

Introduction

- I'm very glad that we were able to schedule this call.
- I was sorry we could not meet when I was visiting Waterloo Region last month. [redacted 19(1)] Perhaps the next time I'm in Waterloo we can find time to meet in person.
- Congratulations on your appointment. RIM is a Canadian success and we want RIM to continue to be a world leader.

1) Update on RIM's Priorities

- [redacted 21(1)(a)]
[redacted 21(1)(a)] I noticed that you released the software update for the PlayBook. I was wondering if you could tell me more about:
 - What are your priorities for the next 6 to 12 months?
 - [redacted 20(1)(c)]
 - [redacted 20(1)(c)]

2) Update on the Digital Economy Strategy/Growing the ICT Sector

- One of the Government's priorities is the Digital Economy Strategy. Increasing the adoption of digital technologies by Canadian firms and growing the ICT sector are key elements of the Strategy.
- The ICT sector is very important to me and I want Canada to have more flagship companies like yours. We want highly innovative companies that create high quality jobs for Canadians.

- I recently held roundtables with ICT companies across the country to hear from the industry about what the government could do to help the ICT sector grow. [redacted] 19(1),20(1)(c) [redacted] 19(1),20(1)(c) was at the Toronto roundtable and provided very valuable input.
- As a core foundation, our Government plans to eliminate the deficit in the medium term to maintain our economic advantage well into the future.
- In recent months, I have announced a number of measures supporting the Digital Economy Strategy such as:
 - New initiatives (Digital Technology Adoption Pilot Program (DTAPP) and BDC) to speed up the adoption of digital technologies by SMEs.
 - The modernization of the Copyright Act; a bill has been introduced and we intend to pass it as soon as possible.
- On March 14, I announced that the government is taking action to provide Canadians with more choices for wireless services, by lifting foreign investment restrictions for companies with small market share and unveiling the policy approach to the upcoming auctions of 700 MHz and 2500 MHz spectrum.
- We are also looking at the talent question for the ICT sector. I have asked my officials to work with stakeholders to identify talent needs for the industry. My department held an expert roundtable a few weeks ago to identify what needs to be done over the short and medium term. [redacted] 19(1),20(1)(c) [redacted]
 - [redacted] 20(1)(c) [redacted] 20(1)(c) We all committed to working with the ICT sector to seek potential solutions to its skills challenges. My officials will be following up with [redacted] 19(1),20(1)(c) in the coming weeks.
- Our Government is also studying the Jenkins' recommendations closely and we will respond to it soon. [redacted] 20(1)(c) [redacted] 20(1)(c) I would like to get your views on how best the Government could encourage additional innovation.

3) Time Permitting, and if RIM raises

Export Control/Cryptography (responsive only)

- I understand that administrative changes undertaken by DFAIT are a step in the right direction, and that [20(1)(c).21(1)(a)]

- [20(1)(c).21(1)(a)]
- [20(1)(c).21(1)(a)]

Copyright (responsive only)

- An amendment to the innovation exceptions in Bill C-11 was adopted by the Legislative Committee. [20(1)(c).21(1)(a)]

[20(1)(c).21(1)(a)]

IP/Patents (responsive only)

- My officials would be interested in having a continuing conversation with RIM on how the IP system in Canada might better equip Canadian companies to drive innovation and compete worldwide.

Investment Canada Act (responsive only)

What is the status of changes to the ICA

[21(1)(a)]

[21(1)(a)]

- The Act was updated in 2009 in response to recommendations by the Competition Policy Review Panel. Those updates included improvements to the transparency of our foreign investment review process.
- We continuously examine all of our marketplace framework laws to ensure they are up to date and effective.

- It is premature to make comments on any specific additional changes

21(1)(a)

21(1)(a)

- The Minister of Industry is responsible for determining whether an acquisition is likely to be of net benefit to Canada.

21(1)(a)

- Speaking in general terms, under the *Investment Canada Act*, when a non-Canadian wishes to acquire control of a Canadian business with an asset value of \$330 million or more, the investment is subject to review under the Act.
- Where an investment is subject to review under the Act, the investment cannot be implemented without the approval of the Minister which is based on likely net benefit to Canada.
- I examine proposed investments on a case-by-case basis and make my decisions based on the facts and merits of each proposed investment in light of the factors specified in the Act.

Research In Motion Profile

Company Overview

Research In Motion (RIM), headquartered in Waterloo, designs, manufactures, and markets wireless solutions under the BlackBerry brand. RIM's portfolio of products includes BlackBerry smartphones and PlayBook tablets, BlackBerry Enterprise Solution suites, and software development tools. BlackBerry devices use a push-based technology to deliver business and consumer applications to mobile users. RIM recently reported a 35% year-to-year increase in the BlackBerry subscriber base, which has now reached over 75 million. Most of its new subscribers come from international markets (not North America) and purchase lower-end products. RIM employs about 17,500 workers.

Financial Performance

RIM grew very quickly in the late 2000s; its revenues grew from US\$ 3 billion in fiscal year 2007 to US\$ 19.9 billion in fiscal year 2011. The company expanded its sales beyond the corporate market and North America and Western Europe to achieve this growth. BlackBerry device unit shipments reached 52.3 million in fiscal 2011, up 43% from fiscal 2010 although revenues only grew by 33%.

Fiscal Year 2012 to Date

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) Sales declined in the first two quarters of fiscal 2012 before bouncing back in the third quarter helped by the release of new devices using the new BB7 operating system. For the first nine months of its fiscal year 2012 (period ending in November 2011), RIM reported revenues of US\$ 14.2 billion, down 1% compared to the same period in fiscal year 2011.

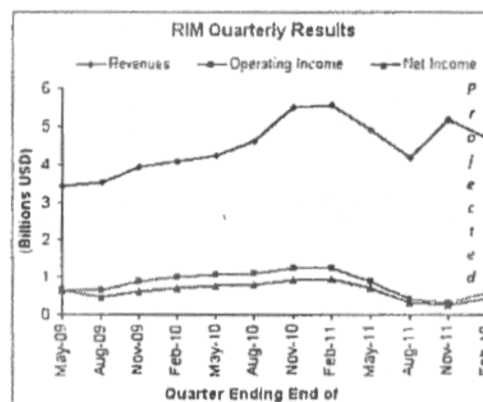
Year to date RIM's gross margin declined to 36.3%, compared to 44.4% for the first nine months of fiscal 2011, as the average price of smartphones and tablets declined.

20(1)(c).21(1)(b)

As a result, net income for the first nine months of fiscal 2012 dropped to US\$ 1.3 billion, down 48% year-over-year.

Q4 & Future Outlook

RIM is expecting lower revenues for its fourth quarter (ending in February 2012), of between US\$ 4.6 billion and US\$ 4.9 billion based on shipments of 11 to 12 million smartphones, down from 14 million units in the third quarter. Net income is expected to be in the range of US\$ 420 to US\$ 500 million. Full year results for fiscal 2012 are expected to see revenues in the range of US\$ 18.9 to 19.1 billion (down about 4.5% from previous fiscal year) and net income of between US\$ 1.7 to 1.75 billion (down about 30% from the previous fiscal year). In fiscal 2013, RIM expects to see better sales for its PlayBook tablet based on a software update due in February 2012 and higher sales of



smartphones in the second half of calendar year 2012 (Q3 and Q4 FY 2013) with the release of its long awaited BB10 devices.

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21(1)(a),21(1)(b)

20(1)(b)

21(1)(a),21(1)(b)

In terms of

manufacturers, Samsung rose to first place for 2011 with 19.1% of the global smartphone market (up from 7.5% for 2010). Apple rose to second place with 19.0% of the market, up from 15.6% the previous year.

Former market leader Nokia dropped to third place with a 15.7% share (from 32.9% for 2010). RIM fell to fourth position with a 10.4% share, down from 16% for 2010. RIM peaked in terms of market share (at 22.5%) in Q1 of 2009. HTC held fifth place, with an 8.9% share, up from 7.1% for the previous year.

20(1)(c),21(1)(b)

20(1)(c),21(1)(b)

Nokia (-22.8%) and RIM (4.7%) both posted year-over-year shipment growth rates well below the smartphone market average (61.3%).

Business Market

In the past BlackBerry was synonymous with business smartphones and RIM dominated the business market well ahead of any competitors.

20(1)(b),21(1)(b)

20(1)(b),21(1)(b)

Investors and Analysts

20(1)(c)

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The company has addressed its corporate governance structure and made the management changes which were seen by many analysts as needed to improved performance.

20(1)(c),21(1)(b)

20(1)(c),21(1)(b)

Ecosystem

RIM uses a global supply chain. Key suppliers are multinationals with facilities around the world. Very few Canadian technology companies are part of RIM's ecosystem. One major exception is Celestica which is one of the main assemblers of RIM products.

20(1)(b),20(1)(c)

20(1)(c),21(1)(b)

Impact on the Canadian Economy

20(1)(b),20(1)(c),21(1)(b)

RIM's largest economic impact is therefore in the Waterloo region.

20(1)(c),21(1)(b)

20(1)(c),21(1)(b)

the company does buy professional services and is also the largest ICT employer. Most of RIM's jobs in Waterloo are highly qualified and well paid. RIM is the largest Canadian private R&D performer, spending over US\$ 1.35 billion on R&D in fiscal 2011, with much of its R&D performed in Waterloo.

Both Wilfrid Laurier and the University of Waterloo have been boosted in step with RIM's success, in terms of recruitment, scholarships and academics. RIM is the largest private sector employer in UW's co-op education program.

Security classification: Secret
CCM Number: 229561
Contact: Alain Beaudoin, ICT Branch, SITT 613-954-5598
Action Required: For information

ADVICE TO THE MINISTER

Research In Motion Third Quarter Results

ISSUE

On December 15, 2011, RIM reported its financial results for its third quarter of fiscal year 2012, as well as its guidance for the fourth quarter. 20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

BACKGROUND

On December 15, 2011, RIM reported revenues of \$5.2 billion and net income of \$265 million for its third quarter, 20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

Net income was down 19.5 percent from the previous quarter and 71 percent from the same quarter last year, mainly because of charges related to last October service interruption and PlayBook inventory provision. The number of subscribers reached almost 75 million this quarter but is in decline in the U.S. RIM is expecting lower revenues for its fourth quarter, ending in February 2012, between US\$4.6 billion and US\$4.9 billion based on shipments of smartphones of 11 million to 12 million units, down from 14 million in the third quarter. 21(1)(b)

RIM announced that the release of its new smartphone suites (BB10, based on QNX platform) was delayed until late 2012 after being previously expected for early 2012. Meanwhile, PlayBook tablet shipments dropped to 150,000 in the last quarter despite aggressive price cuts to reduce inventory.

20(1)(c).21(1)(b)

CONSIDERATIONS

20(1)(c), 21(1)(b)

CONCLUSION

We will continue to monitor closely and keep you apprised of major developments.

Richard Dicerni
Deputy Minister
c.c. Simon Kennedy

Simon Kennedy
Senior Associate Deputy Minister
c.c. Richard Dicerni

CCM 229561

Security classification: Secret
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Action Required: For information

ADVICE TO THE MINISTER

Research In Motion Fourth Quarter and Fiscal Year 2012 Results

ISSUE

RIM reported its financial results for the fourth quarter and full year for fiscal year 2012 (ended in March 3 2012).

BACKGROUND

On March 29, 2012, RIM reported revenues of US\$4.2 billion for its fourth quarter 2012, down 19 percent from the previous quarter. The company also reported a net loss of US\$125 million. [redacted] 20(1)(c).21(1)(b) and analysts' expectations (US\$4.5B). Smartphone shipments (11.1 million units) were down 21 percent but within guidance. The net loss included a non-cash charge of US\$346 million for reduced brand value and a US\$197 million inventory write-down. The number of BlackBerry subscribers increased by 2.8 million to reach 77 million, the smallest increase in 13 quarters.

RIM's fiscal 2012 results of US\$18.4 billion in revenues and of US\$1.2 billion in net income represented drops of 7.4 percent and 66 percent respectively from 2011. [redacted] 21(1)(b)

[redacted] 21(1)(b)

CONSIDERATIONS

[redacted] 21(1)(a).21(1)(b)

21(1)(a),21(1)(b)

We will continue to monitor closely and keep you apprised of major developments.

Richard Dicerni
Deputy Minister
c.c. Simon Kennedy

Simon Kennedy
Senior Associate Deputy Minister
c.c. Richard Dicerni

CCM 233945

Research in Motion (RIM) Profile**Highlights**

- In Q4 of fiscal 2012 (ended 3 March 2012), RIM reported revenues of US\$4.2 billion, down 19% from the previous quarter. For its fiscal year 2012, the company reported revenues of US\$ 18.4 billion, down 7.4% year-over-year, 20(1)(c).21(1)(b)
- RIM announced that its new smartphones using the BlackBerry 10 operating system will be released in the second half of calendar 2012.
- RIM regained fourth position in the global smartphone market in the fourth quarter of calendar 2011 with an 8.2% share, although its share is down from 10% the previous quarter and from 15% a year ago 21(1)(a).21(1)(b) RIM peaked in terms of smartphone market share (at 22.5%) in the first quarter of calendar 2009.
- 20(1)(c)
- 20(1)(c).21(1)(b) RIM made changes to its management early 2012. Thorsten Heins took over from co-Chief Executive Officers Jim Balsillie and Mike Lazaridis as CEO. New CEO announced a strategic review with the objectives of improving operating efficiency, streamlining the organizational structure and looking for ways to leverage the BlackBerry platform and other RIM assets.

Business Description

Research in Motion (RIM), headquartered in Waterloo, designs, manufactures, and markets wireless solutions under the BlackBerry brand. RIM's portfolio of products, services and embedded technologies are used by organizations in more than 160 countries and include the BlackBerry wireless solution, the RIM Wireless Handheld product line, software development tools and other software and hardware. BlackBerry devices use wireless, push-based technology to deliver both business and consumer applications to mobile users.

The BlackBerry wireless solution is centered on RIM's Network Operations Centre (NOC) and provided via its carriers partner's networks. Its services revenues are primarily generated by billing carriers a monthly fee for each BlackBerry subscriber.

Revenues & Earnings

RIM grew very quickly in the late 2000's with revenues increasing from US\$ 3 billion in fiscal year 2007 to US\$ 19.9 billion in fiscal year 2011. The company expanded its sales beyond the corporate market and its core geographic markets of North America and Western Europe to achieve this growth. BlackBerry device unit shipments peaked 52.3 million in fiscal 2011, falling to 49 million units in fiscal 2012 (down 6%).

Millions of USD (except for earning/share)	Most Recent Q	Same Q Last FY	Δ	Most Recent (Last) FY	Previous FY	Δ
Revenues:	4,190.0	5,556.0	(24.6%)	18,435.0	19,907.0	(7.4%)
Net Income(Loss):	(125.0)	934.3	(113.4%)	1,164.0	3,411.0	(65.9%)
Current Assets:	7,056.0	7,488.0	(5.8%)	7,056.0	7,488.0	(5.8%)
Cash and Short Term Investments:	1,774.0	2,121.0	(16.4%)	1,774.0	2,121.0	(16.4%)
Current Liabilities:	3,389.0	3,630.0	(6.6%)	3,389.0	3,630.0	(6.6%)
Research and Development:	386.0	383.0	0.8%	1,559.0	1,351.0	15.4%
Earnings (Losses)/share:	(0.24)	1.78	(113.4%)	2.22	6.34	(65.0%)
Adjusted Earnings (Losses)/share:	0.80	1.78	(55.1%)	4.20	6.34	(33.8%)

Fiscal Year 2012

20(1)(c),21(1)(b)

20(1)(c),21(1)(b) Sales declined in the first two quarters of fiscal 2012 before bouncing back in the third quarter helped by the release of the BB7 operating system. In the fourth quarter, sales declined sharply as the company reported revenues of US\$ 4.2 billion down from US\$ 5.2 billion the previous quarter and down 25% from the fourth quarter of fiscal 2011. Q4 saw a net loss of US\$ 125 million as compared to net income of US\$ 265 million in the previous quarter. Net income in Q4 was negatively affected by charges related to non-cash charge for reduced brand value and BlackBerry7 inventory write-down. The number of BlackBerry subscribers increased by 2.8 million to reach a new high of over 77 million in Q4, the smallest increase in thirteen quarters.

The fourth quarter adjusted earnings per share in the table above exclude the impact of pre-tax charges of US\$355 million which are predominantly non-cash. The reported net loss for the fourth quarter of fiscal 2012 was \$0.24 per share compared with \$1.78 per share in the same quarter of fiscal 2011. RIM reports the adjusted figure to enable investors to better assess operating results.

BlackBerry smartphone shipments decreased 21% from Q3 to 11.1 million units, however, PlayBook shipments increased by 233% to over 500,000 units, due to aggressive pricing (some models priced at about half the original price) and the introduction of PlayBook2 software.

For the entire fiscal year 2012 (period ending March 3, 2012), RIM reported revenues of US\$ 18.4 billion, down 7.4% compared to fiscal year 2011. The company saw its gross margin decline to 35.7% compared to 44.4% for fiscal 2011 as its average selling price declined.

20(1)(c),21(1)(b)

20(1)(c),21(1)(b) As a result, margins have dropped, lowering net income for fiscal 2012 to US\$ 1.2 billion, down 66% year-over-year. Considering adjustments (inventory provisions, cost optimization, impairment of goodwill, etc.) adjusted net

income for fiscal 2012 was US\$ 2.2 billion, down 34% from fiscal 2011 while adjusted gross margin was 40%. This better reflects the impact of the change in product mix to income and gross margin as it excludes one-time extraordinary charges and non-cash charges.

FY 2013 Outlook

20(1)(c)

20(1)(c).21(1)(b)

Nonetheless, RIM has said that it is in the market for the long haul and would not discontinue its tablet product.

Position in the market

Smartphones

20(1)(b).21(1)(b)

In terms of global market share by manufacturers, Samsung rose to first place in 2011 with 19.1% of the smartphone market (up from 7.5% in 2010). Samsung posted a 310% year-over-year growth rate. Apple fell to second place with 19% of the market, up from 15.6% the previous year, overtaking Nokia. Former market leader Nokia found itself in third place with a 15.7% share (down from 33% in 2010). RIM held fourth place with a 10.4% share for 2011, down from 16% in 2010. HTC, a Chinese manufacturer, held fifth place, with an 8.9% share, up from 7.1% in 2010. RIM peaked in terms of market share at 19.8% in 2009. Nokia (-22%) and RIM (4.7%) underperformed the year-over-year growth rate of the smartphone market (61.3%).

In the fourth quarter of 2012, Apple took first place in global smartphone market share for the first time with a 23.5% share. Samsung continued to see the strongest shipment growth of any major manufacturer (275% year-over-year), but fell back to second place with a 22.8% share. Nokia held third, although its share slipped to 12.4% (compared to 14.2% in Q3 and 27.6% in Q4 2010). RIM rose to fourth place with an 8.2% share on shipments of 13 million units, up from fifth place in the third quarter. HTC dropped back to fifth place with a 6.5% share, down from 10.8% in the third quarter. Other manufactures held more than 26% of the market, together shipping 42 million smartphones in the fourth quarter (mainly using Android OS).

Business Market

When information workers in 18 countries were surveyed on their work device's operating system, Apple (24%), Android (27%) and BlackBerry (26%) were shown to be used in roughly equal numbers, according to Forrester's Forrsights Workforce and Hardware report. Each held more or less a quarter of the overall market, with the final quarter (23%) going to an "other" category comprised of Nokia's Symbian, Microsoft's

Windows Mobile and Windows 7, Hewlett-Packard's webOS, Linux and Samsung's Bada.¹

BlackBerry's value proposition 21(1)(b)

RIM 20(1)(c).21(1)(b) it released the first smartphone optimized for wireless email use and dominated the enterprise market, especially in North America. However, rivals like Apple and Samsung are dominating in the larger consumer space, and challenging in the enterprise market.

Applications

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) Apple App Store and Android Market each have more than 500,000 apps (combined for tablet and phone), while RIM has about 45,000 apps. 20(1)(c).21(1)(b)

20(1)(c).21(1)(a).21(1)(b) RIM's new operating system will support apps developed using HTML5, which is becoming the standard developing language for mobile apps (it allows developers to publish to multiple platforms including iOS, Android and BlackBerry).²

Security

20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

For example, Trellia, a Canadian software company, provides mobile device management and wireless cost control solutions that support the use of consumer smartphones (e.g., iOS or Android) and tablets on Enterprise networks. 3LM (now owned by Motorola Mobility/ Google) has developed software that performs a similar role for Android devices as RIM's server software does in bringing corporate data to BlackBerry devices.

Messaging Services

20(1)(c).21(1)(b)

¹ Michelle Maisto, "Android, Apple Dominate at Home but Share Work With BlackBerry" eWeek, January 30, 2012 and Brian Chen, "BlackBerry Under Siege in Europe", The New York Times, January 29, 2012.

² Chris Umiastowski, "RIM starts to build bridge over "app gap"", The Globe and Mail, October 20, 2011.

Network Operations Centre (NOC)

[REDACTED] 20(1)(c).21(1)(b) its devices reduce carriers' costs by directing data traffic across RIM's own infrastructure. The popularity of activities such as streaming video, social networking, sharing of large unstructured data (video, photo, office files), and mobile access to enterprise data (databases and files) has driving up network utilization. RIM's architecture maximizes utilization of network bandwidth as traffic meant for BlackBerry consumption passes through RIM's Network Operations Centre infrastructure where it is compressed and optimized. This enables carriers to use their networks more efficiently compared to other architectures.

[REDACTED] 20(1)(c).21(1)(b)

Challenges and Issues*Involvement in legal issues*

Although RIM settled various legal issues in recent times (e.g., Dolby patent infringement case), it continues to face issues related to infringement of patents. RIM has been the target of multiple allegations of patent infringement. [REDACTED] 20(1)(c).21(1)(b)

[REDACTED] 20(1)(c).21(1)(b)

[REDACTED] 20(1)(c).21(1)(b) In April 2011, RIM was part of a consortium of companies (Rockstar Bidco LP) that successfully acquired Nortel's portfolio of patent assets. Apple, Microsoft, EMC, Ericsson and Sony were the other companies in the consortium. Companies in the winning group are expected to try to maximize their return on the patents by using them to litigate against others, with Google and its Android mobile phone software the most obvious target. RIM has [REDACTED] 20(1)(b).20(1)(c) patents in advanced wireless technology, security, enterprise mobility and software³.

Management Changes

On January 22, 2012, RIM made changes to its management. Thorsten Heins took over from co-Chief Executive Officers Jim Balsillie and Mike Lazaridis as CEO. While Barbara Stymiest (formerly an executive with the Royal Bank of Canada and CEO of the Toronto Stock Exchange) became the independent Board Chair and Prem Watsa (known as "the Warren Buffett of the North") of Fairfax Financial Holdings was appointed as a director.

³ RIM is the inventor or applicant in [REDACTED] 20(1)(b).20(1)(c) patents worldwide based on information in the EPO database. RIM owns [REDACTED] 20(1)(b).20(1)(c) US patents and [REDACTED] 20(1)(b).20(1)(c) Canadian patents.

On March 29, 2012, RIM announced that Jim Balsillie, former Co-CEO, had left the Company's Board. Also, David Yach retired from his position as CTO, Software and Jim Rowan, COO, Global Operations left to pursue other interests.

Strategic Direction and Analysts' Response

RIM's stock price has been trending down since February 2011, losing 81% of its value. The stock price plummeted from some US\$70 to about US\$13 over the period.

20(1)(c),21(1)(b)

The delay of Blackberry 10 devices until the latter half of 2012 for an LTE chipset (which implies relatively high price devices) was particularly criticised, many commentators questioning whether RIM can turn around its performance.

20(1)(c)

20(1)(c)

When Mr. Heins took over as CEO in January 2012, he said that he did not think RIM needed drastic change. By March 29th (his first earnings call), after more fully reviewing operations, he emphasized that "substantial change is what RIM needs" and that he was committed to doing whatever is needed to deliver long-term value. He still supports an integrated offering but said that RIM will not be doing everything itself anymore. This is a significant departure from his predecessors. Analysts welcomed Mr. Heins' comments seeing him as having a more realistic view of the enterprise and speaking their language.

Among the issues identified was a lost focus on the company's core business strengths, the enterprise market. Mr. Heins said that RIM will now try to reclaim lost market share in this space by refocusing itself on the development and promotion of enterprise-specific products and services while relying on partnerships to deliver consumer features and content that are not central to the BlackBerry value proposition, for example, media consumption applications. In the consumer segment, RIM does not plan to be "all things to all people" but to go after specific target consumers that are more aligned with its enterprise strengths.

Mr. Heins also launched a strategic review with the objectives of improving operating efficiency, streamlining the organizational structure and looking for ways to leverage the BlackBerry platform and other RIM assets. Some analysts suggested that RIM could leverage its cloud expertise to grow its presence as a cloud-based enterprise service provider through a variety of strategies including partnerships with other leading suppliers of cloud-based solutions.⁴ The BlackBerry solution was developed as a cloud-based service and this architecture enables many competitive advantages, including real-time push services, strong security and back-end integration with carrier systems

During the March 29 earnings conference call, Mr. Heins was asked if the sale of the company was something under consideration as part of the strategic review. Mr. Heins indicated that his mandate was to turn the company around but added "if there is

⁴ Research in Motion, Datamonitor Company Profiles, 22 June 2011. <http://global.factiva.com>

any element that we detect during that strategic review that would lead us into this direction, we would consider it, but it is not the direction we are pursuing right now". RIM is said to be in talks to hire a financial adviser to help it weigh its strategic options.

20(1)(b).20(1)(c)

Takeover Rumours

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) Goldman Sach's analyst Simona Jankowski, known as a bear for RIM, estimates the value of RIM's IP at US\$3.4 billion, including US\$778 million for its share of the Nortel patents. She assigns a value of US\$458,000 per patent for the company's US patents, based on comparable patent portfolios that either have been recently sold or are publicly traded (Interdigital). She estimates the net present value of the company's services cash flows at \$4.8 billion, assuming they go to zero in six years.⁵ RIM also has US\$1.7 billion in cash and investments, which gives a total asset value of US\$10 billion⁶, well above its current market cap of US\$7 billion.

Although Microsoft's alliance with Nokia and Google's purchase of Motorola might limit the list of potential buyers for RIM, rumours are recurring. RIM's Board has reportedly instructed its chief executives to focus on turning around the business. Reuters also reported that Wall Street bankers have tried to pitch RIM to other mobile phone makers, including Samsung and HTC in recent months.

Consideration: Employment and Ecosystem

Employment

RIM's workforce increased significantly from 2007 to 2011, peaking at about 19,000 workers, 20(1)(b).20(1)(c) RIM's international employees are mainly in the US, UK, Germany, France, Italy, Russia, Spain, Turkey, Australia, Hong Kong, Singapore, Indonesia, and South Africa. The company announced a global workforce reduction of 2,000 workers (11% of its workforce) on July 25, 2011. About half the layoffs are expected to occur in the Waterloo region⁷. At this time RIM has not announced any further layoffs but many analysts think the company will have to let go additional workers. Also, RIM's objectives of improving operating efficiency, streamlining the organizational structure and relying on partnerships to deliver consumer features and content will likely lead to additional cuts in workforce.

20(1)(b).20(1)(c)

⁵ Eric Savitz "Research In Motion: Goldman Ups Rating To Neutral", Forbes, November 16, 2011.

⁶ Asset value is the net market value of a company's assets divided by the number of outstanding shares of that company's stock. Investors use asset value to determine if shares are overvalued or undervalued.

⁷ The Record, Provincial funding aids former RIM workers, August 12, 2011

Ecosystem

RIM uses a truly global supply chain. Key suppliers are multinationals with facilities around the world. Very few Canadian technology companies are part of RIM's ecosystem. One major exception is Celestica which is one of the main assemblers of RIM products.

20(1)(b).20(1)(c)

20(1)(b).20(1)(c)

Impact on the Canadian Economy

RIM's impact on Canadian economy is mainly concentrated in the Waterloo region.

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) the company does buy some professional services in the Waterloo region and is also the largest employer in the region. Most of RIM's jobs in Waterloo are highly qualified and well paid. RIM is the largest Canadian private R&D performer, spending over US\$ 1.35 billion on R&D in fiscal 2011, with much of its R&D performed in Waterloo.

Both Wilfrid Laurier and the University of Waterloo have been boosted in step with RIM's success, in terms of recruitment, scholarships and academics. RIM is the largest private sector employer in UW's co-op education program. The increased supply of talent in the region has attracted other ICT companies in the Kitchener-Waterloo cluster, including some multinationals such as Google, Intel and SAP. The two RIM leaders have also funded a global physics research institute and an international governance and public policy think-tank in the region which are significant asset for the cluster ecosystem.

SOURCES

20(1)(b)

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Research in Motion (RIM) Profile**Highlights**

- In Q3 of fiscal 2012 (ended 27 November 2011), RIM reported revenues of US\$5.2 billion, up 24% from the previous quarter. For the first nine months of its fiscal year 2012, the company reported revenues of US\$ 14.2 billion, down 1% year-over-year, [REDACTED] 20(1)(c),21(1)(b)
[REDACTED] 20(1)(c),21(1)(b) Net income for the first nine months was down 48% year-over-year.
- RIM [REDACTED] 20(1)(c),21(1)(b) delayed the release of the PlayBook 2.0 from October 2011 to February 2012. RIM announced that its new “superphones” using the BlackBerry 10 operating system will not be released until the second half of calendar 2012.
- RIM slipped to fifth position in the global smartphone market in the third quarter of calendar 2011 with a 10% share, down from 12% the previous quarter and 15% a year ago. RIM peaked in terms of smartphone market share (at 22.5%) in the first quarter of calendar 2009.
- [REDACTED] 20(1)(c)
- RIM watchers suggest that to turn the company’s fortunes around it must: 1) release competitive products (starting with the transition to the BB10 operating system, sooner than later); 2) improve management’s execution (product launches and marketing); 3) improve its financial performance; and 4) address the company’s corporate governance structure. The company could also look at developing new revenue streams based on cloud services or its intellectual property.
- [REDACTED] 20(1)(c),21(1)(b) RIM recently made changes to its management. Thorsten Heins took over from co-Chief Executive Officers Jim Balsillie and Mike Lazaridis as CEO. While Barbara Stymiest (formerly Royal Bank and TSX) became the independent board chair and Prem Watsa of Fairfax Financial Holdings was appointed as a director.

Business Description

Research in Motion (RIM), headquartered in Waterloo, designs, manufactures, and markets wireless solutions under the BlackBerry brand. RIM’s portfolio of products, services and embedded technologies are used by organizations in more than 160 countries and include the BlackBerry wireless solution, the RIM Wireless Handheld product line, software development tools and other software and hardware. BlackBerry devices use wireless, push-based technology to deliver both business and consumer applications to mobile users.

The BlackBerry wireless solution is centered on RIM’s Network Operations Centre (NOC) and provided via its carriers partner’s networks. Its services revenues are primarily generated by billing carriers a monthly fee for each BlackBerry subscriber.

Revenues & Earnings

Millions US\$ (except for earning/share)	Q1 to Q3 FY 2012	Q1 to Q3 FY 2011	Δ	FY 2011	FY 2010	Δ
Revenues:	14,245	14,351	-1%	19,907	14,953	33%
Net Income(Loss):	1,289	2,477	-48%	3,411	2,457	39%
Current Assets:	7,202	7,299	-1%	7,488	5,813	29%
Cash and cash equivalents:	1,123	1,435	-22%	1,791	1,551	15%
Short Term Investments	184	340	-46%	330	360	-8%
Current Liabilities:	3,564	3,834	-7%	3,630	2,432	49%
Research and Development:	1,173	968	21%	1,351	965	40%
Earnings (Losses) /share:	\$2.46	\$4.59	-46%	\$6.36	\$4.35	46%

RIM grew very quickly in the late 2000’s with revenues increasing from US\$ 3 billion in fiscal year 2007 to US\$ 19.9 billion in fiscal year 2011. The company expanded its sales beyond the corporate market and its core geographic markets of North America and Western Europe to achieve this growth. BlackBerry device unit shipments reached 52.3 million in fiscal 2011, up 43% from the 36.6 million units shipped in fiscal 2010 although revenues only grew by 33%.

Fiscal Year 2012 to Date

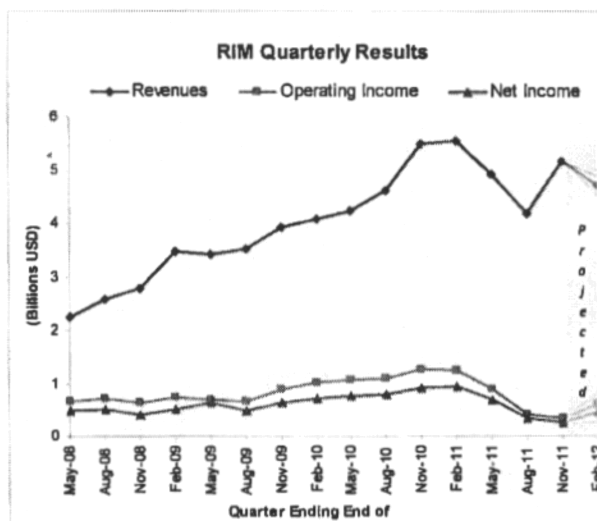
20(1)(c) Sales declined in the first two quarters of fiscal 2012 before bouncing back in the third quarter helped by the release of new devices using the new BB7 operating system. For the first nine months of its fiscal year 2012 (period ending November 27, 2011), RIM reported revenues of US\$ 14.2 billion, down 1% compared to the same period in fiscal year 2011.

The company saw its gross margin decline to 36.3% compared to 44.4% for the same nine months of fiscal 2011 as the average price of smartphones and tablets are declining. 20(1)(c).21(1)(b)

20(1)(c).21(1)(b) As a result, margins have dropped, lowering net income for the first nine months of fiscal 2012 to US\$ 1.3 billion, down 48% year-over-year.

Q3 2012

As mentioned earlier, RIM reported improved revenues in Q3. The company reported revenues of US\$ 5.2 billion, up 24% over the previous quarter. Net income, however, was down 19.5% to

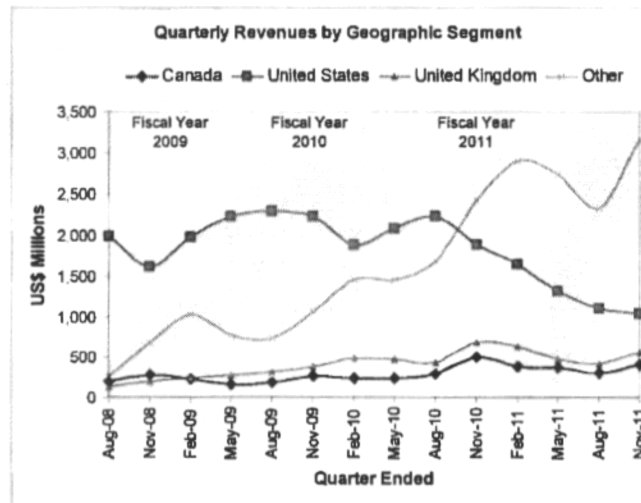


only US\$ 265 million. Net income in Q3 was negatively affected by charges related to last October service interruption and PlayBook inventory provision. The number of subscribers reached a new high of almost 75 million in Q3 but is still declining in the U.S.

BlackBerry smartphone shipments increased 33% from Q2 to 14.1 million units, however, PlayBook shipments dropped by 25% to 150,000 units, due to high levels of inventory in the channel from the first and second quarter. Since September, several retailers have cut the price of the PlayBook, offering some models of the tablet for under \$200 (down from an original price of \$500).

In Q3, RIM continued to see a pronounced shift away from the US and towards other markets. Sales to the US declined by 6.9% in Q3 while they strongly increased in all other markets. International sales (sales outside Canada, the US and the UK) accounted for 61% of total sales and 82% of the growth in Q3.

As shown on the chart (next right), international sales have reached a new high in Q3 while US sales declined for a fifth consecutive quarter. Sales to Canada and the UK recovered after three consecutive quarters of decline.



Q4 & FY 2012 Outlook

RIM is expecting lower revenues for its fourth quarter (ending in February 2012), between US\$ 4.6 billion and US\$ 4.9 billion based on shipments of 11 to 12 million smartphones, down from 14 million units in the third quarter. Net income is expected to be in the range of US\$ 420 to US\$ 500 million. Full year results are expected to see revenues in the range of US\$ 18.9 to 19.1 billion and net income of between US\$1.7 to 1.75 billion (down about 30% from the previous fiscal year).

Position in the market

Smartphones

The smartphone market is growing quickly; shipments are expected to increase from 305 million units in 2010 to 1,033 million units in 2015. However, competition is fierce,

21(1)(a),21(1)(b)

20(1)(b)

20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

In terms of global market share by manufacturers, Samsung rose to first place in Q3 2011 with 20% of the smartphone market (up from 9% the previous year). Samsung posted a 223% year-over-year growth rate. Apple fell to second place with 14% of the market, down from 17% the previous year, although it overtook Nokia. Former market leader Nokia¹ found itself in third place with a 14% share (down from 32% in Q3 2010). HTC, a Chinese manufacturer, made significant gains reaching fourth place, with an 11% share, up from 7% a year earlier. RIM slipped to fifth position with a 10% share, down from 15% a year ago, ahead of Sony Ericsson and Motorola. RIM peaked in terms of market share (at 22.5%) in Q1 of 2009.

20(1)(c).21(1)(b)

20(1)(c).21(1)(b) Nokia (-36%) and RIM (-4.8%) both posted year-over-year growth rates below the smartphone market average (42%).

Mobile Phones

In the broader mobile phone market (which includes smartphones), the dominance of Nokia, Motorola and Sony-Ericsson has been greatly eroded as smartphones have gained in importance in the mobile space.

20(1)(b)

In the third quarter of 2011, Nokia retained its first place ranking (with 27%) in mobile phones; however its dominance has been massively reduced; down from 32% in Q3 2010 and 42% in Q3 2007. Samsung has seen significant growth in its position, second after Nokia with 22% of the market in Q3 2011 compared to 16% four years ago, as it has successfully transitioned to smartphones. LG holds 5% of the market down from 8% in Q3 2007, while ZTE took fourth place with a 5% share. Apple holds fifth place with 4% of the mobile phone market, down from fourth place in the previous quarter. HTC, Motorola and RIM hold 3% shares of the market. RIM fell out of the top five this quarter, down from 4% a year ago. The mobile phone market also has a large number of new entrants, many using the Google’s Android software, which has expanded the share of “Other” to 25%.

¹ Nokia dropped its proprietary operating system and entered an agreement with Microsoft, which it hopes will turn around its performance in coming quarters.

20(1)(c).21(1)(b)

Business Market

When information workers in 18 countries were surveyed on their work device’s operating system, Apple (24%), Android (27%) and BlackBerry (26%) were shown to be used in roughly equal numbers, according to Forrester's Forrsights Workforce and Hardware report. Each held more or less a quarter of the overall market, with the final quarter (23%) going to an "other" category comprised of Nokia's Symbian, Microsoft's Windows Mobile and Windows 7, Hewlett-Packard's webOS, Linux and Samsung's Bada.²

BlackBerry’s value proposition 21(1)(b)

RIM 20(1)(c) released the first smartphone optimized for wireless email use and dominated the enterprise market, especially in North America. 20(1)(c).21(1)(b)

20(1)(c).21(1)(b)

Applications

20(1)(c).21(1)(b)
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20(1)(c).21(1)(a).21(1)(b) operating system now supports apps developed using HTML5, which is becoming the standard developing language for mobile apps (it allows developers to publish to multiple platforms including iOS, Android and BlackBerry).³

Security

20(1)(c).21(1)(b)

For example, Trellia, a Canadian software company, provides mobile device management

² Michelle Maisto, “Android, Apple Dominate at Home but Share Work With BlackBerry” eWeek, January 30, 2012 and Brian Chen, “BlackBerry Under Siege in Europe”, The New York Times, January 29, 2012.

³ Chris Umiasowski, “RIM starts to build bridge over "app gap"”, The Globe and Mail, October 20, 2011.

and wireless cost control solutions that support the use of consumer smartphones (e.g., iOS or Android) and tablets on Enterprise networks. 3LM (now owned by Motorola Mobility/ Google) has developed software that performs a similar role for Android devices as RIM's server software does in bringing corporate data to BlackBerry devices.

Messaging Services

RIM has expanded its global reach by fostering relationships with key carriers, distributors and customers. [redacted] 20(1)(c).21(1)(b)

[redacted] 20(1)(c).21(1)(b)

Network Operations Centre (NOC)

[redacted] 20(1)(c) its devices reduce carriers' costs by directing data traffic across RIM's own infrastructure. The popularity of activities such as streaming video, social networking, sharing of large unstructured data (video, photo, office files), and mobile access to enterprise data (databases and files) has driving up network utilization. RIM's architecture maximizes utilization of network bandwidth as traffic meant for BlackBerry consumption passes through RIM's Network Operations Centre infrastructure where it is compressed and optimized. [redacted] 20(1)(c).21(1)(b)

[redacted] 20(1)(c).21(1)(b)

Challenges and Issues

[redacted] 20(1)(c)

Involvement in legal issues

Although RIM settled various legal issues in recent times (e.g., Dolby patent infringement case), it continues to face issues related to infringement of patents. RIM has been the target of multiple allegations of patent infringement. 20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b)

20(1)(c).21(1)(a).21(1)(b) In April 2011, RIM was part of a consortium of companies (Rockstar Bidco LP) that successfully acquired Nortel’s portfolio of patent assets. Apple, Microsoft, EMC, Ericsson and Sony were the other companies in the consortium. Companies in the winning group are expected to try to maximize their return on the patents by using them to litigate against others, with Google and its Android mobile phone software the most obvious target. RIM has 20(1)(b).20(1)(c) patents in advanced wireless technology, security, enterprise mobility and software⁴.

Management Turnover

In the past year, several senior managers have departed RIM. 19(1)

19(1)

19(1) 21(1)(a).21(1)(b)

21(1)(a).21(1)(b)

What is coming?

RIM is expected to release its “superphone” in the latter part of calendar 2012; using a new operating system (BB10). QNX software, previously used as the OS for the PlayBook, is becoming the OS for all high end BlackBerry devices in 2012, with a name change to BB10. RIM announced that it is waiting for a particular chip to become available before it releases the new BB10 line of phones in order to ensure it gets the performance (battery life, etc.) it wants to be competitive in the US market. RIM has offered few details about BB10’s user interface although it should be similar to the PlayBook 2.0 software due out in February 2012.

20(1)(c).21(1)(b)

Nonetheless, RIM has said that it is in the market for the long haul and would not discontinue its tablet product. RIM is due to re-launch the PlayBook, as PlayBook 2.0, in February 2012.

⁴ RIM is the inventor or applicant in 20(1)(b).20(1)(c) patents worldwide based on information in the EPO database. RIM owns 20(1)(b).20(1)(c) US patents and 20(1)(b).20(1)(c) Canadian patents.

⁵ Alastair Sharp, “Two more senior staff leave BlackBerry maker RIM”, Reuters – September 29, 2011.

On October 7, 2011, RIM announced that it had acquired NewBay Software, an Ireland-based social media software company. Known for its media creation and cloud-access software, this acquisition will add to RIM's ability to offer cloud solutions. NewBay's technology is similar to the online storage options offered by Google with its Android software and Apple's iCloud software.

Investors and stock price

The value of RIM's stock has dropped significantly over the past year. The company has lost 75 percent of its market value in the last year. Over the past 52 weeks, RIM's share price has ranged from a high of US\$ 70.54 (Feb. 18, 2011) to a low of US\$ 12.45 (Dec 19, 2011).⁶

20(1)(c).21(1)(a).21(1)(b)	
20(1)(c).21(1)(a).21(1)(b)	
20(1)(c).21(1)(a).21(1)(b)	The company has announced plans to invest heavily in promoting Blackberry 7.0 devices in the US.
	21(1)(b)
21(1)(b)	

The delay of Blackberry 10 devices until the latter half of 2012 for an LTE chipset (which implies relatively high price devices) has many commentators questioning whether RIM can turn around its performance.

20(1)(c).21(1)(b)	
20(1)(c).21(1)(b)	

20(1)(c).21(1)(b) Goldman Sach's analyst Simona Jankowski, known as a bear for RIM, estimates the value of RIM's IP at \$3.4 billion, including \$778 million for its share of the Nortel patents. She assigns a value of \$458,000 per patent for the company's US patents, based on comparable patent portfolios that either have been recently sold or are publicly traded (Interdigital). She estimates the net present value of the company's services cash flows at \$4.8 billion, assuming they go to zero in six years. RIM also has \$1.4 billion in cash and investments, which gives a total asset value of \$9.6 billion⁷, well above its current market cap.⁸

Although recent Microsoft's alliance with Nokia and Google's purchase of Motorola might limit the list of potential buyers for RIM, rumours are recurring. In October, a rumour that Vodafone was a suitor was dismissed by most analysts. Reuters recently reported that Amazon hired an investment bank over the summer to review a potential merger with RIM, but did not make a formal offer. RIM's Board has reportedly instructed its co-chief executives to focus on turning around the business, not on a sale or

⁶ The consensus rating of RIM shares is Hold (Neutral), with 34 of 53 brokerages that analyse the stock maintaining that position. The consensus target for the stock price is US\$16 (median) or US\$ 17.2 (average), with a high of US\$40 and low of US\$ 8.

⁷ Asset value is the net market value of a company's assets divided by the number of outstanding shares of that company's stock. Investors use asset value to determine if shares are overvalued or undervalued.

⁸ Eric Savitz "Research In Motion: Goldman Ups Rating To Neutral", Forbes, November 16, 2011.

joint venture. Reuters also reported that Wall Street bankers have tried to pitch RIM to other mobile phone makers, including Samsung and HTC in recent months. The Wall Street Journal reported in December that Microsoft and Nokia had also considered making a joint bid for RIM.

What needs to be done?

Analysts, industry “experts” and technology reporters have been vocal in providing instruction to the management at RIM. Many feel that RIM still has the potential to turnaround its performance, but that the window of opportunity is getting smaller. They point out that RIM still has strengths it can build on, such as the many carriers that still support RIM as their ‘3rd platform’.

New CEO Heins has said he will focus on better execution and improving RIM’s performance in the US market. The prevailing view among analysts is that RIM must focus on change management, internal processes, operating cost control and most importantly, timely introduction of new innovative products.

The BlackBerry solution was developed as a cloud-based service and this architecture enables [redacted 21(1)(a).21(1)(b)] real-time push services, strong security and back-end integration with carrier systems. According to industry estimates, the global cloud computing market is expected to grow from \$38 billion in 2010 to \$121 billion in 2015 at a CAGR of 26% from 2010 to 2015. RIM could leverage its cloud expertise to grow its presence as a cloud-based enterprise service provider through a variety of strategies including partnerships with other leading suppliers of cloud-based solutions.⁹ As mentioned earlier, Jaguar also suggested splitting RIM into separate public companies in networking, devices and a patent holder that could generate IP revenue.

Consideration: Employment and Ecosystem

Employment

RIM’s workforce increased significantly from 2007 to 2011, peaking at about 19,000 workers, [redacted 20(1)(b).20(1)(c)] RIM’s international employees are mainly in the US, UK, Germany, France, Italy, Russia, Spain, Turkey, Australia, Hong Kong, Singapore, Indonesia, and South Africa. The company announced a global workforce reduction of 2,000 workers (11% of its workforce) on July 25, 2011. About half the layoffs are expected to occur in the Waterloo region¹⁰. At this time RIM has not announced any further layoffs but many analysts think the company will have to let go additional workers.

[redacted 20(1)(b).20(1)(c)]

⁹ Research in Motion, Datamonitor Company Profiles, 22 June 2011. <http://global.factiva.com>

¹⁰ The Record, Provincial funding aids former RIM workers, August 12, 2011

Ecosystem

RIM uses a truly global supply chain. Key suppliers are multinationals with facilities around the world. Very few Canadian technology companies are part of RIM's ecosystem. One major exception is Celestica which is one of the main assemblers of RIM products.

20(1)(b),20(1)(c),21(1)(b)

20(1)(b),20(1)(c),21(1)(b)

Impact on the Canadian Economy

RIM's impact on Canadian economy is mainly concentrated in the Waterloo region.

20(1)(c),21(1)(b)

20(1)(c),21(1)(b) the company does buy some professional services in the Waterloo region and is also the largest employer in the region. Most of RIM's jobs in Waterloo are highly qualified and well paid. RIM is the largest Canadian private R&D performer, spending over US\$ 1.35 billion on R&D in fiscal 2011, with much of its R&D performed in Waterloo.

Both Wilfrid Laurier and the University of Waterloo have been boosted in step with RIM's success, in terms of recruitment, scholarships and academics. RIM is the largest private sector employer in UW's co-op education program. The increased supply of talent in the region has attracted other ICT companies in the Kitchener-Waterloo cluster, including some multinationals such as Google, Intel and SAP. The two RIM leaders have also funded a global physics research institute and an international governance and public policy think-tank in the region which are significant asset for the cluster ecosystem.

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20(1)(b)

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