

ADVICE TO THE MINISTER

Bilateral Meeting with Mark Henderson, President, Ericsson Canada Inc, January 13th, 14:30-16:30, Montreal, QC

ISSUE

You will have a bilateral meeting with Mr. Mark Henderson, President of Ericsson Canada, at Ericsson's Montreal research facility. Mr. Henderson will be accompanied by Mr. Dragan Nerandzic, Chief Technology Officer, and Mr. Pierre Boucher, Director, Research (see Annex A for agenda and bios). You will be accompanied by Neil Brodie, Richard Dicerni, Deputy Minister, Susan Bincoletto, Associate Assistant Deputy Minister, Spectrum, Information Technologies, and Telecommunications, and François Delorme, Regional Executive Director, Quebec Region.

BACKGROUND

A subsidiary of LM Ericsson, Ericsson Canada has operated in Canada since 1953. In 2008, Ericsson invested \$126 million on research and development (R&D) in Canada and ranks as one of the top 15 Canadian R&D investors. Currently, Ericsson Canada has more than 2600 employees, mostly in the Montreal and Ottawa regions.

In July 2009, Ericsson acquired the wireless equipment unit of Nortel that focuses on Code Division Multiple Access (CDMA), a legacy technology used by Bell and Telus, and Long Term Evolution (LTE), a new technology planned for deployment by most if not all wireless service providers, [redacted] 20(1)(b).20(1)(c) [redacted] In April 2010, Ericsson acquired Nortel's North American GSM business, and in June 2010, purchased Nortel's stake in the LG-Nortel joint venture (see Annex B for a company profile).

CONSIDERATIONS

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

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

According to Jim McIntyre, Strategic Account Executive at EDC, Ericsson is trying to play a larger facilitator role to fill the gap left by Nortel. This includes bringing in new Canadian suppliers, including some previously overlooked SME's. EDC provides direct financing to Ericsson and their non-Canadian buyers at levels determined by a regular assessment of the overall "Benefit to Canada" of Ericsson's operations. This review looks at R&D, presence of Canadian firms in their supply chain, and the share of global mandate assigned to Canada. The maximum EDC financing available for FY 2010/11 is CDN 18.1(1)(b).24(1)

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

Ericsson Canada has been a long-term supplier of GSM wireless equipment to Rogers Wireless, the only national Canadian carrier on this technology track. With Ericsson's acquisition of Nortel assets and all Canadian service providers now moving towards adopting the HSPA/LTE technology family,

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

Prepared by:
Nancy Macartney, A/Director
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Attachments

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

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ADVICE

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

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Ericsson Profile**Business Description**

Ericsson (NASDAQ:ERIC), headquartered in Stockholm, Sweden, is one of the largest global suppliers of network equipment and related services. The company offers a portfolio of telecommunication and data communication systems, multimedia solutions and professional services, covering a range of technologies. Ericsson operates in five business segments (Networks, Professional Services, Multimedia, Sony-Ericsson, and ST-Ericsson). Networks involves communications infrastructure equipment and related deployment services. Professional Services include managed services (for instance by managing wireless networks around the world), services for network systems integration, consulting and education and customer support services. Multimedia involves networked media and messaging, enterprise applications, revenue management, service delivery platforms (SDP) and mobile platforms. Sony-Ericsson, a 50/50 joint venture with Sony Corporation, manufactures mobile phones. ST-Ericsson, a 50/50 joint venture with STMicroelectronics established in February 2009, develops mobile platforms and wireless semiconductor solutions.

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

The company employs more than 90,200 individuals around the world, with about 13,500 in North America (up from 5,284 in June 2009).

Revenues & Earnings

Millions SEK (except for earning/share)	Q1 2011	Q1 2010	Δ	FY 2010	FY 2009	Δ
Revenues:	52,966 (US\$ 8.2 B)	45,112 (US\$ 6.3 B)	17.4%	203,348 (US\$ 28 B)	206,477 (US\$ 27 B)	-1.5%
Net Income(Loss):	4,080 (US\$ 632 M)	1,274 (US\$ 175 M)	220.3%	11,146 (US\$ 1.5 B)	3,672 (US\$ 0.5 B)	203.5%
Current Assets:	198,262 (US\$ 31 B)	182,414 (US\$ 30 B)	8.7%	198,443 (US\$ 30 B)	182,442 (US\$ 26 B)	8.8%
Cash and cash equivalents:	30,756 (US\$ 4.8 B)	21,039 (US\$ 4.6 B)	46.2%	30,864 (US\$ 4.5 B)	22,798 (US\$ 3.2 B)	35.4%
Current Liabilities:	94,146 (US\$ 13 B)	84,053 (US\$ 14 B)	12.0%	96,763 (US\$ 14 B)	85,487 (US\$ 12 B)	13.2%
Research and Development:	7,991 (US\$ 1.2 B)	7,526 (US\$ 1.0 B)	6.2%	31,558 (US\$ 4.4 B)	33,055 (US\$ 4.3 B)	-4.5%
Earnings (Losses) /share:	1.28 (US\$ 0.20)	0.40 (US\$ 0.05)	220.0%	3.49 (US\$ 0.48)	1.15 (US\$ 0.15)	203.5%

In fiscal year 2010 (ended December 31, 2010), Ericsson recorded SEK 203 billion (US\$ 28 billion) in revenues and SEK 11.1 billion (US\$ 1.5 billion) of net income from its global operations. This represents a drop of 1.5% in revenues and an increase of 204% in net income from the previous year. This improvement in net income happened despite charges against income of SEK 1.2 billion (US\$ 162 million) from losses in its joint ventures. Decreased sales in the first half of 2010 were due to the continued impact of the economic slowdown; however sales picked up in the last two quarters. Sales of Networks and Professional Services were largely flat (down 1% and up 1% respectively, year over year) while Multimedia saw a 21% drop in sales. The economic downturn continues to impacted operator spending although signs of recovery are emerging, in

particular in certain emerging markets. The demand also varied considerably across geographic markets.

In fiscal year 2010, Ericsson generated 23% of its revenues from the U.S. (up from 10.4% in 2009 – due to Nortel acquisition and some organic growth), 19.4% from European Union countries excluding Sweden, 2% from Sweden, 19.4% from Non-EU Europe/Middle East/Africa, 20% from Asia/Pacific and China, 4.2% from India, 8.8% from Latin America, and 1.3% from North America excluding the U.S.

In the first quarter of fiscal year 2011 sales increased by 17% year-over-year, but decreased 16% from the previous quarter. Ericsson attributes the strong revenue growth to continued strong demand for mobile broadband and especially for their multi-standard radio base station. The Networks business segment's revenues grew 35% year-over-year with an EBITA margin of 20%. Net income for the quarter improved by 220% to SEK 4.1 billion (US\$ 0.6 billion), mainly due to the increased profitability in the Network segment. R&D expenses in the quarter amounted to SEK 8.0 billion (US\$ 1.2 billion), up 6% year-over-year. The increase was a result higher investments in radio (TD-LTE and IP), as well as the acquired LG-Ericsson operations.

Breaking down Ericsson's sales (including sales from joint ventures) by business segment; Networking equipment sales accounted for 40.2% of Ericsson's total revenues in 2010 (adding SEK 76.8 billion or US\$11 billion for Sony-Ericsson and ST-Ericsson sales to total). Other business segment shares were Global Services (28.6%), Sony-Ericsson (21.4%), ST-Ericsson (5.9%) and Multimedia (3.8%).

At the close of fiscal 2010, Ericsson had approximately 20,000 employees in 17 countries worldwide performing R&D. It invested SEK 31.5 billion (US\$ 4.4 billion), or 16 percent of sales, in its research and development activities in fiscal 2010.

20(1)(b)

Canadian Operations

In Canada, Ericsson is headquartered in Mississauga, Ontario and employs over 2,725 people in Quebec, Ontario, Alberta and British Columbia. [REDACTED]

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

In November 2009, Ericsson completed the acquisition of substantially all of Nortel's CDMA business and LTE assets in North America to further strengthen its position in telecommunications equipment supplier category. In 2010, Ericsson continued to acquire Nortel businesses: in April, it acquired Nortel's North American GSM business; in July, Nortel's 50% + 1 share interest in LG-Nortel; and in September, Nortel's Multi-Service Switch business.

Position in the Market

Total worldwide telecommunications infrastructure equipment revenue for 3Q10 came in at US\$ 21.6 billion, a 0.5% increase sequentially from 2Q10 and a 1.5% decrease year over year. The market in 2010 is down 2.1% in the first nine months when compared with the first three quarter of 2009.

[REDACTED] 20(1)(b) in the third quarter of 2010 Alcatel-Lucent and Huawei battled for top spot as the largest telecommunications infrastructure equipment companies in the world by sales. Their global market shares were 17.8% and 17.9%, respectively. Ericsson came third with a market share of 14.4%, while Cisco rose to fourth place with a 12.7% share. In the third quarter of 2010, the top four companies (Alcatel-Lucent, Huawei, Ericsson and Cisco) combined market share is responsible for 62.9% of the market.

Breaking these results down into wireline vs. wireless, Ericsson is the clear leader in the wireless service provider equipment market. In the wireline segment (worth a total US\$ 11.9 billion in Q3), Ericsson was ranked fourth in the third quarter of 2010. However, in the wireless segment (worth a total US\$ 9.7 billion in Q3), Ericsson held top spot, ahead of both Huawei and Nokia-Siemens. Sony Ericsson was not one of the top mobile phone vendors in 2010 or 2009.

20(1)(b)

Key Competitors

Ericsson and its subsidiaries and joint-ventures face 20(1)(c) competition from companies such as Avaya, Cisco Systems, Alcatel-Lucent, Fujitsu, Huawei, Juniper Networks, Research in Motion, Apple, LG, Samsung, ZTE, Motorola, Nokia Siemens Networks and other leading telecommunications equipment and handset manufacturers.

20(1)(b)

Competitive Factors

Leading market position

Ericsson is one of the world's major suppliers of network equipment and related services. About 50% of operators with commercial mobile broadband networks have chosen Ericsson as their vendor. It operates over 1,000 networks in more than 175 countries. Ericsson supplies 144 High Speed Packet Access (HSPA) versions of 3G/WCDMA networks which are approximately 47.5% of total networks across the world. The company is an industry leader in managed services, managing network that serves more than 370 million subscribers and a leading provider of hosting solutions, to enable operators to launch multimedia services.

The company enjoys a strong market position in wireless infrastructure across the world 20(1)(b).20(1)(c)

capacity and network evolution of fixed and mobile operators. Ericsson has 25% of market share in wireless infrastructure in the third quarter of 2010.. Nokia, with 20% market share and Huawei, with 24% market share in wireless infrastructure are behind Ericsson. It has also entered into different strategic alliances with Verizon Wireless, China Unicom and other major players across the world to support their growing infrastructure requirements. The company has won 4G/LTE, next generation wireless technology contract with Verizon, Metro PCS, NTT DoCoMo, Rogers and TeliaSonera. It has strong competitive position in transformation and convergence of the core network with the largest installed base of all-IP networks based on Softswitch and IP Multimedia System (IMS) technology. Further, the company enjoys market leadership position in wireless semiconductor industry through ST-Ericsson, the 50-50 joint venture with ST NXP wireless, by offering design, development, and the creation of new generations of mobile platforms and wireless semiconductors.

Extensive global presence

Ericsson has a strong geographical base in 175 countries across Western Europe, Central and Eastern Europe, Middle East, Africa, Asia Pacific, North America and Latin America. Its offices are located at Albania, Algeria, Argentina, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belarus, Belgium, Bolivia, Bosnia Herzegovina, Botswana, Brazil, Brunei, Bulgaria, Cambodia, Cameroon, Canada, Chile, China, Colombia, Costa Rica, Croatia, Egypt, Finland, France, Germany, India, Ireland, Italy, Japan, Korea, Malaysia, Mexico, Norway, Poland, Russia, Singapore, South Africa, Spain, Sweden, the United Arab Emirates, the UK, the US, Vietnam, Yemen, Zambia and many more countries. The company enhances its operations through penetration of fixed and mobile telephony, network traffic, sophistication of services, taking into account average country GDP and other economic factors. The revenue contribution from key geographical regions of the world, the revenue from Asia Pacific was the highest with 31.9%, followed by with CEMA with 24.5%, Western Europe with 21.6%, North America 12.3%, and Latin America with 9.7%. Geographical diversity reduces the company's risks associated with adverse economic and political developments in any particular region.

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

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

Sources:

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Security classification: Secret
CCM Number: 229561
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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.

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BACKGROUND

On December 15, 2011, RIM reported revenues of \$5.2 billion and net income of \$265 million for its third quarter,

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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.

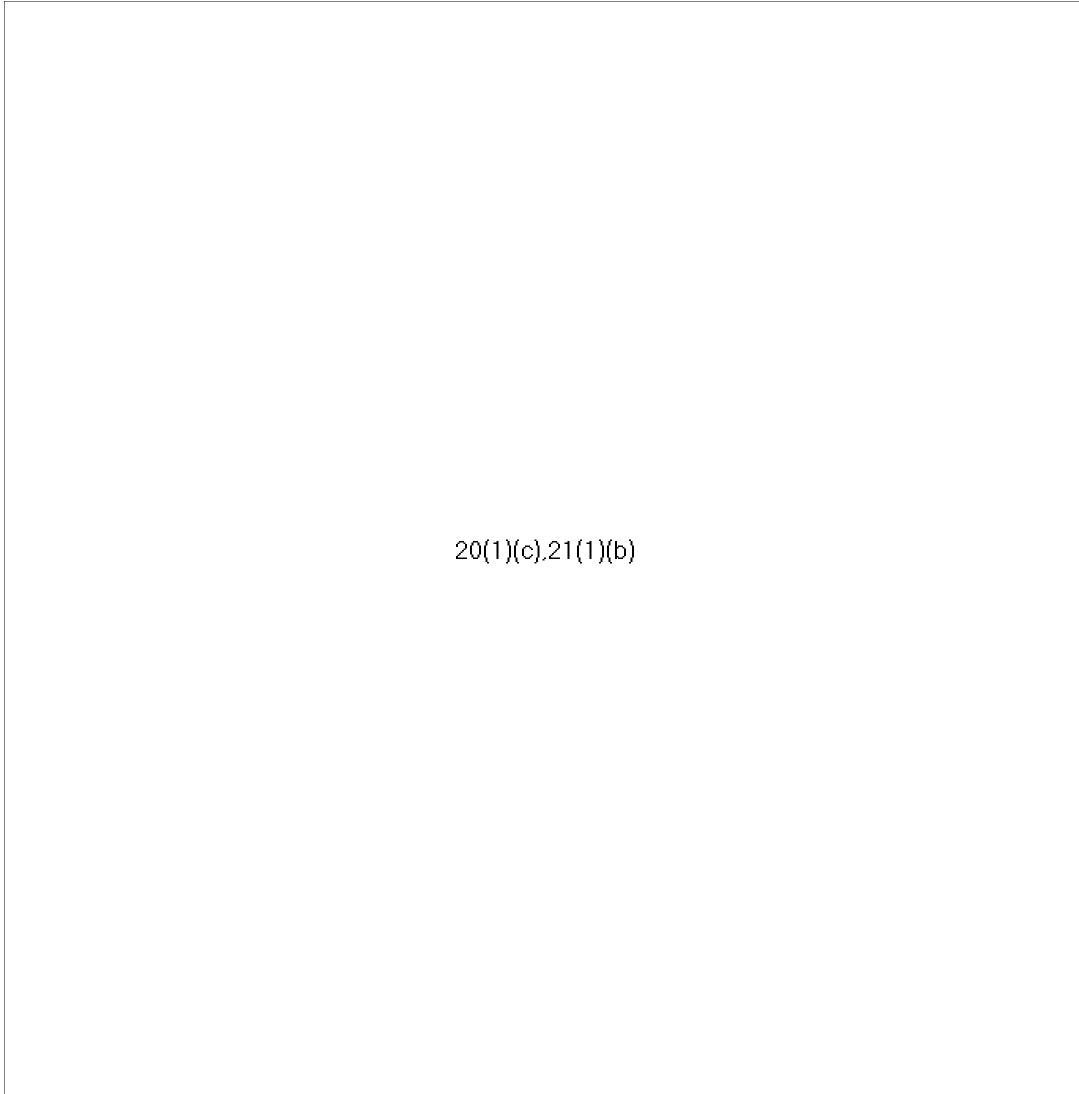
21(1)(b)

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.

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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

RIM Key Facts

- **Footprint in Canada**
 - ~8,000+ employees; mostly in Waterloo
 - Major performer of R&D
 - [REDACTED] 20(1)(c).21(1)(b)
- **Competitors are larger & diversified**
 - E.g., Apple, Google, Samsung, Nokia
 - New entrants operate with low margins e.g., ZTE
 - [REDACTED] 20(1)(c).21(1)(b)
- **Financial Health**
 - Balance sheet is strong, with \$1.2 billion in cash and investments against no debt.
- **Tablet market difficult for all (except Apple)**
 - Playbook sales are weak, prices have been discounted
 - New entrants driving prices down – Kindle Fire, Kobo Tablet, etc.
- [REDACTED] 20(1)(c).21(1)(b)
 - Market share and sales (in US) declined in the last several quarters
 - Android phones have seized consumer market share (low cost, heavily promoted by carriers, lost of apps, etc.)
 - [REDACTED] 20(1)(c).21(1)(b)
- **Gross margin declining**
 - Share of international sales in total sales increased but international success based on low or middle-end devices
- **Boosting sales critical**
 - [REDACTED] 20(1)(c).21(1)(b)
 - [REDACTED] The QNX operating system has been well received in its limited use; a step up from legacy BlackBerry OS
- [REDACTED] 20(1)(c).21(1)(b)
- **Recent Strategic Moves**
 - RIM and Telefonica SA cooperate in testing a payment system that transforms mobile phone into an electronic wallet and identity card
 - RIM bought Ireland's NewBay, a provider of photo, video, and social-network tools for smartphones and computers

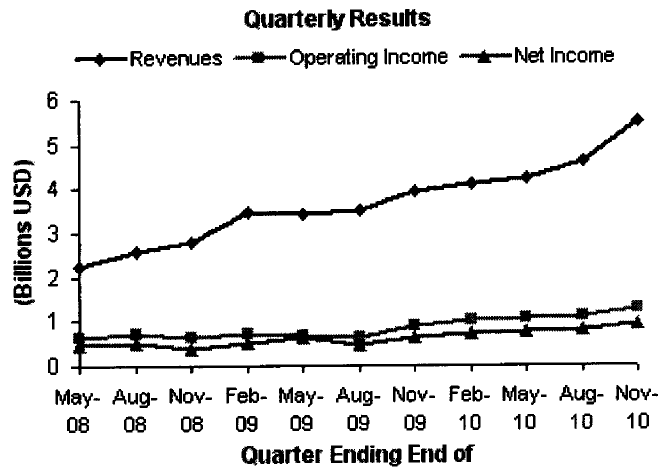
Research in Motion Update – January, 2011

Company Overview

Research in Motion (RIM) designs, manufactures, and markets wireless solutions under the BlackBerry brand based on its proprietary wireless technology, including a proprietary operating system and device management. RIM’s portfolio of products, services and embedded technologies are used by organizations worldwide and include the BlackBerry wireless solution, the RIM Wireless Handheld product line, software development tools and other software and hardware. The company employs almost 14,000 workers, with approximately 8,500 in Canada.

Recent Financial Performance

RIM reported revenues in the third quarter of its fiscal year 2011 of US\$ 5.5 billion (quarter ending end of November 2010), compared to US\$ 4.6 billion in the second quarter of fiscal year 2011 and up 40% from the same quarter in the previous fiscal year. Net income for the quarter was US\$ 911.1 million, up from US\$ 796.7 million in the prior quarter. Net income in the same quarter the previous fiscal year was US\$ 628.4 million.¹



For the fiscal year ended February 2010, RIM reported annual revenues of US\$ 14.95 billion, an increase of 35.1% over 2009. The company’s operating profit was US\$ 3.3 billion during fiscal year 2010, an increase of 20% over 2009 while its net profit was US\$ 2.5 billion during fiscal year 2010, an increase of 29.8% over 2009.²

Growth in the fiscal year ended February 2010 was strongest in the third quarter (the quarter ended November 2009) with an 11.3% increase in revenues and 32.1% increase in net profits over the second quarter. Fiscal year 2010 began slowly with negative revenue growth in the first quarter. From the second quarter of fiscal year 2010 (the quarter ended August 2009) each quarter’s revenues represented a new high revenue level for RIM.

Market Position

RIM’s BlackBerry handsets continue to be the top smartphones in use in the US market, with a 30% share in Q3 2010 according to Nielsen, however its share has been slipping as new sales in the consumer portion of the market grow and shift to other devices. Android

¹ RIM, “Research in Motion Reports Third Quarter Results”, Press Release, December 16, 2010.
² Company annual report, 2010.

20(1)(b)

handsets (by device makers such as Motorola and HTC) accounted for 44% of US smartphone shipments Q3 2010, surpassing the 26% share held by Apple's iPhone and RIM's 24% share.

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

RIM was the second largest vendor worldwide for smartphones in calendar year 2009, trailing Nokia but ahead of Apple.³ By the end of 2009, RIM shipped a total of 34.5 million units, up a strong 46.2% from the 23.6 million units shipped in 2008. RIM is expected to maintain a strong share of the global smartphone market.⁴ In its latest results RIM reported that its BlackBerry account base grew approximately 56% over the prior year to over 50 million subscribers.

In early 2010, 20(1)(b) projected that RIM would maintain its position as the number two global vendor of smartphones through 2012. However, based on initial quarterly estimates for 2010 (Q1 thru Q3) it appears the shift in OS ranking is happening faster than IDC expected.

20(1)(b)

21(1)(b)

The good news is that the overall size of the market is expected to increase substantially from 173.5 million units in 2009 to 439.4 million units in 2014, thus even a slightly lower market share still indicates significant growth in unit sales.⁵

21(1)(b)

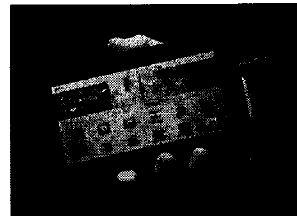
20(1)(c),20(1)(d),21(1)(b)

International sales (outside North America) are increasingly important, with as much as 90% of RIM's revenue growth in fiscal year 2011 expected to be driven by international sales. RIM's sales outside the US have grown rapidly; in the third quarter of fiscal 2011 the US represented only 34% of revenues, indeed no single country outside of the US or UK represented over 5% of revenues and no carrier represented more than 12% of revenues.⁷ Between 2010 and 2014 the strongest geographic market growth for smartphones is expected in the Asia/Pacific (excluding Japan) region at 25.6% annually. The ROW, United States and Europe follow with projected annual growth of 18.2%, 15.9% and 15.1% respectively for the period, while Japan's market is expected to grow slowly at only 5% annually.⁸

Latest Product Offering - BlackBerry "PlayBook"

On September 27, RIM unveiled the "PlayBook" at a developer's conference in San Francisco. The high definition BlackBerry tablet computer is aimed primarily at the enterprise market. The device is approximately half the size of the iPad and comes equipped with HD video, Adobe Flash and built-in HDMI and USB connectivity. The device will also have two cameras front and back and comes with 1GB of RAM, versus the iPad's 256MB.

It is expected to appeal primarily to enterprise clients, with built-in security and its ability to integrate with BlackBerry smartphones. Indeed, the first version will only connect to the internet via WiFi or by pairing with a BlackBerry. Thus the initial market for the product will be current BlackBerry subscribers. According to [redacted] "RIM's betting that those people will want an extra screen. RIM is really trying to deepen the moat it has around its business users." RIM suggests it will address 3G and 4G connectivity "in the future".



The PlayBook runs on new operating software (O/S), developed by recently acquired QNX Software systems of Ottawa. The new O/S is seen as a major improvement over existing BlackBerry operating system and more developer friendly. The initial take on the device in some prominent tech blogs seemed very positive. Recognizing the importance of applications to the success of such products, following the PlayBook launch, RIM went on to highlight its

⁶ "Can staid BlackBerry survive the smartphone wars? Apple and Google are giving RIM a run for its money", Carmi Levy, Toronto Star, August 20, 2010.

⁷ "Research In Motion, Ltd.," Morgan Keegan, December 17, 2010.

⁸ Industry Canada calculations based on [redacted]

“SuperApp” initiative to encourage developers to create integrated applications for the PlayBook.

The PlayBook is expected to be released in the US and Canada in late March 2011. [REDACTED]

[REDACTED] 20(1)(c).21(1)(b) Many other technology companies are about to enter the emerging tablet market, as Apple has proven there is demand and the market appears set to take off. RIM's entry will compete with not only the iPad but also with tablets from Dell, Cisco, Samsung and HP. Most firms are launching their offerings in the last quarter of 2010 or in early 2011. Samsung's Galaxy tablet, an Android device, recently became available through AT&T in the US. HP's Slate 500 is also available in the US and is targeted specifically at businesses. The Cisco's android based tablet, the Cius, designed for the enterprise market, should be available in Q1 2011. [REDACTED]

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

In its second quarter of fiscal 2010, Apple shipped 3.3 million iPads, its first quarter available. IDC expects that Apple will ship more than 11 million units in 2010 (for an 88% market share) and predicts that by 2014, 57.5 million tablets will ship annually worldwide.⁹ IDC is projecting RIM will sell less than 500,000 tablets in 2014 (less than 1% of total market). They project that Apple will hold a 58% share of the tablet market in 2014, with Android tablets accounting for 36% and WebOS 4% (Hewlett-Packard). Of

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

Latest Product Offering - BlackBerry Torch 9800

Despite some analysts' suggestions that there will be only one winner, in a potential half-billion unit smartphone market, more are of the opinion that there should be enough room for several players to succeed. Apple, RIM and Android based phones have all been gaining shares at the expense of incumbents, Nokia and Motorola. [REDACTED]

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

According to many reviewers, Apple and Google have bested RIM's devices in terms of consumer appeal (ease of use, availability of applications, touch-screen technology and

⁹ Susan Kevorkian, *Worldwide and US Media Tablet 2010–2014 Forecast Update*, IDC; September 2010.

Web browsing), yet of greater concern is newer iPhones and Android phones offering secure Microsoft Exchange Server e-mail¹⁰ and calendar support, a hallmark of RIM's devices. RIM's push network technology¹¹ continues to give it bandwidth and battery life advantages. RIM's latest phone, the new touch-screen Torch 9800 with a pull-out keyboard, is designed to appeal to both its dedicated corporate customers as well as consumers. The new OS 6 operating system gives BlackBerry its first full Web browser, as well as other features that are common on most of today's smartphones like social networking integration, universal search and multiple home screens.

With the Torch 9800, RIM hopes it has a phone that will appeal to both its dedicated corporate customers as well as consumers that are constantly in search of the new best thing. BlackBerry has been able to make significant inroads with consumers in past years with low-priced models like the Pearl and Curve. For users who text a lot, the BlackBerry keyboard is a hit, as is the BlackBerry Messaging service. RIM continues to dominate in the enterprise space. Though some corporate users are starting to dabble in iPhones and Android phones, BlackBerry remains the corporate smartphone brand.¹²

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

Commercial Issues

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

¹⁰ This technology may lead Apple and Android phone makers into the same commercial issues regarding monitoring of communications that Blackberry's face in several foreign countries.

¹¹ Push e-mail is used to describe e-mail systems that provide an always-on capability, in which new e-mail is actively transferred (pushed) as it arrives by the mail delivery agent (mail server) to the mail user agent i.e., smartphone. RIM has its own network that pushes, compresses, and prioritizes data, which lowers costs for carriers as they don't carry the entire data load. RIM's compression ratios data packets, and as there is a linear relationship between battery life and packets delivered, this extends battery life.

¹² David Goldman, "RIM unveils new BlackBerry Torch", CNN Money Online, http://money.cnn.com/2010/08/03/technology/new_blackberry/index.htm, August 3, 2010

¹³ Bibhudatta Pradhan and Mark Lee, "India Seeks Permanent BlackBerry Solution From RIM," Sep 16, 2010. <http://www.bloomberg.com/news/2010-09-16/india-expects-permanent-blackberry-solution-from-rim-home-secretary-says.html>

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

Research and Development

According to ReSearch InfoSource, RIM is Canada's top corporate spender on research and development (R&D), spending \$1.1 billion on R&D in its fiscal 2010 (making RIM responsible for more than 10% of the \$10.22 billion spent by Canada's top R&D performers as calculated by ReSearch InfoSource), up from \$729.9 million in fiscal 2009. RIM spent 6.5% of its revenues on R&D in fiscal 2010, up from 6.2% in FY 2009 and 6.0% in FY 2008. Its R&D expenses are made up primarily of salaries and benefits, with the increase in spending due mainly to an increase in headcount. While Canada is still the main location for RIM's R&D activities the company also has R&D facilities outside the country. In the last two years RIM opened two new R&D centers - one in Germany (2008) and one in the North Carolina (2010). RIM's R&D organization had over 5,000 employees in 2009.

Intellectual Property and Patents

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

Of late, RIM has been buying patents and IP at a great rate. During fiscal year 2009 and 2010, RIM entered into agreements with third parties totalling US\$ 375 million and US\$ 246 million respectively for the use of intellectual property, software, messaging services and other BlackBerry related features. RIM also acquired companies such as Chalk Media Corp and Certicom for their technologies. In its 2010 annual report, RIM says that it will continue to evaluate and purchase companies and make investments in products that provide opportunities for growth or expansion. The company will also continue to purchase IP in various forms and technologies when appropriate opportunities arise.

Perhaps the most important investment RIM made in IP was its June 10, 2010 acquisition of Ottawa based QNX Software Systems for US\$ 200 million. QNX creates middleware, development tools, real-time operating systems and services for embedded design. The QNX operating system has proven itself in the most mission critical environments - nuclear facilities (e.g., Westinghouse and Atomic Energy of Canada Limited plants), medical equipment, TGV trains, and space applications (e.g., space arm on shuttle). QNX operating systems are also used in more than 200 vehicle models from the likes of Ford, General Motors, Toyota, Nissan and Hyundai. QNX is touted as bringing value to RIM in terms of supporting product plans for intelligent peripherals, adding valuable IP to RIM's portfolio and providing OS expertise. QNX software is expected to be used in

¹⁴ Information provided by DFAIT's Delhi Post.

all future BlackBerry devices providing a very stable OS that is easy to develop for, supports a touch screen user interface and provides an integrated flash development environment.

20(1)(c).21(1)(b) On December 2, 2010 RIM announced that it is acquiring The Astonishing Tribe (TAT), a Swedish design firm, 20(1)(c).21(1)(b) TAT has worked with many smartphone companies including Sony Ericsson, Nokia, Motorola, Samsung and Google Android. TAT will bring expertise in user interface (UI) technology, turnkey solutions and design to RIM for both the PlayBook tablet and its smartphones.

RIM is also active in protecting its IP. RIM filed a lawsuit on November 30, 2010 against Waterloo-based Kik¹⁵. This legal action has been noted in the press for the speed with which RIM acted. The Kik Messenger product launched on Oct. 21 and by Nov. 12, RIM had accused Kik of “breaching contractual obligations” and pulled it from its BlackBerry App World online store. Kik Messenger, which offers BlackBerry Messenger-like capability across not just BlackBerrys, but for iPhones, iPads and Android devices, too, sold to 2.5 million users in a month.

According to news reports, this lawsuit is important as the BlackBerry Messenger (BBM) application is central to RIM’s success. BBM software is a secure, reliable way of sending text, audio and video messages between BlackBerry devices. Unique among instant messenger software, it does not use up the customer’s data plan. When network availability problems render web and voice services non-functional, BBM is often the only application that still works.

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

¹⁵ Summarized from Gormi Levy, “RIM, Kik and BBM”, *The Toronto Star*, December 6, 2010.

¹⁶ “Cisco could be eyeing BlackBerry: analyst”, *The Toronto Star*, October 20, 2010.

¹⁷ <http://www.nasdaq.com/aspx/company-news-story.aspx?storyid=201010271255dowjonesdjonline000533&title=takcover-speculationtabletfuel-rim-stock-momentum#ixzz162RpJXTV> (accessed Nov 22, 2010)

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

The Securities Exchange Commission (SEC) requires ownership stakes of more than 5% to be reported. RIM's two CEOs together held 11.7% of the company's shares at the end of RIM's fiscal year 2010. The next largest owners at the end of fiscal 2010 appear to be investment companies JANUS Capital¹⁸, FMR Corp.¹⁹, Primecap Management²⁰, and Vanguard Horizon Fund²¹ based on filings with the SEC. About 65% of RIM stock is held by institutional investors. RIM provides stock options as an incentive to employees; it is not possible to say how many shares are held by employees. However, RIM insiders (e.g., senior officers, directors) held about 1.6 million common shares and 1.0 million restricted common shares in 2010 (this excludes unexercised stock option).

Analysts Views on RIM's future

There is disagreement among investment analysts on RIM's prospects: they have divided into two camps.

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

¹⁸ Janus Capital Group, Inc. is a publicly owned Investment firm headquartered in Denver, Colorado.

¹⁹ FMR Corp. is the holding company for Fidelity Investments, one of the world's largest mutual fund and financial services groups.

²⁰ Primecap Management is an employee owned investment manager; it provides services to pension and profit sharing plans.

²¹ Vanguard, headquartered in Valley Forge, Pennsylvania, is an investment management company.

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

²² Avery, Simon. "The value case for RIM; Battered and unloved, the fast-growing company trades at a discount to its tech-company peers", The Globe and Mail, 13 October 2010.

Products Announcements

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

RIM has pushed back the launch of its newest handsets. At the AGM RIM confirmed plans to launch seven new BlackBerries this year — including the BlackBerry Bold 9900. The changeover to the new QNX operating system will not happen until 2012; the first QNX-powered BlackBerries will launch in 2012. PlayBook tablets capable of accessing the Internet via a cellular connection will be available in September 2011.

Management Structure

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

Shareholders had put forward proposal asking the company to divide the role of chairman and CEO. Instead, RIM agreed to form a committee of independent directors, who are to issue a report by Jan. 31 2012. In a proxy recommendation last week, Glass Lewis & Co. (an influential proxy advisory firm) recommended shareholders withhold support for RIM's lead independent director, John Richardson. Yet investors backed the full slate of directors, including Mr. Richardson, according to preliminary proxy results announced at the meeting.

Analysts Comments – Splitting up RIM

Mike Abramsky, managing director of global technology research for RBC Capital Markets thinks that RIM should split into two businesses – The BlackBerry Network and RIM Smart Devices. This, in his opinion, would separate each from the different market forces they face and would make them more attractive to potential acquirers. He suggests that separate growth strategies for each of the businesses would unlock as much as 100% more shareholder value. He estimates a breakup value of US\$50 to US\$56 per share would come as a result of the split. A business worth up to US\$21-billion with US\$5-billion in annual revenue could be derived from the proposed BlackBerry Network with the new 'Smart Devices' division worth as much as US\$8-billion driven by the extreme loyalty of BlackBerry users and the brand's growth in developing smartphone markets worldwide.

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

Sameet Kanade, technology analyst with Northern Securities believes that it would be a disaster to split the company up; such an action would collapse the company.

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

Analysts Comments - Opportunities

At the AGM Mr. Balsillie and Mr. Lazaridis stated that they're confident they can steer the company through the transition of RIM's product line from enterprise focussed to one increasingly focused on consumer-oriented, smart-phones.

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

RIM has repeatedly told carriers that it believes they deserve a portion of revenues from apps and future

services sales. BlackBerry's data compression and other technologies make them less of a burden on carrier networks, increasing their popularity with carriers.

Financial Outlook

In its outlook for its 2012 financial year RIM expects to earn between \$5.25 and \$6 per diluted share, excluding any one-time charges or share repurchases. That compared with earlier guidance for a profit of about \$7.50 per share.

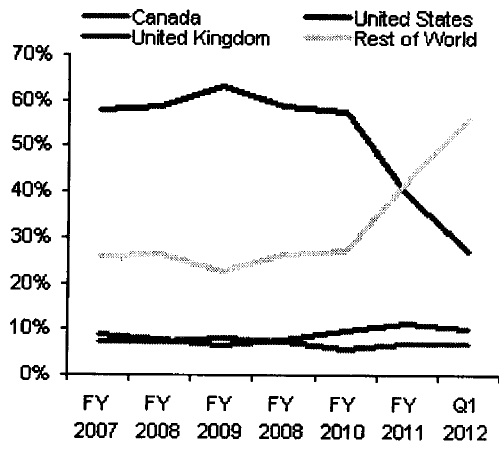
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Sales Results

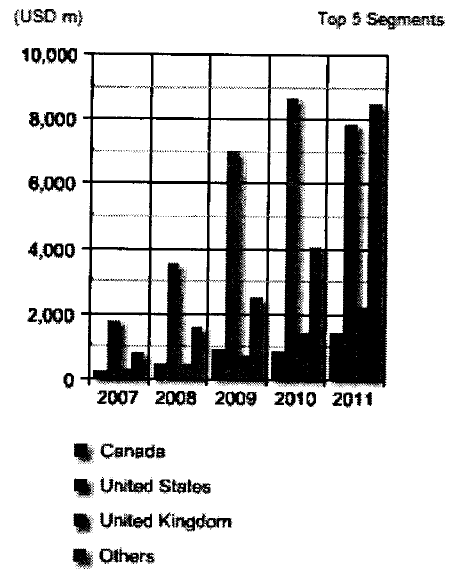
On July 12, RIM announced that it had added over one million customers in the EMEA (Europe, Middle East and Asia) region in the past three weeks. RIM now has over 68 million subscribers worldwide.

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Geographic Breakdown of Revenues (%)



Geographic Segment



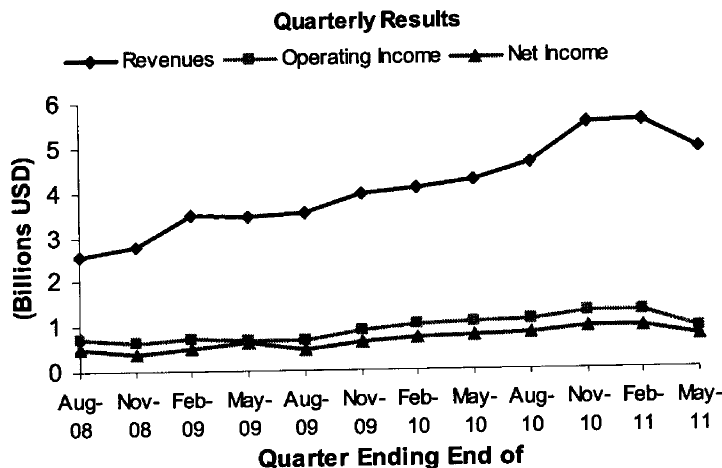
Research in Motion Update – Fiscal Q1 2012 (Updated September 9, 2011)

Company Description

Research in Motion (RIM) designs, manufactures, and markets wireless solutions under the BlackBerry brand based on its wireless technology, including a proprietary operating system and device management. The company employs almost 17,500 workers, with approximately 9,000 in Canada.

Recent Financial Performance

On June 16, 2011, RIM reported revenues for the first quarter of its fiscal year 2012 of US\$ 4.9 billion (quarter ending end of May 2011), down 11.7% compared to the previous quarter but up 16% from the same quarter in fiscal year 2011. Net income for the quarter was US\$ 695 million, down 25.6% from the prior quarter. Net income in the same quarter the previous fiscal year was US\$ 769 million.¹ Earnings per share in the first quarter were US \$1.33, down from US \$1.78 in the previous quarter.



To explain the decline in revenue in the first quarter, RIM indicated that the company experienced a shift in the mix of products towards lower average selling price (ASP) handsets and had lower than expected sell-through in the US and Latin America that affected smartphone shipments. Sales in the US represented only 27% of the total revenue (for the whole fiscal year 2011 US sales were 39% of the total). The UK represented 11% of the sales while 56% of the revenue came from sales in Western Europe (excluding UK), Middle East, Africa and Asia Pacific, primarily India and Southeast Asia.

RIM reported that the decline in the first quarter is continuing into the second quarter. Revenue for the second quarter of fiscal 2012 ending August 2011 is expected to be in the range of US \$4.2 to US \$4.8 billion. Earnings per share for the second quarter are expected to be between US \$0.75 and US \$1.05¹¹.

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

RIM started to introduce the BlackBerry 7 handsets in late August which, according to the company, should help sales. The first BlackBerry QNX-based Superphone (new terminology used by RIM) should be commercialized early 2012. Meanwhile 4G PlayBooks are expected in the fall. In August Sprint Nextel cancelled plans to sell the 4G version.

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

The company also announced that it will begin a program to streamline operations across the organization which will include a headcount reduction. RIM expects to implement this program beginning in the second quarter with the benefits impacting results primarily in the third quarter and beyond. On July 25, RIM announced layoffs of about 2,000 workers, about half the layoffs are believed to have occurred in the Waterloo region^{iv}. The provincial government has announced funding of \$100,000 to help workers laid off at RIM to find other jobs.

Stock Price and Analysts Views

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

RIM stock price dropped 21% on June 17. From the release of fiscal 2011 fourth quarter results in March 2011, to early August RIM's share price declined by 65%, from more than \$62 on March 24th to only \$22 on August 8th. Since this date, RIM's share price has increased to \$29.

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

RIM's market capitalization was valued at \$15.5 billion on September 9th.

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

On May 4th, Harry Wang, director of mobile research at Parks Associates said that "There's a 50 percent probability that, in about two years, Microsoft will make a big and bold move to acquire large hardware vendors. RIM will be the best target because it has a user base that Microsoft is looking for: enterprise customers."^v

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

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

Raymond James analyst Steven Li, who left his US\$ 60 price target unchanged.

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

Mr. Li believes the QNX platform will take RIM to the next level.

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

For example, Kris Thompson at National Bank Financial does not expect RIM's gross margins to rebound. Thompson does not believe that the BlackBerry 7 operating system will be very successful as the hardware, software and ecosystem lag the competition. Thompson said that competition and QNX-based phone launches will pressure margins even lower. Of similar views, Canaccord Genuity analyst Michael Walkley does not believe RIM is accurately portraying the increasingly competitive smartphone environment. UBS analyst Philip Huang believes

earnings per share targets for the second half of fiscal 2012 are a stretch. J.P. Morgan analyst Rod Hall sees the next few quarters as a potential tough period for RIM and suggested delays could easily affect new QNX-based smartphones. "We have now seen RIM missing delivery targets on both the PlayBook and the 9900", Hall said that in his opinion this does not bode very well for on time delivery of new QNX smartphones for early 2012 as well as needed new software features. Deutsche Bank analyst Brian Modoff believes RIM will find it difficult to compete even after the new QNX platform is added to its smartphone lineup.

On September 6th, Jaguar Financial Corporation, a shareholder of RIM, called upon the directors of RIM to establish and carry out a formal process for the maximization of shareholder value. This value maximization process would include the pursuit of all options including a potential sale of the company or a monetization of the RIM patent portfolio by a spin-out to RIM shareholders. Vic Alboini, chairman and CEO of Jaguar, stated "The status quo is not acceptable, the company cannot sit still. It is time for transformational change. The directors need to seize the reins to maximize shareholder value before more market value is lost." Jaguar recommended that RIM's directors appoint a special committee of the Board to pursue a shareholder value maximization process.

Market Position



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

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

PlayBook Release & Announcements

The PlayBook tablet went on sale in the U.S. and Canada on April 19th and RIM shipped about 500,000 tablets in the first quarter of its fiscal 2012. On June 10, RIM announced plans to launch the PlayBook in an additional 16 markets around the world over the next 30 days. The tablet was launched in the UK on June 16.

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

The device has been given high marks for its physical quality, fast processor, high quality display, responsive touchscreen and appealing interface. Reviewers like the small size and reduced weight as compared to most Android tablets and the iPad.

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

without a 3G option the initial version is aimed only at existing BlackBerry users.^{ix} Some reviewers feel that the product was released too soon, with insufficient software applications and options for the broader market.

RIM has been working to address many of the criticisms identified in early reviews. For example, in early May 2011 at BlackBerry World (RIM's annual conference for BlackBerry developers, users and analysts) RIM demonstrated its e-mail client for PlayBook and other upgrades to its software that will make the tablet more useful. At the same time, RIM launched a Facebook app for the PlayBook tablet, the first tablet-

optimized Facebook app on the market. RIM also added a video chat application to PlayBook.

New BlackBerry Bold 9900

RIM unveiled its Bold 9900 at BlackBerry World. Reviews for the phone and OS 7 vary greatly. PC World's review was very positive, saying it is "one very impressive BlackBerry", based on its form factor with a keyboard that "is to die for".^x MSNBC's review was negative, saying it is the "wrong shape and size" and RIM "seems unable to step away from the look and feel that made it a massive hit."^{xi} Carriers started to offer the Bold 9900 smartphone in August.

ⁱ RIM, "Research in Motion Reports First Quarter Fiscal 2012 Results and Revises Full Year Guidance", June 16, 2011.

ⁱⁱ RIM, "Research in Motion Reports First Quarter Fiscal 2012 Results and Revises Full Year Guidance", June 16, 2011.

ⁱⁱⁱ Jim Balsillie, RIM Q1 2012 Earnings Call Transcript, June 16, 2011.

^{iv} The Record, Provincial funding aids former RIM workers, August 12, 2011

^v Peter Paschal, "Will Microsoft Buy RIM?" PC Magazine, May 4, 2011. (<http://www.pcmag.com/article2/0,2817,2384918,00.asp>)

^{vi} IDC "Worldwide Smartphone 2011-2015 Forecast and Analysis", March 2011.

^{vii} IDC Worldwide Quarterly Mobile Phone Tracker, January 27, 2011.

^{viii} IDC, Worldwide Mobile Phones Quarterly Tracker - Final Data - Q4 2010.

^{ix} What Mobile, "BlackBerry PlayBook Review," <http://www.whatmobile.net/2011/05/blackberry-playbook-review/3/>, May 16, 2011.

^x Al Sacco, "BlackBerry Bold 9900 First Impressions", PC World, May 3, 2011.

(http://www.pcworld.com/article/226904/blackberry_bold_9900_first_impressions.html)

^{xi} Wilson Rothman, "Bye bye BlackBerry, last of the dumbphones", Gadgetbox - MSNBC, May 2, 2011.

(http://gadgetbox.msnbc.msn.com/_news/2011/05/02/6573878-bye-bye-blackberry-last-of-the-dumbphones)

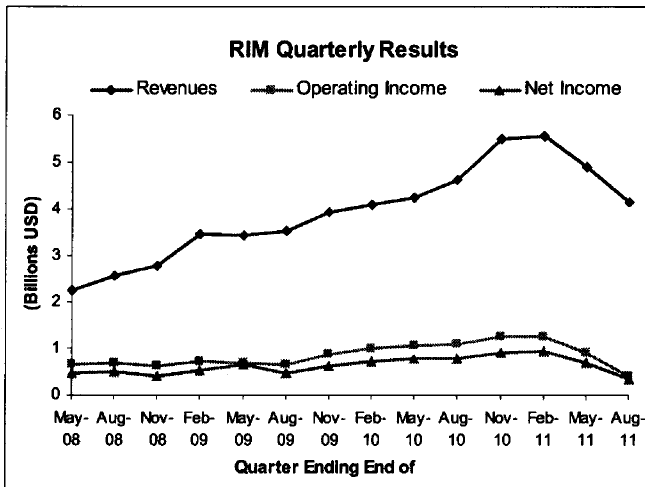
Research in Motion Update – Fiscal Q2 2012

Company Description

Research in Motion (RIM) designs, manufactures, and markets wireless solutions under the BlackBerry brand based on its wireless technology, including a proprietary operating system and device management. The company employs almost 17,500 workers, with approximately 9,000 in Canada.

Recent Financial Performance¹

On September 15, 2011, RIM reported revenues for the second quarter of its fiscal year 2012 of US\$ 4.2 billion (quarter ending August 27, 2011), down 15% compared to the previous quarter and down 10% from the same quarter in fiscal year 2011. Net income for the quarter was US\$ 329 million, down 53% from the prior quarter. In the last two quarters, RIM's revenues dropped by 25% and net income by 65%. Earnings per share in the second quarter were US \$0.63, down from US \$1.33 in the previous quarter. The company saw its gross margin decline to 38.7% in the quarter from 43.9% the previous quarter.



RIM's balance sheet saw a US\$ 1.5 billion decline in cash, cash equivalents, short-term and long-term investments compared to the previous quarter. Part of this reflects the strategic purchase of intellectual property assets from Nortel as part of a successful consortium at a cost of US\$ 780 million to RIM. RIM's assets increased from US\$12.8 billion in the previous quarter to US\$ 13.9 billion, up 8.6%, while liabilities increased by only 3.1% and ownership equity increased by

10.9%. 20(1)(c).21(1)(b) increase in inventories from US\$ 943 million in the previous quarter to US\$ 1.37 billion. The increase in inventories was mainly attributable to an increase in raw materials associated with the new BlackBerry 7 product launches as well as a larger PlayBook tablet inventory.

On July 25 2011, RIM announced layoffs of about 2,000 workers, with about half the layoffs believed to have occurred in the Waterloo region². Benefits from this streamlining of operations are not expected to be seen until the third quarter and beyond. In the meantime, the company had a pre-tax charge of US\$ 118 million for costs associated with this streamlining which reduced net income in the second quarter.

¹ Research in Motion Press Release:

http://www.rim.com/investors/documents/pdf/pressrelease/2012/Q2_press_release.pdf

² The Record, Provincial funding aids former RIM workers, August 12, 2011

Stock Price and Analysts Views

Revenues reported by RIM for the second quarter (US\$ 4.2 billion) were at the minimum of the guidance provided by the company (US\$ 4.2 to 4.8 billion) and below revenues expected by most analysts (US\$ 4.5 billion). [redacted] RIM stock price dropped 23% from \$29.40 (at close on September 15) to close at \$22.60 on September 20th 2011. Since the release of fiscal 2011 fourth quarter results on March 24th 2011, RIM's share price has declined by 64%. RIM's market capitalization was valued at \$11.7 billion on September 20th. [redacted]

After the second quarter results were released, several analysts lowered their target for RIM stock. Kris Thompson of National Bank expressed concerns that RIM's "restructuring failed, the PlayBook failure looks to be a major headache, service revenue profitability looks to be breaking down and an increased credit facility flags cash flow concerns." As a result National Bank lowered its target for RIM stock to US\$ 20 from US\$ 35. Canaccord Genuity also lowered its target to US\$ 28 from US\$35. However, UBS analyst Phillip Huang maintained UBS's target of US\$32 for RIM stock but he said that RIM needs fundamental changes in its strategy and a "flawless" transition to ONX.³ Sterne, Agee maintained its US\$35 price target [redacted] Of the 53 analysts who cover RIM, 11 rate the stock a buy and 17 are urging their clients to sell. The largest group, 25, has opted for a wait-and-see approach with a hold rating.⁴

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

With the release of the second quarter results, the company said it was expecting to have earnings per share towards the low end of the previously guided range of US\$ 5.25 to US\$ 6.00. However, analysts expect profit of only US\$ 4.78 per share for the year according to the average estimate from a Bloomberg survey of 49 analysts.

About a week prior to the release of the second quarter results, on September 6th, Jaguar Financial Corporation, a shareholder of RIM, called upon the Directors of RIM to establish and carry out a formal process for the maximization of shareholder value. This process would include the pursuit of all options including a potential sale of the company or a monetization of the RIM patent portfolio by a spin-out to RIM shareholders. Vic Alboini, chairman and CEO of Jaguar, stated "The status quo is not acceptable, the company cannot sit still. It is time for transformational change. The directors need to seize the reins to maximize shareholder value before more market value is lost." Jaguar recommended that RIM's Directors appoint a special committee of the Board to pursue a shareholder value maximization process.

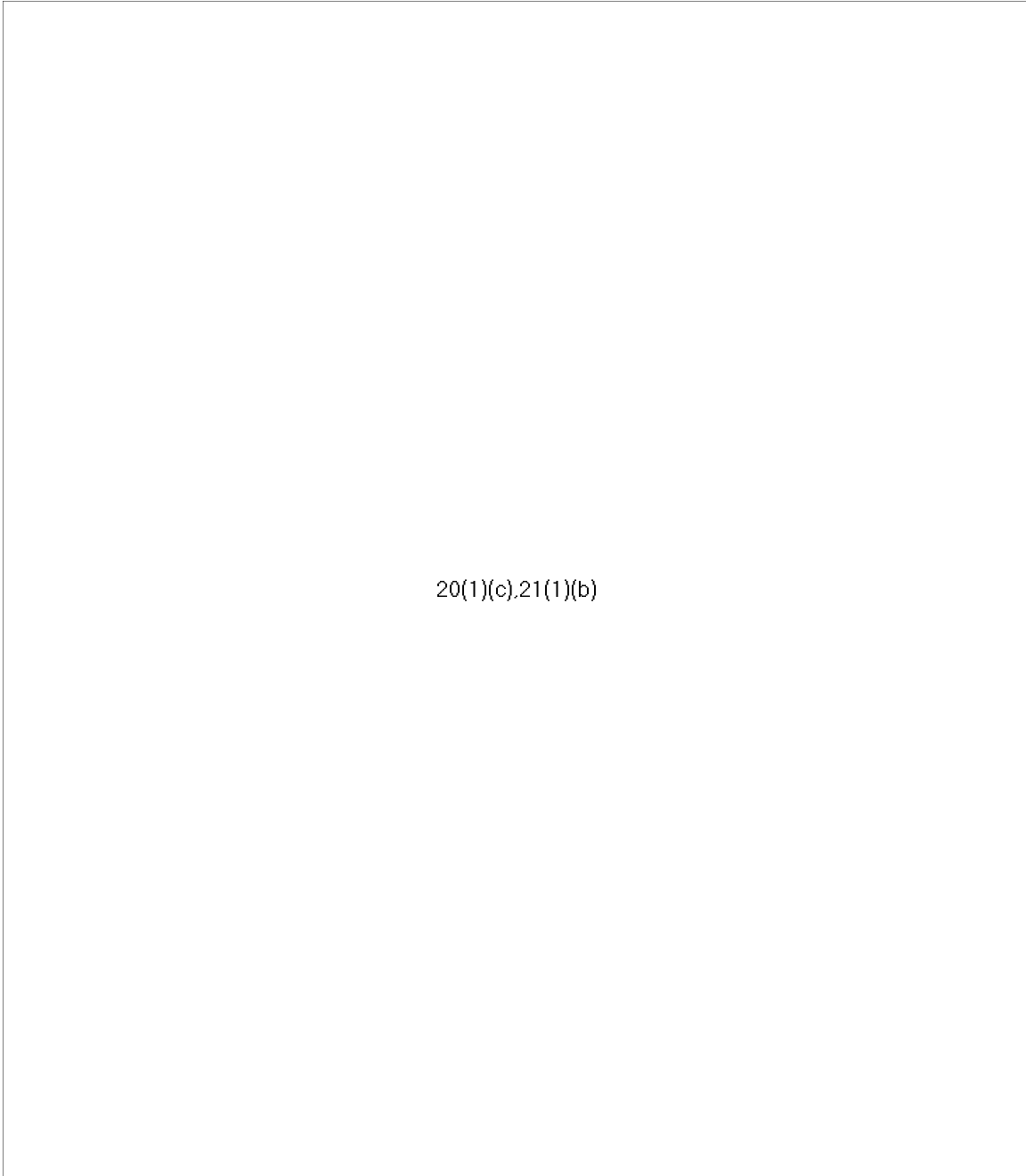
Also prior to the release of RIM's Q2 results, [redacted] 20(1)(c).21(1)(b)

[redacted] The last new RIM

³ David Berman, "Analysts react to RIM: The future is ugly", The Globe and Mail, September 16, 2011.
⁴ Matt Hartley And Jameson Berkow, "RIM gets reality check", Financial Post, Sept. 17, 2011.

smartphone product line to debut was the BlackBerry Torch, with both a touch screen and pullout keyboard, in August 2010. Upgraded BlackBerry Bold, Torch and Curve smartphones, which have an improved operating system, were introduced in August 2011. The impact of these products may not be clear until RIM's next quarter, which will end Nov. 26 and be reported Dec. 15, 2011.

Market Position



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

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

PlayBook

The PlayBook tablet went on sale in the U.S. and Canada on April 19th and RIM shipped about 500,000 tablets in the first quarter of its fiscal 2012. On June 10, RIM also announced plans to launch the PlayBook in an additional 16 markets around the world over the next 30 days.

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

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

PlayBook shipments for the second quarter of RIM's fiscal 2012 dropped to 200,000 units,

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

The 4G version of the PlayBook is expected in the autumn; however, in August Sprint Nextel cancelled plans to sell the 4G version. This decision means the device has not yet found any support from the three largest US wireless carriers.

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

BlackBerries

RIM introduced its BlackBerry 7 handsets in late August which, according to the company, should help sales especially in the third and fourth quarters. Carriers started to offer the Bold 9900 smartphone and several new Curve models in August. According to Wunderlich Securities analyst Matthew Robison, RIM's current sales may have little bearing on long-term prospects as updated BlackBerrys are essentially equivalent to competitive offerings from Apple and Android. Competitors such as Apple are expected to release new products this fall. The first BlackBerry QNX-based Superphone (new terminology used by RIM) is anticipated to be commercialized in 2012. No release date has been announced yet but RIM has planned an announcement in October at DevCon related to the Superphone release.

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

Management Changes

John Vandermay, vice-president of BlackBerry Enterprise Server Software, left RIM to join Gemcom Software International, a supplier of mining software solutions, as vice-president of product development. His departure follows a number of other senior RIM executives leaving in the past year, including key marketing and product managers (two RIM executives went to Samsung). The departures of management staff were among the

⁵ <http://www.idc.com/getdoc.jsp?containerId=prUS23034011>

Business Analysis and Intelligence - ICTB

reasons cited by Vic Alboini, chairman and CEO of Jaguar Financial Corp, who is pressing other shareholders to force a change in RIM's board of directors.

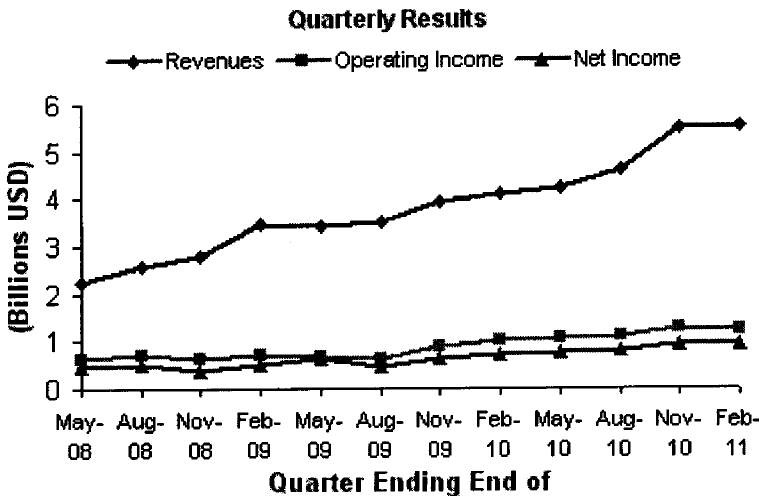
Research in Motion Update – Fiscal Q4 2011

Company Description

Research in Motion (RIM) designs, manufactures, and markets wireless solutions under the BlackBerry brand based on its wireless technology, including a proprietary operating system and device management. The company employs almost 17,500 workers, with approximately 9,000 in Canada.

Recent Financial Performance

On March 24, 2011, RIM reported revenues for the fourth quarter of its fiscal year 2011 of US\$ 5.6 billion (quarter ending end of February 2011), compared to US\$ 5.5 billion in the third quarter of fiscal year 2011 and up 36% from the same quarter in the previous fiscal year. Net income for the quarter was US\$ 934 million, up from US\$ 911 million in the prior quarter. Net income in the same quarter the previous fiscal year was US\$ 710 million.ⁱ



For the whole fiscal year ended February 2011, RIM reported annual revenues of US\$ 19.9 billion, an increase of 33% over fiscal 2010. The company's operating profit was US\$ 4.6 billion during fiscal 2011, an increase of 43% over 2010 while its net income was US\$ 3.4 billion during fiscal year 2011, an increase of 47% over 2010.ⁱⁱ

BlackBerry device unit shipments reached 52.3 million units in fiscal 2011, up 43% from the 36.6 million units shipped in fiscal 2010. International sales (outside North America) are increasingly important to RIM and represented more than 100% of RIM's revenue growth in fiscal year 2011. RIM's US revenues dropped by 9.2% to US\$ 7.8 billion with a corresponding share drop from 57% of revenues in fiscal 2010 to 39% in fiscal 2011. RIM's rest-of-world (ROW) revenues (sales outside the United States, Canada and Britain) more than doubled to US\$ 8.5 billion in fiscal 2011. In fiscal 2011, revenues from Canada and the UK grew by 67% and 53% respectively. This growth significantly increased the share of revenues coming from Canada, the UK and the rest-of-world (ROW) to 7%, 11% and 43% respectively.

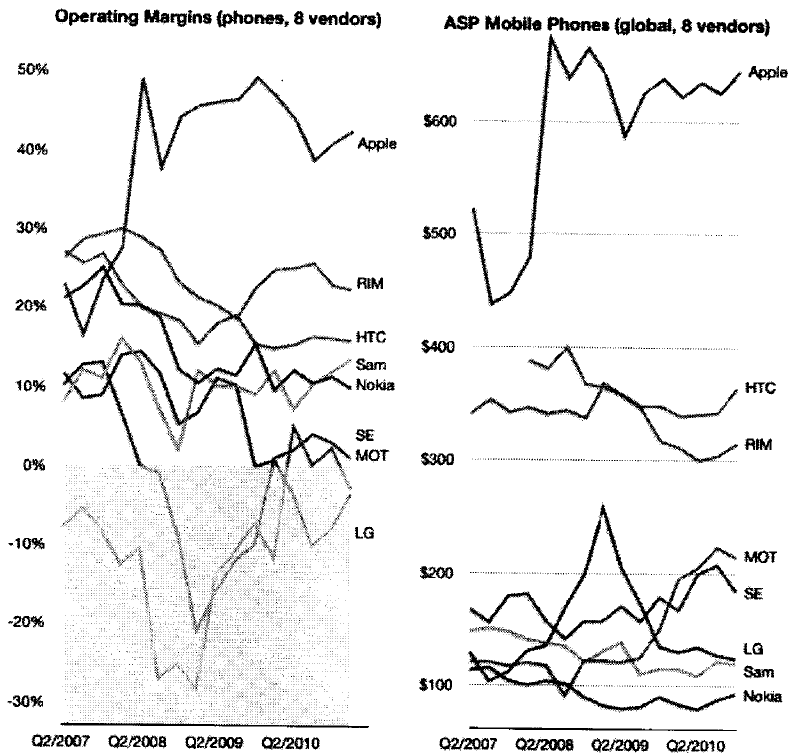
20(1)(c).21(1)(b)

With its fourth quarter results, RIM also announced forecast earnings of US\$1.47 to US\$1.55 per share for its fiscal first quarter of 2012. Five weeks later, based on shipments being on the low end, RIM reduced its earnings guidance to US\$1.30 to US\$1.37 per share.^{iv}

Profitability and

Average Selling Price

RIM has been one of the most successful device vendors in terms of profits per phone sold over the last 4 years. Vendors focused on smartphones (Apple, RIM, HTC) have higher average selling prices (ASP), higher operating margins and thus higher profitability. RIM, HTC and Apple have roughly similar costs per phone (averaged over the past four years) with Apple at the high end and RIM at the low end of the range. Apple's much higher profit is driven by the price it can command



Source: asymco.com

for the iPhone (above \$600 with profit per phone of >\$265), which is much higher than the average price for HTC (mid \$300s, profit per phone >\$60) and RIM (low \$300s, profit per phone >\$70). Prices have been relatively stable for most mobile device manufacturers over the last four years; although RIM's average price fell slightly as it has added less expensive models to appeal to international markets and consumers. According to asymco.com, a website dedicated to analysing the mobile phone market, in the first quarter of 2011 Apple, RIM and HTC together captured 75% of the mobile phone market's operating profits with only about 16% of the market's volume, 55% of the total market's profits went to Apple.^v

Market Position

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

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

PlayBook Release & Announcements

The PlayBook tablet went on sale in the U.S. and Canada on April 19th, [REDACTED] [REDACTED] 20(1)(b),21(1)(a),21(1)(b) but retailers did report steady sales on the opening day. An RBC Capital Markets analyst estimated that PlayBook retail sales were 50,000 on the first day, apparently more than the launch day sales of Motorola's Xoom tablet or the Samsung Galaxy Tab. RIM is expected to ship 500,000 PlayBooks in the first quarter of its fiscal 2012.^{ix}

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

The device has been given high marks for its physical quality, fast processor, high quality display, responsive touchscreen and appealing interface. Reviewers like the small size and reduced weight as compared to most Android tablets and the iPad.

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

Without a 3G option the initial version is aimed only at existing BlackBerry users.^x

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RIM has been working to address many of the criticisms identified in early reviews. For example, in early May 2011 at BlackBerry World (RIM's annual conference for BlackBerry developers, users and analysts) RIM demonstrated its e-mail client for PlayBook and other upgrades to its software that will make the tablet more useful. At the same time, RIM launched a Facebook app for the PlayBook tablet, the first tablet-optimized Facebook app on the market. RIM also added a video chat application to PlayBook.

To highlight its technical strengths, Mike Lazaridis' BlackBerry World keynote presentation demonstrated 3D capabilities of the PlayBook and QNX operating system. 3D PlayBook content was relayed to the big screens – emulating what can be done at home to a television using an HDMI cable.^{xi} Downloading and using Android applications on the Playbook was also demonstrated;

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It was also announced that Adobe's Creative Suite will now support Playbook right out of the box; thus developers who use this suite can output in a Playbook-compatible format directly, speeding time to market. According to Chris Umiastowski, a Canadian technology analyst, the conclusion to draw from Lazaridis presentation is that "RIM is dead serious about becoming a major player in mobile computing. And while they may have a messaging problem with the investment community, they don't seem to have a strategy, hardware or platform problem."^{xiii}

New BlackBerry Bold 9900

RIM unveiled its Bold 9900 at BlackBerry World. Reviews for the phone and OS 7 vary greatly. PC World's review was very positive, saying it is "one very impressive BlackBerry", based on its form factor with a keyboard that "is to die for".^{xiv} MSNBC's review was negative, saying it is the "wrong shape and size" and RIM "seems unable to step away from the look and feel that made it a massive hit."^{xv}

Microsoft and RIM

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According to Harry Wang, director of mobile research at Parks Associates, "There's a 50 percent probability that, in about two years, Microsoft will make a big and bold move to acquire large hardware vendors. RIM will be the best target because it has a user base that Microsoft is

looking for: enterprise customers.”^{xvi} Fabrice Taylor pointed out in the *Globe and Mail* that Microsoft could buy RIM for cash it has on hand, as RIM’s market value is a mere \$US 24 billion while Microsoft hold current assets worth more than US\$ 55.6 billion on its books. He then goes on to suggest that RIM might accept such an offer as rising competition is reducing its profitability.^{xvii}

Analysts Views

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RIM shares dropped sharply on Friday March 25, 2011, falling 10.7%. According to several reports, the drop in stock price was due to RIM’s forecasts for the first quarter. RIM warned that its profit margins will drop and its earnings will miss analyst forecasts in the first quarter of fiscal 2012 as RIM spends heavily to overhaul its operating system and introduce the PlayBook tablet.^{xix} On April 28, five weeks after its initial forecast, RIM reduced its earnings guidance and the stock price dropped again, falling 13.5% (more than \$7 per share). Since the release of the fourth quarter results in March, RIM’s share price has declined by 37%, from \$62.49 on March 24th to \$39.48 on June 2nd.

Northern Securities, a Toronto-based small investment bank, analyst Sameet Kanade wrote an "open letter to RIM management," suggesting RIM consider changing its co-chief executive management structure and adopt Android software on some of its consumer devices.^{xx}

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Citi analysts Jim Suwa and Kevin Dennean see reasons for optimism: RIM’s recent product announcements (e.g. the “BlackBerry Enterprise Solution” offers BlackBerry Enterprise Server-like device management and control features for rival smartphones and tablets and the “BlackBerry Balance”, a program which separates personal and corporate functions on its mobile devices); RIM benefiting as carriers reallocate Nokia subsidies to other smartphone makers; and Android growth moderating, leading carrier subsidies to stabilize. IDC analyst Al Hilwa also sees positives including: Microsoft CEO Steve Ballmer’s appearance at BlackBerry World to announce Bing becoming the default search engine on BlackBerry devices; and, RIM’s partnerships with Adobe (which allows developers to use Flash to build PlayBook apps) and IBM (supporting the PlayBook as a front-end to corporate software systems like Lotus).^{xxi} Matt Hartley in the *Financial Post* suggests that RIM is evolving and that its recent track record may “just be a minor stumble, a blip on the radar, or the beginning of a new golden era for the BlackBerry maker.”^{xxii}

ⁱ RIM, “Research in Motion Reports Year-end and Fourth Quarter Results for Fiscal 2011”, March 24, 2011.

ⁱⁱ RIM, Q4 Fiscal 2011 Results Announcement, March 24, 2011.

ⁱⁱⁱ Anton Wahlman. “RIM’s Valuation Reflects Unrealistic Expectations” *TheStreet.com* May 4, 2011.

^{iv} “RIM Wams of Weak BlackBerry Sales”, *Wall Street Journal*, April 28, 2011.

^v Asymco.com, “iPhone share of phone market in Q1: 5% volumes, 20% revenues, 55% profit”, <http://www.asymco.com/2011/05/16/iphone-share-of-phone-market-in-q1/>, May 16, 2011.

^{vi} IDC “Worldwide Smartphone 2011–2015 Forecast and Analysis”, March 2011.

^{vii} IDC Worldwide Quarterly Mobile Phone Tracker, January 27, 2011.

^{viii} IDC, Worldwide Mobile Phones Quarterly Tracker – Final Data – Q4 2010.

^{ix} Matt Hamblen, “PlayBook’s first-day sales outdo Galaxy Tab and Xoom, analyst says” *ComputerWorld*, April 21, 2011.

- ^x What Mobile, "BlackBerry PlayBook Review," <http://www.whatmobile.net/2011/05/blackberry-playbook-review/3/>, May 16, 2011.
- ^{xi} Matt Hamblen, "PlayBook's first-day sales outdo Galaxy Tab and Xoom, analyst says" ComputerWorld, April 21, 2011.
- ^{xii} Chris Umiastowski. "RIM's Lazaridis shows off PlayBook upgrades, partners at BlackBerry World" The Globe and Mail. May 3, 2011.
- ^{xiii} *ibid*
- ^{xiv} Al Sacco. "BlackBerry Bold 9900 First Impressions", PC World, May 3, 2011. (http://www.pcworld.com/article/226904/blackberry_bold_9900_first_impressions.html)
- ^{xv} Wilson Rothman. "Bye bye BlackBerry, last of the dumbphones", Gadgetbox - MSNBC, May 2, 2011. (http://gadgetbox.msnbc.msn.com/_news/2011/05/02/6573878-bye-bye-blackberry-last-of-the-dumbphones)
- ^{xvi} Peter Paschal. "Will Microsoft Buy RIM?" PC Magazine. May 4, 2011. (<http://www.pcmag.com/article2/0,2817,2384918,00.asp>)
- ^{xvii} Fabrice Taylor, "Why Microsoft should buy RIM", Globe and Mail, May 4, 2011.
- ^{xviii} David Berman, "RIM can't seem to buy a break", Globe and Mail, Toronto, March 26, 2011
- ^{xix} Alastair Sharp, "RIM's outlook disappoints, shares tumble", Reuters, March 24, 2011.
- ^{xx} Matt Hartley, Postmedia News. "Weak sales spur RIM downgrade". The Ottawa Citizen, April 30, 2011.
- ^{xxi} Matt Rosoff, "The Bull's Case for Research In Motion (Yes, There Is One)", Business Insider, May 3, 2011. (<http://www.businessinsider.com/the-bulls-case-for-research-in-motion-2011-5#ixzz1LJSEY1z>)
- ^{xxii} Matt Hartley, "Even at RIM lovefest, skepticism prevails", The Financial Post, May 5, 2011.