Strategic Report for Research in Motion

Harkness Consulting
Innovation through Collaboration

Amy MacKinnon
Harry Leshner
Matthew Burrows

Table of Contents

Executive Summary

At the close of the 2007 fiscal year, Research in Motion (RIM) asked Harkness Consulting to perform a strategic analysis of the Company. While RIM has been successful in the past, senior management requested an outside perspective of Firm strategy in order to achieve sustainable growth moving forward. Three senior partners at Harkness Consulting, Amy MacKinnon, Matthew Burrows, and Harry Leshner, recently performed a thorough analysis of RIM. Team Leader Amy MacKinnon closely assisted by advisors Burrows and Leshner reviewed the history of RIM, performed a competitive analysis, undertook a Five Forces analysis, and assessed the Company's financial performance. Following a brief summary of these areas, this report extensively examines the potential issues RIM may face, and offers strategic recommendations in greater detail.

RIM has earned a reputation as a leader in the wireless communication technologies industry. The Company has an international presence with offices in North America, Europe, and Asia Pacific. RIM designs, manufactures, and markets software and hardware for mobile handsets. The BlackBerry line has achieved monumental success in the corporate market, and is still unrivaled in quality and popularity when compared to competing products. RIM products combine sleek designs and innovative features, which has led to high returns and levels of growth for the Company for the past several years.

RIM's success has largely derived from their ability to carve a niche in high-end mobile devices for the business and professional markets. The BlackBerry name has a strong reputation among consumers for its features, reliability, and security. The BlackBerry line holds a major appeal to large-scale employers, who buy BlackBerry devices for themselves and their employees to achieve higher levels of productivity. This market segment has been highly profitable for RIM, although the Company may experience slowing sales in North America from market saturation. The Company is continuing to expand its reach in developing markets of India and East Asia to maintain former high growth levels.

RIM has recently begun expanding its target market from the corporate and other professional markets to the "prosumer" (professional consumer) and consumer segments. This is an area of potential growth opportunities, as well as one with significant competition. Current key competitors in the high-end mobile devices market, including Nokia, Samsung, Sony-Ericsson, Motorola, and Apple, target the prosumer and consumer markets more strongly than they have been able to reach the corporate consumer. RIM has outperformed competing mobile handset producers in the corporate market, but their consumer products will face a higher degree of competition.

Financial reports over the past several years show the Company to be strong, albeit with a few minor concerns, namely slowing annual growth rates and inventory turnover. This may be the natural result of a maturing company, as growth rates are still at remarkably high levels. The BlackBerry products continue to be well received among a broad range of consumers. Identifiable threats to the success of RIM are more potential than impending. Entering an economic recession, falling behind a competitor that develops a new superior technology, or possible patent litigation are all concerns, but do not command serious attention at this point in time. The Company stock price is remarkably high relative to competitors, although we do not recommend taking any action to alter the stock price (issuing dividends, issuing new shares, or performing a share buyback). Taking action to alter stock price may send misleading signals to investors, which could have undesirable effects on the future stock price and investor confidence.

Our strategic recommendations for RIM are to maintain focus on past and current areas of strength, and limit the extent of expansion of the BlackBerry product line into the consumer market. We believe that it is essential for RIM to continue to invest heavily in research and development of innovative technologies, acquire patents, and protect patents through litigation if necessary. In the same vein, it is critically important that the Company is conscious it does not infringe on competitors' patents, as this could result in costly settling fees. RIM reports established relationships with their wireless carrier customers and component suppliers, and these relationships are important to maintain in their highly competitive industry. It is also beneficial for RIM to increase their connections with wireless partners in order to extend BlackBerry coverage, which results in better global service for their end customers.

We believe that growth opportunities exist for RIM in the prosumer and consumer markets, although these market areas should be entered with limited scope. These wireless handset markets are highly competitive, and products are more difficult to differentiate in terms of features and quality. It is therefore necessary to compete more aggressively on price, and to spend significant amounts on marketing and advertising to set your product apart from the competition. RIM has developed a product for the high-end consumer market segment, the BlackBerry Pearl. We believe that offering this new product can be a successful strategy. Existing corporate customers may be likely to purchase these devices for family members, or as a second phone for themselves, and this product may also draw in a younger generation of customers, looking for a slightly less expensive mobile phone with multimedia features and wireless internet access. We recommend, however, that the Company does not extend its coverage into mid- and lower-end consumer products. This risks the Company's reputation for high quality, and it holds little opportunity for profit because of the intensely competitive market environment.

Company History

Mike Lazaridis founded RIM in 1984 while a student at the University of Waterloo in Ontario. He had been researching wireless email at the university, and decided to form his own company after earning a $600,000 contract from General Motors to make assembly line display terminals that could receive wireless updates. Lazaridis determined that the future of his company would be in wireless communications in 1987, when he was hired as a consultant for Ericsson to write software for a recently purchased wireless data system called Mobitex. By 1997, RIM worked with RAM Mobile Data and Ericsson to turn Mobitex into a two-way paging and wireless email network. RIM's major contribution was the Inter@ctive Pager 950, developed in 1995, which allowed users to send and receive messages over the internet via the wireless data network.

In January 1999, RIM introduced the BlackBerry handheld communication device, which used the same hardware as the Inter@ctive Pager 950 and ran on the Mobitex network. With the BlackBerry, RIM set out to create the first complete solution for accessing corporate email from a single handheld. The device solved what was known as the "two mailbox" problem, as businesspeople were previously required to have a wireless mailbox and a corporate mailbox. The BlackBerry was integrated with Microsoft Exchange so that all messages sent and received were stored in users' existing mailboxes.

While the distinguishing feature of the BlackBerry was its ability to send and receive emails wherever it could access the wireless networks of certain cell phone providers, it also included typical PDA functions such as a calendar and address book, as well as cell phone capabilities on later models. The device was equipped with a QWERTY keyboard, designed for the use of the thumbs to type, and a trackwheel with a "click" function for system navigation.

In August 2006, RIM introduced the BlackBerry Pearl, a cellular smartphone. It was the first BlackBerry device with a camera and other multimedia features. The Pearl was marketed to consumers rather than for corporate use. The Pearl was designed with a smaller modified QWERTY keyboard, with two letters per key, and contains a predictive input algorithm called SureType. SureType includes software with a word list of over 35,000 words and the ability to increase that list with use, as well as the names in the address book. The Pearl originally became available with the T-Mobile and Cingular networks within the United States, Rogers Wireless in Canada, and Vodafone in the United Kingdom.

Since the turn of the century, RIM has been involved in a number of legal disputes, mostly regarding patent infringement. One of the more notable cases involved RIM's complaint alleging that Handspring Inc, the maker of the Treo device, infringed upon the claims of a patent associated with unique keyboard features implemented by the BlackBerry. RIM filed the suit in September 2002, and Handspring eventually agreed to license the patent to avoid further litigation in November of the same year. Other considerable patent litigation includes suits against Glenayre Electronics and Xerox.

Today, RIM is a leading designer, manufacturer, and marketer of wireless solutions for the worldwide mobile communications market. It provides platforms and solutions for access to email, phone, text messaging services, Internet, and intranet-based applications. The Company offers technology that enables third-party developers and manufacturers to enhance their products and services with wireless connectivity to data. Its portfolio of products includes the BlackBerry wireless platform, the RIM Wireless Handhelds product line, software development tools, radio-modems, and other hardware and software products.

RIM is based in Waterloo, Ontario and has offices in North America, Europe and Asia-Pacific. The management includes Mike Lazaridis, the original founder of the Company, who serves as the President and Co-CEO; Jim Balsille, Co-CEO since 1992; Dennis Kavelman, COO of Administration and Operations; Don Morrison, COO of BlackBerry at RIM; Larry Conlee, COO of Engineering and Manufacturing; Robin Bienfait, CIO; David Werezak, VP of the Enterprise Business Unit; and Mark Guibert, VP of Corporate Marketing. RIM raised $105 million from its IPO on the Toronto Stock Exchange in 1997. It is listed as RIM on the Toronto Stock Exchange and as RIMM on the Nasdaq Stock Market.[i]

Competitive Analysis

Internal Rivalry

The mobile handset industry is highly competitive. Top handset companies include Nokia, Motorola, Sony Ericsson, Samsung, and LG Electronics. Apple and Palm have relatively small market shares, but offer high-end handsets that compete with some of RIM's products. RIM has been dominant within the smartphone segment of the wireless handset industry, but faces competition from a number of near-substitutes.

While RIM's product competition is specific to high-end wireless handsets, it operates within an extensive geographic market. The BlackBerry series has achieved popular brand recognition among corporate consumers in North America and Western Europe, and is growing its market base in India and areas of Eastern Asia. BlackBerry products face competition in these markets from the top phone producers that also have an established presence in these markets. However, the brand recognition and prestige among competing products appears to hold constant across geographic areas. The BlackBerry name is pervasive particularly among corporate markets, and has achieved similar success within different markets around the globe.

Several additional factors influence the level of price competition within this industry. There are many sellers within the broad smartphone market, although the lack of a direct competitor gives RIM the ability to keep prices higher than the competition. Of course, this ability is limited – if price significantly exceeds a near-substitute, a consumer may choose the less expensive option. Consumers in this market have some switching costs associated with upgrading their existing handset or starting a new phone contract with the wireless carrier. These costs are not so high that they would lock customers into relationships with RIM for extended periods of time, however; a short-term contract following a BlackBerry purchase may help create familiarity with the product and continuing brand loyalty.

One recent development influencing top handset producers is Motorola's planned 2009 spin-off of its handset division, which is likely to generate opportunities for competitors to gain market share. This comes after years of low profitability for the division. While the rest of Motorola may benefit from this decision, it appears that the handset division may become less competitive, at least in the near future. The newly spun-off company will likely benefit from a new management team, although Motorola sales may decline initially as the company restructures. RIM is well positioned to take advantage of this decline, as Motorola has had a number of high-end consumers for its Motorola Q, RAZR, CRAZR, and RAZR II products. Many of these consumers have enough disposable income to afford RIM's smartphones, and may add to the Company's consumer base in the coming years.

Entry

Initial entry into the handset market is not impossible, but success is quite difficult given the highly competitive nature of the industry. Barriers to entry include developing an expertise in hardware and software, forming a team of skilled personnel, acquiring and protecting patents, forming and establishing relationships with component suppliers and customers, capital investment requirements, regulations imposed by agencies such as the Federal Communications Commission (FCC), and establishing brand recognition in the industry.

Entering firms face high sunk costs in developing competitive handset technology and establishing production capabilities. Research and development in technological innovation is costly, and investments in patent protection through litigation can also hinder start-up companies in this industry. The threat of a patent infringement lawsuit should also be considered as a threat to smaller companies. Government regulations through the FCC require approval and network certification for new companies. As a result of this the opportunities for other companies to enter the mobile device market is limited. Additionally, a potential entrant would need to spend significant resources on marketing and advertising to establish brand recognition in this market. End consumers are brand-conscious when purchasing a mobile phone, and hence it is important to build a trusted and proven brand name.

Perhaps the most significant barrier to entry is establishing business relationships with global wireless communications carriers. Carrier partners, such as AT&T Wireless, Verizon Wireless, and T-Mobile, generate a significant portion of handset sales. Start-up companies face tremendous difficulty convincing wireless carries to market their products. It is possible to enter the market without a relationship with a wireless carrier, selling directly to the consumer and competing on price to gain market share. However, handset prices are often a small component of the consumer's total cell phone cost after factoring in monthly airtime charges. Furthermore, wireless carriers often significantly subsidize handset costs. Instead of price, it appears that the best way to enter the handset market is by offering a superior product. Apple demonstrated this in 2007 when it successfully entered the handset market with its innovative iPhone, targeted for the high-end consumer. Leveraging its competitive product and brand recognition, Apple negotiated a high-revenue deal from AT&T Wireless in exchange for a five-year exclusive partnership.

Substitutes and Complements

RIM has been successful in preventing rivals from offering direct substitutes by consistently offering products with advanced, leading technological capabilities. RIM handsets are "always on, always connected": in constant communication with wireless networks. BlackBerry series devices are versatile, easy to use, and secure. BlackBerry users report high satisfaction with the ease use of the BlackBerry keypad and window navigability. Consumers who are accustomed to the BlackBerry layout are more likely to remain loyal to the brand, which is a strong source of differentiation for RIM. The BlackBerry network is impenetrable to the extent to which the

Indian government considered banning BlackBerry devices because of the government's inability to intercept data over the BlackBerry network. This threat has subsided, fortunately for RIM, which is now experiencing growth in sales in India.

The Company actively works to maintain its technological advantages, and patents its concepts, components, and processes. RIM utilizes both in-house and external patent lawyers, and has been involved in much patent litigation in recent years. However, one concern is that RIM's software sales to competitors may be eroding the Company's competitive advantage. Under its BlackBerry Connect licensing program, the Company equips phones from competitors with BlackBerry functionality. Nokia, Motorola, Palm, Samsung, and Sony-Ericsson all take advantage of this program, which comprises approximately 5% of RIM's revenue yet potentially increases the long-term viability of rivals' substitute handsets. We believe that it is important for RIM to seriously consider the benefits and costs of distributing this software. Extending use of the BlackBerry network is a complement to BlackBerry devices, since this increases the number of consumers using BlackBerry technology and services. However, this could create a larger number of close substitutes that compete with BlackBerry handsets.

Close substitutes include rival smartphones, which still lag behind the BlackBerry product line in technology, ease of use, and security. Such phones include the Motorola Q, the Samsung Blackjack II, the HTC Mogul, and the Palm Treo. Competition from substitutes is much more prevalent in the broad high-end consumer market, in which the new BlackBerry Pearl is seeking to establish market share. This market includes smartphones, the Motorola RAZR, and the Apple iPhone, among others. The BlackBerry Pearl offers camera and multimedia capabilities, but rival high-end phones offer these and other advantages, leaving the phone with little competitive advantage beyond the BlackBerry name.

Complements to the BlackBerry are limited to several goods. For one, businesses' information technology infrastructures may be viewed as a complement to BlackBerry devices. As companies become more technologically advanced and synch business process and applications such as Outlook, demand for BlackBerry devices increases. Additionally, RIM's two product lines, its traditional business handsets and its new consumer Pearl handsets, may be complementary. Prosumers and businessmen who have grown accustomed to their BlackBerry may have a higher propensity to purchase the BlackBerry Pearl for their families, or as a second phone for themselves. Complementarity may apply in the reverse direction as well, as impressed BlackBerry Pearl users may purchase traditional BlackBerry devices for business use. Interestingly, the Apple iPhone, a competing product, may also be a complement to the BlackBerry. Apple launched a sizeable advertising campaign for their new smartphone, and brought a new level of awareness to smartphones among a broad consumer base. Consumers that may have bought a relatively high-end phone, such as the Motorola KRAZR, are shifting their attention and purchasing power to the iPhone and BlackBerry smartphones.[2]

Supplier Power

Suppliers maintain a certain amount of short-term leverage, as short-term disruptions in the supply chain can adversely affect RIM's business processes. Thus, RIM is dependant on its suppliers. However, in the long run, there are a number of possible suppliers for the Company, thus giving RIM leverage as well. However, RIM would incur significant switching costs if it were to move to other suppliers.

The relationship between RIM and its suppliers should not be viewed as a zero-sum price competition. Instead, both parties are best served by a collaborative relationship, thus maximizing quality and increasing production efficiency. Both RIM and its suppliers would suffer decreases in profitability if they ended their collaboration, and thus neither maintains significant bargaining power with respect to the other.

It is also worth noting that RIM produces along several points of the value chain. RIM develops its own software, designs, markets, and sells its hardware products. This gives the Company an advantage, since it does not rely solely on outside software developers to maintain high levels of quality.

Buyer Power

RIM's chief client base is comprised of major wireless carriers. In 2007, four wireless carrier partners alone accounted for 55% of the Company's revenues. Buyer power ultimately hinges on the demand from the end consumer, whose preferences dictate the handset purchases of the wireless carriers. RIM's end consumer base can be divided into three general categories. The first group includes the person who uses his or her BlackBerry strictly for personal use. The second is the employer or employee who uses his or her handset solely for business use. The third is the prosumer, who uses his or her handset for a combination of both uses. Business and prosumer clients comprise the majority of RIM's end client base. Strong demand from this group provides RIM with leverage in its relationship with its carrier partners. Growing popularity of the Pearl line will increasingly contribute to their buyer power. As the BlackBerry currently has no direct competition, and is the premier business wireless handset, wireless carriers essentially have no choice but to sell BlackBerry devices. As long as demand from end consumers remains robust, wireless carriers will continue to have limited buying power in their relationship with RIM.

Financial Analysis

Overview

RIM exhibits a strong financial record over the past several years. The Company has experienced impressive double-digit growth in revenues and in their stock price over the past five years. The pertinent financial issues for RIM are whether or not they will be able to maintain their previous high levels of growth, and if their stock is appropriately priced to reflect the Company's future earnings growth. After reviewing RIM's financial balance sheets, we conclude that RIM is a financially healthy company with notable strengths. However, the Company is showing weaknesses in some areas that should be addressed. The following presents our analysis of RIM's recent stock performance and financial condition, and will consider the Company's relative performance to the market index and industry competitors including Motorola, Microsoft, Nokia, and Apple. [3]

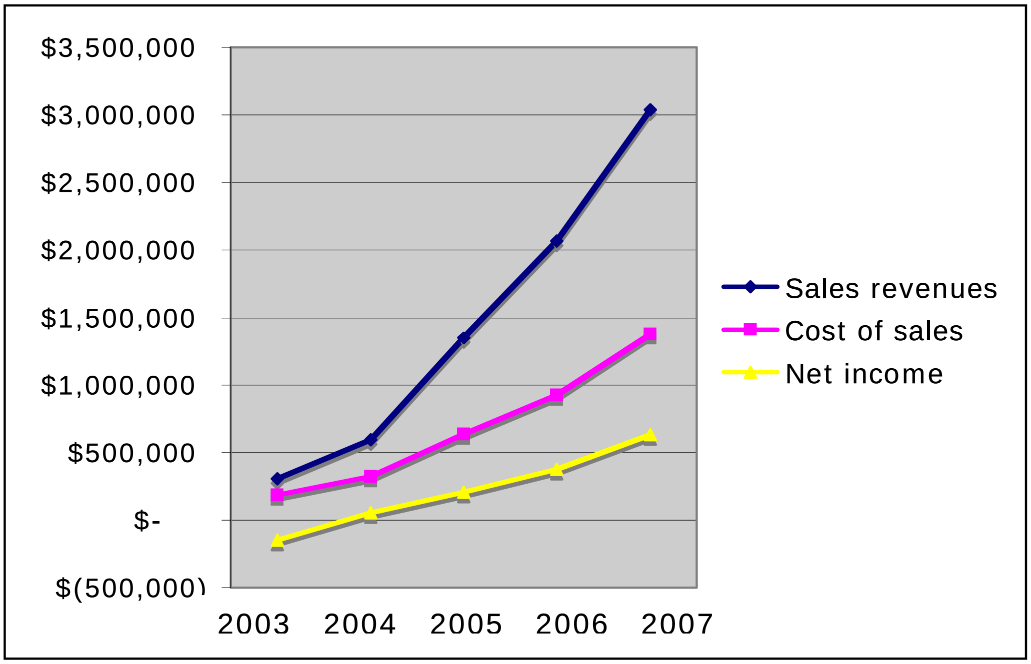
Revenues and Costs

RIM has been experiencing dramatic growth in sales revenue over the past five years, with growth rates from 2003 to 2007 at 93.9%, 127.1%, 53.0%, and 47.02%, respectively. Revenue growth has been fueled by successive increases in the BlackBerry subscriber base. In 2005, RIM more than doubled the number of BlackBerry subscribers to over 2.5 million. This figure rose to over 4.9 million in 2006, and up to 8 million in 2007. The Company reported that their subscriber base reached 12 million by the end of the quarter ended December 1.[4] In 2007, sales from Devices represented 73.0% of total revenue, Service 18.4%, Software 5.7%, and Other Sales 2.9% (includes accessories, non-warranty repairs, and non-recurring engineering development contracts). In 2007, 57.9% of the Company's revenues were generated in the United States, 7.3% in Canada, and 34.8% from other foreign countries. Four customers comprised 19%, 14%, 11%, and 11% of 2007 revenues, although the Company maintains that it is marketing and selling its products to a wide customer base. RIM primarily sells its products to leading wireless carriers, who then bundle the products with airtime to sell the final product directly to customers. This accounts for the high concentration of customers buying direct from RIM.

Costs of goods sold as a percentage of sales revenue have remained on a steady decline, decreasing from 61.3% in 2003 to 45.4% in 2007. Selling, general, and administrative expenses have been on a slightly upward trend, and research and development costs have been consistently low over the past three years. R&D costs have been approximately 7.7% of total revenue from 2004 to 2007. Litigation expenses are a significant cost to RIM, although this is not out of the ordinary in the communications technology industry. Costs involved with patent infringement litigation has been as high as 26.1% of total revenue (2005), although this figure seems to be an anomaly if we compare it to litigation expenses dropping to 9.8% of total revenue in 2006.

The chart below illustrates growth patterns in the Company's sales revenues, costs, and net income.

Figure 1: RIM Sales revenues, Cost of sales, Net Income (in thousands) 2003 to 2007



While RIM is still experiencing positive growth in revenues and gross margin, their annual growth rates are decelerating. The annual growth rate in the Company's gross margin fell from a four-year high of 162.28% in 2005, to 59.67% in 2006, and 45.39% in 2007. This decrease may be due to a number of factors, including a slowing economy, market saturation, and price competition. Furthermore, one should note that the Company's current growth rate is still positive and significant, and the incredibly high growth rates from several years ago may not necessarily be sustainable.

Stock Performance

RIM's market capitalization is currently $64.72 Billion, a figure relatively small to most of its competitors, with the exception of Motorola ($21.85B). Market caps of comparative companies such as Nokia ($119.5B), Microsoft ($271.48B), and Apple ($122.63B) reflect their relatively larger product portfolios.[5] RIM has a narrower product range than most of its direct competitors, which somewhat complicates a side-by-side financial comparison. Nonetheless, it is helpful to observe the relative success of RIM to their competitors in the smartphone market.

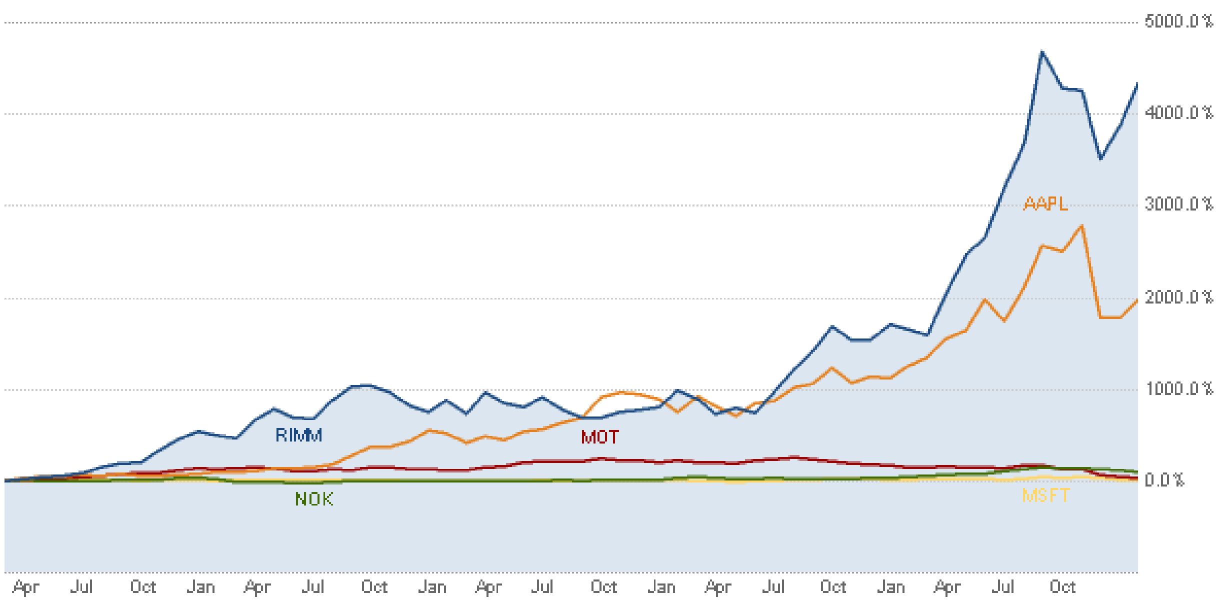
Over the past five years, RIM has matched or outperformed its competitors and the Standard and Poor 500 Index. RIM established itself as an industry leader, with high quality products and services. The Company successfully captured the corporate consumers in its market segment, which has provided a lasting first-mover advantage. Building a solid reputation is a barrier to entry for potential competitors, and existing competitors have not been able to reach the same brand loyalty and recognition that RIM has achieved with the BlackBerry series.

Bloomberg reports that smartphone shipments increased 72% globally over the last quarter, compared to 13% for handsets overall. RIM claimed 41% of the US market, which has contributed to their doubling of sales over the last two quarters. Motorola's competing phone, the Motorola Q, has seen declining sales for the last four quarters.[6]

The market has responded to the Company's continued success, as evident in RIM's stock price of $117.48 as of 1 April 2008. The graphs below show relative stock performance among RIM (RIMM) and the S&P 500, and between RIMM and competitors Motorola (MOT), Nokia (NOK), Apple (AAPL), and Microsoft (MSFT), over the past five years.

Figure 2: **RIMM, S&P Index; 5 Year History**[7]

Figure 3: **RIMM, MOT, NOK, AAPL, MSFT; 5 Year History**



RIM's stock price has been on a consistent, upward trend far above the competition and the market for the past five years. One can see where Motorola outperformed the market after the release of the Motorola RAZR. This period was short-lived for Motorola, though, when their products failed to meet consumer expectations of quality. In comparison, RIM has maintained their solid market share and reputation for quality, which has been echoed in their stock performance. Apple has also recently experienced a strong upward drive in their stock price, corresponding to the release of new lines in their computer, laptop, and iPod units. Apple's release of the iPhone, a competing product for RIM, also contributed to the rising stock over recent months. Apple has announced that they plan to add more features to future generations of iPhones to compete with the BlackBerry for corporate customers. This may intensify competition for RIM, although Company CEO Jim Balsillie has stated that Apple does not pose a serious threat to the BlackBerry, given their unproven capability to "come across to enterprise."[8]

Financial Ratios

Table 1: **RIM Balance Sheet Analysis**

	2007	**2006**	**2005**
Accts. Receivable Turnover	6.33	7.03	7.76
Days Accts. Receivable	57.68	52.95	47.06
Accts. Payable Turnover	12.25	11.33	12.23
Days Accts. Payable	29.80	32.22	29.84
Inventory Turnover	7.07	8.15	9.40
Days Inventory	51.66	44.76	38.81
Net Cash Conversion Cycle	79.54	64.48	56.04
Return on Equity	25.43%	18.78%	10.37%
Growth in Book Value (3 year compounded rate)	7.78%	-	-

Looking at the above ratios, we can identify several trends occurring over the past three years at RIM. The Company's Days Accounts Receivable has been increasing, showing that RIM has less cash on hand to reinvest in the development, marketing, and selling of their products. However, RIM held approximately 21.9% of its assets as cash, which is a sufficient figure of available cash for a technology company like RIM. For comparison, Motorola holds only 8.3% of the total value of their assets as cash. Inventory turnover has been slowing, which also raises some concern for RIM. The big picture here is that RIM is not selling their products as quickly, or efficiently, as they could several years ago. It is difficult to determine whether this is a sign of trouble in the Company itself, or signs of a slowing economy and/or natural slowing of sales growth rates as the Company matures and further saturates the market. RIM needs to increase efforts in R&D, manufacture and design, and sales and marketing in order to lower their Net Cash Conversion Cycle to previous levels.

Equity comprised 80.4% of total assets, which creates a relatively high equity to debt ratio. RIM could afford to increase leverage, although their financial composition works well for a company that may need cash on hand for unexpected litigation costs, continuing R&D efforts, and other expenses. RIM has maintained reasonably consistent debt to equity ratios, with equity levels at 75.7% of total assets in 2005, 86.2% in 2006, and 80.4% in 2007. This exhibits stability in the Company, which is particularly valuable for companies in the technology sector that tend to be more volatile than other industries.

RIM's annual Return on Equity exhibits an optimistic trend in the data. ROE has been increasing significantly over the past three years, and is high or parallel relative to competitors. Furthermore, given the Company's high level of equity, a high rate of return on equity for RIM has particularly agreeable implications.

Table 2: **Industry Ratio Comparisons – Current Key Statistics and Ratios (ttm)**[9]

	RIMM	**AAPL**	**MSFT**	**NOK**	**MOT**	**Industry**
Market Cap	65.91B	131.42B	274.55B	128.80B	21.35B	262.41M
Quarterly Revenue Growth	100.30%	35.00%	30.50%	34.30%	-18.20%	24.60%
Revenue	5.06B	26.50B	57.90B	80.47B	36.62B	151.44M
Gross Margin	51.61%	34.97%	79.97%	34.51%	28.22%	42.98%
EBITDA	1.57B	5.56B	25.28B	13.09B	1.35B	9.47M
Net Income	1.07B	4.07B	16.96B	11.36B	-105.00M	-3.27M
Operating Margin	27.83%	19.67%	40.70%	13.91%	1.21%	1.3%
P/S	12.45	4.76	4.56	1.52	0.57	1.44
P/E	62.86	32.80	16.78	11.59	N/A	17.14
EPS	1.869	4.559	1.758	2.89	-0.021	N/A
ROE	36.95%	29.06%	47.72%	53.89%	-0.64%	15.46%

ROA	28.58%	16.46%	25.36%	22.41%	-0.29%	9.64%

RIM is reporting impressive current growth in revenues and gross margin. The Company is reporting strong statistics relative to their competitors, indicating that the Company is still financially solid. The areas of concern in the above chart are related to the Company's high stock price. While RIM has enjoyed a stock price trading significantly higher than their competitors, Price/Earnings ratios seem to indicate that the stock price may be currently overvalued. As of 1 April 2008, analysts value Trailing P/E estimates at 62.86, and Forward P/E is much lower at 27.51.[10] This implies that the current stock price may be excessively high relative to the Company's earnings prospects. The P/E ratio is very high relative to competitors and the industry as well.

Table 3: **RIMM Earnings per Share**

	2003	**2004**	**2005**	**2006**	**2007**
Basic EPS	-$0.96	$0.33	$1.10	$1.98	$3.41
Diluted EPS	-$0.96	$0.31	$1.04	$1.91	$3.31

After negative earnings per share in 2003, RIM has been significantly increasing EPS each year. The Company experienced strong growth in EPS despite stock splits in 2004 and 2007. EPS reported to date indicate a decline from the annual high in 2007, from $3.41 down to $1.87.

RIM's financial standing makes it an attractive company for investors, although even good companies can be overvalued. RIM will need to prove that it can meet expectations and continue to gain market share in order to keep up with its rising stock price.

SWOT Analysis

Strengths

- High quality products
- Strong brand recognition and brand loyalty
- Mobile device leader in corporate market
- Leading technology in mobile devices

- Strong, established relationships with key customers and suppliers
- Threat by new firms or small-scale manufacturers very low
- Specialized market niche in high-end devices
- Secure network
- Products enhance to worker productivity, making them attractive to employers
- Customers familiar with BlackBerry structure, keypad – must undergo switching costs in relearning a different device
- End customers face short-term switching costs – purchase price of new phone and new service, contract cancellation

Weaknesses

- Highly competitive industry
- Constantly evolving technology requires heavy investment in R&D and patent protection
- Limited ability to raise price
- Slowing inventory turnover
- Corporate market saturation in North America
- Depend on carriers to provide some services, leaving some issues out of their control – occasional blackouts in service damage reputation

Opportunities

- Expand into global markets, particularly India and East Asia
- Develop prosumer and consumer product lines to take advantage of growth opportunities in these markets
- Extend coverage areas by forming alliances with new carriers
- Acquisitions of small companies along value chain
- Motorola spin-off may lessen competition, particularly from the Motorola Q

Threats

- Competitors entering corporate market (Apple iPhone, Nokia, LG, and Samsung high-end devices)
- Potential economic recession lessens consumer and corporate spending

- New technology from competitor that is perceived to be superior to BlackBerry
- Compatibility with a potential new, pervasive technology
- Patent litigation against RIM could result in hefty settling costs

Strategic Issues and Recommendations

Our analysis of RIM points to several key issues to address. The first and most significant regards the Company's ability to compete effectively in the prosumer and consumer markets. They face significant competition from other leading mobile companies, including Apple, Motorola, Nokia, Sony-Ericsson, LG Electronics, and Samsung, among others. Trendy design, compact size, multimedia features, advertising and marketing will all be very relevant in this market area. Consumers may also be more price-sensitive than corporate customers. If RIM invests heavily in this area, they risk missing opportunities in the corporate market, where they currently have a strong presence as market leader. We believe that viable growth opportunities exist for RIM in the consumer market, and that RIM will be able to maintain their current corporate customers given brand loyalty and a continued ability to turn out innovative, useful products. However, RIM should be careful to not abandon the corporate niche. Furthermore, RIM should maintain their commitment to high quality phones in the consumer market to maintain brand image. We also recommend marketing the Pearl to existing BlackBerry corporate customers, suggesting that this additional phone will allow businesspeople to separate work and personal life. Committed, loyal corporate customers may also extend their BlackBerry purchases to family members with the Pearl line. Additionally, this more stylish phone may attract young adults entering the workforce who desire a high-end phone with connectivity features. Capturing this demographic may contribute to brand loyalty in years to come.

Competing companies are both providing opportunities and developing more competitive products. The iPhone will be a particular threat to the BlackBerry line, as Apple plans to expand connectivity and features to enhance business uses on the phone. This phone is already competing with the BlackBerry Pearl in the consumer market. Alternatively, the iPhone may actually generate business for RIM, as consumers become more aware and interested in high-end smartphones. The recently announced Motorola spin-off may give market share to RIM and other top industry competitors. Motorola produced several high-end mobile devices, but will likely experience a lag in technological innovation and decreased consumer confidence as the company undergoes major structural changes. Former Motorola Q customers in particular may feel compelled to switch to a BlackBerry.

RIM should continue to make efforts to gain market share in expanding global markets. The North American markets have been highly lucrative for RIM, but these markets are becoming saturated, with growth slowing for the Company in these geographic areas. RIM is well positioned to expand in India and other areas with quickly developing economies, such as China. Sales in the developed economies of Europe, Japan, Australia, and other areas should also be an area of focus for expansion opportunities.

A financial issue for RIM concerns the Firm's ability to sustain the high levels of growth experienced in recent years. Annual growth rates have been tapering, although the Company posted very high revenue growth over the most recent quarter. Additionally, the stock price may be inflated when earnings expectations are considered. A fall in the stock price may dampen previous investor enthusiasm. While this could potentially manifest in the future, we do not recommend that the Company interfere with its shares to influence the stock price (i.e. through issuing new shares or paying a dividend). RIM appears to be financially healthy overall. We think it is of utmost importance to continue to invest in R&D, and to vigorously protect patents through litigation if necessary. These efforts are essential for maintaining RIM's position as industry leader.

The threat of a recession may be another issue for RIM, since a slowing economy may curb corporate and consumer spending. While an economic downturn would most likely hurt RIM, we do not think they will be affected to a greater degree than competitors or other areas of the economy. While mobile phones were once seen as luxury goods, these products are more and more starting to be viewed as necessities. Particularly for RIM, employers are willing to buy BlackBerry products for their workforce in turn for significant increases in productivity and communication. Corporate consumers may decrease spending or postpone upgrades, but are not likely to cut BlackBerry purchases completely.

In the highly competitive mobile devices industry, it is critical for RIM to continue development of new products each year with improved features. This encourages upgrades from existing customers, and wins over new customers from the competition. In order to increase their competitive position, the Company should continue to develop strategic alliances with global carrier companies to expand BlackBerry usability.

RIM has been highly successful thus far with their BlackBerry devices, which has led to the Company's position as a market leader. Our team is confident that RIM can maintain its position, although we advise that RIM exercise a degree of restraint while expanding their product line into new markets. They risk overextending their technological and productive capabilities, and thereby losing market share in the corporate market where they have enjoyed an unrivaled dominance since the release of the BlackBerry nearly a decade ago. RIM needs to know where to limit their product line, and we recommend that they remain within the upper-end mobile device market to maintain a reputation for quality and superior products.

Appendix A: RIM Income Statement

RIMM Income Statements (in thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Sales revenues	$3,037,103	$2,065,845	$1,350,447	$594,616	$306,732
Cost of sales	1,379,301	925,598	636,310	323,365	187,289
Gross margin	1,657,802	1,140,247	714,137	271,251	119,443
Selling, general, administrative expenses	537,922	314,317	193,838	108,492	104,978
Research and development expenses	236,173	158,887	102,665	62,638	55,916
Amortization	76,879	49,951	35,941	27,911	22,324
Litigation	-	201,791	352,628	35,187	58,210
Restructuring	-	-	-	-	6,550
Total operating expenses	850,974	724,946	685,072	234,228	247,978
Operating income	806,828	415,301	29,065	37,023	(128,535)
Pretax income	858,945	481,519	66,172	47,629	(117,105)
Provision for income taxes					
Current	123,553	14,515	1,425	(4,200)	3,513
Deferred	103,820	92,348	(140,865)	-	28,239
Net income	$631,572	$374,656	$205,612	$51,829	$(148,857)
Basic EPS	$3.41	$1.98	$1.10	$0.33	($0.96)
Diluted EPS	$3.31	$1.91	$1.04	$0.31	($0.96)

RIMM Income Statements Vertical Common Size	**2006**	**2005**	**2004**	**2003**	**2002**
Sales revenues	47.02%	53.0%	127.1%	93.9%	
Cost of goods sold	45.4%	44.8%	47.1%	54.4%	61.1%
Gross margin	54.6%	55.2%	52.9%	45.6%	38.9%
Selling, general, administrative expenses	17.7%	15.2%	14.4%	18.2%	34.2%
Research and development expenses	7.8%	7.7%	7.6%	10.5%	18.2%
Amortization	2.5%	2.4%	2.7%	4.7%	7.3%
Litigation	-	9.8%	26.1%	5.9%	19.0%
Restructuring	-	-	-	-	2.1%
Total operating expenses	28.0%	35.1%	50.7%	39.4%	80.8%
Operating income	26.6%	20.1%	2.2%	6.2%	-41.9%
Pretax income	28.3%	23.3%	4.9%	8.0%	-38.2%
Provision for income taxes					
Current	4.1%	0.7%	0.1%	-0.7%	1.1%
Deferred	3.4%	4.5%	-10.4%	-	9.2%
Net income	20.8%	18.1%	15.2%	8.7%	-48.5%

RIMM Statements Compound Annual Growth Rate	**2007**	**2006**	**2005**	**2004**
Sales revenues		49.97%	0.05%	0.05%
Cost of goods sold		47.23%	69.19%	84.32%
Gross profit		52.36%	105.03%	144.52%
*Annual gross profit growth rate	45.39%	59.67%	163.28%	127.10%
Selling, general, administrative expenses		66.59%	70.21%	35.88%
Research and development expenses		51.67%	59.27%	35.50%
Amoritization		-	33.78%	26.88%

Litigation	-	-	-
Total operating expenses	11.45%	75.93%	-
Operating income	426.87%	234.92%	-52.45%
Pretax income			
Provision for income tax			
Current	831.15%	-	-
Deferred	-	-	-
Net income	75.26%	168.86%	17.53%

Appendix B: RIM Balance Sheet

RIMM Balance Sheets			
(in thousands)	**2007**	**2006**	**2005**
Cash	$677,144	$459,540	$610,354
Short-term Investments	310,082	175,553	315,495
Trade receivables	572,637	315,278	210,459
Other receivables	40,174	31,861	30,416
Inventory	255,907	134,523	92,489
Restricted cash	-	-	111,978
Deferred income tax asset	21,624	96,564	150,200
Other current assets	41,697	45,453	22,857
Total current assets	1,919,265	1,258,772	1,544,248
Capital assets	487,579	326,313	210,112
Investments	425,652	614,309	753,868
Goodwill	109,932	29,026	29,026
Deferred income tax asset	8,339	-	-
Intangible assets	138,182	85,929	83,740
Total assets	$3,088,949	$2,314,349	$2,620,994
Accounts Payable	$130,270	$94,954	$68,464
Accrued Litigation and related expenses	-	-	$455,610
Deferred revenue	$28,447	$20,968	$16,235
Income taxes payable	$99,958	$17,584	$3,149
Current portion of long-term debt	$271	$262	$223
Accrued Liabilities	287,629	150,457	87,133
Total current liabilities	546,575	284,225	637,318
Long-term debt	6,342	6,851	6,504
Deferred income tax liability	52,532	27,858	-
Total liabilities	605,449	318,934	637,318
Capital stock	2,099,696	2,068,869	1,892,266
Retained earnings (deficit)	359,227	(100,174)	94,181
Other comprehensive income	(11,516)	(1,974)	(2,771)
Paid in capital	36,093	28,694	-
Total shareholders' equity	2,483,500	1,995,415	1,983,676
Total liabilities and shareholders equity	3,088,949	2,314,349	$2,620,994

RIMM Balance Sheets			
Vertical Common Size	**2006**	**2005**	**2004**
Cash	21.9%	19.9%	23.3%
Short-term Investments	10.0%	7.6%	12.0%
Accounts receivable	19.8%	27.6%	9.2%
Inventory	8.3%	5.8%	3.5%
Other current assets	1.3%	2.0%	0.9%
Total current assets	62.1%	54.4%	58.9%
Capital assets	15.8%	14.1%	8.0%
Investments	13.8%	26.5%	28.8%
Other assets	1.3%	2.0%	0.9%
Total assets	100.0%	100.0%	100.0%
Accounts Payable	4.2%	4.1%	2.6%

Accrued Liabilities	9.3%	6.5%	3.3%
Total current liabilities	17.7%	12.3%	24.3%
Long-term debt	0.2%	0.3%	0.2%
Other liabilities			
Total liabilities	19.6%	13.8%	24.3%
Capital stock	68.0%	89.4%	72.2%
Retained earnings	11.6%	-4.3%	3.6%
Other comprehensive income	-0.4%	-0.1%	-0.1%
Paid in capital	1.2%	1.2%	-
Total shareholders' equity	80.4%	86.2%	75.7%
Total liabilities and shareholders equity	100.0%	100.0%	100.0%

RIMM Financial Statements	**2007**	**2006**	**2005**
Financial Ratios			
AR Turn	6.33	7.03	7.76
Days AR	57.68	51.95	47.06
AP Turn	12.25	11.33	12.23
Days AP	29.80	32.22	29.84
Inv. Turn	7.07	8.15	9.40
Days Inv	51.66	44.76	38.81
Net Cash conversion cycle	139.14	64.48	56.04
ROE	0.25	0.19	0.10
Growth in Book Value	0.08	0.00	-

References

[i]Company Background references:
www.rim.net
Lazarias, Mike. "We Are Not a StartUp." 19 April 2004, http://www.businessweek.com/magazine/content/04_16/b3879097.htm.
[2] Gillies, Rob. "Research in Motion 4Q Profit Soars." The Associated Press, 2 April 2007, http://biz.yahoo.com/ap/080402/earns_research_in_motion.html.
[3] Financial data is drawn from Research in Motion's 40F annual report unless otherwise noted. Form 40F: http://sec.gov/Archives/edgar/data/1070235/000090956707000769/0000909567-07-000769-index.htm
[4] Dabrowsky, Wojtek. "Research in Motion jazzes up BlackBerry for broader appeal." Reuters, 28 January 2008, http://www.reuters.com/article/ousivMolt/idUSN2562745320080128.
[5] Google Finance, 1 April 2008
[6] Heiskanen, Ville and St.Onge, Jeff. "Research in Motion, Motorala Trade Suits Over Patents (Update 3)." Bloomberg, 18 February 2008, http://www.bloomberg.com/apps/news?pid =20601082&sid=ahtKuq_OnjbE&refer=canada.
[7] Reuters : http://stocks.us.reuters.com/stocks/charts.asp?symbol=RIMM.O
[8] Dabrowsky, Wojtek. "Research in Motion jazzes up BlackBerry for broader appeal." Reuters, 28 January 2008, http://www.reuters.com/article/ousivMolt/idUSN2562745320080128.
[9] Reuters
[10] Google Finance