

# Mea culpa not the end of this story

**Sean Silcoff, Financial Post**

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The first question to ask about Research In Motion Ltd.'s admission of widespread stock option granting and accounting errors is: Will this affect Black-Berry sales?

As if. Don't expect Oprah Winfrey, Al Gore and millions of other happy BlackBerry customers to suddenly put down their essential wireless communications devices just because it turns out a batch of company insiders got a bit richer when the company fiddled with stock option grant dates to maximize their spoils. The bad news is out --including a US\$250-million writedown -- and RIM has now taken all sorts of steps to improve its governance and compensation practices. An independent RIM board committee claims it found no evidence of intentional misconduct.

If RIM was hoping for a collective "we forgive you" from the market, it got it, judging by the cheery reaction of analysts and marginal dip in the stock price.

But it is important to remember two things: The committee's investigation is ongoing. And it will ultimately be up to regulators and litigious shareholders -- not the board -- to decide whether RIM's bit of housecleaning is enough. The Ironworkers Ontario Pension Fund has already said it will press on with its lawsuit. And judging by the fact several U.S. firms and executives face fines and charges in somewhat similar circumstances, RIM investors shouldn't necessarily conclude yesterday's disclosure is the end of the story.

"Ultimately it is going to make a lot of work for lawyers," said **Anthony Scilipoti of Veritas Investment Research**.

To be sure, RIM's display of forthrightness and contrition is a nice change considering it admitted to years of enriching insiders at the expense of investors. Better five years late than never to catch the corporate governance wave. It admitted to widespread underpricing and misdating of stock option grants, poor safeguards and controls and lack of understanding of basic accounting and disclosure rules for compensation.

But RIM implied it was like other high-tech firms that mushroomed into a giant in the last decade, proving its innovative prowess and doing what was necessary to attract and retain staff. And investors benefitted handsomely, as the stock rose by more than 10,000%. Any deficiencies in the mundane work of housekeeping and compensation should now be forgiven.

If insiders got a bit wealthier than they should have, they will be asked to return any ill-gotten gains. For good measure, co-chief executive and -- until yesterday, chairman -- Jim Balsillie and co-CEO Mike Lazaridis are voluntarily paying RIM \$5- million each on top of that.

Some senior managers will shift jobs, an internal audit department will be created, and the board will get new directors and an oversight committee, which adds an onerous shoulder-check to management. The special committee is happy with its review, the improved governance and controls, and has "utmost confidence" in management.

But there are still questions. For example, which insiders -- particularly the unnamed directors cited in the release -- received improperly priced options? And will regulators and courts agree with some interesting conclusions by the committee, including a finding that some option grants dated just before share price spikes were done with no prior knowledge of the facts that moved the stock?

"I still do believe the shareholders will have some legitimate questions," said Richard Powers, assistant dean and executive director of MBA programs at the University of Toronto's Joseph L. Rotman School of Business.

If there's one thing to keep in mind about RIM, it is this: Despite the board's best intentions, RIM has a track record for underestimating bad news.

After initially dismissing a patent infringement claim by NTP Inc., foregoing the chance to settle early, and then appealing a Virginia court jury award of US\$53.7-million, RIM ended up paying US\$613-million last year.

And don't forget RIM initially said the charge from the options investigation would be US\$25-million to US\$45-million, not the US\$250-million revealed yesterday.

Perhaps nothing worse will come of this for RIM. But hold those sighs of relief. Now it is time for the true outsiders to decide if they agree with the independent directors.

ssilcoff@nationalpost.com

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