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BlackBerry Crisis Dredges Up Painful Memories of Nortel Failure

By Crayton Harrison and Gerrit De Vynck on August 13, 2013

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BlackBerry Ltd. ([BBRY:US](#))'s search for a buyer is stirring up old memories of another former Canadian technology giant that fell from glory.

Nortel Networks Corp., the telecommunications-equipment maker founded in 1895, once represented more than one-third of the country's benchmark stock index, with a market value of C\$366 billion (\$354 billion). It filed for bankruptcy ([NT:US](#)) in 2009, leading to thousands of job losses, a \$7.8 billion asset sale and a severe blow to Canada's ambitions as technology leader.

Now BlackBerry, the smartphone pioneer that has ceded almost all of the market to Apple Inc. and Google Inc., is the Canadian icon seeking to avoid extinction. The company said this week it formed a special board committee to consider joint ventures, partnerships or a sale of the company, weighing all options after its new BlackBerry 10 products flopped.

"Nortel was a leader, BlackBerry was a leader. Look what happened to both of them -- they lost that edge," said Ian Nakamoto, research director at MacDougall, MacDougall & MacTier Inc. "How could it not crimp the national pride?"

Nortel had annual revenue of \$28 billion at its peak in 2000, with 93,000 employees in more than 150 countries. Its bankruptcy filing spooked customers such as Verizon Communications Inc., whose concerns about the Canadian company's balance sheet overruled their interest in its products, then-Chief Strategy Officer George Riedel said in 2009. Nortel had to sell off its assets as a result, he said.

Self-Inflicted Wounds

Unlike Nortel, BlackBerry isn't loaded with debt. And many of Nortel's wounds were self-inflicted rather than coming from shifts in market demand. Nortel restated earnings going back to 1999 after probes by regulators in 2004 indicated executives incorrectly booked revenue, inflating sales figures by \$3.4 billion. The company paid a \$35 million fine in 2007 to settle U.S. Securities and Exchange Commission claims that it defrauded investors by manipulating earnings from 2000 to 2003. The company didn't admit or deny wrongdoing.

Meanwhile, phone companies were putting off network investments to weather the recession in 2009, magnifying ([NT:US](#)) the impact of Nortel's internal missteps.

Despite the stumbles that led to its demise, many Canadians took Nortel's bankruptcy like a punch in the gut. The company sold off units one by one from 2009 to 2011, culminating in a \$4.5 billion sale of patents to a group including Apple and Microsoft Corp. -- as well as BlackBerry itself, then known as Research In Motion Ltd.

No Intervention

Canadian regulators, charged with weighing the benefit of such transactions to the nation, chose repeatedly not to block Nortel's asset sales. The company had sought and was denied aid from the Canadian government that may have helped avert a bankruptcy, former Nortel Chief Executive Officer Mike Zafirovski told lawmakers in 2009. Tony Clement, then Canada's industry minister, said Nortel's business plan wasn't "commercially viable" enough to grant aid.

Now BlackBerry's decision to consider a takeover is fueling speculation that Canadian investors could band together to acquire the company, potentially offering a more palatable solution to regulators than a foreign buyer.

In the end, as with Nortel, the government may not play much of a role, Nakamoto said.

"BlackBerry doesn't have a balance sheet problem -- they have a lack of customers," he said. "What can Ottawa do? Get people to buy more BlackBerrys? There's nothing they can do."

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