4 Reasons Why BlackBerry Shareholders Should Be Angry

Description

BlackBerry (TSX: BB, NASDAQ: BBRY) shareholders should be angry. Not because the once-beloved Canadian icon is on the verge of collapse. That's just business. Rather, it's the golden handshakes, lavish spending, and fading transparency that has surrounded the company these past few months. Here are four reasons why shareholders have gotten a raw deal.

1. Corporate executives spent lavishly at your expense
According to a report in *The Wall Street Journal*, BlackBerry added a large private jet to its corporate fleet only two months before the company announced that it would cut 4,500 jobs and post a $1 billion loss.

Based on filings in Canadian aircraft registry records, the company purchased a 2006 **Bombardier** Global Express in July. In the company's marketing material, Bombardier describes the aircraft like so: "Cruising majestically through the sky, Bombardier's Global aircraft is the performance benchmark in the ultra-long-range jet category. This jet was purpose built to fulfill the desires of the most sophisticated and demanding business travelers without compromise."

Although the price paid for the jet wasn't disclosed, *The Wall Street Journal* reports that similar planes are listed for sale between $25 million to $29 million on a used aircraft marketing website.

2. Management hasn't been transparent
As BlackBerry's fortunes declined, management's transparency has taken a noticeable turn for the worse.

In June, BlackBerry stopped disclosing subscriber figures through its earnings press release. The company claims that BB10 devices generate less service revenue and therefore subscriber figures were less reflective of business performance. But perhaps it had more to do with the fact that the company had lost 8 million subscribers in the past year.

Then last week, BlackBerry opted to skip its call with analysts and investors in light of the letter of intent agreement between BlackBerry and **Fairfax Financial Holdings** (TSX: FFH).

BlackBerry has promised to publish further details regarding its second-quarter results in the Management's Discussion and Analysis and consolidated financial statements this week. However, investors won't be given any opportunity to voice their concerns to executives.

3. Thorsten Heins' $55 million golden parachute
According to a report from Reuters, only months before Fairfax's bid for BlackBerry, Fairfax Chief Executive Prem Watsa played a role in securing a golden parachute worth as much as $55 million for BlackBerry boss Thorsten Heins.

Based on company filings, if Heins is terminated due to a change in ownership of BlackBerry he will receive $3 million to in base salary, $4.5 million in performance bonuses, and $48 million in equity grants. Watsa's role in deciding Hein's compensation is raising eyebrows amongst pay experts.

4. The breakup fee will deter higher bidders
And based on a great report from Bloomberg News, BlackBerry agreed to pay Fairfax Financial a rare breakup fee for a tentative takeover offer. Should BlackBerry back out of the tentative agreement or find a higher bidder, the company will owe Fairfax a fee of about US$157 million.

It's highly unusual that a seller grants a breakup fee to a buyer with no committed financing. According to the Bloomberg report, this termination fee is about 5.6% of the deal value, above the average breakup fee of 3.5% for U.S. companies in 2012. Most alarming for shareholders, the breakup fee could deter any rival suitors from bidding for the company.

Foolish bottom line
There have always been governance concerns at BlackBerry, dating back to when the company was run by co-CEOs Jim Balsillie and Mike Lazaridis. But what has unfolded these past few weeks has been particularly outlandish. It's a raw deal for shareholders.

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Disclosure: Robert Baillieul has no positions in of the stocks mentioned in this article.

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2. TSX:BB (BlackBerry)
3. TSX:FFH (Fairfax Financial Holdings Limited)

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