U.S. rules trip up RIM again

Tapping world's largest market has brought problems for BlackBerry maker

Duncan Mavin, Financial Post
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A year after a Virginia judge ordered Research In Motion Ltd. to settle a multi-million dollar legal dispute in the United States, the Canadian tech darling revealed yesterday that it has fallen foul of the complexities of doing business in the United States again.

Waterloo, Ont.-based RIM said a US$250-million error in the way the company has accounted for stock options was largely the result of its failure to grasp U.S. accounting rules.

The manufacturer of the BlackBerry is preparing revised financial statements for the past three years as well as the first quarter of 2007.

RIM co-chief executive Jim Balsillie said the company's U.S. accounting systems are at the root of the issue.

The company said it will enhance its U.S. accounting capabilities as a result of the review into its stock-options practices.

"The whole thing was the rules are different in the U.S. and we didn't change our process when we went to starting to report in the U.S.," Mr. Balsillie said.

RIM rakes in most of its revenue from the United States and has its biggest subscriber base there. But tapping into the world's richest market has also brought problems.

Last year, it was the U.S. legal system that dealt a blow to RIM's fortunes. The company lost its prolonged legal battle in the U.S. patent courts in March 2006 and was forced to pay Virginia-based NTP Inc. US$612.5-million. RIM turned down the chance to settle the dispute for a fraction of that sum several years earlier.

The company said 95% of its latest accounting snafu stems from its failure to properly apply U.S. accounting rules.

RIM said certain options that were not considered a cost in its income statement for Canadian accounting purposes should have been included as a cost in the accounts filed with U.S. regulators.

The company also said the remaining 5% of the total estimated error was as a result of selecting the wrong date to determine the exercise price of options. This is the practice that has lead to a widespread inquiry into "stock option backdating" in the U.S.

RIM said there is some overlap between the two types of errors though did not indicate a dollar value.

Some observers were unimpressed by the excuses offered by RIM's management.

Neil Brisley, a finance professor at the Richard Ivey School of Business, said RIM is "writing off" the problem by saying it is related only to difficulties in understanding U.S. accounting rules.

"What they are not saying is how much backdating was also involved in the 95% [that relates to U.S. and Canadian accounting differences]," Mr. Brisley said.

The differences between U.S. and Canadian accounting are "not drastic," and Canadian companies should be able to cope, said Ramy Elitzur, an associate professor of accounting at the University of Toronto's Joseph L. Rotman School of Business.

"It shouldn't happen. RIM is a huge company," Mr. Elitzur said.

A number of fast-growing tech companies such as RIM have found themselves without adequate accounting controls, said Sam La Bell, an analyst at Veritas Investment Research Corp. But RIM's senior management allowed that situation to develop because they delegated stock option accounting to lower level staff without appropriate oversight, Mr. La Bell said.

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