BlackBerry abandons bid to sell itself, CEO out (Update 2)

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In this May 14, 2013 file photo, Thorsten Heins, president and CEO at BlackBerry, speaks at a conference in Orlando, Fla. BlackBerry abandoned its sale process on Monday, Nov. 4, 2013, and announced it will replace Heins. Fairfax, BlackBerry's largest shareholder with a 10 percent stake, said it won't buy the struggling smartphone company and take it private but said it and other investors will inject $1 billion as part of a revised investment proposal. (AP Photo/John Raoux, File)

BlackBerry has abandoned its bid to sell itself and is replacing its chief executive.

Fairfax Financial, BlackBerry's largest shareholder with a 10 percent stake, said Monday it won't buy the struggling smartphone company and take it private. Instead, Fairfax and other investors will inject $1 billion as part of a revised investment proposal.

BlackBerry said CEO Thorsten Heins is stepping down. Heins took over in early 2012 after the company lost billions in market value, but he failed to turn the company around this year with the launch of BlackBerry's new devices.

Former Sybase Chief Executive John Chen was appointed chairman of BlackBerry's board of directors and will serve as interim CEO. Fairfax head Prem Watsa has also been named a board member.

BlackBerry announced in September that Fairfax Financial Holdings Ltd. signed a letter of intent that contemplated buying BlackBerry for $9 a share, or $4.7 billion, and taking it private. Fairfax said then it wouldn't increase its 10 percent stake and the company went about trying to attract other investors.

Watsa said Fairfax did due diligence and worked with a consulting company that recommended that taking BlackBerry private with borrowed money was not the way to go.

"To load this company with too much debt was not appropriate," Watsa told The Associated Press. "We didn't want it leveraged. We didn't even bother to go there. Once we decided that a leveraged buy-out with high debt was not appropriate we didn't push it any further. We backed off completely."

Watsa said BlackBerry needs financial flexibility. "We probably could do it, but we decided not to add high yield debt to the company's capital structure," he said.

He said five or six investors had been interested in a buyout.

The founders of BlackBerry, Mike Lazaridis and Doug Fregin, partnered with New York investment firm Cerberus Capital Management LP and cellphone chip maker Qualcomm Inc. on a rival bid for BlackBerry, two people familiar with the bid said. The people, who were not authorized to talk publicly about it, said the bidders wanted more time and more information to put a proposal together but were told the company was being taken off the market.

Shares of BlackBerry plunged 16.4 percent to $6.50 on the Nasdaq Monday.

Chen said he'll be looking for a CEO with a strong software and services background. He noted that BlackBerry Messenger, the popular messaging application, has been downloaded by over 20 million users since it became available on Google's Android and Apple's iOS platforms.

"I'd like to find somebody to help me monetize that," Chen told the AP.

Chen said a solid team is in place, but its members need to focus. "Maybe I can help that. More of a transitional thinking of we're really not in phones but we're in phones for software, for services," Chen said.

Chen's emphasis on software could mean the company might ultimately get out of selling smartphones.

Chen also said he wants to focus on business users.

Watsa praised Chen's work turning around Sybase, an enterprise software data management company. Chen was chairman and CEO from 1998 until the company was acquired in 2010 by SAP AG.

"He joined in 1998 and the company was going through similar problems, the stock price was down 90 percent, four years of losses, John joined them and had one of the best track records that I have seen," Watsa said.

Watsa said he remains a fan of Heins. "I think Thorsten did a terrific job given the hand he had been dealt," he said.

BGC analyst Colin Gillis said the failure to complete a successful sale was not an unexpected outcome for the market because the stock was trading well below the possible $9 bid price.

"They never had any money beyond the Fairfax money," Gillis said. "It's an under $5 billion market cap company with $2 billion in cash, you put up $1 billion and you couldn't get the rest?"

The BlackBerry, pioneered in 1999, had been the dominant smartphone for on-the-go business people and other consumers before Apple introduced the iPhone in 2007 and showed that phones can handle much more than email and phone calls. In the years since, BlackBerry Ltd. been hammered by competition from the iPhone as well as Android-based rivals.

This year's much-delayed launch of the BlackBerry 10 system and the fancier devices that use it was supposed to rejuvenate the brand and lure customers. It did not work. Waterloo, Ontario-based BlackBerry recently announced 4,500 layoffs, or 40 percent of its global workforce, and reported a quarterly loss of nearly $1 billion.

Although BlackBerry was once Canada's most valuable company with a market value of $83 billion in June 2008, the stock has plummeted to less than $7 from over $140 a share. That gives it a market value of about $3.5 billion.