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Despite Challenges, Jawbone's Rahman Still Upbeat

By Reed Albergotti

Oct. 20, 2016 12:48 PM PDT ·

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It's been a tough 18 months for Jawbone. A new president hired from Google last year, Sameer Samat, returned to Google after just six months. It laid off 15% of its workforce. The company told one of its business partners it couldn't make an August payment deadline. Jawbone breached covenants on its \$300 million loan from BlackRock, Jawbone confirmed, prompting the investor to push Jawbone to put itself on the market. That sale process didn't lead to any bids.

Yet after all that, CEO Hosain Rahman is upbeat about Jawbone's prospects. In an interview with The Information on Wednesday, he declared that "a lot of things" have changed at the wearable maker as he works to pivot the business towards medical devices.

THE TAKEAWAY

Despite financial challenges, Jawbone co-founder and helmsman Hosain Rahman isn't giving up, vowing to vanquish his naysayers as he moves the company into a new industry.

"We think we have some of the strongest and most definitive stuff in the market. People are really, really excited about what we're doing and what we're building but it is a shift from where we've been before," he said. A former employee at Jawbone said the company has considered developing a blood glucose monitor similar to those used by diabetics.

Earlier this month the company told employees in an internal email that it was "considering a number of options" that include "a reincarnation of the business," possibly through a restructuring. It also said the company had arranged "term sheets" from "some of the largest financial institutions in the world," including one for another \$150 million in funding.

Mr. Rahman would not identify the financiers. But he said they had been given "access to a lot of information that you don't have."

The latest money-raising is on top of nearly half a billion dollars Jawbone has raised over the past year and a half, including both the BlackRock loan and a \$165 million round reportedly led by Kuwait's sovereign wealth fund in January. Mr. Rahman disputed the amount raised in the Kuwaiti-led round but did not elaborate. Mr. Rahman said Jawbone had invested in product development. "We're excited about where we put [the money] and what it has yielded," he said.

If Mr. Rahman's upbeat outlook sounds familiar, that's because he has found himself in this position before. In September of last year, Mr. Rahman told The Information that he had "the definitive portfolio" in sensors and wearable technology. "If you think about Fitbit as sort of the Nokia to Blackberry transition in phones, we think we have the technology base that's equivalent to iOS and Android." At the time Mr. Rahman said the company was also sitting on wireless speaker technology that is "the next step of where that whole category goes."

Things did not go as planned. While Fitbit has released a new line of fitness trackers and software, Jawbone's website says the products it released last year are out of stock. The company has sold merchandise to a third party reseller. On Amazon, its fitness bands are steeply discounted. Its Up3 tracker for instance, is being sold for around \$55, compared to the \$179 it sold when it came out a little over a year ago. It does not have a single product planned for the holidays this year.

Mr. Rahman said discounting of products was common, reflecting the "nature of online products and commerce." He added that Jawbone had products in development that were close to launch.

Lawsuit Loss

Meanwhile, Jawbone lost a patent infringement and trade-secret violation lawsuit against Fitbit at the U.S. International Trade Commission in two separate rulings, though Jawbone says it is appealing. Mr. Rahman referred to the trade secrets ruling as "narrow" and added that Jawbone's patent portfolio remained strong. (A spokesman noted Jawbone still has a case against Fitbit pending in state court in California.)

A BlackRock fund holding \$216 million of the debt wrote it down by 77%, while other Blackrock funds holding about \$49 million of the debt wrote it down by 61%.

Mr. Rahman stood by the decision to sue. “We have a fiduciary obligation to protect our assets,” Mr. Rahman said.

BlackRock was one of the investors that believed Mr. Rahman could right the ship, leave its troubles behind and forge ahead as a leader in consumer electronics. It loaned the \$300 million to Jawbone with plenty of protections, including at that time the right to be paid back before any other investor.

But relations between the firms have become tense. In the email to staff, Mr. Rahman noted “I believe everyone knows one of our larger constituents has been pushing for us to sell Jawbone,” he said. “They continue to fight against the company and the rest of our shareholders. We do not understand their motivation,” he wrote. He didn’t name the firm but a Jawbone spokesman confirmed he was referring to BlackRock.

In Wednesday’s interview, however, Mr. Rahman said: “We’re working with BlackRock. It’s not accurate to say we have a disagreement.”

At BlackRock’s request, Jawbone retained boutique investment bank PJT Partners and Code Advisers to look for buyers. A person familiar with the situation said Jawbone conducted the formal search in August. A spokesman for Jawbone and Mr. Rahman wrote in an email that there were no offers at the end of the process.

Through a spokesman, Mr. Rahman said “there had been some discussion” about selling some of Jawbone’s technology separately. “But those were very specific and limited discussions and never amounted to an offer—none of our constituents were interested in this,” the spokesman wrote.

A BlackRock fund holding \$216 million of the debt wrote it down by 77%, while other BlackRock funds holding about \$49 million of the debt wrote it down by 61%, according to securities filings. The writedowns seem to indicate the BlackRock funds don’t expect to recover most of the money. “I don’t know how they value things or don’t value things,” Mr. Rahman said.

Mr. Rahman said he would eventually explain to the public what happened inside Jawbone over the past year, but not at this time. “We’re going to do it on our terms,” he said.

—Alfred Lee contributed to this article

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