UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-38232

BlackBerry Limited

(Exact name of registrant as specified in its charter)

Canada	**98-0164408**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2200 University Ave East	
Waterloo Ontario Canada	**N2K 0A7**
(Address of Principal Executive Offices)	(Zip Code)

(519) 888-7465

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares	BB	New York Stock Exchange
Common Shares	BB	Toronto Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

The registrant had 562,634,092 common shares issued and outstanding as of December 15, 2020.

BLACKBERRY LIMITED

TABLE OF CONTENTS

		Page No.
PART I	**FINANCIAL INFORMATION**	
Item 1	Financial Statements	
	Consolidated Balance Sheets as of November 30, 2020 (unaudited) and February 29, 2020	5
	Consolidated Statements of Shareholders’ Equity - Three and Nine Months Ended November 30, 2020 and 2019 (unaudited)	6
	Consolidated Statements of Operations - Three and Nine Months Ended November 30, 2020 and 2019 (unaudited)	8
	Consolidated Statements of Comprehensive Income (Loss) - Three and Nine Months Ended November 30, 2020 and 2019 (unaudited)	9
	Consolidated Statements of Cash Flows - Nine Months Ended November 30, 2020 and 2019 (unaudited)	10
	Notes to the Consolidated Financial Statements	11
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3	Quantitative and Qualitative Disclosures about Market Risk	61
Item 4	Controls and Procedures	62
PART II	**OTHER INFORMATION**	
Item 1	Legal Proceedings	62
Item 6	Exhibits	63
Signatures		64

Unless the context otherwise requires, all references to the "Company" and "BlackBerry" include BlackBerry Limited and its subsidiaries.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BlackBerry Limited

Incorporated under the Laws of Ontario

(United States dollars, in millions) (unaudited)

Consolidated Balance Sheets

	As at	
	November 30, 2020	February 29, 2020
Assets		
Current		
Cash and cash equivalents (note 3)	$ 223	$ 377
Short-term investments (note 3)	451	532
Accounts receivable, net of allowance of $13 and $9, respectively (note 1 and note 4)	212	215
Other receivables	21	14
Income taxes receivable	10	6
Other current assets (note 4)	54	52
	971	1,196
Restricted cash and cash equivalents (note 3)	50	49
Long-term investments (note 3)	33	32
Other long-term assets (note 4)	19	65
Operating lease right-of-use assets, net	91	124
Property, plant and equipment, net (note 4)	54	70
Goodwill (note 4)	849	1,437
Intangible assets, net (note 4)	803	915
	$ 2,870	$ 3,888
Liabilities		
Current		
Accounts payable	$ 29	$ 31
Accrued liabilities (note 4)	173	202
Income taxes payable (note 5)	8	18
Debentures (note 6)	—	606
Deferred revenue, current (note 11)	217	264
	427	1,121
Deferred revenue, non-current (note 11)	75	109
Operating lease liabilities	99	120
Other long-term liabilities (note 4)	7	9
Long-term debentures (note 6)	459	—
	1,067	1,359
Commitments and contingencies (note 10)		
Shareholders' equity		
Capital stock and additional paid-in capital		
Preferred shares: authorized unlimited number of non-voting, cumulative, redeemable and retractable	—	—
Common shares: authorized unlimited number of non-voting, redeemable, retractable Class A common shares and unlimited number of voting common shares		
Issued - 562,015,875 voting common shares (February 29, 2020 - 554,199,016)	2,803	2,760
Deficit	(991)	(198)
Accumulated other comprehensive loss (note 9)	(9)	(33)
	1,803	2,529
	$ 2,870	$ 3,888

See notes to consolidated financial statements.

On behalf of the Board:

John S. Chen
Director

Barbara Stymiest
Director

BlackBerry Limited
(United States dollars, in millions) (unaudited)

Consolidated Statements of Shareholders' Equity

	Three Months Ended November 30, 2020			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at August 31, 2020	$ 2,788	$ (861)	$ (13)	$ 1,914
Net loss	—	(130)	—	(130)
Other comprehensive income	—	—	4	4
Stock-based compensation	11	—	—	11
Shares issued:				
Exercise of stock options	1	—	—	1
Employee share purchase plan	3	—	—	3
Balance as at November 30, 2020	$ 2,803	$ (991)	$ (9)	$ 1,803

	Three Months Ended November 30, 2019			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at August 31, 2019	$ 2,722	$ (125)	$ (35)	$ 2,562
Net loss	—	(32)	—	(32)
Other comprehensive loss	—	—	(2)	(2)
Stock-based compensation	15	—	—	15
Shares issued:				
Exercise of stock options	1	—	—	1
Employee share purchase plan	4	—	—	4
Balance as at November 30, 2019	$ 2,742	$ (157)	$ (37)	$ 2,548

See notes to consolidated financial statements.

BlackBerry Limited
(United States dollars, in millions) (unaudited)

Consolidated Statements of Shareholders' Equity

	Nine Months Ended November 30, 2020			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 29, 2020	$ 2,760	$ (198)	$ (33)	$ 2,529
Net loss	—	(789)	—	(789)
Other comprehensive income	—	—	24	24
Cumulative impact of adoption of ASC 326	—	(4)	—	(4)
Stock-based compensation (note 7)	33	—	—	33
Shares issued:				
Exercise of stock options (note 7)	3	—	—	3
Employee share purchase plan (note 7)	7	—	—	7
Balance as at November 30, 2020	$ 2,803	$ (991)	$ (9)	$ 1,803

	Nine Months Ended November 30, 2019			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 28, 2019	$ 2,688	$ (32)	$ (20)	$ 2,636
Net loss	—	(111)	—	(111)
Other comprehensive loss	—	—	(17)	(17)
Cumulative impact of adoption of ASC 842	—	(14)	—	(14)
Stock-based compensation	46	—	—	46
Shares issued:				
Exercise of stock options	2	—	—	2
Employee share purchase plan	6	—	—	6
Balance as at November 30, 2019	$ 2,742	$ (157)	$ (37)	$ 2,548

See notes to consolidated financial statements.

BlackBerry Limited

(United States dollars, in millions, except per share data) (unaudited)

Consolidated Statements of Operations

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
Revenue (note 11)	$ 218	$ 267	$ 683	$ 758
Cost of sales	69	69	192	207
Gross margin	149	198	491	551
Operating expenses				
Research and development	53	66	167	199
Selling, marketing and administration	83	129	252	380
Amortization	45	49	137	146
Impairment of goodwill (note 3)	—	—	594	—
Impairment of long-lived assets (note 3)	—	3	21	5
Debentures fair value adjustment (note 6)	95	(20)	114	(71)
	276	227	1,285	659
Operating loss	(127)	(29)	(794)	(108)
Investment income (loss), net	(1)	(1)	(6)	2
Loss before income taxes	(128)	(30)	(800)	(106)
Provision for (recovery of) income taxes (note 5)	2	2	(11)	5
Net loss	$ (130)	$ (32)	$ (789)	$ (111)
Loss per share (note 8)				
Basic	$ (0.23)	$ (0.06)	$ (1.41)	$ (0.20)
Diluted	$ (0.23)	$ (0.07)	$ (1.41)	$ (0.27)

See notes to consolidated financial statements.

BlackBerry Limited

(United States dollars, in millions) (unaudited)

Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
Net loss	$ (130)	$ (32)	$ (789)	$ (111)
Other comprehensive income (loss)				
Net change in fair value and amounts reclassified to net loss from derivatives designated as cash flow hedges during the period, net of income taxes of nil for the three and nine months ended November 30, 2020 and November 30, 2019	—	—	3	—
Foreign currency translation adjustment, net of income taxes of $1 million and nil, respectively, for the three and nine months ended November 30, 2020 (net of income taxes of nil for the three and nine months ended November 30, 2019)	1	—	5	(2)
Net change in fair value from instrument-specific credit risk on the Debentures, net of income taxes of $2 million and nil, respectively, for the three and nine months ended November 30, 2020 (net of income taxes of nil for the three and nine months ended November 30, 2019) (note 6)	3	(2)	16	(15)
Other comprehensive income (loss)	4	(2)	24	(17)
Comprehensive loss	$ (126)	$ (34)	$ (765)	$ (128)

See notes to consolidated financial statements.

BlackBerry Limited

(United States dollars, in millions) (unaudited)

Consolidated Statements of Cash Flows

	Nine Months Ended	
	November 30, 2020	November 30, 2019
Cash flows from operating activities		
Net loss	$ (789)	$ (111)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization	149	160
Stock-based compensation	33	46
Impairment of goodwill	594	—
Impairment of long-lived assets	21	5
Non-cash consideration received from contracts with customers	—	(8)
Debentures fair value adjustment (note 6)	114	(71)
Operating leases	(4)	(12)
Other	(4)	11
Net changes in working capital items		
Accounts receivable, net	(1)	17
Other receivables	(7)	6
Income taxes receivable	(4)	(1)
Other assets	51	3
Accounts payable	(2)	(21)
Accrued liabilities	(27)	(24)
Income taxes payable	(13)	2
Deferred revenue	(81)	(10)
Net cash provided by (used in) operating activities	30	(8)
Cash flows from investing activities		
Acquisition of long-term investments	(1)	(1)
Acquisition of property, plant and equipment	(5)	(9)
Acquisition of intangible assets	(23)	(24)
Business acquisitions, net of cash acquired	—	1
Acquisition of short-term investments	(770)	(829)
Proceeds on sale or maturity of short-term investments	851	830
Net cash provided by (used in) investing activities	52	(32)
Cash flows from financing activities		
Issuance of common shares	10	8
Payment of finance lease liability	(1)	(2)
Repurchase of 3.75% Debentures	(610)	—
Issuance of 1.75% Debentures	365	—
Net cash provided by (used in) financing activities	(236)	6
Effect of foreign exchange gain (loss) on cash, cash equivalents, restricted cash, and restricted cash equivalents	1	(1)
Net decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period	(153)	(35)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	426	582
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	$ 273	$ 547

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Basis of Presentation and Preparation

These interim consolidated financial statements have been prepared by management in accordance with United States generally accepted accounting principles ("U.S. GAAP"). They do not include all of the disclosures required by U.S. GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements of BlackBerry Limited (the "Company") for the year ended February 29, 2020 (the "Annual Financial Statements"), which have been prepared in accordance with U.S. GAAP. In the opinion of management, all normal recurring adjustments considered necessary for fair presentation have been included in these interim consolidated financial statements. Operating results for the three and nine months ended November 30, 2020 are not necessarily indicative of the results that may be expected for the full year ending February 28, 2021. The consolidated balance sheet at February 29, 2020 was derived from the audited Annual Financial Statements but does not contain all of the footnote disclosures from the Annual Financial Statements.

Certain of the comparative figures have been reclassified to conform to the current period's presentation.

The Company operates as a single reportable segment. For additional information concerning the Company's segment reporting, see Note 11.

Risks and Uncertainties

In March 2020, the World Health Organization characterized the novel coronavirus ("COVID-19") as a global pandemic and extraordinary actions have been taken by international, federal, state, provincial and local governmental authorities to contain and combat the spread of COVID-19 in regions throughout the world. The COVID-19 outbreak and related public health measures, including orders to shelter-in-place, travel restrictions and mandated business closures, have adversely affected workforces, organizations, consumers and economies leading to an economic downturn and increased market volatility. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration of the outbreak, impact on the Company's customers and its sales cycles, and impact on the Company's employees.

The economic downturn and uncertainty caused by the COVID-19 outbreak and the measures undertaken to contain its spread have negatively affected the Company's QNX automotive software business and have caused volatility in demand for the Company's products and services, adversely affected the ability of the Company's sales and professional services teams to meet with customers and provide service, impacted spending from new customers and increased sales cycle times. The Company continues to evaluate the current and potential impact of the COVID-19 outbreak on its business, results of operations and consolidated financial statements, including the impairment of goodwill and indefinite-lived intangible assets and the collectability of receivables.

During the first quarter of fiscal 2021, this uncertainty resulted in the Company making significant judgements related to its estimates and assumptions concerning impairment of goodwill and indefinite-lived intangible assets and the collectability of receivables.

During the second quarter of fiscal 2021, this uncertainty resulted in the Company making significant judgements related to its estimates and assumptions concerning impairment of certain operating lease right-of-use ("ROU") assets and associated property, plant and equipment.

During the third quarter of fiscal 2021, this uncertainty did not result in additional significant judgements.

As of the date of issuance of the financial statements, the Company is not aware of any additional events or circumstances which would require it to update its estimates, judgements, or revise the carrying value of its assets or liabilities, other than the COVID-19 pandemic as discussed above and below in Note 3. These estimates may change, as new events occur and additional information is obtained, and such changes will be recognized in the consolidated financial statements as soon as they become known. Actual results could differ from these estimates and any such differences may be material to the Company's financial statements.

The Company remains focused on continuity plans and preparedness measures in the event that certain jurisdictions or sectors of the economy remain closed for an extended period or are shut down again. Although the Company experienced sequential Software & Services revenue growth and observed a partial recovery in global automotive production volumes in the second and third quarters of fiscal 2021, the COVID-19 pandemic has had and the Company believes may continue to have a material adverse impact on the Company's consolidated business, results of operations and financial condition in fiscal 2021. Further, the effects of the pandemic may not be fully reflected in the Company's business until future periods.

The Company does not expect the COVID-19 pandemic and its related economic impact to materially adversely affect its liquidity position.

Significant Accounting Policies and Critical Accounting Estimates

There have been no material changes to the Company's accounting policies or critical accounting estimates from those described in the Annual Financial Statements, except in Note 6 relating to the issuance of the 1.75% Debentures (as defined in Note 6) and as described below, which were adopted during fiscal 2021.

Accounting Standards Adopted During Fiscal 2021

ASC 350, Goodwill and Other

In January 2017, the Financial Accounting Standards Board ("FASB") released ASU 2017-04 on the topic of Intangibles — Goodwill and Other (ASC 350). ASU 2017-04 simplifies the subsequent measurement of goodwill, eliminating Step 2 from the goodwill impairment test. Previously, under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments of ASU 2017-04, an entity performs its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The Company will recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit's fair value. The amendments in this update were effective for an entity's annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company adopted this standard on March 1, 2020.

ASC 326, Credit Losses

In June 2016, the FASB released ASU 2016-13 on the topic of Financial Instruments — Credit Losses (ASC 326). ASU 2016-13 replaces the previous incurred loss impairment methodology in U.S. GAAP with a methodology that reflects expected credit losses, requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates, and requires entities to estimate an expected lifetime credit loss on its financial assets.

The guidance also amends the impairment model for available-for-sale debt securities, requiring entities to determine whether all or a portion of the unrealized loss on such securities is a credit loss, and also eliminating the option for management to consider the length of time a security has been in an unrealized loss position as a factor in concluding whether or not a credit loss exists. The amended model states that an entity recognizes an allowance for credit losses on available-for-sale debt securities, instead of a direct reduction of the amortized cost basis of the investment, as required under previous guidance. As a result, entities recognize improvements to estimated credit losses on available-for-sale debt securities immediately in earnings as opposed to in interest income over time.

The guidance was effective for interim and annual periods beginning after December 15, 2019. The Company adopted this guidance in the first quarter of fiscal 2021 using the modified retrospective method. As a result of the adoption of the new standard on credit losses, the Company recorded a cumulative adjustment to the consolidated balance sheet increasing the allowance for credit losses and increasing deficit by approximately $4 million as at March 1, 2020. As a result, the allowance for credit losses was $13 million in the consolidated balance sheet as at March 1, 2020.

The following policies have been updated to reflect the adoption of the new standard in accounting for credit losses on financial instruments and goodwill.

Goodwill

Goodwill represents the excess of the acquisition price in a business combination over the fair value of identifiable net assets acquired. Goodwill is allocated at the date of the business combination. Goodwill is not amortized but is tested for impairment annually on December 31 or more frequently if events or changes in circumstances indicate the asset may be impaired. These events and circumstances may include a significant change in legal factors or in the business climate, a significant decline in the Company's share price, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant disposal activity and the testing of recoverability for a significant asset group.

The Company's impairment test is carried out in one step. The carrying amount of the reporting unit, including goodwill, was compared with its fair value. The estimated fair value was determined utilizing multiple approaches based on the nature of the reporting units being valued. In its analysis, the Company utilized multiple valuation techniques, including the income approach, discounted future cash flows, the market-based approach, and the asset value approach. The analysis requires significant judgment, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of revenue growth for our reporting units, estimation of the useful life over which cash flows will occur, terminal growth rate, profitability measures, and determination of the discount rates for the reporting units. The carrying amount of the Company's assets was assigned to reporting units using reasonable methodologies based on the asset type. When the carrying amount of a reporting unit exceeds its fair value, goodwill of the reporting unit is considered to be impaired and written down to its fair value. Different judgments could yield different results.

Events and circumstances resulted in a goodwill impairment test being conducted as at May 31, 2020; see Note 3.

Accounts receivable, net

The accounts receivable balance reflects invoiced and accrued revenue and is presented net of an allowance for credit losses. The Company expects the majority of its accounts receivable balances to continue to come from large customers as it sells the majority of its software products and services through distributor partners, such as resellers and network carriers, rather than directly. The Company establishes current expected credit losses ("CECL") for pools of assets with similar risk characteristics by evaluating historical levels of credit losses, current economic conditions that may affect a customer's ability to pay, and creditworthiness of significant customers. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. When the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company (such as in the case of bankruptcy filings or material deterioration in the customer's operating results or financial position, and payment experiences), the Company records a specific credit loss provision to reduce the customer's related accounts receivable to its estimated net realizable value. If circumstances related to specific customers change, the Company's estimates of the recoverability of accounts receivable balances could be further adjusted.

Investments

The Company's cash equivalents and investments, other than publicly issued equity securities and private equity investments without readily determinable fair value, consist of money market and other debt securities, which are classified as available-for-sale for accounting purposes and are carried at fair value. Unrealized gains and losses, net of related income taxes, are recorded in Accumulated Other Comprehensive Loss ("AOCL") until such investments mature or are sold. The Company uses the specific identification method of determining the cost basis in computing realized gains or losses on available-for-sale investments, which are recorded in investment income. The Company does not exercise significant influence with respect to any of these investments. Publicly issued equity securities are recorded at fair value and revalued at each reporting period with changes in fair value recorded through investment income. The Company elects to record private equity investments without readily determinable fair value at cost minus impairment, as adjusted for any changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. The Company reassesses each reporting period that its private equity investments without readily determinable fair value continue to qualify for this treatment.

Investments with maturities at the time of purchase of three months or less are classified as cash equivalents. Investments with maturities of one year or less (but which are not cash equivalents), public equity investments and any investments that the Company intends to hold for less than one year are classified as short-term investments. Investments with maturities in excess of one year or investments that the Company does not intend to sell are classified as long-term investments.

Allowance for Credit Losses on Available-for-sale Debt Securities

The Company accounts for credit losses on available-for-sale debt securities in accordance with ASC 326. The Company adopted ASC 326 on March 1, 2020, on a modified retrospective basis. Under ASC 326, at each reporting period, the Company evaluates its available-for-sale debt securities at the individual security level to determine whether there is a decline in the fair value below its amortized cost basis (an impairment). In circumstances where the Company intends to sell, or is more likely than not required to sell, the security before it recovers its amortized cost basis, the difference between fair value and amortized cost is recognized as a loss in the consolidated statement of operations, with a corresponding write-down of the security's amortized cost. In circumstances where neither condition exists, the Company then evaluates whether a decline is due to credit-related factors. The factors considered in determining whether a credit loss exists can include the extent to which fair value is less than the amortized cost basis, changes in the credit quality of the underlying issuer, credit ratings actions, as well as other factors. To determine the portion of a decline in fair value that is credit-related, the Company compares the present value of the expected cash flows of the security discounted at the security's effective interest rate to the amortized cost basis of the security. A credit-related impairment is limited to the difference between fair value and amortized cost, and recognized as an allowance for credit loss on the consolidated balance sheet with a corresponding adjustment to net income. Any remaining decline in fair value that is non-credit related is recognized in other comprehensive income (loss), net of tax. Improvements in expected cash flows due to improvements in credit are recognized through reversal of the credit loss and corresponding reduction in the allowance for credit loss.

Government Subsidies

The Company recognizes government subsidies as a reduction to operating expenses in the consolidated statement of operations when there is reasonable assurance the Company will receive the amount and has complied with the conditions, if any, attached to the government subsidies.

2. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In August 2020, the FASB issued a new accounting standard on the topic of debt with conversion and other options, ASU 2020-06. The amendment in this update simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions and requires the application of the if-converted method for calculating diluted earnings per share. The update also requires entities to provide expanded disclosures about the terms and features of convertible instruments, how the instruments have been reported in the entity's financial statements, and information about events, conditions, and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments. The guidance is effective for interim and annual periods beginning after December 15, 2021. The Company will adopt this guidance in the first quarter of fiscal 2023 and does not expect the adoption to have a material impact on its results of operations, financial position and disclosures.

3. FAIR VALUE MEASUREMENTS, CASH, CASH EQUIVALENTS AND INVESTMENTS

Fair Value

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use in pricing the asset or liability, such as inherent risk, non-performance risk and credit risk. The Company applies the following fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels:

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Recurring Fair Value Measurements

The Company's cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities are measured at an amount that approximates their fair values (Level 2 measurement) due to their short maturities.

In determining the fair value of investments held, the Company primarily relies on an independent third-party valuator for the fair valuation of securities. The Company also reviews the inputs used in the valuation process and assesses the pricing of the securities for reasonableness after conducting its own internal collection of quoted prices from brokers. Fair values for all investment categories provided by the independent third-party valuator that are in excess of 0.5% from the fair values determined by the Company are communicated to the independent third-party valuator for consideration of reasonableness. The independent third-party valuator considers the information provided by the Company before determining whether a change in their original pricing is warranted.

The Company's investments largely consist of securities issued by major corporate and banking organizations, the provincial and federal governments of Canada, international government banking organizations and the United States Department of the Treasury and are all investment grade. The Company also holds a limited amount of equity securities following the initial public offering by the issuer of a previous private equity investment.

For a description of how the fair values of the 3.75% Debentures (as defined in Note 6) were determined, see the "Convertible debentures" accounting policies in Note 1 to the Annual Financial Statements. The 3.75% Debentures were classified as Level 2. For a description of how the fair values of the 1.75% Debentures (as defined in Note 6) are determined, see Note 6. The 1.75% Debentures are classified as Level 3.

Non-Recurring Fair Value Measurements

Upon the occurrence of certain events, the Company re-measures the fair value of long-lived assets, including property, plant and equipment, operating lease right-of-use ("ROU") assets, intangible assets and goodwill.

Goodwill Impairment

During the first quarter of fiscal 2021, as a result of the deterioration in economic conditions caused by the global COVID-19 pandemic and its impact on the Company's reporting units, and the decline of the trading value of the Company's capital stock below the Company's consolidated carrying value, the Company determined that it was more likely than not that the fair value of at least one of its reporting units was lower than its carrying amount after including goodwill. As a result, the Company completed an analysis of the fair value of its reporting units to compare against their respective carrying values as of May 31, 2020.

In its analysis, the Company utilized multiple valuation techniques, including the income approach, discounted future cash flows, the market-based approach, and the asset value approach which is based on the sum of the values of each of the assets and liabilities within the entity. In addition to market data, the valuation techniques utilize Level 3 inputs such as the Company's internal forecasts of its future results, cash flows and its weighted average cost of capital, which is risk-adjusted to reflect the specific risk profile of the reporting unit being tested and based upon the Company's estimated credit rating. The analysis involves significant judgment in the selection of assumptions necessary to arrive at the reporting units' fair values, especially in light of the ongoing COVID-19 pandemic and its short-term and potential long-term impacts to the Company's business. The total of the fair values of the Company's reporting units was reconciled to the Company's market capitalization based on the quoted market price of the Company's stock in an active market, adjusted by an appropriate control premium. Where the carrying amount of a reporting unit exceeded its fair value, goodwill of the reporting unit was considered to be impaired.

Based on the results of the goodwill impairment test, it was concluded that the carrying value of one reporting unit exceeded its fair value, necessitating an impairment charge for the amount of excess and reducing the carrying value of Goodwill. Consequently, the Company recorded total non-cash goodwill impairment charges of $594 million in the BlackBerry Spark reporting unit (the "Goodwill Impairment Charge").

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

Impairment of Long-Lived Assets

During the second quarter of fiscal 2021, the Company decided to exit and seek subleases for certain leased facilities and made a change in the estimate of future sublease activity of a previously exited facility. The Company recorded a non-cash, pre-tax and after-tax impairment charge of $21 million consisting of $16 million related to operating lease ROU assets for those facilities and $5 million related to property, plant and equipment associated with those facilities. The impairment was determined by comparing the fair value of the impacted ROU asset to the carrying value of the asset as of the impairment measurement date, as required under ASC Topic 360, Property, Plant, and Equipment, using Level 2 inputs. The fair value of the ROU asset was based on the estimated sublease income for certain facilities taking into consideration the time period it will take to obtain a sublessor, the applicable discount rate and the sublease rate (nine months ended November 30, 2019 - $5 million impairment charge related to ROU assets).

Cash, Cash Equivalents and Investments

The components of cash, cash equivalents and investments by fair value level as at November 30, 2020 were as follows:

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	$ 163	$ —	$ —	$ 163	$ 163	$ —	$ —	$ —
Other investments	33	—	—	33	—	—	33	—
	196	—	—	196	163	—	33	—
Level 1:								
Equity securities	10	—	(8)	2	—	2	—	—
Level 2:								
Corporate notes/bonds	25	—	—	25	—	25	—	—
Term deposits, certificates of deposits, and GIC's	120	—	—	120	25	45	—	50
Commercial paper	231	—	—	231	35	196	—	—
Non-U.S. promissory notes	35	—	—	35	—	35	—	—
Non-U.S. government sponsored enterprise notes	98	—	—	98	—	98	—	—
Non-U.S. treasury bills/notes	50	—	—	50	—	50	—	—
	559	—	—	559	60	449	—	50
	$ 765	$ —	$ (8)	$ 757	$ 223	$ 451	$ 33	$ 50

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

The components of cash, cash equivalents and investments by fair value level as at February 29, 2020 were as follows:

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	$ 100	$ —	$ —	$ 100	$ 100	$ —	$ —	$ —
Other investments	32	—	—	32	—	—	32	—
	132	—	—	132	100	—	32	—
Level 1:								
Equity securities	10	—	(8)	2	—	2	—	—
Level 2:								
Term deposits, certificates of deposits, and GICs	118	—	—	118	44	25	—	49
Bankers' acceptances/bearer deposit notes	84	—	—	84	30	54	—	—
Commercial paper	276	—	—	276	108	168	—	—
Non-U.S. promissory notes	133	—	—	133	25	108	—	—
Non-U.S. government sponsored enterprise notes	144	—	—	144	—	144	—	—
Non-U.S. treasury bills/notes	56	—	—	56	25	31	—	—
U.S. treasury bills/notes	45	—	—	45	45	—	—	—
	856	—	—	856	277	530	—	49
	$ 998	$ —	$ (8)	$ 990	$ 377	$ 532	$ 32	$ 49

As at November 30, 2020, the Company had private equity investments without readily determinable fair value of $33 million (February 29, 2020 - $32 million).

There were no realized gains or losses on available-for-sale securities for the three and nine months ended November 30, 2020 (realized losses of nil for the three and nine months ended November 30, 2019).

The Company has restricted cash and cash equivalents, consisting of cash and securities pledged as collateral to major banking partners in support of the Company's requirements for letters of credit. These letters of credit support certain leasing arrangements entered into in the ordinary course of business and also support patent litigation in certain jurisdictions. The letters of credit are for terms ranging from one month to five years. The Company is legally restricted from accessing these funds during the term of the leases for which the letters of credit have been issued; however, the Company can continue to invest the funds and receive investment income thereon.

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

The following table provides a reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents as at November 30, 2020 and February 29, 2020 from the consolidated balance sheets to the consolidated statements of cash flows:

	As at	
	November 30, 2020	February 29, 2020
Cash and cash equivalents	$ 223	$ 377
Restricted cash and cash equivalents	50	49
Total cash, cash equivalents, restricted cash, and restricted cash equivalents presented in the consolidated statements of cash flows	$ 273	$ 426

The contractual maturities of available-for-sale investments as at November 30, 2020 and February 29, 2020 were as follows:

	As at			
	November 30, 2020		February 29, 2020	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	$ 559	$ 559	$ 856	$ 856
No fixed maturity	10	2	10	2
	$ 569	$ 561	$ 866	$ 858

As at November 30, 2020, the Company had investments with continuous unrealized losses totaling $8 million, consisting of unrealized losses on equity securities (February 29, 2020 - continuous unrealized losses totaling $8 million).

4. CONSOLIDATED BALANCE SHEET DETAILS

Accounts Receivable, Net

The allowance for credit losses as at November 30, 2020 was $13 million (February 29, 2020 - $9 million).

The Company recognizes current estimated credit losses for accounts receivable, net. The CECL for accounts receivable, net are estimated based on days past due and region for each customer in relation to a representative pool of assets consisting of a large number of customers with similar risk characteristics that operate under similar economic environments. The Company determined the CECL by estimating historical credit loss experience based on the past due status and region of the customers, adjusted as appropriate to reflect current conditions and estimates of future economic conditions, inclusive of the effect of the COVID-19 pandemic on credit losses. The duration and severity of COVID-19 and continued market volatility is highly uncertain and, as such, the impact on expected credit losses is subject to significant judgment and may cause variability in the Company's allowance for credit losses in future periods. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Company also has long-term accounts receivable included in Other Long-term Assets. The CECL for long-term accounts receivable is estimated using the probability of default method and the default exposure due to limited historical information. The exposure of default is represented by the assets' amortized carrying amount at the reporting date.

The following table sets forth the activity in the Company's allowance for credit losses:

	Nine Months Ended
	November 30, 2020
Beginning balance as of February 29, 2020	$ 9
Impact of adopting ASC 326	4
Current period provision for expected credit losses	—
Ending balance of the allowance for credit loss as at November 30, 2020	$ 13

The allowance for credit losses as at November 30, 2020 consists of $6 million relating to CECL estimated based on days past due and region and $7 million relating to specific customers that were evaluated separately.

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

There were two customers that comprised more than 10% of accounts receivable as at November 30, 2020 (February 29, 2020 - two customers comprised more than 10%).

Other Current Assets

As at November 30, 2020, other current assets include items such as the current portion of deferred commissions and prepaid expenses, among other items, none of which were greater than 5% of the current assets balance in all periods presented.

Property, Plant and Equipment, Net

Property, plant and equipment comprised the following:

	As at	
	November 30, 2020	February 29, 2020
Cost		
Buildings, leasehold improvements and other	$ 68	$ 72
BlackBerry operations and other information technology	80	84
Manufacturing, repair and research and development equipment	73	73
Furniture and fixtures	10	11
	231	240
Accumulated amortization	177	170
Net book value	$ 54	$ 70

Intangible Assets, Net

Intangible assets comprised the following:

	As at November 30, 2020		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	$ 1,022	$ 694	$ 328
Intellectual property	496	297	199
Other acquired intangibles	494	218	276
	$ 2,012	$ 1,209	$ 803

	As at February 29, 2020		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	$ 1,019	$ 636	$ 383
Intellectual property	489	275	214
Other acquired intangibles	494	176	318
	$ 2,002	$ 1,087	$ 915

For the nine months ended November 30, 2020, amortization expense related to intangible assets amounted to $133 million (nine months ended November 30, 2019 - $142 million)

Total additions to intangible assets for nine months ended November 30, 2020 amounted to $23 million (nine months ended November 30, 2019 - $24 million). During the nine months ended November 30, 2020, additions to intangible assets primarily consisted of payments for intellectual property relating to patent maintenance, registration and license fees.

Based on the carrying value of the identified intangible assets as at November 30, 2020, and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the remainder of fiscal 2021 and each of the five succeeding years is expected to be as follows: fiscal 2021 - $43 million; fiscal 2022 - $149 million; fiscal 2023 - $116 million; fiscal 2024 - $108 million; fiscal 2025 - $101 million and fiscal 2026 - $95 million.

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

Goodwill

Changes to the carrying amount of goodwill during the nine months ended November 30, 2020 were as follows:

	Carrying Amount
Carrying amount as at February 29, 2020	1,437
Goodwill impairment charge (see Note 3)	(594)
Effect of foreign exchange on non-U.S. dollar denominated goodwill	6
Carrying amount as at November 30, 2020	$ 849

Other Long-term Assets

As at November 30, 2020, other long-term assets include long-term portion of deferred commission and long-term receivables, among other items, none of which were greater than 5% of total assets in any of the periods presented.

Accrued Liabilities

Accrued liabilities comprised the following:

	As at	
	November 30, 2020	February 29, 2020
Operating lease liabilities, current	$ 31	$ 31
Other	142	171
	$ 173	202

Other accrued liabilities includes accrued vendor liabilities, accrued carrier liabilities, variable incentive accrual and payroll withholding taxes, among other items, none of which were greater than 5% of the current liabilities balance.

Other Long-term Liabilities

Other long-term liabilities consist of the long-term portion of finance lease liabilities and non-lease component liabilities related to the Company's previous Resource Allocation Program entered into in order to transition the Company from a legacy hardware manufacturer to a licensing driven software business.

5. INCOME TAXES

For the nine months ended November 30, 2020, the Company's net effective income tax recovery rate was approximately 1% compared to a net effective income tax expense rate of 5% for the nine months ended November 30, 2019. The Company's income tax rate reflects the change in unrecognized income tax benefit and the fact that the Company has a significant valuation allowance against its deferred income tax assets, and in particular, the change in fair value of the Debentures (as defined in Note 6), amongst other items, is offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

The Company's total unrecognized income tax benefits as at November 30, 2020 were $35 million (February 29, 2020 - $72 million). As at November 30, 2020, $33 million of the unrecognized income tax benefits have been netted against deferred income tax assets and $2 million has been recorded within income taxes payable on the Company's consolidated balance sheets.

The Company is subject to ongoing examination by tax authorities in certain jurisdictions in which it operates. The Company regularly assesses the status of these examinations and the potential for adverse outcomes to determine the adequacy of the provision for income taxes as well as the provisions for indirect and other taxes and related penalties and interest. While the final resolution of audits is uncertain, the Company believes the ultimate resolution of these audits will not have a material adverse effect on its consolidated financial position, liquidity or results of operations.

6. DEBENTURES

1.75% Convertible Debentures

On September 1, 2020, Hamblin Watsa Investment Counsel Ltd., in its capacity as investment manager of Fairfax Financial Holdings Limited ("Fairfax") and another institutional investor invested in the Company through a $365 million private placement of new debentures (the “1.75% Debentures”), which replaced $605 million of debentures issued in a private placement on September 7, 2016 (the “3.75% Debentures”) as described below (collectively, the “Debentures”).

Interest on the 1.75% Debentures is payable quarterly in arrears at a rate of 1.75% per annum. The 1.75% Debentures mature on November 13, 2023 and each $1,000 of 1.75% Debentures is convertible at any time into 166.67 common shares of the Company, for a total of 60.8 million common shares at a price of $6.00 per share for all 1.75% Debentures, subject to adjustments. Covenants associated with the 1.75% Debentures include limitations on the Company’s total indebtedness.

Under specified events of default, the outstanding principal and any accrued interest on the 1.75% Debentures become immediately due and payable upon request of holders holding not less than 25% of the principal amount of the 1.75% Debentures then outstanding. During an event of default, the interest rate rises to 5.75% per annum.

The 1.75% Debentures are subject to a change of control provision whereby the Company would be required to make an offer to repurchase the 1.75% Debentures at 115% of par value if a person or group (not affiliated with Fairfax) acquires 35% of the Company’s outstanding common shares, acquires all or substantially all of its assets, or if the Company merges with another entity and the Company’s existing shareholders hold less than 50% of the common shares of the surviving entity. Additionally, the 1.75% Debentures cannot be converted to the extent that, after giving effect to the conversion, the holder would beneficially own or exercise control or direction over more than 19.99% of the Company’s then issued and outstanding shares (the “Blocker Provision”).

Due to the conversion option and other embedded derivatives within the 1.75% Debentures, and consistent with the Company’s accounting for the 3.75% Debentures, the Company has elected to record the 1.75% Debentures, including the debt itself and all embedded derivatives, at fair value and present the 1.75% Debentures as a single hybrid financial instrument. No portion of the fair value of the 1.75% Debentures has been recorded as equity, nor would be if the embedded derivatives were bifurcated from the host debt contract.

Each period, the fair value of the 1.75% Debentures is recalculated and resulting gains and losses from the change in fair value of the Debentures associated with non-credit components are recognized in income, while the change in fair value associated with credit components is recognized in AOCL. The fair value of the Debentures has been determined using the significant level 2 inputs of principal value, interest rate spreads and curves, any observable trades of the Debentures that occurred during the period, the market price and volatility of the Company’s listed common shares, and the significant level 3 inputs related to credit spread and the implied discount of the 1.75% Debentures at issuance.

The Company determined its credit spread by calibrating to observable trades of the 3.75% Debentures and trending the calibrated spread to valuation dates utilizing an appropriate credit index. The Company’s credit spread was determined to be 7.90% as of the issuance date of the 1.75% Debentures and 6.98% as of November 30, 2020. An increase in credit spread will result in a decrease in the fair value of 1.75% Debentures and vice versa. The fair value of the 1.75% Debentures on September 1, 2020 was determined to be approximately $456 million and the implied discount approximately $91 million. The Company determined the implied discount on the 1.75% Debentures by calculating the fair value of the 1.75% Debentures on September 1, 2020 utilizing the above credit spread and other inputs described above.

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

The following table summarizes the change in fair value of the 1.75% Debentures for the three months ended November 30, 2020, which also represents the total changes through earnings of items classified as level 3 in the fair value hierarchy:

	As at November 30, 2020
Principal received as of September 1, 2020	$ 365
Change in fair value of the Debentures	94
Balance as at November 30, 2020	$ 459

The difference between the fair value of the 1.75% Debentures and the unpaid principal balance of $365 million is $94 million.

The following table shows the impact of the changes in fair value of the 1.75% Debentures for the three and nine months ended November 30, 2020 and November 30, 2019:

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
Charge associated with the change in fair value from non-credit components recorded in the consolidated statements of operations	$ (89)	$ —	$ (89)	$ —
Charge associated with the change in fair value from instrument-specific credit components recorded in AOCL	(5)	—	(5)	—
Total increase in the fair value of the 1.75% Debentures	$ (94)	$ —	$ (94)	$ —

For the three and nine months ended November 30, 2020, the Company recorded interest expense related to the Debentures of $2 million and $13 million, respectively, which has been included in investment income, net on the Company's consolidated statements of operations (three and nine months ended November 30, 2019 - $6 million and $17 million, respectively).

Fairfax, a related party under U.S. GAAP due to its beneficial ownership of common shares in the Company after taking into account potential conversion of the Debentures, owned $500 million principal amount of the original 3.75% Debentures and also purchased $330 million principal amount of the 1.75% Debentures. As such, the redemption of Fairfax's portion of the 3.75% Debentures, the investment by Fairfax in the 1.75% Debentures and the payment of interest on the Debentures represent related party transactions. Fairfax receives interest at the same rate as other holders of the Debentures.

3.75% Convertible Debentures

On September 7, 2016, Fairfax and other institutional investors invested in the Company through a $605 million private placement of the 3.75% Debentures. The terms of the 3.75% Debentures were substantially similar to those of the 1.75% Debentures, except that the 3.75% Debentures had a higher interest rate, were convertible into common shares at a price of $10.00 per common share, were subject to a lower approval threshold for extraordinary resolutions, did not contain the Blocker Provision and had a maturity date of November 13, 2020.

On July 22, 2020, the Company announced that, with the required approval of the holders of the 3.75% Debentures, it would redeem the 3.75% Debentures for a redemption amount of approximately $615 million (the "Redemption Amount"), which would settle all outstanding obligations of the Company in respect of the 3.75% Debentures. The redemption was completed on September 1, 2020. As the Redemption Amount represented fair value at August 31, 2020 and the Company elected the fair value option for the 3.75% Debentures, the impact of the redemption on the fair value was recorded in the second quarter of fiscal 2021. A portion of the fair value associated with changes in instrument-specific credit components in the amount of $6 million remained in OCI until redemption on September 1, 2020 at which point $6 million was discharged to the consolidated statement of operations and is included in the table below.

The following table shows the impact of the changes in fair value of the 3.75% Debentures for the three and nine months ended November 30, 2020 and November 30, 2019:

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
Income (charge) associated with the change in fair value from non-credit components recorded in the consolidated statements of operations	$ —	$ 20	$ (19)	$ 71
Income (charge) associated with the change in fair value from instrument-specific credit components recorded in AOCL	—	(2)	15	(15)
Realized charges associated with the change in fair value from credit components recorded in the consolidated statements of operations on redemption	(6)	—	(6)	—
Realized charges associated with the change in fair value from credit components released from AOCL on redemption	6	—	6	—
Total decrease (increase) in the fair value of the 3.75% Debentures	$ —	$ 18	$ (4)	$ 56

7. CAPITAL STOCK

The following details the changes in issued and outstanding common shares for the nine months ended November 30, 2020:

	Capital Stock and Additional Paid-in Capital	
	Stock Outstanding (000s)	Amount
Common shares outstanding as at February 29, 2020	554,199	$ 2,760
Exercise of stock options	1,185	3
Common shares issued for restricted share unit settlements	5,107	—
Stock-based compensation	—	33
Common shares issued for employee share purchase plan	1,525	7
Common shares outstanding as at November 30, 2020	562,016	$ 2,803

The Company had 563 million voting common shares outstanding, 3 million options to purchase voting common shares, 19 million RSUs and 1 million DSUs outstanding as at December 15, 2020. In addition, 60.8 million common shares are issuable upon conversion in full of the 1.75% Debentures as described in Note 6.

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

8. LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
Net loss for basic and diluted loss per share available to common shareholders	$ (130)	$ (32)	$ (789)	$ (111)
Less: Debentures fair value adjustment [1] [2]	—	(20)	—	(71)
Add: interest expense on Debentures [1] [2]	—	6	—	17
Net loss for diluted loss per share available to common shareholders	$ (130)	$ (46)	$ (789)	$ (165)
Weighted average number of shares outstanding (000's) - basic [3] [4]	562,443	554,585	559,732	552,931
Effect of dilutive securities (000's)				
Conversion of Debentures [1] [2]	—	60,500	—	60,500
Weighted average number of shares and assumed conversions (000's) diluted	562,443	615,085	559,732	613,431
Loss per share - reported				
Basic	$ (0.23)	$ (0.06)	$ (1.41)	$ (0.20)
Diluted	$ (0.23)	$ (0.07)	$ (1.41)	$ (0.27)

(1) The Company has not presented the dilutive effect of the Debentures using the if-converted method in the calculation of diluted loss per share for the three and nine months ended November 30, 2020, as to do so would be antidilutive. See Note 6 for details on the Debentures.

(2) The Company has presented the dilutive effect of the 3.75% Debentures using the if-converted method, assuming conversion at the beginning of the quarter for the three and nine months ended November 30, 2019. Accordingly, to calculate diluted loss per share, the Company adjusted net loss by eliminating the fair value adjustment made to the 3.75% Debentures and interest expense incurred on the 3.75% Debentures in the three and nine months ended November 30, 2019, and added the number of shares that would have been issued upon conversion to the diluted weighted average number of shares outstanding. See Note 6 for details on the 3.75% Debentures.

(3) The three and nine months ended November 30, 2020, includes 2,802,067 common shares remaining to be issued in equal installments on the next two anniversary dates of the Cylance acquisition, in consideration for the acquisition. The three and nine months ended November 30, 2019, includes 4,182,189 common shares to be issued in equal installments on the three anniversary dates of the Cylance acquisition, in consideration for the acquisition. There are no service or other requirements associated with the issuance of these shares.

(4) The Company has not presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of diluted loss per share for the three and nine months ended November 30, 2020, and three and nine months ended November 30, 2019, as to do so would be antidilutive.

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in AOCL by component net of tax, for the nine months ended November 30, 2020 were as follows:

	Foreign Currency Cumulative Translation Adjustment	Accumulated Net Unrealized Losses on Cash Flow Hedges	Other Post-Employment Benefit Obligations	Change in fair value from instrument-specific credit risk on Debentures	Total
AOCL as at February 29, 2020	$ (9)	$ (1)	$ (1)	$ (22)	$ (33)
Other comprehensive income before reclassification	5	$ 2	$ —	10	$ 17
Amounts reclassified from AOCL into net loss	—	1	—	6	7
Change in cumulative comprehensive income for the period	5	3	—	16	24
AOCL as at November 30, 2020	$ (4)	$ 2	$ (1)	$ (6)	$ (9)

During the three and nine months ended November 30, 2020, $1 million in gains and $1 million in losses (pre-tax and post-tax), respectively, associated with cash flow hedges were reclassified from AOCL into selling, marketing and administration expenses (three and nine months ended November 30, 2019 - nil losses).

10. COMMITMENTS AND CONTINGENCIES

(a) Letters of Credit

The Company had $50 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business and in support of patent litigation in certain jurisdictions as of November 30, 2020. See the discussion of restricted cash in Note 3.

(b) Contingencies

Litigation

The Company is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. The Company is subject to a variety of claims (including claims related to patent infringement, purported class actions and other claims in the normal course of business) and may be subject to additional claims either directly or through indemnities against claims that it provides to certain of its partners and customers. In particular, the industry in which the Company competes has many participants that own, or claim to own, intellectual property, including participants that have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. The Company has received, and may receive in the future, assertions and claims from third parties that the Company's products infringe on their patents or other intellectual property rights. Litigation has been, and will likely continue to be, necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company's proprietary rights. Regardless of whether claims against the Company have merit, those claims could be time-consuming to evaluate and defend, result in costly litigation, divert management's attention and resources, subject the Company to significant liabilities and could have the other effects that are described in greater detail under Part I, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2020, including the risk factors entitled "Litigation against the Company may result in adverse outcomes" and "The Company could be found to have infringed on the intellectual property rights of others".

Management reviews all of the relevant facts for each claim and applies judgment in evaluating the likelihood and, if applicable, the amount of any potential loss. Where a potential loss is considered probable and the amount is reasonably estimable, provisions for loss are made based on management's assessment of the likely outcome. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum amount in the range. The Company does not provide for claims for which the outcome is not determinable or claims for which the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

As of November 30, 2020, there are no material claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable; therefore, no material accrual has been made. Further, there are claims outstanding for which the Company has assessed the potential loss as reasonably possible to result; however, an estimate of the amount of loss cannot reasonably be made. There are many reasons that the Company cannot make these assessments, including, among others, one or more of the following: the early stages of a proceeding does not require the claimant to specifically identify the patent claims that have allegedly been infringed or the products that are alleged to infringe; damages sought are unspecified, unsupportable, unexplained or uncertain; discovery has not been started or is incomplete; the facts that are in dispute are highly complex (e.g., once a patent is identified, the analysis of the patent and a comparison to the activities of the Company is a labour-intensive and highly technical process); the difficulty of assessing novel claims; the parties have not engaged in any meaningful settlement discussions; the possibility that other parties may share in any ultimate liability; and the often slow pace of litigation.

Though they do not meet the test for accrual described above, the Company has included the following summaries of certain of its legal proceedings that it believes may be of interest to its investors.

Between October and December 2013, several purported class action lawsuits and one individual lawsuit were filed against the Company and certain of its former officers in various jurisdictions in the U.S. and Canada alleging that the Company and certain of its officers made materially false and misleading statements regarding the Company's financial condition and business prospects and that certain of the Company's financial statements contain material misstatements. The individual lawsuit was voluntarily dismissed.

On March 14, 2014, the four putative U.S. class actions were consolidated in the U.S. District Court for the Southern District of New York, and on May 27, 2014, a consolidated amended class action complaint was filed. On March 13, 2015, the Court issued an order granting the Company's motion to dismiss. The Court denied the plaintiffs' motion for reconsideration and for leave to file an amended complaint on November 13, 2015. On August 24, 2016, the U.S. Court of Appeals for the Second Circuit affirmed the District Court order dismissing the complaint, but vacated the order denying leave to amend and remanded to the District Court for further proceedings in connection with the plaintiffs' request for leave to amend. The Court granted the plaintiffs' motion for leave to amend on September 13, 2017. On September 29, 2017, the plaintiffs filed a second consolidated amended class action complaint (the "Second Amended Complaint"), which added the Company's former Chief Legal Officer as a defendant. The Court denied the motion to dismiss the Second Amended Complaint on March 19, 2018. On January 4, 2019, the Court issued an order placing the case on its suspense calendar but allowed fact and expert discovery to continue. On August 2, 2019, the Magistrate Judge issued a Report and Recommendation that the Court grant the defendants' motion for judgment on the pleadings dismissing the claims of additional plaintiffs Cho and Ulug. On September 24, 2019, the District Court Judge accepted the Magistrate Judge's recommendation and dismissed the claims of Cho and Ulug against all defendants. On October 17, 2019, Cho and Ulug filed a Notice of Appeal. Cho and Ulug filed their opening brief on February 20, 2020, the Company filed its opposition brief on May 21, 2020, Cho and Ulug filed their reply brief on June 11, 2020, and oral argument was held on October 30, 2020. The Court removed the case from its suspense calendar on May 29, 2020. Plaintiffs filed a motion for class certification on June 8, 2020, the defendants filed oppositions on August 10, 2020, and the plaintiffs filed a reply on September 28, 2020. All discovery was completed as of November 13, 2020. No other dates have been set.

On July 23, 2014, the plaintiffs in the putative Ontario class action filed a motion for certification and leave to pursue statutory misrepresentation claims. On November 16, 2015, the Ontario Superior Court of Justice issued an order granting the plaintiffs' motion for leave to file a statutory claim for misrepresentation. On December 2, 2015, the Company filed a notice of motion seeking leave to appeal this ruling. On January 22, 2016, the Court postponed the hearing on the plaintiffs' certification motion to an undetermined date after asking the Company to file a motion to dismiss the claims of the U.S. plaintiffs for forum non conveniens. Before that motion was heard, the parties agreed to limit the class to purchasers who reside in Canada or purchased on the Toronto Stock Exchange. On November 15, 2018, the Court denied the Company's motion for leave to appeal the order granting the plaintiffs leave to file a statutory claim for misrepresentation. On February 5, 2019, the Court entered an order certifying a class comprised persons (a) who purchased BlackBerry common shares between March 28, 2013, and September 20, 2013, and still held at least some of those shares as of September 20, 2013, and (b) who acquired those shares on a Canadian stock exchange or acquired those shares on any other stock exchange and were a resident of Canada when the shares were acquired. Notice of class certification was published on March 6, 2019. The Company filed its Statement of Defence on April 1, 2019, and discovery is proceeding.

On February 15, 2017, a putative employment class action was filed against the Company in the Ontario Superior Court of Justice. The Statement of Claim alleges that actions the Company took when certain of its employees decided to accept offers of employment from Ford Motor Company of Canada amounted to a wrongful termination of the employees' employment with the Company. The claim seeks (i) an unspecified quantum of statutory, contractual, or common law termination entitlements; (ii) punitive or breach of duty of good faith damages of CAD$20,000,000, or such other amount as the Court finds appropriate, (iii) pre- and post- judgment interest, (iv) attorneys' fees and costs, and (v) such other relief as the Court deems just. The Court granted the plaintiffs' motion to certify the class action on May 27, 2019. The Company commenced a motion for leave to appeal the certification order on June 11, 2019. The Court denied the motion for leave to appeal on September 17, 2019. The Company filed its Statement of Defence on December 19, 2019, and discovery is proceeding.

Other contingencies

In the first quarter of fiscal 2019, the Board approved a compensation package for the Company's Executive Chair and CEO as an incentive to remain as Executive Chair until November 23, 2023. As part of the package, the Company's Executive Chair and CEO is entitled to receive a contingent performance-based cash award in the amount of $90 million that will become earned and payable should the 10-day average closing price of the Company's common shares on the New York Stock Exchange reach $30 before November 3, 2023. As the award is triggered by the Company's share price, it is considered stock-based compensation and accounted for as a share-based liability award. As at November 30, 2020, the liability recorded in association with this award is approximately $3 million (February 29, 2020 - $1 million).

As at November 30, 2020, the Company has received $14 million in funds from claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program's investment in BlackBerry QNX. A portion of this amount may be repayable in the future under certain circumstances if certain terms and conditions are not met by the Company, which is not probable at this time.

(c) Concentrations in Certain Areas of the Company's Business

The Company attempts to ensure that most components essential to the Company's business are generally available from multiple sources; however, certain components are currently obtained from limited sources within a competitive market, which subjects the Company to supply, availability and pricing risks. The Company has also entered into various agreements for the supply of components, and the manufacturing of its products; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to risks of supply shortages.

(d) Indemnifications

The Company enters into certain agreements that contain indemnification provisions under which the Company could be subject to costs and damages, including in the event of an infringement claim against the Company or an indemnified third party. Such intellectual property infringement indemnification clauses are generally not subject to any dollar limits and remain in effect for the term of the Company's agreements. To date, the Company has not encountered material costs as a result of such indemnifications.

The Company has entered into indemnification agreements with its current and former directors and executive officers. Under these agreements, the Company agreed, subject to applicable law, to indemnify its current and former directors and executive officers against all costs, charges and expenses reasonably incurred by such individuals in respect of any civil, criminal or administrative action that could arise by reason of their status as directors or officers. The Company maintains liability insurance coverage for the benefit of the Company, and its current and former directors and executive officers. The Company has not encountered material costs as a result of such indemnifications in the current period.

11. REVENUE AND SEGMENT DISCLOSURES

Revenue

The Company disaggregates revenue from contracts with customers based on geographical regions, timing of revenue recognition, and the major product and service types.

The Company's revenue, classified by major geographic region in which the Company's customers are located, was as follows:

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
North America [1]	$ 147	$ 188	492	527
Europe, Middle East and Africa	55	60	144	168
Other regions	16	19	47	63
Total	$ 218	$ 267	$ 683	$ 758
North America [1]	67.5 %	70.4 %	72.0 %	69.5 %
Europe, Middle East and Africa	25.2 %	22.5 %	21.1 %	22.2 %
Other regions	7.3 %	7.1 %	6.9 %	8.3 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

____

[1] North America includes all revenue from the Company's intellectual property arrangements, due to the global applicability of the patent portfolio and licensing arrangements thereof.

Total revenue, classified by product and service type, was as follows:

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
Software and Services	$ 162	$ 185	$ 461	$ 521
Licensing and Other	56	82	222	237
Total	$ 218	$ 267	$ 683	$ 758

Software and Services includes revenue from the Company's BlackBerry Spark® software platform and BlackBerry IoT Solutions. The BlackBerry Spark platform includes a suite of security software products and services, including the BlackBerry Spark® Unified Endpoint Security Suite, BlackBerry® UEM, BlackBerry® Dynamics™ and BlackBerry® Workspaces. BlackBerry IoT Solutions includes revenue from BlackBerry Technology Solutions, which consists of BlackBerry® QNX®, BlackBerry Certicom®, BlackBerry Radar® and other IoT applications, and from Secure Communications which consists of BlackBerry® AtHoc® and SecuSUITE. Software and Services revenue is generated predominantly through software licenses, commonly bundled with support, maintenance and professional services.

Licensing and Other includes revenue from the Company's intellectual property licensing arrangements, BBM Consumer licensing arrangement, settlement awards and mobility licensing software arrangements, which includes revenue from licensed hardware sales. Other includes revenue associated with the Company's legacy service access fees ("SAF") business, as well as revenue relating to unspecified future software upgrade rights for devices previously sold by the Company.

Revenue, classified by timing of recognition, was as follows:

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
Products and services transferred over time	$ 121	$ 122	$ 362	$ 391
Products and services transferred at a point in time	97	145	321	367
Total	$ 218	$ 267	$ 683	$ 758

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

Revenue contract balances

The following table sets forth the activity in the Company's revenue contract balances for the nine months ended November 30, 2020:

	Accounts Receivable	Deferred Revenue	Deferred Commissions
Opening balance as at February 29, 2020	$ 267	$ 373	$ 28
Increases due to invoicing of new or existing contracts, associated contract acquisition costs, or other	625	389	23
Decrease due to payment, fulfillment of performance obligations, or other	(671)	(470)	(29)
Decrease, net	(46)	(81)	(6)
Closing balance as at November 30, 2020	$ 221	$ 292	$ 22

Transaction price allocated to the remaining performance obligations

The table below discloses the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as at November 30, 2020 and the time frame in which the Company expects to recognize this revenue. The disclosure includes estimates of variable consideration, except when the variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property.

	As at November 30, 2020			
	Less than 12 Months	12 to 24 Months	Thereafter	Total
Remaining performance obligations	$ 224	$ 77	$ 27	$ 328

Revenue recognized for performance obligations satisfied in prior periods

For the three and nine months ended November 30, 2020, $2 million and $2 million of revenue was recognized for performance obligations satisfied in a prior period (three and nine months ended November 30, 2019 - nil) relating to legacy SAF customers.

Segment Disclosures

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker ("CODM") for making decisions and assessing performance as a source of the Company's reportable operating segments. The CODM, who is the Executive Chair and CEO, reviews financial information, makes decisions and assesses the performance of the Company as a single operating segment.

Property, plant and equipment, intangible assets, operating lease ROU assets and goodwill, classified by geographic region in which the Company's assets are located, were as follows:

	As at			
	November 30, 2020		February 29, 2020	
	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU Assets and Goodwill	Total Assets	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU Assets and Goodwill	Total Assets
Canada	$ 318	$ 550	$ 374	$ 657
United States	1,444	1,980	2,132	3,071
Other	35	340	40	160
	$ 1,797	$ 2,870	$ 2,546	$ 3,888

In millions of United States dollars, except share and per share data, and except as otherwise indicated (unaudited)

Information About Major Customers

There was one customer that comprised 13% and 27% of the Company's revenue in three and nine months ended November 30, 2020, respectively (three and nine months ended November 30, 2019 - one customer that comprised 20% and one customer that comprised 15%, respectively).

12. CASH FLOW AND ADDITIONAL INFORMATION

(a) Certain consolidated statements of cash flow information related to interest and income taxes paid is summarized as follows:

	Three Months Ended		Nine Months Ended	
	November 30, 2020	November 30, 2019	November 30, 2020	November 30, 2019
Interest paid during the period	$ 2	$ 6	$ 13	$ 17
Income taxes paid during the period	1	3	3	6
Income tax refunds received during the period	—	2	1	3

(b) **Additional Information**

Foreign exchange

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenue in the third quarter of fiscal 2021 was transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Other expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At November 30, 2020, approximately 17% of cash and cash equivalents, 20% of accounts receivable and 56% of accounts payable were denominated in foreign currencies (February 29, 2020 – 12%, 17% and 17%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes.

Interest rate risk

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued Debentures with a fixed interest rate, as described in Note 6. The fair value of the Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio.

Credit risk

The Company is exposed to market and credit risk on its investment portfolio. The Company reduces this risk by investing in liquid, investment-grade securities and by limiting exposure to any one entity or group of related entities. As at November 30, 2020, no single issuer represented more than 17% of the total cash, cash equivalents and investments (February 29, 2020 - no single issuer represented more than 8% of the total cash, cash equivalents and investments), representing cash balances at one of the Company's banking counterparties.

The Company maintains Credit Support Annexes ("CSAs") with several of its counterparties. These CSAs require the outstanding net position of all contracts be made whole by the paying or receiving of collateral to or from the counterparties on a daily basis, subject to exposure and transfer thresholds. As at November 30, 2020, the Company had no collateral held or posted with counterparties (February 29, 2020 - $1 million in collateral posted).

Liquidity risk

Cash, cash equivalents, and investments were approximately $757 million as at November 30, 2020. The Company's management remains focused on efficiently managing working capital balances and managing the liquidity needs of the business. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities and access to other potential financing arrangements, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future.

Government subsidies

During the first quarter of fiscal 2021, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") for Canadian employers whose businesses were affected by the COVID-19 pandemic, initially running for a thirty-six week period between March and November 2020. The program was subsequently extended to December 2020 and the Government of Canada has announced plans for an additional extension to June 2021. The CEWS originally provided a subsidy of up to 75% of eligible employees' employment insurable remuneration, subject to certain criteria, which subsequently declined to up to 65%. Accordingly, the Company applied for the CEWS to the extent it met the requirements to receive the subsidy and during the three and nine months ended November 30, 2020, recorded $10 million and $37 million, respectively, in government subsidies as a reduction to operating expenses in the consolidated statement of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the unaudited interim consolidated financial statements and the accompanying notes (the "Consolidated Financial Statements") of BlackBerry Limited for the three and nine months ended November 30, 2020, included in Part I, Item 1 of this Form 10-Q, as well as the Company's audited consolidated financial statements and accompanying notes and MD&A for the fiscal year ended February 29, 2020 (the "Annual MD&A"). The Consolidated Financial Statements are presented in U.S. dollars and have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). All financial information in this MD&A is presented in U.S. dollars, unless otherwise indicated.

Additional information about the Company, which is included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 2020 (the "Annual Report"), can be found on SEDAR at www.sedar.com and on the SEC's website at www.sec.gov.

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains forward-looking statements within the meaning of certain securities laws, including under the U.S. Private Securities Litigation Reform Act of 1995 and applicable Canadian securities laws, including statements relating to:

- the Company's plans, strategies and objectives, including its intentions to achieve long-term profitable revenue growth and increase and enhance its product and service offerings;
- the Company's expectations with respect to its revenue in fiscal 2021, 2022 and fiscal 2023;
- the Company's estimates of purchase obligations and other contractual commitments; and
- the Company's expectations with respect to the sufficiency of its financial resources.

The words "expect", "anticipate", "estimate", "may", "will", "should", "could", "intend", "believe", "target", "plan" and similar expressions are intended to identify forward-looking statements in this MD&A, including in the sections entitled "Business Overview - Strategy", "Business Overview - Products and Services - Software and Services - BlackBerry IoT Solutions", "Business Overview - COVID-19", "Non-GAAP Financial Measures - Key Metrics", "Results of Operations - Three months ended November 30, 2020 compared to the three months ended November 30, 2019 - Revenue - Revenue by Product and Service", "Financial Condition - Debenture Financing and Other Funding Sources", and in Part III of this Form 10-Q "Quantitative and Qualitative Disclosures About Market Risk - Credit and Customer Concentration". Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances, including but not limited to, the Company's expectations regarding its business, strategy, opportunities and prospects, the launch of new products and services, general economic conditions particularly in light of COVID-19, competition, and the Company's expectations regarding its financial performance. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the risk factors discussed in Part I, Item 1A "Risk Factors" in the Annual Report.

All of these factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. Any statements that are forward-looking statements are intended to enable the Company's shareholders to view the anticipated performance and prospects of the Company from management's perspective at the time such statements are made, and they are subject to the risks that are inherent in all forward-looking statements, as described above, as well as difficulties in forecasting the Company's financial results and performance for future periods, particularly over longer periods, given changes in technology and the Company's business strategy, evolving industry standards, intense competition and short product life cycles that characterize the industries in which the Company operates. See "Strategy" subsection in Part I, Item 1 "Business" of the Annual Report.

The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Business Overview

The Company provides intelligent security software and services to enterprises and governments around the world. The Company secures more than 500 million endpoints including more than 175 million cars on the road today. Based in Waterloo, Ontario, the Company leverages artificial intelligence and machine learning to deliver innovative solutions in the areas of cybersecurity, safety and data privacy, and is a leader in the areas of endpoint security management, encryption, and embedded systems.

Strategy

The Company is widely recognized for its intelligent security software and services, and believes that it delivers the broadest set of security capabilities to connect, secure and manage endpoints in the Internet of Things (IoT). The Company leverages its extensive technology portfolio to offer best-in-class security, safety and reliability to enterprise customers in growing segments of the IoT, cybersecurity, connected transportation, healthcare, financial services and government markets.

The Company's goal is to remain a leader in regulated industries and other core verticals by continuing to extend the functionality of its secure BlackBerry Spark® software platform through organic investments and strategic acquisitions and partnerships. The Company intends to drive revenue growth and to achieve adjusted margins that are generally consistent with those of other enterprise software companies over the long term.

The Company's go-to-market strategy focuses principally on generating revenue from enterprise software and services, and licensing. The Company continues to build its channel partner and developer programs to bolster its direct sales and marketing efforts and promote the growth of an IoT ecosystem.

Products and Services

The Company is organized and managed as one operating segment. The Company has multiple products and services from which it derives revenue, which are structured in two groups: Software and Services, and Licensing and Other.

Software and Services consists of the Company's BlackBerry Spark software platform business and BlackBerry IoT Solutions business. Licensing and Other consists primarily of the Company's patent licensing business and service access fees ("SAF").

Software and Services

<u>BlackBerry Spark</u>

The Company's core software and services offering is its secure BlackBerry Spark software platform that comprises endpoint protection platform ("EPP"), endpoint detection and response ("EDR"), mobile threat defense ("MTD"), and user and entity behavior analytics ("UEBA") capabilities. BlackBerry Spark includes a unified endpoint security ("UES") layer which integrates with BlackBerry unified endpoint management ("UEM") to enable secure endpoint communications in a zero trust environment. The platform is informed by the Company's artificial intelligence ("AI") and machine learning capabilities, continuous innovations, professional cybersecurity services, industry partnerships and academic collaborations. The Company is currently executing on a robust schedule of product launches for BlackBerry Spark to deliver a comprehensive security approach operating on one agent across all endpoints, administered from one console, leveraging one crowd-sourced threat data repository and managed in one cloud environment.

The BlackBerry Spark platform is a comprehensive offering of security software products and services, including the BlackBerry® Cyber Suite and the BlackBerry Spark® UEM Suite, which are also marketed together as the BlackBerry Spark® Suite, offering the Company's broadest range of tailored cybersecurity and endpoint management options.

The BlackBerry Cyber Suite offers leading AI and machine learning-based cybersecurity solutions, including: BlackBerry® Protect, an EPP and available MTD solution that uses machine learning to prevent suspicious behavior and the execution of malicious code on an endpoint; BlackBerry® Optics, an EDR solution that provides both visibility into and prevention of malicious activity on an endpoint; BlackBerry® Guard, a managed detection and response solution that provides continuous threat hunting and monitoring; and BlackBerry® Persona, a UEBA solution that provides continuous authentication by validating user identity in real time. The Company also offers incident response, compromised assessment and containment services to assist clients with forensic analysis, state of existing systems and remediation of attacks.

The BlackBerry Spark® UEM Suite includes the Company's BlackBerry® UEM, BlackBerry® Dynamics™ and BlackBerry® Workspaces solutions. BlackBerry UEM is a central software component of the Company's secure communications platform, offering a "single pane of glass", or unified console view, for managing and securing devices, applications, identity, content and endpoints across all leading operating systems. BlackBerry Dynamics offers a best-in-class development platform and secure container for mobile applications, including the Company's own enterprise applications such as BlackBerry® Work and BlackBerry® Connect for secure collaboration.

The Company also offers the BlackBerry® Spark SDK to promote the evolution of a platform ecosystem by enabling enterprise and independent software vendor ("ISV") developers to integrate the security features of BlackBerry Spark into their own mobile and web applications.

<u>BlackBerry IoT Solutions</u>

The BlackBerry IoT Solutions business consists of BlackBerry Technology Solutions ("BTS") and Secure Communications.

The principal component of BTS is BlackBerry QNX, a global provider of real-time operating systems, middleware, development tools, and professional services for connected embedded systems in the automotive, medical, industrial automation and other markets. A recognized leader in automotive software, BlackBerry QNX offers a growing portfolio of safety-certified, secure and reliable platform solutions and is focused on achieving design wins with automotive original equipment manufacturers ("OEMs"), Tier 1 vendors and automotive semiconductor suppliers. These solutions include the Neutrino® real-time operating system and the BlackBerry QNX® CAR platform, the most advanced embedded software platform for the autonomous vehicle market, as well as other products designed to alleviate the challenges of compliance with ISO 26262, the automotive industry's functional safety standard. Additionally, the Company's secure automotive over-the-air software update management service allows OEMs to manage the life cycle of the software and security in their vehicles.

The Company recently announced that it has entered into an agreement with Amazon Web Services, Inc. ("AWS") to develop and market BlackBerry IVY, an intelligent vehicle data platform leveraging BlackBerry QNX's automotive capabilities. The Company expects that BlackBerry IVY will generate recurring revenue beginning with 2023 model year vehicles, which would launch in the Company's fiscal 2023 fiscal year, and will greatly increase BTS revenue over time thereafter.

The Company is also developing a concept system to integrate BlackBerry Spark capabilities, including AI and machine learning technologies, with BlackBerry QNX automotive solutions.

In addition to BlackBerry QNX, BTS includes the BlackBerry Radar® asset tracking solution, BlackBerry Certicom® cryptography and key management products, and BlackBerry Messenger (BBM®) Enterprise service.

Secure Communications consists of BlackBerry® AtHoc® and SecuSUITE.

BlackBerry AtHoc is a secure critical event management platform that enables people, devices and organizations to exchange critical information in real time during business continuity and life safety operations. The platform securely connects with a diverse set of endpoints to distribute emergency mass notifications, improve personnel accountability and facilitate the bidirectional collection and sharing of data within and between organizations. BlackBerry AtHoc has earned Federal Risk and Authorization Management Program ("FedRAMP") authorization and helps to protect more than 70% of U.S. government personnel.

SecuSUITE® for Government is a certified, multi-OS voice and text messaging solution with advanced encryption and anti-eavesdropping capabilities providing a maximum level of security on the individual device level for public authorities and businesses.

The BlackBerry Spark and BlackBerry IoT Solutions businesses are both complemented by the enterprise and cybersecurity consulting services offered by the Company's BlackBerry® Professional Services business. BlackBerry Professional Services provides platform-agnostic strategies to address mobility-based challenges, providing expert deployment support, end-to-end delivery (from system design to user training), application consulting, and experienced project management. The Company's cybersecurity consulting services and tools, combined with its other security solutions, help customers identify the latest cybersecurity threats, test for vulnerabilities, develop risk-appropriate mitigations, maintain IT security standards and techniques, and defend against the risk of future attacks.

Licensing and Other

The Company's Licensing business is responsible for the management and monetization of the Company's global patent portfolio. The patent portfolio continues to provide a competitive advantage in the Company's core product areas as well as providing leverage in the development of future technologies and licensing programs in both core and adjacent vertical markets. The Company owns rights to an array of patented and patent pending technologies which include, but are not limited to, operating systems, networking infrastructure, acoustics, messaging, enterprise software, automotive subsystems, cybersecurity, cryptography and wireless communications.

In addition, in recent years, the Company has licensed its device security software and service suite and related brand assets to outsourcing partners who design, manufacture, market and provide customer support for BlackBerry-branded handsets featuring the Company's secure Android™ software. The Company also entered into licensing arrangements with manufacturers of other devices with embedded BlackBerry cybersecurity technology.

The Company's Other business generates revenue from SAF charged to subscribers using the Company's legacy BlackBerry 7 and prior BlackBerry operating systems, as well as revenue relating to unspecified future software upgrade rights for devices previously sold by the Company.

Recent Developments

The Company continued to execute on its strategy in fiscal 2021 and announced the following achievements:

Products and Innovation:

- Announced an agreement with AWS to develop and market the new BlackBerry IVY intelligent vehicle data platform;
- Launched BlackBerry Spark Suites, offering enterprises a range of tailored cybersecurity and endpoint management options to help protect data, minimize risk, and reduce cost and complexity;
- Launched BlackBerry Cyber Suite, the industry's first comprehensive AI-powered UES solution;
- Announced that an independent Frost & Sullivan study reported that the Company's solutions can secure all IoT endpoints against upwards of 96% of all cyberthreats;
- Announced that BlackBerry QNX software is embedded in more than 175 million cars on the road;
- Launched Zoom™ for BlackBerry®, a secure, containerized version of the Zoom app enabled by BlackBerry Dynamics;
- Launched BlackBerry Persona, the industry's first UEBA solution using AI technology for continuous authentication;
- Launched BlackBerry Protect® Mobile, an MTD solution to protect against mobile malware and phishing attacks;
- Announced that BlackBerry UEM has achieved National Security Agency (NSA) Commercial Solutions for Classified Program (CSfC) approval;
- Announced that BlackBerry UEM achieved National Information Assurance Partnership (NIAP) and U.S. Department of Defense Information Network (DoDIN) approvals;
- Launched QNX® OS for Safety 2.2 and announced its certification by TÜV Rheinland to IEC 61508 SIL3 (industrial), ISO 26262 ASIL D (automotive), and IEC 62304 Class C (medical devices) functional safety standards;
- Announced that BlackBerry® UES was validated by MITRE ATT&CK APT29, which examines the ability to detect sophisticated tactics and techniques used by APT29, a group that cybersecurity experts believe operates on behalf of the Russian government;
- Introduced AtHoc Managed Service to enable organizations of any size to maintain crisis communications capability;
- Announced the launch of BlackBerry AtHoc Public Safety Edition to support local governments and universities with critical event management programs;
- Announced the integration of BlackBerry AtHoc with Microsoft Teams;
- Announced dedicated European Union market version of the BlackBerry AtHoc service to comply with data residency mandates;
- Announced that BlackBerry is making available PE Tree, a free open-source tool for cybersecurity professionals that significantly reduces the time and effort required to reverse engineer malware;
- Announced a collaboration with Intel to deliver a new release of BlackBerry Optics to stop cryptojacking malware;
- Launched QNX Black Channel Communications Technology, a new software solution that OEMs and embedded software developers can use to ensure safe data communication exchanges within their safety-critical systems;
- Released proprietary research uncovering attacks by BAHAMUT, a massive hack-for-hire group targeting governments, businesses, human rights groups and influential individuals;
- Released new research that examines how five related Chinese Advanced Persistent Threat groups have compromised Linux servers, Windows systems and mobile Android devices for nearly a decade; and
- Announced feature updates to its SecuSUITE for Government and BlackBerry AtHoc solutions;

Customers and Partners:

- Partnered with Bell to become Bell's preferred MTD solution provider, delivering BlackBerry Protect to Canadian enterprise customers;
- Announced expanded partnerships with Vodafone and TELUS to offer BlackBerry AtHoc as their secure critical event management and crisis communications solution;
- Launched the BlackBerry Partner Program to unify the BlackBerry Enterprise Partner Program and BlackBerry Cylance Partner Programs into one comprehensive structure;
- Announced that the BlackBerry Enterprise Partner Program and the BlackBerry Cylance Partner Program both received a 5-Star rating from CRN for the fourth consecutive year;
- Announced that the BlackBerry® Government Mobility Suite has achieved Federal Risk and Authorization Management Program (FedRAMP) authorization;
- Announced that the U.S. Air Force chose BlackBerry Spark for secure productivity;
- Expanded the leadership position of the BlackBerry AtHoc crisis communication system within the U.S. federal government;
- Announced the integration of the BlackBerry AtHoc service with ServiceNow's Now platform for rapid crisis communications and IT service management;
- Announced that the German Development Agency chose BlackBerry AtHoc as its emergency mass notification system;
- Announced that Plus has selected BlackBerry QNX technology for the global commercial deployment of their automated driving system for Class 8 trucks;

- Announced that BlackBerry QNX technology will power the innovative digital cockpit in ARCFOX αT, a high-end, intelligent, electric SUV;
- Announced that StradVision will utilize the QNX® Software Development Platform within a number of next generation advanced driver assistance systems (ADAS) and autonomous vehicles from South Korean automakers;
- Announced that the Neutrino operating system will power ADAS systems in Canoo's next generation electric vehicles;
- Announced the development of an autonomous driving domain controller with Desay SV Automotive for the Xpeng P7 intelligent electric sports sedan;
- Entered into a partnership with Dedrone, a market and technology leader in airspace security, to deliver advanced counter-drone technology to secure the world's most critical sites;
- Announced that Sliced Tech will host SecuSUITE for Government for Australian government and enterprise customers;
- Announced that BlackBerry Radar added more than 12 new channel partners in the past six months including two within Mexico, expanding the company's asset monitoring solutions outside of the U.S. and Canada for the first time;
- Entered into a partnership with ZTR to offer railcar owners, operators and suppliers a powerful new digital monitoring solution; and
- Entered into a partnership with University of Windsor to develop and deliver a cybersecurity curriculum for the University's Graduate Master's Program in Applied Computing;

Environmental, Sustainability and Corporate Governance:

- Expanded the Company's commitment to the United Nations Global Compact Sustainable Development Goals;
- Extended the Company's partnership with the American Red Cross by donating BlackBerry AtHoc software to support community safety and resilience;
- Appointed Thomas Eacobacci as President; and
- Appointed Marjorie Dickman as Chief Government Affairs and Public Policy Officer.

Debt Redemption and New Issuance

On September 1, 2020, the Company redeemed its outstanding 3.75% unsecured convertible debentures (the "3.75% Debentures") for a redemption amount of approximately $615 million (the "Redemption Amount"), which settled all outstanding obligations of the Company in respect of the 3.75% Debentures.

On September 1, 2020, the Company issued an aggregate of $365 million principal amount of new 1.75% unsecured convertible debentures maturing on November 13, 2023 (the "1.75% Debentures" and collectively with the 3.75% Debentures, the "Debentures") to Hamblin Watsa Investment Counsel Ltd., in its capacity as investment manager of Fairfax Financial Holdings Limited ("Fairfax") and another institutional investor on a private placement basis. Fairfax agreed to acquire $330 million principal amount of the 1.75% Debentures and receives interest at the same rate as the other holder of the 1.75% Debentures. The 1.75% Debentures have terms that are substantially identical to those of the 3.75% Debentures except that the 1.75% Debentures are convertible into common shares at a price of $6.00 per common share, bear a lower rate of interest at 1.75% per annum, are subject to a higher approval threshold for extraordinary resolutions and mature in 2023. Additionally, the 1.75% Debentures cannot be converted to the extent that, after giving effect to the conversion, the holder would beneficially own or exercise control or direction over more than 19.99% of the Company's then issued and outstanding shares. Quarterly and annual interest expense on the 1.75% Debentures will be approximately $2 million and $6 million, respectively.

COVID-19

In March 2020, the World Health Organization characterized the novel coronavirus ("COVID-19") as a pandemic and extraordinary actions have been taken by international, federal, state, provincial and local governmental authorities to contain and combat the spread of COVID-19 in regions throughout the world. The COVID-19 outbreak and related public health measures, including orders to shelter-in-place, travel restrictions and mandated business closures, have adversely affected workforces, organizations, consumers and economies leading to an economic downturn and increased market volatility. The pandemic has also disrupted the normal operations of the Company and the businesses of many of the Company's customers, suppliers and distribution partners.

To protect the health and safety of the Company's employees, contractors, customers and visitors, the Company responded rapidly to COVID-19 by proactively mandating remote working, utilizing virtual meetings and suspending employee travel. All of the Company's recent and planned customer, industry and other stakeholder events have shifted to virtual-only experiences, and the Company may deem it advisable to similarly alter, postpone, or cancel entirely, additional events in the future. To the extent that public health protocols have accommodated returning to work at certain of the Company's facilities, the Company has implemented additional safety measures at its facilities, including increased frequency in cleaning and disinfecting as well as hygiene and social distancing practices. The Company has a limited history of having a remote workforce and the long-term impact on, and the resulting types of continuing investments for, the Company's employee base is uncertain.

In response to certain anticipated and ongoing impacts from the COVID-19 pandemic, the Company has also implemented a series of temporary cost reduction measures to further preserve financial flexibility. These actions include the postponement of certain discretionary spending, taking advantage of the broad-based employer relief provided by governments in Canada, the United States and other jurisdictions, temporarily suspending certain company matching contributions to employee retirement savings plans and deferring increases in the base salaries of many employees and executives. These cost reduction measures and their estimated savings for the nine months ended November 30, 2020 included measures impacting employee salaries and benefits of approximately $12 million, a reduction in travel spending of approximately $13 million, and a reduction in discretionary selling and administrative expenses relating to marketing and facilities of $14 million. In addition, the Company has recorded approximately $37 million in offsets to salaries for amounts under the CEWS and has deferred approximately $6 million of payments related to payroll taxes in the United States under the U.S. CARES Act, which amounts have been accrued.

The economic downturn and uncertainty caused by the COVID-19 outbreak and the measures undertaken to contain its spread are expected to continue to negatively affect the Company's QNX automotive software business until early in fiscal 2022 and have caused volatility in demand for the Company's products and services, adversely affected the ability of the Company's sales and professional services teams to meet with customers and provide service, negatively impacted expected spending from new customers and increased sales cycle times.

Although the Company experienced sequential Software & Services revenue growth and observed a partial recovery in global automotive production volumes in the second and third quarter of fiscal 2021, the COVID-19 pandemic has had and the Company believes may continue to have a material adverse impact on the Company's consolidated business, results of operations and financial condition in fiscal 2021. The Company does not expect the COVID-19 pandemic and its related economic impact to materially adversely affect its liquidity position.

The ultimate impact of the COVID-19 pandemic will depend on, among other things, the duration and severity of the pandemic, the governmental restrictions that have been, and may continue to be, imposed in response to the pandemic, the effectiveness of actions taken to contain or mitigate the outbreak (including the availability and distribution of vaccines), and global economic conditions. In light of the changing nature of the COVID-19 pandemic and uncertainty regarding the duration, severity, and recent resurgence of the pandemic and government actions in response thereto, the long-term impact on the Company's business may not be fully reflected until future periods.

The Company continues to evaluate the current and potential impact of the COVID-19 pandemic on its business, results of operations and consolidated financial statements, including the impairment of goodwill, indefinite-lived intangible assets and long-lived assets and the collectability of receivables. The Company also continues to actively monitor developments and business conditions that may cause it to take further actions that alter business operations as may be required by applicable authorities or that the Company determines are in the best interests of its employees, customers, suppliers and stockholders.

Third Quarter Fiscal 2021 Summary Results of Operations

The following table sets forth certain unaudited consolidated statements of operations data for the quarter ended November 30, 2020 compared to the quarter ended November 30, 2019 under U.S. GAAP:

	For the Three Months Ended *(in millions, except for share and per share amounts)*		
	November 30, 2020	November 30, 2019	Change
Revenue	$ 218	$ 267	$ (49)
Gross margin	149	198	(49)
Operating expenses	276	227	49
Investment loss, net	(1)	(1)	—
Loss before income taxes	(128)	(30)	(98)
Provision for (recovery of) income taxes	2	2	—
Net loss	$ (130)	$ (32)	$ (98)
Loss per share - reported			
Basic	$ (0.23)	$ (0.06)	
Diluted	$ (0.23)	$ (0.07)	
Weighted-average number of shares outstanding (000's)			
Basic [(1)]	562,443	554,585	
Diluted [(2)]	562,443	615,085	

(1) Basic loss per share on a U.S. GAAP basis for third quarter of fiscal 2021 includes 2,802,067 common shares remaining to be issued in equal installments on the next two anniversary dates of the Cylance acquisition, in consideration for the acquisition. Basic loss per share on a U.S. GAAP basis for the third quarter of fiscal 2020 includes 4,182,189 common shares to be issued in equal installments on the three anniversary dates of the Cylance acquisition, in consideration for the acquisition. There are no service or other requirements associated with the issuance of these shares.

(2) Diluted loss per share on a U.S. GAAP basis for the third quarter of fiscal 2021 does not include the dilutive effect of the Debentures as to do so would be anti-dilutive. Diluted loss per share on a U.S. GAAP basis for the third quarter of fiscal 2021 and 2020 does not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive. See Note 8 to the Consolidated Financial Statements for the Company's calculation of the diluted weighted average number of shares outstanding.

Financial Highlights

The Company had approximately $757 million in cash, cash equivalents and investments as of November 30, 2020 and $990 million in cash, cash equivalents and investments as of February 29, 2020.

In the third quarter of fiscal 2021, the Company recognized revenue of $218 million and incurred a net loss of $130 million, or $0.23 basic and diluted loss per share on a U.S. GAAP basis. In the third quarter of fiscal 2020, the Company recognized revenue of $267 million and incurred a net loss of $32 million, or $0.06 basic and $0.07 diluted loss per share on a U.S. GAAP basis.

The Company recognized adjusted revenue of $224 million and adjusted net income of $11 million, and adjusted earnings of $0.02 per share, in the third quarter of fiscal 2021. The Company recognized adjusted revenue of $280 million and adjusted net income of $17 million, and adjusted earnings of $0.03 per share, in the third quarter of fiscal 2020. See "Non-GAAP Financial Measures" below.

Debentures Fair Value Adjustment

As previously disclosed, the Company elected the fair value option to account for the Debentures; therefore, periodic revaluation has been and continues to be required under U.S. GAAP. The fair value adjustment does not impact the terms of the Debentures such as the face value, the redemption features or the conversion price.

As at November 30, 2020, the fair value of the 1.75% Debentures was approximately $459 million versus the principal value of $365 million, an increase of approximately $94 million during the third quarter of fiscal 2021. For the three months ended November 30, 2020, the Company recorded non-cash income relating to changes in fair value from instrument specific credit risk of $1 million in Other Comprehensive Income (Loss) ("OCI") and a non-cash charge relating to changes in fair value from non-credit components of $95 million (pre-tax and after tax) (the "Q3 Fiscal 2021 Debentures Fair Value Adjustment") in the Company's consolidated statements of operations relating to the Debentures. For the nine months ended November 30, 2020, the Company recorded non-cash income relating to changes in fair value from instrument specific credit risk of $16 million in OCI and a non-cash charge relating to changes in fair value from non-credit components of $114 million (pre-tax and after tax) (the "Fiscal 2021 Debentures Fair Value Adjustment") in the Company's consolidated statements of operations relating to the Debentures. See Note 6 to the Consolidated Financial Statements for further details on the Debentures.

The following table shows the impact of the changes in fair value of the Debentures for the three and nine months ended November 30, 2020:

	Three Months Ended November 30, 2020	Nine Months Ended November 30, 2020
Income associated with the change in fair value from instrument-specific credit components on the 3.75% Debentures recorded in accumulated other comprehensive loss ("AOCL")	$ —	$ 15
Realized charges associated with the change in fair value from credit components released from AOCL on redemption of the 3.75% Debentures	6	6
Charge associated with the change in fair value from instrument-specific credit components on the 1.75% Debentures recorded in OCI	(5)	(5)
Total non-cash income recorded in OCI.	$ 1	$ 16

	Three Months Ended November 30, 2020	Nine Months Ended November 30, 2020
Charge associated with the change in fair value from non-credit components on the 3.75% Debentures recorded in the consolidated statements of operations	$ —	$ (19)
Realized charges associated with the change in fair value from credit components recorded in the consolidated statements of operations on redemption of the 3.75% Debentures	(6)	(6)
Charge associated with the change in fair value from non-credit components on the 1.75% Debentures recorded in the consolidated statements of operations	(89)	(89)
Total non-cash charge recorded in the consolidated statements of operations	$ (95)	$ (114)

Non-GAAP Financial Measures

The Consolidated Financial Statements have been prepared in accordance with U.S. GAAP, and information contained in this MD&A is presented on that basis. On December 17, 2020, the Company announced financial results for the three and nine months ended November 30, 2020, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted operating income, adjusted EBITDA, adjusted operating income margin percentage, adjusted EBITDA margin percentage, adjusted net income (loss), adjusted income (loss) per share, adjusted research and development expense, adjusted selling, marketing and administrative expense, adjusted amortization expense and free cash flow.

In the Company's internal reports, management evaluates the performance of the Company's business on a non-GAAP basis by excluding the impact of certain items below from the Company's U.S. GAAP financial results. The Company believes that these non-GAAP measures provide readers of the Company's financial statements with a consistent basis for comparison across accounting periods and is useful in helping readers understand the Company's operating results and underlying operational trends.

- *Debentures fair value adjustment*. The Company has elected to measure its Debentures outstanding from time to time at fair value in accordance with the fair value option under U.S. GAAP. Each period, the fair value of the Debentures is recalculated and resulting non-cash income and charges from the change in fair value from non-credit components of the Debentures are recognized in income. The amount can vary each period depending on changes to the Company's share price. This is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.
- *Restructuring charges*. The Company believes that restructuring costs relating to employee termination benefits and facilities pursuant to the Resource Allocation Program ("RAP") entered into in order to transition the Company from a legacy hardware manufacturer to a licensing driven software business do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.

- *Software deferred revenue acquired.* The Company has acquired businesses whose net assets include deferred revenue. In accordance with U.S. GAAP reporting requirements, the Company recorded write-downs of deferred revenue under arrangements pre-dating each acquisition to fair value, which resulted in lower recognized revenue than the original transaction price until the related service obligations under such arrangements are fulfilled. Therefore, U.S. GAAP revenues after the acquisitions will not reflect the full amount of revenue that would have been reported if the acquired deferred revenue was not written down to fair value, prior to the renewal of these arrangements. The Company believes that reversing the acquisition-related deferred revenue write-downs (so that the full amount of revenue booked by the acquired businesses is included) provides a more appropriate representation of revenue in a given period and, therefore, provides readers of the Company's financial statements with a more consistent basis for comparison across accounting periods. The Company also believes that the adjustment is more useful in helping readers to understand the Company's operating results and underlying operational trends, especially in future periods when the contracts underlying the acquired deferred revenue are renewed at amounts more consistent with their transaction price. As the impacted contracts renew over time, the associated reversal of the acquisition write-downs will trend to zero.

- *Software deferred commission expense acquired.* The Company has acquired businesses whose net assets include deferred commissions. In accordance with U.S. GAAP reporting requirements, the Company recorded write-downs of deferred commissions under arrangements pre-dating each acquisition to fair value, which in most cases is nil. Therefore, U.S. GAAP commission expense after the acquisitions will not reflect commission expense that would have been reported if the acquired deferred commissions were not written down to fair value. The Company believes that reversing the acquisition-related deferred commission write-downs (so that the full amount of commission expense is included) provides a more appropriate representation of commission expense in a given period and, therefore, provides readers of the Company's financial statements with a more consistent basis for comparison across accounting periods. The Company also believes that the adjustment is more useful in helping readers to understand the Company's operating results and underlying operational trends, especially in future periods when the Company recognizes commissions on the renewals of the contracts underlying the acquired deferred commissions. As the impacted contracts renew over time, the associated reversal of the acquisition write-downs will trend to zero.

- *Stock compensation expenses*. Equity compensation is a non-cash expense and does not impact the ongoing operating decisions taken by the Company's management.

- *Amortization of acquired intangible assets.* When the Company acquires intangible assets through business combinations, the assets are recorded as part of purchase accounting and contribute to revenue generation. Such acquired intangible assets depreciate over time and the related amortization will recur in future periods until the assets have been fully amortized. This is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.

- *Business acquisition and integration costs.* The Company incurs costs associated with business acquisitions, including legal costs, audit and accounting fees, and other acquisition and integration expenses. These expenditures do not relate to the ongoing operation of the business and they tend to vary significantly based on the circumstances of each transaction. This is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.

- *Acquisition valuation allowance.* The Company records an income tax valuation allowance associated with business acquisitions. This is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.

- *Long-lived asset impairment charge***.** The Company believes that long-lived asset impairment charges do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.

- *Goodwill impairment charge.* The Company believes that goodwill impairment charge does not reflect expected future operating expenses, is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.

On a U.S. GAAP basis, the impact of these items is reflected in the Company's income statement. However, the Company believes that the provision of supplemental non-GAAP measures allow investors to evaluate the financial performance of the Company's business using the same evaluation measures that management uses, and is therefore a useful indication of the Company's performance or expected performance of future operations and facilitates period-to-period comparison of operating performance. As a result, the Company considers it appropriate and reasonable to provide, in addition to U.S. GAAP measures, supplementary non-GAAP financial measures that exclude certain items from the presentation of its financial results.

Reconciliation of non-GAAP based measures with most directly comparable U.S. GAAP based measures for the three months ended November 30, 2020 and November 30, 2019

Readers are cautioned that adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted operating income, adjusted EBITDA, adjusted operating income margin percentage, adjusted EBITDA margin percentage, adjusted net income (loss), adjusted income (loss) per share, adjusted research and development expense, adjusted selling, marketing and administrative expense, adjusted amortization expense and free cash flow and similar measures do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similarly titled measures reported by other companies. These non-GAAP financial measures should be considered in the context of the U.S. GAAP results, which are described in this MD&A and presented in the Consolidated Financial Statements.

A reconciliation of the most directly comparable U.S. GAAP financial measures for the three months ended November 30, 2020 and November 30, 2019 to adjusted financial measures is reflected in the tables below:

For the Three Months Ended (in millions)	November 30, 2020	November 30, 2019
Revenue	$ 218	$ 267
Software deferred revenue acquired (1)	6	13
Adjusted revenue	$ 224	$ 280
Gross margin	$ 149	$ 198
Software deferred revenue acquired (1)	6	13
Restructuring charges	—	3
Stock compensation expense	1	1
Adjusted gross margin	$ 156	$ 215
Gross margin %	68.3 %	74.2 %
Software deferred revenue acquired (1)	0.9 %	1.1 %
Restructuring charges	— %	1.1 %
Stock compensation expense	0.4 %	0.4 %
Adjusted gross margin %	69.6 %	76.8 %

(1) See Reconciliation of U.S. GAAP Software and Services revenue to adjusted Software and Services revenue

Reconciliation of operating expense for the three months ended November 30, 2020, August 31, 2020 and November 30, 2019 to adjusted operating expense is reflected in the tables below:

For the Three Months Ended (in millions)	November 30, 2020	August 31, 2020	November 30, 2019
Operating expense	$ 276	$ 221	$ 227
Restructuring charges	—	1	4
Stock compensation expense	11	8	14
Debenture fair value adjustment (1)	95	18	(20)
Software deferred commission expense acquired	(4)	(3)	(4)
Acquired intangibles amortization	32	32	35
LLA impairment charge	—	21	3
Adjusted operating expense	$ 142	$ 144	$ 195

(1) See “Third Quarter Fiscal 2021 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

Reconciliation of U.S. GAAP net loss and U.S. GAAP basic loss per share for the three months ended November 30, 2020 and November 30, 2019 to adjusted net income and adjusted basic earnings per share is reflected in the tables below:

For the Three Months Ended (in millions, except per share amounts)	November 30, 2020		November 30, 2019	
		Basic earnings (loss) per share		Basic earnings (loss) per share
Net loss	$ (130)	$(0.23)	$ (32)	$(0.06)
Software deferred revenue acquired	6		13	
Restructuring charges	—		7	
Stock compensation expense	12		15	
Debenture fair value adjustment	95		(20)	
Software deferred commission expense acquired	(4)		(4)	
Acquired intangibles amortization	32		35	
LLA impairment charge	—		3	
Adjusted net income	$ 11	$0.02	$ 17	$0.03

Reconciliation of U.S. GAAP Software and Services revenue for the three months ended November 30, 2020 and November 30, 2019 to adjusted Software and Services revenue is reflected in the tables below:

For the Three Months Ended (in millions)	November 30, 2020	November 30, 2019
Software and Services Revenue	$ 162	$ 185
Software deferred revenue acquired	6	13
Adjusted Software and Services revenue	$ 168	$ 198

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the three months ended November 30, 2020 and November 30, 2019 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the tables below:

For the Three Months Ended (in millions)	November 30, 2020	November 30, 2019
Research and development	$ 53	$ 66
Stock compensation expense	3	4
Adjusted research and development	$ 50	$ 62
Selling, marketing and administration	$ 83	$ 129
Restructuring charges	—	4
Software deferred commission expense acquired	(4)	(4)
Stock compensation expense	8	10
Adjusted selling, marketing and administration	$ 79	$ 119
Amortization	$ 45	$ 49
Acquired intangibles amortization	32	35
Adjusted amortization	$ 13	$ 14

Adjusted operating income, adjusted EBITDA, adjusted operating income margin percentage and adjusted EBITDA margin percentage for the three months ended November 30, 2020 and November 30, 2019 are reflected in the table below.

For the Three Months Ended (in millions)	November 30, 2020	November 30, 2019
Operating loss	$ (127)	$ (29)
Non-GAAP adjustments to operating loss		
Software deferred revenue acquired	6	13
Restructuring charges	—	7
Stock compensation expense	12	15
Debenture fair value adjustment	95	(20)
Software deferred commission expense acquired	(4)	(4)
Acquired intangibles amortization	32	35
LLA impairment charge	—	3
Total non-GAAP adjustments to operating loss	141	49
Adjusted operating income	14	20
Amortization	49	53
Acquired intangibles amortization	(32)	(35)
Adjusted EBITDA	$ 31	$ 38
Adjusted revenue (per above)	$ 224	$ 280
Adjusted operating income margin % (1)	6%	7%
Adjusted EBITDA margin % (2)	14%	14%

(1) Adjusted operating income margin % is calculated by dividing adjusted operating income by adjusted revenue
(2) Adjusted EBITDA margin % is calculated by dividing adjusted EBITDA by adjusted revenue

Reconciliation of non-GAAP based measures with most directly comparable U.S. GAAP based measures for the nine months ended November 30, 2020 and November 30, 2019.

A reconciliation of the most directly comparable U.S. GAAP financial measures for the nine months ended November 30, 2020 and November 30, 2019 to adjusted financial measures is reflected in the tables below:

For the Nine Months Ended (in millions)	November 30, 2020	November 30, 2019
Revenue	$ 683	$ 758
Software deferred revenue acquired [(1)]	21	50
Adjusted revenue	$ 704	$ 808
Gross margin	$ 491	$ 551
Software deferred revenue acquired [(1)]	21	50
Restructuring charges	—	5
Stock compensation expense	4	3
Adjusted gross margin	$ 516	$ 609
Gross margin %	71.9 %	72.7 %
Software deferred revenue acquired [(1)]	0.8 %	1.6 %
Restructuring charges	— %	0.7 %
Stock compensation expense	0.6 %	0.4 %
Adjusted gross margin %	73.3 %	75.4 %
Operating expense	$ 1,285	$ 659
Restructuring charges	2	4
Stock compensation expense	31	43
Debenture fair value adjustment [(2)]	114	(71)
Software deferred commission expense acquired	(10)	(13)
Acquired intangibles amortization	97	106
Business acquisition and integration costs	—	3
Goodwill impairment charge	594	—
LLA impairment charge	21	5
Adjusted operating expense	$ 436	$ 582

[(1)] See Reconciliation of U.S. GAAP Software and Services revenue to adjusted Software and Service revenue
[(2)] See “Third Quarter Fiscal 2021 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

Reconciliation of U.S. GAAP net loss and U.S. GAAP basic loss per share for the nine months ended November 30, 2020 and November 30, 2019 to the adjusted net income and adjusted basic earnings per share is reflected in the tables below:

For the Nine Months Ended (in millions, except per share amounts)	November 30, 2020		November 30, 2019	
		Basic earnings (loss) per share		Basic earnings (loss) per share
Net loss	$ (789)	$ (1.41)	$ (111)	$ (0.20)
Software deferred revenue acquired	21		50	
Restructuring charges	2		9	
Stock compensation expense	35		46	
Debenture fair value adjustment	114		(71)	
Software deferred commission expense acquired	(10)		(13)	
Acquired intangibles amortization	97		106	
Business acquisition and integration costs	—		3	
Goodwill impairment charge	594		—	
LLA impairment charge	21		5	
Acquisition valuation allowance	—		(1)	
Adjusted net income	$ 85	$0.15	$ 23	$0.04

Reconciliation of U.S. GAAP Software and Services revenue for the nine months ended November 30, 2020 and November 30, 2019 to adjusted Software and Services revenue is reflected in the tables below:

For the Nine Months Ended (in millions)	November 30, 2020	November 30, 2019
Software and Services Revenue	$ 461	$ 521
Software deferred revenue acquired	21	50
Adjusted Software and Services Revenue	$ 482	$ 571

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the nine months ended November 30, 2020 and November 30, 2019 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the tables below:

For the Nine Months Ended (in millions)	November 30, 2020	November 30, 2019
Research and development	$ 167	$ 199
Stock compensation expense	8	10
Adjusted research and development	$ 159	$ 189
Selling, marketing and administration	$ 252	$ 380
Restructuring charges	2	4
Software deferred commission expense acquired	(10)	(13)
Stock compensation expense	23	33
Business acquisition and integration costs	—	3
Adjusted selling, marketing and administration	$ 237	$ 353
Amortization	$ 137	$ 146
Acquired intangibles amortization	97	106
Adjusted amortization	$ 40	$ 40

Adjusted operating income, adjusted EBITDA, adjusted operating income margin percentage and adjusted EBITDA margin percentage for the nine months ended November 30, 2020 and November 30, 2019 are reflected in the table below.

For the Nine Months Ended (in millions)	November 30, 2020	November 30, 2019
Operating loss	$ (794)	$ (108)
Non-GAAP adjustments to operating loss		
Software deferred revenue acquired	21	50
Restructuring charges	2	9
Stock compensation expense	35	46
Debenture fair value adjustment	114	(71)
Software deferred commission expense acquired	(10)	(13)
Acquired intangibles amortization	97	106
Business acquisition and integration costs	—	3
Goodwill impairment charge	594	—
LLA impairment charge	21	5
Total non-GAAP adjustments to operating loss	874	135
Adjusted operating income	80	27
Amortization	149	160
Acquired intangibles amortization	(97)	(106)
Adjusted EBITDA	$ 132	$ 81
Adjusted revenue (per above)	$ 704	$ 808
Adjusted operating income margin % (1)	11 %	3 %
Adjusted EBITDA margin % (2)	19 %	10 %

(1) Adjusted operating income margin % is calculated by dividing adjusted operating income by adjusted revenue
(2) Adjusted EBITDA margin % is calculated by dividing adjusted EBITDA by adjusted revenue

Key Metrics

The Company regularly monitors a number of financial and operating metrics, including the following key metrics, in order to measure the Company's current performance and estimate future performance. Readers are cautioned that billings, recurring revenue percentage, annual recurring revenue ("ARR"), dollar-based net retention rate ("DBNRR"), net customer churn rate and free cash flow do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similarly titled measures reported by other companies.

Billings

The Company defines billings as amounts invoiced less credits issued. The Company considers billings to be a useful metric because billings drive deferred revenue, which is an important indicator of the health and visibility of the business, and represents a significant percentage of future revenue.

Total Company billings decreased in the third quarter of fiscal 2021 compared to the third quarter of fiscal 2020 and compared to the second quarter of fiscal 2021.

Recurring Software Product Revenue

The Company defines recurring software product revenue percentage as recurring software product revenue divided by total software and services revenue. Recurring software product revenue is comprised of subscription and term licenses, maintenance arrangements, royalty arrangements and perpetual licenses recognized ratably under ASC 606. Total software and services revenue is comprised of recurring product revenue, non-recurring product revenue and professional services. The Company uses recurring software product revenue percentage to provide visibility into the revenue expected to be recognized in the current and future periods.

Total adjusted Software and Services product revenue, excluding professional services, was approximately 83% recurring in the third quarter of fiscal 2021 and decreased from greater than 90% recurring in the third quarter of fiscal 2020 due to product mix.

Annual Recurring Revenue

The Company defines ARR as the annualized value of all subscription, term, maintenance, services, and royalty contracts that generate recurring revenue as of the end of the reporting period. The Company uses ARR as an indicator of business momentum for software and services.

Software and Services ARR was approximately $475 million in the third quarter of fiscal 2021 and decreased compared to the second quarter of fiscal 2021 primarily due to the impact of COVID-19 on BTS.

The Company expects to see the negative impact of COVID-19 on ARR until early in fiscal 2022, as the Company returns to its normal revenue run rate for BTS.

Dollar-Based Net Retention Rate

The Company calculates the DBNRR as of period end by first calculating the ARR from the customer base as at 12 months prior to the current period end ("Prior Period ARR"). The Company then calculates the ARR for the same cohort of customers as at the current period end ("Current Period ARR"). The Company then divides the Current Period ARR by the Prior Period ARR to calculate the DBNRR.

Software and Services DBNRR was 90% in the third quarter of fiscal 2021.

Net Customer Churn Rate

The Company defines net customer churn rate as the difference between the gross customer churn rate and the new customer acquisition rate, divided by the number of active customers in the prior quarter, expressed as a percentage. The Company uses net customer churn rate to evaluate the rate the Company is obtaining new customers to offset customers lost due to account cancellations or non-renewal of subscriptions.

Net customer churn rate was approximately 1% in the third quarter of fiscal 2021.

Free Cash Flow

Free cash flow is a measure of liquidity calculated as net operating cash flow minus capital expenditures. Free cash flow does not have any standardized meaning as prescribed by U.S. GAAP and therefore may not be comparable to similar measures presented by other companies. The Company uses free cash flow when assessing its sources of liquidity, capital resources, and quality of earnings. Free cash flow is helpful in understanding the Company's capital requirements and provides an additional means to reflect the cash flow trends in the Company's business. For the three months ended November 30, 2020, the Company's net cash flow provided by operating activities was $29 million and capital expenditures were $2 million, resulting in the Company reporting free cash flow of $27 million.

Results of Operations - Three months ended November 30, 2020 compared to the three months ended November 30, 2019

Revenue

Revenue by Product and Service

Comparative breakdowns of revenue by product and service on a U.S. GAAP basis are set forth below.

	For the Three Months Ended *(in millions)*		
	November 30, 2020	November 30, 2019	Change
Revenue by Product and Service			
Software and Services	$ 162	$ 185	$ (23)
Licensing and Other	56	82	(26)
	$ 218	$ 267	$ (49)
% Revenue by Product and Service			
Software and Services	74.3 %	69.3 %	
Licensing and Other	25.7 %	30.7 %	
	100.0 %	100.0 %	

Software and Services

Software and Services revenue was $162 million, or 74.3% of revenue, in the third quarter of fiscal 2021, a decrease of $23 million compared to $185 million, or 69.3% of revenue, in the third quarter of fiscal 2020. The decrease in Software and Services revenue of $23 million was primarily due to a decrease of $29 million in recurring royalties in BlackBerry QNX, due to the slowdown in the automotive market related to the COVID-19 pandemic and the conversion in the prior fiscal year of certain existing royalty-bearing licenses to fixed pricing from volume-based pricing, a decrease of $5 million relating to professional services and a decrease of $3 million relating to non-automotive OEM business, partially offset by an increase of $14 million related to hardware sales in Secusmart and an increase of $5 million related to product revenue in BlackBerry Spark.

Adjusted Software and Services revenue was $168 million in the third quarter of fiscal 2021, a decrease of $30 million compared to $198 million in the third quarter of fiscal 2020. Adjusted Software and Services revenue decreased due to the reasons described above on a U.S. GAAP basis and due to a decrease of $7 million in the non-GAAP adjustment of deferred software revenue acquired to $6 million in the third quarter of fiscal 2021 from $13 million in the third quarter of fiscal 2020.

The Company expects Software and Services to have sequential non-GAAP revenue growth in the fourth quarter of fiscal 2021.

The Company previously stated that it expected sequential BTS revenue growth in the third quarter of fiscal 2021. BTS revenue grew sequentially in the third quarter of fiscal 2021.

Licensing and Other

Licensing and Other revenue was $56 million, or 25.7% of revenue, in the third quarter of fiscal 2021, a decrease of $26 million compared to $82 million, or 30.7% of revenue, in the third quarter of fiscal 2020. The decrease in Licensing and Other revenue of $26 million was primarily due to a decrease in revenue from the Company's patent licensing agreement with Teletry and a decrease in direct intellectual property ("IP") licensing arrangements.

U.S. GAAP Revenue by Geography

Comparative breakdowns of the geographic regions are set forth in the following table:

	For the Three Months Ended *(in millions)*		
	November 30, 2020	November 30, 2019	Change
Revenue by Geography			
North America	$ 147	$ 188	$ (41)
Europe, Middle East and Africa	55	60	(5)
Other regions	16	19	(3)
	$ 218	$ 267	$ (49)
% Revenue by Geography			
North America	67.5 %	70.4 %	
Europe, Middle East and Africa	25.2 %	22.5 %	
Other regions	7.3 %	7.1 %	
	100.0 %	100.0 %	

North America Revenue

Revenue in North America was $147 million, or 67.5% of revenue, in the third quarter of fiscal 2021, reflecting a decrease of $41 million compared to $188 million, or 70.4% of revenue, in the third quarter of fiscal 2020. Revenue in North America decreased compared to the third quarter of fiscal 2020 primarily due to a decrease of $26 million in Licensing and Other revenue and a decrease of $8 million in BlackBerry QNX revenue due to the reasons discussed above in "Revenue by Product and Service", a decrease of $4 million relating to professional services, a decrease of $3 million relating to non-automotive OEM business and a decrease of $2 million in BlackBerry AtHoc revenue, partially offset by an increase of $4 million in product revenue in BlackBerry Spark.

Europe, Middle East and Africa Revenue

Revenue in Europe, Middle East and Africa was $55 million or 25.2% of revenue in the third quarter of fiscal 2021, reflecting a decrease of $5 million compared to $60 million or 22.5% of revenue in the third quarter of fiscal 2020. The decrease in revenue is primarily due to a decrease of $15 million in BlackBerry QNX revenue due to the reasons discussed above in "Revenue by

Product and Service", a decrease of $1 million SAF revenue and a decrease of $1 million relating to professional services, partially offset by an increase of $14 million related to hardware sales in Secusmart.

Other Regions Revenue

Revenue in other regions was $16 million or 7.3% of revenue in the third quarter of fiscal 2021, reflecting a decrease of $3 million compared to $19 million or 7.1% of revenue in the third quarter of fiscal 2020. The decrease in revenue is primarily due to a $6 million decrease in BlackBerry QNX revenue due to the reasons discussed above in "Revenue by Product and Service", partially offset by an increase of $2 million in BlackBerry Spark revenue due to the reasons discussed above in "Revenue by Product and Service".

Gross Margin

Consolidated Gross Margin

Consolidated gross margin decreased by $49 million to approximately $149 million in the third quarter of fiscal 2021 from $198 million in the third quarter of fiscal 2020. The decrease was primarily due to a decrease in revenue from Licensing and Other and BlackBerry QNX, partially offset by an increase in revenue from Secusmart due to the reasons discussed above in "Revenue by Product and Service", as the Company's cost of sales does not significantly fluctuate based on business volume.

Consolidated Gross Margin Percentage

Consolidated gross margin percentage decreased by 5.9% to approximately 68.3% of consolidated revenue in the third quarter of fiscal 2021 from 74.2% of consolidated revenue in the third quarter of fiscal 2020. The decrease was primarily due to a lower gross margin contribution from Licensing and Other and BlackBerry QNX (at a higher relative gross margin percentage in each case) due to the reasons discussed above in "Revenue by Product and Service" and a higher gross margin contribution from Secusmart (at a lower relative gross margin percentage) due to the reasons discussed above in "Revenue by Product and Service".

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expenses for the quarter ended November 30, 2020, compared to the quarter ended August 31, 2020 and the quarter ended November 30, 2019. The Company believes it is meaningful to provide a sequential comparison between the third quarter of fiscal 2021 and the second quarter of fiscal 2021.

	For the Three Months Ended *(in millions)*		
	November 30, 2020	August 31, 2020	November 30, 2019
Revenue	$ 218	$ 259	$ 267
Operating expenses			
Research and development	53	57	66
Selling, marketing and administration	83	79	129
Amortization	45	46	49
Impairment of long-lived assets	—	21	3
Debentures fair value adjustment	95	18	(20)
Total	$ 276	$ 221	$ 227
Operating Expenses as % of Revenue			
Research and development	24.3 %	22.0 %	24.7 %
Selling, marketing and administration	38.1 %	30.5 %	48.3 %
Amortization	20.6 %	17.8 %	18.4 %
Impairment of long-lived assets	— %	8.1 %	1.1 %
Debentures fair value adjustment	43.6 %	6.9 %	(7.5)%
Total	126.6 %	85.3 %	85.0 %

See "Non-GAAP Financial Measures" for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended November 30, 2020, August 31, 2020 and November 30, 2019.

U.S. GAAP Operating Expenses

Operating expenses increased by $55 million, or 24.9%, to $276 million, or 126.6% of revenue, in the third quarter of fiscal 2021, compared to $221 million, or 85.3% of revenue, in the second quarter of fiscal 2021. The increase was primarily attributable to the difference between the Q3 Fiscal 2021 Debentures Fair Value Adjustment and the fair value adjustment of $77 million related to the Debentures incurred in the second quarter of fiscal 2021, and a decrease of $8 million in government subsidies resulting from claims filed for the CEWS program to support the business through the COVID-19 pandemic, partially offset by $21 million in impairment of long-lived assets in the second quarter of fiscal 2021 which did not recur, and a decrease of $9 million in salaries and benefits expenses.

Operating expenses increased by $49 million, or 21.6%, to $276 million, or 126.6% of revenue, in the third quarter of fiscal 2021, compared to $227 million, or 85.0% of revenue, in the third quarter of fiscal 2020. The increase was primarily attributable to the difference between the Q3 Fiscal 2021 Debentures Fair Value Adjustment and the fair value adjustment of $115 million related to the Debentures incurred in the third quarter of fiscal 2020, partially offset by a decrease of $12 million in salaries and benefits expenses, a benefit from CEWS funding of $10 million, a decrease of $7 million in variable incentive plan costs, a decrease of $5 million in marketing and advertising expenses, a decrease of $5 million in bad debt expense and a decrease of $5 million in travel expense.

Adjusted Operating Expenses

Adjusted operating expenses decreased by $2 million, or 1.4%, to $142 million in the third quarter of fiscal 2021 compared to $144 million in the second quarter of fiscal 2021. The decrease was primarily attributable to a decrease of $8 million in salaries and benefits expenses and a decrease of $3 million in bad debt expenses, partially offset by a decrease in the benefit from CEWS funding of $8 million.

Adjusted operating expenses decreased by $53 million, or 27.2%, to $142 million in the third quarter of fiscal 2021, compared to $195 million in the third quarter of fiscal 2020. The decrease was primarily attributable to a decrease of $12 million in salaries and benefits expenses, the benefit of $10 million in CEWS funding, a decrease of $7 million in variable incentive plan costs, a decrease of $5 million in marketing and advertising expenses, a decrease of $5 million in bad debt expense, and a decrease of $5 million travel expense.

Research and Development Expenses

Research and development expenses consist primarily of salaries and benefits costs for technical personnel, new product development costs, travel expenses, office and building costs, infrastructure costs and other employee costs.

Research and development expenses decreased by $13 million, or 19.7%, to $53 million in the third quarter of fiscal 2021 compared to $66 million in the third quarter of fiscal 2020. The decrease was primarily attributable to a decrease of $8 million in salaries and benefits expenses and a decrease of $2 million in consulting fees, partially offset by an increase of $2 million in variable incentive plan costs.

Adjusted research and development expenses decreased by $12 million, or 19.4%, to $50 million in the third quarter of fiscal 2021 compared to $62 million in the third quarter of fiscal 2020. The decrease was primarily due to the reasons described above on a U.S. GAAP basis.

Selling, Marketing and Administration Expenses

Selling, marketing and administration expenses consist primarily of marketing, advertising and promotion, salaries and benefits, external advisory fees, information technology costs, office and related staffing infrastructure costs and travel expenses.

Selling, marketing and administration expenses decreased by $46 million, or 35.7%, to $83 million in the third quarter of fiscal 2021 compared to $129 million in the third quarter of fiscal 2020. This decrease was primarily attributable to the benefit of $10 million in CEWS funding, a decrease of $8 million in variable incentive plan costs, a decrease of $5 million in marketing and advertising expenses, a decrease of $5 million in bad debt expenses and a decrease of $4 million in salaries and benefits expenses.

Adjusted selling, marketing and administration expenses decreased by $40 million, or 33.6%, to $79 million in the third quarter of fiscal 2021 compared to $119 million in the third quarter of fiscal 2020. This decrease was primarily due to the reasons described above on a U.S. GAAP basis.

Amortization Expense

The table below presents a comparison of amortization expense relating to property, plant and equipment and intangible assets recorded as amortization or cost of sales for the quarter ended November 30, 2020 compared to the quarter ended November 30, 2019. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (*in millions*)		
	Included in Operating Expense		
	November 30, 2020	November 30, 2019	Change
Property, plant and equipment	$ 4	$ 5	$ (1)
Intangible assets	41	44	(3)
Total	$ 45	$ 49	$ (4)
	Included in Cost of Sales		
	November 30, 2020	November 30, 2019	Change
Property, plant and equipment	$ 1	$ 1	$ —
Intangible assets	3	3	—
Total	$ 4	$ 4	$ —

Amortization included in Operating Expense

Amortization expense relating to property, plant and equipment and certain intangible assets decreased by $4 million to $45 million for the third quarter of fiscal 2021 compared to $49 million for the third quarter of fiscal 2020. The decrease in amortization expense was due to the lower cost base of assets.

Adjusted amortization decreased by $1 million to $13 million in the third quarter of fiscal 2021 compared to $14 million in the third quarter of fiscal 2020 due to the lower cost base of assets.

Amortization included in Cost of Sales

Amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's service operations was $4 million in the third quarter of fiscal 2021, consistent with $4 million in the third quarter of fiscal 2020.

Investment Loss, Net

Investment loss, net, which includes the interest expense from the 1.75% Debentures, was $1 million in the third quarter of fiscal 2021, consistent with $1 million in the third quarter of fiscal 2020. The decrease in interest expense from the Debentures in the third quarter of fiscal 2021 was offset by a decrease in investment income due to a lower yield on cash and investments and a lower cash and investments balance compared to the third quarter of fiscal 2020.

Income Taxes

For the third quarter of fiscal 2021, the Company's net effective income tax expense rate was approximately 2%, compared to an effective income tax expense rate of approximately 7% for the same period in the prior fiscal year. The Company's net effective income tax rate reflects the change in unrecognized income tax benefits and the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the change in fair value of the Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

Net Loss

The Company's net loss for the third quarter of fiscal 2021 was $130 million, or $0.23 basic and diluted loss per share on a U.S. GAAP basis, reflecting an increase in net loss of $98 million compared to a net loss of $32 million, or $0.06 basic loss per share and $0.07 diluted loss per share, in the third quarter of fiscal 2020. The increase in net loss of $98 million was primarily due to an increase in operating expenses primarily due to the Q3 Fiscal 2021 Debentures Fair Value Adjustment, as described above in "Operating Expenses", a decrease in revenue, as described above in "Revenue by Product and Service" and a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage".

Adjusted net income was $11 million in the third quarter of fiscal 2021 compared to $17 million in the third quarter of fiscal 2020, reflecting a decrease in adjusted net income of $6 million primarily due to a decrease in revenue as described above in "Revenue by Product and Service" and a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage", partially offset by a decrease in operating expenses as described above in "Operating Expenses".

The weighted average number of shares outstanding was 562 million common shares for basic and diluted loss per share for the third quarter of fiscal 2021. The weighted average number of shares outstanding was 555 million common shares for basic loss per share and 615 million common shares for diluted loss per share for the third quarter of fiscal 2020.

Results of Operations - Nine months ended November 30, 2020 compared to the nine months ended November 30, 2019

The following section sets forth certain consolidated statements of operations data, which is expressed in millions of dollars, except for share and per share amounts and as a percentage of revenue, for the nine months ended November 30, 2020 and November 30, 2019:

	For the Nine Months Ended *(in millions, except for share and per share amounts)*		
	November 30, 2020	November 30, 2019	Change
Revenue	$ 683	$ 758	$ (75)
Gross margin	491	551	(60)
Operating expenses	1,285	659	626
Investment income (loss), net	(6)	2	(8)
Loss before income taxes	(800)	(106)	(694)
Provision for (recovery of) income taxes	(11)	5	(16)
Net loss	$ (789)	$ (111)	$ (678)
Loss per share - reported			
Basic	$ (1.41)	$ (0.20)	$ (1.21)
Diluted	$ (1.41)	$ (0.27)	$ (1.14)
Weighted-average number of shares outstanding (000's)			
Basic (1)	559,732	552,931	
Diluted (2)	559,732	613,431	

(1) Basic loss per share on a U.S. GAAP basis for the first nine months of fiscal 2021 includes approximately 2,802,067 common shares remaining to be issued in equal installments on the next two anniversary dates of the Cylance acquisition, in consideration for the acquisition. Basic loss per share on a U.S. GAAP basis for the first nine months of fiscal 2020 includes approximately 4,182,189 common shares to be issued in equal installments on the three anniversary dates of the Cylance acquisition, in consideration for the acquisition. There are no service or other requirements associated with the issuance of these shares.

(2) Diluted loss per share on a U.S. GAAP basis for the first nine months of fiscal 2021 does not include the dilutive effect of the Debentures as to do so would be anti-dilutive. Diluted loss per share on a U.S. GAAP basis for the first nine months of fiscal 2021 and fiscal 2020 do not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive.

Revenue

Revenue by Product and Service

Comparative breakdowns of revenue by product and service on a U.S. GAAP basis are set forth below.

	For the Nine Months Ended (in millions)		
	November 30, 2020	November 30, 2019	Change
Revenue by Product and Service			
Software and Services	$ 461	$ 521	$ (60)
Licensing and Other	222	237	(15)
	$ 683	$ 758	$ (75)
% Revenue by Product and Service			
Software and Services	67.5 %	68.7 %	
Licensing and Other	32.5 %	31.3 %	
	100.0 %	100.0 %	

Software and Services

Software and Services revenue was $461 million, or 67.5% of revenue in the first nine months of fiscal 2021, a decrease of $60 million compared to $521 million, or 68.7% of revenue in the first nine months of fiscal 2020. The decrease in Software and Services revenue of $60 million was primarily due to a decrease of $69 million in recurring royalties in BlackBerry QNX, due to the slowdown in the automotive market related to the COVID-19 pandemic and the conversion in the prior fiscal year of certain existing royalty-bearing licenses to fixed pricing from volume-based pricing, a decrease of $14 million relating to professional services, a decrease of $9 million relating to non-automotive OEM business and a decrease of $7 million in BlackBerry AtHoc revenue, partially offset by an increase of $28 million related to product revenue in BlackBerry Spark and an increase of $17 million in hardware sales in Secusmart.

Adjusted Software and Services revenue was $482 million in the first nine months of fiscal 2021 compared to $571 million in the first nine months of fiscal 2020, representing a decrease of $89 million. The $89 million decrease in adjusted Software and Services revenue was primarily attributable to the same reasons described above on a U.S. GAAP basis and due to a decrease of $29 million in the non-GAAP adjustment of deferred software revenue acquired to $21 million in the first nine months of fiscal 2021 from $50 million in the first nine months of fiscal 2020.

Licensing and Other

Licensing and Other revenue was $222 million, or 32.5% of revenue in the first nine months of fiscal 2021, a decrease of $15 million compared to $237 million, or 31.3% of revenue in the first nine months of fiscal 2020. The decrease in Licensing and Other revenue of $15 million was primarily due to a decrease of $23 million in revenue from the BBM Consumer licensing arrangement and a decrease of $8 million from mobility licensing arrangements, partially offset by an increase of $22 million in revenue from the Company's patent licensing agreement with Teletry, partially offset by a decrease in direct IP licensing arrangements. SAF revenue, which is generated from users of BlackBerry 7 and prior BlackBerry operating systems, also decreased by $6 million, primarily due to a lower number of BlackBerry 7 users and lower revenue from those users compared to the first nine months of fiscal 2020.

U.S. GAAP Revenue by Geography

Comparative breakdowns of the geographic regions on a U.S. GAAP basis are set forth in the following table:

	For the Nine Months Ended *(in millions)*		
	November 30, 2020	November 30, 2019	Change
Revenue by Geography			
North America	$ 492	$ 527	$ (35)
Europe, Middle East and Africa	144	168	(24)
Other regions	47	63	(16)
	$ 683	$ 758	$ (75)
% Revenue by Geography			
North America	72.0 %	69.5 %	
Europe, Middle East and Africa	21.1 %	22.2 %	
Other regions	6.9 %	8.3 %	
	100.0 %	100.0 %	

North America Revenue

Revenue in North America was $492 million, or 72.0% of revenue, in the first nine months of fiscal 2021, reflecting a decrease of $35 million compared to $527 million, or 69.5% of revenue in the first nine months of fiscal 2020. The decrease in North American revenue is primarily due to a decrease of $32 million in BlackBerry QNX revenue, due to the reasons discussed above in “Revenue by Product and Service”, a decrease of $23 million in revenue from the BBM Consumer licensing arrangement, a decrease of $9 million relating to non-automotive OEM business, a decrease of $7 million relating to professional services and a decrease of $6 million in BlackBerry AtHoc revenue, partially offset by an increase of $27 million in product revenue in BlackBerry Spark and an increase of $22 million in Licensing and Other revenue related to Teletry and direct IP licensing due to the reasons discussed above in “Revenue by Product and Service”.

Europe, Middle East and Africa Revenue

Revenue in Europe, Middle East and Africa was $144 million, or 21.1% of revenue, in the first nine months of fiscal 2021, reflecting a decrease of $24 million compared to $168 million, or 22.2% of revenue, in the first nine months of fiscal 2020. The decrease in revenue is primarily due to decreases of $26 million in BlackBerry QNX revenue and a decrease of $6 million in SAF revenue due to the reasons discussed above in “Revenue by Product and Service”, a decrease of $2 million in development seat revenue and a decrease of $2 million in product revenue in BlackBerry Spark, partially offset by an increase of $17 million in hardware sales in Secusmart.

Other Regions Revenue

Revenue in other regions was $47 million, or 6.9% of revenue, in the first nine months of fiscal 2021, reflecting a decrease of $16 million compared to $63 million, or 8.3% of revenue, in the first nine months of fiscal 2020. The decrease in revenue is primarily due to a decrease of $10 million in BlackBerry QNX revenue, due to the reasons discussed above in “Revenue by Product and Service”, a decrease of $8 million from mobility licensing arrangements and a decrease of $2 million in development seat revenue, partially offset by an increase of $5 million in product revenue in BlackBerry Spark.

Gross Margin

Consolidated Gross Margin

Consolidated gross margin decreased by $60 million to approximately $491 million in the first nine months of fiscal 2021 from $551 million in the first nine months of fiscal 2020. The decrease was primarily due to a decrease in gross margin in BlackBerry QNX, partially offset by increases in revenue in BlackBerry Spark, due to the reasons discussed above in "Revenue by Product and Service", as the Company's cost of sales does not significantly fluctuate based on business volume.

Consolidated Gross Margin Percentage

Consolidated gross margin percentage decreased by 0.8%, to approximately 71.9% of consolidated revenue in the first nine months of fiscal 2021 from 72.7% of consolidated revenue in the first nine months of fiscal 2020. The decrease was primarily due a lower proportion of gross margin percentage associated with BlackBerry QNX due to the reasons discussed above in "Revenue by Product and Service", partially offset by a higher proportion of gross margin percentage associated with Licensing and Other.

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for the nine months ended November 30, 2020, compared to the nine months ended November 30, 2019.

	For the Nine Months Ended *(in millions)*		
	November 30, 2020	November 30, 2019	Change
Revenue	$ 683	$ 758	$ (75)
Operating expenses			
Research and development	167	199	(32)
Selling, marketing and administration	252	380	(128)
Amortization	137	146	(9)
Impairment of goodwill	594	—	594
Impairment of long-lived assets	21	5	16
Debentures fair value adjustment	114	(71)	185
Total	$ 1,285	$ 659	$ 626

	November 30, 2020	November 30, 2019
Operating Expense as % of Revenue		
Research and development	24.5 %	26.3 %
Selling, marketing and administration	36.9 %	50.1 %
Amortization	20.1 %	19.3 %
Impairment of goodwill	87.0 %	— %
Impairment of long-lived assets	3.1 %	0.7 %
Debentures fair value adjustment	16.7 %	(9.4)%
Total	188.1 %	86.9 %

See "Non-GAAP Financial Measures" for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the nine months ended November 30, 2020 and November 30, 2019.

U.S. GAAP Operating Expenses

Operating expenses increased by $626 million, or 95.0%, to $1,285 million, or 188.1% of revenue in the first nine months of fiscal 2021, compared to $659 million, or 86.9% of revenue, in the first nine months of fiscal 2020. The increase was primarily attributable to an increase of $594 million in goodwill impairment, the difference between the Fiscal 2021 Debentures Fair Value Adjustment and the fair value adjustment of $185 million related to the Debentures incurred in the first nine months of fiscal 2020 and an increase of $16 million in impairment of long-lived assets, partially offset by the benefit of $37 million in CEWS funding, a decrease of $32 million in salaries and benefits expense, costs associated with direct IP licensing arrangements of $18 million in the first nine months of fiscal 2020 which did not recur, and a decrease of $15 million in travel expense.

Adjusted Operating Expenses

Adjusted operating expenses decreased by $146 million, or 25.1%, to $436 million in the first nine months of fiscal 2021, compared to $582 million in the first nine months of 2020. The decrease was primarily attributable to the benefit of $37 million in CEWS funding, a decrease of $31 million in salaries and benefits expense, costs associated with direct IP licensing arrangements of $18 million in the first nine months of 2020 which did not recur, a decrease of $15 million in travel expense and a decrease of $13 million in marketing and advertising expense.

Research and Development Expenses

Research and development expenses consist primarily of salaries and benefits for technical personnel, new product development costs, travel, office and building costs, infrastructure costs and other employee costs.

Research and development expenses decreased by $32 million, or 16.1%, to $167 million, or 24.5% of revenue, in the first nine months of fiscal 2021, compared to $199 million, or 26.3% of revenue, in the first nine months of fiscal 2020. The decrease was primarily attributable to a decrease of $21 million in salaries and benefits expense, a decrease of $6 million in consulting fees and a decrease of $3 million in infrastructure costs, partially offset by a decrease of $4 million in claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program's investment in BlackBerry QNX.

Adjusted research and development expenses decreased by $30 million, or 15.9% to $159 million in the first nine months of fiscal 2021 compared to $189 million in the first nine months of fiscal 2020. The decrease was primarily due to the same reasons described above on a U.S. GAAP basis.

Selling, Marketing and Administration Expenses

Selling, marketing and administration expenses consist primarily of marketing, advertising and promotion, salaries and benefits, external advisory fees, information technology costs, office and related staffing infrastructure costs and travel expenses.

Selling, marketing and administration expenses decreased by $128 million, or 33.7%, to $252 million, or 36.9% of revenue, in the first nine months of fiscal 2021 compared to $380 million in the first nine months of fiscal 2020, or 50.1% of revenue. The decrease was primarily attributable to the benefit of $37 million in CEWS funding, a decrease in costs associated with direct IP licensing arrangements of $18 million in the first nine months of 2020 which did not recur, a decrease of $13 million in travel expense, a decrease of $11 million in variable incentive plan costs, and a decrease of $11 million in salaries and benefits expenses.

Adjusted selling, marketing and administration expenses decreased by $116 million, or 32.9%, to $237 million in the first nine months of fiscal 2021 compared to $353 million in the first nine months of fiscal 2020. The decrease was primarily due to the same reasons described above on a U.S. GAAP basis.

Amortization Expense

The table below presents a comparison of amortization expense relating to property, plant and equipment and intangible assets recorded as amortization or cost of sales for the nine months ended November 30, 2020 compared to the nine months ended November 30, 2019. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Nine Months Ended *(in millions)*		
	Included in Operating Expense		
	November 30, 2020	November 30, 2019	Change
Property, plant and equipment	$ 13	$ 14	$ (1)
Intangible assets	124	132	(8)
Total	$ 137	$ 146	$ (9)

	Included in Cost of Sales		
	November 30, 2020	November 30, 2019	Change
Property, plant and equipment	$ 3	$ 4	$ (1)
Intangible assets	9	10	(1)
Total	$ 12	$ 14	$ (2)

Amortization included in Operating Expense

Amortization expense relating to certain property, plant and equipment and intangible assets decreased by $9 million to $137 million in the first nine months of fiscal 2021, compared to $146 million in the first nine months of fiscal 2020. The decrease in amortization expense was due to the lower cost base of assets.

Adjusted amortization expense was $40 million in the first nine months of fiscal 2021, consistent with $40 million in the first nine months of fiscal 2020.

Amortization included in Cost of Sales

Amortization expense relating to certain property, plant and equipment and intangible assets employed in the Company's service operations decreased by $2 million to $12 million in the first nine months of fiscal 2021, compared to $14 million in the first nine months of fiscal 2020. The decrease in amortization expense was due to the lower cost base of assets.

Investment Income (Loss), Net

Investment income (loss), net, which includes the interest expense from the Debentures, decreased by $8 million to investment loss of $6 million in the first nine months of fiscal 2021, from investment income of $2 million in the first nine months of fiscal 2020. The decrease in investment income was due to lower yields on cash and investments in the first nine months of fiscal 2021 compared to the first nine months of fiscal 2020, partially offset by a decrease in interest expense from the Debentures.

Income Taxes

For the first nine months of fiscal 2021, the Company's net effective income tax recovery rate was approximately 1%, compared to a net effective income tax expense of approximately 5% for the same period in the prior fiscal year. The Company's net effective income tax rate reflects the change in unrecognized income tax benefits and the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the change in fair value of the Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

The Company's adjusted net effective income tax recovery rate was approximately 15%, compared to an adjusted net effective income tax expense of approximately 21% for the same period in the prior fiscal year. The change is due to prior years taxable items that could not be offset with carried forward tax attributes such as tax losses.

Net Loss

The Company's net loss for the first nine months of fiscal 2021 was $789 million, reflecting an increase in net loss of $678 million compared to net loss of $111 million in the first nine months of fiscal 2020, primarily due to increases in operating expenses due to the goodwill impairment and increase in debenture fair value adjustment, as described above in "Operating Expenses", and a decrease in revenue as described above in "Revenue by Product and Service".

Adjusted net income in the first nine months of fiscal 2021 was $85 million compared to $23 million in the first nine months of fiscal 2020, reflecting an increase in adjusted net income of $62 million, primarily due to a decrease in operating expenditures as described above in "Operating Expenses", partially offset by a decrease in revenue as described above in "Revenue by Product and Service".

Basic and diluted loss per share on a U.S. GAAP basis was $1.41 in the first nine months of fiscal 2021, an increase in basic and diluted loss per share of $1.21 and $1.14, respectively, compared to basic loss per share on a U.S. GAAP basis of $0.20 and diluted loss per share on a U.S. GAAP basis of $0.27 in the first nine months of fiscal 2020.

The weighted average number of shares outstanding was 560 million for basic and diluted loss per share for the first nine months of November 30, 2020. The weighted average number of shares outstanding was 553 million and 613 million for basic and diluted loss per share, respectively, for the first nine months of November 30, 2019.

Common Shares Outstanding

On December 15, 2020, there were 563 million voting common shares, options to purchase 3 million voting common shares, 19 million restricted share units and 1 million deferred share units outstanding. In addition, 60.8 million common shares are issuable upon conversion in full of the 1.75% Debentures as described in Note 6 to the Consolidated Financial Statements.

The Company has not paid any cash dividends during the last three fiscal years.

Selected Quarterly Financial Data

The following table sets forth the Company's unaudited quarterly consolidated results of operations data for each of the eight most recent quarters, including the quarter ended November 30, 2020. The information in the table below has been derived from the Company's unaudited interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements of the Company and include all adjustments necessary for a fair presentation of information when read in conjunction with the audited consolidated financial statements of the Company. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

	(in millions, except per share data)							
	Fiscal Year 2021			Fiscal Year 2020				Fiscal Year 2019
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
Revenue	$ 218	$ 259	$ 206	$ 282	$ 267	$ 244	$ 247	$ 255
Gross margin	149	199	143	212	198	176	177	206
Operating expenses	276	221	788	253	227	219	213	178
Income (loss) before income taxes	(128)	(27)	(645)	(42)	(30)	(43)	(33)	32
Provision for (recovery of) income taxes	2	(4)	(9)	(1)	2	1	2	(19)
Net income (loss)	$ (130)	$ (23)	$ (636)	$ (41)	$ (32)	$ (44)	$ (35)	$ 51
Earnings (loss) per share								
Basic earnings (loss) per share	$ (0.23)	$ (0.04)	$ (1.14)	$ (0.07)	$ (0.06)	$ (0.08)	$ (0.06)	$ 0.09
Diluted earnings (loss) per share	$ (0.23)	$ (0.04)	$ (1.14)	$ (0.07)	$ (0.07)	$ (0.10)	$ (0.09)	$ 0.08

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments decreased by $233 million to $757 million as at November 30, 2020 from $990 million as at February 29, 2020, primarily due to the redemption of the 3.75% Debentures which was partially offset by the issuance of the 1.75% Debentures. The majority of the Company's cash, cash equivalents, and investments were denominated in U.S. dollars as at November 30, 2020.

A comparative summary of cash, cash equivalents, and investments is set out below:

	As at *(in millions)*		
	November 30, 2020	February 29, 2020	Change
Cash and cash equivalents	$ 223	$ 377	$ (154)
Restricted cash	50	49	1
Short-term investments	451	532	(81)
Long-term investments	33	32	1
Cash, cash equivalents, and investments	$ 757	$ 990	$ (233)

The table below summarizes the current assets, current liabilities, and working capital of the Company:

	As at *(in millions)*		
	November 30, 2020	February 29, 2020	Change
Current assets	$ 971	$ 1,196	$ (225)
Current liabilities	427	1,121	(694)
Working capital	$ 544	$ 75	$ 469

Current Assets

The decrease in current assets of $225 million at the end of the third quarter of fiscal 2021 from the end of fourth quarter of fiscal 2020 was primarily due to decreases in cash and cash equivalents of $154 million, short term investments of $81 million and accounts receivable, net of $3 million, partially offset by increases in other receivables of $7 million and income taxes receivable of $4 million.

The Company's cash and cash equivalents decreased due to the redemption of the 3.75% Debentures on September 1, 2020, partially offset by the issuance of the 1.75% Debentures as described above in "Business Overview - Debt Redemption and New Issuance".

At November 30, 2020, accounts receivable was $212 million, a decrease of $3 million from February 29, 2020. The decrease was primarily due to lower revenue recognized over the three months ended November 30, 2020 compared to the three months ended February 29, 2020 and an increase in the allowance for credit losses from the adoption of ASC 326, partially offset by an increase in days sales outstanding to 94 days at the end of the third quarter of fiscal 2021 from 70 days at the end of the fourth quarter of fiscal 2020 due to extending payment terms and to an increase in overdue balances as a result of COVID-19.

At November 30, 2020, other receivables increased by $7 million to $21 million compared to $14 million as at February 29, 2020. The increase was primarily due to an increase of $7 million relating to the CEWS program.

At November 30, 2020, income taxes receivable was $10 million, an increase of $4 million from February 29, 2020. The increase was primarily due to the U.S. CARES Act resulting in an increase in taxes receivable from tax loss carry backs.

Current Liabilities

The decrease in current liabilities of $694 million at the end of the third quarter of 2021 from the end of the fourth quarter of fiscal 2020 was primarily due to a decrease in Debentures of $606 million due to the redemption of the 3.75% Debentures, a decrease in deferred revenue of $47 million, a decrease in accrued liabilities of $29 million, a decrease in income taxes payable of $10 million and a decrease in accounts payable of $2 million.

Deferred revenue, current was $217 million, which reflects a decrease of $47 million compared to February 29, 2020 that was attributable to a $41 million decrease in deferred revenue, current related to BlackBerry Spark and $10 million related to IP licensing, partially offset by a $2 million increase in deferred revenue, current related to BlackBerry AtHoc.

Accrued liabilities were $173 million, reflecting a decrease of $29 million compared to February 29, 2020, which was primarily attributable to a $10 million decrease in variable incentive plan costs and a decrease of $8 million in payroll accrual.

Income taxes payable were $18 million, reflecting a decrease of $10 million compared to February 29, 2020, which was primarily attributable to the reversal of uncertain tax positions.

Accounts payable were $29 million, reflecting a decrease of $2 million from February 29, 2020, which was primarily attributable to payments of accounts payable.

Cash flows for the nine months ended November 30, 2020 compared to the nine months ended November 30, 2019 were as follows:

	For the Nine Months Ended (in millions)		
	November 30, 2020	November 30, 2019	Change
Net cash flows provided by (used in):			
Operating activities	$ 30	$ (8)	$ 38
Investing activities	52	(32)	84
Financing activities	(236)	6	(242)
Effect of foreign exchange gain (loss) on cash and cash equivalents	1	(1)	2
Net decrease in cash and cash equivalents	$ (153)	$ (35)	$ (118)

Operating Activities

The decrease in net cash flows used in operating activities of $38 million primarily reflects the net changes in working capital.

Investing Activities

During the nine months ended November 30, 2020, cash flows provided by investing activities were $52 million and included cash provided by transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of $80 million, offset by cash used in the acquisition of intangible assets of $23 million, and the acquisition of property, plant and equipment of $5 million. For the same period in the prior fiscal year, cash flows used in investing activities were $32 million and included cash used in transactions involving intangible asset additions of $24 million, and acquisitions of property, plant and equipment of $9 million, offset by proceeds from the decrease in consideration paid for the Cylance acquisition.

Financing Activities

The decrease in cash flows used in financing activities was $242 million for the first nine months of fiscal 2021 due to the redemption of the 3.75% Debentures on September 1, 2020, partially offset by the issuance of the 1.75% Debentures as described above in "Business Overview - Debt Redemption and New Issuance" and an increase in common shares issued for stock options exercised and employee share purchase plan.

Aggregate Contractual Obligations

The following table sets out aggregate information about the Company's contractual obligations and the periods in which payments are due as at November 30, 2020:

	(in millions)				
	Total	Less than One Year	One to Three Years	Four to Five Years	Greater than Five Years
Operating lease obligations	$ 144	$ 34	$ 57	$ 33	$ 20
Purchase obligations and commitments	164	92	69	3	—
Debt interest and principal payments	385	6	379	—	—
Total	$ 693	$ 132	$ 505	$ 36	$ 20

Purchase obligations and commitments amounted to approximately $693 million as at November 30, 2020, including the principal amount of the 1.75% Debentures of $365 million and operating lease obligations of $144 million. The remaining balance consists of purchase orders for goods and services utilized in the operations of the Company. Total aggregate contractual obligations as at November 30, 2020 decreased by approximately $320 million as compared to the February 29, 2020 balance of approximately $1,013 million, which was attributable to the redemption of the 3.75% Debentures on September 1, 2020, partially offset by the issuance of the 1.75% Debentures as described above in "Business Overview - Debt Redemption and New Issuance", a decrease in purchase obligations and commitments and a decrease in operating lease obligations.

Debenture Financing and Other Funding Sources

See Note 6 to the Consolidated Financial Statements for a description of the Debentures.

The Company has $50 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business. See Note 3 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately $757 million as at November 30, 2020. The Company's management remains focused on maintaining appropriate cash balances, efficiently managing working capital balances and managing the liquidity needs of the business. Based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities and access to other potential financing arrangements, should be sufficient to meet funding requirements for current financial commitments and future operating expenditures not yet committed, and should provide the necessary financial capacity for the foreseeable future.

The Company does not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K under the Exchange Act, or under applicable Canadian securities laws.

Accounting Policies and Critical Accounting Estimates

See Note 1 to the Consolidated Financial Statements for policies updated to reflect the issuance of the 1.75% Debentures and the adoption of the new standard in accounting for credit losses on financial instruments and goodwill.

See Note 2 to the Consolidated Financial Statements for accounting pronouncements not yet adopted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is engaged in operating and financing activities that generate risk in three primary areas:

Foreign Exchange

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenue in the third quarter of fiscal 2021 was transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At November 30, 2020, approximately 17% of cash and cash equivalents, 20% of accounts receivables and 56% of accounts payable were denominated in foreign currencies (February 29, 2020 – 12%, 17% and 17%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes. If overall foreign currency exchanges rates to the U.S. dollar uniformly weakened or strengthened by 10% related to the Company's net monetary asset or liability balances in foreign currencies at November 30, 2020 (after hedging activities), the impact to the Company would be immaterial.

The Company regularly reviews its currency forward and option positions, both on a stand-alone basis and in conjunction with its underlying foreign currency exposures. Given the effective horizons of the Company's risk management activities and the anticipatory nature of the exposures, there can be no assurance these positions will offset more than a portion of the financial impact resulting from movements in currency exchange rates. Further, the recognition of the gains and losses related to these instruments may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect the Company's financial condition and operating results.

Interest Rate

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued Debentures with a fixed interest rate, as described in Note 6 to the Consolidated Financial Statements. The fair value of the Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio.

Credit and Customer Concentration

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for credit losses ("ACL") that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The ACL as at November 30, 2020 was $13 million

(February 29, 2020 - $9 million). There were two customers that comprised more than 10% of accounts receivable as at November 30, 2020 (February 29, 2020 - two customers that comprised more than 10%). During the third quarter of fiscal 2021, the percentage of the Company's receivable balance that was past due increased by 5.2% compared to the fourth quarter of fiscal 2020. Although the Company actively monitors and attempts to collect on its receivables as they become due, the risk of further delays or challenges in obtaining timely payments of receivables from its distributor partners (such as resellers and network carriers) exists. The occurrence of such delays or challenges in obtaining timely payments could negatively impact the Company's liquidity and financial condition.

The Company's sales to Teletry represented approximately 13% of the Company's revenue in the third quarter of fiscal 2021 (third quarter of fiscal 2020 - 20%) and 27% of the Company's revenue in the first nine months of fiscal 2021 (first nine months of fiscal 2020 - 15%). The Company expects this to be lower in the fourth quarter of fiscal 2021. No other individual customer accounted for more than 10% of the Company's revenue in the third quarter or first nine months of fiscal 2021 or fiscal 2020. In fiscal 2018, the Company entered into a strategic licensing agreement with Teletry under which Teletry may sublicense a broad range of the Company's patents to global smartphone manufacturers. The Company also continues to operate its own licensing program outside of Teletry's sublicensing rights. The Company does not rely primarily on patents or other intellectual property rights to protect or establish its market position; however, it is prepared to enforce its intellectual property rights in certain technologies when attempts to negotiate mutually agreeable licenses are not successful.

Market values are determined for each individual security in the investment portfolio. The Company assesses declines in the value of individual investments for impairment to determine whether the decline is other-than-temporary. The Company makes this assessment by considering available evidence including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition, the near-term prospects of the individual investment and the Company's ability and intent to hold the debt securities to maturity.

See Note 12 to the Consolidated Financial Statements for additional information regarding the Company's credit risk as it pertains to its foreign exchange derivative counterparties.

ITEM 4. CONTROLS AND PROCEDURES

As of November 30, 2020, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Exchange Act. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of such date, the Company's disclosure controls and procedures were effective to give reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits under the U.S. Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended November 30, 2020, no changes were made to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 10 to the Consolidated Financial Statements for information regarding certain legal proceedings in which the Company is involved.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
4.1	Indenture dated September 1, 2020 (incorporated by reference to Exhibit 4.1 to the current report on Form 8-K filed by the Company on September 2, 2020)
4.2	First Supplemental Indenture dated August 28, 2020 (incorporated by reference to Exhibit 4.2 to the current report on Form 8-K filed by the Company on September 2, 2020)
4.3	Second Supplemental Indenture dated August 28, 2020 (incorporated by reference to Exhibit 4.3 to the current report on Form 8-K filed by the Company on September 2, 2020)
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)
32.1†	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	XBRL Instance Document – the document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document
101*	Inline XBRL Taxonomy Extension Schema Document
101*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101*	Inline XBRL Taxonomy Extension Label Linkbase Document
101*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File – formatted as Inline XBRL and contained in Exhibit 101

* Filed herewith
† Furnished (and not filed) herewith pursuant to Item 601(b)(32)(ii) of the SEC's Regulation S-K

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

BLACKBERRY LIMITED

Date: December 18, 2020	By:	/s/ John Chen
	Name:	John Chen
	Title:	Chief Executive Officer
	By:	/s/ Steve Rai
	Name:	Steve Rai
	Title:	Chief Financial Officer (Principal Financial and Accounting Officer)