December 20, 2018

FOR IMMEDIATE RELEASE

BlackBerry Reports Fiscal Year 2019 Third Quarter Results

- **Non-GAAP total company revenue of $228 million; GAAP total company revenue of $226 million**
- **Record high non-GAAP total software and services revenue of $219 million; GAAP total software and services revenue of $217 million**
- **Continued strong double-digit revenue growth year-over-year for BlackBerry Technology Solutions, driven by the automotive vertical**
- **Non-GAAP earnings per basic and diluted share of $0.05; GAAP earnings per basic share of $0.11 and GAAP loss per diluted share of $0.01**
- **Free cash flow of $39 million, before considering the impact of restructuring and legal proceedings; free cash flow of $57 million, as reported**

Waterloo, Ontario - BlackBerry Limited (NYSE: BB; TSX: BB) today reported financial results for the three months ended November 30, 2018 (all figures in U.S. dollars and U.S. GAAP, except where otherwise indicated).

Third Quarter Fiscal 2019 Results

- Total company non-GAAP revenue for the third quarter of fiscal 2019 was $228 million with GAAP revenue of $226 million. Total non-GAAP software and services revenue of $219 million, up 10% year-over-year. Total GAAP software and services revenue was $217 million, up 14% year-over-year. Approximately 88% of third quarter software and services revenue (excluding IP licensing and professional services) was recurring after including perpetual licenses that are now recognized ratably. Non-GAAP gross margin was 76% and GAAP gross margin was 75%.

- Non-GAAP operating income was $27 million, and positive for the eleventh consecutive quarter. GAAP operating income was $58 million. Non-GAAP earnings per share was $0.05 (basic and diluted). GAAP net income for the quarter was $0.11 per basic share and a GAAP net loss of $0.01 per diluted share. GAAP net income includes $20 million for acquired intangibles amortization expense, $15 million in stock compensation expense, $1 million in restructuring charges, a benefit of $69 million related to the fair value adjustment on the debentures, and other amounts as summarized in a table below.

- Total cash, cash equivalents, short-term and long-term investments was $2.4 billion as of November 30, 2018. Free cash flow, before considering the impact of restructuring and legal proceedings, was positive $39 million. Cash generated from operations was $62 million and capital expenditures were $5 million. Excluding $605 million in the face value of the company's debt, the net cash balance at the end of the quarter was $1.8 billion.

"We delivered another solid quarter of performance, resulting in year-over-year double-digit percentage growth for total software and services revenue, earnings per share, and free cash flow" said John Chen, Executive Chairman and CEO, BlackBerry. "I'm excited about the pending Cylance acquisition as it will extend our strategy with cutting-edge AI cybersecurity capabilities and, combined with BlackBerry's capabilities, present the opportunity for revenue acceleration in our businesses, including UEM, QNX and Spark."

Outlook

BlackBerry re-affirms its outlook for fiscal 2019 with software and services billings and revenue growth, profitability and positive cash flow, as follows:

- Total company software and services billings growth is expected to be double-digits
- Total software and services revenue growth of between 8% to 10% year-over-year
- Non-GAAP earnings per share is expected to be positive
- Free cash flow is expected to be positive for the full year

Reconciliation of GAAP revenue, gross margin, gross margin percentage, income before income taxes, net income and basic earnings per share to Non-GAAP revenue, gross margin, gross margin percentage, income before income taxes, net income and basic earnings per share for the three months ended November 30, 2018:

Q3 Fiscal 2019 Non-GAAP Adjustments		For the Three Months Ended November 30, 2018 *(in millions, except for per share amounts)*					
	Income statement location	**Revenue**	**Gross margin *(before taxes)***	**Gross margin % *(before taxes)***	**Income before income taxes**	**Net income**	**Basic earnings per share**
As reported		$ 226	$ 170	75.2 %	$ 60	$ 59	$ 0.11
Debentures fair value adjustment [2]	Debentures fair value adjustment	—	—	— %	(69)	(69)	
Restructuring charges [3]	Selling, marketing and administration	—	—	— %	1	1	
Software deferred revenue acquired [4]	Revenue	2	2	0.2 %	2	2	
Stock compensation expense [5]	Cost of sales	—	1	0.5 %	1	1	
Stock compensation expense [5]	Research and development	—	—	— %	3	3	
Stock compensation expense [5]	Selling, marketing and administration	—	—	— %	11	11	
Acquired intangibles amortization [6]	Amortization	—	—	— %	20	20	
Adjusted		$ 228	$ 173	75.9 %	$ 29	$ 28	$ 0.05

Note: Non-GAAP revenue, non-GAAP gross margin, non-GAAP gross margin percentage, non-GAAP income before income taxes, non-GAAP net income and non-GAAP basic earnings per share do not have a standardized meaning prescribed by GAAP and thus are not comparable to similarly titled measures presented by other issuers. The Company believes that the presentation of these non-GAAP measures enables the Company and its shareholders to better assess the Company’s operating results relative to its operating results in prior periods and improves the comparability of the information presented. Investors should consider these non-GAAP measures in the context of the Company’s GAAP results.

(1) During the third quarter of fiscal 2019, the Company reported GAAP gross margin of $170 million or 75.2% of revenue. Excluding the impact of stock compensation expense included in cost of sales and software deferred revenue acquired included in revenue, non-GAAP gross margin was $173 million, or 75.9% of revenue.

(2) During the third quarter of fiscal 2019, the Company recorded the Q3 Fiscal 2019 Debentures Fair Value Adjustment of $69 million. This adjustment was presented on a separate line in the Consolidated Statements of Operations.

(3) During the third quarter of fiscal 2019, the Company incurred restructuring charges of approximately $1 million, which was included in selling, marketing and administration expense.

(4) During the third quarter of fiscal 2019, the Company recorded software deferred revenue acquired but not recognized due to business combination accounting rules of $2 million, which was included in Enterprise software and services revenue.

(5) During the third quarter of fiscal 2019, the Company recorded stock compensation expense of $15 million, of which $1 million was included in cost of sales, $3 million was included in research and development, and $11 million was included in selling, marketing and administration expense.

(6) During the third quarter of fiscal 2019, the Company recorded amortization of intangible assets acquired through business combinations of $20 million, which was included in amortization expense.

Supplementary Geographic Revenue Breakdown

BlackBerry Limited
(United States dollars, in millions)
Revenue by Region

	For the Quarters Ended									
	November 30, 2018		August 31, 2018		May 31, 2018		February 28, 2018		November 30, 2017	
North America	$ 151	66.8%	$ 133	63.3%	$ 139	65.3%	$ 147	63.1%	$ 133	58.8%
Europe, Middle East and Africa	56	24.8%	53	25.3%	52	24.4%	63	27.0%	69	30.5%
Other regions	19	8.4%	24	11.4%	22	10.3%	23	9.9%	24	10.7%
Total	$ 226	100.0%	$ 210	100.0%	$ 213	100.0%	$ 233	100.0%	$ 226	100.0%

Supplementary Revenue by Product and Service Type Breakdown

BlackBerry Limited
(United States dollars, in millions)
Revenue by Product and Service Type

	U.S. GAAP		**Adjustments**		**Non-GAAP**	
	For the Three Months Ended		For the Three Months Ended		For the Three Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Enterprise software and services	$ 96	$ 97	$ 2	$ 9	$ 98	$ 106
BlackBerry Technology Solutions	53	43	—	—	53	43
Licensing, IP and other	68	50	—	—	68	50
Handheld devices	—	9	—	—	—	9
SAF	9	27	—	—	9	27
Total	$ 226	$ 226	$ 2	$ 9	$ 228	$ 235

Conference Call and Webcast
A conference call and live webcast will be held today beginning at 8 a.m. ET, which can be accessed by dialing 1-866-393-4306 or by logging on at http://ca.blackberry.com/company/investors/events.html. A replay of the conference call will also be available at approximately 11 a.m. ET by dialing 1-800-585-8367 and entering Conference ID #3276343 and at the link above.

About BlackBerry

BlackBerry enables the Enterprise of Things by providing the technology that allows endpoints to trust one another, communicate securely, and maintain privacy.

Based in Waterloo, Ontario, BlackBerry was founded in 1984 and operates globally. The Company trades under the ticker symbol "BB" on the Toronto Stock Exchange and the New York Stock Exchange. For more information visit BlackBerry.com, and follow the company on LinkedIn, Twitter and Facebook.

Investor Contact:
BlackBerry Investor Relations
+1-519-888-7465
investor_relations@blackberry.com

Media Contact:
BlackBerry Media Relations
(519) 597-7273
mediarelations@blackberry.com

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This news release 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 regarding: the Company’s plans, strategies and objectives and the anticipated benefits of its strategic initiatives including the proposed acquisition of Cylance; its intentions to grow revenue and increase and enhance its product and service offerings; its expectations regarding free cash flow, total software and services revenue growth, total software and services billings growth, and non-GAAP earnings per share for fiscal 2019.

The words “expect”, “anticipate”, “estimate”, “may”, “will”, “should”, “could”, “intend”, “believe”, “target”, “plan” and similar expressions are intended to identify these forward-looking statements. Forward-looking statements are based on estimates and assumptions made by BlackBerry in light of its experience, historical trends, current conditions and expected future developments, as well as other factors that BlackBerry believes are appropriate in the circumstances. Many factors could cause BlackBerry’s actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including the following risks: BlackBerry’s ability to enhance, develop, introduce or monetize products and services for the enterprise market in a timely manner with competitive pricing, features and performance; BlackBerry’s ability to maintain or expand its customer base for its software and services offerings to grow revenue or achieve sustained profitability; the intense competition faced by BlackBerry; the occurrence or perception of a breach of BlackBerry’s network or product security measures or an inappropriate disclosure of confidential or personal information; risks related to BlackBerry’s continuing ability to attract new personnel, retain existing key personnel and manage its staffing effectively; BlackBerry’s dependence on its relationships with resellers and distributors; the risk that network disruptions or other business interruptions could have a material adverse effect on BlackBerry’s business and harm its reputation; risks related to acquisitions, divestitures, investments and other business initiatives, which may negatively affect BlackBerry’s results of operations, and in the case of the proposed Cylance acquisition, the risk that BlackBerry may be unable to obtain regulatory approvals for the proposed acquisition or may be unable to obtain those approvals on favorable terms, the risk that the required regulatory approvals may delay the proposed acquisition, the risk that a condition to the closing of the proposed acquisition may not be satisfied or the acquisition agreement may be terminated prior to closing and risks associated with the integration of the Cylance business; risks related to BlackBerry's products and services being dependent upon interoperability with rapidly changing systems provided by third parties; BlackBerry's ability to generate revenue and profitability through the licensing of security software and services or the BlackBerry brand to device manufacturers; the risk that failure to protect BlackBerry's intellectual property could harm its ability to compete effectively and BlackBerry may not earn the revenues it expects from intellectual property rights; the risk that BlackBerry could be found to have infringed on the intellectual property rights of others; the risk that litigation against BlackBerry may result in adverse outcomes; risks related to the use and management of user data and personal information, which could give rise to liabilities as a result of legal, customer and other third-party requirements; BlackBerry's ability to obtain rights to use third-party software; the substantial asset risk faced by BlackBerry, including the potential for charges related to its long-lived assets and goodwill; risks related to BlackBerry's indebtedness, which could adversely affect its operating flexibility and financial condition; risks related to government regulations applicable to BlackBerry's products and services, including products containing encryption capabilities, which could negatively impact BlackBerry's business; risks related to foreign operations, including fluctuations in foreign currencies; risks associated with any errors in BlackBerry's products and services, which can be difficult to remedy and could have a material adverse effect on BlackBerry's business; risks related to the failure of BlackBerry's suppliers, subcontractors, third-party distributors and representatives to use acceptable ethical business practices or comply with applicable laws; BlackBerry's reliance on third parties to manufacture and repair its hardware products; risks related to fostering an ecosystem of third-party application developers; risks related to regulations regarding health and safety, hazardous materials usage and conflict minerals, and to product certification risks; risks related to tax provision changes, the adoption of new tax legislation, or exposure to additional tax liabilities; risks related to the fluctuation of BlackBerry's quarterly revenue and operating results; the volatility of the market price of BlackBerry's common shares; and risks related to adverse economic and geopolitical conditions.

These risk factors and others relating to BlackBerry are discussed in greater detail in BlackBerry's Annual Information Form, which is included in its Annual Report on Form 40-F and the "Cautionary Note Regarding Forward-Looking Statements" section of BlackBerry's MD&A (copies of which filings may be obtained at www.sedar.com or www.sec.gov). All of these factors should be considered carefully, and readers should not place undue reliance on BlackBerry's forward-looking statements. Any statements that are forward-looking statements are intended to enable BlackBerry's shareholders to view the anticipated performance and prospects of BlackBerry 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 BlackBerry's financial results and performance for future periods, particularly over longer periods, given the ongoing transition in BlackBerry's business strategy and the rapid technological changes, evolving industry standards, intense competition and short product life cycles that characterize the industries in which BlackBerry operates. BlackBerry 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.

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BlackBerry Limited

Incorporated under the Laws of Ontario

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

Consolidated Statements of Operations

	For the Three Months Ended			For the Nine Months Ended	
	November 30, 2018	**August 31, 2018**	**November 30, 2017**	**November 30, 2018**	**November 30, 2017**
Revenue	**$ 226**	$ 210	$ 226	$ 649	$ 699
Cost of sales	**56**	49	58	157	206
Gross margin	**170**	161	168	492	493
Gross margin %	**75.2%**	76.7%	74.3%	75.8%	70.5%
Operating expenses					
Research and development	**55**	51	60	167	181
Selling, marketing and administration	**93**	106	120	299	343
Amortization	**33**	35	37	105	116
Debentures fair value adjustment	**(69)**	(70)	77	(111)	225
Impairment of long-lived assets	**—**	—	—	—	11
Arbitration charges (awards)	**—**	—	132	—	(683)
	112	122	426	460	193
Operating income (loss)	**58**	39	(258)	32	300
Investment income, net	**2**	5	(17)	13	120
Income (loss) before income taxes	**60**	44	(275)	45	420
Provision for income taxes	**1**	1	—	3	5
Net income (loss)	**$ 59**	$ 43	$ (275)	$ 42	$ 415
Earnings (loss) per share					
Basic	**$ 0.11**	$ 0.08	$ (0.52)	$ 0.08	$ 0.78
Diluted	**$ (0.01)**	$ (0.04)	$ (0.52)	$ (0.09)	$ 0.76
Weighted-average number of common shares outstanding (000s)					
Basic	**540,406**	537,299	532,496	538,251	531,651
Diluted	**600,906**	597,799	532,496	598,751	548,514
Total common shares outstanding (000s)	**547,084**	537,768	536,307	547,084	536,307

BlackBerry Limited

Incorporated under the Laws of Ontario

(United States dollars, in millions) (unaudited)

Consolidated Balance Sheets

	As at	
	November 30, 2018	**February 28, 2018**
Assets		
Current		
Cash and cash equivalents	**$ 1,084**	$ 816
Short-term investments	**1,234**	1,443
Accounts receivable, net	**138**	151
Other receivables	**25**	71
Income taxes receivable	**13**	26
Other current assets	**50**	38
	2,544	2,545
Restricted cash and cash equivalents	**26**	39
Long-term investments	**55**	55
Other long-term assets	**26**	28
Deferred income tax assets	**2**	3
Property, plant and equipment, net	**63**	64
Goodwill	**564**	569
Intangible assets, net	**396**	477
	$ 3,676	$ 3,780
Liabilities		
Current		
Accounts payable	**$ 32**	$ 46
Accrued liabilities	**156**	205
Income taxes payable	**17**	18
Deferred revenue, current	**171**	142
	376	411
Deferred revenue, non-current	**98**	53
Other long-term liabilities	**14**	23
Long-term debt	**665**	782
Deferred income tax liabilities	**4**	6
	1,157	1,275
Shareholders' equity		
Capital stock and additional paid-in capital	**2,618**	2,560
Deficit	**(83)**	(45)
Accumulated other comprehensive loss	**(16)**	(10)
	2,519	2,505
	$ 3,676	$ 3,780

BlackBerry Limited

Incorporated under the Laws of Ontario

(United States dollars, in millions) (unaudited)

Consolidated Statements of Cash Flows

	For the Nine Months Ended	
	November 30, 2018	**November 30, 2017**
Cash flows from operating activities		
Net income	**$ 42**	$ 415
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	**116**	138
Deferred income taxes	**(1)**	(3)
Stock-based compensation	**53**	36
Impairment of long-lived assets	**—**	11
Loss on sale, disposal and abandonment of long-lived assets	**2**	6
Debentures fair value adjustment	**(111)**	225
Other long-term assets	**2**	(23)
Other	**3**	(3)
Net changes in working capital items:		
Accounts receivable, net	**13**	36
Other receivables	**46**	(6)
Income taxes receivable	**13**	4
Other assets	**(1)**	40
Accounts payable	**(14)**	(65)
Income taxes payable	**(1)**	5
Accrued liabilities	**(57)**	99
Deferred revenue	**(23)**	(49)
Net cash provided by operating activities	**82**	866
Cash flows from investing activities		
Acquisition of long-term investments	**(2)**	(27)
Proceeds on sale or maturity of long-term investments	**2**	77
Acquisition of property, plant and equipment	**(14)**	(11)
Proceeds on sale of property, plant and equipment	**1**	3
Acquisition of intangible assets	**(24)**	(22)
Acquisition of short-term investments	**(2,754)**	(2,715)
Proceeds on sale or maturity of short-term investments	**2,962**	1,626
Net cash provided by (used in) investing activities	**171**	(1,069)
Cash flows from financing activities		
Issuance of common shares	**5**	7
Common shares repurchased	**—**	(18)
Net cash provided by (used in) financing activities	**5**	(11)
Effect of foreign exchange gain (loss) on cash, cash equivalents, restricted cash, and restricted cash equivalents	**(3)**	3
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period	**255**	(211)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**855**	785
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 1,110**	$ 574

As at	**November 30, 2018**	**February 28, 2018**
Cash and cash equivalents	**$ 1,084**	$ 816
Restricted cash and cash equivalents	**$ 26**	$ 39
Short-term investments	**$ 1,234**	$ 1,443
Long-term investments	**$ 55**	$ 55

BlackBerry Limited
Incorporated under the Laws of Ontario
(United States dollars, in millions) (unaudited)

Consolidated Balance Sheets

	As at	
	November 30, 2018	February 28, 2018
Assets		
Current		
Cash and cash equivalents	$ 1,084	$ 816
Short-term investments	1,234	1,443
Accounts receivable, net	138	151
Other receivables	25	71
Income taxes receivable	13	26
Other current assets	50	38
	2,544	2,545
Restricted cash and cash equivalents	26	39
Long-term investments	55	55
Other long-term assets	26	28
Deferred income tax assets	2	3
Property, plant and equipment, net	63	64
Goodwill	564	569
Intangible assets, net	396	477
	$ 3,676	$ 3,780
Liabilities		
Current		
Accounts payable	$ 32	$ 46
Accrued liabilities	156	205
Income taxes payable	17	18
Deferred revenue, current	171	142
	376	411
Deferred revenue, non-current	98	53
Other long-term liabilities	14	23
Long-term debt	665	782
Deferred income tax liabilities	4	6
	1,157	1,275
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 - 547,084,392 voting common shares (February 28, 2018 - 536,733,733)	2,618	2,560
Deficit	(83)	(45)
Accumulated other comprehensive loss	(16)	(10)
	2,519	2,505
	$ 3,676	$ 3,780

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

	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 28, 2018	$ 2,560	$ (45)	$ (10)	$ 2,505
Net income	—	42	—	42
Shares issued:				
Stock-based compensation	53	—	—	53
Exercise of stock options	1	—	—	1
Employee share purchase plan	4	—	—	4
Cumulative impact of adoption of ASC 606	—	(86)	—	(86)
Cumulative impact of adoption of ASU 2016-01	—	6	(6)	—
Balance as at November 30, 2018	$ 2,618	$ (83)	$ (16)	$ 2,519

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, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Revenue	$ 226	$ 226	$ 649	$ 699
Cost of sales	56	58	157	206
Gross margin	170	168	492	493
Operating expenses				
Research and development	55	60	167	181
Selling, marketing and administration	93	120	299	343
Amortization	33	37	105	116
Debentures fair value adjustment	(69)	77	(111)	225
Impairment of long-lived assets	—	—	—	11
Arbitration charges (awards)	—	132	—	(683)
	112	426	460	193
Operating income (loss)	58	(258)	32	300
Investment income (loss), net	2	(17)	13	120
Income (loss) before income taxes	60	(275)	45	420
Provision for income taxes	1	—	3	5
Net income (loss)	$ 59	$ (275)	$ 42	$ 415
Earnings (loss) per share				
Basic	$ 0.11	$ (0.52)	$ 0.08	$ 0.78
Diluted	$ (0.01)	$ (0.52)	$ (0.09)	$ 0.76

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, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Net income (loss)	$ 59	$ (275)	$ 42	$ 415
Other comprehensive income (loss)				
Net change in unrealized gains (losses) on available-for-sale investments	—	—	1	(3)
Net change in fair value of derivatives designated as cash flow hedges during the period, net of income taxes of nil for the three and nine months ended November 30, 2018 and November 30, 2017	(2)	(2)	(3)	—
Amounts reclassified to net income (loss) during the period for derivatives designated as cash flow hedges, net of income taxes of nil for the three and nine months ended November 30, 2018 and November 30, 2017	1	(1)	2	(1)
Foreign currency translation adjustment	(2)	—	(6)	9
Actuarial losses associated with other post-employment benefit obligations	—	—	—	(1)
Net change in fair value from instrument-specific credit risk on the Debentures	5	—	6	—
Other comprehensive income (loss)	2	(3)	—	4
Comprehensive income (loss)	$ 61	$ (278)	$ 42	$ 419

See notes to consolidated financial statements.

BlackBerry Limited

(United States dollars, in millions) (unaudited)

Consolidated Statements of Cash Flows

	Nine Months Ended	
	November 30, 2018	November 30, 2017
Cash flows from operating activities		
Net income	$ 42	$ 415
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	116	138
Deferred income taxes	(1)	(3)
Stock-based compensation	53	36
Impairment of long-lived assets	—	11
Loss on sale, disposal and abandonment of long-lived assets	2	6
Debentures fair value adjustment	(111)	225
Other long-term assets	2	(23)
Other	3	(3)
Net changes in working capital items:		
Accounts receivable, net	13	36
Other receivables	46	(6)
Income taxes receivable	13	4
Other assets	(1)	40
Accounts payable	(14)	(65)
Income taxes payable	(1)	5
Accrued liabilities	(57)	99
Deferred revenue	(23)	(49)
Net cash provided by operating activities	82	866
Cash flows from investing activities		
Acquisition of long-term investments	(2)	(27)
Proceeds on sale or maturity of long-term investments	2	77
Acquisition of property, plant and equipment	(14)	(11)
Proceeds on sale of property, plant and equipment	1	3
Acquisition of intangible assets	(24)	(22)
Acquisition of short-term investments	(2,754)	(2,715)
Proceeds on sale or maturity of short-term investments	2,962	1,626
Net cash provided by (used in) investing activities	171	(1,069)
Cash flows from financing activities		
Issuance of common shares	5	7
Common shares repurchased	—	(18)
Net cash provided by (used in) financing activities	5	(11)
Effect of foreign exchange gain (loss) on cash, cash equivalents, restricted cash, and restricted cash equivalents	(3)	3
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period	255	(211)
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	855	785
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	$ 1,110	$ 574

As at	November 30, 2018	February 28, 2018
Cash and cash equivalents	$ 1,084	$ 816
Restricted cash and cash equivalents	26	39
	$ 1,110	$ 855

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 28, 2018 (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, 2018 are not necessarily indicative of the results that may be expected for the full year ending February 28, 2019.

Certain 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 13.

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 as described below.

Revenue Recognition

Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606")

On March 1, 2018, the Company adopted ASC 606 using the modified retrospective method. This method was applied to all contracts in effect at the date of initial application. The Company recognizes revenue, when control of the promised products or services are transferred to customers, in an amount that reflects the consideration that the Company expects to receive in exchange for those products and services. Revenue is recognized through the application of the following steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when, or as the Company satisfies a performance obligation.

A contract exists with a customer when both parties have approved the contract, commitments to performance and rights of each party (including payment terms) are identified, the contract has commercial substance and collection of substantially all consideration is probable for goods and services that are transferred.

Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other available resources, and are distinct in the context of the contract, whereby the transfer of the good or service is separately identifiable from other promises in the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation.

The transaction price is determined based on the consideration the Company expects to be entitled to in exchange for transferring promised goods and services to the customer, excluding amounts collected on behalf of third parties such as sales taxes. Determining the transaction price requires significant judgment. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration.

Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP"). The Company's method for allocation of consideration to be received and its method of estimation of SSP are described below under "Significant judgments".

For each of the Company's major categories of revenue, the following paragraphs describe the applicable specific revenue recognition policy, and when the Company satisfies its performance obligations.

Nature of products and services

Enterprise software and services

Enterprise software and services includes revenue from the Company's security, productivity, collaboration and end-point management solutions through the BlackBerry Secure platform, which includes BlackBerry Unified Endpoint Manager (UEM), BlackBerry Dynamics, BlackBerry Workspaces and BBM Enterprise, among other products and applications, as well as revenue from the sale of the Company's AtHoc Alert secure networked crisis communications solution, its Secusmart SecuSUITE secure voice and text solution, and professional services from BlackBerry Cybersecurity Services.

The Company generates software license revenue from both term subscription and perpetual license contracts, both of which are often bundled with other products and services including technical support, unspecified updates and upgrades, and access to the Company's proprietary secure network infrastructure.

If the licensed software in a contract requires access to the Company's proprietary secure network infrastructure in order to function, revenue from term subscription contracts is recognized over time, ratably over the term, and revenue from perpetual license contracts is recognized over time, ratably over the expected customer life, which in most cases the Company has estimated to be four years. If access to the Company's proprietary network infrastructure is not required for the software to function, revenue associated with both term subscription and perpetual licenses contracts is recognized at a point in time upon delivery of the software. Generally, most of the Company's enterprise software products sold require access to the Company's proprietary secure network infrastructure in order to function, and therefore the associated revenue is recognized over time, ratably over either the subscription term or expected customer life as described above.

Revenue from technical support is recognized over the support period.

BlackBerry Technology Solutions

BlackBerry Technology Solutions ("BTS") includes revenue from the Company's QNX CAR Platform and Neutrino Operating System, among other BlackBerry QNX products, as well as revenue from the Company's BlackBerry Radar asset tracking solution, Paratek antenna tuning technology, and Certicom cryptography and key management products. These are often bundled with other products and services including maintenance services and professional services.

Software license revenue from both term subscription and perpetual contracts is recognized at a point in time when the software is made available to the customer for use, as the software has standalone functionality and the license is distinct in the context of the contract. BTS also sells licenses for certain software embedded into hardware such as automotive infotainment systems; these licenses are sold as a sales-based royalty where intellectual property is the predominant item to which the royalty relates, and are recognized based on actual volumes and underlying sales by the customer of the hardware with the embedded software.

Revenue from software maintenance services is recognized over the length of the maintenance period, with an average term of one year.

Revenue from professional services is recognized over the term of the contract, as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the services are provided.

Licensing, IP and other

Licensing, IP and other includes revenue from the Company's mobility licensing software arrangements, including revenue from licensed hardware sales and intellectual property licensing, and from the Company's BBM Consumer licensing arrangement.

In fiscal 2017 and fiscal 2018, the Company entered into multiple license agreements under which the Company has licensed its security software and service suite and, in many cases, related brand assets to third parties who design, manufacture, sell and provide customer support for BlackBerry-branded and white-label handsets. Mobility license revenue for licensees whose sales exceed contractual sales minimums is recognized when licensed products are sold as reported by the Company's licensees. For licensees whose sales do not exceed contractual sales minimums, revenue is recognized over time, ratably over the license term based on contractual minimum amounts due to the performance obligation to provide engineering services to the licensees.

The Company's outbound patent licensing agreements provide for license fees that may be a single upfront payment or multiple payments representing all or a majority of the licensing revenue that will be payable to the Company. These agreements may be perpetual or term in nature and grant (i) a limited non-exclusive, non-transferable license to certain of the Company's patents, (ii) a covenant not to enforce patent rights against the licensee, and (iii) the release of the licensee from certain claims.

The Company examines intellectual property agreements on a case-by-case basis to determine whether the intellectual property has standalone functionality. Revenue from patent licensing agreements is often recognized for the transaction price either when the license has been transferred to the customer, or based upon subsequent sales by the customer in the case of sales-based royalty licenses where the license of intellectual property is the predominant item to which the royalty relates.

Handheld devices

Prior to fiscal 2019, handheld devices previously included revenue from the sale of the DTEK60 and all prior BlackBerry smartphone models to carriers and distributors, accessories and repair services of handheld devices. As the Company has sold all of its inventory of handheld devices, any revenue currently recognized is now solely associated with the release of previously accrued amounts when the Company determines it has no further performance obligations.

SAF

SAF includes revenue associated with the Company's legacy SAF business, relating to subscribers utilizing the Company's legacy BlackBerry 7 and prior operating systems, as well as revenue relating to unspecified future software upgrade rights for devices previously sold by the Company.

SAF revenue is recognized over time as the monthly service is provided. In instances where the Company bills the customer prior to performing the service, the pre-billing is recorded as deferred revenue.

See Note 13 for further information, including revenue by major product and service types.

Significant judgments

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. Any estimates, including any constraints on variable consideration, are evaluated at each reporting period.

Judgment is required to determine the SSP for each distinct performance obligation. The Company's products and services often have observable SSP when the Company sells a promised product or service separately to similar customers. A contractually stated price or list price for a good or service may be the SSP of that good or service. However, in instances where SSP is not directly observable, the Company determines the SSP by maximizing observable inputs and using an adjusted market assessment approach using information that may include market conditions and other observable inputs from the Company's pricing team, including historical SSP.

Significant judgment is required to determine the estimated customer life used in perpetual license contracts that require access to the Company's proprietary secure network infrastructure to function. The Company uses historical experience regarding the length of the technology upgrade cycle and the expected life of the product to draw this conclusion.

Revenue contract balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets are generated when contractual billing schedules differ from revenue recognition timing. A receivable is recorded in instances when revenue is recognized prior to invoicing, and amounts collected in advance of services being provided are recorded as deferred revenue.

Certain sales commissions are considered incremental and recoverable costs of obtaining a contract with a customer. The Company's capitalized commissions are recorded as other current assets and other long-term assets and are amortized proportionally based on the satisfaction of the related performance obligations, and are included in selling, marketing and administration. See Note 13 for further information on the Company's contract balances.

Payment terms and conditions vary by contract type, although standard billing terms are that payment is due upon receipt of invoice, payable within 30 to 60 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that contracts generally do not include a significant financing component if the period between when the Company transfers the promised goods or services to the customer will be one year or less.

For details about the Company's revenue recognition policy prior to the adoption of ASC 606, refer to the Company's Annual Financial Statements.

Recently Adopted Accounting Pronouncements

ASC 606

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASC 606, a new accounting standard on the topic of revenue contracts, which replaces the existing revenue recognition standard. The new standard amended a number of requirements that an entity must consider in recognizing revenue and requires improved disclosures to help readers of financial statements better understand the nature, amount, timing and uncertainty of revenue recognized. For public entities, the new standard was effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period.

The most significant impact of adopting the new standard relates to timing of revenue recognized on software licenses in Enterprise software and services contracts. Prior to the adoption of ASC 606, where vendor-specific objective evidence could not be determined, the Company recognized term licensed software ratably over the longest contract deliverable, with certain perpetual contracts recognized upon delivery. Under the new standard, on the software licensing component of enterprise software offerings, the Company recognizes revenue over the subscription term for term subscription contracts, and over the expected customer life for perpetual license contracts which, in most cases, is estimated to be four years. Given this, the adoption of ASC 606 has resulted in Enterprise software and services revenue previously recognized for certain perpetual licenses being reversed as a cumulative adjustment from deficit to deferred revenue to be recognized ratably over the remaining period of performance. Professional services revenue that otherwise would have been recognized over time have now been recognized at adoption as a cumulative adjustment to deficit, and such revenue will be recognized when the performance obligation has been fulfilled. There were no significant changes to any of the Company's other revenue streams, and there was no tax impact for the three and nine months ended November 30, 2018 due to the Company's valuation allowance.

ASC 606 requires the capitalization of all the incremental costs to acquire a contract, and for these costs to be amortized into income proportionate to the recognition of the associated revenue. The Company previously capitalized and deferred some, but not all, of its incremental costs to acquire a contract and amortized that cost into income ratably over the term of the contract. As a result, the adoption of ASC 606 resulted in certain costs incurred in acquiring a contract previously expensed being reversed through a cumulative adjustment from deficit to other current assets, and recognized over time on a systematic basis consistent with the transfer of the products or services to which the asset relates.

On March 1, 2018, the Company adopted ASC 606 and all related amendments using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. In adopting the guidance, the Company applied the guidance to all contracts and used multiple practical expedients, including the assessment of contracts with similar terms and conditions on a portfolio basis, and has made no adjustment to the promised amount of consideration for the effects of a significant financing component.

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

The cumulative effect of the changes made to the Company's March 1, 2018 consolidated statement of financial position for the adoption of ASC 606 was as follows:

Consolidated Balance Sheets	Balance as at February 28, 2018	ASC 606 Adjustments	Balance as at March 1, 2018
Assets			
Other assets	$ 66	$ 11	$ 77
Liabilities			
Deferred revenue	$ 195	$ 97	$ 292
Shareholders' equity			
Deficit	$ (45)	$ (86)	$ (131)

The impact of the adoption of ASC 606 on the Company's condensed financial statements during the three and nine months ended November 30, 2018 was as follows:

	As at November 30, 2018		
Consolidated Balance Sheets	Balances Without Adoption of ASC 606	ASC 606 Adjustments	As Reported
Assets			
Other assets	$ 64	$ 12	$ 76
Liabilities			
Deferred revenue	$ 186	$ 83	$ 269
Shareholders' equity			
Deficit	$ (12)	$ (71)	$ (83)

	Three Months Ended November 30, 2018		
Consolidated Statements of Operations	Balances Without Adoption of ASC 606	ASC 606 Adjustments	As Reported
Revenue	$ 220	$ 6	$ 226
Operating expenses			
Selling, marketing and administration	$ 93	$ —	$ 93
Net income	$ 53	$ 6	$ 59
Earnings (loss) per share			
Basic	$ 0.10	$ 0.01	$ 0.11
Diluted	$ (0.02)	$ 0.01	$ (0.01)

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

	Nine Months Ended November 30, 2018		
Consolidated Statements of Operations	Balances Without Adoption of ASC 606	ASC 606 Adjustments	As Reported
Revenue	$ 625	$ 24	$ 649
Operating expenses			
Selling, marketing and administration	$ 300	$ (1)	$ 299
Net income	$ 17	$ 25	$ 42
Earnings (loss) per share			
Basic	$ 0.03	$ 0.05	$ 0.08
Diluted	$ (0.13)	$ 0.04	$ (0.09)

Other Accounting Standards Updates ("ASU")

In January 2016, the FASB issued ASU 2016-01 on the topic of financial instruments. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the guidance clarifies that an entity should evaluate the need for a valuation allowance on a deferred income tax asset related to available-for-sale securities. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2019. As a result of the adoption of ASU 2016-01, the Company recognized approximately $8 million in unrecognized losses on equity securities that had previously been recorded to other comprehensive income (loss), through a cumulative addition to deficit in the consolidated balance sheet as of March 1, 2018. The Company recognized approximately $14 million on the change in fair value from instrument-specific credit risk that had previously been recorded to deficit through a cumulative increase to accumulated other comprehensive loss ("AOCI") in the consolidated balance sheet as of March 1, 2018. The Company will also account for equity investments without a readily determinable fair value using the practicability exception. The investments will be measured at cost, less any impairment, plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer.

In November 2016, the FASB issued ASU 2016-18 on the topic of the statement of cash flows. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2019.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued a new accounting standard on the topic of leases. The new standard requires companies to include lease obligations in their balance sheets, including a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use ("ROU") asset and a corresponding lease liability. For finance leases, the lessee will recognize interest expense and amortization of the ROU asset, and for operating leases, the lessee will recognize a straight-line total lease expense. The guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company expects to adopt this guidance in the first quarter of fiscal 2020 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures. The Company established a cross-functional coordinated team to conduct the implementation of the lease standard, which will be responsible for identifying and implementing the appropriate changes to the Company's relevant business processes, systems and controls to support any required accounting and disclosure changes.

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

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.

The components of cash, cash equivalents and investments by fair value level as at November 30, 2018 were as follows:

	Cost Basis	Unrealized Gains	Unrealized Losses	Other-than-temporary Impairment	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	$ 233	$ —	$ —	$ —	$ 233	$ 233	$ —	$ —	$ —
Other investments	36	—	—	—	36	—	—	36	—
	269	—	—	—	269	233	—	36	—
Level 1:									
Equity securities	10	—	(9)	—	1	—	1	—	—
Level 2:									
Term deposits, certificates of deposits and GICs	421	—	—	—	421	180	215	—	26
Bankers' acceptances/bearer deposit notes	273	—	—	—	273	248	25	—	—
Commercial paper	343	—	—	—	343	60	283	—	—
Non-U.S. promissory notes	173	—	—	—	173	52	121	—	—
Non-U.S. government sponsored enterprise notes	80	—	—	—	80	14	66	—	—
Non-U.S. treasury bills/notes	135	—	—	—	135	—	135	—	—
U.S. treasury bills/notes	685	—	—	—	685	297	388	—	—
	2,110	—	—	—	2,110	851	1,233	—	26
Level 3:									
Auction rate securities	20	2	—	(3)	19	—	—	19	—
	$ 2,409	$ 2	$ (9)	$ (3)	$ 2,399	$ 1,084	$ 1,234	$ 55	$ 26

(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 28, 2018 were as follows:

	Cost Basis	Unrealized Gains	Unrealized Losses	Other-than-temporary Impairment	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	$ 169	$ —	$ —	$ —	$ 169	$ 169	$ —	$ —	$ —
Other investments	35	—	—	—	35	—	—	35	—
	204	—	—	—	204	169	—	35	—
Level 1:									
Equity securities	10	—	(8)	—	2	—	2	—	—
Level 2:									
Term deposits, certificates of deposits and GICs	332	—	—	—	332	—	293	—	39
Bankers' acceptances	211	—	—	—	211	211	—	—	—
Commercial paper	426	—	—	—	426	231	195	—	—
Non-U.S. promissory notes	227	—	—	—	227	102	125	—	—
Non-U.S. government sponsored enterprise notes	200	—	—	—	200	15	185	—	—
Non-U.S. treasury bills/notes	284	—	—	—	284	50	234	—	—
U.S. treasury bills/notes	448	—	(1)	—	447	38	409	—	—
	2,128	—	(1)	—	2,127	647	1,441	—	39
Level 3:									
Corporate notes/bonds	1	—	—	—	1	—	—	1	—
Auction rate securities	20	2	—	(3)	19	—	—	19	—
	21	2	—	(3)	20	—	—	20	—
	$ 2,363	$ 2	$ (9)	$ (3)	$ 2,353	$ 816	$ 1,443	$ 55	$ 39

As at November 30, 2018, the Company had equity investments without readily determinable fair value of $36 million (February 28, 2018 - $35 million). There were no other-than-temporary impairment charges during the three and nine months ended November 30, 2018 and November 30, 2017.

There were no realized gains or losses on available-for-sale securities for the three and nine months ended November 30, 2018 (three and nine months ended November 30, 2017 - $1 million of realized losses).

The Company has restricted cash 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, for terms ranging from one month to seven years. The Company is 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 contractual maturities of available-for-sale investments as at November 30, 2018 and February 28, 2018 were as follows:

	As at			
	November 30, 2018		February 28, 2018	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	$ 2,110	$ 2,110	$ 2,128	$ 2,127
Due in one to five years	—	—	1	1
Due after five years	17	19	17	19
No fixed maturity	10	1	10	2
	$ 2,137	$ 2,130	$ 2,156	$ 2,149

As at November 30, 2018, the Company had investments with continuous unrealized losses totaling $9 million, consisting of unrealized losses on equity securities (February 28, 2018 - continuous unrealized losses totaling $9 million).

As a result of the adoption of ASU 2016-01, the Company now records changes in fair value of equity securities through investment income, and has reclassified $8 million in unrealized losses on equity securities through a cumulative adjustment to deficit on March 1, 2018. For a full description of how the Company assesses its investments for other-than-temporary impairment, see the “Investments” accounting policy in Note 1 to the Annual Financial Statements. For a description of the impact upon the adoption of ASU 2016-01 on the unrealized losses on equity securities, see Note 1.

3. FAIR VALUE MEASUREMENTS

For a description of the fair value hierarchy, see Note 2.

Recurring Fair Value Measurements

The carrying amounts of the Company’s cash and cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities approximate their fair values due to their short maturities.

In determining the fair value of investments held (other than those classified as Level 3), the Company primarily relies on an independent third-party valuator for the fair valuation of securities. Pricing inputs used by the independent third-party valuator are generally received from a single primary vendor. The pricing inputs are reviewed for completeness and accuracy, within a set tolerance level, on a daily basis by the independent third-party valuator. 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 (other than those classified as Level 3) 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 cost-based investment.

For a description of how the fair values of currency forward contracts and currency option contracts, the fair value of the Debentures (as defined in Note 8), the fair value of the long-term intellectual property licensing receivable, the fair value of the long-term RAP (as defined in Note 5) liability and the fair value of certain stock-based compensation awards have been determined, see the “Derivative financial instruments” and “Convertible debentures” accounting policies in Note 1 to the Annual Financial Statements and Note 5, Note 6 and Note 9, respectively.

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

The following table summarizes the changes in fair value of the Company's Level 3 assets for the three and nine months ended November 30, 2018 and November 30, 2017:

	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Balance, beginning of period	$ 20	$ 20	$ 20	$ 20
Principal repayments	(1)	—	(1)	—
Balance, end of period	$ 19	$ 20	$ 19	$ 20

The Company recognizes transfers in and out of levels within the fair value hierarchy at the end of the reporting period in which the actual event or change in circumstance occurred. There were no significant transfers in or out of Level 3 assets during the three and nine months ended November 30, 2018 or November 30, 2017.

The Company's Level 3 assets measured on a recurring basis include auction rate securities. For a detailed description of the Company's valuation of auction rate securities, see Note 4 to the Annual Financial Statements.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts and fair values of derivative financial instruments outstanding were as follows:

	Derivative Assets (1)(2)		Derivative Liabilities (1)(3)	
	As at November 30, 2018	As at February 28, 2018	As at November 30, 2018	As at February 28, 2018
Foreign exchange contracts				
Fair value of derivatives designated as cash flow hedges	$ —	$ —	$ (2)	$ (1)
Fair value of derivatives not subject to hedge accounting	1	1	(1)	(1)
Total estimated fair value	$ 1	$ 1	$ (3)	$ (2)
Notional amount	$ 48	$ 123	$ 111	$ 161

(1) The fair values of derivative assets and liabilities are measured using Level 2 fair value inputs.
(2) Derivative assets are included in other current assets.
(3) Derivative liabilities are included in accrued liabilities.

Foreign Exchange

For a description of the Company's usage of derivatives and related accounting policy for these instruments, see Note 1 to the Annual Financial Statements.

The Company enters into forward and option contracts to hedge exposures relating to anticipated foreign currency transactions. These contracts have been designated as cash flow hedges, with the effective portion of the change in fair value initially recorded in AOCI and subsequently reclassified to income in the period in which the cash flows from the associated hedged transactions affect income. Any ineffective portion of the change in fair value of the cash flow hedge is recognized in current period income (loss). As at November 30, 2018 and November 30, 2017, the outstanding derivatives designated as cash flow hedges were considered to be fully effective. The maturity dates of these instruments range from December 2018 to August 2019. As at November 30, 2018, the net unrealized loss on these forward and option contracts (including option premiums paid) was $2 million (February 28, 2018 - net unrealized loss of $1 million). Unrealized gains associated with these contracts were recorded in other current assets and AOCI. Unrealized losses were recorded in accrued liabilities and AOCI. Option premiums were recorded in AOCI. As at November 30, 2018, the Company estimates that approximately $2 million of net unrealized losses including option premiums on these forward and option contracts will be reclassified into income (loss) within the next 12 months.

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

The following table shows the impact of derivative instruments designated as cash flow hedges on the consolidated statements of operations and the consolidated statements of comprehensive income (loss) for the three and nine months ended November 30, 2018:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative Instruments (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	
			Three Months Ended November 30, 2018	Nine Months Ended November 30, 2018
Foreign exchange contracts	$ (2)	Selling, marketing and administration	$ (1)	$ (2)
Total	$ (2)		$ (1)	$ (2)

The following table shows the impact of derivative instruments designated as cash flow hedges on the consolidated statements of operations and the consolidated statements of comprehensive income (loss) for the three and nine months ended November 30, 2017:

	Amount of Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative Instruments (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	
			Three Months Ended November 30, 2017	Nine Months Ended November 30, 2017
Foreign exchange contracts	$ (1)	Selling, marketing and administration	$ 1	$ 1
Total	$ (1)		$ 1	$ 1

As part of its currency risk management strategy, the Company may maintain net monetary asset and/or liability balances in foreign currencies. The Company enters into foreign exchange forward contracts to economically hedge certain monetary assets and liabilities that are exposed to foreign currency risk. The principal currencies hedged include the Canadian dollar, euro, and British pound. These contracts are not subject to hedge accounting, and any realized and unrealized gains or losses are recognized in income (loss) each period, offsetting the change in the U.S. dollar value of the foreign currency denominated asset or liability. The maturity dates of these instruments range from December 2018 to January 2019. As at November 30, 2018, there were no unrealized gains or losses recorded in respect of these instruments (February 28, 2018 - nil). Unrealized gains associated with these contracts were recorded in other current assets and selling, marketing and administration expenses. Unrealized losses were recorded in accrued liabilities and selling, marketing and administration expenses.

The following table shows the impact of derivative instruments that are not subject to hedge accounting on the consolidated statements of operations for the three and nine months ended November 30, 2018 and November 30, 2017:

		Amount of Gain (Loss) in Income on Derivative Instruments			
		Three Months Ended		Nine Months Ended	
	Location of Gain (Loss) Recognized in Income on Derivative Instruments	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Foreign exchange contracts	Selling, marketing and administration	$ 1	$ 1	$ 4	$ (7)
Total		$ 1	$ 1	$ 4	$ (7)

Selling, marketing and administration expense for the three and nine months ended November 30, 2018 included $3 million and nil, respectively, in gains with respect to foreign exchange net of balance sheet revaluation (three and nine months ended November 30, 2017 - gains of $1 million and losses of $4 million, respectively).

Credit Risk

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations. The Company mitigates this risk by limiting counterparties to highly rated financial institutions and by continuously monitoring their creditworthiness. The Company's exposure to credit loss and market risk will vary over time as a function of currency exchange rates. The Company measures its counterparty credit exposure as a percentage of the total fair value of the applicable derivative instruments. Where the net fair value of derivative instruments with any counterparty is negative, the Company deems the credit exposure to that counterparty to be nil. As at November 30, 2018, the maximum credit exposure to a single counterparty, measured as a percentage of the total fair value of derivative instruments with net unrealized gains, was nil (February 28, 2018 - nil). The Company had no credit risk exposure to counterparties with outstanding or unsettled foreign exchange derivative instruments as at November 30, 2018 and February 28, 2018.

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, 2018, the Company had $2 million in collateral posted to counterparties (February 28, 2018 - $1 million in collateral posted).

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, 2018, no single issuer represented more than 29% of the total cash, cash equivalents and investments (February 28, 2018 - no single issuer represented more than 19% of the total cash, cash equivalents and investments), and the largest single issuer was the U.S. Department of the Treasury.

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 the Debentures (as defined in Note 8) with a fixed 3.75% interest rate. 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 long-term nature of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in market value of the Debentures.

5. CONSOLIDATED BALANCE SHEETS DETAILS

Accounts receivable, net

The allowance for doubtful accounts as at November 30, 2018 was $22 million (February 28, 2018 - $24 million).

There was one customer that comprised more than 10% of accounts receivable as at November 30, 2018 (February 28, 2018 - no customer comprised more than 10%).

Other current assets

As at November 30, 2018, other current assets include items such as deferred commissions, and prepaid expenses, among other items, none of which were greater than 5% of the current assets balance in all periods presented.

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

Property, plant and equipment, net

Property, plant and equipment comprised the following:

	As at	
	November 30, 2018	February 28, 2018
Cost		
Buildings, leasehold improvements and other	$ 61	$ 60
BlackBerry operations and other information technology	194	186
Manufacturing, repair and research and development equipment	73	73
Furniture and fixtures	9	9
	337	328
Accumulated amortization	274	264
Net book value	$ 63	$ 64

Intangible assets, net

Intangible assets comprised the following:

	As at November 30, 2018		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	$ 679	$ 555	$ 124
Intellectual property	421	237	184
Other acquired intangibles	197	109	88
	$ 1,297	$ 901	$ 396

	As at February 28, 2018		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	$ 682	$ 512	$ 170
Intellectual property	411	212	199
Other acquired intangibles	197	89	108
	$ 1,290	$ 813	$ 477

Other acquired intangible assets include items such as customer relationships and brand.

For the nine months ended November 30, 2018, amortization expense related to intangible assets amounted to $101 million (nine months ended November 30, 2017 - $108 million). During the nine months ended November 30, 2018, additions to intangible assets primarily consisted of payments for intellectual property relating to patent maintenance, registration and licenses.

Based on the carrying value of the identified intangible assets as at November 30, 2018 and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the remainder of fiscal 2019 and each of the four succeeding years is expected to be as follows: 2019 - $28 million; 2020 - $98 million; 2021 - $76 million; 2022 - $56 million; and 2023 - $31 million.

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

The weighted average remaining useful lives of the intangible assets are as follows:

	As at	
	November 30, 2018	February 28, 2018
Acquired technology	2.9 years	3.2 years
Intellectual property	6.2 years	7.0 years
Other acquired intangibles	3.6 years	4.4 years

Impairment of long-lived assets

A long-lived asset ("LLA") impairment charge is recognized when the carrying value exceeds the fair value of an asset group. The Company recorded a charge of $11 million relating to LLA impairment during the second quarter of fiscal 2018, applicable to certain prepaid royalty arrangements associated with the Company's sale of handheld devices. There were no LLA impairment charges during the three and nine months ended November 30, 2018.

Goodwill

Changes to the carrying amount of goodwill were as follows:

	Carrying Amount
Carrying amount as at February 28, 2018	$ 569
Effect of foreign exchange on non-U.S. dollar denominated goodwill	(5)
Carrying amount as at November 30, 2018	$ 564

Other long-term assets

The Company's other long-term assets comprised the following:

	As at	
	November 30, 2018	February 28, 2018
Long-term intellectual property licensing receivable	$ 19	$ 25
Deferred commissions, non-current	7	3
	$ 26	$ 28

The Company has a long-term intellectual property licensing receivable comprising a series of future amounts owing from a single licensee. As the amounts of the receivable are long-term in nature, the Company initially measured the payments at fair value using an effective interest rate of 4.5%, and will record interest income over time to arrive at the total face value of the remaining payments of $20 million.

Accrued liabilities

Accrued liabilities comprised the following:

	As at	
	November 30, 2018	February 28, 2018
Variable incentive accrual	$ 28	$ 40
Other	128	165
	$ 156	$ 205

Other accrued liabilities include, among other items, accrued royalties, current Resource Alignment Program ("RAP") liability, accrued vendor liabilities, accrued carrier liabilities and payroll withholding taxes, none of which were greater than 5% of the current liabilities balance.

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

Other long-term liabilities

Other long-term liabilities consist of the present value of accrued future lease payments associated with the RAP as described in Note 6.

6. RESTRUCTURING AND INTEGRATION

Resource Alignment Program

In fiscal 2016, the Company commenced the RAP for its device software, hardware and applications business with the objectives of reallocating Company resources to capitalize on growth opportunities, providing the operational ability to better leverage contract research and development services relating to its handheld devices, and reaching sustainable profitability. Other charges and cash costs may occur as programs are implemented or changes are completed.

The following table sets forth the activity in the Company's RAP liability for the nine months ended November 30, 2018:

	Employee Termination Benefits	Facilities and Other Charges	Total
Balance as at February 28, 2018	$ 1	$ 41	$ 42
Charges incurred	7	1	8
Cash payments made	(7)	(17)	(24)
Balance as at November 30, 2018	$ 1	$ 25	$ 26
Current portion	$ 1	$ 11	$ 12
Long-term portion	—	14	14
	$ 1	$ 25	$ 26

The long-term portion of the RAP liability is recorded at fair value, determined by measuring the remaining payments at present value using an effective interest rate of 2.0%, and the Company recording interest expense over time to arrive at the total face value of the remaining payments.

The RAP charges included employee termination benefits, facilities and manufacturing network simplification costs as well as integration costs related to the transition and alignment of facilities and systems to the Company's focus on its enterprise software business. Total charges, including non-cash charges incurred in the three and nine months ended November 30, 2018 and November 30, 2017, were as follows:

	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Cost of sales	$ —	$ 2	$ 1	$ 8
Research and development	—	1	2	5
Selling, marketing and administration	1	17	6	42
Total RAP charges	$ 1	$ 20	$ 9	$ 55

7. INCOME TAXES

For the nine months ended November 30, 2018, the Company's net effective income tax expense rate was approximately 7% compared to a net effective income tax rate of 1% for the nine months ended November 30, 2017. The Company's income tax rate reflects 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, 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.

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

The Company's total unrecognized income tax benefits as at November 30, 2018 were $77 million (February 28, 2018 - $73 million). As at November 30, 2018, $66 million of the unrecognized income tax benefits have been netted against deferred income tax assets and $11 million has been recorded within income taxes payable on the Company's consolidated balance sheets.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the "Tax Act"). During the nine months ended November 30, 2018, the Company monitored provisional amounts recorded under the Tax Act against actual and potential guidance and interpretations issued by the U.S. Internal Revenue Service and state taxing authorities. No significant changes were made to these calculations in the nine months ended November 30, 2018. The Company expects to account for any changes in estimates for its previously recorded Tax Act provisions on a prospective basis.

While the Company's U.S. activities are subject to a U.S. federal tax rate of 21%, effective January 1, 2018, the Company also continues to assess other areas of the Tax Act for significant impacts on its estimated average annual effective tax rate and accounting policies, such as the base erosion anti-abuse tax. As at November 30, 2018, the Company has incorporated the relevant Tax Act items that became effective on January 1, 2018 into its quarterly provision calculation.

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.

8. LONG-TERM DEBT

3.75% Convertible Debentures

On September 7, 2016, Fairfax Financial Holdings Limited ("Fairfax") and other institutional investors invested in the Company through a private placement of new debentures in an aggregate amount of $605 million (the "Debentures").

Interest on the Debentures is payable quarterly in arrears at a rate of 3.75% per annum. The Debentures mature on November 13, 2020, and each $1,000 of Debentures is convertible at any time into 100 common shares of the Company for a total of 60.5 million common shares at a price of $10.00 per share for all Debentures, subject to adjustments. Covenants associated with the Debentures include limitations on the Company's total indebtedness.

Under specified events of default, the outstanding principal and any accrued interest on the Debentures become immediately due and payable upon request of holders holding not less than 25% of the principal amount of the Debentures then outstanding. During an event of default, the interest rate rises to 7.75% per annum.

The Debentures are subject to a change of control provision whereby the Company would be required to make an offer to repurchase the 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.

The following table summarizes the changes in fair value of the Debentures for the nine months ended November 30, 2018:

	As at November 30, 2018
Balance as at February 28, 2018	$ 782
Change in fair value of the Debentures	(117)
Balance as at November 30, 2018	$ 665

The difference between the fair value of the Debentures and the unpaid principal balance of $605 million is $60 million. The fair value of the Debentures is measured using Level 2 fair value inputs.

As a result of the adoption of ASU 2016-01, the Company recognized the cumulative change in fair value of the Debentures from instrument-specific credit risk as of March 1, 2018 of approximately $14 million, through a cumulative increase to AOCI, as described in Note 1.

The following table shows the impact of the change in fair value of the Debentures for the three and nine months ended November 30, 2018 and November 30, 2017:

	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Income (charge) associated with the change in fair value from non-credit components recorded in the statement of operations	$ 69	$ (77)	$ 111	$ (225)
Income associated with the change in fair value from instrument-specific credit components recorded in AOCI	5	—	6	—
Total decrease (increase) in the fair value of the Debentures (1)	$ 74	$ (77)	$ 117	$ (225)

(1) Prior to the adoption of ASU 2016-01 on March 1, 2018, the change in fair value from instrument-specific credit components of the Debentures was recorded in the statement of operations for the three and nine months ended November 30, 2017.

For the three and nine months ended November 30, 2018, the Company recorded interest expense related to the Debentures of $6 million and $17 million, respectively, which has been included in investment income in the Company's consolidated statements of operations (three and nine months ended November 30, 2017 - $6 million and $17 million, respectively).

Fairfax, a related party under U.S. GAAP, owns a $500 million principal amount of the Debentures. As such, the payment of interest on the Debentures represents a related-party transaction. Fairfax receives interest at the same rate as other Debenture holders.

9. CAPITAL STOCK

(a) Capital stock

The following details the changes in issued and outstanding common shares for the nine months ended November 30, 2018:

	Capital Stock and Additional Paid-in Capital	
	Stock Outstanding (000s)	Amount
Common shares outstanding as at February 28, 2018	536,734	$ 2,560
Stock-based compensation	—	53
Exercise of stock options	103	1
Common shares issued for restricted share units settlements	9,884	—
Common shares issued for employee share purchase plan	363	4
Common shares outstanding as at November 30, 2018	547,084	$ 2,618

The Company had 547 million common shares, 0.7 million options to purchase common shares, 17 million RSUs and 0.8 million deferred share units outstanding as at December 17, 2018. In addition, 60.5 million common shares are issuable upon conversion in full of the Debentures as described in Note 8.

(b) Stock-based compensation

Restricted Share Units

The Company recorded compensation expense with respect to restricted share units ("RSUs") of approximately $15 million and $53 million for the three and nine months ended November 30, 2018 (three and nine months ended November 30, 2017 - $12 million and $36 million, respectively).

The following table sets forth the Company's RSU activity for the nine months ended November 30, 2018:

	RSUs Outstanding			
	Number (000s)	Weighted-Average Grant Date Fair Value	Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (millions)
Balance as at February 28, 2018	14,932	$ 7.87		
Granted during the period	13,229	9.56		
Vested during the period	(9,884)	7.09		
Forfeited/canceled during the period	(857)	8.74		
Balance as at November 30, 2018	17,420	$ 9.55	1.93	$ 153
Expected to vest as at November 30, 2018	15,849	$ 9.46	1.89	$ 139

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the aggregate closing share price of the Company's common shares on November 30, 2018) that would have been received by RSU holders if all RSUs had vested on November 30, 2018.

As at November 30, 2018, there was $116 million of unrecognized compensation expense related to RSUs that will be expensed over the vesting period, which, on a weighted-average basis, results in a period of approximately 2.01 years.

During the nine months ended November 30, 2018, there were 13,228,897 RSUs granted (nine months ended November 30, 2017 - 3,360,903), all of which will be settled upon vesting by the issuance of new common shares.

2019 Executive Chair Incentive Grant

In the first quarter of fiscal 2019, the Board approved an agreement to grant a time-based equity award, a long-term market performance-based equity award and a contingent cash award (together, the "2019 Executive Chair Grant") to the Company's Executive Chair and CEO as an incentive to remain as Executive Chair until November 3, 2023. The expense associated with the time-based equity award and market performance-based equity award is included in the compensation expense noted above. The equity and liability components of the agreement are summarized below:

Time-Based Equity Award

The time-based equity award consists of 5 million time-based RSUs that will vest annually in five equal tranches beginning on November 3, 2019.

Market Performance-Based Equity Award

The market performance-based equity award consists of five tranches, each of 1 million market-condition RSUs that will become earned and vested in increments of 1 million RSUs when the 10-day average closing price of the Company's common shares on the New York Stock Exchange reaches $16, $17, $18, $19 and $20, respectively. The grant date fair value and the derived service period for each of the market condition equity awards was determined through the use of a Monte Carlo simulation model utilizing Level 2 inputs. Should the target price of an award be reached prior to the derived service date, the remaining unrecognized compensation cost for the award will be accelerated and recorded at that time. Any market-condition RSUs that have not been earned before November 3, 2023 will terminate on such date.

Contingent Cash Award

The contingent cash award consists of a cash amount of $90 million that becomes payable should the 10-day average closing price of the Company's common shares on the New York Stock Exchange reach $30. 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, the fair value of which is determined at each reporting period end utilizing an option pricing model using Level 2 inputs and the associated compensation expense for the reporting period recorded. If unearned, the contingent cash award will terminate on November 3, 2023. See also the discussion under "Other contingencies" in Note 12. The Company recorded compensation expense with respect to the contingent cash award of approximately nil and $1 million for the three and nine months ended November 30, 2018. The liability recorded in respect to the award was $1 million as at November 30, 2018 and is included within accrued liabilities.

10. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Net income (loss) for basic earnings (loss) per share available to common shareholders	$ 59	$ (275)	$ 42	$ 415
Less: Debentures fair value adjustment (1)(2)	(69)	—	(111)	—
Add: Interest expense on Debentures (1)(2)	6	—	17	—
Net income (loss) for diluted earnings (loss) per share available to common shareholders	$ (4)	$ (275)	$ (52)	$ 415
Weighted average number of shares outstanding (000s) - basic	540,406	532,496	538,251	531,651
Effect of dilutive securities (000s)				
Stock-based compensation (3)(4)	—	—	—	16,863
Conversion of Debentures (1)(2)	60,500	—	60,500	—
Weighted average number of shares and assumed conversions (000s) - diluted	600,906	532,496	598,751	548,514
Earnings (loss) per share - reported				
Basic	$ 0.11	$ (0.52)	$ 0.08	$ 0.78
Diluted	$ (0.01)	$ (0.52)	$ (0.09)	$ 0.76

(1) The Company has presented the dilutive effect of the Debentures using the if-converted method, assuming conversion at the beginning of the quarter for the three and nine months ended November 30, 2018. Accordingly, to calculate diluted earnings (loss) per share, the Company adjusted net income (loss) by eliminating the fair value adjustment made to the Debentures and interest expense incurred on the Debentures in the three and nine months ended November 30, 2018, and added the number of shares that would have been issued upon conversion to the diluted weighted average number of shares outstanding. See Note 8 for details on the Debentures.
(2) The Company has not presented the dilutive effect of the Debentures using the if-converted method in the calculation of earnings (loss) per share for the three and nine months ended November 30, 2017, as to do so would be antidilutive. See Note 8 for details on the Debentures.
(3) 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 earnings (loss) per share for the three and nine months ended November 30, 2018, and three months ended November 30, 2017 as to do so would be antidilutive.
(4) The Company has 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 earnings (loss) per share for the nine months ended November 30, 2017. As at November 30, 2017, there were 644,895 options and 13,568,395 RSUs outstanding that were in-the-money and may have a dilutive effect on earnings (loss) per share in future periods.

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

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in AOCI by component, net of tax, for the nine months ended November 30, 2018 were as follows:

	Foreign Currency Cumulative Translation Adjustment	Accumulated Net Unrealized Gains (Losses) on Cash Flow Hedges	Other Post-Employment Benefit Obligations	Accumulated Net Unrealized Gains (Losses) on Available-for-Sale Investments	Change in fair value from instrument-specific credit risk on Debentures	Total
AOCI as at February 28, 2018	$ (1)	$ (1)	$ (1)	$ (7)	$ —	$ (10)
Cumulative impact of adoption of ASU 2016-01	—	—	—	8	(14)	(6)
Other comprehensive income (loss) before reclassifications	(6)	(3)	—	1	6	(2)
Amounts reclassified from AOCI into income (loss)	—	2	—	—	—	2
Change in cumulative comprehensive income (loss) for the period	(6)	(1)	—	9	(8)	(6)
AOCI as at November 30, 2018	$ (7)	$ (2)	$ (1)	$ 2	$ (8)	$ (16)

During the three and nine months ended November 30, 2018, $1 million and $2 million, respectively, in losses (pre-tax and post-tax) associated with cash flow hedges were reclassified from AOCI into selling, marketing and administration expenses.

12. COMMITMENTS AND CONTINGENCIES

(a) Letters of credit

The Company had $24 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of November 30, 2018. See the discussion of restricted cash in Note 2.

(b) Qualcomm arbitration award

On April 20, 2016, the Company and Qualcomm Incorporated ("Qualcomm") entered into an agreement to arbitrate a dispute regarding whether Qualcomm's agreement to cap certain royalties applied to payments made by the Company under a license between the parties. The binding arbitration hearing was held from February 27, 2017 to March 3, 2017 under the Judicial Arbitration and Mediation Services rules in San Diego, California. On April 11, 2017, the arbitration panel issued an interim decision, finding in favour of the Company. Subsequently, the Company reached an agreement with Qualcomm resolving all amounts payable in connection with the interim arbitration decision. Following a joint stipulation by the parties, the arbitration panel issued a final award on May 26, 2017 providing for the payment by Qualcomm to the Company of a total amount of $940 million including interest and attorneys' fees, which was net of $22 million in certain royalties owed by the Company to Qualcomm for calendar 2016 and the first quarter of calendar 2017 previously recorded within accrued liabilities on the consolidated balance sheets.

Approximately $815 million of the arbitration award represents the return of royalty overpayments. This amount was recorded within Arbitration charges (awards) on the consolidated statements of operations in the first quarter of fiscal 2018. In the first quarter of fiscal 2018, the Company also recorded on the consolidated statements of operations, recoveries of legal expenses of approximately $8 million included in selling, marketing and administration, and $139 million of interest income within investment income, net, for a total gain associated with the award of $962 million.

(c) Nokia arbitration decision

On April 28, 2016, Nokia Corporation ("Nokia") filed a Request for Arbitration with the International Chamber of Commerce International Court of Arbitration. The dispute related to whether certain payments due under a patent agreement between the parties were in fact owed under the terms of the agreement. An arbitration hearing was held May 8-9, 2017 in New York and on November 29, 2017, the arbitration panel issued a decision, finding in favour of Nokia and awarding it approximately $137 million. On December 12, 2017, Nokia submitted a Petition for Correction to the arbitrators requesting correction of a computational error in the amount of pre-award interest provided for in the original award. In reviewing the Petition, the Company determined that it was probable that the arbitrators would agree a computational error had been committed and the Company will owe an additional $12 million in pre-award interest, effective as of November 30, 2017. In the second quarter of fiscal 2018, the Company recorded $132 million within Arbitration charges (awards) and $17 million in interest expense within investment income (loss), net (consisting of $5 million in originally awarded interest and a contingent amount of $12 million) on the consolidated statements of operations.

(d) 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 "Risk Factors" in the Company's unaudited Annual Information Form for the fiscal year ended February 28, 2018, which is included in the Company's Annual Report on Form 40-F, 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, 2018, there are no claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable; therefore, no 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 Chief Legal Officer as a defendant. The Court denied the motion to dismiss the Second Amended Complaint on March 19, 2018. During the first quarter of fiscal 2019, the U.S. class actions lawsuit proceeded to Discovery. The Company filed its opposition to the plaintiffs' motion for class certification on August 10, 2018. Briefing on that motion is complete and a hearing is scheduled for January 29, 2019.

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. The Company expects to file its statement of defense in the fourth quarter of fiscal 2019 and trial court proceedings will then move forward.

On October 12, 2015, a group of institutional investors of Good Technology Corporation's ("Good's") filed a putative class action lawsuit on behalf of Good's common shareholders against members of Good's former board of directors (the "GTC Directors") related to the Company's acquisition of Good (the "GTC Lawsuit"). The plaintiffs allege that the GTC Directors breached their fiduciary duty by engaging in a self-interested transaction that benefited the preferred shareholders at the expense of the common shareholders. The plaintiffs are seeking monetary damages, as well as rescission of the merger agreement between Good and the Company. While neither Good nor the Company are parties to the GTC Lawsuit, Good has certain obligations to indemnify some of the defendants and is providing a defense. On October 29, 2015, Good filed a complaint alleging that the plaintiffs breached their contractual obligations under a voting agreement providing that, in the event of a sale transaction that was approved by both the GTC Directors and a majority of the Good preferred shareholders, the plaintiffs were required to vote their shares in favour of the transaction and refrain from exercising any appraisal or dissent rights (the "Voting Rights Lawsuit"). Good alleges that the filing of the GTC Lawsuit was a breach of the voting agreement. On December 31, 2015, several Good shareholders filed a petition seeking appraisal against Good (the "Appraisal Lawsuit"). On August 25, 2016, the Court granted the plaintiff's motion for leave to file an amended complaint in the GTC Lawsuit naming additional defendants, including JP Morgan Chase and various venture capital funds whose designees were Good directors (the "Fund Defendants"). Good and the Company are not named in the amended complaint. On May 23, 2017, the plaintiffs reached a tentative settlement with the GTC Directors and Fund Defendants of the GTC Lawsuit. On May 31, 2017, the plaintiffs and JP Morgan Chase reached a tentative settlement of the GTC Lawsuit. On July 24, 2017, Good, the petitioners in the Appraisal Lawsuit and the defendants in the Voting Rights Lawsuit entered into an Agreement of Settlement, Dismissal, and Release and filed same with the court. On August 8, 2017, the Court issued an order granting the parties' settlement terms. On August 18, 2017, the Company and JP Morgan Chase entered into a Settlement Funding Agreement, by which the Company agreed to fund JP Morgan Chase's settlement with the plaintiffs. On August 22, 2017, JP Morgan Chase and the plaintiffs filed a Stipulation and Agreement of Compromise and Settlement with the Court. The Court approved the settlement between plaintiffs and JP Morgan Chase and entered a Final Judgment on April 5, 2018. On November 9, 2017, the Company filed a demand for arbitration seeking the release of funds from an escrow fund account established when the Company acquired Good to indemnify the Company for certain costs incurred in connection with the defense and settlement of the GTC Lawsuit and the Appraisal Lawsuit. On August 15, 2018, all parties entered into a Global Settlement Agreement resolving all remaining disputes. On November 5, 2018, the Court approved the Global Settlement Agreement and all issues affecting the Company have been resolved. Issues related to the distribution owed to two former Good shareholders not affecting the Company are ongoing.

During the first quarter of fiscal 2018, the Company accrued $10 million for legal costs related to litigation arising out of its acquisition of Good. As a result of the Global Settlement Agreement reached in the second quarter of fiscal 2019, the Company recorded a recovery of $2 million against this accrual.

Other contingencies

In the first quarter of fiscal 2019, the Board approved the 2019 Executive Chair Grant. As part of the agreement, 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. See further discussion under "Contingent Cash Award" in Note 9.

(e) 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.

(f) 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. See the Company's Management Information Circular for fiscal 2018 for additional information regarding the Company's indemnification agreements with its current and former directors and executive officers.

(g) Definitive agreement to acquire Cylance Inc.

The Company has entered into a definitive agreement to wholly acquire Cylance Inc., an artificial intelligence and cybersecurity leader, for $1.4 billion in cash, plus the assumption of unvested employee incentive awards, subject to customary closing conditions, including regulatory approval.

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

13. 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 as described in Note 1. The Company's revenue, classified by major geographic region in which the Company's customers are located, was as follows:

	Three Months Ended		Nine Months Ended	
	November 30, 2018 (1)	November 30, 2017 (2)	November 30, 2018 (1)	November 30, 2017 (2)
North America (3)	$ 151	$ 133	$ 423	$ 393
Europe, Middle East and Africa	56	69	161	215
Other regions	19	24	65	91
Total	$ 226	$ 226	$ 649	$ 699
North America (3)	66.8%	58.8%	65.2%	56.2%
Europe, Middle East and Africa	24.8%	30.5%	24.8%	30.8%
Other regions	8.4%	10.7%	10.0%	13.0%
Total	100.0%	100.0%	100.0%	100.0%

(1) As reported under the new revenue recognition standard, ASC 606.
(2) Comparative information has not been restated and continues to be reported under the accounting standards in effect for previous periods.
(3) 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, 2018 (1)	November 30, 2017 (2)	November 30, 2018 (1)	November 30, 2017 (2)
Enterprise software and services	$ 96	$ 97	$ 263	$ 280
BlackBerry Technology Solutions	53	43	149	117
Licensing, IP and other	68	50	187	138
Handheld devices	—	9	13	62
SAF	9	27	37	102
Total	$ 226	$ 226	$ 649	$ 699

(1) As reported under the new revenue recognition standard, ASC 606.
(2) Comparative information has not been restated and continues to be reported under the accounting standards in effect for previous periods.

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

	Three Months Ended	Nine Months Ended
	November 30, 2018	November 30, 2018
Products and services transferred over time	$ 120	$ 365
Products and services transferred at a point in time	106	284
Total	$ 226	$ 649

(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, 2018:

	Accounts Receivable	Deferred Revenue	Deferred Commissions
Opening balance as at March 1, 2018 (as adjusted for ASC 606)	$ 151	$ 292	$ 21
Increases due to invoicing of new or existing contracts, associated contract acquisition costs, or other	522	429	13
Decreases due to payment, fulfillment of performance obligations, or other	(535)	(452)	(15)
Decrease, net	(13)	(23)	(2)
Closing balance as at November 30, 2018	$ 138	$ 269	$ 19

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, 2018 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, 2018			
	Less than 12 Months	12 to 24 Months	Thereafter	Total
Remaining performance obligations	$ 320	$ 128	$ 112	$ 560

Revenue recognized for performance obligations satisfied in prior periods

For the three and nine months ended November 30, 2018, nil and $11 million in revenue was recognized relating to the legacy handheld devices business.

Segment disclosures

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by the 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.

Geographical distribution of assets

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

	As at			
	November 30, 2018		February 28, 2018	
	Property, Plant and Equipment, Intangible Assets and Goodwill	Total Assets	Property, Plant and Equipment, Intangible Assets and Goodwill	Total Assets
Canada	$ 366	$ 696	$ 425	$ 640
United States	611	2,808	627	2,922
Other	46	172	58	218
	$ 1,023	$ 3,676	$ 1,110	$ 3,780

Information about major customers

There was one customer that comprised more than 10% of revenue during the three and nine months ended November 30, 2018 (three and nine months ended November 30, 2017 - one customer and no customer, respectively, comprised more than 10% of revenue).

BLACKBERRY LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 30, 2018

December 20, 2018

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 (the "Company" or "BlackBerry") for the three and nine months ended November 30, 2018, as well as the Company's audited consolidated financial statements and accompanying notes, and MD&A for the fiscal year ended February 28, 2018 (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.

The Company has prepared this MD&A with reference to *National Instrument 51-102* "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which are different from those of the United States. This MD&A provides information for the three and nine months ended November 30, 2018 and up to and including December 20, 2018.

Additional information about the Company, including the Company's Annual Information Form for the fiscal year ended February 28, 2018 (the "AIF"), which is included in the Company's Annual Report on Form 40-F for the fiscal year ended February 28, 2018 (the "Annual Report"), can be found on SEDAR at www.sedar.com and on the U.S. Securities and Exchange Commission'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 the anticipated benefits of its strategic initiatives and its intentions to grow revenue and increase and enhance its product and service offerings;
- the Company's expectations regarding its free cash flow, recurring total software and services revenue, excluding intellectual property ("IP") and professional services, recurring Licensing, IP and other revenue, total software and services revenue growth, Enterprise software and services revenue, BTS revenue growth, IP revenue, BlackBerry Radar revenue, total software and services billings growth, BTS billings growth, Licensing, IP and other billings growth, Enterprise software and services billings growth, and non-GAAP earnings per share for fiscal 2019;
- 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", "Business Overview -Strategy ", Third Quarter Fiscal 2019 Summary Results of Operations - Financial Highlights - Free Cash Flow", "Results of Operations – Three months ended November 30, 2018 compared to three months ended November 30, 2017 - Consolidated Revenue", "Results of Operations – Nine months ended November 30, 2018 compared to nine months ended November 30, 2017 – Net Income (Loss) ", and "Financial Condition – Debenture Financing and Other Funding Sources". Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience, historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. 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 factors discussed in the "Risk Factors" section of the AIF and the following:

- the Company's ability to enhance, develop, introduce or monetize products and services for the enterprise market in a timely manner with competitive pricing, features and performance;
- the Company's ability to maintain or expand its customer base for its software and services offerings to grow revenue or achieve sustained profitability;

- the intense competition faced by the Company;
- the occurrence or perception of a breach of the Company's network or product security measures, or an inappropriate disclosure of confidential or personal information;
- risks related to the Company's continuing ability to attract new personnel, retain existing key personnel and manage its staffing effectively;
- the Company's dependence on its relationships with resellers and distributors;
- the risk that network disruptions or other business interruptions could have a material adverse effect on the Company's business and harm its reputation; and
- risks related to acquisitions, divestitures, investments and other business initiatives, which may negatively affect the Company's results of operations.

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 "Business Overview - Strategy, Products and Services" in this MD&A, as well as the "Narrative Description of the Business - Strategy" section in the AIF.

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 enables the Enterprise of Things by providing the technology that allows endpoints to trust one another, communicate securely, and maintain privacy. Based in Waterloo, Ontario, the Company was founded in 1984 and operates globally. The Company's common shares trade under the ticker symbol "BB" on the New York Stock Exchange and the Toronto Stock Exchange.

Strategy

The Company is widely recognized for productivity and security innovations, and the Company believes that it delivers the most secure end-to-end mobile enterprise solutions in the market. With these core strengths, the Company's broad portfolio of products and services is focused on serving enterprise customers, particularly in regulated industries.

The Company is focused on delivering an end-to-end software and services platform for the Enterprise of Things. The Company defines the Enterprise of Things as the network of devices, computers, vehicles, sensors, equipment and other connected endpoints within the enterprise that communicate with each other to enable smart business processes. The Company leverages many elements of its extensive technology portfolio to extend best-in-class security and reliability to its solutions for the Enterprise of Things, including unified endpoint management ("UEM"), embedded systems, crisis communications, enterprise applications, and related services, with hosting available on the Company's global, scalable, secure network, as well as on public clouds.

The Company intends to continue to increase and enhance its product and service offerings through both strategic acquisitions and organic investments. The Company's goal is to maintain its market leadership in the enterprise mobility segment by continuing to extend the functionality of its platform for the Enterprise of Things and, on top of this extensive foundation, deliver cybersecurity software and embedded solutions focused on strategic industry verticals.

Products and Services

The Company’s core software and services offering is the BlackBerry Secure platform, which integrates a broad portfolio of enterprise communication technologies and safety-certified embedded solutions, including BlackBerry UEM, BlackBerry Dynamics, the QNX CAR Platform and Neutrino Operating System, AtHoc Alert, AtHoc Account, SecuSUITE, and BlackBerry Workspaces. BlackBerry UEM offers a “single pane of glass”, or unified console view, for managing and securing devices, applications, identity, content, and IoT 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. BlackBerry AtHoc provides secure, networked crisis communications solutions, and Secusmart provides secure voice and text messaging solutions with advanced encryption and anti-eavesdropping capabilities. The Company recently announced BlackBerry Spark, a next-generation secure chip-to-edge communications platform for the Enterprise of Things that will create and leverage trusted connections between any endpoints.

The BlackBerry QNX unit is a global provider of real-time operating systems, middleware, development tools, and professional services for connected embedded systems, primarily in the automotive, medical and industrial automation markets. A leader in software for automotive electronics, BlackBerry QNX offers a growing portfolio of certified safety-critical modules and platform solutions and is focusing on achieving design wins with automotive original equipment manufacturers, Tier 1 vendors and automotive semiconductor suppliers.

The Company also offers its BlackBerry Radar asset tracking solution, Paratek antenna tuning technology, Certicom cryptography and key management products, BlackBerry Messenger (“BBM”) Enterprise service, and BlackBerry Spark Communication Services for the Communications Platform as a Service market.

The Company is also engaged in the development and licensing of the Company’s secure device software and the outsourcing to partners of all design, manufacturing, sales and customer support for BlackBerry-branded, and white label handsets. The Company intends to expand its security software and brand licensing program, under which the BlackBerry KEY2 and BlackBerry KEY2 LE, BlackBerry Evolve and Evolve X, BlackBerry KEYone, BlackBerry Aurora, and BlackBerry Motion smartphones have been launched to date, to include a broader set of devices and non-smartphone endpoints. The Company also licenses its other intellectual property assets, including certain of its patents as well as assets related to the BBM Consumer service.

In addition, the Company continues to generate service access fees (“SAF”) charged to subscribers using the Company’s legacy BlackBerry 7 and prior BlackBerry operating systems, and an allocation of revenue relating to service obligations and unspecified future software upgrades associated with BlackBerry 10 devices.

Please also see the “Narrative Description of the Business - Strategy” section in the AIF, which is included in the Annual Report.

Recent Developments

The Company continues to execute on its strategy in fiscal 2019 and announced the following achievements:

- Entered into a definitive agreement to wholly acquire Cylance Inc. (“Cylance”), an artificial intelligence and cybersecurity leader, for $1.4 billion in cash, plus the assumption of unvested employee incentive awards;
- Announced new software and services as part of BlackBerry Spark, the Company’s new Enterprise of Things platform designed and built for ultra-secure hyperconnectivity;
- Recognized as a leader in Gartner’s magic quadrant for unified endpoint management tools;
- Recognized as a leader in the 2018 IDC MarketScape assessment of enterprise mobility management vendors;
- Launched three new automotive software products certified to ISO 26262, the automotive industry’s functional safety standard: BlackBerry’s QNX Hypervisor for Safety, QNX Platform for ADAS 2.0, and QNX OS for Safety 2.0, enabling automakers to accelerate development timelines and reduce cost;
- Announced that BlackBerry QNX software is embedded in the advanced driver assistance system, digital instrument clusters, connectivity modules, handsfree systems or infotainment systems of more than 120 million cars on the road;
- Entered into a strategic partnership with Microsoft Corp. to offer enterprises BlackBerry Enterprise Bridge, a solution that integrates BlackBerry’s expertise in mobility and security with Microsoft’s cloud and productivity products;
- Entered into a multi-year agreement with Jaguar Land Rover to collaborate and develop technology for the automotive manufacturer’s next-generation vehicles;
- Collaborated with the Government of Canada to modernize their operations centers during G7 ministerial meetings and the 2018 G7 Summit;

- Joined the OmniAir Consortium as an executive member to help advance the testing, certification, and deployment of technologies for connected vehicles and intelligent transportation systems;
- Signed a technology and brand licensing deal for BlackBerry Secure with Swiss consumer electronics maker Punkt Tronics AG;
- Entered into a licensing agreement with Bullitt Group to embed BlackBerry cybersecurity technology into a range of highly-secure, rugged Caterpillar- and Land Rover-branded connected devices to be certified as “BlackBerry Secure”;
- Entered into an arrangement with electric vehicle maker BYTON to license BlackBerry QNX technologies for the in-car experience within its first series of production vehicles;
- Entered into a multi-year strategic relationship with Samsung Electronics Co. Ltd. to collaborate on integrated solutions to accelerate the digital transformation of their shared enterprise customers;
- Launched a new ransomware recovery capability within BlackBerry Workspaces that allows organizations to quickly recover from cyberattacks;
- Entered into a global independent software vendor partnership with Check Point Software Technologies Ltd. to mitigate cybersecurity threats;
- Entered into a partnership with L-SPARK to help small and medium-sized technology enterprises grow their businesses and bring new products to market using BlackBerry QNX technology;
- Entered into a partnership with Global Commission, using the renowned carrier-grade network operation center to power a blockchain digital ledger, provided by ONEBIO, to create an ultra-secure global ecosystem for the storing and sharing of medical data;
- Launched QNX OS Medical 2.0, a real-time operating system for use in the development of medical device manufacturing;
- Entered into a partnership with Mackenzie Innovation Institute to explore security and connectivity between the BlackBerry Spark platform and its ‘smart’ healthcare technology vision;
- Entered into a partnership with the Melanoma Institute of Australia to enable researchers to securely share critical research data and patient records with BlackBerry Workspaces;
- Launched a quantum-resistant code signing server to supplement BlackBerry’s array of cryptography tools;
- Entered into a partnership with Virginia Tech to help advance the Department of Mechanical Engineering’s connected and autonomous vehicle research and provide hands-on training with BlackBerry QNX software;
- Expanded a partnership with Renesas to offer an integrated virtualization, functional safety and secure development environment for the Renesas R-Car system-on-chip devices; and
- Announced its commitment to helping the private and public sectors come together to accelerate the development of Smart Cities and Intelligent Transportation Systems with a Security Credential Management System service.

Acquisition of Cylance

On November 16, 2018, the Company announced that it had entered into a definitive agreement to wholly acquire Cylance for $1.4 billion in cash, plus the assumption of unvested employee incentive awards. Cylance develops artificial intelligence to deliver prevention-first, predictive security products and smart, simple, secure solutions that change how organizations approach endpoint security. Cylance provides full spectrum predictive threat prevention and visibility across the enterprise to combat the most notorious and advanced cybersecurity attacks.

The acquisition will complement the Company’s technology portfolio and the Company believes that the addition of Cylance’s capabilities will enhance the forthcoming BlackBerry Spark platform. Pending regulatory approvals and other customary closing conditions, the deal is expected to close prior to the end of fiscal 2019.

2019 Executive Chair Incentive Grant

In the first quarter of fiscal 2019, the Company granted a time-based equity award, a long-term market performance-based equity award and a contingent cash award to the Company’s Executive Chair and CEO as an incentive to remain as Executive Chair until November 3, 2023.

The time-based equity award consists of five million time-based RSUs that will vest annually in five equal tranches beginning on November 3, 2019. The market performance-based equity award consists of five tranches, each of one million market-condition RSUs that will become earned and vested when the 10-day average closing price of the Company’s common shares on the New York Stock Exchange reaches $16, $17, $18, $19 and $20, respectively. Any market-condition RSUs that have not been earned before November 3, 2023 will terminate on such date. The contingent cash award consists of a cash amount of $90 million that will become payable when the 10-day average closing price of the Company’s common shares on the New York Stock Exchange reaches $30. If unearned, the contingent cash award will terminate on November 3, 2023.

Normal Course Issuer Bid

The common share repurchase program that the Company commenced on June 23, 2017 expired on June 26, 2018. Over the course of the program, the Company repurchased for cancellation approximately 2 million common shares for approximately $18 million. During the three and nine months ended November 30, 2018, the Company did not repurchase any common shares.

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 unless otherwise noted. On December 20, 2018, the Company announced financial results for the three and nine months ended November 30, 2018, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted EBITDA, adjusted EBITDA margin, adjusted income before income taxes, adjusted net income and adjusted earnings per share. The Company believes the presentation of these non-GAAP measures provides management and shareholders with important information regarding the Company's financial performance due to the financial statement impact of the Company's transformation from a hardware-focused handset manufacturer to an enterprise software and services company with recurring revenue streams.

For the three months ended November 30, 2018, these measures were adjusted for the following (collectively, the "Q3 Fiscal 2019 Non-GAAP Adjustments") (all items pre-tax and after-tax):

- the Q3 Fiscal 2019 Debentures Fair Value Adjustment (as defined below under "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately $69 million;
- restructuring charges from the Resource Allocation Program ("RAP") consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately $1 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately $2 million;
- stock compensation expense of approximately $15 million; and
- amortization of intangible assets acquired through business combinations of approximately $20 million.

The Company believes that presenting non-GAAP financial measures that exclude the impact of those items enables it and its shareholders to assess the Company's operating performance relative to its consolidated financial results in prior and future periods on a more comparable basis. Readers are cautioned that adjusted revenue, adjusted gross margin, adjusted gross margin percentage, adjusted EBITDA, adjusted EBITDA margin, adjusted income before income taxes, adjusted net income, adjusted earnings per share and similar measures do not have any standardized meaning prescribed by U.S. GAAP and therefore might not 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 presented in the Consolidated Financial Statements and are described in this MD&A. A reconciliation from the most directly comparable U.S. GAAP measures to these non-GAAP financial measures for the three months ended November 30, 2018 was included in the Company's press release dated December 20, 2018, and is reflected in the table below:

Q3 Fiscal 2019 Non-GAAP Adjustments		For the Three Months Ended November 30, 2018 *(in millions, except for per share amounts)*					
	Income statement location	**Revenue**	**Gross margin *(before taxes)***	**Gross margin % *(before taxes)***	**Income before income taxes**	**Net income**	**Basic earnings per share**
As reported		$ 226	$ 170	75.2%	$ 60	$ 59	$ 0.11
Debentures fair value adjustment [1]	Debentures fair value adjustment	—	—	—%	(69)	(69)	
Restructuring charges [2]	Selling, marketing and administration	—	—	—%	1	1	
Software deferred revenue acquired [3]	Revenue	2	2	0.2%	2	2	
Stock compensation expense	Cost of sales	—	1	0.5%	1	1	
Stock compensation expense	Research and development	—	—	—%	3	3	
Stock compensation expense	Selling, marketing and administration	—	—	—%	11	11	
Acquired intangibles amortization	Amortization	—	—	—%	20	20	
Adjusted		$ 228	$ 173	75.9%	$ 29	$ 28	$ 0.05

(1) See "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights - Debentures Fair Value Adjustment".
(2) See "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights - Restructuring Charges".
(3) Included in Enterprise software and services revenue.

For the nine months ended November 30, 2018, these non-GAAP measures were adjusted for the following (collectively, the "Fiscal 2019 Non-GAAP Adjustments") (all items pre-tax and after-tax):

- the Fiscal 2019 Debentures Fair Value Adjustment (as defined below under "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights – Debentures Fair Value Adjustment") of approximately $111 million;
- restructuring charges from RAP and recoveries from Cost Optimization and Resource Efficiency ("CORE") programs consisting of amounts associated with employee termination benefits, facilities, and certain other costs of approximately $8 million on a net basis;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately $10 million;
- stock compensation expense of approximately $54 million;
- amortization of intangible assets acquired through business combinations of approximately $64 million; and
- business acquisition and integration costs recovered through business combinations of approximately $1 million.

A reconciliation from the most directly comparable U.S. GAAP measures to the non-GAAP financial measures for the nine months ended November 30, 2018 is reflected in the table below.

Fiscal 2019 Non-GAAP Adjustments		For the Nine Months Ended November 30, 2018 (in millions, except for per share amounts)					
	Income statement location	**Revenue**	**Gross margin *(before taxes)***	**Gross margin % *(before taxes)***	**Income before income taxes**	**Net income**	**Basic earnings per share**
As reported		$ 649	$ 492	75.8%	$ 45	$ 42	$ 0.08
Debentures fair value adjustment (1)	Debentures fair value adjustment	—	—	—%	(111)	(111)	
Restructuring charges (2)	Cost of sales	—	1	0.2%	1	1	
Restructuring charges (2)	Research and development	—	—	—%	2	2	
Restructuring charges (2)	Selling, marketing and administration	—	—	—%	5	5	
Software deferred revenue acquired (3)	Revenue	10	10	0.3%	10	10	
Stock compensation expense	Cost of sales	—	3	0.5%	3	3	
Stock compensation expense	Research and development	—	—	—%	9	9	
Stock compensation expense	Selling, marketing and administration	—	—	—%	42	42	
Acquired intangibles amortization	Amortization	—	—	—%	64	64	
Business acquisition and integration costs recovered	Selling, marketing and administration	—	—	—%	(1)	(1)	
Adjusted		$ 659	$ 506	76.8%	$ 69	$ 66	$ 0.12

(1) See "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights - Debentures Fair Value Adjustment".
(2) See "Third Quarter Fiscal 2019 Summary Results of Operations – Financial Highlights - Restructuring Charges ".
(3) Included in Enterprise software and services revenue.

Similarly, on December 20, 2017, the Company announced financial results for the three and nine months ended November 30, 2017, which included certain non-GAAP financial measures, including adjusted revenue, adjusted gross margin, gross margin percentage, adjusted EBITDA, adjusted income (loss) before income taxes, adjusted net income (loss) and adjusted earnings per share.

For the three months ended November 30, 2017, these measures were adjusted for the following (collectively, the "Q3 Fiscal 2018 Non-GAAP Adjustments") (all items pre-tax and after tax):

- a fair value adjustment associated with the Company's convertible debentures of approximately $77 million (the "Q3 Fiscal 2018 Debentures Fair Value Adjustment");
- RAP charges of approximately $20 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately $9 million;
- stock compensation expense of approximately $12 million;
- amortization of intangible assets acquired through business combinations of approximately $23 million;
- business acquisition and integration costs incurred through business combinations of approximately $1 million;
- operating expenses in connection with the Nokia arbitration decision of $132 million; and
- interest expense in connection with the Nokia arbitration decision of $17 million.

For the nine months ended November 30, 2017, these measures were adjusted for the following (collectively, the "Fiscal 2018 Non-GAAP Adjustments") (all items pre-tax and after tax):

- a fair value adjustment associated with the Company's convertible debentures of approximately $225 million (the "Fiscal 2018 Debentures Fair Value Adjustment");

- a long-lived asset impairment charge (the "Fiscal 2018 LLA Impairment Charge"), recognized when the carrying value exceeds the fair value of an asset group of $11 million;
- RAP charges of approximately $55 million;
- software deferred revenue acquired but not recognized due to business combination accounting rules of approximately $29 million;
- stock compensation expense of approximately $36 million;
- amortization of intangible assets acquired through business combinations of approximately $72 million;
- business acquisition and integration costs incurred through business combinations of approximately $13 million;
- net arbitration awards in connection with the Qualcomm and Nokia arbitrations of $683 million; and
- net interest income in connection with the Qualcomm and Nokia arbitrations of $122 million.

A reconciliation from the most directly comparable U.S. GAAP measures to these non-GAAP financial measures for the three and nine months ended November 30, 2017 was included in the Company's press release, dated December 20, 2017, and is reflected in the table below.

		For the Three Months Ended November 30, 2017 (in millions)				For the Nine Months Ended November 30, 2017 (in millions)			
	Income statement location	**Revenue**	**Gross margin *(before taxes)***	**Income (loss) before income taxes**	**Net income (loss)**	**Revenue**	**Gross margin *(before taxes)***	**Income before income taxes**	**Net income**
As reported		$ 226	$ 168	$ (275)	$ (275)	$ 699	$ 493	$ 420	$ 415
Debentures fair value adjustment	Debentures fair value adjustment	—	—	77	77	—	—	225	225
LLA impairment charge	Impairment of long-lived assets	—	—	—	—	—	—	11	11
RAP charges	Cost of sales	—	2	2	2	—	8	8	8
RAP charges	Research and development	—	—	1	1	—	—	5	5
RAP charges	Selling, marketing and administration	—	—	17	17	—	—	42	42
Software deferred revenue acquired (1)	Revenue	9	9	9	9	29	29	29	29
Stock compensation expense	Cost of sales	—	1	1	1		3	3	3
Stock compensation expense	Research and development	—	—	3	3	—	—	9	9
Stock compensation expense	Selling, marketing and administration	—	—	8	8	—	—	24	24
Acquired intangibles amortization	Amortization	—	—	23	23	—	—	72	72
Business acquisition and integration costs	Selling, marketing and administration	—	—	1	1	—	—	13	13
Arbitration awards, net	Arbitration charges (awards)	—	—	132	132	—	—	(683)	(683)
Arbitration awards, net	Investment income (loss), net	—	—	17	17	—	—	(122)	(122)
Adjusted		$ 235	$ 180	$ 16	$ 16	$ 728	$ 533	$ 56	$ 51

(1) Included in Enterprise software and services revenue

The Company also reported adjusted EBITDA and adjusted EBITDA margin, as presented in the tables below, for the three and nine months ended November 30, 2018 of $44 million and 19%, and $108 million and 16%, respectively. These are non-GAAP financial measures that do not have any standardized meaning as prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

	For the Three Months Ended November 30, 2018 (in millions)	For the Nine Months Ended November 30, 2018 (in millions)
Operating income	$ 58	$ 32
Non-GAAP adjustments to operating income		
Debentures fair value adjustment	(69)	(111)
Restructuring charges	1	8
Software deferred revenue acquired	2	10
Stock compensation expense	15	54
Acquired intangibles amortization	20	64
Business acquisition and integration recovery	—	(1)
Total non-GAAP adjustments to operating income	(31)	24
Non-GAAP operating income	27	56
Amortization	37	116
Acquired intangibles amortization	(20)	(64)
Adjusted EBITDA	$ 44	$ 108
Adjusted revenue (per above)	228	659
Adjusted EBITDA margin	19%	16%

Adjusted EBITDA and adjusted EBITDA margin for the three and nine months ended November 30, 2017 are reflected in the table below:

	For the Three Months Ended November 30, 2017 (in millions)	For the Nine Months Ended November 30, 2017 (in millions)
Operating income (loss)	$ (258)	$ 300
Non-GAAP adjustments to operating income (loss)		
Debentures fair value adjustment	77	225
LLA impairment	—	11
RAP charges	20	55
Software deferred revenue acquired	9	29
Stock compensation expense	12	36
Acquired intangibles amortization	23	72
Business acquisition and integration costs	1	13
Arbitration charges (awards)	132	(683)
Total non-GAAP adjustments to operating income (loss)	274	(242)
Non-GAAP operating income	16	58
Amortization	42	138
Acquired intangibles amortization	(23)	(72)
Adjusted EBITDA	$ 35	$ 124
Adjusted revenue (per above)	235	728
Adjusted EBITDA margin	15%	17%

The Company also reported free cash flow as described in “Third Quarter Fiscal 2019 Summary Results of Operations - Free Cash Flow”, below.

Accounting Policies and Critical Accounting Estimates

There have been no changes to the Company’s accounting policies or critical accounting estimates from those described under “Accounting Policies and Critical Accounting Estimates” in the Annual MD&A, with the exception of those noted below.

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASC 606, a new accounting standard on the topic of revenue contracts, which replaces the existing revenue recognition standard. The new standard amended a number of requirements that an entity must consider in recognizing revenue and requires improved disclosures to help readers of financial statements better understand the nature, amount, timing and uncertainty of revenue recognized. For public entities, the new standard was effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted this guidance in the first quarter of fiscal 2019. See Note 1 to the Consolidated Financial Statements for a further discussion on the Company’s revenue recognition policy under ASC 606 and the impact to the Company’s financial statements.

In January 2016, the FASB issued ASU 2016-01 on the topic of financial instruments. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the guidance clarifies that an entity should evaluate the need for a valuation allowance on a deferred income tax asset related to available-for-sale securities. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2019. As a result of the adoption of ASU 2016-01, the Company recognized approximately $8 million in unrecognized losses on equity securities that had previously been recorded to other comprehensive income (loss), through a cumulative addition to deficit in the consolidated balance sheet as of March 1, 2018. The Company recognized approximately $14 million on the change in fair value from instrument-specific credit risk that had previously been recorded to deficit through a cumulative increase to accumulated other comprehensive loss (“AOCI”) in the consolidated balance sheet as of March 1, 2018. The Company will also account for equity investments without a readily determinable fair value using the practicability exception. The investments will be measured at cost, less any impairment, plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer.

In November 2016, the FASB issued ASU 2016-18 on the topic of the statement of cash flows. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2017. The Company adopted this guidance in the first quarter of fiscal 2019.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued a new accounting standard on the topic of leases. The new standard requires companies to include lease obligations in their balance sheets, including a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use (“ROU”) asset and a corresponding lease liability. For finance leases, the lessee will recognize interest expense and amortization of the ROU asset, and for operating leases, the lessee will recognize a straight-line total lease expense. The guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company expects to adopt this guidance in the first quarter of fiscal 2020 and is currently evaluating the impact that the adoption will have on its results of operations, financial position and disclosures. The Company established a cross-functional coordinated team to conduct the implementation of the lease standard, which will be responsible for identifying and implementing the appropriate changes to the Company’s relevant business processes, systems and controls to support any required accounting and disclosure changes.

Third Quarter Fiscal 2019 Summary Results of Operations

The following table sets forth certain unaudited consolidated statements of operations data for the quarter ended November 30, 2018 compared to the quarter ended November 30, 2017 under U.S. GAAP.

	For the Three Months Ended (in millions, except for share and per share amounts)				
	November 30, 2018		November 30, 2017		Change
Revenue [1][2]	$ 226	100.0%	$ 226	100.0%	$ —
Gross margin [1][2]	170	75.2%	168	74.3%	2
Operating expenses [1][2]	112	49.6%	426	188.5%	(314)
Income before income taxes [1]	60	26.5%	(275)	(121.7%)	335
Provision for income taxes	1	0.4%	—	—%	1
Net income	$ 59	26.1%	$ (275)	(121.7%)	$ 334
Earnings (loss) per share - reported					
Basic	$ 0.11		$ (0.52)		$ 0.63
Diluted [3][4]	$ (0.01)		$ (0.52)		$ 0.51
Weighted-average number of shares outstanding (000s)					
Basic	540,406		532,496		
Diluted [3][4]	600,906		532,496		

(1) See "Non-GAAP Financial Measures" for the impact of the Q3 Fiscal 2019 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in the third quarter of fiscal 2019.
(2) See "Non-GAAP Financial Measures" for the impact of the Q3 Fiscal 2018 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin, adjusted operating expenses and income before income taxes in the third quarter of fiscal 2018.
(3) Diluted loss per share on a U.S. GAAP basis for the third quarter of fiscal 2019 and fiscal 2018 does not include the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares, as it would be anti-dilutive. See Note 10 to the Consolidated Financial Statements for the Company's calculation of diluted loss per share.
(4) Diluted loss per share on a U.S. GAAP basis for the third quarter of fiscal 2018 does not include the dilutive effect of the Debentures as it would be anti-dilutive. See Note 10 to the Consolidated Financial Statements for the Company's calculation of diluted loss per share.

Financial Highlights

The Company had approximately $2.40 billion in cash, cash equivalents and investments as of November 30, 2018.

In the third quarter of fiscal 2019, the Company recognized revenue of $226 million and net income of $59 million, or $0.11 basic earnings per share on a U.S. GAAP basis. The Company incurred a diluted loss per share of $0.01 on a U.S. GAAP basis. The Company recognized adjusted revenue of $228 million and adjusted net income of $28 million, or adjusted earnings of $0.05 per share, on a non-GAAP basis. See also "Non-GAAP Financial Measures".

Free Cash Flow

Free cash flow is a measure of liquidity calculated as 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. For the three months ended November 30, 2018, the Company's net cash provided by operating activities was $62 million and capital expenditures were $5 million, resulting in the Company reporting free cash flow of $57 million. Free cash flow was $39 million for the three months ended November 30, 2018 before taking into account payments related to restructuring and $25 million recovered from escrow related to the Settlement Funding Agreement with JP Morgan Chase as described in Note 12 to the Consolidated Financial Statements.

The Company anticipates generating positive free cash flow for fiscal 2019 before taking into account the costs related to restructuring and the impact of legal proceedings.

Debentures Fair Value Adjustment

As previously disclosed, the Company elected the fair value option to account for the 3.75% unsecured convertible debentures (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.

In the third quarter of fiscal 2019, the fair value of the Debentures decreased by approximately $74 million. For the three months ended November 30, 2018, the Company recorded non-cash income relating to changes in fair value from instrument-specific credit risk of $5 million in AOCI and non-cash income relating to changes in fair value from non-credit components of $69 million (pre-tax and after tax) (the "Q3 Fiscal 2019 Debentures Fair Value Adjustment") in the Company's consolidated statements of operations. For the nine months ended November 30, 2018, the Company recorded non-cash income relating to changes in fair value from instrument-specific credit risk of $6 million in AOCI and non-cash income relating to changes in fair value from non-credit components of $111 million (pre-tax and after tax) (the "Fiscal 2019 Debentures Fair Value Adjustment") in the Company's consolidated statements of operations.

Restructuring Charges

During the first quarter of fiscal 2016, the Company commenced the RAP with the objectives of (i) reallocating resources to capitalize on growth opportunities, (ii) providing the operational ability to better leverage contract research and development services relating to its handheld devices, and (iii) reaching sustainable profitability. Other charges and cash costs may occur as programs are implemented or changes are completed. During the three and nine months ended November 30, 2018, the Company incurred approximately $1 million and $9 million, respectively, in total pre-tax charges related to this program. During the three and nine months ended November 30, 2018, the Company recovered approximately nil and $1 million, respectively, in total pre-tax recoveries related to the CORE program.

Results of Operations - Three months ended November 30, 2018 compared to three months ended November 30, 2017

Consolidated Revenue

Consolidated revenue was consistent at approximately $226 million in the third quarter of fiscal 2019, compared to $226 million in the third quarter of fiscal 2018. An increase of $18 million in Licensing, IP and other revenue to $68 million from $50 million and an increase of $10 million in BTS revenue to $53 million from $43 million were offset by a decrease of $18 million in SAF revenue to $9 million from $27 million, a decrease of $9 million in handheld devices revenue to nil from $9 million and a $1 million decrease in Enterprise software and services revenue to $96 million from $97 million. See "Results of Operations - Three months ended November 30, 2018 compared to three months ended November 30, 2017 - Revenue - Revenue by Product and Service" below.

The increase in Licensing, IP and other revenue of $18 million was primarily due to higher IP revenue from the Company's patent licensing agreement with Teletry that allows it to sublicense a broad range of the Company's patents to a majority of global smartphone manufacturers, beginning in the third quarter of fiscal 2018, partially offset by a decrease in revenue from BBM Consumer due to a decrease in infrastructure hosting revenue.

The increase in BTS revenue of $10 million was primarily due to increased royalty revenue, increased development seats revenue and increased professional services revenue.

The $18 million decrease in SAF, which is generated from users of BlackBerry 7 and prior BlackBerry operating systems, is primarily attributable to a lower number of BlackBerry 7 users, lower revenue from those users and a continued shift in the mix of the Company's customers from higher-tiered unlimited plans to prepaid and lower-tiered plans, compared to the third quarter of fiscal 2018.

The decrease in handheld devices revenue of $9 million was primarily attributable to the Company's transition from an outsourced handset manufacturing model to the development and licensing of the Company's secure device software. The Company's partners are responsible for all design, manufacturing, sales and customer support for BlackBerry-branded handsets. As a result, the Company's handheld device revenue over the period of transition has consisted solely of sales of the Company's owned handheld inventory, which is not being replenished as handheld devices are no longer produced by or on behalf of the Company, followed solely by the release of previously accrued amounts when the Company determines it has no further performance obligations.

The decrease in Enterprise software and services revenue of $1 million was due to a lower number of perpetual licenses sold and a reduction in revenue recognized on perpetual licenses as a result of the adoption of ASC 606.

Total software and services revenue, excluding IP and professional services, was approximately 79% recurring (subscription based) in the third quarter of fiscal 2019. The Company expects that in fiscal 2019, between 80% and 85% of software and services revenue, excluding IP and professional services, will be recurring. Total software and services revenue after including perpetual licenses that are not recognized ratably, excluding IP and professional services, was approximately 88% recurring in the third quarter of fiscal 2019. The Company expects to generate recurring Licensing, IP and other revenue of between $40 million and $45 million per quarter.

The Company expects year-over-year total software and services revenue growth of between 8% and 10% in fiscal 2019. Total software and services includes Enterprise software and services, BTS, and Licensing, IP and other.

The Company expects Enterprise software and services revenue to grow sequentially in the fourth quarter of fiscal 2019. In the second quarter of fiscal 2019, the Company stated that it expected Enterprise software and services revenue to grow sequentially in the third quarter of fiscal 2019. Enterprise software and services revenue grew 7% in the third quarter of fiscal 2019, compared to the second quarter of fiscal 2019.

The Company expects BTS revenue to grow between 20% and 25% in fiscal 2019.

In the second quarter of fiscal 2019, the Company stated that it expected IP revenue of between $120 million and $140 million in fiscal 2019. The Company now expects to earn more than $140 million in IP revenue in fiscal 2019 due to better than expected revenues from its IP sublicensing program with Teletry. The Company expects to generate $100 million in cumulative revenue from its BlackBerry Radar asset tracking solution over the next three years.

In the third quarter of fiscal 2019, total software and services billings grew by a single-digit percentage versus the third quarter of fiscal 2018. The Company expects double-digit year-over-year total software and services billings growth in fiscal 2019, due to growth in BTS and Licensing, IP and other billings**.** The Company expects Enterprise software and services billings to grow sequentially in the fourth quarter of fiscal 2019. In the second quarter of fiscal 2019, the Company stated that it expected Enterprise software and services billings to grow sequentially in the third quarter of fiscal 2019. Enterprise software and services billings declined 8% in the third quarter of fiscal 2019 compared to the second quarter of fiscal 2019, due to the Company's salesforce continuing to adapt to the previously announced change to a subscription sales-based model. In the second quarter of fiscal 2019, the Company stated its expectation that Enterprise software and services billings would be relatively flat in fiscal 2019 compared to fiscal 2018. Enterprise software and services billings are now expected to decline in fiscal 2019 compared to fiscal 2018 due to the same reason noted above.

Consolidated Gross Margin

Consolidated gross margin increased by $2 million to approximately $170 million, or 75.2% of consolidated revenue in the third quarter of fiscal 2019 from $168 million, or 74.3% of consolidated revenue in the third quarter of fiscal 2018. The increase was primarily due to an increase in gross margin associated with Licensing, IP and other revenue and BTS offset by a decrease in gross margin associated with SAF and Enterprise software and services.

The increase in gross margin associated with Licensing, IP and other revenue and BTS is primarily due to the reasons discussed above in "Consolidated Revenue". The decrease in gross margin associated with SAF is primarily due to the decline in SAF revenue discussed above in "Consolidated Revenue*",* as cost of goods sold associated with SAF were consistent in the third quarter of fiscal 2019 and the third quarter of fiscal 2018 due to certain fixed costs associated with SAF infrastructure. The decrease in gross margin associated with Enterprise software and services is primarily due to the reasons discussed above in "Consolidated Revenue".

Revenue

Revenue by Geography

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

	For the Three Months Ended *(in millions)*								
	November 30, 2018			November 30, 2017			Change		
Revenue by Geography									
North America	$	151	66.8%	$	133	58.8%	$	18	13.5 %
Europe, Middle East and Africa		56	24.8%		69	30.5%		(13)	(18.8)%
Other regions		19	8.4%		24	10.7%		(5)	(20.8)%
	$	226	100.0%	$	226	100.0%	$	—	— %

North America Revenue

Revenue in North America was $151 million, or 66.8% of revenue in the third quarter of fiscal 2019, reflecting an increase of $18 million compared to $133 million, or 58.8% of revenue, in the third quarter of fiscal 2018. The increase in revenue is primarily due to increases in Licensing, IP and other revenue and BTS revenue due to the reasons discussed above in "Consolidated Revenue", partially offset by a decrease in handheld device revenue and SAF due to the reasons discussed above in "Consolidated Revenue".

Europe, Middle East and Africa Revenue

Revenue in Europe, Middle East and Africa was $56 million or 24.8% of revenue in the third quarter of fiscal 2019, reflecting a decrease of $13 million compared to $69 million or 30.5% of revenue in the third quarter of fiscal 2018. The decrease in revenue is primarily due to decreases in SAF revenue and handheld device revenue due to the reasons discussed above in "Consolidated Revenue", partially offset by an increase in BTS revenue due to an increase in sales of development seats and professional services.

Other Region Revenue

Revenue in other regions was $19 million or 8.4% of revenue in the third quarter of fiscal 2019, reflecting a decrease of $5 million compared to $24 million or 10.7% of revenue in the third quarter of fiscal 2018. The decrease in revenue is due to a decrease in SAF revenue and Enterprise software and services revenue due to the reasons discussed above in "Consolidated Revenue".

Revenue by Product and Service

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

	For the Three Months Ended (in millions)					
	November 30, 2018		November 30, 2017		Change	
Revenue by Product and Service						
Enterprise software and services [(1)]	$ 98	43.0%	$ 106	45.1%	$ (8)	(7.5)%
BTS	53	23.2%	43	18.3%	10	23.3 %
Licensing, IP and other	68	29.8%	50	21.3%	18	36.0 %
Handheld devices	—	—%	9	3.8%	(9)	(100.0)%
SAF	9	4.0%	27	11.5%	(18)	(66.7)%
	$ 228	100.0%	$ 235	100.0%	$ (7)	(3.0)%

(1) See "Non-GAAP Financial Measures" for the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments made to Enterprise software and services revenue.

Enterprise Software and Services

Enterprise software and services revenue includes revenue from the Company's security, productivity, collaboration and end-point management solutions through the BlackBerry Secure platform, which includes BlackBerry UEM, BlackBerry Dynamics, BlackBerry Workspaces and BBM Enterprise, as well as revenue from the sale of the Company's AtHoc Alert secure networked crisis communications solution, its Secusmart SecuSUITE secure voice and text solution, and professional services from BlackBerry Cybersecurity Services.

Enterprise software and services non-GAAP revenue was $98 million, or 43.0% of revenue, in the third quarter of fiscal 2019, a decrease of $8 million compared to revenue of $106 million, or 45.1% of revenue, in the third quarter of fiscal 2018. Enterprise software and services non-GAAP revenue decreased due to a decrease of $7 million in the non-GAAP adjustment of deferred software revenue acquired to $2 million in the third quarter of fiscal 2019 from $9 million in the third quarter of fiscal 2018 and due to the reasons described above in "Consolidated Revenue".

Excluding the deferred software revenue acquired adjustment described under "Non-GAAP Financial Measures", Enterprise software and services U.S. GAAP revenue was $96 million, or 42.5% of revenue, in the third quarter of fiscal 2019, compared to $97 million, or 42.9% of revenue, in the third quarter of fiscal 2018, representing a decrease of $1 million, or 1.0%, due to the reasons described above in "Consolidated Revenue".

BTS

BTS includes revenue from the Company's QNX CAR Platform and Neutrino Operating System, as well as revenue from the Company's BlackBerry Radar asset tracking solution, Paratek antenna tuning technology, and Certicom cryptography and key management products.

BTS revenue was $53 million, or 23.2% of revenue, in the third quarter of fiscal 2019, an increase of $10 million compared to $43 million, or 18.3% of revenue, in the third quarter of fiscal 2018. BTS revenue increased due to the reasons described above in "Consolidated Revenue".

Licensing, IP and Other

Licensing, IP and other revenue includes revenue from the Company's mobility licensing software arrangements, including revenue from licensed hardware sales, the Company's Intellectual Property and Licensing business, and from its BBM Consumer licensing arrangement.

Licensing, IP and other revenue were $68 million, or 29.8% of revenue, in the third quarter of fiscal 2019, an increase of $18 million compared to $50 million, or 21.3% of revenue from the third quarter of fiscal 2018. Licensing, IP and other revenue increased due to the reasons described above in "Consolidated Revenue".

Handheld Devices

Handheld devices includes revenue from the sale of the Company's remaining inventory of legacy smartphones and smartphone accessories, as well as non-warranty repair services and the release of previously accrued amounts when the Company determines it has no further performance obligations. Handheld device revenue was nil, or 0.0% of revenue, in the third quarter of fiscal 2019, compared to $9 million, or 3.8% of revenue, in the third quarter of fiscal 2018, representing a decrease of $9 million, or 100.0%. The $9 million decrease in handheld devices revenue was primarily due to the reasons discussed above in "Consolidated Revenue".

Service Access Fees

SAF revenue decreased by $18 million, or 66.7%, to $9 million, or 4.0% of revenue, in the third quarter of fiscal 2019, compared to $27 million, or 11.5% of revenue, in the third quarter of fiscal 2018. The decrease was due to the reasons discussed above in "Consolidated Revenue".

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expense for the quarter ended November 30, 2018, compared to the quarter ended August 31, 2018 and the quarter ended November 30, 2017. The Company believes it is also meaningful to provide a sequential comparison between the third quarter of fiscal 2019 and the second quarter of fiscal 2019.

	For the Three Months Ended *(in millions)*								
	November 30, 2018			August 31, 2018			November 30, 2017		
			% of Revenue			% of Revenue			% of Revenue
Revenue	$	226		$	210		$	226	
Operating expenses									
Research and development [(1)(2)(3)]	$	55	24.3 %	$	51	24.3 %	$	60	26.5%
Selling, marketing and administration [(1)(2)(3)]		93	41.2 %		106	50.5 %		120	53.1%
Amortization [(1)(2)(3)]		33	14.6 %		35	16.7 %		37	16.4%
Debentures fair value adjustment [(1)(2)(3)]		(69)	(30.5)%		(70)	(33.3)%		77	34.1%
Arbitration charges [(2)]		—	— %		—	— %		132	58.4%
Total	$	112	49.6 %	$	122	58.1 %	$	426	188.5%

(1) See "Non-GAAP Financial Measures" for the impact of the Q3 Fiscal 2019 Non-GAAP Adjustments on adjusted operating expenditures in the third quarter of fiscal 2019.

(2) See "Non-GAAP Financial Measures" for the impact of the Q3 Fiscal 2018 Non-GAAP Adjustments on adjusted operating expenditures in the third quarter of fiscal 2018.

(3) In the second quarter of fiscal 2019, the Company recognized non-cash income associated with a change in the fair value of the Debentures of approximately $70 million (the "Q2 Fiscal 2019 Debentures Fair Value Adjustment"), net restructuring charges of approximately $2 million in selling, marketing and administration expenses, stock compensation expense of $3 million and $17 million in research and development and selling, marketing and administration expenses, respectively, acquired intangibles amortization of $22 million and a recovery of $2 million in business acquisition and integration costs in selling, marketing and administration expenses (collectively the "Q2 Fiscal 2019 Non-GAAP Adjustments").

Operating expenses decreased by $10 million, or 8.2%, to $112 million, or 49.6% of revenue, in the third quarter of fiscal 2019, compared to $122 million, or 58.1% of revenue, in the second quarter of fiscal 2019. The decrease was primarily attributable to a decrease in stock-based compensation, a decrease in severance paid, and favourable foreign currency translation, partially offset by increases in legal and professional fees.

After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q2 Fiscal 2019 Non-GAAP Adjustments, non-GAAP operating expenses decreased by $4 million. The decrease was primarily attributable to a decrease in severance paid and favourable foreign currency translation, partially offset by increases in professional and legal fees.

Operating expenses decreased by $314 million, or 73.7%, to $112 million or 49.6% of revenue in the third quarter of fiscal 2019, compared to approximately $426 million or 188.5% of revenue in the third quarter of fiscal 2018. The decrease was primarily attributable to the difference between the Q3 Fiscal 2019 Debentures Fair Value Adjustment and Q3 Fiscal 2018 Debentures Fair Value Adjustment, the Nokia arbitration decision in the third quarter of fiscal 2018, a decrease in restructuring charges, a lower amortization expense, and favourable foreign currency translation.

After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP operating expenses decreased by $18 million in the third quarter of fiscal 2019, compared to the third quarter of fiscal 2018. The decrease was primarily attributable to a reduction in salaries and benefits, favourable foreign currency translation, a favourable change in the fair value of the Company's deferred share unit liability, and a lower bad debt expense.

Research and Development Expenses

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

Research and development decreased by $5 million, or 8.3%, to $55 million in the third quarter of fiscal 2019 compared to $60 million in the third quarter of fiscal 2018. After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP research and development expenses decreased by $4 million. The decrease was primarily attributable to a decrease in salaries and benefits, and a decrease in outsourcing costs.

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 $27 million, or 22.5%, to $93 million in the third quarter of fiscal 2019 compared to $120 million in the third quarter of fiscal 2018. After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP selling, marketing and administration expenses decreased by $13 million. The decrease was primarily attributable to favourable foreign currency translation, a favourable change in the fair value of the Company's deferred share unit liability, a lower bad debt expense, and a reduction in salaries and benefits.

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 third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended *(in millions)*					
	Included in Amortization			Included in Cost of Sales		
	November 30, 2018	November 30, 2017	Change	November 30, 2018	November 30, 2017	Change
Property, plant and equipment	$ 4	$ 3	$ 1	$ 2	$ 5	$ (3)
Intangible assets	29	34	(5)	2	—	2
Total	$ 33	$ 37	$ (4)	$ 4	$ 5	$ (1)

Amortization

Amortization expense relating to certain property, plant and equipment and intangible assets decreased by $4 million to $33 million for the third quarter of fiscal 2019, compared to $37 million for the third quarter of fiscal 2018. The decrease in amortization expense reflects the full depreciation of certain assets.

After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP amortization expense decreased by $1 million.

Cost of Sales

Amortization expense relating to certain property, plant and equipment and intangible assets employed in the Company's service and IP operations decreased by $1 million to $4 million for the third quarter of fiscal 2019, compared to $5 million for the third quarter of fiscal 2018. The decrease primarily reflects the full depreciation of assets, partially offset by a portion of the amortization of patents being classified as cost of goods sold due to the Company's intellectual property licensing arrangements.

Investment Income (Loss)

Investment income, which includes the interest expense from the Debentures, increased by $19 million to $2 million in investment income in the third quarter of fiscal 2019, compared to an investment loss of $17 million in the third quarter of fiscal 2018. The increased investment income was due to interest expense on the Nokia arbitration decision in the third quarter of fiscal 2018.

After giving effect to the relevant Q3 Fiscal 2018 Non-GAAP Adjustments, non-GAAP investment income increased by $2 million. The increase was due to a higher yield on the Company's average cash and investment balances.

Income Taxes

For the third quarter of fiscal 2019, the Company's net effective income tax expense rate was approximately 2%, compared to a net effective income tax expense rate of approximately 0% for the same period in the prior fiscal year. The Company's net effective income tax rate reflects the impact of the United States enacted tax reform legislation through the Tax Cuts and Jobs Act 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 Income

The Company's net income for the third quarter of fiscal 2019 was $59 million, reflecting an increase in net income of $334 million, compared to net loss of $275 million in the third quarter of fiscal 2018, primarily due to the difference between the Q3 Fiscal 2019 Debentures Fair Value Adjustment and Q3 Fiscal 2018 Debentures Fair Value Adjustment, the Nokia arbitration decision in the third quarter of fiscal 2018 and a decrease in operating expenses, as described above in "Operating Expenses". After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP net income was $28 million for the third quarter of fiscal 2019 compared to non-GAAP net income of $16 million for the third quarter of fiscal 2018, reflecting an increased in non-GAAP net income of $12 million primarily due to a decrease in operating expenses as described above in "Operating Expenses".

For the third quarter of fiscal 2019, U.S. GAAP basic earnings and diluted loss per share were $0.11 and $0.01, respectively, compared to U.S. GAAP basic and diluted loss per share of $0.52 for the same period in the prior fiscal year. After giving effect to the relevant Q3 Fiscal 2019 Non-GAAP Adjustments and Q3 Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP basic earnings per share was $0.05 for the third quarter of fiscal 2019 compared to non-GAAP basic earnings per share of $0.03 for the third quarter of fiscal 2018.

The weighted average number of shares outstanding was approximately 540 million common shares for basic earnings per share and 601 million common shares for diluted loss per share for the three months ended November 30, 2018, and approximately 532 million common shares for basic and diluted loss per share for the three months ended November 30, 2017.

Common Shares Outstanding

On December 17, 2018, there were 547 million common shares, 0.7 million options to purchase common shares, 17 million restricted share units and 0.8 million deferred share units outstanding. In addition, 60.5 million common shares are issuable upon conversion in full of the Debentures as described in Note 8 to the Consolidated Financial Statements.

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

Results of Operations - Nine months ended November 30, 2018 compared to nine months ended November 30, 2017

The following table sets forth certain unaudited consolidated statements of operations data as at November 30, 2018 and November 30, 2017 under U.S. GAAP.

	For the Nine Months Ended (in millions, except for share and per share amounts)				
	November 30, 2018		November 30, 2017		Change
Revenue [1][2]	$ 649	100.0%	$ 699	100.0%	$ (50)
Gross margin [1][2]	492	75.8%	493	70.5%	(1)
Operating expenses [1][2]	460	70.9%	193	27.6%	267
Income before income taxes [2]	45	6.9%	420	60.1%	(375)
Provision for income taxes	3	0.5%	5	0.7%	(2)
Net income	$ 42	6.5%	$ 415	60.0%	$ (373)
Earnings (loss) per share - reported					
Basic	$ 0.08		$ 0.78		$ (0.70)
Diluted	$ (0.09)		$ 0.76		$ (0.85)
Weighted-average number of shares outstanding (000s)					
Basic	538,251		531,651		
Diluted	598,751		548,514		

(1) See "Non-GAAP Financial Measures" for the impact of the Fiscal 2019 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin and adjusted operating expenses in fiscal 2019.
(2) See "Non-GAAP Financial Measures" for the impact of the Fiscal 2018 Non-GAAP Adjustments on adjusted revenue, adjusted gross margin, adjusted operating expenses and adjusted income before income taxes in fiscal 2018.

Consolidated Revenue

Consolidated revenue decreased by $50 million to approximately $649 million in the first nine months of fiscal 2019 from $699 million in the first nine months of fiscal 2018. The decrease was primarily due to a decrease of $65 million in SAF revenue to $37 million from $102 million, a decrease of $49 million in handheld devices revenue to $13 million from $62 million and a decrease of $17 million in Enterprise software and services to $263 million from $280 million, offset by an increase of $49 million in Licensing, IP and other revenue to $187 million from $138 million and an increase of $32 million in BTS revenue to $149 million from $117 million.

The $65 million decrease in SAF revenue, which is generated from users of BlackBerry 7 and prior BlackBerry operating systems, is primarily attributable to a lower number of BlackBerry 7 users, lower revenue from those users and a continued shift in the mix of the Company's customers from higher-tiered unlimited plans to prepaid and lower-tiered plans, compared to the first nine months of fiscal 2018.

The decrease in handheld devices revenue of $49 million was primarily attributable to the Company's transition from an outsourced handset manufacturing model to the development and licensing of the Company's secure device software. The Company's partners are responsible for all design, manufacturing, sales and customer support for BlackBerry-branded handsets. As a result, the Company's handheld device revenue over the period of transition has consisted solely of sales of the Company's owned handheld inventory, which is not being replenished as handheld devices are no longer produced by or on behalf of the Company, followed solely by the release of previously accrued amounts when the Company determines it has no further performance obligations.

The decrease in Enterprise software and services revenue of $17 million was due to a lower number of perpetual licenses sold and a reduction in revenue recognized on perpetual licenses as a result of the adoption of ASC 606.

The increase in Licensing, IP and other revenue of $49 million was primarily due to higher IP revenue as a result of the Company's patent licensing agreement with Teletry that allows it to sublicense a broad range of the Company's patents to a majority of global smartphone manufacturers, beginning in the third quarter of fiscal 2018, partially offset by revenue recognized on a long-term licensing agreement due to meeting the revenue recognition criteria under ASC 605 in the second quarter of fiscal 2018 which did not recur.

The increase in BTS revenue of $32 million was primarily due to increased royalty revenue, the Company's agreement with Qualcomm Technologies Inc. ("Qualcomm") to optimize select Qualcomm hardware platforms with BlackBerry QNX software, beginning in the third quarter of fiscal 2018, and increased development seats revenue.

Consolidated Gross Margin

Consolidated gross margin decreased by $1 million to approximately $492 million in the first nine months of fiscal 2019 from $493 million in the first nine months of fiscal 2018. The decrease was primarily due to the decrease in gross margin associated with SAF and Enterprise software and services offset by an increase in gross margin associated with Licensing, IP and other and BTS.

The decrease in gross margin associated with SAF is primarily due to the decline in SAF revenue discussed above in "Consolidated Revenue", as cost of goods sold associated with SAF were consistent in the first nine months of fiscal 2019 and the first nine months of fiscal 2018 due to certain fixed costs associated with SAF infrastructure. The decrease in gross margin associated with Enterprise software and services is primarily due to the reasons discussed above in "Consolidated Revenue". The increase in gross margin associated with Licensing, IP and other and BTS is primarily due to the reasons discussed above in "Consolidated Revenue".

Revenue

Revenue by Product and Service

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

	For the Nine Months Ended *(in millions)*								
	November 30, 2018			November 30, 2017			Change		
Revenue by Product and Service									
Enterprise software and services [(1)(2)]	$	273	41.4%	$	309	42.4%	$	(36)	(11.7)%
BTS		149	22.6%		117	16.1%		32	27.4 %
Licensing, IP and other		187	28.4%		138	19.0%		49	35.5 %
Handheld devices		13	2.0%		62	8.5%		(49)	(79.0)%
SAF		37	5.6%		102	14.0%		(65)	(63.7)%
	$	659	100.0%	$	728	100.0%	$	(69)	(9.5)%

(1) See "Non-GAAP Financial Measures" for the relevant Fiscal 2019 Non-GAAP Adjustments made to Enterprise software and services revenue.
(2) See "Non-GAAP Financial Measures" for the relevant Fiscal 2018 Non-GAAP Adjustments made to Enterprise software and services revenue.

<u>Enterprise Software and Services</u>

Enterprise software and services non-GAAP revenue decreased by $36 million, or 11.7%, to $273 million, or 41.4% of revenue, in the first nine months of fiscal 2019, compared to $309 million, or 42.4% of revenue, in the first nine months of fiscal 2018. The $36 million decrease in Enterprise software and services non-GAAP revenue was primarily due to a decrease of $19 million in the non-GAAP adjustment of deferred software revenue acquired to $10 million in the first nine months of fiscal 2019 versus $29 million in the first nine months of fiscal 2018 and also due to the reasons described above in "Consolidated Revenue".

Excluding the deferred software revenue acquired adjustment, Enterprise software and services U.S. GAAP revenue was $263 million, or 40.5% of revenue in the first nine months of fiscal 2019, compared to $280 million, or 40.1% of revenue, in the first nine months of fiscal 2018, representing a decrease of $17 million, or 6.1%.

<u>BTS</u>

BTS revenue increased by $32 million, or 27.4%, to $149 million, or 22.6% of revenue, in the first nine months of fiscal 2019, compared to $117 million, or 16.1% of revenue, in the first nine months of fiscal 2018. BTS revenue increased due to the reasons described above in "Consolidated Revenue".

Licensing, IP and Other

Licensing, IP and other revenue increased by $49 million, or 35.5%, to $187 million, or 28.4% of revenue in the first nine months of fiscal 2019, compared to $138 million, or 19.0% of revenue, in the first nine months of fiscal 2018. The $49 million increase was primarily due to the reasons described above in "Consolidated Revenue".

Handheld Devices

Handheld devices revenue was $13 million, or 2.0% of revenue, in the first nine months of fiscal 2019 compared to $62 million, or 8.5% of revenue, in the first nine months of fiscal 2018, representing a decrease of $49 million, or 79.0%. The $49 million decrease in handheld devices revenue was primarily due to the reasons discussed above in "Consolidated Revenue".

Service Access Fees

SAF revenue decreased by $65 million, or 63.7%, to $37 million, or 5.6% of revenue, in the first nine months of fiscal 2019, compared to $102 million, or 14.0% of revenue, in the first nine months of fiscal 2018. The decrease in SAF revenue is primarily due to the reasons discussed above in "Consolidated Revenue".

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expenses for the nine months ended November 30, 2018, compared to the nine months ended November 30, 2017.

	For the Nine Months Ended *(in millions)*					
	November 30, 2018		November 30, 2017		Change	
		% of Revenue		% of Revenue		% of Change
Revenue	$ 649		$ 699		$ (50)	(7.2%)
Operating expenses						
Research and development [(1)(2)]	$ 167	25.7 %	$ 181	25.9 %	$ (14)	(7.7)%
Selling, marketing and administration [(1)(2)]	299	46.1 %	343	49.1 %	(44)	(12.8)%
Amortization [(1)(2)]	105	16.2 %	116	16.6 %	(11)	(9.5)%
Impairment of long-lived assets [(2)]	—	— %	11	1.6 %	(11)	(100.0)%
Debentures fair value adjustment [(1) (2)]	(111)	(17.1)%	225	32.2 %	(336)	(149.3)%
Arbitration awards, net [(2)]	—	— %	(683)	(97.7)%	683	(100.0)%
Total	$ 460	70.9 %	$ 193	27.7 %	$ 267	138.3 %

(1) See "Non-GAAP Financial Measures" for the impact of the Fiscal 2019 Non-GAAP Adjustments on adjusted operating expenditures in fiscal 2019.

(2) See "Non-GAAP Financial Measures" for the impact of the Fiscal 2018 Non-GAAP Adjustments on adjusted operating expenditures in fiscal 2018.

Operating expenses increased by $267 million, or 138.3%, to $460 million or 70.9% of revenue in the first nine months of fiscal 2019, compared to approximately $193 million or 27.7% of revenue in the first nine months of fiscal 2018. The increase was primarily attributable to the Qualcomm arbitration award in the first quarter of fiscal 2018, partially offset by the difference between the Fiscal 2019 Debentures Fair Value Adjustment and the Fiscal 2018 Debentures Fair Value Adjustment, the Nokia arbitration decision in the third quarter of fiscal 2018, lower restructuring charges, a lower amortization expense, the absence of the Fiscal 2018 LLA Impairment Charge, and a lower bad debt expense.

After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, non-GAAP operating expenses decreased by $25 million due to the reasons discussed below in "Research and Development Expenses", "Selling, Marketing and Administrative Expenses" and "Amortization Expense".

Research and Development Expenses

Research and development expenses decreased by $14 million to $167 million, or 25.7% of revenue, in the first nine months of fiscal 2019, compared to $181 million, or 25.9% of revenue, in the first nine months of fiscal 2018. After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, non-GAAP research and development expenses decreased by $11 million. The decrease is primarily attributable to a decrease in salaries and benefits and a reduction in outsourcing costs compared to the first nine months of fiscal 2018.

Selling, Marketing and Administration Expenses

Selling, marketing and administration expenses decreased by $44 million to $299 million, or 46.1% of revenue, in the first nine months of fiscal 2019, compared to approximately $343 million, or 49.1% of revenue, in the first nine months of fiscal 2018. After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, non-GAAP selling marketing and administration expenses decreased by $11 million. The decrease is primarily attributable to a lower bad debt expense, a decrease in salaries and benefits, a favourable change in the fair value of the deferred share unit liability, and lower accounting fees, partially offset by an increase in legal costs compared to the first nine months of fiscal 2018.

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, 2018 compared to the nine months ended November 30, 2017. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Nine Months Ended *(in millions)*					
	Included in Amortization			**Included in Cost of sales**		
	November 30, 2018	November 30, 2017	Change	November 30, 2018	November 30, 2017	Change
Property, plant and equipment	$ 10	$ 13	$ (3)	$ 5	$ 16	$ (11)
Intangible assets	95	103	(8)	6	6	—
Total	$ 105	$ 116	$ (11)	$ 11	$ 22	$ (11)

Amortization

Amortization expense relating to certain property, plant and equipment and certain intangible assets decreased by $11 million to $105 million in the first nine months of fiscal 2019 compared to $116 million for the comparable period in fiscal 2018. The decrease in amortization expense primarily reflects the full depreciation of certain assets.

After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, non-GAAP amortization expense decreased by $3 million.

Cost of sales

Amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's service operations decreased by $11 million to $11 million in the first nine months of fiscal 2019 compared to $22 million for the comparable period in fiscal 2018. This decrease primarily reflects the full depreciation of assets, partially offset by a portion of the amortization of patents being classified as cost of goods sold due to the Company's intellectual property licensing arrangements.

Investment Income

Investment income, which includes the interest expense from the Debentures, decreased by $107 million to $13 million in investment income in the first nine months of fiscal 2019, from an investment income of $120 million in the comparable period of fiscal 2018. The decrease is primarily attributable to the interest received from the Qualcomm arbitration award in the first nine months of fiscal 2018.

After giving effect to the relevant Fiscal 2018 Non-GAAP Adjustments, non-GAAP investment income increased by $15 million. The increase was due to a higher yield on the Company's average cash and investment balances.

Income Taxes

For the first nine months of fiscal 2019, the Company's net effective income tax expense rate was approximately 7%, compared to a net effective income tax expense rate of approximately 1% for the same period in the prior fiscal year. The Company's net effective income tax rate reflects the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the impairment charges and the change in fair value of the Debentures and the impact of the Qualcomm arbitration award, 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 Income (Loss)

The Company's net income for the first nine months of fiscal 2019 was $42 million, reflecting a decrease in net income of $373 million compared to net income of approximately $415 million in the first nine months of fiscal 2018, primarily due to the Qualcomm arbitration award in the first nine months of fiscal 2018, offset by the difference between the Fiscal 2019 Debentures Fair Value Adjustment and Fiscal 2018 Debentures Fair Value Adjustment, the Nokia arbitration decision in the third quarter of fiscal 2018, a decrease in operating expenses, as described above in "Operating Expenses" and the absence of the LLA Impairment Charge. After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP net income for the first nine months of fiscal 2019 was $66 million compared to non-GAAP net income of $51 million for the first nine months of fiscal 2018, reflecting an increase in net income of $15 million primarily due to a reduction in operating expenditures and an increase in the gross margin percentage, partially offset by a decrease in revenue.

U.S. GAAP basic earnings and diluted loss per share were $0.08 and $0.09, respectively, in the first nine months of fiscal 2019, compared to a U.S. GAAP basic and diluted earnings per share of $0.78 and $0.76, respectively, in the first nine months of fiscal 2018, due to the reasons noted above. After giving effect to the relevant Fiscal 2019 Non-GAAP Adjustments and Fiscal 2018 Non-GAAP Adjustments, the Company's non-GAAP basic earnings per share was $0.12 for the first nine months of fiscal 2019 compared to non-GAAP basic earnings per share of $0.10 for the first nine months of fiscal 2018. The Company expects positive adjusted non-GAAP earnings per share for fiscal 2019.

The weighted average number of shares outstanding was approximately 538 million common shares for basic earnings per share and 599 million for diluted loss per share for the nine months ended November 30, 2018, and approximately 532 million common shares for basic earnings per share and 549 million for diluted earnings per share for the nine months ended November 30, 2017.

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, 2018. 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 2019			Fiscal Year 2018				Fiscal Year 2017
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
Revenue	$ 226	$ 210	$ 213	$ 233	$ 226	$ 238	$ 235	$ 286
Gross margin	170	161	161	177	168	175	150	172
Operating expenses	112	122	226	194	426	153	(386)	229
Income (loss) before income taxes	60	44	(59)	(14)	(275)	23	672	(49)
Provision for (recovery of) income taxes	1	1	1	(4)	—	4	1	(2)
Net income (loss)	$ 59	$ 43	$ (60)	$ (10)	$ (275)	$ 19	$ 671	$ (47)
Earnings (loss) per share								
Basic earnings (loss) per share	$ 0.11	$ 0.08	$ (0.11)	$ (0.02)	$ (0.52)	$ 0.04	$ 1.26	$ (0.09)
Diluted earnings (loss) per share	$ (0.01)	$ (0.04)	$ (0.11)	$ (0.06)	$ (0.52)	$ (0.08)	$ 1.23	$ (0.10)

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments increased by $46 million to approximately $2.40 billion as at November 30, 2018 from approximately $2.35 billion as at February 28, 2018, primarily as a result of changes in working capital, partially offset by acquisitions of intangible assets and property, plant and equipment. The majority of the Company's cash, cash equivalents, and investments are denominated in U.S. dollars as at November 30, 2018.

As noted in "Business Overview - Acquisition of Cylance", the Company announced on November 16, 2018 that it had entered into a definitive agreement to wholly acquire Cylance for $1.4 billion in cash, plus the assumption of unvested employee incentive awards. If the acquisition had been completed in the third quarter of fiscal 2019, the Company's cash, cash equivalents, and investments balance would be approximately $1.00 billion.

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

	As at *(in millions)*		
	November 30, 2018	February 28, 2018	Change
Cash and cash equivalents	$ 1,084	$ 816	$ 268
Short-term investments	1,234	1,443	(209)
Restricted cash and cash equivalents	26	39	(13)
Long-term investments	55	55	—
Cash, cash equivalents, and investments	$ 2,399	$ 2,353	$ 46

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

	As at *(in millions)*		
	November 30, 2018	February 28, 2018	Change
Current assets	$ 2,544	$ 2,545	$ (1)
Current liabilities	376	411	(35)
Working capital	$ 2,168	$ 2,134	$ 34

Current Assets

The decrease in current assets of $1 million at the end of the third quarter of fiscal 2019 from the end of the fourth quarter of fiscal 2018 was primarily due to a decrease in short-term investments of $209 million, other receivables of $46 million, accounts receivable of $13 million and income taxes receivable $13 million, partially offset by an increase in cash and cash equivalents of $268 million and other current assets of $12 million.

At November 30, 2018, accounts receivable was $138 million, a decrease of $13 million from February 28, 2018. The decrease reflects the lower revenue recognized over the nine months ended November 30, 2018 and a decrease in days sales outstanding to 57 days at the end of the third quarter of fiscal 2019 from 61 days at the end of the fourth quarter of fiscal 2018.

At November 30, 2018, other receivables were $25 million, a decrease of $46 million from February 28, 2018. The decrease is primarily due to funds recovered from escrow relating to the Good Technology Corporation litigation.

At November 30, 2018, income taxes receivable was $13 million, a decrease of $13 million from February 28, 2018. The decrease in income taxes receivable was due to refunds received in the first nine months of fiscal 2019.

At November 30, 2018, other current assets were $50 million, an increase of $12 million from February 28, 2018. The increase in other current assets was primarily due to increases in prepaid maintenance and deferred commission as a result of the adoption of ASC 606.

Current Liabilities

The decrease in current liabilities of $35 million at the end of the third quarter of fiscal 2019 from the end of the fourth quarter of fiscal 2018 was primarily due to a decrease in accrued liabilities of $49 million and accounts payable of $14 million offset by an increase in current deferred revenue of $29 million. As at November 30, 2018, current deferred revenue was $171 million, reflecting an increase of $29 million from February 28, 2018, which was primarily attributable to the adoption of ASC 606. Accrued liabilities were $156 million, reflecting a decrease of $49 million from February 28, 2018, which was primarily attributable to the decreases in vendor liabilities and a variable incentive plan accrual compared to the fourth quarter of fiscal 2018.

Cash flows for the nine months ended November 30, 2018 compared to the nine months ended November 30, 2017 were as follows:

	For the Nine Months Ended *(in millions)*		
	November 30, 2018	November 30, 2017	Change
Net cash flows provided by (used in):			
Operating activities	$ 82	$ 866	$ (784)
Investing activities	171	(1,069)	1,240
Financing activities	5	(11)	16
Effect of foreign exchange on cash and cash equivalents	(3)	3	(6)
Net decrease in cash and cash equivalents	$ 255	$ (211)	$ 466

Operating Activities

The decrease in net cash flows provided by operating activities of $784 million for the first nine months of fiscal 2019 primarily reflects the Qualcomm arbitration award in the first nine months of fiscal 2018.

Investing Activities

During the nine months ended November 30, 2018, cash flows provided by investing activities were $171 million and included cash provided by transactions involving the proceeds on sale or maturity of short-term and long-term investments, net of acquisitions in the amount of $208 million offset by cash used in intangible asset additions of $24 million, and acquisitions of property, plant and equipment of $14 million. For the same period in the prior fiscal year, cash flows used in investing activities were $1.07 billion and included cash used in transactions involving the acquisitions of short-term and long-term investments, net of the proceeds on sale or maturity in the amount of $1.04 billion, intangible asset additions of $22 million and acquisitions of property, plant and equipment of $11 million offset by proceeds on sale of property, plant and equipment $3 million.

Financing Activities

The increase in cash flows provided by financing activities was $16 million for the first nine months of fiscal 2019 due to common share repurchases made under the normal course issuer bid discussed under "Business Overview - Normal Course Issuer Bid" above in the first nine months of fiscal 2018.

Aggregate Contractual Obligations

Purchase obligations and commitments amounted to approximately $243 million as at November 30, 2018, including future interest payments of $44 million on the Debentures and operating lease obligations of $116 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, 2018 decreased by $62 million as compared to the February 28, 2018 balance of approximately $305 million, which was attributable to decreases in purchase orders for goods and services used in operations, decreases in operating lease obligations and a decrease in future interest payments on the Debentures.

Debenture Financing and Other Funding Sources

See Note 8 to the Consolidated Financial Statements for a description of the Debentures.

The Company had $24 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of November 30, 2018. See Note 2 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately $2.40 billion as at November 30, 2018. 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 Securities Exchange Act of 1934, as amended, or under applicable Canadian securities laws.

Legal Proceedings

The Company is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. 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 provisioned for when reasonably determinable.

As of November 30, 2018, there are no claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable, therefore no accrual has been made. See Note 12 to the Consolidated Financial Statements for a further discussion of the Company’s legal matters.

Market Risk of Financial Instruments

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 2019 were transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Purchases of raw materials were primarily transacted in U.S. dollars. Other expenses, consisting mainly of salaries and certain operating costs were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At November 30, 2018, approximately 4% of cash and cash equivalents, 27% of accounts receivables and 8% of accounts payable were denominated in foreign currencies (February 28, 2018 – 9%, 35% and 6%, 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. See Note 4 to the Consolidated Financial Statements for information concerning the Company’s foreign currency hedging activities.

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 the Debentures with a fixed 3.75% interest rate. 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 long-term nature of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in market value of the Debentures.

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 doubtful accounts (“AFDA”) that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The AFDA as at November 30, 2018 was $22 million (February 28, 2018 - $24 million). There was one customer that comprised more than 10% of accounts receivable as at November 30, 2018 (February 28, 2018 - no customers comprised more than 10%). During the third quarter of fiscal 2019, the percentage of the Company’s receivable balance that was past due increased by 4.5% compared to the fourth quarter of fiscal 2018. 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 exists. The occurrence of such delays or challenges in obtaining timely payments could negatively impact the Company’s liquidity and financial condition. There was one customer that comprised more than 10% of the Company’s revenue in the third quarter of fiscal 2019 (one customer comprised more than 10% of the Company’s revenue in the third quarter of fiscal 2018).

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, in the case of debt securities, the Company’s ability and intent to hold the investments to maturity. During the nine months ended November 30, 2018 the Company did not record any other-than-temporary impairment charges related to investments (November 30, 2017 - nil).

See Note 4 to the Consolidated Financial Statements for additional information regarding the Company's credit risk as it pertains to its foreign exchange derivative counterparties.

Changes in Internal Control Over Financial Reporting

During the three months ended November 30, 2018, 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.