

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

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

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

Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

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

Business Overview

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

Strategy

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

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

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

Products and Services

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

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

Software and Services

BlackBerry Spark

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

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

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

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

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

BlackBerry IoT Solutions

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

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

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

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

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

Secure Communications consists of BlackBerry® AtHoc® and SecuSUITE.

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

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

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

Licensing and Other

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

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

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

Recent Developments

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

Products and Innovation:

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

Customers and Partners:

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

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

Environmental, Sustainability and Corporate Governance:

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

Debt Redemption and New Issuance

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

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

COVID-19

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

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

workforce and the long-term impact on, and the resulting types of continuing investments for, the Company's employee base is uncertain.

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

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

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

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

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

Third Quarter Fiscal 2021 Summary Results of Operations

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

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

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

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

Financial Highlights

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

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

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

Debentures Fair Value Adjustment

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

As at November 30, 2020, the fair value of the 1.75% Debentures was approximately \$459 million versus the principal value of \$365 million, an increase of approximately \$94 million during the third quarter of fiscal 2021. For the three months ended November 30, 2020, the Company recorded non-cash income relating to changes in fair value from instrument specific credit risk of \$1 million in Other Comprehensive Income (Loss) ("OCI") and a non-cash charge relating to changes in fair value from

non-credit components of \$95 million (pre-tax and after tax) (the “Q3 Fiscal 2021 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations relating to the Debentures. For the nine months ended November 30, 2020, the Company recorded non-cash income relating to changes in fair value from instrument specific credit risk of \$16 million in OCI and a non-cash charge relating to changes in fair value from non-credit components of \$114 million (pre-tax and after tax) (the “Fiscal 2021 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations relating to the Debentures. See Note 6 to the Consolidated Financial Statements for further details on the Debentures.

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

	<u>Three Months Ended</u> <u>November 30, 2020</u>	<u>Nine Months Ended</u> <u>November 30, 2020</u>
Income associated with the change in fair value from instrument-specific credit components on the 3.75% Debentures recorded in accumulated other comprehensive loss (“AOCL”)	\$ —	\$ 15
Realized charges associated with the change in fair value from credit components released from AOCL on redemption of the 3.75% Debentures	6	6
Charge associated with the change in fair value from instrument-specific credit components on the 1.75% Debentures recorded in OCI	(5)	(5)
Total non-cash income recorded in OCI	<u>\$ 1</u>	<u>\$ 16</u>
	<u>Three Months Ended</u> <u>November 30, 2020</u>	<u>Nine Months Ended</u> <u>November 30, 2020</u>
Charge associated with the change in fair value from non-credit components on the 3.75% Debentures recorded in the consolidated statements of operations	\$ —	\$ (19)
Realized charges associated with the change in fair value from credit components recorded in the consolidated statements of operations on redemption of the 3.75% Debentures	(6)	(6)
Charge associated with the change in fair value from non-credit components on the 1.75% Debentures recorded in the consolidated statements of operations	(89)	(89)
Total non-cash charge recorded in the consolidated statements of operations	<u>\$ (95)</u>	<u>\$ (114)</u>

Non-GAAP Financial Measures

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

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

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

- *Software deferred revenue acquired.* The Company has acquired businesses whose net assets include deferred revenue. In accordance with U.S. GAAP reporting requirements, the Company recorded write-downs of deferred revenue under arrangements pre-dating each acquisition to fair value, which resulted in lower recognized revenue than the original transaction price until the related service obligations under such arrangements are fulfilled. Therefore, U.S. GAAP revenues after the acquisitions will not reflect the full amount of revenue that would have been reported if the acquired deferred revenue was not written down to fair value, prior to the renewal of these arrangements. The Company believes that reversing the acquisition-related deferred revenue write-downs (so that the full amount of revenue booked by the acquired businesses is included) provides a more appropriate representation of revenue in a given period and, therefore, provides readers of the Company's financial statements with a more consistent basis for comparison across accounting periods. The Company also believes that the adjustment is more useful in helping readers to understand the Company's operating results and underlying operational trends, especially in future periods when the contracts underlying the acquired deferred revenue are renewed at amounts more consistent with their transaction price. As the impacted contracts renew over time, the associated reversal of the acquisition write-downs will trend to zero.
- *Software deferred commission expense acquired.* The Company has acquired businesses whose net assets include deferred commissions. In accordance with U.S. GAAP reporting requirements, the Company recorded write-downs of deferred commissions under arrangements pre-dating each acquisition to fair value, which in most cases is nil. Therefore, U.S. GAAP commission expense after the acquisitions will not reflect commission expense that would have been reported if the acquired deferred commissions were not written down to fair value. The Company believes that reversing the acquisition-related deferred commission write-downs (so that the full amount of commission expense is included) provides a more appropriate representation of commission expense in a given period and, therefore, provides readers of the Company's financial statements with a more consistent basis for comparison across accounting periods. The Company also believes that the adjustment is more useful in helping readers to understand the Company's operating results and underlying operational trends, especially in future periods when the Company recognizes commissions on the renewals of the contracts underlying the acquired deferred commissions. As the impacted contracts renew over time, the associated reversal of the acquisition write-downs will trend to zero.
- *Stock compensation expenses.* Equity compensation is a non-cash expense and does not impact the ongoing operating decisions taken by the Company's management.
- *Amortization of acquired intangible assets.* When the Company acquires intangible assets through business combinations, the assets are recorded as part of purchase accounting and contribute to revenue generation. Such acquired intangible assets depreciate over time and the related amortization will recur in future periods until the assets have been fully amortized. This is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.
- *Business acquisition and integration costs.* The Company incurs costs associated with business acquisitions, including legal costs, audit and accounting fees, and other acquisition and integration expenses. These expenditures do not relate to the ongoing operation of the business and they tend to vary significantly based on the circumstances of each transaction. This is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.
- *Acquisition valuation allowance.* The Company records an income tax valuation allowance associated with business acquisitions. This is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.
- *Long-lived asset impairment charge.* The Company believes that long-lived asset impairment charges do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.
- *Goodwill impairment charge.* The Company believes that goodwill impairment charge does not reflect expected future operating expenses, is not indicative of the Company's core operating performance, and may not be meaningful in comparison to the Company's past operating performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

⁽²⁾ See “Third Quarter Fiscal 2021 Summary Results of Operations - Financial Highlights - Debentures Fair Value Adjustment”

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

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

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

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

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

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

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

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

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

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

Key Metrics

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

Billings

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

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

Recurring Software Product Revenue

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

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

Annual Recurring Revenue

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

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

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

Dollar-Based Net Retention Rate

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

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

Net Customer Churn Rate

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

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

Free Cash Flow

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

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

Revenue

Revenue by Product and Service

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

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

Software and Services

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

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

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

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

Licensing and Other

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

U.S. GAAP Revenue by Geography

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

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

North America Revenue

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

Europe, Middle East and Africa Revenue

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

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

Other Regions Revenue

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

Gross Margin

Consolidated Gross Margin

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

Consolidated Gross Margin Percentage

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

Operating Expenses

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

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

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

U.S. GAAP Operating Expenses

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

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

Adjusted Operating Expenses

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

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

Research and Development Expenses

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

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

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

Selling, Marketing and Administration Expenses

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

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

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

Amortization Expense

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

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

	Included in Cost of Sales		
	November 30, 2020	November 30, 2019	Change
	Property, plant and equipment	\$ 1	\$ 1
Intangible assets	3	3	—
Total	\$ 4	\$ 4	\$ —

Amortization included in Operating Expense

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

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

Amortization included in Cost of Sales

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

Investment Loss, Net

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

Income Taxes

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

Net Loss

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

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

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

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

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

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

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

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

Revenue

Revenue by Product and Service

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

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

Software and Services

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

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

Licensing and Other

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

U.S. GAAP Revenue by Geography

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

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

North America Revenue

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

Europe, Middle East and Africa Revenue

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

Other Regions Revenue

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

Gross Margin

Consolidated Gross Margin

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

Consolidated Gross Margin Percentage

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

Operating Expenses

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

	For the Nine Months Ended		
	<i>(in millions)</i>		
	November 30, 2020	November 30, 2019	Change
Revenue	<u>\$ 683</u>	<u>\$ 758</u>	<u>\$ (75)</u>
Operating expenses			
Research and development	167	199	(32)
Selling, marketing and administration	252	380	(128)
Amortization	137	146	(9)
Impairment of goodwill	594	—	594
Impairment of long-lived assets	21	5	16
Debentures fair value adjustment	114	(71)	185
Total	<u>\$ 1,285</u>	<u>\$ 659</u>	<u>\$ 626</u>
Operating Expense as % of Revenue			
Research and development	24.5 %	26.3 %	
Selling, marketing and administration	36.9 %	50.1 %	
Amortization	20.1 %	19.3 %	
Impairment of goodwill	87.0 %	— %	
Impairment of long-lived assets	3.1 %	0.7 %	
Debentures fair value adjustment	16.7 %	(9.4)%	
Total	<u>188.1 %</u>	<u>86.9 %</u>	

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

U.S. GAAP Operating Expenses

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

Adjusted Operating Expenses

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

Research and Development Expenses

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

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

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

Selling, Marketing and Administration Expenses

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

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

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

Amortization Expense

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

	For the Nine Months Ended		
	<i>(in millions)</i>		
	Included in Operating Expense		
	November 30, 2020	November 30, 2019	Change
Property, plant and equipment	\$ 13	\$ 14	\$ (1)
Intangible assets	124	132	(8)
Total	\$ 137	\$ 146	\$ (9)
	Included in Cost of Sales		
	November 30, 2020	November 30, 2019	Change
Property, plant and equipment	\$ 3	\$ 4	\$ (1)
Intangible assets	9	10	(1)
Total	\$ 12	\$ 14	\$ (2)

Amortization included in Operating Expense

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

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

Amortization included in Cost of Sales

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

Investment Income (Loss), Net

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

Income Taxes

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

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

Net Loss

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

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

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

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

Common Shares Outstanding

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

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

Selected Quarterly Financial Data

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

(in millions, except per share data)

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

Financial Condition

Liquidity and Capital Resources

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

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

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

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

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

Current Assets

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

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

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

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

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

Current Liabilities

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

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

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

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

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

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

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

Operating Activities

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

Investing Activities

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

Financing Activities

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

Aggregate Contractual Obligations

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

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

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

Debenture Financing and Other Funding Sources

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

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

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

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

Accounting Policies and Critical Accounting Estimates

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Exchange

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

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

Interest Rate

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

Credit and Customer Concentration

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