

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, 2023, included in Part I, Item 1 of this Quarterly Report on 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 28, 2023 (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 28, 2023 (the "Annual Report"), can be found on SEDAR+ at www.sedarplus.ca 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 increase and enhance its product and service offerings and to patent new innovations;
- the Company's expectations with respect to enhancing shareholder value through the full separation of its principal business units;
- the Company's expectations with respect to the impact of macroeconomic and other external factors on its results of operations and financial condition;
- the Company's expectations with respect to its billings, revenue, operating expense composition, non-GAAP EPS and cash flow usage in fiscal 2024;
- 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", "Business Overview - Strategic Review of Businesses", "Business Overview - Macroeconomic Factors", "Non-GAAP Financial Measures - Key Metrics", "Results of Operations - Three months ended November 30, 2023 compared to the three months ended November 30, 2022 - Revenue - Revenue by Segment", "Results of Operations - Three months ended November 30, 2023 compared to the three months ended November 30, 2022 - Gross Margin by Segment", "Results of Operations - Three months ended November 30, 2023 compared to the three months ended November 30, 2022 - Operating Expenses", "Results of Operations - Three months ended November 30, 2023 compared to the three months ended November 30, 2022 - Net Income (Loss)" and "Financial Condition - Contractual and Other Obligations". 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, competition, the Company's expectations regarding its financial performance, the Company's expectations regarding its ability to repay at maturity or possibly refinance the Extension Debentures (defined below), and the Company's expectations regarding the strategic review of its businesses. 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, and: (i) risk that the proposed business unit separation may disrupt the Company's operations or adversely impact its relationships with business partners and customers and its ability to attract and retain key employees; and (ii) risk that the Company may not be able to complete a successful business unit separation in a timely manner, or at all.

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 the “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 235 million vehicles. Based in Waterloo, Ontario, the Company leverages artificial intelligence (“AI”) 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, endpoint 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 in the market to connect, protect and manage IoT endpoints. The Company leverages its extensive technology portfolio to offer best-in-class cybersecurity, safety and reliability to enterprise customers primarily in government and regulated industries, to small and medium-sized businesses, and to original equipment manufacturers (“OEMs”) in automotive, medical, industrial and other core verticals.

The Company’s goal is to offer smarter security solutions that are more effective, require fewer resources to support and produce a better return on investment for customers than competing offerings. To achieve this vision, the Company continues to extend the functionality of its AI-focused BlackBerry Spark® software platform and safety-certified QNX® Neutrino® real time operating system and is commercializing its BlackBerry IVY® intelligent vehicle data platform.

The Company’s go-to-market strategy focuses principally on generating revenue from enterprise software and services as well as from embedded software designs with leading OEMs and Tier 1 suppliers. The Company intends to drive revenue growth and to achieve margins that are consistent with those of other enterprise software companies.

Products and Services

The Company has multiple products and services from which it derives revenue, which are structured in three groups: Cybersecurity, IoT (collectively with Cybersecurity, “Software & Services”) and Licensing and Other.

Cybersecurity

The Cybersecurity business consists of BlackBerry Spark®, BlackBerry® SecuSUITE® and BlackBerry® AtHoc®.

The Company’s core secure software and services offerings are its Cylance® cybersecurity and BlackBerry unified endpoint management (“UEM”) solutions, collectively known as BlackBerry Spark.

BlackBerry’s Cylance cybersecurity solutions include: CylanceENDPOINT™, an integrated endpoint security solution that leverages the Cylance AI model and OneAlert EDR console, to prevent, detect and remediate cyber threats at the endpoint, including on mobile; CylanceGUARD®, a managed detection and response solution that provides 24/7 threat hunting and monitoring, as well as integrated critical event management communications during a cyber incident; CylanceEDGE™, an AI-powered continuous authentication ZTNA solution that provides secure access to applications and data loss prevention; and CylanceINTELLIGENCE™, a contextual cyber threat intelligence service. The Company also offers incident response, compromise assessment and containment services to assist clients with forensic analysis, state of existing systems and remediation of attacks. These solutions are designed to provide a continuous state of resilience for the Company’s customers and support the outcomes they require by: (i) complementing, extending, or fully managing security capabilities with the Company’s experts and extended technology ecosystem, (ii) enabling the workforce in a way that is fast, easy and satisfying, while providing security visibility, controls and peace of mind; and (iii) reducing complexity and overhead costs associated with security operations.

The BlackBerry UEM Suite includes the Company’s BlackBerry® UEM, BlackBerry® Dynamics™ and BlackBerry® Workspaces solutions. BlackBerry UEM employs a containerized approach to manage and secure devices, third party and custom applications, identity, content and endpoints across all leading operating systems, as well as providing regulatory compliance tools. BlackBerry Dynamics offers a best-in-class development platform and secure container for mobile applications, including the Company’s own enterprise applications such as BlackBerry® Work and BlackBerry® Connect for secure collaboration. BlackBerry Workspaces is a secure Enterprise File Sync and Share (EFSS) solution. BBM Enterprise, is an enterprise-grade secure instant messaging solution for messaging, voice and video.

BlackBerry SecuSUITE is a certified, multi-OS voice and text messaging solution with advanced encryption, anti-eavesdropping and continuous authentication capabilities, providing a maximum level of security on conventional mobile devices for government and businesses.

BlackBerry AtHoc is a secure, networked critical event management solution 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.

IoT

The IoT business consists of BlackBerry Technology Solutions (“BTS”), BlackBerry Radar and BlackBerry IVY.

The principal component of BTS is BlackBerry QNX, a global provider of real-time operating systems, hypervisors, 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 OEMs, Tier 1 vendors and automotive semiconductor suppliers. These solutions include the BlackBerry QNX real-time operating system, QNX® Hypervisor and QNX® Software Development Platform (SDP), as well as other products designed to alleviate the challenges of compliance with ISO 26262, the automotive industry’s functional safety standard. The QNX® Acoustics Management Platform provides software-defined audio solutions.

BlackBerry QNX is also a preferred supplier of embedded systems for companies building medical devices, train-control systems, industrial robots, hardware security modules, building automation systems, green energy solutions, and other mission-critical applications.

In addition to BlackBerry QNX, BTS includes BlackBerry Certicom® cryptography and key management products.

BlackBerry Certicom leverages patented elliptic curve cryptography to provide device security, anti-counterfeiting and product authentication solutions. BlackBerry Certicom’s offerings include its managed public key infrastructure (“PKI”) platform, key management and provisioning technology that helps customers to protect the integrity of their silicon chips and devices from the point of manufacturing through the device life cycle. BlackBerry Certicom’s secure key provisioning, code signing and security credential management system services protect next-generation connected cars, critical infrastructure and IoT deployments from product counterfeiting, re-manufacturing and unauthorized network access.

BlackBerry Radar is a family of asset monitoring and telematics solutions for the transportation and logistics industry. The BlackBerry Radar solution includes devices and secure cloud-based dashboards for tracking containers, trailers, chassis, flatbeds and heavy machinery, for reporting locations and sensor data, and for enabling custom alerts and fleet management analytics.

The Company has partnered with Amazon Web Services, Inc. (“AWS”) to develop and market BlackBerry IVY, an intelligent vehicle data platform leveraging BlackBerry QNX’s automotive capabilities. BlackBerry IVY allows automakers to safely access a vehicle’s sensor data, normalize it, and apply machine learning at the edge to generate and share predictive insights and inferences. Automakers and developers will be able to use this information to create responsive in-vehicle applications and services that enhance driver and passenger experiences. BlackBerry IVY supports multiple operating systems and hardware, as well as multi-cloud deployments in order to ensure compatibility across vehicle models and brands. The Company announced the first design win for BlackBerry IVY in January 2023 and released the platform for general availability in May 2023.

The BlackBerry Cybersecurity and IoT groups are 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

Licensing and Other consists primarily of the Company's patent licensing business.

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.

Recent Developments

The Company continued to execute on its strategy in fiscal 2024 and announced the following significant achievements during and subsequent to the most recent quarter:

Products and Innovation:

- Launched a generative AI-powered cybersecurity assistant to increase efficiency and reduce fatigue for CISO teams; and
- Announced enhancements to BlackBerry SecuSUITE® for Government, including encrypted video and group audio calls.

Customers and Partners:

- Announced a significant, multi-year deal to provide full suite of cybersecurity solutions to the Government of Malaysia; and
- Announced that the United States Department of Homeland Security awarded a new PENS (personal emergency notification system) contract to BlackBerry, utilizing BlackBerry® AtHoc® critical event management (CEM) solution.

Environmental, Sustainability and Corporate Governance:

- Appointed John Giamatteo, President of BlackBerry's Cybersecurity division, as Chief Executive Officer.

Strategic Review of Businesses

On May 1, 2023, the Company announced that the Board would initiate a review of the Company's portfolio of businesses, with the assistance of its financial advisors, as the Board considered strategic alternatives to drive enhanced shareholder value. On October 4, 2023, the Company announced its intention to separate the IoT and Cybersecurity business units with a view to pursuing a subsidiary initial public offering ("Sub-IPO") for the IoT business. On December 11, 2023, the Company announced that it had reassessed its strategy and will no longer pursue a Sub-IPO but intends to pursue a full separation of the IoT and Cybersecurity businesses, including the separation and streamlining of the Company's centralized corporate functions into business-unit specific teams, with a view to establishing each business as an independently-operated, profitable and cashflow-positive division.

Chief Executive Officer ("CEO") Succession

On November 3, 2023, John Chen retired from his roles as Executive Chair and CEO of the Company, aligning with the terms of his employment contract. Existing Board member Richard (Dick) Lynch succeeded Mr. Chen as Board Chair and served as interim CEO of the Company from November 4, 2023 until the appointment of John J. Giamatteo as CEO and as a member of the Board, effective December 11, 2023. Mr. Giamatteo has served as the President of BlackBerry's Cybersecurity business unit since October 2021 and has over 30 years of experience with global technology companies. Prior to BlackBerry he was President and Chief Revenue Officer at McAfee. Before that, Mr. Giamatteo served as Chief Operating Officer at AVG Technologies. He also held leadership positions with Solera, RealNetworks and Nortel Networks.

Patent Sale

On May 11, 2023, the Company completed its previously announced patent sale with Malikie Innovations Limited and sold certain non-core patent assets for \$170 million in cash on closing, an additional \$30 million in cash by no later than the third anniversary of closing and potential future royalties in the aggregate amount of up to \$700 million (the "Malikie Transaction").

In the first quarter of fiscal 2024, the Company recognized revenue of \$218 million and cost of sales of \$147 million related to non-core intellectual property sold. The revenue recognized reflects the application of the Company's accounting policies and critical accounting estimates, as described in Note 1 to the Consolidated Financial Statements, which resulted in a substantial majority of the potential future royalties from the Malikie Transaction being constrained until future periods. In evaluating the Malikie Transaction, the Company considered estimates of value, among other factors, which are not fully reflected when

applying the principles of revenue recognition, such as the variable consideration constraint that is recognized at the inception of the Malikie Transaction. Accordingly, amounts initially recognized in the first quarter of fiscal 2024 do not reflect the full fair value of the overall transaction as determined by the Company. Additional variable consideration is expected to be recognized in future quarters, as determined quarterly based on the revenue recognition accounting framework. See Note 11 to the Consolidated Financial Statements.

Debt Repayment and New Issuance

On November 13, 2023, the Company repaid all amounts due upon the maturity of its outstanding 1.75% unsecured convertible debentures (the “2020 Debentures”) for an aggregate amount of \$365 million. On November 17, 2023, the Company issued an aggregate of \$150 million principal amount of new 1.75% extendable unsecured convertible debentures maturing on February 15, 2024 (the “Extension Debentures” and collectively with the 2020 Debentures, the “Debentures”), with an option for the parties to extend the maturity date to May 15, 2024 by mutual agreement, to certain controlled affiliates of Fairfax Financial Holdings Limited (“Fairfax”) on a private placement basis. The Extension Debentures have terms that are substantially similar to those of the 2020 Debentures. Interest expense on the Extension Debentures will be approximately \$1 million for the period from issuance to February 15, 2024. See Note 6 to the Consolidated Financial Statements for a description of the terms of the Extension Debentures.

Macroeconomic Factors

Economic uncertainty, customer budgetary constraints, auto industry labor disruptions and inflation, as well as higher interest rates implemented in response to inflation and resulting fears of recession, may negatively impact supply and consumer demand for automobiles and have contributed to longer sales cycles for cybersecurity solutions. These conditions have adversely affected, and may continue to adversely affect, the Company’s business and results of operations. The Company does not believe that inflation had a material effect on its operations during first nine months of fiscal 2024.

Third Quarter Fiscal 2024 Summary Results of Operations

The following table sets forth certain consolidated statements of operations data for the quarter ended November 30, 2023 compared to the quarter ended November 30, 2022 under U.S. GAAP:

	For the Three Months Ended <i>(in millions, except for share and per share amounts)</i>		
	November 30, 2023	November 30, 2022	Change
Revenue	\$ 175	\$ 169	\$ 6
Gross margin	127	109	18
Operating expenses	138	111	27
Investment income, net	5	2	3
Loss before income taxes	(6)	—	(6)
Provision for income taxes	15	4	11
Net loss	<u>\$ (21)</u>	<u>\$ (4)</u>	<u>\$ (17)</u>
Loss per share - reported			
Basic	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	
Diluted	<u>\$ (0.05)</u>	<u>\$ (0.09)</u>	
Weighted-average number of shares outstanding (000’s)			
Basic	584,331	578,948	
Diluted ⁽¹⁾	638,470	639,781	

⁽¹⁾ Diluted loss per share on a U.S. GAAP basis for the third quarter of fiscal 2024 and third quarter of 2023 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.

The following tables show information by operating segment for the three and nine months ended November 30, 2023 and November 30, 2022. The Company reports segment information in accordance with U.S. GAAP Accounting Standards Codification Section 280 based on the “management” approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker for making decisions and assessing performance of the Company’s reportable operating segments. See Note 11 to the Consolidated Financial Statements for a description of the Company’s operating segments.

For the Three Months Ended
(in millions)

	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	November 30, 2023	November 30, 2022	Change	November 30, 2023	November 30, 2022	Change	November 30, 2023	November 30, 2022	Change	November 30, 2023	November 30, 2022	Change
Segment revenue	\$ 114	\$ 106	\$ 8	\$ 55	\$ 51	\$ 4	\$ 6	\$ 12	\$ (6)	\$ 175	\$ 169	\$ 6
Segment cost of sales	37	46	(9)	9	10	(1)	1	4	(3)	47	60	(13)
Segment gross margin	\$ 77	\$ 60	\$ 17	\$ 46	\$ 41	\$ 5	\$ 5	\$ 8	\$ (3)	\$ 128	\$ 109	\$ 19

For the Nine Months Ended
(in millions)

	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	November 30, 2023	November 30, 2022	Change	November 30, 2023	November 30, 2022	Change	November 30, 2023	November 30, 2022	Change	November 30, 2023	November 30, 2022	Change
Segment revenue	\$ 286	\$ 330	\$(44)	\$ 149	\$ 153	\$(4)	\$ 245	\$ 22	\$ 223	\$ 680	\$ 505	\$ 175
Segment cost of sales	110	149	(39)	26	27	(1)	150	8	142	286	184	102
Segment gross margin	\$ 176	\$ 181	\$ (5)	\$ 123	\$ 126	\$(3)	\$ 95	\$ 14	\$ 81	\$ 394	\$ 321	\$ 73

The following tables reconcile the Company’s segment results for the three and nine months ended November 30, 2023 to consolidated U.S. GAAP results:

For the Three Months Ended November 30, 2023
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 114	\$ 55	\$ 6	\$ 175	\$ —	\$ 175
Cost of sales	37	9	1	47	1	48
Gross margin ⁽¹⁾	\$ 77	\$ 46	\$ 5	\$ 128	\$ (1)	\$ 127
Operating expenses					138	138
Investment income, net					(5)	(5)
Loss before income taxes						\$ (6)

For the Nine Months Ended November 30, 2023
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 286	\$ 149	\$ 245	\$ 680	\$ —	\$ 680
Cost of sales	110	26	150	286	3	289
Gross margin ⁽¹⁾	\$ 176	\$ 123	\$ 95	\$ 394	\$ (3)	\$ 391
Operating expenses					460	460
Investment income, net					(15)	(15)
Loss before income taxes						\$ (54)

⁽¹⁾ See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three and nine months ended November 30, 2023.

The following tables reconcile the Company’s segment results for the three and nine months ended November 30, 2022 to consolidated U.S. GAAP results:

For the Three Months Ended November 30, 2022
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 106	\$ 51	\$ 12	\$ 169	\$ —	\$ 169
Cost of sales	46	10	4	60	—	60
Gross margin ⁽¹⁾	\$ 60	\$ 41	\$ 8	\$ 109	\$ —	\$ 109
Operating expenses					111	111
Investment income, net					(2)	(2)
Loss before income taxes						\$ —

For the Nine Months Ended November 30, 2022
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 330	\$ 153	\$ 22	\$ 505	\$ —	\$ 505
Cost of sales	149	27	8	184	2	186
Gross margin ⁽¹⁾	\$ 181	\$ 126	\$ 14	\$ 321	\$ (2)	\$ 319
Operating expenses					545	545
Investment loss, net					1	1
Loss before income taxes						\$ (227)

⁽¹⁾ See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three and nine months ended November 30, 2022.

Financial Highlights

The Company had \$271 million in cash, cash equivalents and investments as of November 30, 2023 (February 28, 2023 - \$487 million).

In the third quarter of fiscal 2024, the Company recognized revenue of \$175 million and incurred a net loss of \$21 million, or \$0.04 basic loss per share and \$0.05 diluted loss per share on a U.S. GAAP basis (third quarter of fiscal 2023 - revenue of \$169 million and net loss of \$4 million, or \$0.01 basic loss per share and \$0.09 diluted loss per share).

The Company recognized adjusted net income of \$3 million, and adjusted earnings of \$0.01 per share, on a non-GAAP basis in the third quarter of fiscal 2024 (third quarter of fiscal 2023 - adjusted net loss of \$30 million, and adjusted loss of \$0.05 per share). 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 or the conversion price.

As at November 30, 2023, the fair value of the Debentures was approximately \$150 million, which approximates the principal amount of the Extension Debentures. For the three months ended November 30, 2023, the Company recorded non-cash income relating to changes in fair value of the 2020 Debentures of \$18 million (pre-tax and after tax) and realized a non-cash charge relating to changes in fair value from credit components released from AOCL on maturity of the 2020 Debentures of \$6 million (pre-tax and after tax) (the “Q3 Fiscal 2024 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations. For the nine months ended November 30, 2023 the Company recorded non-cash income relating to changes in fair value of the 2020 Debentures of \$2 million (pre-tax and after tax) and realized a non-cash charge relating to changes in fair value from credit components released from AOCL on maturity of the 2020 Debentures of \$6 million (the “Fiscal 2024 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations. See Note 6 to the Consolidated Financial Statements for further details on the Debentures.

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 20, 2023, the Company announced financial results for the three and nine months ended November 30, 2023, which included certain non-GAAP financial measures and non-GAAP ratios, including adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted net income (loss), adjusted income (loss) per share, adjusted research and development expense, adjusted selling, marketing and administrative expense, adjusted amortization expense, adjusted operating income (loss), adjusted EBITDA, adjusted operating income (loss) margin percentage, adjusted EBITDA margin percentage and free cash flow (usage).

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 financial measures and non-GAAP ratios provide management, as well as readers of the Company's financial statements, with a consistent basis for comparison across accounting periods and is useful in helping management and readers understand the Company's operating results and underlying operational trends. Non-GAAP financial measures and non-GAAP ratios exclude certain amounts as described below:

- *Debentures fair value adjustment.* The Company has elected to measure its outstanding Debentures 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 the 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, share price volatility and credit indices. This is not indicative of the Company's core operating performance, and may not be meaningful when comparing the Company's operating performance against that of prior periods.
- *Restructuring charges.* The Company believes that restructuring costs relating to employee termination benefits, facilities and other costs pursuant to the Cost Optimization Program to reduce its annual expenses amongst R&D, infrastructure and other functions do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and may not be meaningful when comparing the Company's operating performance against that of prior periods.
- *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 when comparing the Company's operating performance against that of prior periods.
- *Long-lived asset impairment charge.* The Company believes that long-lived asset impairment charges do not reflect expected future cash operating expenses, are not indicative of the Company's core operating performance, and may not be meaningful when comparing the Company's operating performance against that of prior periods.
- *Goodwill impairment charge.* The Company believes that goodwill impairment charges do not reflect expected future operating expenses, are non-cash, and may not be meaningful when comparing the Company's operating performance against that of prior periods.
- *Litigation settlement.* The Company believes that litigation settlements do not reflect expected future operating expenses, are not indicative of the Company's core operating performance, and may not be meaningful when comparing the Company's operating performance against that of prior periods.

On a U.S. GAAP basis, the impacts of these items are reflected in the Company's income statement. However, the Company believes that the provision of supplemental non-GAAP measures allows 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, 2023 and November 30, 2022

Readers are cautioned that adjusted gross margin, adjusted gross margin percentage, adjusted operating expense, adjusted net income (loss), adjusted income (loss) per share, adjusted research and development expense, adjusted selling, marketing and administrative expense, adjusted amortization expense, adjusted operating income (loss), adjusted EBITDA, adjusted operating income (loss) margin percentage, adjusted EBITDA margin percentage and free cash flow (usage) 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, 2023 and November 30, 2022 to adjusted financial measures is reflected in the table below:

For the Three Months Ended (in millions)	November 30, 2023		November 30, 2022	
Gross margin	\$	127	\$	109
Stock compensation expense		1		—
Adjusted gross margin	\$	128	\$	109
Gross margin %		72.6 %		64.5 %
Stock compensation expense		0.5 %		— %
Adjusted gross margin %		73.1 %		64.5 %

Reconciliation of U.S. GAAP operating expense for the three months ended November 30, 2023, August 31, 2023 and November 30, 2022 to adjusted operating expense is reflected in the table below:

For the Three Months Ended (in millions)	November 30, 2023		August 31, 2023		November 30, 2022	
Operating expense	\$	138	\$	132	\$	111
Restructuring charges		9		3		—
Stock compensation expense		7		10		8
Debentures fair value adjustment ⁽¹⁾		(13)		(6)		(56)
Acquired intangibles amortization		9		10		22
LLA impairment charge		11		1		—
Adjusted operating expense	\$	115	\$	114	\$	137

⁽¹⁾ See “Third Quarter Fiscal 2024 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, 2023 and November 30, 2022 to adjusted net income (loss) and adjusted basic earnings (loss) per share is reflected in the table below:

For the Three Months Ended (in millions, except per share amounts)	November 30, 2023		November 30, 2022	
		Basic earnings (loss) per share		Basic loss per share
Net loss	\$	(21)	\$(0.04)	\$ (4) \$(0.01)
Restructuring charges		9		—
Stock compensation expense		8		8
Debentures fair value adjustment		(13)		(56)
Acquired intangibles amortization		9		22
LLA impairment charge		11		—
Adjusted income (loss)	\$	3	\$0.01	\$ (30) \$(0.05)

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the three months ended November 30, 2023 and November 30, 2022 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the table below:

For the Three Months Ended (in millions)	November 30, 2023	November 30, 2022
Research and development	\$ 42	\$ 52
Stock compensation expense	2	2
Adjusted research and development	\$ 40	\$ 50
Selling, marketing and administration	\$ 85	\$ 89
Restructuring charges	9	—
Stock compensation expense	5	6
Adjusted selling, marketing and administration	\$ 71	\$ 83
Amortization	\$ 13	\$ 26
Acquired intangibles amortization	9	22
Adjusted amortization	\$ 4	\$ 4

Adjusted operating income (loss), adjusted EBITDA, adjusted operating income (loss) margin percentage and adjusted EBITDA margin percentage for the three months ended November 30, 2023 and November 30, 2022 are reflected in the table below.

For the Three Months Ended (in millions)	November 30, 2023	November 30, 2022
Operating loss	\$ (11)	\$ (2)
Non-GAAP adjustments to operating loss		
Restructuring charges	9	—
Stock compensation expense	8	8
Debentures fair value adjustment	(13)	(56)
Acquired intangibles amortization	9	22
LLA impairment charge	11	—
Total non-GAAP adjustments to operating loss	24	(26)
Adjusted operating income (loss)	13	(28)
Amortization	14	28
Acquired intangibles amortization	(9)	(22)
Adjusted EBITDA	\$ 18	\$ (22)
Revenue	\$ 175	\$ 169
Adjusted operating income (loss) margin % ⁽¹⁾	7%	(17%)
Adjusted EBITDA margin % ⁽²⁾	10%	(13%)

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

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

Reconciliation of non-GAAP based measures with most directly comparable U.S. GAAP based measures for the nine months ended November 30, 2023 and November 30, 2022.

A reconciliation of the most directly comparable U.S. GAAP financial measures for the nine months ended November 30, 2023 and November 30, 2022 to adjusted financial measures is reflected in the table below:

For the Nine Months Ended (in millions)	November 30, 2023	November 30, 2022
Gross margin	\$ 391	\$ 319
Stock compensation expense	3	2
Adjusted gross margin	\$ 394	\$ 321
Gross margin %	57.5 %	63.2 %
Stock compensation expense	0.4 %	0.4 %
Adjusted gross margin %	57.9 %	63.6 %

Reconciliation of U.S. GAAP operating expense for the nine months ended November 30, 2023 and November 30, 2022 to adjusted operating expense is reflected in the table below:

For the Nine Months Ended (in millions)	November 30, 2023	November 30, 2022
Operating expense	\$ 460	\$ 545
Restructuring charges	17	4
Stock compensation expense	25	19
Debentures fair value adjustment	3	(112)
Acquired intangibles amortization	29	67
LLA impairment charge	11	4
Litigation settlement	—	165
Adjusted operating expense	\$ 375	\$ 398

⁽¹⁾ See “Third Quarter Fiscal 2024 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, 2023 and November 30, 2022 to adjusted net income (loss) and adjusted basic earnings (loss) per share is reflected in the table below:

For the Nine Months Ended (in millions, except per share amounts)	November 30, 2023		November 30, 2022	
		Basic earnings (loss) per share		Basic loss per share
Net loss	\$ (74)	\$(0.13)	\$ (239)	\$(0.41)
Restructuring charges	17		4	
Stock compensation expense	28		21	
Debentures fair value adjustment	3		(112)	
Acquired intangibles amortization	29		67	
LLA impairment charge	11		4	
Litigation settlement	—		165	
Adjusted net income (loss)	\$ 14	\$0.02	\$ (90)	\$(0.16)

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the nine months ended November 30, 2023 and November 30, 2022 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the table below:

For the Nine Months Ended (in millions)	November 30, 2023	November 30, 2022
Research and development	\$ 146	\$ 159
Stock compensation expense	6	6
Adjusted research and development	\$ 140	\$ 153
Selling, marketing and administration	\$ 258	\$ 257
Restructuring charges	17	4
Stock compensation expense	19	13
Adjusted selling, marketing and administration	\$ 222	\$ 240
Amortization	\$ 42	\$ 78
Acquired intangibles amortization	29	67
Adjusted amortization	\$ 13	\$ 11

Adjusted operating income (loss), adjusted EBITDA, adjusted operating income (loss) margin percentage and adjusted EBITDA margin percentage for the nine months ended November 30, 2023 and November 30, 2022 are reflected in the table below.

For the Nine Months Ended (in millions)	November 30, 2023	November 30, 2022
Operating loss	\$ (69)	\$ (226)
Non-GAAP adjustments to operating loss		
Restructuring charges	17	4
Stock compensation expense	28	21
Debentures fair value adjustment	3	(112)
Acquired intangibles amortization	29	67
LLA impairment charge	11	4
Litigation settlement	—	165
Total non-GAAP adjustments to operating loss	88	149
Adjusted operating income (loss)	19	(77)
Amortization	46	85
Acquired intangibles amortization	(29)	(67)
Adjusted EBITDA	\$ 36	\$ (59)
Revenue	\$ 680	\$ 505
Adjusted operating income (loss) margin % ⁽¹⁾	3%	(15%)
Adjusted EBITDA margin % ⁽²⁾	5%	(12%)

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

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

The Company uses free cash flow (usage) when assessing its sources of liquidity, capital resources, and quality of earnings. The Company believes that free cash flow (usage) 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.

Reconciliation of U.S. GAAP net cash used in operating activities for the three months ended November 30, 2023 and November 30, 2022 to free cash flow (usage) is reflected in the table below:

For the Three Months Ended (in millions)	November 30, 2023	November 30, 2022
Net cash used in operating activities	\$ (31)	\$ (185)
Acquisition of property, plant and equipment	(2)	(1)
Free cash flow (usage)	<u>\$ (33)</u>	<u>\$ (186)</u>

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 estimated future performance. Readers are cautioned that annual recurring revenue ("ARR"), dollar-based net retention rate ("DBNRR"), Cybersecurity total contract value ("TCV") billings, and recurring revenue percentage do not have any standardized meaning and are unlikely to be comparable to similarly titled measures reported by other companies.

Comparative breakdowns of certain key metrics for the three months ended or as at November 30, 2023 and November 30, 2022 are set forth below.

For the Three Months Ended (in millions)	November 30, 2023	November 30, 2022	Change
Cybersecurity Annual Recurring Revenue	\$ 273	\$ 313	\$ (40)
Cybersecurity Dollar-Based Net Retention Rate	82 %	84 %	(2%)
Cybersecurity Total Contract Value Billings	\$ 109	\$ 103	\$ 6
Recurring Software Product Revenue	~ 70%	~ 80%	(10%)

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 the Cybersecurity business.

Cybersecurity ARR was approximately \$273 million as at November 30, 2023 and decreased compared to \$279 million as at August 31, 2023 and decreased compared to \$313 million as at November 30, 2022.

The Company previously stated that it expected Cybersecurity ARR to return to sequential growth in the second half of fiscal 2024. The Company no longer expects to meet this due to a reassessment of the likelihood of closing certain large government deals at the values previously expected, if at all. The Company now expects ARR in the fourth quarter of fiscal 2024 to be broadly consistent with the third quarter of fiscal 2024 and to return to growth in fiscal 2025.

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.

Cybersecurity DBNRR was 82% as at November 30, 2023 and increased compared to 81% as at August 31, 2023 and decreased compared to 84% as at November 30, 2022.

Total Contract Value Billings

The Company defines TCV billings as amounts invoiced less credits issued. The Company considers TCV 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.

Cybersecurity TCV billings was \$109 million for the three months ended November 30, 2023 and increased compared to \$74 million for the three months ended August 31, 2023 and \$103 million for the three months ended November 30, 2022.

The Company previously stated that it expected Cybersecurity TCV billings for fiscal 2024 to be in the range of \$430 million to \$480 million. The Company no longer expects to meet this guidance due to a reassessment of the likelihood of closing certain large government deals at the values previously expected, if at all.

The Company expects Cybersecurity TCV billings to continue to exceed Cybersecurity revenue in fiscal 2024.

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 Software and Services product revenue, excluding professional services, was approximately 70% recurring for the three months ended November 30, 2023 and decreased compared to approximately 90% recurring for the three months ended August 31, 2023 due to product mix and decreased compared to approximately 80% for the three months ended November 30, 2022, also due to product mix.

Results of Operations - Three months ended November 30, 2023 compared to the three months ended November 30, 2022

Revenue

Revenue by Segment

Comparative breakdowns of revenue by segment are set forth below.

	For the Three Months Ended (in millions)		
	November 30, 2023	November 30, 2022	Change
Revenue by Segment			
Cybersecurity	\$ 114	\$ 106	\$ 8
IoT	55	51	4
Licensing and Other	6	12	(6)
	<u>\$ 175</u>	<u>\$ 169</u>	<u>\$ 6</u>
% Revenue by Segment			
Cybersecurity	65.2 %	62.7 %	
IoT	31.4 %	30.2 %	
Licensing and Other	3.4 %	7.1 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

Cybersecurity

The increase in Cybersecurity revenue of \$8 million was primarily due to an increase of \$20 million relating to product revenue in Secusmart, partially offset by a decrease of \$11 million relating to product revenue in BlackBerry Spark and a decrease of \$2 million in professional services.

The Company previously stated that it expected Cybersecurity revenue for fiscal 2024 as a whole to be in the range of \$425 million to \$450 million. The expectation was dependent, in part, on the Company closing a certain set of large government deals in the second half of fiscal 2024. The Company now expects Cybersecurity revenue for fiscal 2024 as a whole to be in the range of \$369 million to \$374 million due to a reassessment of the likelihood of closing certain large government deals at the values previously expected, if at all.

The Company expects Cybersecurity revenue in the fourth quarter of fiscal 2024 to be in the range of \$83 million to \$88 million.

The Company previously stated that it was targeting Cybersecurity revenue for fiscal 2026 as a whole to be in the range of \$540 million to \$590 million. The Company no longer expects to meet this target due to the actual and expected performance of Cybersecurity for fiscal 2024.

IoT

The increase in IoT revenue of \$4 million was primarily due to an increase of \$6 million in BlackBerry QNX royalty revenue and an increase of \$1 million in professional services, partially offset by a decrease of \$3 million in BlackBerry QNX development seat revenue.

The Company previously stated that it expected IoT revenue to grow sequentially in the third quarter of fiscal 2024. IoT revenue increased in the third quarter of fiscal 2024 compared to the second quarter of fiscal 2024.

The Company previously stated that it expected IoT revenue to be in the range of \$225 million to \$240 million for fiscal 2024 as a whole primarily due to the rescheduling of software development programs and production timelines at certain large OEM customers and uncertainty in the macroeconomic environment. The Company now expects IoT revenue to be in the range of \$211 million to \$215 million for fiscal 2024 as a whole primarily due to a number of industry-level factors including the impact of labor disputes on automotive production volumes and further rescheduling of software development programs at certain large automakers.

The Company expects IoT revenue in the fourth quarter of fiscal 2024 to be in the range of \$62 million to \$66 million and to be higher than in any previous quarter.

The Company previously stated that it expected total Software & Services revenue, excluding potential revenue from BlackBerry IVY, to be in the range of \$650 million and \$690 million for fiscal 2024 as a whole due to changes in expectations in IoT revenue for fiscal 2024 as a whole. The Company now expects total Software & Services revenue, excluding potential revenue from BlackBerry IVY, to be in the range of \$580 million and \$589 million for fiscal 2024 as a whole due to changes in expectations in Cybersecurity and IoT revenue for fiscal 2024 as a whole.

The Company previously stated that it was targeting IoT revenue, excluding potential revenue from BlackBerry IVY, to be in the range of \$340 million and \$370 million for fiscal 2026 as a whole. The Company no longer expects to meet this target due to the actual and expected performance of IoT for fiscal 2024.

The Company previously stated that it was targeting total Software & Services revenue, excluding potential revenue from BlackBerry IVY, to be in the range of \$880 million and \$960 million for fiscal 2026 as a whole. The Company no longer expects to meet this target due to the actual and expected performance of Cybersecurity and IoT for fiscal 2024.

Licensing and Other

The decrease in Licensing and Other revenue of \$6 million was primarily due to a decrease of \$6 million in revenue from the Company's intellectual property licensing arrangements.

The Company previously stated that it expected revenue from intellectual property licensing to be approximately \$5 million per quarter in fiscal 2024, excluding the Malikie Transaction. Revenue from intellectual property licensing was approximately \$6 million excluding the Malikie Transaction.

The Company expects total BlackBerry revenue in the fourth quarter of fiscal 2024 to be in the range of \$150 million to \$159 million.

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, 2023	November 30, 2022	Change
Revenue by Geography			
North America	\$ 77	\$ 92	\$ (15)
Europe, Middle East and Africa	50	55	(5)
Other regions	48	22	26
	<u>\$ 175</u>	<u>\$ 169</u>	<u>\$ 6</u>
% Revenue by Geography			
North America	44.0 %	54.5 %	
Europe, Middle East and Africa	28.6 %	32.5 %	
Other regions	27.4 %	13.0 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

North America Revenue

The decrease in North America revenue of \$15 million was primarily due to a decrease of \$9 million relating to product revenue in BlackBerry Spark and a decrease of \$6 million in Licensing and Other revenue due to the reasons discussed above in "Revenue by Segment".

Europe, Middle East and Africa Revenue

The decrease in Europe, Middle East and Africa revenue of \$5 million was primarily due to a decrease of \$6 million relating to product revenue in Secusmart, a decrease of \$2 million in product revenue in BlackBerry Spark and a decrease of \$2 million in professional services, partially offset by an increase of \$5 million in BlackBerry QNX royalty revenue.

Other Regions Revenue

The increase in Other regions revenue of \$26 million was primarily due to an increase of \$26 million relating to product revenue in Secusmart and an increase of \$2 million in professional services, partially offset by a decrease of \$2 million in QNX development seat revenue.

Gross Margin

Consolidated Gross Margin

Consolidated gross margin increased by \$18 million to approximately \$127 million in the third quarter of fiscal 2024 (third quarter of fiscal 2023 - \$109 million). The increase was primarily due to an increase in revenue from Secusmart and BlackBerry QNX, partially offset by a decrease in revenue from BlackBerry Spark due to the reasons discussed above in "Revenue by Segment", as much of the Company's product cost of sales does not significantly fluctuate based on business volume.

Consolidated Gross Margin Percentage

Consolidated gross margin percentage increased by 8.1% to approximately 72.6% of consolidated revenue in the third quarter of fiscal 2024 (third quarter of fiscal 2023 - 64.5%). The increase was primarily due to a change in mix, specifically a higher gross margin contribution from Secusmart software licenses, which have a higher relative gross margin percentage in the third

quarter of fiscal 2024 as it included a higher portion of software revenue relative to hardware revenue, and a lower gross margin contribution from BlackBerry Spark, which has a lower relative gross margin percentage.

Gross Margin by Segment

See “Third Quarter Fiscal 2024 Summary Results of Operations” for information about the Company’s operating segments and the basis of operating segment results.

	For the Three Months Ended (in millions)											
	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	November 30, 2023	2022	Change	November 30, 2023	2022	Change	November 30, 2023	2022	Change	November 30, 2023	2022	Change
Segment revenue	\$ 114	\$ 106	\$ 8	\$ 55	\$ 51	\$ 4	\$ 6	\$ 12	\$ (6)	\$ 175	\$ 169	\$ 6
Segment cost of sales	37	46	(9)	9	10	(1)	1	4	(3)	47	60	(13)
Segment gross margin	<u>\$ 77</u>	<u>\$ 60</u>	<u>\$ 17</u>	<u>\$ 46</u>	<u>\$ 41</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 8</u>	<u>\$ (3)</u>	<u>\$ 128</u>	<u>\$ 109</u>	<u>\$ 19</u>
Segment gross margin %	<u>68 %</u>	<u>57 %</u>	<u>11%</u>	<u>84 %</u>	<u>80 %</u>	<u>4 %</u>	<u>83 %</u>	<u>67 %</u>	<u>16%</u>	<u>73 %</u>	<u>64 %</u>	<u>9%</u>

Cybersecurity

The increase in Cybersecurity gross margin of \$17 million was primarily due to the reasons discussed above in “Revenue by Segment”, a decrease of \$6 million in infrastructure costs and a change in mix, specifically a higher gross margin contribution from Secusmart software licenses, which had a higher relative gross margin percentage.

The increase in Cybersecurity gross margin percentage of 11% was primarily due to the same reasons discussed above.

The Company previously stated that it expected the gross margin percentage for Cybersecurity to increase by between 4% and 6% by fiscal 2026. The Company no longer expects to meet this guidance due to the actual and expected performance of Cybersecurity for fiscal 2024.

IoT

The increase in IoT gross margin of \$5 million was primarily due to the reasons discussed above in “Revenue by Segment” and a change in mix, specifically a higher gross margin contribution from BlackBerry QNX royalty revenue, which had a higher relative gross margin percentage.

The increase in IoT gross margin percentage of 4% was primarily due a change in mix, specifically a higher gross margin contribution from BlackBerry QNX royalty revenue, which had a higher relative gross margin percentage.

The Company previously stated that it expected the gross margin for IoT to increase in the long term due to a change in revenue mix. The Company no longer expects to meet this guidance due to the actual and expected performance of IoT for fiscal 2024.

Licensing and Other

The decrease in Licensing and Other gross margin of \$3 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by a decrease of \$3 million in patent costs included in cost of sales in the third quarter of fiscal 2023, which did not recur.

The increase in Licensing and Other gross margin percentage of 16% was primarily due to a decrease of \$3 million in patent costs included in cost of sales in the third quarter of fiscal 2023, which did not recur.

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, 2023, compared to the quarter ended August 31, 2023 and the quarter ended November 30, 2022. The Company believes it is meaningful to provide a sequential comparison between the third quarter of fiscal 2024 and the second quarter of fiscal 2024.

	For the Three Months Ended (in millions)		
	November 30, 2023	August 31, 2023	November 30, 2022
Revenue	\$ 175	\$ 132	\$ 169
Operating expenses			
Research and development	42	50	52
Selling, marketing and administration	85	73	89
Amortization	13	14	26
Impairment of long-lived assets	11	1	—
Debentures fair value adjustment	(13)	(6)	(56)
Total	\$ 138	\$ 132	\$ 111
Operating Expenses as % of Revenue			
Research and development	24.0%	37.9%	30.8%
Selling, marketing and administration	48.6%	55.3%	52.7%
Amortization	7.4%	10.6%	15.4%
Impairment of long-lived assets	6.3%	0.8%	—%
Debentures fair value adjustment	(7.4%)	(4.5%)	(33.1%)
Total	78.9 %	100.0 %	65.7 %

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, 2023, August 31, 2023 and November 30, 2022.

U.S. GAAP Operating Expenses

Operating expenses increased by \$6 million, or 4.5%, in the third quarter of fiscal 2024, compared to the second quarter of fiscal 2024 primarily due to a benefit of \$17 million related to the release of an accrued liability relating to the Company’s legacy mobile device business in the second quarter of fiscal 2024 which did not recur, an increase of \$10 million in impairment of long-lived assets and an increase of \$6 million in restructuring costs, partially offset by the difference between the Q3 Fiscal 2024 Debentures Fair Value Adjustment and the fair value adjustment related to the Debentures incurred in the second quarter of fiscal 2024 of \$7 million, a decrease of \$6 million in variable incentive plan costs, a decrease of \$5 million in salaries and benefits expenses and a decrease of \$4 million in the Company’s deferred share unit costs.

Operating expenses increased by \$27 million, or 24.3%, in the third quarter of fiscal 2024, compared to the third quarter of fiscal 2023 primarily due to the difference between the Q3 Fiscal 2024 Debentures Fair Value Adjustment and the fair value adjustment related to the Debentures incurred in the third quarter of fiscal 2023 of \$43 million, an increase of \$10 million in impairment of long-lived assets and an increase of \$9 million in restructuring costs, partially offset by a decrease of \$13 million in amortization costs, a decrease of \$11 million in variable incentive plan costs, a decrease of \$7 million in salaries and benefits expenses and a benefit of \$3 million related to a litigation settlement.

The Company expects sales and marketing expense to be approximately 26% to 28% of revenue, research and development 29% to 31% of revenue, and general and administration, excluding amortization, to be approximately 19% to 21% of revenue in the fourth quarter of fiscal 2024.

Adjusted Operating Expenses

Adjusted operating expenses increased by \$1 million, or 0.9%, to \$115 million in the third quarter of fiscal 2024 compared to \$114 million in the second quarter of fiscal 2024. The increase was primarily due to a benefit of \$17 million related to the release of an accrued liability relating to the Company's legacy mobile device business in the second quarter of fiscal 2024 which did not recur, partially offset by a decrease of \$6 million in variable incentive plan costs, a decrease of \$5 million in salaries and benefits expenses and a decrease of \$4 million in the Company's deferred share unit costs.

Adjusted operating expenses decreased by \$22 million, or 16.1%, to \$115 million in the third quarter of fiscal 2024, compared to \$137 million in the third quarter of fiscal 2023. The decrease was primarily due to a decrease of \$11 million in variable incentive plan costs, a decrease of \$7 million in salaries and benefits expenses and a benefit of \$3 million related to a litigation settlement.

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 \$10 million, or 19.2%, in the third quarter of fiscal 2024 compared to \$52 million in the third quarter of fiscal 2023 primarily due to a decrease of \$4 million in salaries and benefits expenses, a decrease of \$4 million in variable incentive plan costs and a decrease of \$1 million in consulting costs.

Adjusted research and development expenses decreased by \$10 million, or 20.0%, to \$40 million in the third quarter of fiscal 2024, compared to \$50 million in the third quarter of fiscal 2023. 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 \$4 million, or 4.5%, in the third quarter of fiscal 2024 compared to \$89 million in the third quarter of fiscal 2023 primarily due to a decrease of \$7 million in variable incentive plan costs, a decrease of \$3 million in salaries and benefits expenses, a benefit of \$3 million related to a litigation settlement and a decrease of \$2 million in the Company's deferred share unit costs, partially offset by an increase of \$8 million in restructuring costs and an increase of \$5 million in legal expenses.

Adjusted selling, marketing and administration expenses decreased by \$12 million, or 14.5%, to \$71 million in the third quarter of fiscal 2024, compared to \$83 million in the third quarter of fiscal 2023. The decrease was primarily due to a decrease of \$7 million in variable incentive plan costs, a decrease of \$3 million in salaries and benefits expenses, a benefit of \$3 million related to a litigation settlement and a decrease of \$2 million in the Company's deferred share unit costs, partially offset by an increase of \$5 million in legal expenses.

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, 2023 compared to the quarter ended November 30, 2022. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)		
	Included in Operating Expense		
	November 30, 2023	November 30, 2022	Change
Property, plant and equipment	\$ 2	\$ 2	\$ —
Intangible assets	11	24	(13)
Total	\$ 13	\$ 26	\$ (13)
	Included in Cost of Sales		
	November 30, 2023	November 30, 2022	Change
	Property, plant and equipment	\$ —	\$ —
Intangible assets	1	2	(1)
Total	\$ 1	\$ 2	\$ (1)

Amortization included in Operating Expense

The decrease in amortization expense included in operating expense of \$13 million was primarily due to the lower cost base of acquired technology assets.

Adjusted amortization expense was \$4 million in the third quarter of fiscal 2024, consistent with \$4 million in the third quarter of fiscal 2023.

Amortization included in Cost of Sales

The decrease in amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's service operations of \$1 million was due to the lower cost base of assets.

Investment Income, Net

Investment income, net, which includes the interest expense from the Debentures, was \$5 million in the third quarter of fiscal 2024 and increased by \$3 million from investment income, net of \$2 million in the third quarter of fiscal 2023 due to interest income on significant financing components within certain revenue contracts with customers and a higher yield on cash and investments, partially offset by lower average cash and investment balances.

Income Taxes

For the third quarter of fiscal 2024, the Company's net effective income tax expense rate was approximately 250% (third quarter of fiscal 2023 - net effective income tax expense rate was undefined due to net income before taxes of nil). The Company's net effective income tax rate reflects the change in unrecognized income tax benefits, if any, and the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the change in fair value of the Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

Net Income (Loss)

The Company's net loss for the third quarter of fiscal 2024 was \$21 million, or \$0.04 basic loss per share and \$0.05 diluted loss per share on a U.S. GAAP basis (third quarter of fiscal 2023 - net loss of \$4 million, or \$0.01 basic loss per share and \$0.09 diluted loss per share). The increase in net loss of \$17 million was primarily due to an increase in operating expenses, as described above in "Operating Expenses" and an increase in income taxes, partially offset by an increase in revenue, as described above in "Revenue by Segment", an increase in gross margin percentage, as described above in "Consolidated Gross Margin Percentage" and an increase in investment income, net.

Adjusted net income was \$3 million in the third quarter of fiscal 2024 (third quarter of fiscal 2023 - adjusted net loss of \$30 million). The increase in adjusted net income of \$33 million was primarily due to a decrease in operating expenses as described above in "Operating Expenses", an increase in revenue as described above in "Revenue by Segment", an increase in gross margin percentage, as described above in "Consolidated Gross Margin Percentage" and an increase in investment income, net.

The Company previously stated that it expected to achieve non-GAAP profitability and to generate positive operating cash flow in the fourth quarter of fiscal 2024 and for fiscal 2024 as a whole in each case. These expectations were dependent, in part, on the Company closing a certain set of large government Cybersecurity deals in the fourth quarter of fiscal 2024. The Company no longer expects to meet this expectation due to the actual and expected performance of Cybersecurity and IoT for fiscal 2024.

The Company expects to further improve operating cash flow in the fourth quarter of fiscal 2024.

The weighted average number of shares outstanding was 584 million common shares for basic loss per share and 638 million common shares for diluted loss per share for the third quarter of fiscal 2024 (third quarter of fiscal 2023 - 579 million common shares for basic loss per share and 640 million common shares for diluted loss per share).

Results of Operations - Nine months ended November 30, 2023 compared to the nine months ended November 30, 2022

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, 2023 and November 30, 2022:

	For the Nine Months Ended		
	<i>(in millions, except for share and per share amounts)</i>		
	November 30, 2023	November 30, 2022	Change
Revenue	\$ 680	\$ 505	\$ 175
Gross margin	391	319	72
Operating expenses	460	545	(85)
Investment income (loss), net	15	(1)	16
Loss before income taxes	(54)	(227)	173
Provision for (recovery of) income taxes	20	12	8
Net loss	<u>\$ (74)</u>	<u>\$ (239)</u>	<u>\$ 165</u>
Loss per share - reported			
Basic	<u>\$ (0.13)</u>	<u>\$ (0.41)</u>	<u>\$ 0.28</u>
Diluted	<u>\$ (0.13)</u>	<u>\$ (0.54)</u>	<u>\$ 0.41</u>
Weighted-average number of shares outstanding (000's)			
Basic	583,559	577,718	
Diluted ⁽¹⁾	583,559	638,551	

⁽¹⁾ Diluted loss per share on a U.S. GAAP basis for the first nine months of fiscal 2024 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 2024 and fiscal 2023 do not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive.

Revenue

Revenue by Segment

Comparative breakdowns of revenue by segment are set forth below.

	For the Nine Months Ended		
	<i>(in millions)</i>		
	November 30, 2023	November 30, 2022	Change
Revenue by Segment			
Cybersecurity	\$ 286	\$ 330	\$ (44)
IoT	149	153	(4)
Licensing and Other	245	22	223
	<u>\$ 680</u>	<u>\$ 505</u>	<u>\$ 175</u>
% Revenue by Segment			
Cybersecurity	42.1 %	65.3 %	
IoT	21.9 %	30.3 %	
Licensing and Other	36.0 %	4.4 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

Cybersecurity

The decrease in Cybersecurity revenue of \$44 million was primarily due to a decrease of \$26 million relating to product revenue in BlackBerry Spark, a decrease of \$9 million relating to product revenue in Secusmart and a decrease of \$5 million in professional services.

IoT

The decrease in IoT revenue of \$4 million was primarily due to a decrease of \$8 million in professional services and a decrease of \$7 million in BlackBerry QNX development seat revenue, partially offset by an increase of \$10 million in BlackBerry QNX royalty revenue.

Licensing and Other

The increase in Licensing and Other revenue of \$223 million was primarily due to an increase of \$218 million related to the completed Malikie Transaction and an increase of \$5 million in revenue from the Company's intellectual property licensing arrangements.

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, 2023	November 30, 2022	Change
Revenue by Geography			
North America	\$ 466	\$ 266	\$ 200
Europe, Middle East and Africa	126	176	(50)
Other regions	88	63	25
	<u>\$ 680</u>	<u>\$ 505</u>	<u>\$ 175</u>
% Revenue by Geography			
North America	68.5 %	52.7 %	
Europe, Middle East and Africa	18.6 %	34.9 %	
Other regions	12.9 %	12.4 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

North America Revenue

The increase in North America revenue of \$200 million was primarily due to an increase of \$223 million in Licensing and Other revenue due to the reasons discussed above in "Revenue by Segment" and an increase of \$3 million relating to product revenue in Secusmart, partially offset by a decrease of \$10 million in professional services and a decrease of \$14 million in product revenue in BlackBerry Spark.

Europe, Middle East and Africa Revenue

The decrease in Europe, Middle East and Africa revenue of \$50 million was primarily due to a decrease of \$40 million relating to product revenue in Secusmart, a decrease of \$11 million in product revenue in BlackBerry Spark and a decrease of \$4 million in BlackBerry QNX development seat revenue, partially offset by an increase of \$7 million in BlackBerry QNX royalty revenue.

Other Regions Revenue

The increase in other regions of \$25 million was primarily due to an increase of \$26 million relating to product revenue in Secusmart and an increase of \$3 million in professional services, partially offset by a decrease in \$3 million in BlackBerry QNX development seat revenue and a decrease of \$1 million relating to product revenue in BlackBerry Spark.

Consolidated Gross Margin

Consolidated gross margin increased by \$72 million to approximately \$391 million in the first nine months of fiscal 2024 (first nine months of fiscal 2023 - \$319 million). The increase was primarily due to the completed Malikie Transaction, partially offset by a decrease in revenue from BlackBerry Spark and BlackBerry QNX due to the reasons discussed above in “Revenue by Segment”, as much of the Company’s cost of sales does not significantly fluctuate based on business volume.

Consolidated Gross Margin Percentage

Consolidated gross margin percentage decreased by 5.7%, to approximately 57.5% of consolidated revenue in the first nine months of fiscal 2024 (first nine months of fiscal 2023 - 63.2%). The decrease was primarily due to a change in mix, specifically higher contribution from Licensing and Other, which had a lower gross margin percentage due to the completed Malikie Transaction, partially offset by a higher gross margin contribution from Secusmart software licenses, which had a higher relative gross margin percentage.

Gross Margin by Segment

See “Business Overview” and “Third Quarter Fiscal 2024 Summary Results of Operations” for information about the Company’s operating segments and the basis of operating segment results.

	For the Nine Months Ended											
	<i>(in millions)</i>											
	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	November 30, 2023	2022	Change	November 30, 2023	2022	Change	November 30, 2023	2022	Change	November 30, 2023	2022	Change
Segment revenue	\$ 286	\$ 330	\$(44)	\$ 149	\$ 153	\$(4)	\$ 245	\$ 22	\$ 223	\$ 680	\$ 505	\$ 175
Segment cost of sales	110	149	(39)	26	27	(1)	150	8	142	286	184	102
Segment gross margin	\$ 176	\$ 181	\$(5)	\$ 123	\$ 126	\$(3)	\$ 95	\$ 14	\$ 81	\$ 394	\$ 321	\$ 73
Segment gross margin %	62%	55%	7%	83%	82%	1%	39%	64%	(25%)	58%	64%	(6%)

Cybersecurity

The decrease in Cybersecurity gross margin of \$5 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by a decrease of \$13 million in infrastructure costs and a change in mix, specifically a higher gross margin contribution from Secusmart software licenses, which had a higher relative gross margin percentage.

The increase in Cybersecurity gross margin percentage of 7% was primarily due to a decrease of \$13 million in infrastructure costs and a change in mix, specifically a higher gross margin contribution from Secusmart software licenses, which had a higher relative gross margin percentage.

IoT

The decrease of IoT gross margin of \$3 million was primarily due to the reasons discussed above in “Revenue by Segment”, as the Company’s cost of sales does not significantly fluctuate based on business volume.

The increase in IoT gross margin percentage of 1% was primarily due to the reasons discussed above in “Revenue by Segment”, as the Company’s cost of sales does not significantly fluctuate based on business volume.

Licensing and Other

The increase in Licensing and Other gross margin of \$81 million was primarily due to the completed Malikie Transaction.

The decrease in Licensing and Other gross margin percentage of 25% was primarily due to the completed Malikie Transaction, which had a lower relative gross margin percentage due to the cost basis of the sold assets which was de-recognized.

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, 2023, compared to the nine months ended November 30, 2022.

	For the Nine Months Ended		
	<i>(in millions)</i>		
	November 30, 2023	November 30, 2022	Change
Revenue	\$ 680	\$ 505	\$ 175
Operating expenses			
Research and development	146	159	(13)
Selling, marketing and administration	258	257	1
Amortization	42	78	(36)
Impairment of long-lived assets	11	4	7
Gain on sale of property, plant and equipment, net	—	(6)	6
Debentures fair value adjustment	3	(112)	115
Litigation settlement	—	165	(165)
Total	<u>\$ 460</u>	<u>\$ 545</u>	<u>\$ (85)</u>
Operating Expense as % of Revenue			
Research and development	21.5 %	31.5 %	
Selling, marketing and administration	37.9 %	50.9 %	
Amortization	6.2 %	15.4 %	
Impairment of long-lived assets	1.6 %	0.8 %	
Gain on sale of property, plant and equipment, net	— %	(1.2)%	
Debentures fair value adjustment	0.4 %	(22.2)%	
Litigation settlement	— %	32.7 %	
Total	<u>67.6 %</u>	<u>107.9 %</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, 2023 and November 30, 2022.

U.S. GAAP Operating Expenses

Operating expenses decreased by \$85 million, or 15.6%, in the first nine months of fiscal 2024, compared to the first nine months of fiscal 2023. The decrease was primarily due to a \$165 million litigation settlement in the first nine months of fiscal 2023 which did not recur, a decrease of \$36 million in amortization costs, a benefit of \$17 million related to the release of an accrued liability relating to the Company’s legacy mobile device business and a decrease of \$14 million in salaries and benefits expenses, partially offset by the difference between the Fiscal 2024 Debentures Fair Value Adjustment and the fair value adjustment related to the Debentures incurred in the first nine months of fiscal 2023 of \$115 million, an increase of \$13 million in restructuring costs, an increase of \$7 million in impairment of long-lived assets, a \$6 million gain on sale of property, plant and equipment, net, in the first nine months fiscal 2023 which did not recur and an increase of \$6 million in stock based compensation expense.

Adjusted Operating Expenses

Adjusted operating expenses decreased by \$23 million, or 5.8%, to \$375 million in the first nine months of fiscal 2024, compared to \$398 million the first nine months of 2023. The decrease was primarily due to a benefit of \$17 million related to the release of an accrued liability relating to the Company's legacy mobile device business, a decrease of \$14 million in salaries and benefits expenses and a decrease of \$9 million in variable incentive plan costs, partially offset by a \$6 million gain on sale of property, plant and equipment, net, in the first nine months of fiscal 2023 which did not recur, an increase of \$4 million in legal expenses, a decrease in benefits of \$4 million in government subsidies resulting from claims filed for the Canada Emergency Wage Subsidy and Hardest-Hit Business Recovery Program programs ("COVID-19 subsidies") and an increase of \$2 million in amortization costs.

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 \$13 million, or 8.2%, in the first nine months of fiscal 2024, compared to the first nine months of fiscal 2023. The decrease was primarily due to a decrease of \$7 million in salaries and benefits expenses, a decrease of \$3 million in variable incentive plan costs and a decrease of \$1 million in consulting costs.

Adjusted research and development expenses decreased by \$13 million, or 8.5%, to \$140 million in the first nine months of fiscal 2024, compared to \$153 million in the first nine months of fiscal 2023. 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 increased by \$1 million, or 0.4%, in the first nine months of fiscal 2024 compared to the first nine months of fiscal 2023 primarily due to an increase in \$12 million in restructuring costs, an increase of \$6 million in stock compensation expense, an increase of \$4 million in legal expenses and a decrease in benefits of \$4 million in COVID-19 subsidies, partially offset by a benefit of \$17 million related to the release of an accrued liability relating to the Company's legacy mobile device business and a decrease of \$6 million in variable incentive plan costs.

Adjusted selling, marketing and administration expenses decreased by \$18 million, or 7.5%, to \$222 million in the first nine months of fiscal 2024, compared to \$240 million the first nine months of fiscal 2023. The decrease was primarily due to a benefit of \$17 million related to the release of an accrued liability relating to the Company's legacy mobile device business, a decrease of \$6 million in variable incentive costs and a decrease of \$5 million in salaries and benefits, partially offset by an increase of \$4 million in legal expenses, a decrease in benefits of \$4 million in COVID-19 subsidies and an increase of \$2 million in the Company's deferred share unit costs.

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, 2023 compared to the nine months ended November 30, 2022. 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, 2023	November 30, 2022	Change
Property, plant and equipment	\$ 6	\$ 7	\$ (1)
Intangible assets	36	71	(35)
Total	\$ 42	\$ 78	\$ (36)
	Included in Cost of Sales		
	November 30, 2023	November 30, 2022	Change
Property, plant and equipment	\$ 2	\$ 2	\$ —
Intangible assets	2	5	(3)
Total	\$ 4	\$ 7	\$ (3)

Amortization included in Operating Expense

The decrease in amortization expense included in operating expense of \$36 million was primarily due to the lower cost base of acquired technology assets.

Adjusted amortization expense increased by \$2 million to \$13 million in the first nine months of fiscal 2024 compared to \$11 million in the first nine months of fiscal 2023 due to an increase in patent amortization expense included in operating expenses as a result of the decrease in revenue from the Company's intellectual property licensing arrangements.

Amortization included in Cost of Sales

The decrease in amortization expense relating to certain property, plant and equipment and certain intangible assets employed in the Company's service operations of \$3 million was due to the lower cost base of assets.

Investment Income (Loss), Net

Investment income, net, which includes the interest expense from the Debentures, was \$15 million in the first nine months of fiscal 2024 and increased by \$16 million from investment loss, net of \$1 million in the first nine months of fiscal 2023 due to a higher yield on cash and investments and interest income on significant financing components within certain revenue contracts with customers, partially offset by lower average cash and investment balances.

Income Taxes

For the first nine months of fiscal 2024, the Company's net effective income tax expense rate was approximately 37% (first nine months of fiscal 2023 - net effective income tax expense rate of approximately 5%). The Company's net effective income tax rate reflects the change in unrecognized income tax benefits, if any, and the fact that the Company has a significant valuation allowance against its deferred tax assets, and in particular, the change in fair value of the Debentures, amongst other items, was offset by a corresponding adjustment of the valuation allowance. The Company's net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

Net Income (Loss)

The Company's net loss for the first nine months of fiscal 2024 was \$74 million, or \$0.13 basic and diluted loss per share on a U.S. GAAP basis (first nine months of fiscal 2023 - net loss of \$239 million, or \$0.41 basic loss per share and \$0.54 diluted loss per share). The decrease in net loss of \$165 million was primarily due to an increase revenue as described above in "Revenue by Segment", a decrease in operating expenses, as described above in "Operating Expenses" and an increase in investment income (loss), net, partially offset by a decrease in gross margin percentage, as described above in "Consolidated Gross Margin Percentage".

Adjusted net income was \$14 million in the first nine months of fiscal 2024 (first nine months of fiscal 2023 - adjusted net loss of \$90 million). The increase in adjusted net income of \$104 million was primarily due to the same reasons described above on a U.S. GAAP basis.

The weighted average number of shares outstanding was 584 million for basic and diluted loss per share for the first nine months of November 30, 2023. The weighted average number of shares outstanding was 578 million for basic loss per share and 639 million for diluted loss per share for the first nine months of November 30, 2022.

Common Shares Outstanding

On December 18, 2023, there were 585 million voting common shares, options to purchase 0.3 million voting common shares, 13 million restricted share units and 2 million deferred share units outstanding. In addition, 25 million common shares are issuable upon conversion in full of the Extension 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.

Financial Condition

Liquidity and Capital Resources

Cash, cash equivalents, and investments decreased by \$216 million to \$271 million as at November 30, 2023 from \$487 million as at February 28, 2023, primarily due to the repayment of the 2020 Debentures at maturity, partially offset by the issuance of the Extension Debentures, the completed Malikie Transaction and changes in working capital. The majority of the Company's cash, cash equivalents, and investments were denominated in U.S. dollars as at November 30, 2023.

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

	As at (in millions)		
	November 30, 2023	February 28, 2023	Change
Cash and cash equivalents	\$ 210	\$ 295	\$ (85)
Restricted cash and cash equivalents	25	27	(2)
Short-term investments	—	131	(131)
Long-term investments	36	34	2
Cash, cash equivalents, and investments	<u>\$ 271</u>	<u>\$ 487</u>	<u>\$ (216)</u>

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

	As at (in millions)		
	November 30, 2023	February 28, 2023	Change
Current assets	\$ 450	\$ 743	\$ (293)
Current liabilities	508	729	(221)
Working capital	<u>\$ (58)</u>	<u>\$ 14</u>	<u>\$ (72)</u>

Current Assets

The decrease in current assets of \$293 million at the end of the third quarter of fiscal 2024 from the end of the fourth quarter of fiscal 2023 was primarily due to a decrease of \$138 million in other current assets, a decrease in short term investments of \$131 million, a decrease in cash and cash equivalents of \$85 million and a decrease in other receivables of \$4 million, partially offset by an increase in accounts receivable, net of allowance of \$63 million and an increase in taxes receivables of \$2 million.

At November 30, 2023, other current assets were \$44 million, a decrease of \$138 million from February 28, 2023. The decrease was primarily due to a decrease in intellectual property of \$141 million as a result of the completed Malikie Transaction, partially offset by an increase of \$1 million in prepaid insurance.

At November 30, 2023, other receivables were \$8 million, a decrease of \$4 million from February 28, 2023. The decrease was primarily due to a decrease of \$3 million relating to GST/VAT receivables.

At November 30, 2023, accounts receivable, net of allowance was \$183 million, an increase of \$63 million from February 28, 2023. The increase was primarily due to an increase in software and services revenue recognized over the three months ended November 30, 2023 compared to the three months ended February 28, 2023 and an increase in days sales outstanding to 81 days at the end of the third quarter of fiscal 2024 from 75 days at the end of the fourth quarter of fiscal 2023.

At November 30, 2023, income taxes receivable was \$5 million, an increase of \$2 million from February 28, 2023, which was primarily due to tax installments and prepayments required in certain taxing jurisdictions.

Current Liabilities

The decrease in current liabilities of \$221 million at the end of the third quarter of 2024 from the end of the fourth quarter of fiscal 2023 was primarily due to a decrease in the Debentures of \$217 million due to the repayment of the 2020 Debentures at maturity, which was partially offset by the issuance of the Extension Debentures, a decrease in accrued liabilities of \$18 million

and a decrease in accounts payable of \$7 million, partially offset by an increase in income taxes payable of \$13 million and an increase in deferred revenue, current of \$8 million.

Accrued liabilities were \$125 million at the end of the third quarter of 2024, reflecting a decrease of \$18 million compared to February 28, 2023, which was primarily due to a decrease of \$17 million related to the release of an accrued liability relating to the Company's legacy mobile device business and a decrease of \$5 million in variable incentive plan accruals, partially offset by an increase of \$2 million in legal accruals.

Accounts payable were \$17 million, reflecting a decrease of \$7 million from February 28, 2023, which was primarily due to timing of payments.

Income taxes payable were \$33 million, reflecting an increase of \$13 million compared to February 28, 2023, which was primarily due to changes in the quarterly tax provision.

Deferred revenue, current was \$183 million, which reflects an increase of \$8 million compared to February 28, 2023 that was attributable to an increase of \$15 million in deferred revenue, current related to BlackBerry Spark and an increase in \$5 million in deferred revenue, current related to BlackBerry AtHoc, partially offset by a decrease of \$11 million in deferred revenue, current related to BlackBerry QNX.

Cash flows for the nine months ended November 30, 2023 compared to the nine months ended November 30, 2022 were as follows:

	For the Nine Months Ended		
	<i>(in millions)</i>		
	November 30, 2023	November 30, 2022	Change
Net cash flows provided by (used in):			
Operating activities	\$ 12	\$ (253)	\$ 265
Investing activities	112	126	(14)
Financing activities	(211)	6	(217)
Effect of foreign exchange loss on cash and cash equivalents	—	(3)	3
Net decrease in cash and cash equivalents	\$ (87)	\$ (124)	\$ 37

Operating Activities

The increase in net cash flows used in operating activities of \$265 million primarily reflects the net changes in working capital.

Investing Activities

During the nine months ended November 30, 2023, cash flows provided by investing activities were \$112 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 \$129 million, offset by cash used in the acquisition of intangible assets of \$12 million, and the acquisition of property, plant and equipment of \$5 million. For the same period in the prior fiscal year, cash flows provided by investing activities were \$126 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 \$138 million and proceeds on sale of property, plant and equipment of \$17 million, offset by cash used in the acquisition of intangible assets of \$24 million and the acquisition of property, plant and equipment of \$5 million.

Financing Activities

The decrease in cash flows used in financing activities was \$217 million for the first nine months of fiscal 2024 due to the repayment of the 2020 Debentures at maturity on November 13, 2023, partially offset by the issuance of the Extension Debentures as described above in "Business Overview - Debt Repayment and New Issuance" and a decrease in common shares issued upon the exercise of stock options and under the employee share purchase plan.

Debenture Financing and Other Funding Sources

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

The Company has \$25 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 \$271 million as at November 30, 2023. The Company's management remains focused on maintaining appropriate cash balances, efficiently managing working capital balances and managing the liquidity needs of the business. The Company has experienced recent operating losses and the Extension Debentures will mature on February 15, 2024, with an option for the parties to extend the maturity date to May 15, 2024, by mutual agreement, as described in Note 6 to the Consolidated Financial Statements. The Company believes it has the ability to access other potential financing arrangements on commercially reasonable terms. Taking these factors into account and based on its current financial projections, the Company believes its financial resources, together with expected future operating cash generating and operating expense reduction activities, are expected to 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.

Contractual and Other Obligations

The following table sets out aggregate information about the Company's contractual and other obligations and the periods in which payments are due as at November 30, 2023:

	<i>(in millions)</i>		
	Total	Short-term (next 12 months)	Long-term (>12 months)
Operating lease obligations	\$ 74	\$ 24	\$ 50
Purchase obligations and commitments	62	62	—
Debt interest and principal payments	151	151	—
Total	<u>\$ 287</u>	<u>\$ 237</u>	<u>\$ 50</u>

Total contractual and other obligations as at November 30, 2023 decreased by approximately \$269 million as compared to the February 28, 2023 balance of approximately \$556 million, which was attributable to a decreases in debt interest and principal payments as a result of the repayment of the 2020 Debentures at maturity on November 13, 2023, partially offset by the issuance of the Extension Debentures as described above in "Business Overview - Debt Repayment and New Issuance" and a decrease in purchase obligations and commitments.

The Company does not have any material off-balance sheet arrangements.

Accounting Policies and Critical Accounting Estimates

There have been no changes to the Company's accounting policies or critical accounting estimates from those described under "Accounting Policies and Critical Accounting Estimates" in the Annual MD&A, other than those noted in Note 1 to the Consolidated Financial Statements.

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 2024 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, 2023, approximately 13% of cash and cash equivalents, 36% of accounts receivables and 48% of accounts payable were denominated in foreign currencies (February 28, 2023 – 19%, 24% and 36%, respectively). These foreign currencies primarily include the Canadian dollar, euro and British pound. As part of its risk management strategy, the Company maintains net monetary asset and/or liability balances in foreign currencies and engages in foreign currency hedging activities using derivative financial instruments, including currency forward contracts and currency options. The Company does not use derivative instruments for speculative purposes. If overall foreign currency exchanges rates to the U.S. dollar uniformly weakened or strengthened by 10% related to the Company's net monetary asset or liability balances in foreign currencies at November 30, 2023 (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.