

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 31, 2023

OR

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

For the transition period from to

Commission file number 001-38232

BlackBerry Limited

(Exact name of registrant as specified in its charter)

Canada

(State or other jurisdiction of incorporation or organization)

98-0164408

(I.R.S. Employer Identification No.)

2200 University Ave East

Waterloo Ontario Canada
(Address of Principal Executive Offices)

N2K 0A7

(Zip Code)

(519) 888-7465

(Registrant's telephone number, including area code)

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

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

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

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

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The registrant had 583,708,105 common shares issued and outstanding as of September 26, 2023.

BLACKBERRY LIMITED

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Consolidated Balance Sheets

	As at	
	August 31, 2023	February 28, 2023
Assets		
Current		
Cash and cash equivalents (note 2)	\$ 415	\$ 295
Short-term investments (note 2)	41	131
Accounts receivable, net of allowance of \$6 and \$1, respectively (note 3)	127	120
Other receivables (note 3)	8	12
Income taxes receivable	5	3
Other current assets (note 3)	49	182
	<u>645</u>	<u>743</u>
Restricted cash and cash equivalents (note 2)	28	27
Long-term investments (note 2)	35	34
Other long-term assets (note 3)	62	8
Operating lease right-of-use assets, net	43	44
Property, plant and equipment, net (note 3)	22	25
Goodwill (note 3)	597	595
Intangible assets, net (note 3)	181	203
	<u>\$ 1,613</u>	<u>\$ 1,679</u>
Liabilities		
Current		
Accounts payable	\$ 18	\$ 24
Accrued liabilities (note 3)	117	143
Income taxes payable (note 4)	21	20
Debentures (note 5)	383	367
Deferred revenue, current (note 10)	174	175
	<u>713</u>	<u>729</u>
Deferred revenue, non-current (note 10)	21	40
Operating lease liabilities	49	52
Other long-term liabilities	1	1
	<u>784</u>	<u>822</u>
Commitments and contingencies (note 9)		
Shareholders' equity		
Capital stock and additional paid-in capital		
Preferred shares: authorized unlimited number of non-voting, cumulative, redeemable and retractable	—	—
Common shares: authorized unlimited number of non-voting, redeemable, retractable Class A common shares and unlimited number of voting common shares		
Issued and outstanding - 583,684,455 voting common shares (February 28, 2023 - 582,157,203)	2,931	2,909
Deficit	(2,081)	(2,028)
Accumulated other comprehensive loss (note 8)	(21)	(24)
	<u>829</u>	<u>857</u>
	<u>\$ 1,613</u>	<u>\$ 1,679</u>

See notes to consolidated financial statements.

On behalf of the
Board:

John S. Chen
Director

Lisa Disbrow
Director

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

Consolidated Statements of Shareholders' Equity

	Three Months Ended August 31, 2023			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at May 31, 2023	\$ 2,920	\$ (2,039)	\$ (22)	\$ 859
Net loss	—	(42)	—	(42)
Other comprehensive income	—	—	1	1
Stock-based compensation	11	—	—	11
Balance as at August 31, 2023	\$ 2,931	\$ (2,081)	\$ (21)	\$ 829

	Three Months Ended August 31, 2022			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at May 31, 2022	\$ 2,880	\$ (1,475)	\$ (20)	\$ 1,385
Net loss	—	(54)	—	(54)
Other comprehensive loss	—	—	(8)	(8)
Stock-based compensation	7	—	—	7
Balance as at August 31, 2022	\$ 2,887	\$ (1,529)	\$ (28)	\$ 1,330

See notes to consolidated financial statements.

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

Consolidated Statements of Shareholders' Equity

	Six Months Ended August 31, 2023			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 28, 2023	\$ 2,909	\$ (2,028)	\$ (24)	\$ 857
Net loss	—	(53)	—	(53)
Other comprehensive income	—	—	3	3
Stock-based compensation (note 6)	20	—	—	20
Shares issued:				
Employee share purchase plan (note 6)	2	—	—	2
Balance as at August 31, 2023	\$ 2,931	\$ (2,081)	\$ (21)	\$ 829

	Six Months Ended August 31, 2022			
	Capital Stock and Additional Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss	Total
Balance as at February 28, 2022	\$ 2,869	\$ (1,294)	\$ (19)	\$ 1,556
Net loss	—	(235)	—	(235)
Other comprehensive loss	—	—	(9)	(9)
Stock-based compensation	15	—	—	15
Shares issued:				
Employee share purchase plan	3	—	—	3
Balance as at August 31, 2022	\$ 2,887	\$ (1,529)	\$ (28)	\$ 1,330

See notes to consolidated financial statements.

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

Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Revenue (note 10)	\$ 132	\$ 168	\$ 505	\$ 336
Cost of sales	47	62	241	126
Gross margin	85	106	264	210
Operating expenses				
Research and development	50	54	104	107
Selling, marketing and administration	73	86	172	168
Amortization	14	25	29	52
Impairment of long-lived assets (note 2)	1	4	1	4
Gain on sale of property, plant and equipment, net	—	(6)	—	(6)
Debentures fair value adjustment (note 5)	(6)	(10)	16	(56)
Litigation settlement (note 9)	—	—	—	165
	132	153	322	434
Operating loss	(47)	(47)	(58)	(224)
Investment income (loss), net (note 2 and note 5)	7	(2)	10	(3)
Loss before income taxes	(40)	(49)	(48)	(227)
Provision for income taxes (note 4)	2	5	5	8
Net loss	\$ (42)	\$ (54)	\$ (53)	\$ (235)
Loss per share (note 7)				
Basic	\$ (0.07)	\$ (0.09)	\$ (0.09)	\$ (0.41)
Diluted	\$ (0.07)	\$ (0.10)	\$ (0.09)	\$ (0.45)

See notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Loss

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Net loss	\$ (42)	\$ (54)	\$ (53)	\$ (235)
Other comprehensive income (loss)				
Net change in fair value and amounts reclassified to net loss from derivatives designated as cash flow hedges during the period, net of income taxes of nil for the three and six months ended August 31, 2023 and August 31, 2022 (note 8)	—	(2)	1	(1)
Foreign currency translation adjustment	1	(6)	2	(10)
Net change in fair value from instrument-specific credit risk on the Debentures, net of income taxes of nil for the three and six months ended August 31, 2023 and August 31, 2022 (note 5)	—	—	—	2
Other comprehensive income (loss)	<u>1</u>	<u>(8)</u>	<u>3</u>	<u>(9)</u>
Comprehensive loss	<u>\$ (41)</u>	<u>\$ (62)</u>	<u>\$ (50)</u>	<u>\$ (244)</u>

See notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

	Six Months Ended	
	August 31, 2023	August 31, 2022
Cash flows from operating activities		
Net loss	\$ (53)	\$ (235)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization	32	57
Stock-based compensation	20	15
Impairment of long-lived assets (note 2)	1	4
Intellectual property disposed of by sale (note 3)	147	—
Gain on sale of property, plant and equipment, net	—	(6)
Debentures fair value adjustment (note 5)	16	(56)
Operating leases	(5)	(9)
Other	—	3
Net changes in working capital items		
Accounts receivable, net of allowance	(7)	38
Other receivables	4	10
Income taxes receivable	(2)	—
Other assets	(61)	(1)
Accounts payable	(6)	(2)
Accrued liabilities	(24)	145
Income taxes payable	1	6
Deferred revenue	(20)	(35)
Net cash provided by (used in) operating activities	43	(66)
Cash flows from investing activities		
Acquisition of long-term investments	(1)	(2)
Acquisition of property, plant and equipment	(3)	(4)
Proceeds on sale of property, plant and equipment	—	17
Acquisition of intangible assets	(10)	(16)
Acquisition of short-term investments	(92)	(273)
Proceeds on sale or maturity of short-term investments	182	395
Net cash provided by investing activities	76	117
Cash flows from financing activities		
Issuance of common shares	2	3
Net cash provided by financing activities	2	3
Effect of foreign exchange loss on cash, cash equivalents, restricted cash, and restricted cash equivalents	—	(2)
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents during the period	121	52
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	322	406
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 443	\$ 458

See notes to consolidated financial statements.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Basis of Presentation and Preparation

These interim consolidated financial statements have been prepared by management in accordance with United States generally accepted accounting principles (“U.S. GAAP”). They do not include all of the disclosures required by U.S. GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements of BlackBerry Limited (the “Company”) for the year ended February 28, 2023 (the “Annual Financial Statements”), which have been prepared in accordance with U.S. GAAP. In the opinion of management, all normal recurring adjustments considered necessary for fair presentation have been included in these interim consolidated financial statements. Operating results for the three and six months ended August 31, 2023 are not necessarily indicative of the results that may be expected for the full year ending February 29, 2024. The consolidated balance sheet at February 28, 2023 was derived from the audited Annual Financial Statements but does not contain all of the footnote disclosures from the Annual Financial Statements.

The preparation of the consolidated financial statements requires management to make estimates and assumptions with respect to the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates and any such differences may be material to the Company’s consolidated financial statements.

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

The Company is organized and managed as three reportable operating segments: Cybersecurity, IoT (collectively, “Software & Services”), and Licensing and Other, as further discussed in Note 10.

Significant Accounting Policies and Critical Accounting Estimates

There have been no material changes to the Company’s accounting policies or critical accounting estimates from those described in the Annual Financial Statements other than those noted below.

Critical Accounting Estimates during the Six Months Ended August 31, 2023 (Note 10)

To the extent the transaction price in a contract with a customer includes variable consideration, the Company estimates the amount of variable consideration that should be included in the price utilizing either the expected value method or the most likely amount method, depending on the nature of the variable consideration. The Company also estimates whether and how much variable consideration is subject to constraint if it cannot conclude it is probable that a significant reversal in revenue will not occur, due to factors such as: the consideration being highly susceptible to factors outside the Company’s influence, the period of time before the variable consideration is resolved, the Company’s previous experience with similar contracts, the Company’s history of price concessions or changing of payment terms, and whether there is a large number and broad range of possible variable consideration amounts. To the extent the Company determines that there is a significant financing component in a contract with a customer, it determines the impact of the time value of money in adjusting the transaction price to account for the income associated with the financing component by estimating the discount rate that would be reflected in a separate financing transaction between the customer and the Company at contract inception, based upon the credit characteristics of the customer receiving financing in the contract.

Accounting Standards Adopted During Fiscal 2024

The Company has not adopted any new standards to date during fiscal 2024.

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

Fair Value

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

- Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

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

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

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

Recurring Fair Value Measurements

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

When the Company concludes that there is a significant financing component included within a contract with a customer due to timing differences between the fulfillment of certain performance obligations and the receipt of payment for those performance obligations, the Company determines the present value of the future consideration utilizing the discount rate that would be reflected in a separate financing transaction between the customer and the Company at contract inception based upon the credit characteristics of the customer receiving financing in the contract.

For a description of how the fair value of the Debentures (as defined in Note 5) was determined, see the "Convertible debentures" accounting policies in Note 1 to the Annual Financial Statements. The Debentures are classified as Level 3.

Non-Recurring Fair Value Measurements

Upon the occurrence of certain events, the Company re-measures the fair value of non-marketable equity investments for which it utilizes the measurement alternative, and long-lived assets, including property, plant and equipment, operating lease ROU assets, intangible assets and goodwill if an impairment or observable price adjustment is recognized in the current period.

Non-Marketable Equity Investments Measured Using the Measurement Alternative

Non-marketable equity investments measured using the measurement alternative include investments in privately held companies without readily determinable fair values in which the Company does not own a controlling interest or have significant influence. The estimation of fair value used in the fair value measurements required the use of significant unobservable inputs, and as a result, the fair value measurements were classified as Level 3.

Impairment of Long-Lived Assets

During the second quarter of fiscal 2024, the Company exited certain leased facilities. The Company recorded a non-cash, pre-tax and after-tax impairment charge of \$1 million related to the operating lease right-of-use ("ROU") assets for those facilities (three and six months ended August 31, 2022 - \$4 million). The impairment was determined by comparing the fair value of the impacted ROU asset to the carrying value of the asset as of the impairment measurement date, as required under ASC Topic 360, Property, Plant, and Equipment, using Level 2 inputs. The fair value of the ROU asset was based on the estimated sublease income for certain facilities taking into consideration the time period it will take to obtain a sublessor, the applicable discount rate and the sublease rate. The Company conducts an evaluation of the related liabilities and expenses and revises its assumptions and estimates as appropriate as new or updated information becomes available.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Cash, Cash Equivalents and Investments

The components of cash, cash equivalents and investments by fair value level as at August 31, 2023 were as follows:

	Cost Basis ⁽¹⁾	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	\$ 52	\$ —	\$ —	\$ 52	\$ 50	\$ —	\$ —	\$ 2
Other investments	29	6	—	35	—	—	35	—
	81	6	—	87	50	—	35	2
Level 1:								
Equity securities	10	—	(10)	—	—	—	—	—
Level 2:								
Term deposits and certificates of deposits	31	—	—	31	9	—	—	22
Bearer deposit notes	115	—	—	115	115	—	—	—
Commercial paper	129	—	—	129	123	6	—	—
Non-U.S. promissory notes	93	—	—	93	58	35	—	—
Non-U.S. treasury bills/notes	40	—	—	40	40	—	—	—
U.S. treasury bills/notes	19	—	—	19	15	—	—	4
Corporate notes/bonds	5	—	—	5	5	—	—	—
	432	—	—	432	365	41	—	26
	<u>\$ 523</u>	<u>\$ 6</u>	<u>\$ (10)</u>	<u>\$ 519</u>	<u>\$ 415</u>	<u>\$ 41</u>	<u>\$ 35</u>	<u>\$ 28</u>

⁽¹⁾ Cost basis for other investments includes the effect of returns of capital and impairment.

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The components of cash, cash equivalents and investments by fair value level as at February 28, 2023 were as follows:

	Cost Basis ⁽¹⁾	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments	Restricted Cash and Cash Equivalents
Bank balances	\$ 89	\$ —	\$ —	\$ 89	\$ 87	\$ —	\$ —	\$ 2
Other investments	26	2	—	28	—	—	28	—
	115	2	—	117	87	—	28	2
Level 1:								
Equity securities	10	—	(10)	—	—	—	—	—
Level 2:								
Term deposits, and certificates of deposits	33	—	—	33	8	—	—	25
Bearer deposit notes	82	—	—	82	82	—	—	—
Commercial paper	159	—	—	159	108	51	—	—
Non-U.S. promissory notes	45	—	—	45	—	45	—	—
Non-U.S. government sponsored enterprise notes	30	—	—	30	10	20	—	—
Corporate notes/bonds	15	—	—	15	—	15	—	—
	364	—	—	364	208	131	—	25
Level 3:								
Other investments	2	4	—	6	—	—	6	—
	<u>\$ 491</u>	<u>\$ 6</u>	<u>\$ (10)</u>	<u>\$ 487</u>	<u>\$ 295</u>	<u>\$ 131</u>	<u>\$ 34</u>	<u>\$ 27</u>

⁽¹⁾ Cost basis for other investments includes the effect of returns of capital and impairment.

As at August 31, 2023, the Company had non-marketable equity investments without readily determinable fair value of \$35 million (February 28, 2023 - \$34 million). As of August 31, 2023, the Company has recorded a cumulative impairment of \$3 million to the carrying value of certain other non-marketable equity investments without readily determinable fair value (February 28, 2023 - \$3 million).

There were no realized gains or losses on available-for-sale securities for the three and six months ended August 31, 2023 and August 31, 2022.

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

The following table provides a reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents as at August 31, 2023 and February 28, 2023 from the consolidated balance sheets to the consolidated statements of cash flows:

	As at	
	August 31, 2023	February 28, 2023
Cash and cash equivalents	\$ 415	\$ 295
Restricted cash and cash equivalents	28	27
Total cash, cash equivalents, restricted cash, and restricted cash equivalents presented in the consolidated statements of cash flows	<u>\$ 443</u>	<u>\$ 322</u>

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

The contractual maturities of available-for-sale investments as at August 31, 2023 and February 28, 2023 were as follows:

	As at			
	August 31, 2023		February 28, 2023	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Due in one year or less	\$ 432	\$ 432	\$ 364	\$ 364
No fixed maturity	10	—	10	—
	<u>\$ 442</u>	<u>\$ 432</u>	<u>\$ 374</u>	<u>\$ 364</u>

As at August 31, 2023 and February 28, 2023, the Company had no available-for-sale debt securities with continuous unrealized losses.

3. CONSOLIDATED BALANCE SHEET DETAILS

Accounts Receivable, Net of Allowance

The allowance for credit losses as at August 31, 2023 was \$6 million (February 28, 2023 - \$1 million).

The Company recognizes current estimated credit losses (“CECL”) for accounts receivable. The CECL for accounts receivable are estimated based on days past due and region for each customer in relation to a representative pool of assets consisting of a large number of customers with similar risk characteristics that operate under similar economic environments. The Company determined the CECL by estimating historical credit loss experience based on the past due status and region of the customers, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. When specific customers are identified as no longer sharing the same risk profile as their current pool, they are removed from the pool and evaluated separately. The Company also has long-term accounts receivable included in Other Long-term Assets. The CECL for the long-term accounts receivable is estimated using the probability of default method and the default exposure due to limited historical information. The exposure of default is represented by the assets’ amortized carrying amount at the reporting date.

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

	Carrying Amount
Beginning balance as of February 28, 2022	\$ 4
Prior period provision for expected credit losses	1
Write-offs charged against the allowance	(4)
Ending balance of the allowance for credit loss as at February 28, 2023	1
Current period provision for expected credit losses	5
Ending balance of the allowance for credit loss as at August 31, 2023	<u>\$ 6</u>

The allowance for credit losses as at August 31, 2023 consists of \$2 million (February 28, 2023 - \$1 million) relating to CECL estimated based on days past due and region and \$4 million (February 28, 2023 - nil) relating to specific customers that were evaluated separately.

There was one customer that comprised more than 10% of accounts receivable as at August 31, 2023 (February 28, 2023 - two customers comprised more than 10%).

BlackBerry Limited
Notes to the Consolidated Financial Statements

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

Other Receivables

As at August 31, 2023 and February 28, 2023, other receivables included items such as claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program’s investment in BlackBerry QNX, among other items, none of which were greater than 5% of the current assets balance.

Other Current Assets

Other current assets comprised the following:

	As at	
	August 31, 2023	February 28, 2023
Intellectual property	\$ —	\$ 141
Other	49	41
	<u>\$ 49</u>	<u>\$ 182</u>

As described in Note 10, on May 11, 2023, the Company completed its previously announced patent sale with Malikie Innovations Limited (“Malikie”) and recognized revenue of \$218 million and cost of sales of \$147 million, which is comprised of the carrying value of the intellectual property of \$141 million referred to above, and \$6 million of capitalized costs during the first quarter of fiscal 2024 related to patent maintenance. See Note 10 under the heading “Patent Sale”.

Other current assets also included the current portion of deferred commissions and prepaid expenses, among other items, none of which were greater than 5% of the current assets balance as at the balance sheet dates.

Property, Plant and Equipment, Net

Property, plant and equipment comprised the following:

	As at	
	August 31, 2023	February 28, 2023
Cost		
BlackBerry operations and other information technology	\$ 86	\$ 84
Leasehold improvements and other	20	19
Furniture and fixtures	8	9
Manufacturing, repair and research and development equipment	2	2
	<u>116</u>	<u>114</u>
Accumulated amortization	94	89
Net book value	<u>\$ 22</u>	<u>\$ 25</u>

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Intangible Assets, Net

Intangible assets comprised the following:

	As at August 31, 2023		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 900	\$ 837	\$ 63
Other acquired intangibles	386	325	61
Intellectual property	124	67	57
	\$ 1,410	\$ 1,229	\$ 181
	As at February 28, 2023		
	Cost	Accumulated Amortization	Net Book Value
Acquired technology	\$ 900	\$ 824	\$ 76
Other acquired intangibles	386	318	68
Intellectual property	123	64	59
	\$ 1,409	\$ 1,206	\$ 203

For the six months ended August 31, 2023, amortization expense related to intangible assets amounted to \$26 million (six months ended August 31, 2022 - \$50 million).

Total additions to intangible assets for the six months ended August 31, 2023 amounted to \$10 million (six months ended August 31, 2022 - \$16 million). During the six months ended August 31, 2023, additions to intangible assets primarily consisted of payments for intellectual property relating to patent maintenance, registration and license fees.

Based on the carrying value of the identified intangible assets as at August 31, 2023, and assuming no subsequent impairment of the underlying assets, the annual amortization expense for the remainder of fiscal 2024 and each of the five succeeding years is expected to be as follows: fiscal 2024 - \$22 million; fiscal 2025 - \$42 million; fiscal 2026 - \$37 million; fiscal 2027 - \$32 million; fiscal 2028 - \$19 million and fiscal 2029 - \$6 million.

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Goodwill

Changes to the carrying amount of goodwill during the six months ended August 31, 2023 were as follows:

	Carrying Amount
Carrying amount as at February 28, 2022	\$ 844
Goodwill impairment charge	(245)
Effect of foreign exchange on non-U.S. dollar denominated goodwill	(4)
Carrying amount as at February 28, 2023	595
Effect of foreign exchange on non-U.S. dollar denominated goodwill	2
Carrying amount as at August 31, 2023	\$ 597

Other Long-term Assets

As at August 31, 2023, other long-term assets included long-term receivables related to intellectual property sold, see Note 10 under the heading “Patent Sale”, long-term receivables, and the long-term portion of deferred commission, among other items, none of which were greater than 5% of the total assets balance.

As at February 28, 2023, other long-term assets included the long-term portion of deferred commission, among other items, none of which were greater than 5% of the total assets balance.

Accrued Liabilities

As at August 31, 2023 and February 28, 2023, other accrued liabilities included operating lease liabilities, current and accrued director fees, accrued vendor liabilities, variable incentive accrual, payroll withholding taxes and accrued royalties, among other items, none of which were greater than 5% of the current liabilities balance in any of the periods presented.

4. INCOME TAXES

For the six months ended August 31, 2023, the Company’s net effective income tax expense rate was approximately 10% compared to a net effective income tax expense rate of 4% for the six months ended August 31, 2022. The Company’s income tax rate reflects the change in unrecognized income tax benefit, if any, and the fact that the Company has a significant valuation allowance against its deferred income tax assets, and in particular, the change in fair value of the Debentures, amongst other items, is offset by a corresponding adjustment of the valuation allowance. The Company’s net effective income tax rate also reflects the geographic mix of earnings in jurisdictions with different income tax rates.

The Company’s total unrecognized income tax benefits as at August 31, 2023 were \$21 million (February 28, 2023 - \$21 million). As at August 31, 2023, \$21 million of the unrecognized income tax benefits have been netted against deferred income tax assets and nil has been recorded within income taxes payable on the Company’s consolidated balance sheets.

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

5. DEBENTURES

On September 1, 2020, Hamblin Watsa Investment Counsel Ltd., in its capacity as investment manager of Fairfax Financial Holdings Limited (“Fairfax”), and another institutional investor invested in the Company through a \$365 million private placement of debentures (the “Debentures”). The Debentures mature on November 13, 2023.

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

Each period, the fair value of the Debentures is recalculated and resulting gains and losses from the change in fair value of the Debentures associated with non-credit components are recognized in income, while the change in fair value associated with credit components is recognized in accumulated other comprehensive loss (“AOCL”). The fair value of the

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Debentures has been determined using the significant Level 2 inputs interest rate curves, the market price and volatility of the Company's listed common shares, and the significant Level 3 inputs related to credit spread and the implied discount of the Debentures at issuance.

The Company originally determined its credit spread by calibrating to observable trades of the previously-outstanding convertible debentures issued by the Company and trending the calibrated spread to valuation dates utilizing an appropriate credit index. The Company's credit spread was determined to be 7.90% as of the issuance date of the Debentures and 7.21% as of August 31, 2023. An increase in credit spread will result in a decrease in the fair value of Debentures and vice versa. The fair value of the Debentures on September 1, 2020 was determined to be approximately \$456 million and the implied discount approximately \$91 million. The Company determined the implied discount on the Debentures by calculating the fair value of the Debentures on September 1, 2020 utilizing the above credit spread and other inputs described above.

The following table summarizes the change in fair value of the Debentures for the six months ended August 31, 2023, which also represents the total changes through earnings of items classified as Level 3 in the fair value hierarchy:

	As at August 31, 2023
Balance as at February 28, 2023	\$ 367
Change in fair value of the Debentures	16
Balance as at August 31, 2023	\$ 383

The difference between the fair value of the Debentures and the unpaid principal balance of \$365 million is \$18 million.

The following table shows the impact of the changes in fair value of the Debentures for the three and six months ended August 31, 2023 and August 31, 2022:

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Income (charge) associated with the change in fair value from non-credit components recorded in the consolidated statements of operations	\$ 6	\$ 10	\$ (16)	\$ 56
Income associated with the change in fair value from instrument-specific credit components recorded in AOCL	—	—	—	2
Total decrease (increase) in the fair value of the Debentures	\$ 6	\$ 10	\$ (16)	\$ 58

For the three and six months ended August 31, 2023, the Company recorded interest expense related to the Debentures of \$2 million and \$3 million, respectively, which has been included in investment income (loss), net on the Company's consolidated statements of operations (three and six months ended August 31, 2022 - \$2 million and \$3 million).

Fairfax, a related party under U.S. GAAP due to its beneficial ownership of common shares in the Company after taking into account potential conversion of the Debentures, owns \$330 million principal amount of the Debentures. As such, the payment of interest on the Debentures to Fairfax represents a related party transaction. Fairfax receives interest at the same rate as other holders of the Debentures.

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6. CAPITAL STOCK

The following details the changes in issued and outstanding common shares for the six months ended August 31, 2023:

	Capital Stock and Additional Paid-in Capital	
	Stock Outstanding (000s)	Amount
Common shares outstanding as at February 28, 2023	582,157	\$ 2,909
Exercise of stock options	56	—
Common shares issued for restricted share unit settlements	904	—
Stock-based compensation	—	20
Common shares issued for employee share purchase plan	567	2
Common shares outstanding as at August 31, 2023	<u>583,684</u>	<u>\$ 2,931</u>

The Company had 584 million voting common shares outstanding, 0.4 million options to purchase voting common shares, 17 million RSUs and 2 million DSUs outstanding as at September 26, 2023. In addition, 60.8 million common shares are issuable upon conversion in full of the Debentures as described in Note 5.

7. LOSS PER SHARE

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

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Net loss for basic loss per share available to common shareholders	\$ (42)	\$ (54)	\$ (53)	\$ (235)
Less: Debentures fair value adjustment ⁽¹⁾⁽²⁾	—	(10)	—	(56)
Add: interest expense on Debentures ⁽¹⁾⁽²⁾	—	2	—	3
Net loss for diluted loss per share available to common shareholders	<u>\$ (42)</u>	<u>\$ (62)</u>	<u>\$ (53)</u>	<u>\$ (288)</u>
Weighted average number of shares outstanding (000's) - basic ⁽³⁾	583,524	577,314	583,171	577,097
Effect of dilutive securities (000's)				
Conversion of Debentures ⁽¹⁾⁽²⁾	—	60,833	—	60,833
Weighted average number of shares and assumed conversions (000's) diluted	<u>583,524</u>	<u>638,147</u>	<u>583,171</u>	<u>637,930</u>
Loss per share - reported				
Basic	<u>\$ (0.07)</u>	<u>\$ (0.09)</u>	<u>\$ (0.09)</u>	<u>\$ (0.41)</u>
Diluted	<u>\$ (0.07)</u>	<u>\$ (0.10)</u>	<u>\$ (0.09)</u>	<u>\$ (0.45)</u>

⁽¹⁾ The Company has presented the dilutive effect of the Debentures using the if-converted method, assuming conversion at the beginning of the quarter for the three and six months ended August 31, 2022. Accordingly, to calculate diluted loss per share, the Company adjusted net loss by eliminating the fair value adjustment made to the Debentures and interest expense incurred on the Debentures for the three and six months ended August 31, 2022, and added the number of shares that would have been issued upon conversion to the diluted weighted average number of shares outstanding. See Note 5 for details on the Debentures.

⁽²⁾ The Company has not presented the dilutive effect of the Debentures using the if-converted method in the calculation of diluted loss per share for the three and six months ended August 31, 2023, as to do so would be antidilutive. See Note 5 for details on the Debentures.

⁽³⁾ The Company has not presented the dilutive effect of in-the-money options and RSUs that will be settled upon vesting by the issuance of new common shares in the calculation of diluted loss per share for the three and six months ended August 31, 2023 and August 31, 2022, as to do so would be antidilutive.

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8. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in AOCL by component net of tax, for the three and six months ended August 31, 2023 and August 31, 2022 were as follows:

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Cash Flow Hedges				
Balance, beginning of period	\$ —	\$ 1	\$ (1)	\$ —
Other comprehensive loss before reclassification	—	(2)	—	(1)
Amounts reclassified from AOCL into net loss	—	—	1	—
Accumulated net unrealized gains on derivative instruments designated as cash flow hedges	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ —</u>	<u>\$ (1)</u>
Foreign Currency Cumulative Translation Adjustment				
Balance, beginning of period	\$ (15)	\$ (14)	\$ (16)	\$ (10)
Other comprehensive income (loss)	1	(6)	2	(10)
Foreign currency cumulative translation adjustment	<u>\$ (14)</u>	<u>\$ (20)</u>	<u>\$ (14)</u>	<u>\$ (20)</u>
Change in Fair Value From Instrument-Specific Credit Risk On Debentures				
Balance, beginning of period	\$ (6)	\$ (6)	\$ (6)	\$ (8)
Other comprehensive income before reclassification	—	—	—	2
Change in fair value from instruments-specific credit risk on Debentures	<u>\$ (6)</u>	<u>\$ (6)</u>	<u>\$ (6)</u>	<u>\$ (6)</u>
Other Post-Employment Benefit Obligations				
Actuarial losses associated with other post-employment benefit obligations	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ (1)</u>
Accumulated Other Comprehensive Loss, End of Period	<u><u>\$ (21)</u></u>	<u><u>\$ (28)</u></u>	<u><u>\$ (21)</u></u>	<u><u>\$ (28)</u></u>

9. COMMITMENTS AND CONTINGENCIES

(a) Letters of Credit

The Company had \$26 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business as of August 31, 2023. See the discussion of restricted cash in Note 2.

(b) Contingencies

Litigation

The Company is involved in litigation in the normal course of its business, both as a defendant and as a plaintiff. The Company is subject to a variety of claims (including claims related to patent infringement, purported class actions and other claims in the normal course of business) and may be subject to additional claims either directly or through indemnities against claims that it provides to certain of its partners and customers. In particular, the industry in which the Company competes has many participants that own, or claim to own, intellectual property, including participants that have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. The Company has received, and may receive in the future, assertions and claims from third parties that the Company's products infringe on their patents or other intellectual property rights. Litigation has been, and will likely continue to be, necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company's proprietary rights. Regardless of whether claims against the Company have merit, those claims could be time-consuming to evaluate and defend, result in costly litigation, divert management's attention and resources and subject the Company to significant liabilities.

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

As of August 31, 2023, there are no material claims outstanding for which the Company has assessed the potential loss as both probable to result and reasonably estimable; therefore, no accrual has been made. Further, there are claims outstanding for which the Company has assessed the potential loss as reasonably possible to result; however, an estimate of the amount of loss cannot reasonably be made. There are many reasons that the Company cannot make these assessments, including, among others, one or more of the following: the early stages of a proceeding does not require the claimant to specifically identify the patent claims that have allegedly been infringed or the products that are alleged to infringe; damages sought are unspecified, unsupportable, unexplained or uncertain; discovery has not been started or is incomplete; the facts that are in dispute are highly complex; the difficulty of assessing novel claims; the parties have not engaged in any meaningful settlement discussions; the possibility that other parties may share in any ultimate liability; and the often slow pace of litigation.

The Company has included the following summaries of certain of its legal proceedings though they do not meet the test for accrual described above.

Between October and December 2013, several purported class action lawsuits and one individual lawsuit were filed against the Company and certain of its former officers in various jurisdictions in the U.S. and Canada alleging that the Company and certain of its officers made materially false and misleading statements regarding the Company's financial condition and business prospects and that certain of the Company's financial statements contain material misstatements. The individual lawsuit was voluntarily dismissed and the consolidated U.S. class actions was settled; see "Litigation Settlement" below in this Note 9.

On July 23, 2014, the plaintiff in the putative Ontario class action (*Swisscanto Fondsleitung AG v. BlackBerry Limited, et al.*) filed a motion for class certification and for leave to pursue statutory misrepresentation claims. On November 17, 2015, the Ontario Superior Court of Justice issued an order granting the plaintiffs' motion for leave to file a statutory claim for misrepresentation. On December 2, 2015, the Company filed a notice of motion seeking leave to appeal this ruling. On November 15, 2018, the Court denied the Company's motion for leave to appeal the order granting the plaintiffs leave to file a statutory claim for misrepresentation. On February 5, 2019, the Court entered an order certifying a class comprised persons (a) who purchased BlackBerry common shares between March 28, 2013, and September 20, 2013, and still held at least some of those shares as of September 20, 2013, and (b) who acquired those shares on a Canadian stock exchange or acquired those shares on any other stock exchange and were a resident of Canada when the shares were acquired. Notice of class certification was published on March 6, 2019. The Company filed its Statement of Defence on April 1, 2019. Discovery is proceeding and the Court has not set a trial date.

On March 17, 2017, a putative employment class action was filed against the Company in the Ontario Superior Court of Justice (*Parker v. BlackBerry Limited*). The Statement of Claim alleges that actions the Company took when certain of its employees decided to accept offers of employment from Ford Motor Company of Canada amounted to a wrongful termination of the employees' employment with the Company. The claim seeks (i) an unspecified quantum of statutory, contractual, or common law termination entitlements; (ii) punitive or breach of duty of good faith damages of CAD\$20 million, or such other amount as the Court finds appropriate, (iii) pre- and post- judgment interest, (iv) attorneys' fees and costs, and (v) such other relief as the Court deems just. The Court granted the plaintiffs' motion to certify the class action on May 27, 2019. The Company commenced a motion for leave to appeal the certification order on June 11, 2019. The Court denied the motion for leave to appeal on September 17, 2019. The Company filed its Statement of Defence on December 19, 2019. The parties participated in a mediation on November 9, 2022, which did not result in an agreement. Discovery is proceeding and the Court has not set a trial date.

Other contingencies

In the first quarter of fiscal 2019, the Board approved a compensation package for the Company's Executive Chair and CEO as an incentive to remain as Executive Chair until November 23, 2023. As part of the package, the Company's Executive Chair and CEO is entitled to receive a contingent performance-based cash award in the amount of \$90 million that will become earned and payable should the volume weighted 10-day average trading price of the Company's common shares on the New York Stock Exchange reach \$30 before November 3, 2023. As the award is triggered by the

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Company's share price, it is considered stock-based compensation and accounted for as a share-based liability award. As at August 31, 2023, the liability recorded in association with this award is nil (February 28, 2023 - nominal).

As at August 31, 2023, the Company has recognized \$17 million (February 28, 2023 - \$17 million) in funds from claims filed with the Ministry of Innovation, Science and Economic Development Canada relating to its Strategic Innovation Fund program's investment in BlackBerry QNX. A portion of this amount may be repayable in the future under certain circumstances if certain terms and conditions are not met by the Company, which is not probable at this time.

(c) Litigation Settlement

On April 6, 2022, through a mediator, the Company agreed in principle to pay \$165 million to settle the U.S. consolidated actions (see "Litigation" above in this Note 9). The Stipulation of Settlement was executed effective June 7, 2022. On June 29, 2022, the Company paid \$1 million of the settlement amount. The remaining \$164 million was paid on September 6, 2022. On September 29, 2022, the Court granted final approval of the settlement and entered final judgment.

(d) Indemnifications

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

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

10. REVENUE AND SEGMENT DISCLOSURES

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

The CODM does not evaluate operating segments using discrete asset information. The Company does not specifically allocate assets to operating segments for internal reporting purposes.

Segment Disclosures

The Company is organized and managed as three operating segments: Cybersecurity, IoT, and Licensing and Other.

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The following table shows information by operating segment for the three and six months ended August 31, 2023 and August 31, 2022:

	For the Three Months Ended							
	Cybersecurity		IoT		Licensing and Other		Segment Totals	
	August 31, 2023	2022	August 31, 2023	2022	August 31, 2023	2022	August 31, 2023	2022
Segment revenue	\$ 79	\$ 111	\$ 49	\$ 51	\$ 4	\$ 6	\$ 132	\$ 168
Segment cost of sales	36	50	8	9	2	2	46	61
Segment gross margin ⁽¹⁾	<u>\$ 43</u>	<u>\$ 61</u>	<u>\$ 41</u>	<u>\$ 42</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ 86</u>	<u>\$ 107</u>

	For the Six Months Ended							
	Cybersecurity		IoT		Licensing and Other		Segment Totals	
	August 31, 2023	2022	August 31, 2023	2022	August 31, 2023	2022	August 31, 2023	2022
Segment revenue	\$ 172	\$ 224	\$ 94	\$ 102	\$ 239	\$ 10	\$ 505	\$ 336
Segment cost of sales	73	103	17	17	149	4	239	124
Segment gross margin ⁽¹⁾	<u>\$ 99</u>	<u>\$ 121</u>	<u>\$ 77</u>	<u>\$ 85</u>	<u>\$ 90</u>	<u>\$ 6</u>	<u>\$ 266</u>	<u>\$ 212</u>

⁽¹⁾ A reconciliation of total segment gross margin to consolidated totals is set forth below.

Cybersecurity consists of BlackBerry® UEM and Cylance® solutions (collectively BlackBerry Spark®), BlackBerry® AtHoc® and BlackBerry® SecuSUITE®. The Company's Cylance artificial intelligence and machine learning-based platform consists of CylanceENDPOINT™, CylanceGUARD®, CylanceEDGE™, CylanceINTELLIGENCE™ and other cybersecurity applications. The BlackBerry UEM Suite includes the Company's BlackBerry® UEM, BlackBerry® Dynamics™, and BlackBerry® Workspaces solutions. Cybersecurity revenue is generated predominantly through software licenses, commonly bundled with support, maintenance and professional services.

IoT consists of BlackBerry® QNX®, BlackBerry® Certicom®, BlackBerry Radar®, BlackBerry IVY® and other IoT applications. IoT revenue is generated predominantly through software licenses, commonly bundled with support, maintenance and professional services.

Licensing and Other consists of the Company's intellectual property arrangements and settlement awards. Other consists of the Company's legacy service access fees ("SAF") business, which ceased operations on January 4, 2022.

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The following table reconciles total segment gross margin for the three and six months ended August 31, 2023 and August 31, 2022 to the Company's consolidated totals:

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Total segment gross margin	\$ 86	\$ 107	266	\$ 212
Adjustments ⁽¹⁾:				
Less: Stock compensation	1	1	2	2
Less:				
Research & development	50	54	104	107
Selling, marketing and administration	73	86	172	168
Amortization	14	25	29	52
Impairment of long-lived assets	1	4	1	4
Gain on sale of property, plant and equipment, net	—	(6)	—	(6)
Debentures fair value adjustment	(6)	(10)	16	(56)
Litigation settlement	—	—	—	165
Investment income (loss), net	(7)	2	(10)	3
Consolidated loss before income taxes	<u>\$ (40)</u>	<u>\$ (49)</u>	<u>\$ (48)</u>	<u>\$ (227)</u>

⁽¹⁾ The CODM reviews segment information on an adjusted basis, which excludes certain amounts as described below:

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

Patent Sale

On May 11, 2023, the Company completed its previously announced patent sale with Malikie and sold certain non-core patent assets for \$170 million in cash on closing, an additional \$30 million in fixed consideration due by no later than the third anniversary of closing and variable consideration in the form of future royalties in the aggregate amount of up to \$700 million (the "Malikie Transaction"). Pursuant to the terms of the Malikie Transaction, the Company received a license back to the patents sold, which relate primarily to mobile devices, messaging and wireless networking. The Malikie Transaction will not impact customers' right to use any of the Company's products, solutions or services.

In the first quarter of fiscal 2024, the Company recognized revenue of \$218 million and cost of sales of \$147 million related to intellectual property sold. As at August 31, 2023, the remaining financing component on the patent sale was \$13 million and will be recognized as interest income over the payment terms.

The Company estimated variable consideration from future royalty revenues using an expected value method including inputs from both internal and external sources related to patent monetization activities and cash flows, and constrained the recognition of that variable consideration based on the Company's accounting policies and critical accounting estimates as described in Note 1. The present value of variable consideration recognized as revenue was \$23 million and the amount of variable consideration constrained was \$210 million. The Company evaluates its conclusions as to whether the constraints are still applicable on an ongoing basis, and will make updates when it observes a sufficient amount of evidence that amounts of variable consideration are no longer subject to constraint or the estimated amount of variable consideration has changed.

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Revenue

The Company disaggregates revenue from contracts with customers based on geographical regions, timing of revenue recognition, and the major product and service types, as discussed above in “Segment Disclosures”.

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

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
North America ⁽¹⁾	\$ 72	\$ 85	\$ 389	\$ 174
Europe, Middle East and Africa	39	61	76	121
Other regions	21	22	40	41
Total	\$ 132	\$ 168	\$ 505	\$ 336
North America ⁽¹⁾	54.5 %	50.6 %	77.0 %	51.8 %
Europe, Middle East and Africa	29.6 %	36.3 %	15.1 %	36.0 %
Other regions	15.9 %	13.1 %	7.9 %	12.2 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

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

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

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Products and services transferred over time	\$ 79	\$ 95	\$ 165	\$ 193
Products and services transferred at a point in time	53	73	340	143
Total	\$ 132	\$ 168	\$ 505	\$ 336

Revenue contract balances

The following table sets forth the activity in the Company’s revenue contract balances for the six months ended August 31, 2023:

	Accounts and Other Receivable	Deferred Revenue	Deferred Commissions
Opening balance as at February 28, 2023	\$ 120	\$ 215	\$ 17
Increases due to invoicing of new or existing contracts, associated contract acquisition costs, or other	530	250	14
Decrease due to payment, fulfillment of performance obligations, or other	(469)	(270)	(13)
Increase (decrease), net	61	(20)	1
Closing balance as at August 31, 2023	\$ 181	\$ 195	\$ 18

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

Transaction price allocated to the remaining performance obligations

The table below discloses the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as at August 31, 2023 and the time frame in which the Company expects to recognize this revenue. The disclosure includes estimates of variable consideration, except when the variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property.

The disclosure excludes estimates of variable consideration relating to future royalty revenues from the patent sale to Malikie, which have been constrained based on the Company's accounting policies and critical accounting estimates as described in Note 1 and under "Patent Sale" in this Note 10.

	As at August 31, 2023			
	Less than 12 Months	12 to 24 Months	Thereafter	Total
Remaining performance obligations	\$ 174	\$ 9	\$ 12	\$ 195

Revenue recognized for performance obligations satisfied in prior periods

For the three and six months ended August 31, 2023, \$1 million and \$31 million of revenue, respectively, was recognized relating to performance obligations satisfied in a prior period as a result of certain variable consideration no longer being subject to constraint (three and six months ended August 31, 2022 - \$1 million).

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

	As at			
	August 31, 2023		February 28, 2023	
	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU Assets and Goodwill	Total Assets	Property, Plant and Equipment, Intangible Assets, Operating Lease ROU Assets and Goodwill	Total Assets
Canada	\$ 92	\$ 296	\$ 98	\$ 375
United States	724	1,217	742	1,208
Other	27	100	27	96
	\$ 843	\$ 1,613	\$ 867	\$ 1,679

Information About Major Customers

There was no customer that comprised more than 10% of the Company's revenue and one customer that comprised 45% of the Company's revenue in the three and six months ended August 31, 2023, respectively, due to the completed Malikie Transaction (three and six months ended August 31, 2022 - one customer that comprised 16% and 15% of the Company's revenue, respectively).

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

11. CASH FLOW AND ADDITIONAL INFORMATION

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

	Three Months Ended		Six Months Ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
Interest paid during the period	\$ 2	\$ 2	\$ 3	\$ 3
Income taxes paid during the period	2	1	4	1
Income tax refunds received during the period	—	—	—	—

- (b) **Additional Information**

Foreign exchange

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the U.S. dollar. The majority of the Company's revenue in the second quarter of fiscal 2024 was transacted in U.S. dollars. Portions of the revenue were denominated in Canadian dollars, euros and British pounds. Other expenses, consisting mainly of salaries and certain other operating costs, were incurred primarily in Canadian dollars, but were also incurred in U.S. dollars, euros and British pounds. At August 31, 2023, approximately 22% of cash and cash equivalents, 38% of accounts receivable and 49% 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.

Interest rate risk

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued Debentures with a fixed interest rate, as described in Note 5. The fair value of the Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in the market value of the Debentures.

Credit risk

The Company is exposed to market and credit risk on its investment portfolio. The Company reduces this risk by investing in liquid, investment-grade securities and by limiting exposure to any one entity or group of related entities. As at August 31, 2023, no single issuer represented more than 16% of the total cash, cash equivalents and investments (February 28, 2023 - no single issuer represented more than 12% of the total cash, cash equivalents and investments), with the largest such issuer representing bearer deposits, term deposits and cash balances with one of the Company's banking counterparties.

The Company maintains Credit Support Annexes ("CSAs") with several of its counterparties. These CSAs require the outstanding net position of all contracts be made whole by the paying or receiving of collateral to or from the counterparties on a daily basis, subject to exposure and transfer thresholds. As at August 31, 2023, the Company had no collateral posted or held with counterparties (February 28, 2023 - \$1 million in collateral held).

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Liquidity risk

Cash, cash equivalents, and investments were approximately \$519 million as at August 31, 2023. The Company's management remains focused on efficiently managing working capital balances and managing the liquidity needs of the business. The Company has experienced recent operating losses and the Debentures will mature on November 13, 2023 as described above in Note 5, but the Company 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 and access to other potential financing arrangements, 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.

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 six months ended August 31, 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.sedar.com and on the SEC's website at www.sec.gov.

Cautionary Note Regarding Forward-Looking Statements

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

- the Company's plans, strategies and objectives, including its intentions to 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 strategic review of its businesses;
- 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 revenue, 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", "Results of Operations - Three months ended August 31, 2023 compared to the three months ended August 31, 2022 - Revenue - Revenue by Segment", "Results of Operations - Three months ended August 31, 2023 compared to the three months ended August 31, 2022 - Net 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 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 related to the Company's review of its businesses, including the Company's ability to identify, pursue and realize the benefits of strategic alternatives being explored by the Company, and which may not be consummated in the manner contemplated by the Company or at all; (ii) risk that uncertainty relating to the announcement of the Company's strategic review may adversely impact the Company's business, its existing and future relationships with business partners and customers, and its ability to attract and retain key employees; (iii) risk relating to BlackBerry's ability to manage its potential CEO succession and staffing effectively, and (iv) risk that a prolonged labour disruption involving North American auto workers may adversely impact BlackBerry QNX royalty revenues.

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 new 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 the most recent quarter:

Products and Innovation:

- Launched major update to its patented Cylance AI engine, further improving protection from zero-day threats.

Customers and Partners:

- Announced that Mitsubishi's enhanced automotive in-cabin system, FlexConnect.X, will be powered by BlackBerry IVY to deliver AI data-driven experiences; and
- Announced that Foxconn-initiated group, Mobility in Harmony (MIH) consortium, selected safety-certified BlackBerry QNX and BlackBerry IVY for its next-generation electric vehicle platform.

Environmental, Sustainability and Corporate Governance:

- Announced that CylanceENDPOINT™ received Gartner® Peer Insights™ 2023, Customers' Choice designation for Endpoint Protection Platforms, based on customer feedback, placing in the upper-right quadrant; and
- Released the Company's latest Quarterly Global Threat Intelligence Report, highlighting that the Company's AI-driven cybersecurity solutions stopped 55,000 individual cyber-attacks between March and May 2023.

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 considers strategic alternatives to drive enhanced shareholder value, including but not limited to the possible separation of one or more of the Company's businesses. During the review process, the Company remains focused on achieving its business plan and remains committed to its customers, partners and employees. The Board has not set a timetable for the process and there can be no assurance that the review will result in any transaction.

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 10 to the Consolidated Financial Statements.

Macroeconomic Factors

Economic uncertainty, customer budgetary constraints and inflation, as well as higher interest rates implemented in response to inflation and resulting fears of recession, may negatively impact 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 six months of fiscal 2024.

Second Quarter Fiscal 2024 Summary Results of Operations

The following table sets forth certain consolidated statements of operations data for the quarter ended August 31, 2023 compared to the quarter ended August 31, 2022 under U.S. GAAP:

	For the Three Months Ended (in millions, except for share and per share amounts)		
	August 31, 2023	August 31, 2022	Change
Revenue	\$ 132	\$ 168	\$ (36)
Gross margin	85	106	(21)
Operating expenses	132	153	(21)
Investment income (loss), net	7	(2)	9
Loss before income taxes	(40)	(49)	9
Provision for income taxes	2	5	(3)
Net loss	<u>\$ (42)</u>	<u>\$ (54)</u>	<u>\$ 12</u>
Loss per share - reported			
Basic	<u>\$ (0.07)</u>	<u>\$ (0.09)</u>	
Diluted	<u>\$ (0.07)</u>	<u>\$ (0.10)</u>	
Weighted-average number of shares outstanding (000's)			
Basic	583,524	577,314	
Diluted ⁽¹⁾	583,524	638,147	

⁽¹⁾ Diluted loss per share on a U.S. GAAP for the second quarter 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 second quarter of fiscal 2024 and second quarter of 2023 does not include the dilutive effect of stock-based compensation as to do so would be anti-dilutive. See Note 7 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 six months ended August 31, 2023 and August 31, 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 10 to the Consolidated Financial Statements for a description of the Company's operating segments.

	For the Three Months Ended (in millions)									Segment Totals		
	Cybersecurity			IoT			Licensing and Other					
	August 31, 2023	August 31, 2022	Change	August 31, 2023	August 31, 2022	Change	August 31, 2023	August 31, 2022	Change	August 31, 2023	August 31, 2022	Change
Segment revenue	\$ 79	\$ 111	\$ (32)	\$ 49	\$ 51	\$ (2)	\$ 4	\$ 6	\$ (2)	\$ 132	\$ 168	\$ (36)
Segment cost of sales	36	50	(14)	8	9	(1)	2	2	—	46	61	(15)
Segment gross margin	<u>\$ 43</u>	<u>\$ 61</u>	<u>\$ (18)</u>	<u>\$ 41</u>	<u>\$ 42</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ (2)</u>	<u>\$ 86</u>	<u>\$ 107</u>	<u>\$ (21)</u>

	For the Six Months Ended (in millions)									Segment Totals		
	Cybersecurity			IoT			Licensing and Other					
	August 31, 2023	August 31, 2022	Change	August 31, 2023	August 31, 2022	Change	August 31, 2023	August 31, 2022	Change	August 31, 2023	August 31, 2022	Change
Segment revenue	\$ 172	\$ 224	\$(52)	\$ 94	\$ 102	\$(8)	\$ 239	\$ 10	\$ 229	\$ 505	\$ 336	\$ 169
Segment cost of sales	73	103	(30)	17	17	—	149	4	145	239	124	115
Segment gross margin	<u>\$ 99</u>	<u>\$ 121</u>	<u>\$(22)</u>	<u>\$ 77</u>	<u>\$ 85</u>	<u>\$(8)</u>	<u>\$ 90</u>	<u>\$ 6</u>	<u>\$ 84</u>	<u>\$ 266</u>	<u>\$ 212</u>	<u>\$ 54</u>

The following tables reconcile the Company's segment results for the three and six months ended August 31, 2023 to consolidated U.S. GAAP results:

For the Three Months Ended August 31, 2023
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 79	\$ 49	\$ 4	\$ 132	\$ —	\$ 132
Cost of sales	36	8	2	46	1	47
Gross margin ⁽¹⁾	\$ 43	\$ 41	\$ 2	\$ 86	\$ (1)	\$ 85
Operating expenses					132	132
Investment income, net					(7)	(7)
Loss before income taxes						\$ (40)

For the Six Months Ended August 31, 2023
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 172	\$ 94	\$ 239	\$ 505	\$ —	\$ 505
Cost of sales	73	17	149	239	2	241
Gross margin ⁽¹⁾	\$ 99	\$ 77	\$ 90	\$ 266	\$ (2)	\$ 264
Operating expenses					322	322
Investment income, net					(10)	(10)
Loss before income taxes						\$ (48)

⁽¹⁾ See "Non-GAAP Financial Measures" for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three and six months ended August 31, 2023.

The following tables reconcile the Company's segment results for the three and six months ended August 31, 2022 to consolidated U.S. GAAP results:

For the Three Months Ended August 31, 2022
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 111	\$ 51	\$ 6	\$ 168	\$ —	\$ 168
Cost of sales	50	9	2	61	1	62
Gross margin ⁽¹⁾	\$ 61	\$ 42	\$ 4	\$ 107	\$ (1)	\$ 106
Operating expenses					153	153
Investment loss, net					2	2
Loss before income taxes						\$ (49)

For the Six Months Ended August 31, 2022
(in millions)

	Cybersecurity	IoT	Licensing and Other	Segment Totals	Reconciling Items	Consolidated U.S. GAAP
Revenue	\$ 224	\$ 102	\$ 10	\$ 336	\$ —	\$ 336
Cost of sales	103	17	4	124	2	126
Gross margin ⁽¹⁾	\$ 121	\$ 85	\$ 6	\$ 212	\$ (2)	\$ 210
Operating expenses					434	434
Investment loss, net					3	3
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 six months ended August 31, 2022.

Financial Highlights

The Company had \$519 million in cash, cash equivalents and investments as of August 31, 2023 (February 28, 2023 - \$487 million).

In the second quarter of fiscal 2024, the Company recognized revenue of \$132 million and incurred a net loss of \$42 million, or \$0.07 basic and diluted loss per share on a U.S. GAAP basis (second quarter of fiscal 2023 - revenue of \$168 million and net loss of \$54 million, or \$0.09 basic loss per share and \$0.10 diluted loss per share).

The Company recognized adjusted net loss of \$23 million, and adjusted earnings of \$0.04 per share, on a non-GAAP basis in the second quarter of fiscal 2024 (second quarter of fiscal 2023 - adjusted net loss of \$29 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 its outstanding 1.75% unsecured convertible debentures (the “Debentures”); therefore, periodic revaluation has been and continues to be required under U.S. GAAP. The fair value adjustment does not impact the terms of the Debentures such as the face value, the redemption features or the conversion price.

As at August 31, 2023, the fair value of the Debentures was approximately \$383 million, a decrease of approximately \$6 million during the second quarter of fiscal 2024. For the three months ended August 31, 2023, the Company recorded non-cash income relating to changes in fair value from non-credit components of \$6 million (pre-tax and after tax) (the “Q2 Fiscal 2024 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations relating to the Debentures. For the six months ended August 31, 2023 the Company recorded a non-cash charge relating to changes in fair value from non-credit components of \$16 million (pre-tax and after tax) (the “Fiscal 2024 Debentures Fair Value Adjustment”) in the Company’s consolidated statements of operations relating to the Debentures. See Note 5 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 September 28, 2023, the Company announced financial results for the three and six months ended August 31, 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 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 August 31, 2023 and August 31, 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 August 31, 2023 and August 31, 2022 to adjusted financial measures is reflected in the table below:

For the Three Months Ended (in millions)	August 31, 2023	August 31, 2022
Gross margin	\$ 85	\$ 106
Stock compensation expense	1	1
Adjusted gross margin	\$ 86	\$ 107
Gross margin %	64.4 %	63.1 %
Stock compensation expense	0.8 %	0.6 %
Adjusted gross margin %	65.2 %	63.7 %

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

For the Three Months Ended (in millions)	August 31, 2023	May 31, 2023	August 31, 2022
Operating expense	\$ 132	\$ 190	\$ 153
Restructuring charges	3	5	3
Stock compensation expense	10	8	5
Debentures fair value adjustment ⁽¹⁾	(6)	22	(10)
Acquired intangibles amortization	10	10	22
LLA impairment charge	1	—	4
Adjusted operating expense	<u>\$ 114</u>	<u>\$ 145</u>	<u>\$ 129</u>

⁽¹⁾ See “Second 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 August 31, 2023 and August 31, 2022 to adjusted net loss and adjusted basic loss per share is reflected in the table below:

For the Three Months Ended (in millions, except per share amounts)	August 31, 2023		August 31, 2022	
		Basic loss per share		Basic loss per share
Net loss	\$ (42)	\$(0.07)	\$ (54)	\$(0.09)
Restructuring charges	3		3	
Stock compensation expense	11		6	
Debentures fair value adjustment	(6)		(10)	
Acquired intangibles amortization	10		22	
LLA impairment charge	1		4	
Adjusted loss	<u>\$ (23)</u>	<u>\$(0.04)</u>	<u>\$ (29)</u>	<u>\$(0.05)</u>

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the three months ended August 31, 2023 and August 31, 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)	August 31, 2023		August 31, 2022	
Research and development	\$ 50		\$ 54	
Stock compensation expense	2		2	
Adjusted research and development	<u>\$ 48</u>		<u>\$ 52</u>	
Selling, marketing and administration	\$ 73		\$ 86	
Restructuring charges	3		3	
Stock compensation expense	8		3	
Adjusted selling, marketing and administration	<u>\$ 62</u>		<u>\$ 80</u>	
Amortization	\$ 14		\$ 25	
Acquired intangibles amortization	10		22	
Adjusted amortization	<u>\$ 4</u>		<u>\$ 3</u>	

Adjusted operating loss, adjusted EBITDA, adjusted operating loss margin percentage and adjusted EBITDA margin percentage for the three months ended August 31, 2023 and August 31, 2022 are reflected in the table below.

For the Three Months Ended (in millions)	August 31, 2023	August 31, 2022
Operating loss	\$ (47)	\$ (47)
Non-GAAP adjustments to operating loss		
Restructuring charges	3	3
Stock compensation expense	11	6
Debentures fair value adjustment	(6)	(10)
Acquired intangibles amortization	10	22
LLA impairment charge	1	4
Total non-GAAP adjustments to operating loss	<u>\$ 19</u>	<u>\$ 25</u>
Adjusted operating loss	<u>(28)</u>	<u>(22)</u>
Amortization	16	28
Acquired intangibles amortization	<u>(10)</u>	<u>(22)</u>
Adjusted EBITDA	<u>\$ (22)</u>	<u>\$ (16)</u>
Revenue	<u>\$ 132</u>	<u>\$ 168</u>
Adjusted operating loss margin % ⁽¹⁾	<u>(21%)</u>	<u>(13%)</u>
Adjusted EBITDA margin % ⁽²⁾	<u>(17%)</u>	<u>(10%)</u>

⁽¹⁾ Adjusted operating loss margin % is calculated by dividing adjusted operating 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 six months ended August 31, 2023 and August 31, 2022.

A reconciliation of the most directly comparable U.S. GAAP financial measures for the six months ended August 31, 2023 and August 31, 2022 to adjusted financial measures is reflected in the table below:

For the Six Months Ended (in millions)	August 31, 2023	August 31, 2022
Gross margin	\$ 264	\$ 210
Stock compensation expense	2	2
Adjusted gross margin	<u>\$ 266</u>	<u>\$ 212</u>
Gross margin %	52.3 %	62.5 %
Stock compensation expense	0.4 %	0.6 %
Adjusted gross margin %	<u>52.7 %</u>	<u>63.1 %</u>

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

For the Six Months Ended (in millions)	August 31, 2023	August 31, 2022
Operating expense	\$ 322	\$ 434
Restructuring charges	8	4
Stock compensation expense	18	11
Debentures fair value adjustment	16	(56)
Acquired intangibles amortization	20	45
LLA impairment charge	1	4
Litigation settlement	—	165
Adjusted operating expense	<u>\$ 259</u>	<u>\$ 261</u>

⁽¹⁾ See “Second 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 six months ended August 31, 2023 and August 31, 2022 to adjusted net income (loss) and adjusted basic earnings (loss) per share is reflected in the table below:

For the Six Months Ended (in millions, except per share amounts)	August 31, 2023		August 31, 2022	
		Basic earnings (loss) per share		Basic loss per share
Net loss	\$ (53)	\$(0.09)	\$ (235)	\$(0.41)
Restructuring charges	8		4	
Stock compensation expense	20		13	
Debentures fair value adjustment	16		(56)	
Acquired intangibles amortization	20		45	
LLA impairment charge	1		4	
Litigation settlement	—		165	
Adjusted net income (loss)	<u>\$ 12</u>	<u>\$0.02</u>	<u>\$ (60)</u>	<u>\$(0.10)</u>

Reconciliation of U.S. GAAP research and development, selling, marketing and administration, and amortization expense for the six months ended August 31, 2023 and August 31, 2022 to adjusted research and development, selling, marketing and administration, and amortization expense is reflected in the table below:

For the Six Months Ended (in millions)	August 31, 2023	August 31, 2022
Research and development	\$ 104	\$ 107
Stock compensation expense	4	4
Adjusted research and development	\$ 100	\$ 103
Selling, marketing and administration	\$ 172	\$ 168
Restructuring charges	8	4
Stock compensation expense	14	7
Adjusted selling, marketing and administration	\$ 150	\$ 157
Amortization	\$ 29	\$ 52
Acquired intangibles amortization	20	45
Adjusted amortization	\$ 9	\$ 7

Adjusted operating income (loss), adjusted EBITDA, adjusted operating income (loss) margin percentage and adjusted EBITDA margin percentage for the six months ended August 31, 2023 and August 31, 2022 are reflected in the table below.

For the Six Months Ended (in millions)	August 31, 2023	August 31, 2022
Operating loss	\$ (58)	\$ (224)
Non-GAAP adjustments to operating loss		
Restructuring charges	8	4
Stock compensation expense	20	13
Debentures fair value adjustment	16	(56)
Acquired intangibles amortization	20	45
LLA impairment charge	1	4
Litigation settlement	—	165
Total non-GAAP adjustments to operating loss	65	175
Adjusted operating income (loss)	7	(49)
Amortization	32	57
Acquired intangibles amortization	(20)	(45)
Adjusted EBITDA	\$ 19	\$ (37)
Revenue	\$ 505	\$ 336
Adjusted operating income (loss) margin % ⁽¹⁾	1%	(15%)
Adjusted EBITDA margin % ⁽²⁾	4%	(11%)

⁽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 August 31, 2023 and August 31, 2022 to free cash flow (usage) is reflected in the table below:

For the Three Months Ended (in millions)	August 31, 2023	August 31, 2022
Net cash used in operating activities	\$ (56)	\$ (23)
Acquisition of property, plant and equipment	(1)	(3)
Free cash flow (usage)	<u>\$ (57)</u>	<u>\$ (26)</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 August 31, 2023 and August 31, 2022 are set forth below.

For the Three Months Ended (in millions)	August 31, 2023	August 31, 2022	Change
Cybersecurity Annual Recurring Revenue	\$ 279	\$ 321	\$ (42)
Cybersecurity Dollar-Based Net Retention Rate	81 %	85 %	(4%)
Cybersecurity Total Contract Value Billings	\$ 74	\$ 102	\$ (28)
Recurring Software Product Revenue	~ 90%	~ 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 \$279 million as at August 31, 2023 and decreased compared to \$289 million as at May 31, 2023 and decreased compared to \$321 million as at August 31, 2022.

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 81% as at August 31, 2023 and was consistent with 81% as at May 31, 2023 and decreased compared to 85% as at August 31, 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 \$74 million for the three months ended August 31, 2023 and decreased compared to \$122 million for the three months ended May 31, 2023 and decreased compared to \$102 million for the three months ended August 31, 2022.

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 90% recurring for the three months ended August 31, 2023 and was consistent with approximately 90% recurring for the three months ended May 31, 2023 and increased compared to approximately 80% for the three months ended August 31, 2022 due to product mix.

Results of Operations - Three months ended August 31, 2023 compared to the three months ended August 31, 2022

Revenue

Revenue by Segment

Comparative breakdowns of revenue by segment are set forth below.

	For the Three Months Ended (in millions)		
	August 31, 2023	August 31, 2022	Change
Revenue by Segment			
Cybersecurity	\$ 79	\$ 111	\$ (32)
IoT	49	51	(2)
Licensing and Other	4	6	(2)
	<u>\$ 132</u>	<u>\$ 168</u>	<u>\$ (36)</u>
% Revenue by Segment			
Cybersecurity	59.9 %	66.1 %	
IoT	37.1 %	30.4 %	
Licensing and Other	3.0 %	3.5 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

Cybersecurity

The decrease in Cybersecurity revenue of \$32 million was primarily due to a decrease of \$16 million relating to product revenue in Secusmart, a decrease of \$12 million relating to product revenue in BlackBerry Spark and a decrease of \$3 million in professional services.

The Company expects Cybersecurity revenue for fiscal 2024 as a whole to be in the range of \$425 million to \$450 million. This expectation is dependent, in part, on the Company closing a certain set of large government deals in the second half of fiscal 2024.

IoT

The decrease in IoT revenue of \$2 million was primarily due to a decrease of \$5 million in professional services and a decrease of \$1 million in BlackBerry QNX development seat revenue, partially offset by an increase of \$3 million in BlackBerry QNX royalty revenue.

The Company previously stated that it expected IoT revenue to be at the lower end of a range from \$240 million to \$250 million for fiscal 2024 as a whole. The Company now expects 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 expects IoT revenue to grow sequentially in the third quarter of fiscal 2024 and that, in the fourth quarter of fiscal 2024, IoT revenue will 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 higher in the second quarter of fiscal 2024 than in the first quarter of fiscal 2024. Total Software & Services revenue, excluding revenue from BlackBerry IVY, was \$128 million and decreased compared to \$138 million in the first quarter of fiscal 2024 due to certain large expected government deals not closing in the quarter.

The Company previously stated that it expected total Software & Services revenue, excluding potential revenue from BlackBerry IVY, to be in the range of \$665 million and \$700 million 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 \$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.

Licensing and Other

The decrease in Licensing and Other revenue of \$2 million was primarily due to a decrease of \$1 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 \$4 million excluding the Malikie Transaction.

Revenue by Geography

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

	For the Three Months Ended (in millions)		
	August 31, 2023	August 31, 2022	Change
Revenue by Geography			
North America	\$ 72	\$ 85	\$ (13)
Europe, Middle East and Africa	39	61	(22)
Other regions	21	22	(1)
	<u>\$ 132</u>	<u>\$ 168</u>	<u>\$ (36)</u>
% Revenue by Geography			
North America	54.5 %	50.6 %	
Europe, Middle East and Africa	29.6 %	36.3 %	
Other regions	15.9 %	13.1 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

North America Revenue

The decrease in North America revenue of \$13 million was primarily due to a decrease of \$8 million relating to product revenue in BlackBerry Spark and a decrease of \$5 million in professional services, partially offset by an increase of \$2 million in BlackBerry QNX royalty revenue.

Europe, Middle East and Africa Revenue

The decrease in Europe, Middle East and Africa revenue of \$22 million was primarily due to a decrease of \$16 million relating to product revenue in Secusmart, a decrease of \$5 million in product revenue in BlackBerry Spark and a decrease of \$3 million in professional services.

Other Regions Revenue

The decrease in Other regions revenue of \$1 million was primarily due to a decrease in QNX development seat revenue.

Gross Margin

Consolidated Gross Margin

Consolidated gross margin decreased by \$21 million to approximately \$85 million in the second quarter of fiscal 2024 (second quarter of fiscal 2023 - \$106 million). The decrease was primarily due to a decrease in revenue from Secusmart and BlackBerry Spark 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 increased by 1.3% to approximately 64.4% of consolidated revenue in the second quarter of fiscal 2024 (second quarter of fiscal 2023 - 63.1%). The increase was primarily due to a change in mix, specifically a lower gross margin contribution from Secusmart, which has a lower relative gross margin percentage and a higher gross margin contribution from BlackBerry QNX, which has a higher relative gross margin percentage.

Gross Margin by Segment

See “Second 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		
	August 31, 2023	2022	Change	August 31, 2023	2022	Change	August 31, 2023	2022	Change	August 31, 2023	2022	Change
Segment revenue	\$ 79	\$ 111	\$(32)	\$ 49	\$ 51	\$(2)	\$ 4	\$ 6	\$(2)	\$ 132	\$ 168	\$(36)
Segment cost of sales	36	50	(14)	8	9	(1)	2	2	—	46	61	(15)
Segment gross margin	\$ 43	\$ 61	\$(18)	\$ 41	\$ 42	\$(1)	\$ 2	\$ 4	\$(2)	\$ 86	\$ 107	\$(21)
Segment gross margin %	54 %	55 %	(1%)	84 %	82 %	2 %	50 %	67 %	(17%)	65 %	64 %	1%

Cybersecurity

The decrease in Cybersecurity gross margin of \$18 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by a decrease of \$4 million in infrastructure costs and a change in mix, specifically a lower gross margin contribution from Secusmart, which had a lower relative gross margin percentage.

The decrease in Cybersecurity gross margin percentage of 1% was primarily due to the same reasons discussed above.

IoT

The decrease in IoT gross margin of \$1 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 2% 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.

Licensing and Other

The decrease in Licensing and Other gross margin of \$2 million was primarily due to the reasons discussed above in “Revenue by Segment”, as the cost of sales does not significantly fluctuate based on business volume.

The decrease in Licensing and Other gross margin percentage of 17% was primarily due to the same reasons discussed above.

Operating Expenses

The table below presents a comparison of research and development, selling, marketing and administration, and amortization expenses for the quarter ended August 31, 2023, compared to the quarter ended May 31, 2023 and the quarter ended August 31, 2022. The Company believes it is meaningful to provide a sequential comparison between the second quarter of fiscal 2024 and the first quarter of fiscal 2024.

	For the Three Months Ended (in millions)		
	August 31, 2023	May 31, 2023	August 31, 2022
Revenue	\$ 132	\$ 373	\$ 168
Operating expenses			
Research and development	50	54	54
Selling, marketing and administration	73	99	86
Amortization	14	15	25
Impairment of long-lived assets	1	—	4
Gain on sale of property, plant and equipment, net	—	—	(6)
Debentures fair value adjustment	(6)	22	(10)
Total	\$ 132	\$ 190	\$ 153

Operating Expenses as % of Revenue

Research and development	37.9%	14.5%	32.1%
Selling, marketing and administration	55.3%	26.5%	51.2%
Amortization	10.6%	4.0%	14.9%
Impairment of long-lived assets	0.8%	—%	2.4%
Gain on sale of property, plant and equipment, net	—%	—%	(3.6%)
Debentures fair value adjustment	(4.5%)	5.9%	(6.0%)
Total	100.0 %	50.9 %	91.1 %

See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the three months ended August 31, 2023, May 31, 2023 and August 31, 2022.

U.S. GAAP Operating Expenses

Operating expenses decreased by \$58 million, or 30.5%, in the second quarter of fiscal 2024, compared to the first quarter of fiscal 2024 primarily due the difference between the Q2 Fiscal 2024 Debentures Fair Value Adjustment and the fair value adjustment related to the Debentures incurred in the first quarter of fiscal 2024 of \$28 million, a benefit of \$17 million related to the release of an accrued liability relating to the Company’s legacy mobile device business, \$4 million in bad debt expense in the first quarter of fiscal 2024 which did not recur, a decrease of \$3 million in variable incentive plan costs and a decrease of \$3 million in salaries and benefits expenses.

Operating expenses decreased by \$21 million, or 13.7%, in the second quarter of fiscal 2024, compared to the second quarter of fiscal 2023 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 \$11 million in amortization costs, a decrease of \$3 million in salaries and benefit expenses and a decrease of \$3 million in impairment of long-lived assets, partially offset by a \$6 million gain on sale of property, plant and equipment, net, in the second quarter of fiscal 2023 which did not recur, and the difference between the Q2 Fiscal 2024 Debentures Fair Value Adjustment and the fair value adjustment related to the Debentures incurred in the second quarter of fiscal 2023 of \$4 million.

Adjusted Operating Expenses

Adjusted operating expenses decreased by \$31 million, or 21.4%, to \$114 million in the second quarter of fiscal 2024 compared to \$145 million in the first quarter of fiscal 2024. 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, \$4 million in bad debt expense in the first quarter of fiscal 2024 which did not recur, a decrease of \$3 million in variable incentive plan costs, decrease of \$3 million in salaries and benefits expenses and a decrease of \$3 million in marketing and advertising expenses.

Adjusted operating expenses decreased by \$15 million, or 11.6%, to \$114 million in the second quarter of fiscal 2024, compared to \$129 million in the second quarter of fiscal 2023. The decrease was primarily due to a benefit of \$17 million due to the release of an accrued liability relating to the Company's legacy mobile device business and a decrease of \$3 million in salaries and benefit expenses, partially offset by a \$6 million gain on sale of property, plant and equipment, net, in the second quarter of fiscal 2023 which did not recur.

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 \$4 million, or 7.4%, in the second quarter of fiscal 2024 compared to \$54 million in the second quarter of fiscal 2023 primarily due to a decrease of \$2 million in salaries and benefits expenses and a decrease of \$1 million in variable incentive plan costs.

Adjusted research and development expenses decreased by \$4 million, or 7.7%, to \$48 million in the second quarter of fiscal 2024, compared to \$52 million in the second 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 \$13 million, or 15.1%, in the second quarter of fiscal 2024 compared to \$86 million in the second quarter of fiscal 2023 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 and a decrease of \$2 million in bad debt expense, partially offset by an increase of \$4 million in stock compensation expense and an increase of \$2 million in legal expenses.

Adjusted selling, marketing and administration expenses decreased by \$18 million, or 22.5%, to \$62 million in the second quarter of fiscal 2024, compared to \$80 million in the second quarter of fiscal 2023. The decrease was primarily due to a benefit of \$17 million due to the release of an accrued liability relating to the Company's legacy mobile device business and a decrease of \$2 million in bad debt expense, partially offset by an increase of \$2 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 August 31, 2023 compared to the quarter ended August 31, 2022. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Three Months Ended (in millions)		
	Included in Operating Expense		
	August 31, 2023	August 31, 2022	Change
Property, plant and equipment	\$ 1	\$ 1	\$ —
Intangible assets	13	24	(11)
Total	\$ 14	\$ 25	\$ (11)
	Included in Cost of Sales		
	August 31, 2023	August 31, 2022	Change
Property, plant and equipment	\$ 2	\$ 2	\$ —
Intangible assets	—	1	(1)
Total	\$ 2	\$ 3	\$ (1)

Amortization included in Operating Expense

The decrease in amortization expense included in operating expense of \$11 million was primarily due to the lower cost base of acquired technology assets.

Adjusted amortization expense increased by \$1 million to \$4 million in the second quarter of fiscal 2024 compared to \$3 million in the second quarter of fiscal 2023 due to the higher cost base of BlackBerry operations and other information technology assets.

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 (Loss), Net

Investment income (loss), net, which includes the interest expense from the Debentures, was \$7 million in the second quarter of fiscal 2024 and increased by \$9 million from investment loss, net of \$2 million in the second quarter 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.

Income Taxes

For the second quarter of fiscal 2024, the Company's net effective income tax expense rate was approximately 5% (second quarter of fiscal 2023 - net effective income tax expense rate of approximately 10%). 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 Loss

The Company's net loss for the second quarter of fiscal 2024 was \$42 million, or \$0.07 basic and diluted loss per share on a U.S. GAAP basis (second quarter of fiscal 2023 - net loss of \$54 million, or \$0.09 basic loss per share and \$0.10 diluted loss per share). The decrease in net loss of \$12 million was primarily due to a decrease in operating expenses, as described above in "Operating Expenses", an increase in investment income (loss), net, and an increase in gross margin percentage, as described above in "Consolidated Gross Margin Percentage", partially offset by a decrease in revenue, as described above in "Revenue by Segment".

Adjusted net loss was \$23 million in the second quarter of fiscal 2024 (second quarter of fiscal 2023 - adjusted net loss of \$29 million). The increase in adjusted net income of \$6 million was primarily due to a decrease in operating expenses as described above in "Operating Expenses" and an increase in gross margin percentage, as described above in "Consolidated Gross Margin Percentage", partially offset by a decrease in revenue as described above in "Revenue by Segment".

The Company expects 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 are dependent, in part, on the Company closing a certain set of large government Cybersecurity deals in the second half of fiscal 2024.

The weighted average number of shares outstanding was 584 million common shares for basic and diluted loss per share for the second quarter of fiscal 2024 (second quarter of fiscal 2023 - 577 million common shares for basic loss per share and 638 million common shares for diluted loss per share).

Results of Operations - Six months ended August 31, 2023 compared to the six months ended August 31, 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 six months ended August 31, 2023 and August 31, 2022:

	For the Six Months Ended		
	<i>(in millions, except for share and per share amounts)</i>		
	August 31, 2023	August 31, 2022	Change
Revenue	\$ 505	\$ 336	\$ 169
Gross margin	264	210	54
Operating expenses	322	434	(112)
Investment income (loss), net	10	(3)	13
Loss before income taxes	(48)	(227)	179
Provision for (recovery of) income taxes	5	8	(3)
Net loss	<u>\$ (53)</u>	<u>\$ (235)</u>	<u>\$ 182</u>
Loss per share - reported			
Basic	<u>\$ (0.09)</u>	<u>\$ (0.41)</u>	<u>\$ 0.32</u>
Diluted	<u>\$ (0.09)</u>	<u>\$ (0.45)</u>	<u>\$ 0.36</u>
Weighted-average number of shares outstanding (000's)			
Basic	583,171	577,097	
Diluted ⁽¹⁾	583,171	637,930	

⁽¹⁾ Diluted loss per share on a U.S. GAAP basis for the first six 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 six 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 Six Months Ended		
	<i>(in millions)</i>		
	August 31, 2023	August 31, 2022	Change
Revenue by Segment			
Cybersecurity	\$ 172	\$ 224	\$ (52)
IoT	94	102	(8)
Licensing and Other	239	10	229
	<u>\$ 505</u>	<u>\$ 336</u>	<u>\$ 169</u>
% Revenue by Segment			
Cybersecurity	34.1 %	66.7 %	
IoT	18.6 %	30.4 %	
Licensing and Other	47.3 %	2.9 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

Cybersecurity

The decrease in Cybersecurity revenue of \$52 million was primarily due to a decrease of \$29 million relating to product revenue in Secusmart, a decrease of \$15 million relating to product revenue in BlackBerry Spark and a decrease of \$6 million in professional services.

IoT

The decrease in IoT revenue of \$8 million was primarily due to an decrease of \$9 million in professional services and a decrease of \$4 million in BlackBerry QNX development seat revenue, partially offset by an increase of \$4 million in BlackBerry QNX royalty revenue.

Licensing and Other

The increase in Licensing and Other revenue of \$229 million was primarily due to an increase of \$218 million related to the completed Malikie Transaction and an increase of \$11 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 Six Months Ended		
	<i>(in millions)</i>		
	August 31, 2023	August 31, 2022	Change
Revenue by Geography			
North America	\$ 389	\$ 174	\$ 215
Europe, Middle East and Africa	76	121	(45)
Other regions	40	41	(1)
	<u>\$ 505</u>	<u>\$ 336</u>	<u>\$ 169</u>
% Revenue by Geography			
North America	77.0 %	51.8 %	
Europe, Middle East and Africa	15.1 %	36.0 %	
Other regions	7.9 %	12.2 %	
	<u>100.0 %</u>	<u>100.0 %</u>	

North America Revenue

The increase in North America revenue of \$215 million was primarily due to an increase of \$231 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 \$15 million in professional services and a decrease of \$5 million in product revenue in BlackBerry Spark.

Europe, Middle East and Africa Revenue

The decrease in Europe, Middle East and Africa revenue of \$45 million was primarily due to a decrease of \$32 million relating to product revenue in Secusmart, a decrease of \$9 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 \$2 million in BlackBerry QNX royalty revenue.

Other Regions Revenue

The decrease in other regions of \$1 million was primarily due to a decrease in \$1 million in BlackBerry QNX development seat revenue and a decrease of \$1 million relating to product revenue in BlackBerry Spark, partially offset by an increase of \$2 million in professional services.

Consolidated Gross Margin

Consolidated gross margin increased by \$54 million to approximately \$264 million in the first six months of fiscal 2024 (first six months of fiscal 2023 - \$210 million). The increase was primarily due to the completed Maliki Transaction, partially offset by a decrease in revenue from BlackBerry QNX and Secusmart 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 10.2%, to approximately 52.3% of consolidated revenue in the first six months of fiscal 2024 (first six months of fiscal 2023 - 62.5%). 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 Maliki Transaction, partially offset by a lower gross margin contribution from Secusmart, which has a lower relative gross margin percentage, due the reasons discussed above in “Revenue by Segment”.

Gross Margin by Segment

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

	For the Six Months Ended											
	<i>(in millions)</i>											
	Cybersecurity			IoT			Licensing and Other			Segment Totals		
	August 31,		Change	August 31,		Change	August 31,		Change	August 31,		Change
	2023	2022		2023	2022		2023	2022		2023	2022	
Segment revenue	\$ 172	\$ 224	\$(52)	\$ 94	\$ 102	\$(8)	\$ 239	\$ 10	\$ 229	\$ 505	\$ 336	\$ 169
Segment cost of sales	73	103	(30)	17	17	—	149	4	145	239	124	115
Segment gross margin	<u>\$ 99</u>	<u>\$ 121</u>	<u>\$(22)</u>	<u>\$ 77</u>	<u>\$ 85</u>	<u>\$(8)</u>	<u>\$ 90</u>	<u>\$ 6</u>	<u>\$ 84</u>	<u>\$ 266</u>	<u>\$ 212</u>	<u>\$ 54</u>
Segment gross margin %	<u>58%</u>	<u>54%</u>	<u>4%</u>	<u>82%</u>	<u>83%</u>	<u>(1%)</u>	<u>38%</u>	<u>60%</u>	<u>(22%)</u>	<u>53%</u>	<u>63%</u>	<u>(10%)</u>

Cybersecurity

The decrease in Cybersecurity gross margin of \$22 million was primarily due to the reasons discussed above in “Revenue by Segment”, partially offset by a decrease of \$7 million in infrastructure costs and a change in mix, specifically a lower gross margin contribution from Secusmart, which had a lower relative gross margin percentage.

The increase in Cybersecurity gross margin percentage of 4% was primarily due to a decrease of \$7 million in infrastructure costs and a change in mix, specifically a lower gross margin contribution from Secusmart, which had a lower relative gross margin percentage.

IoT

The decrease of IoT gross margin of \$8 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 decrease 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 \$84 million was primarily due to the completed Maliki Transaction.

The decrease in Licensing and Other gross margin percentage of 22% was primarily due to the completed Maliki 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 six months ended August 31, 2023, compared to the six months ended August 31, 2022.

	For the Six Months Ended		
	<i>(in millions)</i>		
	August 31, 2023	August 31, 2022	Change
Revenue	\$ 505	\$ 336	\$ 169
Operating expenses			
Research and development	104	107	(3)
Selling, marketing and administration	172	168	4
Amortization	29	52	(23)
Impairment of long-lived assets	1	4	(3)
Gain on sale of property, plant and equipment, net	—	(6)	6
Debentures fair value adjustment	16	(56)	72
Litigation settlement	—	165	(165)
Total	<u>\$ 322</u>	<u>\$ 434</u>	<u>\$ (112)</u>
Operating Expense as % of Revenue			
Research and development	20.6 %	31.8 %	
Selling, marketing and administration	34.1 %	50.0 %	
Amortization	5.7 %	15.5 %	
Impairment of long-lived assets	0.2 %	1.2 %	
Gain on sale of property, plant and equipment, net	— %	(1.8)%	
Debentures fair value adjustment	3.2 %	(16.7)%	
Litigation settlement	— %	49.1 %	
Total	<u>63.8 %</u>	<u>129.2 %</u>	

See “Non-GAAP Financial Measures” for a reconciliation of selected U.S. GAAP-based measures to adjusted measures for the six months ended August 31, 2023 and August 31, 2022.

U.S. GAAP Operating Expenses

Operating expenses decreased by \$112 million, or 25.8%, in the first six months of fiscal 2024, compared to the first six months of fiscal 2023. The decrease was primarily due to a \$165 million litigation settlement in the first six months of fiscal 2023 which did not recur, a decrease of \$23 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 \$8 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 six months fiscal 2023 of \$72 million, a \$6 million gain on sale of property, plant and equipment, net, in the first six months fiscal 2023 which did not recur, an increase of \$6 million in stock based compensation expense, an increase of \$4 million in restructuring costs, a decrease 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”) to support the business through the COVID-19 pandemic and an increase of \$4 million in the Company’s deferred share unit costs.

Adjusted Operating Expenses

Adjusted operating expenses decreased by \$2 million, or 0.8%, to \$259 million in the first six months of fiscal 2024, compared to \$261 million the first six 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 \$8 million in salaries and benefits expenses, partially offset by a \$6 million gain on sale of property, plant and equipment, net, in the first six months of fiscal 2023 which did not recur, a decrease in benefits of \$4 million in COVID-19 subsidies, an increase of \$4 million in the Company's deferred share unit costs, an increase of \$3 million in bad debt expense, an increase of \$2 million in amortization costs and an increase of \$2 million in variable incentive plan 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 \$3 million, or 2.8%, in the first six months of fiscal 2024, compared to the first six months of fiscal 2023. The decrease was primarily due to a decrease of \$4 million in salaries and benefits expenses, partially offset by an increase of \$1 million in variable incentive plan costs.

Adjusted research and development expenses decreased by \$3 million, or 2.9%, to \$100 million in the first six months of fiscal 2024, compared to \$103 million in the first six 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 \$4 million, or 2.4%, in the first six months of fiscal 2024 compared to the first six months of fiscal 2023 primarily due to an increase of \$6 million in stock compensation expense, an increase in \$4 million in restructuring costs, a decrease in benefits of \$4 million in COVID-19 subsidies, an increase of \$4 million in the Company's deferred share unit costs and an increase of \$3 million in bad debt expense, 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.

Adjusted selling, marketing and administration expenses decreased by \$7 million, or 4.5%, to \$150 million in the first six months of fiscal 2024, compared to \$157 million the first six 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 and a decrease of \$2 million in salaries and benefits, partially offset by a decrease in benefits of \$4 million in COVID-19 subsidies, an increase in an increase of \$4 million in the Company's deferred share unit costs and an increase of \$3 million in bad debt expense.

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 six months ended August 31, 2023 compared to the six months ended August 31, 2022. Intangible assets are comprised of patents, licenses and acquired technology.

	For the Six Months Ended		
	<i>(in millions)</i>		
	Included in Operating Expense		
	August 31, 2023	August 31, 2022	Change
Property, plant and equipment	\$ 4	\$ 5	\$ (1)
Intangible assets	25	47	(22)
Total	\$ 29	\$ 52	\$ (23)
	Included in Cost of Sales		
	August 31, 2023	August 31, 2022	Change
Property, plant and equipment	\$ 2	\$ 2	\$ —
Intangible assets	1	3	(2)
Total	\$ 3	\$ 5	\$ (2)

Amortization included in Operating Expense

The decrease in amortization expense included in operating expense of \$23 million was primarily due to the lower cost base of acquired technology assets.

Adjusted amortization expense increased by \$2 million to \$9 million in the first six months of fiscal 2024 compared to \$7 million in the first six months of fiscal 2023 due to the higher cost base of BlackBerry operations and other information technology assets.

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 \$2 million was due to the lower cost base of assets.

Investment Income (Loss), Net

Investment income (loss), net, which includes the interest expense from the Debentures, was \$10 million in the first six months of fiscal 2024 and increased by \$13 million from investment loss, net of \$3 million in the first six 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.

Income Taxes

For the first six months of fiscal 2024, the Company's net effective income tax expense rate was approximately 10% (first six months of fiscal 2023 - net effective income tax expense rate of approximately 4%). 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 Loss

The Company's net loss for the first six months of fiscal 2024 was \$53 million, or \$0.09 basic and diluted loss per share on a U.S. GAAP basis (first six months of fiscal 2023 - net loss of \$235 million, or \$0.41 basic loss per share and \$0.45 diluted loss per share). The decrease in net loss of \$182 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 \$12 million in the first six months of fiscal 2024 (first six months of fiscal 2023 - adjusted net loss of \$60 million). The decrease in adjusted net loss of \$72 million was primarily due to the same reasons described above on a U.S. GAAP basis.

The weighted average number of shares outstanding was 583 million for basic and diluted loss per share for the first six months of August 31, 2023. The weighted average number of shares outstanding was 577 million for basic loss per share and 638 million for diluted loss per share for the first six months of August 31, 2022.

Common Shares Outstanding

On September 26, 2023, there were 584 million voting common shares, options to purchase 0.4 million voting common shares, 17 million restricted share units and 2 million deferred share units outstanding. In addition, 60.8 million common shares are issuable upon conversion in full of the Debentures as described in Note 5 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 increased by \$32 million to \$519 million as at August 31, 2023 from \$487 million as at February 28, 2023, primarily as a result of the completed Malikie Transaction and changes in working capital, excluding the amounts payable in respect of the Debentures. The majority of the Company's cash, cash equivalents, and investments were denominated in U.S. dollars as at August 31, 2023.

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

	As at (in millions)		
	August 31, 2023	February 28, 2023	Change
Cash and cash equivalents	\$ 415	\$ 295	\$ 120
Restricted cash and cash equivalents	28	27	1
Short-term investments	41	131	(90)
Long-term investments	35	34	1
Cash, cash equivalents, and investments	<u>\$ 519</u>	<u>\$ 487</u>	<u>\$ 32</u>

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

	As at (in millions)		
	August 31, 2023	February 28, 2023	Change
Current assets	\$ 645	\$ 743	\$ (98)
Current liabilities	713	729	(16)
Working capital	<u>\$ (68)</u>	<u>\$ 14</u>	<u>\$ (82)</u>

Current Assets

The decrease in current assets of \$98 million at the end of the second quarter of fiscal 2024 from the end of the fourth quarter of fiscal 2023 was primarily due to a decrease of \$133 million in other current assets, a decrease in short term investments of \$90 million and a decrease in other receivables of \$4 million, partially offset by an increase in cash and cash equivalents of \$120 million, an increase in accounts receivable, net of allowance of \$7 million and an increase in taxes receivables of \$2 million.

At August 31, 2023, other current assets was \$49 million, a decrease of \$133 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 \$3 million in prepaid software maintenance, an increase in \$1 million in inventory, an increase of \$1 million in derivative instruments and an increase of \$1 million in prepaid hardware maintenance.

At August 31, 2023, other receivables was \$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 August 31, 2023, accounts receivable, net of allowance was \$127 million, an increase of \$7 million from February 28, 2023. The increase was primarily due an increase in days sales outstanding to 86 days at the end of the second quarter of fiscal 2024 from 75 days at the end of the fourth quarter of fiscal 2023, partially offset by a decrease in software and services revenue recognized over the three months ended August 31, 2023 compared to the three months ended February 28, 2023.

At August 31, 2023, income taxes receivable was \$5 million, an increase of \$2 million compared to 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 \$16 million at the end of the second quarter of 2024 from the end of the fourth quarter of fiscal 2023 was primarily due to a decrease in accrued liabilities of \$26 million, a decrease in accounts payable of \$6 million, and a decrease in deferred revenue, current of \$1 million, partially offset by an increase in the fair value of the Debentures of \$16 million and an increase in income taxes payable of \$1 million.

Accrued liabilities were \$117 million at the end of the second quarter of 2024, reflecting a decrease of \$26 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, a decrease of \$10 million in payroll accruals, a decrease of \$2 million in marketing accruals and a decrease of \$2 million in variable incentive plan accrual, partially offset by an increase of \$4 million in deferred share cost accrual.

Accounts payable were \$18 million, reflecting a decrease of \$6 million from February 28, 2023, which was primarily due to timing of payments of accounts payable.

Deferred revenue, current was \$174 million, which reflects a decrease of \$1 million compared to February 28, 2023 that was attributable to a \$7 million increase in deferred revenue, current related to BlackBerry QNX, partially offset by an increase of \$6 million in deferred revenue, current related to BlackBerry Spark.

Income taxes payable were \$21 million, reflecting an increase of \$1 million compared to February 28, 2023, which was primarily due to changes in the quarterly tax provision.

Cash flows for the six months ended August 31, 2023 compared to the six months ended August 31, 2022 were as follows:

	For the Six Months Ended		
	<i>(in millions)</i>		
	August 31, 2023	August 31, 2022	Change
Net cash flows provided by (used in):			
Operating activities	\$ 43	\$ (66)	\$ 109
Investing activities	76	117	(41)
Financing activities	2	3	(1)
Effect of foreign exchange loss on cash and cash equivalents	—	(2)	2
Net increase in cash and cash equivalents	\$ 121	\$ 52	\$ 69

Operating Activities

The increase in net cash flows used in operating activities of \$109 million primarily reflects the net changes in working capital.

Investing Activities

During the six months ended August 31, 2023, cash flows provided by investing activities were \$76 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 \$89 million, offset by cash used in the acquisition of intangible assets of \$10 million, and the acquisition of property, plant and equipment of \$3 million. For the same period in the prior fiscal year, cash flows provided by investing activities were \$117 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 \$120 million and proceeds on sale of property, plant and equipment of \$17 million, offset by cash used in the acquisition intangible assets of \$16 million, and the acquisitions of property, plant and equipment of \$4 million.

Financing Activities

The decrease in cash flows provided by financing activities was \$1 million for the first six months of fiscal 2024 due to 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 5 to the Consolidated Financial Statements for a description of the Debentures.

The Company has \$26 million in collateralized outstanding letters of credit in support of certain leasing arrangements entered into in the ordinary course of business. See Note 2 to the Consolidated Financial Statements for further information concerning the Company's restricted cash.

Cash, cash equivalents, and investments were approximately \$519 million as at August 31, 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 Debentures will mature on November 13, 2023, as described in Note 5, but the Company has the ability to access other potential financing arrangements on commercially reasonable terms. The timing and nature of any such financing arrangements will depend on the outcome of the Company's strategic review process as noted above in "Business Overview - Strategic Review of Businesses". 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 August 31, 2023:

	<i>(in millions)</i>		
	Total	Short-term (next 12 months)	Long-term (>12 months)
Operating lease obligations	\$ 77	\$ 24	\$ 53
Purchase obligations and commitments	84	84	—
Debt interest and principal payments	368	368	—
Total	<u>\$ 529</u>	<u>\$ 476</u>	<u>\$ 53</u>

Total contractual and other obligations as at August 31, 2023 decreased by approximately \$27 million as compared to the February 28, 2023 balance of approximately \$556 million, which was attributable to decreases 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 second 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 August 31, 2023, approximately 22% of cash and cash equivalents, 38% of accounts receivables and 49% 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 exchange rates to the U.S. dollar uniformly weakened or strengthened by 10% related to the Company's net monetary asset or liability balances in foreign currencies at August 31, 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.

Interest Rate

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities. The fair value of investments, as well as the investment income derived from the investment portfolio, will fluctuate with changes in prevailing interest rates. The Company has also issued Debentures with a fixed interest rate, as described in Note 5 to the Consolidated Financial Statements. The fair value of the Debentures will fluctuate with changes in prevailing interest rates. Consequently, the Company is exposed to interest rate risk as a result of the Debentures. The Company does not currently utilize interest rate derivative instruments to hedge its investment portfolio or changes in the market value of the Debentures.

Credit and Customer Concentration

The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for credit losses (“ACL”) that corresponds to the specific credit risk of its customers, historical trends and economic circumstances. The ACL as at August 31, 2023 was \$6 million (February 28, 2023 - \$1 million). There was one customer that comprised more than 10% of accounts receivable as at August 31, 2023 (February 28, 2023 - two customers that comprised more than 10%). During the second quarter of fiscal 2024, the percentage of the Company’s receivable balance that was past due decreased by 2.0% compared to the fourth quarter of fiscal 2023. Although the Company actively monitors and attempts to collect on its receivables as they become due, the risk of further delays or challenges in obtaining timely payments of receivables from resellers and other distribution partners exists. The occurrence of such delays or challenges in obtaining timely payments could negatively impact the Company’s liquidity and financial condition. There was no customer that comprised more than 10% of the Company’s revenue and one customer that comprised 45% of the Company’s revenue in the three and six months ended August 31, 2023, respectively, due to the completed Malikie Transaction (three and six months ended August 31, 2022 - one customer that comprised 16% and 15% of the Company’s revenue, respectively).

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

See Note 11 to the Consolidated Financial Statements for additional information regarding the Company’s credit risk as it pertains to its foreign exchange derivative counterparties.

ITEM 4. CONTROLS AND PROCEDURES

As of August 31, 2023, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of such date, the Company’s disclosure controls and procedures were effective to give reasonable assurance that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and (ii) accumulated and communicated to management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended August 31, 2023, no changes were made to the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 9 to the Consolidated Financial Statements for information regarding certain legal proceedings in which the Company is involved.

ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibit
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)
32.1†	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2†	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	XBRL Instance Document – the document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document
101*	Inline XBRL Taxonomy Extension Schema Document

101*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101*	Inline XBRL Taxonomy Extension Label Linkbase Document
101*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File – formatted as Inline XBRL and contained in Exhibit 101

* Filed herewith

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

SIGNATURES

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

BLACKBERRY LIMITED

Date: September 29, 2023

By: /s/ John Chen
Name: John Chen
Title: Chief Executive Officer

By: /s/ Steve Rai
Name: Steve Rai
Title: Chief Financial Officer (Principal Financial and Accounting Officer)