

NEW RISK ALERT: (BB)

Blackberry Ditches Revenue Recognition Policy That Inflated Net Income 200%

The change shaves \$8 million from the comparable quarter's sales and may be an effort to mask deterioration in acquired companies.

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July 27, 2021

This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Blackberry No Longer Using Non-GAAP Metric That Boosts Reported Revenue

To offset GAAP mandated deferred revenue write downs associated with acquisitions Blackberry, a security software maker, created its own metric to add them back. The company has historically reported "software deferred revenue" in its non-GAAP presentations, which boosted revenue recognized and, according to the company, offered investors a better picture of the company's operating performance.

In its latest [10-Q](#), Blackberry announced it was ditching the metric:

"In the first quarter of fiscal 2022, the Company discontinued its use of software deferred revenue acquired in its key metrics as the Company no longer reports non-GAAP revenue."

The change, according to our analysis, removed \$8 million from non-GAAP sales Blackberry reported in the prior year's comparable quarter. It also increased Blackberry's gross margin by 2.1%. The metric also inflated Blackberry's adjusted net income for the quarter from \$4 million to \$12 million, or 200%.

Not only does the change have the potential to negatively impact reported results going forward, according to Blackberry's past disclosures it will also make it more difficult for investors to understand the company's operating results and underlying trends. Here are the benefits Blackberry says the metric once provided investors:

“The Company believes that reversing the acquisition-related deferred revenue write-downs (so that the full amount of revenue booked by the acquired businesses is included) provides a more appropriate representation of revenue in a given period and, therefore, provides readers of the Company’s financial statements with a more consistent basis for comparison across accounting periods.”

We suspect the change was made to hide possible deterioration in deferred revenue in the companies Blackberry has acquired. The latest quarter reveals annual recurring revenue down by \$6 million in Blackberry’s cybersecurity segment and \$17 million in its IoT segment. Similarly, Blackberry’s Net Retention Rate in the cybersecurity segment declined 7%. The company blames COVID-19 and the semiconductor chip shortage for declines in its annual recurring revenue.