

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended August 2, 2024**

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: 001-37748

**Secureworks®**

**SecureWorks Corp .**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**27-0463349**

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

**One Concourse Parkway NE**

**Suite 500**

**Atlanta, Georgia**

(Address of principal executive offices)

**30328**

(Zip Code)

(Registrant's telephone number, including area code): **( 404 ) 327-6339**

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
<b>Class A Common Stock, par value \$0.01 per share</b>	<b>SCWX</b>	<b>The Nasdaq Stock Market LLC (Nasdaq Global Select Market)</b>

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 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 type="checkbox"/>	Accelerated filer	<input checked="" 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

As of September 3, 2024, there were 88,828,091 shares of the registrant's common stock outstanding, consisting of 18,828,091 outstanding shares of Class A common stock and 70,000,000 outstanding shares of Class B common stock.

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Except where the content otherwise requires or where otherwise indicated, all references in this report to "Secureworks," "we," "us," "our," and "our Company" to refer to SecureWorks Corp. and our subsidiaries on a consolidated basis.

**Part I. Financial Information**

**Item 1. Financial Statements**

**SECUREWORKS CORP.**

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)**  
(in thousands, except for per share data)

	August 2, 2024	February 2, 2024
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47,628	\$ 68,655
Accounts receivable, net of allowances of \$ 1,744 and \$ 1,552, respectively	50,695	54,266
Other current assets	16,603	15,218
Total current assets	114,926	138,139
Property and equipment, net	1,629	2,149
Operating lease right-of-use assets, net	4,069	5,069
Goodwill	425,156	425,472
Intangible assets, net	76,304	83,235
Other non-current assets	43,399	70,715
Total assets	<u>\$ 665,483</u>	<u>\$ 724,779</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,697	\$ 8,974
Accrued and other current liabilities	47,894	61,895
Short-term deferred revenue	125,103	131,245
Total current liabilities	181,694	202,114
Long-term deferred revenue	8,164	5,706
Operating lease liabilities, non-current	5,830	7,803
Other non-current liabilities	9,402	7,831
Total liabilities	205,090	223,454
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock - \$ 0.01 par value: 200,000 shares authorized; — shares issued	—	—
Common stock - Class A of \$ 0.01 par value: 2,500,000 shares authorized; 18,758 and 16,392 shares issued and outstanding, at August 2, 2024 and February 2, 2024, respectively.	188	164
Common stock - Class B of \$ 0.01 par value: 500,000 shares authorized; 70,000 shares issued and outstanding	700	700
Additional paid in capital	1,006,798	996,291
Accumulated deficit	( 520,968 )	( 470,163 )
Accumulated other comprehensive loss	( 6,429 )	( 5,771 )
Treasury stock, at cost - 1,257 shares	( 19,896 )	( 19,896 )
Total stockholders' equity	460,393	501,325
Total liabilities and stockholders' equity	<u>\$ 665,483</u>	<u>\$ 724,779</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

SECUREWORKS CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)  
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	August 2, 2024	August 4, 2023	August 2, 2024	August 4, 2023
Net revenue:				
Subscription	\$ 71,292	\$ 76,825	\$ 143,513	\$ 154,084
Professional services	10,890	16,141	24,321	33,277
Total net revenue	82,182	92,966	167,834	187,361
Cost of revenue:				
Subscription	21,066	30,084	41,882	61,103
Professional services	6,379	9,973	13,439	21,740
Total cost of revenue	27,445	40,057	55,321	82,843
Gross profit	54,737	52,909	112,513	104,518
Operating expenses:				
Research and development	22,804	28,236	47,352	59,408
Sales and marketing	24,512	31,237	48,413	65,763
General and administrative	20,552	20,366	39,070	42,629
Reorganization and other related charges	—	14,232	1,476	14,232
Total operating expenses	67,868	94,071	136,311	182,032
Operating loss	(13,131)	(41,162)	(23,798)	(77,514)
Interest and other (expense) income, net	(874)	(636)	(78)	(2,382)
Loss before income taxes	(14,005)	(41,798)	(23,876)	(79,896)
Income tax expense (benefit)	724	(9,439)	26,929	(16,567)
Net loss	\$ (14,729)	\$ (32,359)	\$ (50,805)	\$ (63,329)
Loss per common share (basic and diluted)	\$ (0.17)	\$ (0.38)	\$ (0.58)	\$ (0.74)
Weighted-average common shares outstanding (basic and diluted)	88,540	86,121	88,026	85,776

The accompanying notes are an integral part of these condensed consolidated financial statements.

SECUREWORKS CORP.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)  
(in thousands)

	Three Months Ended		Six Months Ended	
	August 2, 2024	August 4, 2023	August 2, 2024	August 4, 2023
Net loss	\$ (14,729)	\$ (32,359)	\$ (50,805)	\$ (63,329)
Foreign currency translation adjustments, net of tax	360	132	(658)	659
Comprehensive loss	<u>\$ (14,369)</u>	<u>\$ (32,227)</u>	<u>\$ (51,463)</u>	<u>\$ (62,670)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**SECUREWORKS CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
(in thousands)

	<b>Six Months Ended</b>	
	<b>August 2, 2024</b>	<b>August 4, 2023</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ ( 50,805 )	\$ ( 63,329 )
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	11,414	17,961
Amortization of right of use asset	835	1,303
Reorganization and other related charges	—	3,272
Amortization of costs capitalized to obtain revenue contracts	7,559	8,820
Amortization of costs capitalized to fulfill revenue contracts	—	1,805
Stock-based compensation expense	17,541	14,890
Impact of income tax provision	24,980	( 16,567 )
Provision for credit losses	313	( 132 )
<b>Changes in assets and liabilities:</b>		
Accounts receivable	3,160	15,802
Net transactions with Dell	( 2,418 )	1,942
Other assets	( 5,033 )	( 5,627 )
Accounts payable	( 242 )	( 7,921 )
Deferred revenue	( 3,456 )	( 12,154 )
Operating leases, net	( 2,418 )	( 2,254 )
Accrued and other liabilities	( 10,238 )	( 25,201 )
Net cash used in operating activities	( 8,808 )	( 67,390 )
<b>Cash flows from investing activities:</b>		
Capital expenditures	( 1,024 )	( 524 )
Software development costs	( 2,970 )	( 2,416 )
Net cash used in investing activities	( 3,994 )	( 2,940 )
<b>Cash flows from financing activities:</b>		
Taxes paid on vested restricted shares	( 7,010 )	( 5,711 )
Net cash used in financing activities	( 7,010 )	( 5,711 )
Effect of exchange rate changes on cash and cash equivalents	( 1,215 )	( 2,577 )
Net decrease in cash and cash equivalents	( 21,027 )	( 78,618 )
Cash and cash equivalents at beginning of the period	68,655	143,517
Cash and cash equivalents at end of the period	<u>\$ 47,628</u>	<u>\$ 64,899</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

SECUREWORKS CORP.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)  
(in thousands, except per share data)

Three Months Ended August 2, 2024

	Common Stock - Class A		Common Stock - Class B		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total Stockholders' Equity
	Outstanding	Amount	Outstanding	Amount					
	Shares		Shares						
Balances, May 3, 2024	18,363	\$ 183	70,000	\$ 700	\$ 999,267	\$ ( 506,239 )	\$ ( 6,789 )	\$ ( 19,896 )	\$ 467,226
Net loss	—	—	—	—	—	( 14,729 )	—	—	( 14,729 )
Other comprehensive income	—	—	—	—	—	—	360	—	360
Vesting of restricted stock units	553	6	—	—	( 6 )	—	—	—	—
Common stock withheld as payment for withholding taxes upon the vesting of restricted shares	( 158 )	( 1 )	—	—	( 1,036 )	—	—	—	( 1,037 )
Stock-based compensation	—	—	—	—	8,573	—	—	—	8,573
Balances, August 2, 2024	18,758	\$ 188	70,000	\$ 700	\$ 1,006,798	\$ ( 520,968 )	\$ ( 6,429 )	\$ ( 19,896 )	\$ 460,393

Six Months Ended August 2, 2024

	Common Stock - Class A		Common Stock - Class B		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total Stockholders' Equity
	Outstanding	Amount	Outstanding	Amount					
	Shares		Shares						
Balances, February 2, 2024	16,392	\$ 164	70,000	\$ 700	\$ 996,291	\$ ( 470,163 )	\$ ( 5,771 )	\$ ( 19,896 )	\$ 501,325
Net loss	—	—	—	—	—	( 50,805 )	—	—	( 50,805 )
Other comprehensive loss	—	—	—	—	—	—	( 658 )	—	( 658 )
Vesting of restricted stock units	3,497	35	—	—	( 35 )	—	—	—	—
Common stock withheld as payment for withholding taxes upon the vesting of restricted shares	( 1,131 )	( 11 )	—	—	( 6,999 )	—	—	—	( 7,010 )
Stock-based compensation	—	—	—	—	17,541	—	—	—	17,541
Balances, August 2, 2024	18,758	\$ 188	70,000	\$ 700	\$ 1,006,798	\$ ( 520,968 )	\$ ( 6,429 )	\$ ( 19,896 )	\$ 460,393

The accompanying notes are an integral part of these condensed consolidated financial statements.

**SECUREWORKS CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)**  
(in thousands, except per share data)

Three Months Ended August 4, 2023

	Common Stock - Class A		Common Stock - Class B		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total Stockholders' Equity
	Outstanding	Amount	Outstanding	Amount					
	Shares		Shares						
Balances, May 5, 2023	16,031	\$ 160	70,000	\$ 700	\$ 969,490	\$ ( 415,091 )	\$ ( 5,710 )	\$ ( 19,896 )	\$ 529,653
Net loss	—	—	—	—	—	( 32,359 )	—	—	( 32,359 )
Other comprehensive income	—	—	—	—	—	—	132	—	132
Vesting of restricted stock units	278	3	—	—	( 3 )	—	—	—	—
Common stock withheld as payment for withholding taxes upon the vesting of restricted shares	( 74 )	( 1 )	—	—	( 575 )	—	—	—	( 576 )
Stock-based compensation	—	—	—	—	7,620	—	—	—	7,620
Balances, August 4, 2023	16,235	\$ 162	70,000	\$ 700	\$ 976,532	\$ ( 447,450 )	\$ ( 5,578 )	\$ ( 19,896 )	\$ 504,470

Six Months Ended August 4, 2023

	Common Stock - Class A		Common Stock - Class B		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total Stockholders' Equity
	Outstanding	Amount	Outstanding	Amount					
	Shares		Shares						
Balances, February 3, 2023	14,749	\$ 147	70,000	\$ 700	\$ 967,367	\$ ( 384,121 )	\$ ( 6,237 )	\$ ( 19,896 )	\$ 557,961
Net loss	—	—	—	—	—	( 63,329 )	—	—	( 63,329 )
Other comprehensive income	—	—	—	—	—	—	659	—	659
Vesting of restricted stock units	2,213	22	—	—	( 22 )	—	—	—	—
Grant and forfeitures of restricted stock awards	—	—	—	—	—	—	—	—	—
Common stock withheld as payment for withholding taxes upon the vesting of restricted shares	( 727 )	( 7 )	—	—	( 5,703 )	—	—	—	( 5,711 )
Stock-based compensation	—	—	—	—	14,890	—	—	—	14,890
Balances, August 4, 2023	16,235	\$ 162	70,000	\$ 700	\$ 976,532	\$ ( 447,450 )	\$ ( 5,578 )	\$ ( 19,896 )	\$ 504,470

The accompanying notes are an integral part of these condensed consolidated financial statements.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 1 — DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION**

***Description of the Business***

SecureWorks Corp. (individually and collectively with its consolidated subsidiaries, “Secureworks” or the “Company”) is a leading global cybersecurity provider of technology-driven security solutions, singularly focused on protecting the Company’s customers.

The Company has one primary business activity, which is to provide customers with technology-driven cybersecurity solutions. The Company’s chief operating decision-maker, who is the Chief Executive Officer, makes operating decisions, assesses performance, and allocates resources on a consolidated basis. There are no segment managers who are held accountable for operations and operating results below the consolidated unit level. Accordingly, Secureworks operates its business as a single reportable segment.

On April 27, 2016, the Company completed its initial public offering, or IPO. Upon the closing of the IPO, Dell Technologies Inc., or Dell Technologies, owned, indirectly through Dell and its subsidiaries, all shares of the Company’s outstanding Class B common stock, which as of August 2, 2024, represented approximately 78.9 % of the Company’s total outstanding shares of common stock and approximately 97.4 % of the combined voting power of both classes of the Company’s outstanding common stock.

Except where the context otherwise requires or where otherwise indicated, all references in this report to “Secureworks,” “we,” “us,” “our,” and “Company” refer to SecureWorks Corp. and our subsidiaries on a consolidated basis. References to “Dell” refer to Dell Inc. and its subsidiaries on a consolidated basis.

***Basis of Presentation and Consolidation***

The Company’s condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. Certain amounts from prior years have been reclassified to conform to current year presentation. Preparing financial statements in accordance with GAAP requires management to make assumptions and estimations that affect the amounts reported in the Company’s financial statements and notes. The condensed consolidated financial statements include assets, liabilities, revenue, and expenses of all majority-owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

For the periods presented, Dell has provided various corporate services to the Company in the ordinary course of business, including finance, tax, human resources, legal, insurance, IT, procurement, and facilities-related services. The cost of these services is charged in accordance with a shared services agreement, as amended or amended and restated, in part, from time to time, that went into effect on August 1, 2015. For more information regarding related party transactions, see “Note 10—Related Party Transactions.”

***Revisions***

The Company’s historical classification of the effects of exchange rate changes on the Company’s foreign-denominated cash and cash equivalents balances was not presented separately as the effect of exchange rate changes on cash and cash equivalents in the Company’s Condensed Consolidated Statements of Cash Flows, but rather was included as a component of net cash provided by (used in) operating activities and investing activities. The Company has revised the Condensed Consolidated Statements of Cash Flows for each fiscal quarter of fiscal 2024 to correct these classifications. For the six months ended August 4, 2023, the impact of this correction was a decrease of \$ 2.6 million in net cash used in operating activities and other de minimis impacts to cash flows from capital expenditures, as included in total cash used in investing activities. The corresponding amounts are presented separately as the effect of exchange rate changes on cash and cash equivalents. These revisions do not impact the Condensed Consolidated Statements of Operations, the Condensed Consolidated Statements of Comprehensive Loss, or the Condensed Consolidated Statements of Financial Position.

The Company has concluded that the effects of this revision are not material to any of our previously issued financial statements. This revision impacts our unaudited interim Condensed Consolidated Financial Statements for each fiscal quarter in fiscal 2024.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

***Fiscal Year***

The Company's fiscal year is the 52- or 53-week period ending on the Friday closest to January 31. The Company refers to the fiscal year ending January 31, 2025 and the fiscal year ended February 2, 2024 as fiscal 2025 and fiscal 2024, respectively. Fiscal 2025 and fiscal 2024 each consist of 52 weeks and each quarter consists of 13 weeks. Unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal periods.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Estimates are revised as additional information becomes available. In the Condensed Consolidated Statements of Operations, estimates are used when accounting for revenue arrangements, determining the cost of revenue, allocating cost, estimating the impact of contingencies, and evaluating long-lived asset impairment. In the Condensed Consolidated Statements of Financial Position, estimates are used in determining the valuation and recoverability of assets, such as accounts receivables, inventories, fixed assets, capitalized software, goodwill, and other identifiable intangible assets. Estimates are also used in determining the reported amounts of liabilities, such as taxes payable and the impact of contingencies. All estimates also impact the Condensed Consolidated Statements of Operations. Actual results could differ from these estimates due to risks and uncertainties, including uncertainty in the current economic environment and impacts of inflation. The Company considered the potential impact of the current economic and geopolitical uncertainties on its estimates and assumptions, and it determined there was not a material impact to the Company's condensed consolidated financial statements as of and for the three and six months ended August 2, 2024. As the current economic environment and certain geopolitical uncertainties continue to develop, many of the Company's estimates could require increased judgment and be subject to a higher degree of variability and volatility. As a result, the Company's estimates may change materially in future periods.

***Liquidity***

The Company has incurred losses from operations and operating cash outflows in recent periods and, as of the balance sheet date, the Company has reported a deficit in working capital.

The Company's prior reorganization actions are expected to result in significant cost savings as the Company completes a transition to higher value, higher margin Taegis solutions. The Company expects that this transition better positions the Company for growth with improving operating margins over time. In the event the Company's financial results are below its expectations, the Company may need to take additional actions to preserve existing cash reserves.

As of August 2, 2024, the Company held \$ 47.6 million in cash and cash equivalents. There were no amounts drawn on the \$ 50 million revolving credit facility with Dell as of August 2, 2024. The Company believes that its cash and cash equivalents and access to the revolving credit facility will provide sufficient liquidity to meet its cash requirements, including to fund its business and meet its obligations, for at least 12 months from the filing date of this report.

***Recently Adopted Accounting Pronouncements***

None.

***Summary of Significant Accounting Policies***

There have been no significant changes to the Company's significant accounting policies as of and for the three and six months ended August 2, 2024, as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2024.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 2 — LOSS PER SHARE**

Loss per share is calculated by dividing net loss for the periods presented by the respective weighted-average number of common shares outstanding, and it excludes any dilutive effects of share-based awards that may be anti-dilutive. Diluted net loss per common share is computed by giving effect to all potentially dilutive common shares, including common stock issuable upon the exercise of stock options and restricted stock units. The Company applies the two-class method to calculate earnings per share. Because the Class A common stock and the Class B common stock share the same rights in dividends and earnings, earnings per share (basic and diluted) are the same for both classes of common stock. Since losses were incurred in all periods presented, all potential common shares were determined to be anti-dilutive.

The following table sets forth the computation of loss per common share (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	August 2, 2024	August 4, 2023	August 2, 2024	August 4, 2023
Numerator:				
Net loss	\$ (14,729)	\$ (32,359)	\$ (50,805)	\$ (63,329)
Denominator:				
Weighted-average number of shares outstanding:				
Basic and Diluted	88,540	86,121	88,026	85,776
Loss per common share:				
Basic and Diluted	\$ (0.17)	\$ (0.38)	\$ (0.58)	\$ (0.74)
Weighted-average anti-dilutive share-based awards	11,028	9,375	9,214	7,117

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 3 — CONTRACT BALANCES AND CONTRACT COSTS**

The Company derives revenue primarily from subscriptions and professional services. Subscription revenue is derived from (i) Taegis software-as-a-service, or SaaS, security platform and supplemental Managed Detection and Response, or MDR, services, and (ii) Managed Security Services. Taegis' core offerings are the security platform, Taegis Extended Detection and Response, or XDR, and the supplemental MDR service, ManagedXDR. Managed Security Services are subscription-based arrangements that typically include a suite of security services utilizing the Company's legacy platform. Professional services typically include incident response, adversarial testing services, and other security consulting arrangements.

The following table presents revenue by service type (in thousands):

	Three Months Ended		Six Months Ended	
	August 2, 2024	August 4, 2023	August 2, 2024	August 4, 2023
Net revenue:				
Taegis Subscription Solutions	\$ 71,199	\$ 66,426	\$ 140,274	\$ 129,022
Managed Security Services	93	10,399	3,239	25,062
Total Subscription revenue	\$ 71,292	\$ 76,825	\$ 143,513	\$ 154,084
Professional Services	10,890	16,141	24,321	33,277
Total net revenue	\$ 82,182	\$ 92,966	\$ 167,834	\$ 187,361

Promises to provide the Company's subscription-based SaaS solutions are accounted for as separate performance obligations and managed security services are accounted for as a single performance obligation. Our subscription contracts typically range from one to three years. Performance obligations related to the Company's professional services contracts are separate obligations associated with each service. Although the Company has multi-year customer relationships for various professional service solutions, the arrangement is typically structured as a separate performance obligation over the contract period and recognized over a duration of less than one year.

The deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. The Company invoices its customers based on a variety of billing schedules. During the six months ended August 2, 2024, on average, approximately 66 % of the Company's recurring revenue was billed annually in advance and approximately 34 % was billed on either a monthly or quarterly basis in advance. In addition, many of the Company's professional services engagements are billed in advance of service commencement. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, billing frequency, and invoice timing.

Changes to the Company's deferred revenue during the six months ended August 2, 2024 and August 4, 2023 are as follows (in thousands):

	As of February 2, 2024	Upfront payments received and billings during the six months ended August 2, 2024	Revenue recognized during the six months ended August 2, 2024	As of August 2, 2024
	Deferred revenue	\$ 136,951	\$ 115,022	\$ ( 118,706 )
	As of February 3, 2023	Upfront payments received and billings during the six months ended August 4, 2023	Revenue recognized during the six months ended August 4, 2023	As of August 4, 2023
Deferred revenue	\$ 156,332	\$ 114,112	\$ ( 128,074 )	\$ 142,370

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Remaining Performance Obligation**

The remaining performance obligation represents the transaction price allocated to contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancellable contracts that are expected to be invoiced and recognized as revenue in future periods. The remaining performance obligation consists of two elements: (i) the value of remaining services to be provided through the contract term for customers whose services have been activated, or active; and (ii) the value of subscription-based solutions contracted with customers that have not yet been provisioned, or backlog. Backlog is not recorded in revenue, deferred revenue or elsewhere in the consolidated financial statements until the Company establishes a contractual right to invoice, at which point backlog is recorded as revenue or deferred revenue, as appropriate. The Company applies the practical expedient in Accounting Standards Codification paragraph 606-10-50-14(a) and does not disclose information about remaining performance obligations that are part of a contract that has an original expected duration of one year or less.

The Company expects that the amount of backlog relative to the total value of its contracts will change from year to year due to several factors, including the amount invoiced at the beginning of the contract term, the timing and duration of the Company's customer agreements, varying invoicing cycles of agreements and changes in customer financial circumstances. Accordingly, fluctuations in backlog are not always a reliable indicator of future revenues.

As of August 2, 2024, the Company expects to recognize remaining performance obligations as follows (in thousands):

	Total	Expected to be recognized in the next 12 months	Expected to be recognized in 12- 24 months	Expected to be recognized in 24- 36 months	Expected to be recognized thereafter
Performance obligation - active	\$ 176,474	\$ 111,315	\$ 46,648	\$ 13,980	\$ 4,531
Performance obligation - backlog	4,611	2,037	1,394	1,180	—
Total remaining performance obligations	\$ 181,085	\$ 113,352	\$ 48,042	\$ 15,160	\$ 4,531

**Deferred Commissions and Fulfillment Costs**

The Company capitalizes a significant portion of its commission expense and related fringe benefits earned by its sales personnel. Historically, the Company capitalized certain costs to install and activate hardware and software used in its managed security services, primarily related to a portion of the compensation for the personnel who perform the installation activities. These deferred costs were amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

Changes in the balance of total deferred commission and total deferred fulfillment costs during the six months ended August 2, 2024 and August 4, 2023 are as follows (in thousands):

	As of February 2, 2024	Amount capitalized	Amount recognized	As of August 2, 2024
Deferred commissions	\$ 41,815	\$ 3,218	\$ (7,559)	\$ 37,474
Deferred fulfillment costs	—	—	—	—

  

	As of February 3, 2023	Amount capitalized	Amount recognized	As of August 4, 2023
Deferred commissions	\$ 49,565	\$ 4,225	\$ (8,820)	\$ 44,970
Deferred fulfillment costs	3,232	—	(1,805)	1,427

During the fourth quarter of fiscal 2022, Secureworks announced the end-of-sale for a number of managed security service offerings effective the first day of fiscal 2023. In addition, renewals associated with many of these existing other managed security subscription services were not extended beyond the end of fiscal 2023. Consistent with the end-of-life transition of these non-strategic managed security services, these deferred fulfillment costs were fully amortized as of the end of fiscal 2024, and the Company no longer has new deferred fulfillment costs related to these offerings that meet the criteria for capitalization in accordance with ASC 340.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 4 — GOODWILL AND INTANGIBLE ASSETS**

Goodwill relates to the acquisition of Dell by Dell Technologies and represents the excess of the purchase price attributable to Secureworks over the fair value of the assets acquired and liabilities assumed, as well as subsequent business combinations completed by the Company. Goodwill decreased \$ 0.3 million due to foreign currency translation for the six months ended August 2, 2024, compared to February 2, 2024. Goodwill totaled \$ 425.2 million and \$ 425.5 million as of August 2, 2024 and February 2, 2024, respectively.

Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis during the third fiscal quarter of each fiscal year, or earlier if an indicator of impairment occurs. The Company completed the most recent annual impairment test in the third quarter of fiscal 2024 by performing a "Step 0" qualitative assessment of goodwill at the reporting unit level, as well as the Company's indefinite-lived trade name asset at the individual asset level. The Company has one reporting unit. The qualitative assessment includes the Company's consideration of the relevant events and circumstances that would affect the Company's single reporting unit and indefinite-lived assets, including macroeconomic, industry and market conditions, the Company's overall financial performance including changes to its cost structure and trends in the market price of the Company's Class A common stock. After assessing the totality of these events and circumstances, the Company determined it was not more-likely-than not that the fair value of the reporting unit and indefinite-lived intangible asset was less than their respective carrying values. No triggering events have transpired since the performance of the qualitative assessment that would indicate a potential impairment occurred during the period through August 2, 2024.

*Intangible Assets*

The Company's intangible assets as of August 2, 2024 and February 2, 2024 were as follows:

	August 2, 2024			February 2, 2024		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Customer relationships	\$ 189,518	\$ ( 154,672 )	\$ 34,846	\$ 189,518	\$ ( 147,624 )	\$ 41,894
Acquired Technology	141,784	( 139,558 )	2,226	141,784	( 139,042 )	2,742
Developed Technology	20,040	( 10,926 )	9,114	17,070	( 8,589 )	8,481
Finite-lived intangible assets	351,342	( 305,156 )	46,186	348,372	( 295,255 )	53,117
Trade name	30,118	—	30,118	30,118	—	30,118
Total intangible assets	<u>\$ 381,460</u>	<u>\$ ( 305,156 )</u>	<u>\$ 76,304</u>	<u>\$ 378,490</u>	<u>\$ ( 295,255 )</u>	<u>\$ 83,235</u>

Amortization expense related to finite-lived intangible assets was approximately \$ 5.0 million and \$ 9.9 million for the three and six months ended August 2, 2024, respectively, and \$ 8.1 million and \$ 16.1 million for the three and six months ended August 4, 2023, respectively. Amortization expense is included within cost of revenue and general and administrative expense in the Condensed Consolidated Statements of Operations. There were no impairment charges related to intangible assets during the three and six months ended August 2, 2024 or August 4, 2023.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 5 — DEBT**

**Revolving Credit Facility**

SecureWorks, Inc., a wholly-owned subsidiary of SecureWorks Corp., is a party to a revolving credit agreement with a wholly-owned subsidiary of Dell Inc. under which the Company obtained a \$ 50 million senior, unsecured revolving credit facility. Effective September 6, 2023, the Company executed an amendment to the revolving credit agreement that was effectuated on March 23, 2023. This amended agreement (1) increased the maximum principal amount of borrowings outstanding under the revolving credit facility to \$ 50 million, (2) removed the one-time increase of up to an additional \$ 30 million in borrowings upon mutual agreement by lender and borrower, (3) extended the commitment and required repayment date under the revolving credit agreement to March 23, 2026, and (4) modified the rate at which interest accrues on funds drawn against the revolving credit agreement to the Secured Overnight Finance Rate, or SOFR, plus 2.00 %.

Amounts under the facility may be borrowed, repaid and reborrowed from time to time during the term of the facility. The proceeds from loans made under the facility may be used for general corporate purposes. The credit agreement contains customary representations, warranties, covenants, and events of default. The unused portion of the facility is subject to a commitment fee of 0.35 %, which is due upon expiration of the facility. There was no outstanding balance under the credit facility, and the Company was in compliance with all covenants, as of August 2, 2024 and February 2, 2024. Additionally, there were no amounts borrowed under the credit facility during the three and six months ended August 2, 2024.

The borrower will be required to repay, in full, all of the loans outstanding, including all accrued interest, and the facility will terminate upon a change of control of SecureWorks Corp. or following a transaction in which SecureWorks, Inc. ceases to be a direct or indirect wholly-owned subsidiary of SecureWorks Corp. The facility is not guaranteed by SecureWorks Corp. or its subsidiaries.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 6 — COMMITMENTS AND CONTINGENCIES**

*Legal Contingencies*— The Company is periodically involved in claims and legal proceedings that arise in the ordinary course of business. The Company accrues a liability when it believes that it is both probable that a liability has been incurred and it can reasonably estimate the amount of the loss. The Company reviews the status of such matters at least quarterly and adjusts its liabilities as necessary to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. Whether the outcome of any claim, suit, assessment, investigation, or legal proceeding, individually or collectively, could have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows will depend on a variety of factors. Such factors include the nature, timing, and amount of any associated expenses, amounts paid in settlement, damages, or other remedies or consequences. Where new information is later obtained and the Company's views on the probable outcomes of claims, suits, assessments, investigations, or legal proceedings change, the Company would record changes in accrued liabilities during the period in which such a determination is made. As of August 2, 2024, the Company does not believe that there were any such matters that, individually or in the aggregate, would have a material adverse effect on its business, financial condition, results of operations, or cash flows.

*Customer-based Taxation Contingencies*—Various government entities, or taxing authorities, require the Company to bill its customers for the taxes they owe based on the services they purchase from the Company. The application of the rules of each taxing authority concerning which services are subject to each tax and how those services should be taxed involves the application of judgment. Taxing authorities periodically perform audits to verify compliance and include all periods that remain open under applicable statutes, which generally range from three to four years. These audits could result in significant assessments of past taxes, fines, and interest if the Company were found to be non-compliant. During the course of an audit, a taxing authority may question the Company's application of its rules in a manner that, if the Company were not successful in substantiating its position, could result in a significant financial impact to the Company. In the course of preparing its financial statements and disclosures, the Company considers whether information exists that would warrant disclosure or an accrual with respect to such a contingency.

As of August 2, 2024, the Company is under audit with various state taxing authorities in which rulings related to the taxability of certain of its services are pending; the Company has recorded an estimated liability of \$ 1.7 million related to such matters. The Company expects to continue to appeal certain of these rulings, but should the Company not prevail, it could be subject to obligations to pay additional taxes together with associated penalties and interest for the audited tax period.

*Indemnifications and Guarantees*—In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to indemnify its customers from certain losses incurred by the customer from third-party claims relating to the services performed on behalf of the Company or for certain losses incurred by the customer as to third-party claims arising from certain events as defined within the particular contract. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments related to these indemnifications have been immaterial.

Other guarantees include guarantees of product and service performance. These contingent obligations are not recognized as liabilities and have not had any significant impact on our condensed consolidated financial statements to date.

*Concentrations*—The Company sells solutions to customers of all sizes through a combination of partners and its sales organization. During the three and six months ended August 2, 2024 and August 4, 2023, the Company had no customer that represented 10% or more of its net revenue.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 7 — LEASES**

The Company's leases primarily relate to office facilities that have remaining lease terms of 0.4 years to 2.4 years, inclusive of renewal or termination options that the Company is reasonably certain to exercise.

The components of lease expenses were as follows:

	Three Months Ended		Six Months Ended	
	August 2, 2024	August 4, 2023	August 2, 2024	August 4, 2023
	(in thousands)			
Operating lease cost	\$ 563	\$ 1,083	\$ 1,135	\$ 2,164
Variable lease costs	131	130	255	151
Total lease costs	<u>\$ 694</u>	<u>\$ 1,213</u>	<u>\$ 1,390</u>	<u>\$ 2,315</u>
Supplemental cash flow information:				
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 1,356	1,333	\$ 2,711	\$ 2,661

Weighted-average information associated with the measurement of remaining operating lease obligations is as follows:

	August 2, 2024
Weighted-average remaining lease term	2.4 years
Weighted-average discount rate	5.43 %

The following table summarizes the maturity of the Company's operating lease liabilities as of August 2, 2024 (in thousands):

Fiscal Years Ending	August 2, 2024
2025	\$ 2,394
2026	4,526
2027	4,088
Thereafter	—
Total operating lease payments	<u>\$ 11,008</u>
Less imputed interest	612
Total operating lease liabilities	<u>\$ 10,396</u>

During the second quarter of fiscal 2024, as part of its actions to rebalance investments cross-functionally in alignment with its current strategy and growth opportunities, the Company ceased use of certain corporate office space as a part of its real estate-related cost optimization actions. The right-of-use asset was assessed to be part of an asset group separate from the Company-level single asset group. Fair value of the asset was determined using a discounted cash flow methodology considering the asset's specific use to generate cash flows. The Company determined the asset values were not recoverable and recorded an impairment loss of \$ 2.9 million to its operating lease right-of-use assets in the second quarter of fiscal 2024. There were no impairments recorded during the three and six months ended August 2, 2024. See Note 12 — "Reorganization and other related costs" for further discussion.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 8 — STOCK-BASED COMPENSATION AND OTHER LONG-TERM PERFORMANCE INCENTIVES**

The SecureWorks Corp. 2016 Long-Term Incentive Plan, or the 2016 Plan, provides for the grant of options, stock appreciation rights, restricted stock, restricted stock units, whether time-based, performance-based or time- and performance-based, deferred stock units, unrestricted stock, dividend equivalent rights, other equity-based awards, and cash bonus awards. Awards may be granted under the 2016 Plan to individuals who are employees, officers, or non-employee directors of the Company or any of its affiliates, consultants and advisors who perform services for the Company or any of its affiliates, and any other individual whose participation in the 2016 Plan is determined to be in the best interests of the Company by the compensation committee of the board of directors.

Under the 2016 Plan, the Company granted 236,901 and 7,628,617 restricted stock units during the three and six months ended August 2, 2024, respectively, and 911,705 and 8,053,962 restricted stock units during the three and six months ended August 4, 2023, respectively. The annual restricted stock units granted during these periods vest over a three-year period. Approximately 23 % and 17 % of such awards granted during the six months ended August 2, 2024 and August 4, 2023, respectively, are subject to performance conditions. The majority of the 7,391,716 restricted stock unit awards made during the three months ended May 3, 2024 were subject to stockholder approval at the Company's 2024 annual meeting of stockholders, which took place on June 25, 2024, of an amendment to the 2016 Plan. The amendment to the 2016 Plan increased the number of shares of Class A common stock issuable under the plan by 7,500,000 shares. Such stockholder approval was obtained at the annual meeting, and those awards were deemed granted and outstanding for accounting purposes during the three months ended August 2, 2024.

The Company may grant long-term cash awards to certain employees under the 2016 Plan. The cash awards issued during the last three fiscal years are not subject to any performance conditions and vest in equal installments over a three-year period. The Company granted an immaterial amount of cash awards during the three and six months ended August 2, 2024 and August 4, 2023, respectively. The Company recognized \$ 19.2 thousand and \$ 0.3 million of related compensation expense for the three and six months ended August 2, 2024, respectively, and \$ 0.4 million and \$ 1.1 million of related compensation expense for the three and six months ended August 4, 2023, respectively.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 9 — INCOME AND OTHER TAXES**

The Company's loss before income taxes, income tax expense (benefit), and effective income tax rate for the three and six months ended August 2, 2024 and August 4, 2023 were as follows (in thousands, except percentages):

	Three Months Ended		Six Months Ended	
	August 2, 2024	August 4, 2023	August 2, 2024	August 4, 2023
Loss before income taxes	\$ ( 14,005 )	\$ ( 41,798 )	\$ ( 23,876 )	\$ ( 79,896 )
Income tax expense (benefit)	\$ 724	\$ ( 9,439 )	\$ 26,929	\$ ( 16,567 )
Effective tax rate	( 5.2 )%	22.6 %	( 112.8 )%	20.7 %

On March 13, 2024, Dell's economic ownership of the Company dropped below 80%. As a result, the Company no longer qualifies for inclusion in Dell Technologies' consolidated U.S. federal income tax return, as well as tax returns in certain U.S. state jurisdictions that follow similar consolidation requirements. Commencing with this deconsolidation, the Company will file its own consolidated U.S. federal income tax return. Given the Company's recent history of cumulative losses, a valuation allowance was recorded against its federal deferred tax assets, as well as certain U.S. state deferred tax assets. The Company recorded an initial valuation allowance of \$ 26.2 million during the three months ended May 3, 2024. Net deferred tax balances, which include the impacts of valuation allowances, are included in other non-current assets and other non-current liabilities in the Condensed Consolidated Statements of Financial Position. The Company's effective tax rate was a result of the increase in the valuation allowance partially offset by estimated taxable income for the fiscal year to date.

For certain U.S. state jurisdictions where the Company continues to be included in consolidated filings with Dell Technologies, related deferred tax assets continue to be recognized under the separate return method, modified to apply the benefits-for-loss approach. Under the benefits-for-loss approach, net operating losses or other tax attributes are characterized as realized by the Company when those attributes are utilized by other members of the Dell consolidated group.

During the six months ended August 4, 2023, the Company did not file separate federal tax returns as the Company generally was included in the tax grouping of other Dell entities within the respective entity's tax jurisdiction. The income tax benefit has been calculated using the separate return method, modified to apply the benefits-for-loss approach. Under the benefits-for-loss approach, net operating losses or other tax attributes are characterized as realized by the Company when those attributes are utilized by other members of the Dell consolidated group.

Effective for tax years beginning on or after January 1, 2022, the Tax Cuts and Jobs Act of 2017 eliminated the option to deduct research and development, or R&D, expenses in the year incurred and instead requires taxpayers to capitalize R&D expenses, including software development cost, and subsequently amortize such expenses over five years for R&D activities conducted in the United States and over fifteen years for R&D activities conducted outside of the United States. This legislation has materially impacted the Company's deferred tax assets and corresponding valuation allowance.

As of August 2, 2024 and February 2, 2024, the Company had a net operating loss receivable from Dell of \$ 5.8 million and \$ 5.0 million, respectively. The Company had \$ 4.5 million and \$ 4.9 million of unrecognized tax benefits as of August 2, 2024 and February 2, 2024, respectively.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 10 — RELATED PARTY TRANSACTIONS**

**Allocated Expenses**

For the periods presented, Dell has provided various corporate services to Secureworks in the ordinary course of business. The costs of these services are governed by a shared services agreement between Secureworks and Dell Inc. The total amounts of the charges under the shared services agreement with Dell were \$ 0.7 million and \$ 1.4 million for the three and six months ended August 2, 2024, respectively, and \$ 0.8 million and \$ 1.6 million for the three and six months ended August 4, 2023, respectively. Management believes that the basis on which the expenses have been allocated reasonably reflects the utilization of services provided to or the benefit received by the Company during the periods presented.

**Related Party Arrangements**

For the periods presented, related party transactions and activities involving Dell Inc. and its wholly-owned subsidiaries were not always consummated on terms equivalent to those that would prevail in an arm's-length transaction where conditions of competitive, free-market dealing may exist.

The Company purchases computer equipment for internal use from Dell Inc. and its subsidiaries that is capitalized within property and equipment in the Condensed Consolidated Statements of Financial Position. Purchases of computer equipment from Dell and EMC Corporation, or EMC, an indirect, wholly-owned subsidiary of Dell Technologies that provides enterprise software and storage, totaled \$ 0.1 million and \$ 0.2 million for the three and six months ended August 2, 2024, respectively, and \$ 0.2 million and \$ 0.3 million for the three and six months ended August 4, 2023, respectively.

The Company also recognized revenue related to solutions provided to significant beneficial owners of Secureworks common stock, which include Mr. Dell and affiliates of Mr. Dell. The revenues recognized by the Company from solutions provided to Mr. Dell, MSD Capital, L.P. (n/k/a, DFO Management, LLC, a firm founded for the purposes of managing investments of Mr. Dell and his family), DFI Resources LLC, an entity affiliated with Mr. Dell, and the Michael and Susan Dell Foundation were immaterial to the Company.

The Company provides solutions to certain customers whose contractual relationships have historically been with Dell rather than Secureworks, although the Company has the primary responsibility to provide the services. Effective August 1, 2015, in connection with the IPO, Dell transferred many of these customer contracts to the Company, forming a direct contractual relationship between the Company and the end customer. For customers whose contracts have not yet been transferred or whose contracts were subsequently originated through Dell under a reseller agreement, the Company recognized revenues of approximately \$ 13.8 million and \$ 27.9 million for the three and six months ended August 2, 2024, respectively, and \$ 14.3 million and \$ 29.3 million for the three and six months ended August 4, 2023, respectively.

As the Company's customer, Dell also purchases services from the Company. The Company recognized revenues from such purchases of approximately \$ 0.1 million and \$ 0.2 million for the three and six months ended August 2, 2024, respectively, and \$ 0.2 million and \$ 0.3 million for the three and six months ended August 4, 2023, respectively. For each of the periods presented, the majority of these revenues represented professional services revenue.

As a result of the foregoing related party arrangements, the Company has recorded the following related party balances in the Condensed Consolidated Statements of Financial Position as of August 2, 2024 and as of February 2, 2024 (in thousands):

	<b>August 2, 2024</b>	<b>February 2, 2024</b>
Related party payable (in accrued and other current liabilities)	\$ 1,756	\$ 4,868
Accounts receivable from customers under reseller agreements with Dell (in accounts receivable, net)	\$ 7,445	\$ 5,748
Net operating loss tax sharing receivable under agreement with Dell	\$ 5,784	\$ 4,976

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 11 — FAIR VALUE MEASUREMENTS**

The Company measures fair value within the guidance of the three-level valuation hierarchy. This hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The categorization of a measurement within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities
- Level 2 - Other observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3 - Significant unobservable inputs

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The assets and liabilities of the Company that are measured at fair value on a recurring basis using the respective input levels as of August 2, 2024 and February 2, 2024 were as follows (in thousands):

	<u>August 2, 2024</u>	<u>February 2, 2024</u>
	<u>Level 1</u>	<u>Level 1</u>
Cash equivalents - Money Market Funds	\$ 1,736	\$ 1,691

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

The carrying amounts of the Company's accounts receivable, accounts payable, and accrued expenses approximate their respective fair value due to their short-term nature.

**SECUREWORKS CORP.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE 12 — REORGANIZATION AND OTHER RELATED COSTS**

Beginning in fiscal year ended February 3, 2023, the Company committed to a plan to align its investments more closely with its strategic priorities to meet the expected future needs of the business by reducing the Company's workforce and implementing certain real estate-related and other cost optimization actions. Under this plan and through continued reorganization actions, the Company began rebalancing investments cross-functionally in alignment with the Company's current strategy and growth opportunities, such as focusing on the higher value, higher margin Taegis solutions, optimizing the Company's organizational structure to increase its scalability, and other priorities, to better position the Company for continued growth with improving operating margins over time. Expenses associated with these actions consisted primarily of severance and other termination benefits, real estate-related expenses, and various other cost saving measures. The Company incurred expenses associated with the plan of approximately \$ 1.5 million during the six months ended August 2, 2024.

The following table summarizes the liability associated with these charges that is included in accrued and other current liabilities on the accompanying Condensed Consolidated Statements of Financial Position (in thousands):

	Workforce	Real estate- related	Other	Total
Balance as of February 3, 2023	\$ 7,550	\$ —	\$ 1,394	\$ 8,944
Reorganization charge	13,873	3,272	—	17,145
Charges settled in cash	( 15,802 )	—	( 1,394 )	( 17,196 )
Charges settled in non-cash	—	( 3,272 )	—	( 3,272 )
Balance as of February 2, 2024	<u>\$ 5,621</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,621</u>
Reorganization charge	\$ 1,476	\$ —	\$ —	\$ 1,476
Charges settled in cash	( 4,194 )	—	—	( 4,194 )
Balance as of August 2, 2024	<u>\$ 2,903</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,903</u>

### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words “believe,” “may,” “would,” “could,” “potentially,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “aim,” “seek,” and similar expressions that convey uncertainty regarding future events or outcomes as they relate to us or our management are intended to identify forward-looking statements. Our results could be materially different from our expectations because of various risks, including risks related to: achieving or maintaining profitability; enhancing our existing solutions and technologies and developing or acquiring new solutions and technologies; navigating economic conditions, geopolitical uncertainty and financial market volatility; relying on personnel with extensive information security expertise; successfully implementing our strategic plan to realign and optimize our investments with our priorities; intense competition in the Company’s markets; attracting new customers, retaining existing customers and increasing annual contract values; relying on customers in the financial services industry; managing our growth effectively; maintaining high-quality client service and support functions; the terms of our service level agreements with customers that require credits for service failures or inadequacies; recognizing revenue ratably over the terms of our Taegis security solutions and managed security services contracts; long and unpredictable sales cycles; the risks associated with expansion of the Company’s international sales and operations; the risks associated with proposed or currently enacted tax statutes, including, but not limited to, Internal Revenue Code Section 174; our exposure to fluctuations in currency exchange rates or inflation; the effect of new governmental export or import controls on our business or any international sanctions compliance program applicable to us; expanding our key distribution relationships and technology alliance partnerships; real or perceived defects, errors or vulnerabilities in our solutions or the failure of our solutions to prevent a security breach; the risks associated with cyber-attacks or other data security incidents; the risks associated with our development, use and adoption of artificial intelligence; the ability of our solutions to interoperate with our customers’ IT infrastructure; our ability to use third-party technologies; the impact of evolving information security, cybersecurity and data privacy laws and regulations on our business; maintaining and enhancing our brand; the risks associated with our acquisition of other businesses; the effect of natural disasters, public health issues, geopolitical conflict and other catastrophic events on our ability to serve customers, including the Ukrainian/Russian conflict and the conflict between Israel and Hamas; our reliance on patents to protect its intellectual property rights; protecting, maintaining or enforcing our non-patented intellectual property rights and proprietary information; claims by third parties of infringement of their proprietary technology by us; our use of open source technology; the risks related to the Company’s relationship with Dell Technologies Inc. and Dell Inc. and control of the Company by Dell Technologies Inc., which include, but are not limited to, the effects of our deconsolidation as a part of the Dell Technologies Inc. affiliated tax group; the volatility of the price of the Company’s Class A common stock; and other risks discussed in “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2024 that was filed with the SEC on March 22, 2024 and in our other periodic and current reports filed with the Securities and Exchange Commission. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. All statements by us regarding our expected financial position, revenues, cash flows and other operating results for future periods, business strategy, the outcome of legal proceedings and similar matters are forward-looking statements. Our expectations expressed or implied in these forward-looking statements may not turn out to be correct. Any forward-looking statement speaks only as of the date as of which such statement is made, and, except as required by law, we undertake no obligation to revise or update any forward-looking statement after the date as of which such statement was made, whether to reflect changes in circumstances or our expectations, the occurrence of unanticipated events, or otherwise.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This management's discussion and analysis is based upon the financial statements of Secureworks which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, and should be read in conjunction with our audited financial statements and related notes for the year ended February 2, 2024 included in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended February 2, 2024 that was filed with the SEC on March 22, 2024, which we refer to as the Annual Report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, beliefs, and future expectations. Our actual results could differ materially from those discussed or implied in our forward-looking statements. Factors that could cause or contribute to these differences include those discussed in "Cautionary Note Regarding Forward-Looking Statements" above and in "Risk Factors" in Part I, Item 1A of our Annual Report, as may be updated in subsequent quarterly reports.*

*Our fiscal year is the 52- or 53-week period ending on the Friday closest to January 31. We refer to the fiscal year ending January 31, 2025 and the fiscal year ended February 2, 2024 as fiscal 2025 and fiscal 2024, respectively. Fiscal 2025 and fiscal 2024 each consist of 52 weeks, and each quarter consists of 13 weeks. Unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal periods.*

*All percentage amounts and ratios presented in this management's discussion and analysis were calculated using the underlying data in thousands.*

*Except where the context otherwise requires or as otherwise indicated, (1) all references to "Secureworks," "we," "us," "our," and "our Company" in this management's discussion and analysis refer to SecureWorks Corp. and our subsidiaries on a consolidated basis, (2) all references to "Dell" refer to Dell Inc. and its subsidiaries on a consolidated basis and (3) all references to "Dell Technologies" refer to Dell Technologies Inc., the ultimate parent company of Dell Inc.*

### Overview

We are a leading global cybersecurity provider of technology-driven solutions singularly focused on protecting our customers.

Our vision is to be the essential cybersecurity company for a digitally connected world. We believe we are the security platform of choice to deliver a holistic approach to security at scale for our customers to achieve their best security outcomes. We combine our considerable experience from securing thousands of customers, for whom we process billions of customer events leveraging artificial intelligence and machine-learning in our security platform, with the actionable insights from our team of elite researchers, analysts, and consultants to create a powerful network effect that provides increasingly strong protection for our customers.

Our proprietary Taegis security platform utilizes an open architecture that is designed to process a wide variety of telemetry to see security threats quickly and leverage our customers' existing investments. Our solutions collect and process vast amounts of data across the IT ecosystem by integrating a wide array of proprietary and third-party security products. This open-platform approach allows us to aggregate events from a wide range of endpoint, network, cloud, and business systems to increase the effectiveness of our solutions.

By aggregating and analyzing data from sources around the world, we offer solutions that enable organizations to:

- prevent security breaches,
- detect malicious activity,
- respond rapidly when a security breach occurs, and
- identify emerging threats.

We believe a platform that supports innovation and collaboration enables the power of the security community to outmaneuver the adversary. Leveraging our extensive security expertise and threat intelligence, we utilize our unique insights to extend our Taegis XDR platform to defend against cyber-attacks.

The integrated approach we have pioneered enables us to deliver a broad portfolio of security solutions to organizations of varying size and complexity. We seek to provide the right level of security for each customer's particular situation, which evolves with our customers as their organizations grow and change over time. Our flexible and scalable solutions secure the evolving needs of large enterprises as well as small and medium-sized businesses and U.S. state and local government agencies with limited in-house capabilities and resources.

We offer our customers:

- software-as-a-service, or SaaS, solutions,
- managed solutions, and
- professional services, including incident response and adversarial testing services.

Our security solutions leverage our proprietary technologies, security operations workflows, and extensive expertise and knowledge of the tactics, techniques, and procedures of the adversary that we have developed over more than two decades. As key elements of our strategy, we seek to:

- be the SaaS security platform of choice,
- broaden our reach with security service providers to deliver our security platform globally, and
- empower the global security community to beat the adversary at scale.

Taegis was purpose-built as a SaaS platform that combines the power of artificial intelligence and machine-learning capabilities with actionable security analytics and threat intelligence to unify detection and response across endpoint, network, cloud, email, and other systems for better security outcomes and simpler security operations. The Taegis security platform is a core element of our SaaS solutions, which leverage workflows designed from our extensive security operations expertise and our integrated orchestration and automation capabilities to increase the speed of response actions.

We offer an integrated suite of technology-driven security solutions enabled by our Taegis security platform and team of highly skilled security experts. Our technology-driven security solutions offer an innovative approach to prevent, detect, and respond to cybersecurity breaches. The platform collects, aggregates, correlates, and analyzes billions of events daily from our extensive customer base utilizing sophisticated algorithms to detect malicious activity and deliver security countermeasures, dynamic intelligence and valuable context regarding the intentions and actions of cyber adversaries. Through our Taegis solutions, which are sold on a subscription basis, we provide global visibility and insight into malicious activity, enabling our customers to detect, respond to, and effectively remediate threats quickly.

In addition to our Taegis solutions, we offer a variety of professional services to advise customers on a broad range of security and risk-related matters, which include incident response, penetration testing services, and Taegis professional services, that we believe will accelerate the adoption of our software solutions.

### **Key Factors Affecting Our Performance**

We believe that our sustained success will depend on many factors, including the adoption of our Taegis solutions by organizations, continued investment in our technology and threat intelligence research, our introduction of new solutions, our ability to increase sales of our solutions to new and existing customers, and our ability to attract and retain top talent. Although these areas present significant opportunities, they also present risks that we must manage to ensure we remain successful. We operate in an intensely competitive industry and face, among other competitive challenges, pricing pressure resulting from actions taken by our larger competitors to reduce the prices of their security prevention, detection, and response solutions, as well as the prices of their managed security services. If we are unable to continue to manage our investments in an efficient manner or to effectively execute our strategies aimed to foster sustained success, our business could be adversely affected.

The key factors affecting our performance include the following:

***Adoption of Technology-Driven Solution Strategy.*** The evolving landscape of applications, modes of communication, and IT architectures makes it increasingly challenging for organizations of all sizes to protect their critical business assets, including proprietary information, from cyber threats. New technologies heighten security risks by increasing the number of ways in which a threat actor can attack a target, giving users greater access to important business networks and information, and facilitating the transfer of control of underlying applications and infrastructure to third-party vendors. An effective security strategy requires the coordinated deployment of a solution across the entire network infrastructure. Our Taegis security solutions are designed to facilitate the successful implementation of such a strategy, but continuous investment in, and adaptation of, our technology will be required in the ever-evolving threat landscape. Our financial results will be affected by the degree to which prospective and current customers recognize the mission-critical nature of our technology-driven information security solutions and subsequently purchase our solutions.

***Investment in Our Technology and Threat Intelligence Research.*** Our software platform serves as the core of our technology-driven security solutions. We believe it provides our customers with an integrated perspective and key visibility into their network environments and potential security threats. Our software platform is augmented by threat intelligence from our Counter Threat Unit research team, which conducts exclusive research into threat actors, uncovers new attack techniques, analyzes emerging threats, and evaluates the risks posed to our customers. We expect to continue making investments into our research and development efforts, including remaining on the forefront of threat intelligence so that we can adapt our software platform to new technologies as well as to changes in existing technologies. It is our belief that our performance will be significantly dependent on our ability to adapt to the rapidly evolving threat landscape, and we believe that continued investment into our Taegis subscription solutions will contribute to our long-term revenue growth, while the costs of such investments may continue to adversely affect our prospects for near-term profitability.

**Introduction of New Security Solutions.** Our performance is significantly dependent on our ability to continue to innovate and introduce new information security solutions, such as our Taegis solutions, that protect our customers from an expanding array of cybersecurity threats. We intend to continue to invest in security solutions innovation and leadership, including by hiring top technical talent and focusing on core technology innovation. In addition, we will continue to evaluate and utilize third-party proprietary technologies, where appropriate, for the continuous development of complementary offerings. We believe that our investment in security solutions development will increase the likelihood we will achieve long-term revenue growth, but this investment may continue to adversely affect our prospects for near-term profitability.

**Investments in Expanding Our Customer Base.**

*Embracing our Partner Ecosystem.* To support future sales, we expect to need to continue to devote resources to developing strategic partnerships with our channel partners, technology alliance partners, and system integrators. We have made, and plan to continue making, investments in both marketing and go-to-market efforts with our partners. These investments may not result in increasing revenue or improving our results of operations in the near term, although we do expect both will improve in the long term from these investments.

*Deepening Our Customer Relationships.* The continued growth of our business also depends in part on our ability to sell additional solutions to our existing customers. As our customers realize the benefits of the solutions they previously purchased, our portfolio of solutions provides us with a significant opportunity to expand these relationships.

**Investment in Our People.** The difficulty in providing effective information security is exacerbated by the highly competitive environment for identifying, hiring, and retaining qualified information security professionals. We believe our technology leadership, brand, exclusive focus on information security, customer-first culture, and robust training and development program enable us to attract and retain highly talented professionals with a passion for building a career in the information security industry. These professionals are led by a highly experienced and tenured management team with extensive IT security expertise and a record of developing successful new technologies and solutions to help protect our customers. We expect to continue to invest in attracting and retaining top talent to support and enhance our information security offerings.

**Key Operating Metrics**

We use certain operating metrics and our financial results to evaluate our performance and monitor the growth of our business. Relevant key operating metrics are presented below as of the dates indicated and for the fiscal periods then ended.

	August 2, 2024	August 4, 2023
Taegis subscription customer base	1,900	2,000
Total customer base	3,100	4,500
Taegis annual recurring revenue (in millions)	\$ 289.6	\$ 275.5
Total annual recurring revenue (in millions)	\$ 289.7	\$ 305.8
Taegis average subscription revenue per customer (in thousands)	\$ 149.7	\$ 135.4
Total average subscription revenue per customer (in thousands)	\$ 149.5	\$ 131.2

*Taegis Subscription Customer Base.* We define our Taegis subscription customer base as the number of customers who have a Taegis subscription agreement as of a particular date.

*Total Customer Base.* We define total customer base as the number of customers that subscribe to our Taegis solutions and managed security services and customers that buy professional services from us, as of a particular date.

*Total Annual Recurring Revenue.* We define total annual recurring revenue as of the measurement date. Changes to recurring revenue may result from the expansion of our offerings and sales of additional solutions to our existing customers, as well as the timing of customer renewals.

*Total Average Subscription Revenue Per Customer.* We define total average subscription revenue per customer as the average annual revenue per customer that subscribes to either our Taegis or other managed security subscription solutions, or both, as of the measurement date. Total average subscription revenue per customer is primarily driven by the persistence of cyber threats and the results of our sales and marketing efforts to increase the awareness of our solutions. Our customer composition of both enterprise and small and medium sized businesses provides us with an opportunity to expand our professional services revenue. As of each of August 2, 2024 and August 4, 2023, approximately 47% of our professional services customers subscribed to our Taegis solutions or managed security services.

*Net Revenue Retention Rate.* Net revenue retention rate is an important measure of our success in retaining and growing revenue from our subscription-based customers. To calculate our revenue retention rate for any period, we compare the annual recurring revenue of our subscription-based customers at the beginning of the fiscal period, or base recurring revenue, to the same measure from that same cohort of customers at the end of the period, which we refer to as retained recurring revenue. By dividing the end-of-period retained recurring revenue by the base recurring revenue from the beginning of the period, we measure our success in retaining and growing installed revenue from the specific cohort of customers we served at the beginning of the period. Our calculation includes the positive revenue impacts of selling and installing additional solutions to this cohort of customers and the negative revenue impacts of customer attrition during the period. The calculation, however, does not include the positive impact on revenue from sales of solutions to any customers acquired during the period.

Our net revenue retention rate remained consistent year-over-year as of August 2, 2024, reflecting the end-of-life transition of our non-strategic managed security services which was completed at the end of the first quarter of fiscal 2025. Net revenue retention rates may increase or decline from period to period as a result of various factors, including the timing of solutions installations, customer renewal rates, and changes to solution offerings.

#### **Non-GAAP Financial Measures**

We use supplemental measures of our performance, which are derived from our financial information, but which are not presented in our financial statements prepared in accordance with generally accepted accounting principles in the United States of America, referred to as GAAP. Non-GAAP financial measures presented in this management's discussion and analysis include non-GAAP cost of revenue, non-GAAP Taegis Subscription Solutions cost of revenue, non-GAAP Managed Security Services cost of revenue, non-GAAP subscription cost of revenue, non-GAAP professional services cost of revenue, non-GAAP gross profit, non-GAAP Taegis Subscription Solutions gross profit, non-GAAP Managed Security Services gross profit, non-GAAP subscription gross profit, non-GAAP professional services gross profit, non-GAAP gross margin, non-GAAP Taegis Subscription Solutions gross margin, non-GAAP Managed Security Services gross margin, non-GAAP subscription gross margin, non-GAAP professional services gross margin, non-GAAP operating expenses, non-GAAP research and development expenses, non-GAAP sales and marketing expenses, non-GAAP general and administrative expenses, non-GAAP operating income (loss), non-GAAP income (loss) before income taxes, non-GAAP income tax expense (benefit), non-GAAP net income (loss), non-GAAP earnings (loss) per share before income taxes, non-GAAP income tax expense (benefit) per share, non-GAAP earnings (loss) per share, weighted-average shares used in computing non-GAAP earnings (loss) per share, diluted, and adjusted earnings before interest, taxes, depreciation and amortization, stock-based compensation and reorganization and other related charges, or adjusted EBITDA. We use non-GAAP financial measures to supplement financial information presented on a GAAP basis. We believe these non-GAAP financial measures provide useful information to help evaluate our financial performance and operating results by enhancing the overall understanding of our past performance, while allowing for increased transparency with respect to important metrics used by management for financial and operational decision-making and enabling more meaningful period-to-period comparisons and comparisons to our peers. Non-GAAP measures have been utilized as metrics used to determine variable compensation for employees.

There are, however, limitations to the use of the non-GAAP financial measures presented in this management's discussion and analysis. Our non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

The non-GAAP financial measures we present, as defined by us, exclude the items described in the reconciliation below. As the excluded items can have a material impact on earnings, our management compensates for this limitation by relying primarily on GAAP results and using non-GAAP financial measures supplementally. The non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from, or as a substitute for, revenue, subscription revenue, professional services revenue, Taegis Subscription Solutions revenue, Managed Security Services revenue, gross profit, subscription gross profit, professional services gross profit, Taegis Subscription Solutions gross profit, Managed Security Services gross profit, cost of revenue, subscription cost of revenue, professional services cost of revenue, Taegis Subscription Solutions cost of revenue, Managed Security Services cost of revenue, operating expense, research and development expenses, sales and marketing expenses, general and administrative expenses, gross margin, subscription gross margin, professional services gross margin, Taegis Subscription Solutions gross margin, Managed Security Services gross margin, operating income (loss), net income (loss), or earnings (loss) per share in accordance with GAAP, and the non-GAAP financial measures should be read only in conjunction with financial information presented on a GAAP basis.

### Reconciliation of Non-GAAP Financial Measures

The table below presents a reconciliation of each non-GAAP financial measure to its most directly comparable GAAP financial measure. We encourage you to review the reconciliations in conjunction with the presentation of the non-GAAP financial measures for each of the periods presented. In future fiscal periods, we may exclude such items and may incur income and expenses similar to these excluded items. Accordingly, the exclusion of these items and other similar items in our non-GAAP presentation should not be interpreted as implying that these items are non-recurring, infrequent or unusual.

The following is a summary of the items excluded from the most comparable GAAP financial measures to calculate our non-GAAP financial measures:

- *Amortization of Intangible Assets.* Amortization of intangible assets consists of amortization associated with software development costs capitalized and acquired customer relationships and technology. In connection with the acquisition of Dell by Dell Technologies in fiscal 2014 and our acquisition of Delve Laboratories Inc. in fiscal 2021, our tangible and intangible assets and liabilities associated with customer relationships and technology were accounted for and recognized at fair value on the related transaction date.
- *Stock-based Compensation Expense.* Non-cash, stock-based compensation expense relates to Secureworks' equity plan. We exclude such expense when assessing the effectiveness of our operating performance since stock-based compensation does not necessarily correlate with the underlying operating performance of the business.
- *Reorganization and other related charges.* The aggregate adjustment for expenses associated with the Company's plan to align its investments more closely with its strategic priorities, as described in the "Notes to Condensed Consolidated Financial Statements—Note 12—Reorganization and Other Related Costs.

	Three Months Ended		Six Months Ended	
	August 2, 2024	August 4, 2023	August 2, 2024	August 4, 2023
(in thousands, except per share data)				
Revenue:				
Taegis Subscription Solutions	\$ 71,199	\$ 66,426	\$ 140,274	\$ 129,022
Managed Security Services	93	10,399	3,239	25,062
Total Subscription revenue	\$ 71,292	\$ 76,825	\$ 143,513	\$ 154,084
Professional services	10,890	16,141	24,321	33,277
Total revenue	\$ 82,182	\$ 92,966	\$ 167,834	\$ 187,361
GAAP gross profit	\$ 54,737	\$ 52,909	\$ 112,513	\$ 104,518
Amortization of intangibles	1,433	4,537	2,853	9,017
Stock-based compensation expense	683	531	1,370	1,002
Non-GAAP gross profit	\$ 56,853	\$ 57,977	\$ 116,736	\$ 114,537
GAAP Taegis Subscription Solutions gross profit	\$ 51,150	\$ 45,686	\$ 100,794	\$ 88,374
Amortization of intangibles	1,433	1,127	2,853	2,196
Stock-based compensation expense	351	169	617	248
Non-GAAP Taegis Subscription Solutions gross profit	\$ 52,934	\$ 46,982	\$ 104,264	\$ 90,818
GAAP Managed Security Services gross profit	\$ (924)	\$ 1,055	\$ 837	\$ 4,607
Amortization of intangibles	—	3,410	—	6,821
Stock-based compensation expense	—	40	48	107
Non-GAAP Managed Security Services gross profit	\$ (924)	\$ 4,505	\$ 885	\$ 11,535
GAAP operating loss	\$ (13,131)	\$ (41,162)	\$ (23,798)	\$ (77,514)
Amortization of intangibles <sup>1</sup>	4,957	8,060	9,900	16,064
Stock-based compensation expense <sup>2</sup>	8,572	7,620	17,541	14,890
Reorganization and other related charges	—	14,232	1,476	14,232
Non-GAAP operating income (loss)	\$ 398	\$ (11,250)	\$ 5,119	\$ (32,328)
GAAP net loss	\$ (14,729)	\$ (32,359)	\$ (50,805)	\$ (63,329)
Income tax expense (benefit)	724	(9,439)	26,929	(16,567)
Amortization of intangibles <sup>1</sup>	4,957	8,060	9,900	16,064
Stock-based compensation expense <sup>2</sup>	8,572	7,620	17,541	14,890
Reorganization and other related charges	—	14,232	1,476	14,232
Non-GAAP income (loss) before income taxes	(476)	(11,886)	5,041	(34,710)
Non-GAAP income tax expense (benefit) <sup>3</sup>	(111)	(3,266)	1,185	(8,954)
Non-GAAP net income (loss)	\$ (365)	\$ (8,620)	\$ 3,856	\$ (25,756)
GAAP loss per share	\$ (0.17)	\$ (0.38)	\$ (0.58)	\$ (0.74)
Income tax expense (benefit)	0.01	(0.11)	0.31	(0.19)
Amortization of intangibles	0.06	0.10	0.11	0.19
Stock-based compensation expense	0.10	0.08	0.20	0.17
Reorganization and other related charges	—	0.17	0.02	0.17
Non-GAAP earnings (loss) per share before income taxes	\$ 0.00	\$ (0.13)	\$ 0.06	\$ (0.40)
Non-GAAP income tax expense (benefit)	0.00	(0.03)	0.01	(0.10)
Non-GAAP earnings (loss) per share*	\$ 0.00	\$ (0.10)	\$ 0.04	\$ (0.30)
Weighted-average shares used in computing non-GAAP earnings (loss) per share, diluted	88,540	86,121	90,028	85,776

\* Sum of reconciling items may differ from total due to rounding of individual components

	Three Months Ended		Six Months Ended	
	August 2, 2024	August 4, 2023	August 2, 2024	August 4, 2023
	(in thousands, except per share data)			
GAAP net loss	\$ (14,729)	\$ (32,359)	\$ (50,805)	\$ (63,329)
Interest and other, net	874	636	78	2,382
Income tax expense (benefit)	724	(9,439)	26,929	(16,567)
Depreciation and amortization	5,547	8,981	11,414	17,961
Stock-based compensation expense	8,572	7,620	17,541	14,890
Reorganization and other related charges	—	14,232	1,476	14,232
Adjusted EBITDA	<u>\$ 988</u>	<u>\$ (10,329)</u>	<u>\$ 6,633</u>	<u>\$ (30,431)</u>

<sup>1</sup> Includes amortization of intangibles as follows:

Cost of revenue	\$ 1,433	\$ 4,537	\$ 2,853	\$ 9,017
General and administrative	3,524	3,523	7,047	7,047

<sup>2</sup> Includes stock-based compensation expense as follows:

Cost of revenue	\$ 683	\$ 531	\$ 1,370	\$ 1,002
Research and development	2,769	2,681	6,148	5,283
Sales and marketing	1,476	1,097	2,662	1,938
General and administrative	3,644	3,311	7,361	6,667

<sup>3</sup> In periods in which the Company has non-GAAP income before tax, the non-GAAP income tax expense is based on the Company's estimated blended tax rate. In periods the Company has non-GAAP loss before tax, the non-GAAP income tax benefit is based on GAAP tax benefit.

### **Our Relationship with Dell and Dell Technologies**

On April 27, 2016, we completed our IPO. Upon the closing of our IPO, Dell Technologies owned, indirectly through Dell Inc. and Dell Inc.'s subsidiaries, all shares of our outstanding Class B common stock, which as of August 2, 2024 represented approximately 78.9% of our total outstanding shares of common stock and approximately 97.4% of the combined voting power of both classes of our outstanding common stock. In early March 2024, Dell's economic ownership of the Company dropped below 80%. As a result, we no longer qualify for inclusion in Dell Technologies' U.S. federal income tax return and most U.S. state jurisdictions. For more information, see "Notes to Consolidated Financial Statements—Note 9—Income and Other Taxes" in our consolidated financial statements included in this report.

As a majority-owned subsidiary of Dell, we receive from Dell various corporate services in the ordinary course of business, including certain finance, tax, human resources, legal, insurance, IT, procurement, and facilities-related services. The costs of these services have been charged in accordance with a shared services agreement, as amended or amended and restated, in part, from time to time, that went into effect on August 1, 2015, which is the effective date of our carve-out from Dell. For more information regarding the allocated costs and related party transactions, see "Notes to Condensed Consolidated Financial Statements—Note 10—Related Party Transactions" in our condensed consolidated financial statements included in this report.

Additionally, we participate in various commercial arrangements with Dell, under which we, for example, provide information security solutions to third-party customers with whom Dell has contracted with to provide our solutions, procure hardware, software, and services from Dell, and sell our solutions through Dell in the United States and some international jurisdictions. In connection with our IPO, effective August 1, 2015, we entered into agreements with Dell that govern these commercial arrangements. In general, these agreements were initially effective for up to one to three years and include extension and cancellation options. To the extent that we choose, or are required to transition away from the corporate services currently provided by Dell, we may incur additional non-recurring transition costs to establish our own stand-alone corporate functions. For more information regarding the allocated costs and related party transactions, see "Notes to Condensed Consolidated Financial Statements—Note 10—Related Party Transactions" in our condensed consolidated financial statements included in this report.

## Components of Results of Operations

### Revenue

We generate revenue from the sales of our subscriptions and professional services.

- *Subscription Revenue.* Subscription revenue primarily consists of subscription fees derived from our Taegis solutions. Taegis' core offerings are the security platform, Taegis XDR, and our supplemental MDR service, ManagedXDR. Managed Security Services are other subscription-based arrangements pursuant to which we derive revenue from our non-strategic suite of security services utilizing our legacy platform. Our subscription contracts typically range from one to three years. The revenue and any related costs for these deliverables are recognized ratably over the contractual term, beginning on the date when the tenant is made available to customers.
- *Professional Services Revenue.* Professional services revenue consists primarily of incident response solutions and adversarial testing services. Professional services engagements are typically purchased as fixed-fee and retainer-based contracts. Professional services customers typically purchase solutions pursuant to customized contracts that are shorter in duration. Revenue from these engagements is recognized under the proportional performance method of accounting. Revenue from time- and materials-based contracts is recognized as costs are incurred at amounts represented by the agreed-upon billing rates. In general, these contracts have terms of less than one year.

The fees we charge for our solutions vary based on a number of factors, including the solutions selected, the number of customer devices covered by the selected solutions, and the level of management we provide for the solutions. In the second quarter of fiscal 2025, approximately 87% of our revenue was derived from subscription-based arrangements, attributable to Taegis solutions and managed security services, while approximately 13% was derived from professional services engagements. As we respond to the evolving needs of our customers, the relative mix of subscription-based solutions and professional services we provide our customers may fluctuate. International revenue, which we define as revenue contracted through non-U.S. entities, represented approximately 40% and 38% of our total net revenue in the second quarter fiscal 2025 and the second quarter fiscal 2024, respectively.

Over each period presented in this report, our pricing strategy for our various offerings was relatively consistent and did not significantly affect our revenue growth. We may, however, adjust our pricing to remain competitive and support our strategic initiatives.

### Cost of Revenue

Our cost of revenue consists of costs incurred to provide subscription and professional services.

- *Cost of Subscription Revenue.* Cost of subscription revenue consists primarily of personnel-related expenses associated with maintaining our platforms, delivering managed services to our subscription customers, and hosting these platforms. Personnel-related expenses consist primarily of salaries, benefits, and performance-based compensation. Also included in cost of subscription revenue is amortization of equipment and costs associated with hardware utilized as part of providing subscription services, amortization of technology licensing fees, amortization of intangible assets, amortization of external software development costs capitalized, maintenance fees, and overhead allocations. As our business grows, the cost of subscription revenue associated with our solutions may fluctuate.
- *Cost of Professional Services.* Cost of professional services revenue consists primarily of personnel-related expenses, such as salaries, benefits, and performance-based compensation. Cost of professional services revenue also includes fees paid to contractors who supplement or support our solutions, maintenance fees, and overhead allocations. As our business grows, the cost of professional services revenue associated with our solutions may fluctuate.

### Gross Profit and Margin

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the mix between our existing solutions, introduction of new solutions, personnel-related costs, and cloud hosting costs. We expect our gross margins to fluctuate depending on these factors; however, we expect them to increase over time with expected growth and a higher mix of Taegis subscription solutions revenue compared to managed security services and professional services revenue.

### **Operating Costs and Expenses**

Our operating costs and expenses consist of research and development expenses, sales and marketing expenses, and general and administrative expenses.

- *Research and Development, or R&D, Expenses.* Research and development expenses include compensation and related expenses for the continued development of our solutions offerings, including a portion of costs related to our threat research team, which focuses on the identification of system vulnerabilities, data forensics, and malware analysis. R&D expenses also encompass expenses related to the development of prototypes of new solutions offerings and allocated overhead. Our customer solutions have generally been developed internally. We operate in a competitive and highly technical industry; therefore, to maintain and extend our technology leadership, we intend to continue to invest in our R&D efforts by hiring more personnel to enhance our existing security solutions and add complementary solutions.
- *Sales and Marketing, or S&M, Expenses.* Sales and marketing expenses include salaries, sales commissions, and performance-based compensation benefits and related expenses for our S&M personnel, travel and entertainment, marketing and advertising programs (including lead generation), customer advocacy events, and other brand-building expenses, as well as allocated overhead.
- *General and Administrative, or G&A, Expenses.* General and administrative expenses primarily include the costs of human resources and recruiting, finance and accounting, legal support, information management and information security systems, facilities management, corporate development, and other administrative functions, and are partially offset by allocations of information technology and facilities costs to other functions.
- *Reorganization and other related charges.* Reorganization and other related charges consist primarily of severance and other termination benefits and real estate-related expenses, as described in the "Notes to Condensed Consolidated Financial Statements—Note 12—Reorganization and Other Related Costs."

### **Interest and Other, Net**

Interest and other, net consists primarily of the effect of exchange rates on our foreign currency-denominated asset and liability balances and interest income earned on our cash and cash equivalents. All foreign currency transaction adjustments are recorded as foreign currency gains (losses) in the Condensed Consolidated Statements of Operations. To date, we have had minimal interest income.

### **Income Tax Expense (Benefit)**

Income tax expense (benefit) consists of domestic and foreign income taxes. We maintain a valuation allowance for federal and certain state deferred tax assets. Based on our history of losses, we expect to maintain this substantially full valuation allowance for the foreseeable future as it is more likely than not that some or all of those deferred tax assets may not be realized.

For a further discussion of income tax matters, see "Notes to Condensed Consolidated Financial Statements—Note 9—Income and Other Taxes" in our condensed consolidated financial statements included in this report.

## Results of Operations

### Three and six months ended August 2, 2024 compared to the three and six months ended August 4, 2023

The following tables summarize our key performance indicators for the three and six months ended August 2, 2024 and August 4, 2023.

	Three Months Ended				Six Months Ended			
	August 2, 2024		August 4, 2023		August 2, 2024		August 4, 2023	
	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue	\$	% of Revenue
(in thousands, except percentages)								
Net revenue:								
Subscription	\$ 71,292	86.7 %	\$ 76,825	82.6 %	\$ 143,513	85.5 %	\$ 154,084	82.2 %
Professional Services	10,890	13.3 %	16,141	17.4 %	24,321	14.5 %	33,277	17.8 %
Total net revenue	\$ 82,182	100.0 %	\$ 92,966	100.0 %	\$ 167,834	100.0 %	\$ 187,361	100.0 %
Cost of revenue:								
Subscription	\$ 21,066	29.5 %	\$ 30,084	39.2 %	\$ 41,882	29.2 %	\$ 61,103	39.7 %
Professional Services	6,379	58.6 %	9,973	61.8 %	13,439	55.3 %	21,740	65.3 %
Total cost of revenue	\$ 27,445	33.4 %	\$ 40,057	43.1 %	\$ 55,321	33.0 %	\$ 82,843	44.2 %
Total gross profit	\$ 54,737	66.6 %	\$ 52,909	56.9 %	\$ 112,513	67.0 %	\$ 104,518	55.8 %
Operating expenses:								
Research and development	\$ 22,804	27.7 %	\$ 28,236	30.4 %	\$ 47,352	28.2 %	\$ 59,408	31.7 %
Sales and marketing	24,512	29.8 %	31,237	33.6 %	48,413	28.8 %	65,763	35.1 %
General and administrative	20,552	25.0 %	20,366	21.9 %	39,070	23.3 %	42,629	22.8 %
Reorganization and other related charges	—	— %	14,232	15.3 %	1,476	0.9 %	14,232	7.6 %
Total operating expenses	\$ 67,868	82.6 %	\$ 94,071	101.2 %	\$ 136,311	81.2 %	\$ 182,032	97.2 %
Operating loss	\$ (13,131)	(16.0)%	\$ (41,162)	(44.3)%	\$ (23,798)	(14.2)%	\$ (77,514)	(41.4)%
Net loss	\$ (14,729)	(17.9)%	\$ (32,359)	(34.8)%	\$ (50,805)	(30.3)%	\$ (63,329)	(33.8)%
<b>Other Financial Information<sup>(4)</sup></b>								
Non-GAAP cost of revenue:								
Non-GAAP Subscription	\$ 19,282	27.0 %	\$ 25,338	33.0 %	\$ 38,364	26.7 %	\$ 51,731	33.6 %
Non-GAAP Professional Services	6,048	55.5 %	9,651	59.8 %	12,734	52.4 %	21,093	63.4 %
Total Non-GAAP cost of revenue	\$ 25,329	30.8 %	\$ 34,989	37.6 %	\$ 51,098	30.4 %	\$ 72,824	38.9 %
Non-GAAP gross profit	\$ 56,853	69.2 %	\$ 57,977	62.4 %	\$ 116,736	69.6 %	\$ 114,537	61.1 %
Non-GAAP operating expenses:								
Non-GAAP research and development	\$ 20,035	24.4 %	\$ 25,555	27.5 %	\$ 41,204	24.6 %	\$ 54,125	28.9 %
Non-GAAP sales and marketing	23,036	28.0 %	30,140	32.4 %	45,751	27.3 %	63,825	34.1 %
Non-GAAP general and administrative	13,384	16.3 %	13,532	14.6 %	24,662	14.7 %	28,915	15.4 %
Non-GAAP operating expenses	\$ 56,455	68.7 %	\$ 69,227	74.5 %	\$ 111,617	66.5 %	\$ 146,865	78.4 %
Non-GAAP operating income (loss)	\$ 398	0.5 %	\$ (11,250)	(12.1)%	\$ 5,119	3.1 %	\$ (32,328)	(17.3)%
Non-GAAP net income (loss)	\$ (365)	(0.4)%	\$ (8,620)	(9.3)%	\$ 3,856	2.3 %	\$ (25,756)	(13.7)%
Adjusted EBITDA	\$ 988	1.2 %	\$ (10,329)	(11.1)%	\$ 6,633	4.0 %	\$ (30,431)	(16.2)%

<sup>(4)</sup> See "Non-GAAP Financial Measures" and "Reconciliation of Non-GAAP Financial Measures" for more information about these non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure. Non-GAAP financial measures as a percentage of revenue are calculated based on total GAAP net revenue, except for non-GAAP subscription cost of revenue and non-GAAP professional services cost of revenue measures, which are calculated based on GAAP subscription net revenue and GAAP professional services net revenue, respectively.

## Revenue

The following table presents information regarding our net revenue for the three and six months ended August 2, 2024 and August 4, 2023.

	Three Months Ended		Change		Six Months Ended		Change	
	August 2,	August 4,	\$	%	August 2,	August 4,	\$	%
	2024	2023			2024	2023		
(in thousands, except percentages)								
Net revenue:								
Taegis Subscription Solutions	\$ 71,199	\$ 66,426	\$ 4,773	7.2 %	\$ 140,274	\$ 129,022	\$ 11,252	8.7 %
Managed Security Services	93	10,399	(10,306)	(99.1)%	3,239	25,062	(21,823)	(87.1)%
Total Subscription revenue	\$ 71,292	\$ 76,825	\$ (5,533)	(7.2)%	\$ 143,513	\$ 154,084	\$ (10,571)	(6.9)%
Professional services	10,890	16,141	(5,251)	(32.5)%	24,321	33,277	(8,956)	(26.9)%
Total net revenue	\$ 82,182	\$ 92,966	\$ (10,784)	(11.6)%	\$ 167,834	\$ 187,361	\$ (19,527)	(10.4)%

*Subscription Revenue.* For the three and six months ended August 2, 2024, subscription revenue decreased \$5.5 million, or 7.2%, and \$10.6 million, or 6.9%, respectively. The revenue decrease reflects our continued focus on reducing non-strategic service offerings and prioritizing the growth of our Taegis Subscription Solutions.

*Professional Services Revenue.* For the three and six months ended August 2, 2024, professional services revenue decreased \$5.3 million, or 32.5%, and \$9.0 million, or 26.9%, respectively. The revenue decrease reflects both our focus on reducing non-strategic professional service offerings and an overall decrease of billable hours when compared with fiscal 2024 periods.

For the three and six months ended August 2, 2024, international revenue, which we define as revenue contracted through non-U.S. entities represented 40% and 39%, respectively. For the three and six months ended August 4, 2023, international revenue represented 38% and 37% of total revenue, respectively. Currently, our international customers are primarily located in Japan, Australia, the United Kingdom, and Canada. We are focused on continuing to grow our international customer base in future periods.

The Company recognized an immaterial amount of revenue for services provided to or on behalf of Dell under our commercial agreements with Dell. For more information regarding the commercial agreements, see "Notes to Condensed Consolidated Financial Statements—Note 10—Related Party Transactions" in our condensed consolidated financial statements included in this report.

## Cost of Revenue

The following table presents information regarding our cost of revenue for the three and six months ended August 2, 2024 and August 4, 2023.

	Three Months Ended		Change		Six Months Ended		Change	
	August 2, 2024	August 4, 2023	\$	%	August 2, 2024	August 4, 2023	\$	%
(in thousands, except percentages)								
<b>Cost of revenue:</b>								
Taegis Subscription Solutions	\$ 20,049	\$ 20,740	\$ (691)	(3.3)%	\$ 39,480	\$ 40,648	\$ (1,168)	(2.9)%
Managed Security Services	1,017	9,344	(8,327)	(89.1)%	2,402	20,455	(18,053)	(88.3)%
Total subscription cost of revenue	21,066	30,084	(9,018)	(30.0)%	41,882	61,103	(19,221)	(31.5)%
Professional Services cost of revenue	6,379	9,973	(3,594)	(36.0)%	13,439	21,740	(8,301)	(38.2)%
Total cost of revenue	\$ 27,445	\$ 40,057	\$ (12,612)	(31.5)%	\$ 55,321	\$ 82,843	\$ (27,522)	(33.2)%
<b>Other Financial Information<sup>(1)</sup></b>								
<b>Non-GAAP cost of revenue:</b>								
Taegis Subscription Solutions	\$ 18,265	\$ 19,444	\$ (1,179)	(6.1)%	\$ 36,010	\$ 38,204	\$ (2,194)	(5.7)%
Managed Security Services	1,017	5,894	(4,877)	(82.7)%	2,354	13,527	(11,173)	(82.6)%
Total non-GAAP subscription	19,282	25,338	(6,056)	(23.9)%	38,364	51,731	(13,367)	(25.8)%
Non-GAAP Professional Services	6,048	9,651	(3,603)	(37.3)%	12,734	21,093	(8,359)	(39.6)%
Total Non-GAAP cost of revenue	\$ 25,329	\$ 34,989	\$ (9,660)	(27.6)%	\$ 51,098	\$ 72,824	\$ (21,726)	(29.8)%

<sup>(1)</sup> See "Non-GAAP Financial Measures" and "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

**Subscription Cost of Revenue.** For the three months ended August 2, 2024, subscription cost of revenue decreased \$9.0 million, or 30.0%. As a percentage of revenue, subscription cost of revenue decreased 970 basis points to 29.5%. On a non-GAAP basis, subscription cost of revenue as a percentage of revenue decreased 600 basis points to 27.0%. The decrease in subscription cost of revenue was primarily attributable to lower vendor costs and lower employee-related expenses to support our subscription offerings. Those costs are lower as a percentage of revenue because our higher margin Taegis subscription solutions represented the majority of subscription revenue.

For the six months ended August 2, 2024, subscription cost of revenue decreased \$19.2 million, or 31.5%. As a percentage of revenue, subscription cost of revenue decreased 1,050 basis points to 29.2%. On a non-GAAP basis, subscription cost of revenue as a percentage of revenue decreased 690 basis points to 26.7%. The decrease in subscription cost of revenue was primarily attributable to lower vendor costs and lower employee-related expenses to support our subscription offerings. Those costs are lower as a percentage of revenue because our higher margin Taegis subscription solutions represented the majority of subscription revenue.

**Professional Services Cost of Revenue.** For the three months ended August 2, 2024, professional services cost of revenue decreased \$3.6 million, or 36.0%. As a percentage of revenue, professional services cost of revenue decreased 320 basis points to 58.6%. On a non-GAAP basis, professional services cost of revenue as a percentage of revenue decreased 430 basis points to 55.5%. The decrease in professional services cost of revenue was primarily attributable to lower employee-related expenses associated with the reduction of non-strategic professional services offerings.

For the six months ended August 2, 2024, professional services cost of revenue decreased \$8.3 million, or 38.2%. As a percentage of revenue, professional services cost of revenue decreased 1,000 basis points to 55.3%. On a non-GAAP basis, professional services cost of revenue as a percentage of revenue decreased 1,100 basis points to 52.4%. The decrease in professional services cost of revenue was primarily attributable to lower employee-related expenses associated with the reduction of non-strategic professional service offerings.

## Gross Profit and Gross Margin

The following table presents information regarding our gross profit and gross margin for the three and six months ended August 2, 2024 and August 4, 2023.

	Three Months Ended		Change		Six Months Ended		Change	
	August 2, 2024	August 4, 2023	\$	%	August 2, 2024	August 4, 2023	\$	%
(in thousands, except percentages)								
<b>Gross Profit:</b>								
Taegis Subscription Solutions	\$ 51,150	\$ 45,686	\$ 5,464	12.0 %	\$ 100,794	\$ 88,374	\$ 12,420	14.1 %
Managed Security Services	(924)	1,055	(1,979)	(187.6)%	837	4,607	(3,770)	(81.8)%
Total Subscription	\$ 50,226	\$ 46,741	\$ 3,485	7.5 %	\$ 101,631	\$ 92,981	\$ 8,650	9.3 %
Professional Services	4,511	6,168	(1,657)	(26.9)%	10,882	11,537	(655)	(5.7)%
Total Gross Profit	\$ 54,737	\$ 52,909	\$ 1,828	3.5 %	\$ 112,513	\$ 104,518	\$ 7,995	7.6 %

### Gross Margin:

Taegis Subscription Solutions	71.8 %	68.8 %	3.0 %	71.9 %	68.5 %	3.4 %
Managed Security Services	(993.5) %	10.1 %	(1,003.6)%	25.8 %	18.4 %	7.4 %
Total Subscription	70.5 %	60.8 %	9.7 %	70.8 %	60.3 %	10.5 %
Professional Services	41.4 %	38.2 %	3.2 %	44.7 %	34.7 %	10.0 %
Total Gross Margin	66.6 %	56.9 %	9.7 %	67.0 %	55.8 %	11.2 %

## Other Financial Information

(1)

### Non-GAAP Gross Profit:

Taegis Subscription Solutions	\$ 52,934	\$ 46,982	\$ 5,952	12.7 %	\$ 104,264	\$ 90,818	\$ 13,446	14.8 %
Managed Security Services	(924)	4,505	(5,429)	(120.5)%	885	11,535	(10,650)	(92.3)%
Total Non-GAAP Subscription	\$ 52,010	\$ 51,487	\$ 523	1.0 %	\$ 105,149	\$ 102,353	\$ 2,796	2.7 %
Non-GAAP Professional Services	4,842	6,490	(1,648)	(25.4)%	11,587	12,184	(597)	(4.9)%
Total Non-GAAP Gross Profit	\$ 56,853	\$ 57,977	\$ (1,124)	(1.9)%	\$ 116,736	\$ 114,537	\$ 2,199	1.9 %

### Non-GAAP Gross Margin:

Taegis Subscription Solutions	74.3 %	70.7 %	3.6 %	74.3 %	70.4 %	3.9 %
Managed Security Services	(993.5) %	43.3 %	(1,036.8)%	27.3 %	46.0 %	(18.7) %
Total Non-GAAP Subscription	73.0 %	67.0 %	6.0 %	73.3 %	66.4 %	6.9 %
Non-GAAP Professional Services	44.5 %	40.2 %	4.3 %	47.6 %	36.6 %	11.0 %
Total Non-GAAP Gross Margin	69.2 %	62.4 %	6.8 %	69.6 %	61.1 %	8.5 %

(1) See "Non-GAAP Financial Measures" and "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

**Subscription Gross Margin.** Subscription gross margin increased 9.7% and 10.5% for the three and six months ended August 2, 2024, respectively. The increase in subscription gross margin is primarily attributable to lower vendor costs as we continue to scale the delivery of our higher value, higher margin Taegis Subscription Solutions.

Subscription gross margin on a GAAP basis includes amortization of intangible assets and stock-based compensation expense. On a non-GAAP basis, excluding these adjustments, gross margin increased 6.0% and 6.9% for the three and six months ended August 2, 2024, respectively.

**Professional Services Gross Margin.** Professional services gross margin increased 3.2% and 10.0% for the three and six months ended August 2, 2024,

respectively. We expect professional services gross margin to fluctuate due to the timing of the revenue and related expense reductions associated with the reduction of our non-strategic professional services offerings.

Professional services gross margin on a GAAP basis includes stock-based compensation expense. On a non-GAAP basis, excluding this adjustment, gross margin increased 4.3% and 11.0% for the three and six months ended August 2, 2024, respectively.

## Operating Expenses

The following table presents information regarding our operating expenses during the three and six months ended August 2, 2024 and August 4, 2023.

	Three Months Ended		Change		Six Months Ended		Change	
	August 2, 2024	August 4, 2023	\$	%	August 2, 2024	August 4, 2023	\$	%
(in thousands, except percentages)								
Operating expenses:								
Research and development	\$ 22,804	\$ 28,236	\$ (5,432)	(19.2)%	\$ 47,352	\$ 59,408	\$ (12,056)	(20.3)%
Sales and marketing	24,512	31,237	(6,725)	(21.5)%	48,413	65,763	(17,350)	(26.4)%
General and administrative	20,552	20,366	186	0.9%	39,070	42,629	(3,559)	(8.3)%
Reorganization and other related charges	—	14,232	(14,232)	(100.0)%	1,476	14,232	(12,756)	(89.6)%
<b>Total operating expenses</b>	<b>\$ 67,868</b>	<b>\$ 94,071</b>	<b>\$ (26,203)</b>	<b>(27.9)%</b>	<b>\$ 136,311</b>	<b>\$ 182,032</b>	<b>\$ (45,721)</b>	<b>(25.1)%</b>

## Other Financial Information<sup>(1)</sup>

Non-GAAP research and development	\$ 20,035	\$ 25,555	\$ (5,520)	(21.6)%	\$ 41,204	\$ 54,125	\$ (12,921)	(23.9)%
Non-GAAP sales and marketing	23,036	30,140	(7,104)	(23.6)%	45,751	63,825	(18,074)	(28.3)%
Non-GAAP general and administrative	13,384	13,532	(148)	(1.1)%	24,662	28,915	(4,253)	(14.7)%
<b>Non-GAAP operating expenses</b>	<b>\$ 56,455</b>	<b>\$ 69,227</b>	<b>\$ (12,772)</b>	<b>(18.4)%</b>	<b>\$ 111,617</b>	<b>\$ 146,865</b>	<b>\$ (35,248)</b>	<b>(24.0)%</b>

<sup>(1)</sup> See "Non-GAAP Financial Measures" and "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

**Research and Development Expenses.** For the three months ended August 2, 2024, R&D expenses decreased \$5.4 million, or 19.2%. As a percentage of revenue, R&D expenses decreased 270 basis points to 27.7% and, on a non-GAAP basis, R&D expenses as a percentage of revenue decreased 310 basis points to 24.4%. The decrease in R&D expenses was primarily attributable to lower employee-related expenses and lower professional services and consulting-related costs.

For the six months ended August 2, 2024, R&D expenses decreased \$12.1 million, or 20.3%. As a percentage of revenue, R&D expenses decreased 350 basis points to 28.2% and on a non-GAAP basis, R&D expenses as a percentage of revenue decreased 430 basis points to 24.6%. The decrease in R&D expenses was primarily attributable to lower employee-related expenses, and lower professional services and consulting-related costs.

**Sales and Marketing Expenses.** For the three months ended August 2, 2024, S&M expenses decreased \$6.7 million, or 21.5%. As a percentage of revenue, S&M expenses decreased 380 basis points to 29.8% and, on a non-GAAP basis, S&M expenses as a percentage of revenue decreased 440 basis points to 28.0%. The decrease in S&M expenses was primarily attributable to a decrease in marketing and advertising vendor costs and lower employee-related expenses.

For the six months ended August 2, 2024, S&M expenses decreased \$17.4 million, or 26.4%. As a percentage of revenue, S&M expenses decreased 630 basis points to 28.8%, and on a non-GAAP basis, S&M expenses as a percentage of revenue decreased 680 basis points to 27.3%. The decrease in S&M expenses was primarily attributable to a decrease in marketing and advertising vendor costs as well as lower employee-related expenses.

**General and Administrative Expenses.** For the three months ended August 2, 2024, G&A expenses increased \$0.2 million, or 0.9%. As a percentage of revenue, G&A expenses increased 310 basis points to 25.0%, and on a non-GAAP basis, G&A expenses as a percentage of revenue increased 170 basis points to 16.3%. The increase in G&A expenses were primarily attributable to higher professional services and consulting-related costs.

For the six months ended August 2, 2024, G&A expenses decreased \$3.6 million, or 8.3%. As a percentage of revenue, G&A expenses increased 50 basis points to 23.3%. On a non-GAAP basis, G&A expenses as a percentage of revenue decreased 70 basis points to 14.7%. The decrease in G&A expenses was primarily attributable to lower employee-related expenses, and lower professional services and consulting-related costs.

**Reorganization and other related charges.** During the three and six months ended August 2, 2024, the Company incurred expenses of \$1.5 million associated with its reorganization plan, consisting primarily of severance and other termination benefits.

**Operating Loss**

Our operating loss for the three months ended August 2, 2024 and August 4, 2023 was \$13.1 million and \$41.2 million, respectively. As a percentage of revenue, our operating loss was 16.0% and 44.3% for the three months ended August 2, 2024 and August 4, 2023, respectively. The decrease in our operating loss was primarily attributable to a decrease in operating expenses as a percentage of revenue and was supplemented by increased gross margins driven by our higher value, higher margin Taegis solutions.

Our operating loss for the six months ended August 2, 2024 and August 4, 2023 was \$23.8 million and \$77.5 million, respectively. As a percentage of revenue, our operating loss was 14.2% and 41.4% for the six months ended August 2, 2024 and August 4, 2023, respectively. The decrease in our operating loss was primarily attributable to a decrease in operating expenses as a percentage of revenue and was supplemented by increased gross margins driven by our higher value, higher margin Taegis solutions.

Operating loss on a GAAP basis includes amortization of intangible assets, stock-based compensation expense, and reorganization related costs. On a non-GAAP basis, excluding these adjustments, our non-GAAP operating income was \$0.4 million and \$5.1 million for the three and six months ended August 2, 2024, respectively, compared to non-GAAP operating loss of \$11.3 million and \$32.3 million for the three and six months ended August 4, 2023, respectively.

**Interest and Other, Net**

Interest and other, net represented expense of \$0.9 million and \$0.1 million for the three and six months ended August 2, 2024, respectively, compared with net expense of \$0.6 million and \$2.4 million for the three and six months ended August 4, 2023, respectively. The change primarily reflects the effects of foreign currency transactions and related exchange rate fluctuations.

**Income Tax Expense (Benefit)**

Our income tax expense was \$0.7 million, or (5.2)%, and \$26.9 million, or (112.8)%, of our pre-tax loss during the three and six months ended August 2, 2024, respectively. Our income tax benefit was \$9.4 million, or 22.6%, and \$16.6 million, or 20.7%, of our pre-tax loss during the three and six months ended August 4, 2023, respectively. The change in the effective tax rate was primarily attributable to the impact of tax deconsolidation from Dell during the three months ended May 3, 2024. Additionally, the change in effective tax rate was driven by the impact of certain discrete adjustments related to the vesting of stock-based compensation awards in the current quarter and the recognition of additional benefits related to research and development credits.

**Net Income (Loss)**

Our net loss of \$14.7 million decreased \$17.6 million, or 54.5%, for the three months ended August 2, 2024 compared to the three months ended August 4, 2023. Our net loss of \$50.8 million decreased \$12.5 million, or 19.8%, for the six months ended August 2, 2024 compared to the six months ended August 4, 2023. This decrease was primarily attributable to our decreased operating loss, partially offset by the impact of income tax expense associated with the tax deconsolidation from Dell during the three months ended May 3, 2024.

Net loss on a non-GAAP basis for the three months ended August 2, 2024 was \$0.4 million compared to non-GAAP net loss of \$8.6 million for the three months ended August 4, 2023. For the six months ended August 2, 2024, non-GAAP net income was \$3.9 million compared to non-GAAP net loss of \$25.8 million for the six months ended August 4, 2023.

## Liquidity and Capital Commitments

### Overview

As of August 2, 2024, we have \$47.6 million of cash and cash equivalents. We believe that our cash and cash equivalents and access to the revolving credit facility with Dell, described below, provide us with sufficient liquidity to meet our cash requirements, including to fund our business and meet our obligations for at least 12 months from the filing date of this report and for the foreseeable future thereafter.

As of the balance sheet date, we have reported a deficit in working capital. This deficit in working capital represents an excess of our current liabilities over our current assets and is primarily the result of the significant balance of deferred revenue, reported as a current liability, as of the balance sheet date. We have, in recent periods, incurred losses from operations and operating cash outflows. Our future capital requirements will depend on many factors, including, but not limited to, our rate of revenue growth, the timing and extent of our expansion into new markets, the timing of introductions of new functionalities and enhancements to our solutions, potential acquisitions of complementary businesses and technologies, continuing market acceptance of our solutions, and general economic and market conditions.

We expect our recent reorganization actions to result in significant cost savings as we focus on driving growth through our higher value, higher margin Taegis solutions. We believe these efforts will optimize our organizational structure and increase scalability to better position us for growth with improving operating margins over time.

In the event that our financial results are below our expectations, which may result from the factors mentioned above or other factors, we may need to take additional actions to preserve existing cash reserves. To the extent we undertake future material acquisitions, investments, or unanticipated capital or operating expenditures, we may require additional capital or need to incur indebtedness. In this context, we regularly evaluate opportunities to enhance our capital structure. In addition to our \$50 million revolving credit facility, sources of financing may include arrangements with unaffiliated third parties. The timing, term, size, and pricing of any such financing will depend on investor interest and market conditions, and there can be no assurance that we will be able to obtain any such financing on favorable terms or at all.

### Selected Measures of Liquidity and Capital Resources

Our principal sources of liquidity, consisting of cash and cash equivalents, are set forth below as of the dates indicated.

	August 2, 2024	February 2, 2024
	(in thousands)	
Cash and cash equivalents	\$ 47,628	\$ 68,655

### Revolving Credit Facility

SecureWorks, Inc., our wholly-owned subsidiary, is party to a revolving credit agreement with a wholly-owned subsidiary of Dell Inc. under which we obtained a \$50 million senior unsecured revolving credit facility. Effective September 6, 2023, the revolving credit agreement was amended and restated to (1) increase the maximum principal amount of borrowings outstanding under the revolving credit facility to \$50 million, (2) remove the one-time increase of up to an additional \$30 million in borrowings upon mutual agreement by the lender and borrower, (3) extend the commitment and required repayment date under the revolving credit agreement to March 23, 2026, and (4) modify the rate at which interest accrues on funds drawn against the revolving credit agreement to SOFR plus 2.00%.

Amounts under the facility may be borrowed, repaid and reborrowed from time to time during the term of the facility. The proceeds from loans made under the facility may be used for general corporate purposes. The credit agreement contains customary representations, warranties, covenants, and events of default. The unused portion of the facility is subject to a commitment fee of 0.35%, which is due upon expiration of the facility. There was no outstanding balance under the facility as of August 2, 2024 or as of February 2, 2024, and we did not borrow any amounts under the facility during any period covered by this report.

The borrower will be required to repay, in full, all of the loans outstanding, including all accrued interest, and the facility will terminate upon a change of control of SecureWorks Corp. or following a transaction in which SecureWorks, Inc. ceases to be a direct or indirect wholly-owned subsidiary of SecureWorks Corp. The facility is not guaranteed by us or our subsidiaries.

For more information regarding the facility, see "Notes to Condensed Consolidated Financial Statements—Note 5—Debt" in our condensed consolidated financial statements included in this report.

## Cash Flows

	Six Months Ended	
	August 2, 2024	August 4, 2023
	(in thousands)	
<i>Net change in cash from:</i>		
Operating activities	\$ (8,808)	\$ (67,390)
Investing activities	(3,994)	(2,940)
Financing activities	(7,010)	(5,711)
Effect of exchange rate changes on cash and cash equivalents	(1,215)	(2,577)
Change in cash and cash equivalents	<u>\$ (21,027)</u>	<u>\$ (78,618)</u>

**Operating Activities** — Cash used in operating activities totaled \$8.8 million and \$67.4 million for the six months ended August 2, 2024 and August 4, 2023, respectively. The decreased use of our operating cash aligns with our increase in adjusted EBITDA when compared to the same period in fiscal 2024.

**Investing Activities** — Cash used in investing activities totaled \$4.0 million for the six months ended August 2, 2024 and \$2.9 million for the six months ended August 4, 2023. Investing activities consisted primarily of capitalized expenses related to the development of our Taegis security platform and applications, which increased \$0.6 million when compared to the same period in fiscal 2024.

**Financing Activities** — Cash used in financing activities totaled \$7.0 million and \$5.7 million for the six months ended August 2, 2024 and August 4, 2023, respectively. The use of cash for the six months ended August 2, 2024 reflected employee tax withholding payments on restricted stock awards paid by us of \$7.0 million and \$5.7 million for the six months ended August 2, 2024 and August 4, 2023, respectively.

### **Off-Balance Sheet Arrangements**

As of August 2, 2024, we were not subject to any obligations pursuant to any off-balance sheet arrangements that have or are reasonably likely to have a material effect on our financial condition, results of operations or liquidity.

### **Critical Accounting Policies**

The unaudited condensed consolidated financial statements included elsewhere in this report have been prepared in accordance with GAAP for interim financial information and the requirements of the SEC. Accordingly, they do not include all the information and disclosures required by GAAP for a complete financial statement presentation. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. In the opinion of management, all adjustments consisting of normal recurring accruals and disclosures considered necessary for a fair interim presentation have been included. All inter-company accounts and transactions have been eliminated in consolidation.

As described in "Notes to Condensed Consolidated Financial Statements —Note 1—Description of the Business and Basis of Presentation" in our consolidated financial statements included in this report, management assessed the critical accounting policies as disclosed in our Annual Report and determined that there were no changes to our critical accounting policies or to our estimates associated with those policies during the three and six months ended August 2, 2024.

### **Recently Issued Accounting Pronouncements**

See "Notes to Condensed Consolidated Financial Statements —Note 1—Description of the Business and Basis of Presentation" in our condensed consolidated financial statements included in this report for a description of recently issued accounting pronouncements and our expectation of their impact, if any, on our financial statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our results of operations and cash flows have been and will continue to be subject to fluctuations because of changes in global inflation and foreign currency exchange rates, particularly changes in exchange rates between the U.S. dollar and the Euro, the British Pound, the Romanian Leu, the Japanese Yen, the Australian Dollar, the Indian Rupee and the Canadian Dollar, the currencies of countries where we currently have our most significant international operations. Our expenses in international locations are generally denominated in the currencies of the countries in which our operations are located.

As our international operations grow, we may begin using foreign exchange forward contracts to partially mitigate the impact of fluctuations in net monetary assets denominated in foreign currencies.

### **Item 4. Controls and Procedures**

#### ***Limitations on Effectiveness of Disclosure Controls and Procedures***

In designing and evaluating our disclosure controls and procedures, as defined below under SEC rules, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their cost.

#### ***Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange of 1934, or Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of August 2, 2024. Based on that evaluation, our management has concluded that our disclosure controls and procedures were effective as of August 2, 2024.

#### ***Changes in Internal Control over Financial Reporting***

Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures which (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, (c) provide reasonable assurance that receipts and expenditures are being made only in accordance with appropriate authorization of management and the board of directors, and (d) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

There were no changes in our internal control over financial reporting that occurred during the quarter ended August 2, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

### Item 1A. Risk Factors

We have discussed risks affecting us under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2024, which was filed with the SEC on March 22, 2024. The risks described in our Annual Report are not the only risks facing us. There are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial that may also materially adversely affect our business, financial condition, or operating results.

## Item 6. Exhibits

Secureworks hereby files or furnishes the following exhibits:

<u>Exhibit No.</u>	<u>Description</u>
10.1**	<a href="#">SecureWorks Corp. 2016 Long-Term Incentive Plan, as amended and restated as of June 25, 2024 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated as of June 25, 2025) (Commission File No. 001-37748).</a>
31.1	<a href="#">Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.</a>
31.2	<a href="#">Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.</a>
32.1*	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer of the Company pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.</a>
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH†	Inline XBRL Taxonomy Extension Schema Document.
101.CAL†	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF†	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB†	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE†	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document, which is contained in Exhibit 101).

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† Filed with this report.

\* The certification attached as Exhibit 32.1 accompanying this quarterly report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, shall not be deemed "filed" by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*\* Management contracts or compensation plans or arrangements in which directors or executive officers participate.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SecureWorks Corp.

By:

\_\_\_\_\_  
/s/ Alpana Wegner

Alpana Wegner  
Chief Financial Officer  
(Duly Authorized Officer)

Date: September 6, 2024

SECUREWORKS CORP.

2016 LONG-TERM INCENTIVE PLAN

(As Amended and Restated as of June 25, 2024)

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SECUREWORKS CORP.

2016 LONG-TERM INCENTIVE PLAN

(As Amended and Restated as of June 25, 2024)

1. PURPOSE

The Plan is intended to (a) provide eligible individuals with an incentive to contribute to the success of the Company and to operate and manage the Company's business in a manner that will provide for the Company's long-term growth and profitability and that will benefit its stockholders and other important stakeholders, including its employees and customers, and (b) provide a means of recruiting, rewarding, and retaining key personnel. In furtherance of these purposes, the Plan provides for the grant of Awards of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Deferred Stock Units, Unrestricted Stock, Dividend Equivalent Rights, Other Equity-Based Awards, and cash bonus awards. Any of these Awards may, but need not, be made as performance incentives to reward the holders of such Awards for the achievement of performance goals in accordance with the terms of the Plan. Options granted under the Plan may be Nonqualified Stock Options or Incentive Stock Options.

2. DEFINITIONS

For purposes of interpreting the Plan documents, including the Plan and Award Agreements, the following capitalized terms shall have the meanings specified below, unless the context clearly indicates otherwise:

**2.1 "Affiliate"** shall mean any Person that controls, is controlled by, or is under common control with the Company within the meaning of Rule 405 of Regulation C under the Securities Act, including any Subsidiary. For purposes of making a grant of Options or Stock Appreciation Rights, an entity shall not be considered an Affiliate unless the Company holds a Controlling Interest in such entity. The preceding sentence does not, however, apply for purposes of determining whether Service is uninterrupted for purposes of vesting, exercisability, or expiration of Options and Stock Appreciation Rights.

**2.2 "Amendment Date"** shall mean June 25, 2024, which was the date on which the Company's stockholders approved an amendment to Section 4.1.

**2.3 "Annual Incentive Award"** shall mean an Award, denominated in cash, made subject to attainment of performance goals (as provided in Article 13) over a Performance Period of up to one (1) year, which shall be the Company's fiscal year, unless otherwise specified by the Board or the Committee.

**2.4 "Applicable Laws"** shall mean the legal requirements relating to the Plan and the Awards under (a) applicable provisions of the Code, the Securities Act, the Exchange Act, any rules or regulations under the Code, the Securities Act, or the Exchange Act, and any other laws, rules, regulations, and government orders of any jurisdiction applicable to the Company or its Affiliates, (b) applicable provisions of the corporate, securities, tax, and other laws, rules, regulations, and government orders of any jurisdiction applicable to Awards granted to residents thereof, and (c) the rules of any Stock Exchange or Securities Market on which the Common Stock is listed or publicly traded.

**2.5 "Award"** shall mean a grant under the Plan of an Option, a Stock Appreciation Right, Restricted Stock, a Restricted Stock Unit, a Deferred Stock Unit, Unrestricted Stock, a Dividend Equivalent Right, a Performance Award, an Annual Incentive Award, an Other Equity-Based Award, or cash.

**2.6 "Award Agreement"** shall mean the written agreement, in such written, electronic, or other form as determined by the Committee, between the Company and a Grantee that evidences and sets forth the terms and conditions of an Award.

**2.7 "Beneficial Owner"** shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

**2.8 "Benefit Arrangement"** shall mean any formal or informal plan or other arrangement for the direct or indirect provision of compensation to a Grantee (including groups or classes of Grantees or beneficiaries of which the Grantee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Grantee.

**2.9 "Board"** shall mean the Board of Directors of the Company.

**2.10 "Capital Stock"** shall mean, with respect to any Person, any and all shares, interests, participations, or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Effective Date or issued thereafter, including, without limitation, all shares of Common Stock.

**2.11 "Cause"** shall have the meaning set forth in an applicable agreement between a Grantee and the Company or an Affiliate, and in the absence of any such agreement shall mean, with respect to any Grantee and as determined by the Committee, (a) a violation of such Grantee's obligations regarding confidentiality or the protection of sensitive, confidential, or proprietary information, or trade secrets; (b) an act or omission by such Grantee resulting in such Grantee being charged with a criminal offense which constitutes a felony or involves moral turpitude or dishonesty; (c) conduct by such Grantee which constitutes poor performance, gross neglect, insubordination, willful misconduct, or a breach of the Company's Code of Conduct or a fiduciary duty to the Company or its stockholders; or (d) the Company's determination that such Grantee violated state or federal law relating to the workplace environment, including, without limitation, laws relating to sexual harassment or age, sex, race, or other prohibited discrimination. Any determination by the Committee regarding whether an event constituting Cause shall have occurred shall be final, binding, and conclusive.

**2.12 "Change in Control"** shall mean, subject to **Section 18.11**, the occurrence of any of the following:

(a) a transaction or a series of related transactions occurring after the Effective Date pursuant to which any Person or Group (other than one or more of any Dell Entity, the Company, or any Affiliate) becomes the Beneficial Owner of more than fifty percent (50%) of the total voting power of the Voting Stock of the Company, on a Fully Diluted Basis;

(b) individuals who, as of April 28, 2016, constitute the Board (the "**Incumbent Board**") (together with any new directors whose election by such Incumbent Board or whose nomination by such Incumbent Board for election by the stockholders of the Company was approved by a vote of at least a majority of the members of such Incumbent Board then in office who either were members of such Incumbent Board or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the members of such Board then in office;

(c) the Company consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, the Company (regardless of whether the Company is the surviving Person), other than any such transaction in which the Prior Stockholders own directly or indirectly at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation immediately after such transaction;

(d) the consummation of any direct or indirect sale, lease, transfer, conveyance, or other disposition (other than by way of reorganization, merger, or consolidation), in one transaction or a series of related transactions, of all or substantially all of the assets of the Company and its Subsidiaries, taken as a whole, to any Person or Group (other than the Company or any Affiliate), except any such transaction or series of transactions in which the Prior Stockholders own directly or indirectly at least a majority of the voting power of the Voting Stock of such Person or Group immediately after such transaction or series of transactions; or

(e) the stockholders of the Company adopt a plan or proposal for the liquidation, winding up, or dissolution of the Company.

The Board shall have full and final authority, in its sole discretion, to determine conclusively whether a Change in Control has occurred pursuant to the above definition, the date of the occurrence of such Change in Control, and any incidental matters relating thereto.

**2.13 "Code"** shall mean the Internal Revenue Code of 1986, as amended, as now in effect or as hereafter amended, and any successor thereto. References in the Plan to any Code Section shall be deemed to include, as applicable, regulations and guidance promulgated under such Code Section.

**2.14 "Committee"** shall mean a committee of, and designated from time to time by resolution of, the Board, which shall be constituted as provided in Section 3.1.2 and Section 3.1.3 (or, if no Committee has been so designated, the Board).

**2.15 "Common Stock"** shall mean the Class A common stock, par value \$0.01 per share, of the Company, the Class B common stock, par value \$0.01 per share, of the Company, and any other class or series of common stock of the Company that may be issued and outstanding from time to time.

**2.16 "Company"** shall mean SecureWorks Corp., a Delaware corporation, and any successor thereto.

**2.17 "Controlling Interest"** shall have the meaning set forth in Treasury Regulation Section 1.414(c)-2(b)(2)(i), provided that (a) except as specified in clause (b) below, an interest of "at least 50 percent" shall be used instead of an interest of "at least 80 percent," in each case where "at least 80 percent" appears in Treasury Regulation Section 1.414(c)-2(b)(2)(i), and (b) where a grant of Options or Stock Appreciation Rights is based upon a legitimate business criterion, an interest of "at least 20 percent" shall be used instead of an interest of "at least 80 percent," in each case where "at least 80 percent" appears in Treasury Regulation Section 1.414(c)-2(b)(2)(i).

**2.18 "Covered Employee"** shall mean a Grantee who is, or could become, a "covered employee" within the meaning of Code Section 162(m).

**2.19 "Dell Trust"** shall mean the Susan Lieberman Dell Separate Property Trust.

**2.20 "Deferred Stock Unit"** shall mean a Restricted Stock Unit, the terms of which provide for delivery of the underlying shares of Stock, cash, or a combination thereof subsequent to the date of vesting, at a time or times consistent with the requirements of Code Section 409A.

**2.21 "Dell Affiliate"** shall mean, other than the Company, (a) any legal entity of which Parent is the beneficial owner of voting interests representing twenty percent (20%) or more in voting power of the outstanding voting interests, (b) any other legal entity that (directly or indirectly) is controlled by Parent, controls Parent or is under common control with Parent, or (c) any of (i) MD, (ii) any legal entity of which MD is the beneficial owner of voting interests representing twenty percent (20%) or more in voting power of the outstanding voting interests, (iii) any other legal entity that (directly or indirectly) is controlled by MD, (iv) the Dell Trust, (v) any MSD Fund and (vi) any Permitted Transferee (as such term is defined in the Company's certificate of incorporation) of any Person referred to in sub-clause (i), (iv) or (v) of this clause (c).

**2.22 "Dell Entity"** shall mean any one or more of (a) Parent and (b) the Dell Affiliates.

**2.23 "Disability"** shall mean the inability of a Grantee to perform each of the essential duties of such Grantee's position by reason of a medically determinable physical or mental impairment which is potentially permanent in character or which can be expected to last for a continuous period of not less than twelve (12) months, provided that, with respect to rules regarding the expiration of an Incentive Stock Option following termination of a Grantee's Service, Disability shall mean the inability of such Grantee to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

**2.24 "Disqualified Individual"** shall have the meaning set forth in Code Section 280G(c).

**2.25 "Dividend Equivalent Right"** shall mean a right, granted to a Grantee pursuant to **Article 12**, entitling the Grantee thereof to receive, or to receive credits for the future payment of, cash, Stock, other Awards, or other property equal in value to dividend payments or distributions, or other periodic payments, declared or paid with respect to a number of shares of Stock specified in such Dividend Equivalent Right (or other Award to which such Dividend Equivalent Right relates) as if such shares of Stock had been issued to and held by the Grantee of such Dividend Equivalent Right as of the record date of the declaration thereof.

**2.26 "Effective Date"** shall mean April 18, 2016, which was the date on which the Plan was adopted by the Board subject to approval by the Company's stockholders prior to the closing of the IPO.

**2.27 "Employee"** shall mean, as of any date of determination, an employee (including an officer) of the Company or an Affiliate.

**2.28 "Exchange Act"** shall mean the Securities Exchange Act of 1934, as amended, as now in effect or as hereafter amended, and any successor thereto.

**2.29 "Fair Market Value"** shall mean the fair market value of a share of Stock for purposes of the Plan, which shall be, as of any date of determination:

(a) If on such date the shares of Stock are listed on a Stock Exchange, or are publicly traded on another Securities Market, the Fair Market Value of a share of Stock shall be the closing price of the Stock as reported on such Stock Exchange or such Securities Market (provided that, if there is more than one such Stock Exchange or Securities Market, the Committee shall designate the appropriate Stock Exchange or Securities Market for purposes of the Fair Market Value determination). If there is no such reported closing price on such date, the Fair Market Value of a share of Stock shall be the closing price of the Stock on the next preceding day on which any sale of Stock shall have been reported on such Stock Exchange or such Securities Market.

(b) If on such date the shares of Stock are not listed on a Stock Exchange or publicly traded on a Securities Market, the Fair Market Value of a share of Stock shall be the value of the Stock as determined by the Committee by the reasonable application of a reasonable valuation method, in a manner consistent with Code Section 409A.

Notwithstanding this **Section 2.29** or **Section 18.3**, for purposes of determining taxable income and the amount of the related tax withholding obligation pursuant to **Section 18.3**, the Fair Market Value shall be determined by the Committee in good faith using any reasonable method it deems appropriate, to be applied consistently with respect to Grantees, provided that the Committee shall determine the Fair Market Value of shares of Stock for tax withholding obligations due in connection with sales, by or on behalf of a Grantee, of such shares of Stock subject to an Award to pay the Option Price, SAR Price, and/or any tax withholding obligation on the same date on which such shares may first be sold pursuant to the terms of the applicable Award Agreement (including broker-assisted cashless exercises of Options and Stock Appreciation Rights, as described in **Section 14.3**, and sell-to-cover transactions) in any manner consistent with applicable provisions of the Code, including, without limitation, by using the sale price of such shares on such date (or if sales of such shares are effectuated at more than one sale price, the weighted average sale price of such shares on such date) as the Fair Market Value of such shares, so long as such Grantee has provided the Company, or its designee or agent, with advance written notice of such sale.

Notwithstanding the foregoing, with respect to any Award for which the Grant Date is April 21, 2016, the Fair Market Value shall mean the price per share of the Stock to the public as set forth in the underwriting agreement between the Company and the underwriters for the IPO that established the price per share of the Stock to the public sold in the IPO.

**2.30 "Family Member"** shall mean, with respect to any Grantee as of any date of determination, (a) a Person who is a spouse, former spouse, child, stepchild, grandchild, parent, stepparent, grandparent, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother, sister, brother-in-law, or sister-in-law, including adoptive relationships, of such Grantee, (b) any Person sharing such Grantee's household (other than a tenant or employee), (c) a trust in which any one or more of the Persons specified in clauses (a) and (b) above (and such Grantee) own more than fifty percent (50%) of the beneficial interest, (d) a foundation in which any one or more of the Persons specified in clauses (a) and (b) above (and such Grantee) control the management of assets, and (e) any other entity in which one or more of the Persons specified in clauses (a) and (b) above (and such Grantee) own more than fifty percent (50%) of the voting interests.

**2.31 "Fully Diluted Basis"** shall mean, as of any date of determination, the sum of (x) the number of shares of Voting Stock outstanding as of such date of determination plus (y) the number of shares of Voting Stock issuable upon the exercise, conversion, or exchange of all then-outstanding warrants, options, convertible Capital Stock or indebtedness, exchangeable Capital Stock or indebtedness, or other rights exercisable for or convertible or exchangeable into, directly or indirectly, shares of Voting Stock, whether at the time of issue or upon the passage of time or upon the occurrence of some future event, and whether or not in-the-money as of such date of determination.

**2.32 "Grant Date"** of any Award shall mean, as determined by the Committee, the latest to occur of (a) the date as of which the Committee approves such Award, (b) the date on which the recipient of such Award first becomes eligible to receive an Award under **Article 6** (such as, in the case of a new hire, the first date on which such new hire performs any Service), or (c) such date later than the dates specified in clauses (a) and (b) specified by the Committee in the corporate action approving the Award.

- 2.33** “**Grantee**” shall mean a Person who receives or holds an Award under the Plan.
- 2.34** “**Group**” shall have the meaning set forth in Sections 13(d) and 14(d)(2) of the Exchange Act.
- 2.35** “**Incentive Stock Option**” shall mean an “incentive stock option” within the meaning of Code Section 422.
- 2.36** “**IPO**” shall mean the initial firm commitment underwritten registered public offering of Stock by the Company.
- 2.37** “**MD**” shall mean Michael S. Dell.
- 2.38** “**MSD Funds**” shall mean (a) MSDC Denali Investors, L.P., a Delaware limited partnership, and (b) MSDC Denali EIV, LLC, a Delaware limited liability company.
- 2.39** “**Nonqualified Stock Option**” shall mean an Option that is not an Incentive Stock Option.
- 2.40** “**Non-Employee Director**” shall have the meaning set forth in Rule 16b-3 under the Exchange Act.
- 2.41** “**Officer**” shall have the meaning set forth in Rule 16a-1(f) under the Exchange Act.
- 2.42** “**Option**” shall mean an option to purchase one or more shares of Stock at a specified Option Price awarded to a Grantee pursuant to **Article 8**.
- 2.43** “**Option Price**” shall mean the per share exercise price for shares of Stock subject to an Option.
- 2.44** “**Other Agreement**” shall mean any agreement, contract, or understanding heretofore or hereafter entered into by a Grantee with the Company or an Affiliate, except an agreement, contract, or understanding that expressly addresses Code Section 280G and/or Code Section 4999.
- 2.45** “**Other Equity-Based Award**” shall mean an Award representing a right or other interest that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to Stock, other than an Option, a Stock Appreciation Right, Restricted Stock, a Restricted Stock Unit, a Deferred Stock Unit, Unrestricted Stock, a Dividend Equivalent Right, a Performance Award, or an Annual Incentive Award.
- 2.46** “**Parachute Payment**” shall mean a “parachute payment” within the meaning of Code Section 280G(b)(2), or the corresponding provision of any subsequently enacted tax statute, as amended from time to time.
- 2.47** “**Parent**” shall mean Dell Technologies Inc., which as of the Effective Date is the ultimate parent company of the Company. If at any time Dell Technologies Inc. no longer is the Beneficial Owner of at least fifty percent (50%) of the combined voting power of the Common Stock outstanding after the closing of the IPO, it shall no longer be treated as Parent.
- 2.48** “**Performance-Based Compensation**” shall mean compensation under an Award that is intended to satisfy the requirements of Prior Code Section 162(m) for Qualified Performance-Based Compensation paid to Covered Employees. Notwithstanding the foregoing, nothing in the Plan shall be construed to mean that an Award which does not satisfy the requirements for Qualified Performance-Based Compensation does not constitute performance-based compensation for other purposes, including the purposes of Code Section 409A.
- 2.49** “**Performance Award**” shall mean an Award made subject to the attainment of performance goals (as provided in **Article 13**) over a Performance Period as specified by the Committee.
- 2.50** “**Performance Measures**” shall mean measures as specified in **Section 13.6.4** on which the performance goal or goals under Performance Awards are based and which are approved by the Company’s stockholders pursuant to, and to the extent required by, the Plan in order to qualify such Performance Awards as Qualified Performance-Based Compensation.
- 2.51** “**Performance Period**” shall mean the period of time, up to ten (10) years, during or over which the performance goals under Performance Awards must be met in order to determine the degree of payout and/or vesting with respect to any such Performance Awards.

**2.52 "Person"** shall mean an individual, a corporation, a partnership, a limited liability company, an association, a trust, or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof, provided that, for purposes of **Section 2.12(a)** and **Section 2.12(d)**, Person shall have the meaning set forth in Sections 13(d) and 14(d)(2) of the Exchange Act.

**2.53 "Plan"** shall mean this SecureWorks Corp. 2016 Long-Term Incentive Plan, as amended, modified or restated from time to time.

**2.54 "Prior Code Section 162(m)"** shall mean Code Section 162(m) as in effect prior to its amendment by the Tax Cuts and Jobs Act, P.L. 115-97, including the regulations and guidance promulgated in respect of Code Section 162(m) as in effect prior to such amendment.

**2.55 "Prior Stockholders"** shall mean the holders of Common Stock and any other equity securities that represented one hundred percent (100%) of the Voting Stock of the Company immediately prior to a reorganization, merger, or consolidation involving the Company or any sale or other disposition of all or substantially all of the assets of the Company and its Subsidiaries, taken as a whole (or other equity securities into which the Common Stock or such other equity securities are converted as part of such reorganization, merger, or consolidation).

**2.56 "Qualified Performance-Based Compensation"** shall have the meaning set forth in Prior Code Section 162(m) or, if applicable, the Section 162(m) Grandfather.

**2.57 "Reporting Person"** shall mean a Person who is required to file reports under Section 16(a) of the Exchange Act.

**2.58 "Restricted Period"** shall mean a period of time established by the Committee during which an Award of Restricted Stock, Restricted Stock Units, or Deferred Stock Units is subject to restrictions.

**2.59 "Restricted Stock"** shall mean shares of Stock awarded to a Grantee pursuant to **Article 10**.

**2.60 "Restricted Stock Unit"** shall mean a bookkeeping entry representing the equivalent of one (1) share of Stock awarded to a Grantee pursuant to **Article 10** that may be settled, subject to the terms and conditions of the applicable Award Agreement, in shares of Stock, cash, or a combination thereof.

**2.61 "SAR Price"** shall mean the per share exercise price of a SAR.

**2.62 "Section 162(m) Grandfather"** shall mean the regulations or other guidance promulgated in respect of transition rules under Code Section 162(m), as Code Section 162(m) is in effect from time to time on or after the Amendment Date, extending the deductibility of Awards intended to be "qualified performance-based compensation" under Prior Code Section 162(m).

**2.63 "Securities Act"** shall mean the Securities Act of 1933, as amended, as now in effect or as hereafter amended, and any successor thereto.

**2.64 "Securities Market"** shall mean an established securities market.

**2.65 "Separation from Service"** shall have the meaning set forth in Code Section 409A.

**2.66 "Service"** shall mean service qualifying a Grantee as a Service Provider to the Company or an Affiliate. Unless otherwise provided in the applicable Award Agreement, a Grantee's change in position or duties shall not result in interrupted or terminated Service, so long as such Grantee continues to be a Service Provider to Parent, the Company, or an Affiliate. Subject to the preceding sentence, any determination by the Committee whether a termination of Service shall have occurred for purposes of the Plan shall be final, binding, and conclusive. If a Service Provider's employment or other Service relationship is with Parent or an Affiliate and the applicable entity ceases to be Parent or an Affiliate, a termination of Service shall be deemed to have occurred when such entity ceases to be Parent or an Affiliate unless the Service Provider transfers his or her employment or other Service relationship to the Company or any other Affiliate.

**2.67 "Service Provider"** shall mean (a) an Employee or director of the Company or an Affiliate, or (b) a consultant or adviser to the Company or an Affiliate (i) who is a natural person, (ii) who is currently providing bona fide services to the Company or an Affiliate, and (iii) whose services are not in connection with the Company's sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's Capital Stock.

**2.68** “**Service Recipient Stock**” shall have the meaning set forth in Code Section 409A.

**2.69** “**Share Limit**” shall have the meaning set forth in **Section 4.1**.

**2.70** “**Short-Term Deferral Period**” shall have the meaning set forth in Code Section 409A.

**2.71** “**Stock**” shall mean the Class A common stock, par value \$0.01 per share, of the Company, or any security into which shares of Stock may be changed or for which shares of Stock may be exchanged as provided in **Section 16.1**.

**2.72** “**Stock Appreciation Right**” or “**SAR**” shall mean a right granted to a Grantee pursuant to **Article 9**.

**2.73** “**Stock Exchange**” shall mean the New York Stock Exchange, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, or another established national or regional stock exchange.

**2.74** “**Subsidiary**” shall mean any corporation (other than the Company) or non-corporate entity with respect to which the Company owns, directly or indirectly, fifty percent (50%) or more of the total combined voting power of all classes of Voting Stock. In addition, any other entity may be designated by the Committee as a Subsidiary, provided that (a) such entity could be considered as a subsidiary according to generally accepted accounting principles in the United States of America and (b) in the case of an Award of Options or Stock Appreciation Rights, such Award would be considered to be granted in respect of Service Recipient Stock under Code Section 409A.

**2.75** “**Substitute Award**” shall mean an Award granted upon assumption of, or in substitution for, outstanding awards previously granted under a compensatory plan of the Company, an Affiliate, or a business entity acquired or to be acquired by the Company or an Affiliate or with which the Company or an Affiliate has combined or will combine.

**2.76** “**Ten Percent Stockholder**” shall mean a natural Person who owns more than ten percent (10%) of the total combined voting power of all classes of Voting Stock of the Company, the Company’s parent (if any), or any of the Company’s Subsidiaries. In determining stock ownership, the attribution rules of Code Section 424(d) shall be applied.

**2.77** “**Unrestricted Stock**” shall mean Stock that is free of any restrictions.

**2.78** “**Voting Stock**” shall mean, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers, or other voting members of the governing body of such Person. Without limiting the generality of the foregoing, the Common Stock shall be Voting Stock of the Company.

### **3. ADMINISTRATION OF THE PLAN**

#### **3.1** Committee.

##### **3.1.1** Powers and Authorities.

The Committee shall administer the Plan and shall have such powers and authorities related to the administration of the Plan as are consistent with the Company’s certificate of incorporation and bylaws and Applicable Laws. Without limiting the generality of the foregoing, the Committee shall have full power and authority to take all actions and to make all determinations required or provided for under the Plan, any Award, or any Award Agreement and shall have full power and authority to take all such other actions and to make all such other determinations not inconsistent with the specific terms and provisions of the Plan which the Committee deems to be necessary or appropriate to the administration of the Plan, any Award, or any Award Agreement. All such actions and determinations shall be made by (a) the affirmative vote of a majority of the members of the Committee present at a meeting at which a quorum is present, or (b) the unanimous consent of the members of the Committee executed in writing or evidenced by electronic transmission in accordance with the Company’s certificate of incorporation and bylaws and Applicable Laws. Unless otherwise expressly determined by the Board, the Committee shall have the authority to interpret and construe all provisions of the Plan, any Award, and any Award Agreement, and any such interpretation or construction, and any other determination contemplated to be made under the Plan or any Award Agreement, by the Committee shall be final, binding, and conclusive on all Persons, whether or not expressly provided for in any provision of the Plan, such Award, or such Award Agreement.

In the event that the Plan, any Award, or any Award Agreement provides for any action to be taken by the Board or any determination to be made by the Board, such action may be taken or such determination may be made by the Committee constituted in accordance with this **Section 3.1** if the Board has delegated the power and authority to do so to such Committee.

### **3.1.2** Composition of the Committee.

The Committee shall be a committee composed of not fewer than two (2) directors of the Company designated by the Board to administer the Plan; provided, that, the composition of the Committee shall satisfy the composition requirements of any Stock Exchange on which the Stock is listed; provided, further that the composition of the Committee shall satisfy the applicable qualification requirements under Prior Code Section 162(m) or the Section 162(m) Grandfather with respect to any Award that is intended to satisfy the requirements of Code Section 162(m) for Qualified Performance-Based Compensation paid to a Covered Employee. Any action taken by the Committee shall be valid and effective whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this **Section 3.1.2** or otherwise provided in any charter of the Committee. Without limiting the generality of the foregoing, the Committee may be the Compensation Committee of the Board or a subcommittee thereof.

### **3.1.3** Other Committees.

The Board also may appoint one or more committees of the Board, each composed of one or more directors of the Company, which (a) may administer the Plan with respect to Grantees who are not Officers or directors of the Company, (b) may grant Awards under the Plan to such Grantees, and (c) may determine all terms of such Awards, in each case, excluding (for the avoidance of doubt) Performance Awards intending to constitute Qualified Performance-Based Compensation and subject, if applicable, to the requirements of Rule 16b-3 under the Exchange Act and the rules of any Stock Exchange or Securities Market on which the Common Stock is listed or publicly traded.

### **3.1.4** Delegation by Committee.

If and to the extent permitted by Applicable Laws, the Committee, by resolution, may delegate some or all of its authority with respect to the Plan and Awards to the Chief Executive Officer of the Company and/or any other officer of the Company designated by the Committee, provided that the Committee may not delegate its authority hereunder (a) to make Awards to directors of the Company, (b) to make Awards to Employees who are (i) Officers or (ii) officers of the Company who are delegated authority by the Committee pursuant to this **Section 3.1.4**, or (c) to interpret the Plan, any Award, or any Award Agreement. Any delegation hereunder shall be subject to the restrictions and limits that the Committee specifies at the time of such delegation or thereafter. Nothing in the Plan shall be construed as obligating the Committee to delegate authority to any officer of the Company, and the Committee may at any time rescind the authority delegated to an officer of the Company appointed hereunder and delegate authority to one or more other officers of the Company. At all times, an officer of the Company delegated authority pursuant to this **Section 3.1.4** shall serve in such capacity at the pleasure of the Committee. Any action undertaken by any such officer of the Company in accordance with the Committee's delegation of authority shall have the same force and effect as if undertaken directly by the Committee, and any reference in the Plan to the "Committee" will, to the extent consistent with the terms and limitations of such delegation, be deemed to include a reference to each such officer.

### **3.2** Board.

The Board, from time to time, may exercise any or all of the powers and authorities related to the administration and implementation of the Plan, as set forth in **Section 3.1** and other applicable provisions of the Plan, as the Board shall determine, consistent with the Company's certificate of incorporation and bylaws and Applicable Laws.

### 3.3 Terms of Awards.

#### 3.3.1 Committee Authority.

Subject to the other terms and conditions of the Plan, the Committee shall have full and final authority to:

- (a) designate Grantees;
- (b) determine the type or types of Awards to be made to a Grantee;
- (c) determine the number of shares of Stock to be subject to an Award or to which an Award relates;
- (d) establish the terms and conditions of each Award (including the Option Price of any Option, the SAR Price for any Stock Appreciation Right, or the purchase price for applicable Awards, the nature and duration of any restriction or condition (or provision for lapse thereof) relating to the vesting, exercise, transfer, or forfeiture of an Award or the shares of Stock subject thereto, the treatment of an Award in the event of a Change in Control (subject to applicable agreements), and any terms or conditions that may be necessary to qualify Options as Incentive Stock Options);
- (e) prescribe the form of each Award Agreement evidencing an Award;
- (f) subject to the limitation on repricing in **Section 3.4**, amend, modify, or supplement the terms of any outstanding Award, which authority shall include the authority, in order to effectuate the purposes of the Plan but without amending the Plan, to make Awards or to modify outstanding Awards made to eligible natural Persons who are foreign nationals or are natural Persons who are employed outside the United States to reflect differences in local law, tax policy, or custom, provided that, notwithstanding the foregoing, no amendment, modification, or supplement of the terms of any outstanding Award shall, without the consent of the Grantee thereof, impair such Grantee's rights under such Award; and
- (g) make Substitute Awards.

#### 3.3.2 Forfeiture; Recoupment.

The Committee may reserve the right in an Award Agreement to cause a forfeiture of the gain realized by a Grantee with respect to an Award thereunder on account of actions taken by, or failed to be taken by, such Grantee in violation or breach of, or in conflict with, any (a) employment agreement, (b) non-competition agreement, (c) agreement prohibiting solicitation of Employees or clients of the Company or an Affiliate, (d) confidentiality obligation with respect to the Company or an Affiliate, (e) policy or procedure of the Company or an Affiliate, (f) other agreement, or (g) other obligation of such Grantee to the Company or an Affiliate, as and to the extent specified in such Award Agreement. If the Grantee of an outstanding Award is an Employee of the Company or an Affiliate and such Grantee's Service is terminated for Cause, the Committee may annul such Grantee's outstanding Award as of the date of the Grantee's termination of Service for Cause.

Any Award granted pursuant to the Plan shall be subject to mandatory repayment by the Grantee to the Company (x) to the extent set forth in the Plan or an Award Agreement or (y) to the extent the Grantee is, or in the future becomes, subject to (1) any Company or Affiliate "clawback" or recoupment policy that is adopted to comply with the requirements of any Applicable Laws, or (2) any Applicable Laws which impose mandatory recoupment, under circumstances set forth in such Applicable Laws.

### 3.4 No Repricing Without Stockholder Approval.

Except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, distribution (whether in the form of cash, shares of Stock, other securities, or other property), stock split, extraordinary dividend, recapitalization, Change in Control, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares of Stock, or other securities or similar transaction), the Company may not:

- (a) amend the terms of outstanding Options or SARs to reduce the Option Price or SAR Price, as applicable, of such outstanding Options or SARs;
- (b) cancel outstanding Options or SARs in exchange for, or in substitution of, Options or SARs with an Option Price or SAR Price, as applicable, that is less than the Option Price or SAR Price, as applicable, of the original Options or SARs; or
- (c) cancel outstanding Options or SARs with an Option Price or SAR Price, as applicable, above the current Fair Market Value in exchange for cash or other securities, in each case, unless such action (i) is subject to and approved by the Company's stockholders or (ii) would not be deemed to be a repricing under the rules of any Stock Exchange or Securities Market on which the Common Stock is listed or publicly traded.

### 3.5 Deferral Arrangement.

The Committee may permit or require the deferral of any payment pursuant to any Award into a deferred compensation arrangement, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest or Dividend Equivalent Rights and, in connection therewith, provisions for converting such credits into Deferred Stock Units and for restricting deferrals to comply with hardship distribution rules affecting tax-qualified retirement plans subject to Code Section 401(k)(2)(B)(IV), provided that no Dividend Equivalent Rights may be granted in connection with, or related to, an Award of Options or SARs. Any such deferrals shall be made in a manner that complies with Code Section 409A, including, if applicable, with respect to when a Separation from Service occurs.

### 3.6 Registration; Share Certificates.

Notwithstanding any provision of the Plan to the contrary, the ownership of the shares of Stock issued under the Plan may be evidenced in such a manner as the Committee, in its sole discretion, deems appropriate, including by book-entry or direct registration (including transaction advices) or the issuance of one or more share certificates.

## 4. STOCK SUBJECT TO THE PLAN

### 4.1 Number of Shares of Stock Available for Awards.

From and after the Amendment Date, subject to such additional shares of Stock as shall be available for issuance under the Plan pursuant to **Section 4.2** and **Section 4.3(c)**, and subject to adjustment pursuant to **Article 16**, the maximum number of shares of Stock reserved for issuance under the Plan shall be equal to the sum of (x) 7,500,000 shares of Stock and (y) the number of shares of Stock available for issuance for future awards under the Plan as of the Amendment Date (the "**Share Limit**"). Such shares of Stock may be authorized and unissued shares of Stock, treasury shares of Stock, or any combination of the foregoing, as may be determined from time to time by the Board or by the Committee. Any of the shares of Stock reserved and available for issuance under the Plan may be used for any type of Award under the Plan, and any or all of the shares of Stock reserved for issuance under the Plan shall be available for issuance pursuant to Incentive Stock Options.

### 4.2 Adjustments in Authorized Shares of Stock.

In connection with mergers, reorganizations, separations, or other transactions to which Code Section 424(a) applies, the Committee shall have the right to cause the Company to assume awards previously granted under a compensatory plan of another business entity that is a party to such transaction and to grant Substitute Awards under the Plan for such awards. The Share Limit pursuant to **Section 4.1** shall be increased by the number of shares of Stock subject to any such assumed awards and Substitute Awards. Shares available for issuance under a stockholder-approved plan of a business entity that is a party to such transaction (as appropriately adjusted, if necessary, to reflect such transaction) may be used for Awards under the Plan and shall not reduce the number of shares of Stock otherwise available for issuance under the Plan, subject to applicable rules of any Stock Exchange or Securities Market on which the Common Stock is listed or publicly traded.

### 4.3 Share Usage.

(a) Shares of Stock covered by an Award shall be counted as used as of the Grant Date for purposes of calculating the number of shares of Stock available for issuance under **Section 4.1**.

(b) Any shares of Stock that are subject to Awards, including shares of Stock acquired through dividend reinvestment pursuant to **Article 10**, shall be counted against the Share Limit set forth in **Section 4.1** as one (1) share of Stock for every one (1) share of Stock subject to an Award. The number of shares of Stock subject to an Award of SARs shall be counted against the Share Limit set forth in **Section 4.1** as one (1) share of Stock for every one (1) share of Stock subject to such Award regardless of the number of shares of Stock actually issued to settle such SARs upon the exercise of the SARs. The target number of shares of Stock issuable under a Performance Award shall be counted against the Share Limit set forth in **Section 4.1** as of the Grant Date, but such number shall be adjusted to equal the actual number of shares of Stock issued upon settlement of the Performance Award to the extent different from such target number of shares of Stock.

(c) If any shares of Stock covered by an Award granted under the Plan are not purchased or are forfeited or expire or if an Award otherwise terminates without delivery of any Stock subject thereto or is settled in cash in lieu of shares, then the number of shares of Stock counted against the Share Limit with respect to such Award shall, to the extent of any such forfeiture, expiration, termination, or settlement, again be available for making Awards under the Plan.

(d) The number of shares of Stock available for issuance under the Plan shall not be increased by the number of shares of Stock (i) tendered, withheld, or subject to an Award granted under the Plan surrendered in connection with the purchase of shares of Stock upon exercise of an Option, (ii) that were not issued upon the net settlement or net exercise of a Stock-settled SAR granted under the Plan, (iii) deducted or delivered from payment of an Award granted under the Plan in connection with the Company's tax withholding obligations as provided in **Section 18.3**, or (iv) purchased by the Company with proceeds from Option exercises.

## 5. TERM; AMENDMENT AND TERMINATION

### 5.1 Term.

The Plan became effective as of the Effective Date. The Plan shall terminate on the first to occur of (a) the tenth (10th) anniversary of the Effective Date, (b) the date determined in accordance with **Section 5.2**, and (c) the date determined in accordance with **Section 16.3**. Upon such termination of the Plan, all outstanding Awards shall continue to have full force and effect in accordance with the provisions of the terminated Plan and the applicable Award Agreement (or other documents evidencing such Awards).

### 5.2 Amendment, Suspension, and Termination.

The Board may, at any time and from time to time, amend, suspend, or terminate the Plan, provided that, with respect to Awards theretofore granted under the Plan, no amendment, suspension, or termination of the Plan shall, without the consent of any Grantee affected thereby, impair the rights or obligations under any such Award. The effectiveness of any amendment to the Plan shall be conditioned upon approval of such amendment by the Company's stockholders to the extent provided by the Board or required by Applicable Laws.

## 6. AWARD ELIGIBILITY AND LIMITATIONS

### 6.1 Eligible Grantees.

Subject to this **Article 6**, Awards may be made under the Plan to (a) any Service Provider, as the Committee shall determine and designate from time to time, and (b) any other individual whose participation in the Plan is determined to be in the best interests of the Company by the Committee.

### 6.2 Limitation on Shares of Stock Subject to Awards and Cash Awards.

During any time when the Company has any class of common equity securities registered under Section 12 of the Exchange Act, but subject to adjustment as provided in **Article 16**:

(a) the maximum number of shares of Stock that may be granted under the Plan pursuant to Options or SARs in a calendar year to any Person eligible for an Award under **Section 6.1** is 2,500,000 shares;

(b) the maximum number of shares of Stock that may be granted under the Plan pursuant to Awards other than Options or SARs that are Stock-denominated and are settled either in Stock or in cash in a calendar year to any Person eligible for an Award under **Section 6.1** is 2,500,000 shares; and

(c) the maximum amount that may be paid as an Annual Incentive Award (whether or not settled in cash) in a calendar year to any Person eligible for an Award under **Section 6.1** is \$5,000,000, and the maximum amount that may be paid as a cash-denominated Performance Award (whether or not settled in cash) for a Performance Period of greater than twelve (12) months to any Person eligible for an Award under **Section 6.1** is \$10,000,000.

### 6.3 Stand-Alone, Additional, Tandem, and Substitute Awards.

Subject to **Section 3.4**, Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, (a) any other Award, (b) any award granted under another plan of the Company, an Affiliate, or any business entity that has been a party to a transaction with the Company or an Affiliate, or (c) any other right of a Grantee to receive payment from the Company or an Affiliate. Such additional, tandem, exchange, or Substitute Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award, or for an award granted under another plan of the Company, an Affiliate, or any business entity that has been a party to a transaction with the Company or an Affiliate, the Committee shall require the surrender of such other Award or award under such other plan in consideration for the grant of such exchange or Substitute Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash payments under other plans of the Company or an Affiliate.

Notwithstanding **Section 8.1** and **Section 9.1**, but subject to **Section 3.4**, the Option Price of an Option or the SAR Price of a SAR that is a Substitute Award may be less than one hundred percent (100%) of the Fair Market Value of a share of Stock on the original Grant Date, provided that such Option Price or SAR Price is determined in accordance with the principles of Code Section 424 for any Incentive Stock Option and consistent with Code Section 409A for any other Option or any SAR.

## 7. AWARD AGREEMENT

Each Award granted pursuant to the Plan shall be evidenced by an Award Agreement, which shall be in such form or forms as the Committee shall from time to time determine. Award Agreements utilized under the Plan from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing an Award of Options shall specify whether such Options are intended to be Nonqualified Stock Options or Incentive Stock Options, and, in the absence of such specification, such Options shall be deemed to constitute Nonqualified Stock Options. In the event of any inconsistency between the Plan and an Award Agreement, the provisions of the Plan shall control.

## 8. TERMS AND CONDITIONS OF OPTIONS

### 8.1 Option Price.

The Option Price of each Option shall be fixed by the Committee and stated in the Award Agreement evidencing such Option. Except in the case of Substitute Awards, the Option Price of each Option shall be at least the Fair Market Value of one (1) share of Stock on the Grant Date, provided that, in the event that a Grantee is a Ten Percent Stockholder, the Option Price of an Option granted to such Grantee that is intended to be an Incentive Stock Option shall be not less than one hundred ten percent (110%) of the Fair Market Value of one (1) share of Stock on the Grant Date. In no case shall the Option Price of any Option be less than the par value of one (1) share of Stock.

### 8.2 Vesting and Exercisability.

Subject to **Sections 8.3** and **16.3**, each Option granted under the Plan shall become vested and/or exercisable at such times and under such conditions as shall be determined by the Committee and stated in the Award Agreement, in another agreement with the Grantee, or otherwise in writing, provided that no Option shall be granted to Grantees who are entitled to overtime under Applicable Laws that will vest or be exercisable within a six (6)-month period starting on the Grant Date.

### 8.3 Term.

Each Option granted under the Plan shall terminate, and all rights to purchase shares of Stock thereunder shall cease, on the tenth (10th) anniversary of the Grant Date of such Option, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Committee and stated in the Award Agreement relating to such Option, provided that, in the event that the Grantee is a Ten Percent Stockholder, an Option granted to such Grantee that is intended to be an Incentive Stock Option shall not be exercisable after the fifth (5th) anniversary of the Grant Date of such Option, and provided, further, that, to the extent deemed necessary or appropriate by the Committee to reflect differences in local law, tax policy, or custom with respect to any Option granted to a Grantee who is a foreign national or is a natural Person who is employed outside the United States, such Option may terminate, and all rights to purchase shares of Stock thereunder may cease, upon the expiration of a period longer than ten (10) years from the Grant Date of such Option as the Committee shall determine.

#### 8.4 Termination of Service.

Each Award Agreement with respect to the grant of an Option shall set forth the extent to which the Grantee thereof, if at all, shall have the right to exercise such Option following termination of such Grantee's Service. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Service.

#### 8.5 Limitations on Exercise of Option.

Notwithstanding any provision of the Plan to the contrary, in no event may any Option be exercised, in whole or in part, after the occurrence of an event referred to in **Article 16** which results in the termination of such Option.

#### 8.6 Method of Exercise.

Subject to the terms of **Article 14** and **Section 18.3**, an Option that is exercisable may be exercised by the Grantee's delivery to the Company or its designee or agent of notice of exercise on any business day, at the Company's principal office or the office of such designee or agent, on the form specified by the Company and in accordance with any additional procedures specified by the Committee. Such notice shall specify the number of shares of Stock with respect to which such Option is being exercised and shall be accompanied by payment in full of the Option Price of the shares of Stock for which such Option is being exercised, plus the amount (if any) of federal and/or other taxes which the Company may, in its judgment, be required to withhold with respect to the exercise of such Option.

#### 8.7 Rights of Holders of Options.

Unless otherwise stated in the applicable Award Agreement, a Grantee or other Person holding or exercising an Option shall have none of the rights of a stockholder of the Company (such as the right to receive cash or dividend payments or distributions attributable to the shares of Stock subject to such Option, to direct the voting of the shares of Stock subject to such Option, or to receive notice of any meeting of the Company's stockholders) until the shares of Stock subject thereto are fully paid and issued to such Grantee or other Person. Except as provided in **Article 16**, no adjustment shall be made for dividends, distributions, or other rights with respect to any shares of Stock subject to an Option for which the record date is prior to the date of issuance of such shares of Stock.

#### 8.8 Delivery of Stock.

Promptly after the exercise of an Option by a Grantee and the payment in full of the Option Price with respect thereto, such Grantee shall be entitled to receive such evidence of such Grantee's ownership of the shares of Stock subject to such Option as shall be consistent with **Section 3.6**.

#### 8.9 Transferability of Options.

Except as provided in **Section 8.10**, during the lifetime of a Grantee of an Option, only such Grantee (or, in the event of such Grantee's legal incapacity or incompetency, such Grantee's guardian or legal representative) may exercise such Option. Except as provided in **Section 8.10**, no Option shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution.

#### 8.10 Family Transfers.

If authorized in the applicable Award Agreement and by the Committee, in its sole discretion, a Grantee may transfer, not for value, all or part of an Option which is not an Incentive Stock Option to any Family Member. For the purpose of this **Section 8.10**, a transfer "not for value" is a transfer which is (a) a gift, (b) a transfer under a domestic relations order in settlement of marital property rights, or (c) unless Applicable Laws do not permit such a transfer, a transfer to an entity in which more than fifty percent (50%) of the voting interests are owned by Family Members (and/or the Grantee) in exchange for an interest in such entity.

Following a transfer under this **Section 8.10**, any such Option shall continue to be subject to the same terms and conditions as were applicable thereto immediately prior to such transfer. Subsequent transfers of transferred Options shall be prohibited except to Family Members of the original Grantee in accordance with this **Section 8.10** or by will or the laws of descent and distribution. The provisions of **Section 8.4** relating to termination of Service shall continue to be applied with respect to the original Grantee of the Option, following which such Option shall be exercisable by the transferee only to the extent, and for the periods in accordance with **Section 8.4**.

**8.11** Limitations on Incentive Stock Options.

An Option shall constitute an Incentive Stock Option only (a) if the Grantee of such Option is an Employee of the Company or any corporate Subsidiary, (b) to the extent specifically provided in the related Award Agreement, and (c) to the extent that the aggregate Fair Market Value (determined at the time such Option is granted) of the shares of Stock with respect to which all Incentive Stock Options held by such Grantee become exercisable for the first time during any calendar year (under the Plan and all other plans of the Company and its Affiliates) does not exceed one hundred thousand dollars (\$100,000). Except to the extent provided in the regulations under Code Section 422, this limitation shall be applied by taking Options into account in the order in which they were granted.

**8.12** Notice of Disqualifying Disposition.

If any Grantee shall make any disposition of shares of Stock issued pursuant to the exercise of an Incentive Stock Option under the circumstances provided in Code Section 421(b) (relating to certain disqualifying dispositions), such Grantee shall notify the Company of such disposition immediately, but in no event later than ten (10) days thereafter.

**9. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS**

**9.1** Right to Payment and SAR Price.

A SAR shall confer on the Grantee to whom it is granted a right to receive, upon exercise thereof, the excess of (a) the Fair Market Value of one (1) share of Stock on the date of exercise, over (b) the SAR Price as determined by the Committee. The Award Agreement for a SAR shall specify the SAR Price, which shall be no less than the Fair Market Value of one (1) share of Stock on the Grant Date of such SAR. SARs may be granted in tandem with all or part of an Option granted under the Plan or at any subsequent time during the term of such Option, in combination with all or any part of any other Award, or without regard to any Option or other Award, provided that a SAR that is granted in tandem with all or part of an Option shall have the same term, and expire at the same time, as the related Option, and provided, further, that a SAR that is granted subsequent to the Grant Date of a related Option must have a SAR Price that is no less than the Fair Market Value of one (1) share of Stock on the Grant Date of such SAR.

**9.2** Other Terms.

The Committee shall determine, on the Grant Date or thereafter, the time or times at which, and the circumstances under which, a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future Service requirements); the time or times at which SARs shall cease to be or become exercisable following termination of Service or upon other conditions; the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which shares of Stock shall be delivered or deemed to be delivered to Grantees, whether or not a SAR shall be granted in tandem or in combination with any other Award; and any and all other terms and conditions of any SAR, provided that no SARs shall be granted to Grantees who are entitled to overtime under Applicable Laws that will vest or be exercisable within a six (6)-month period starting on the Grant Date.

**9.3** Term.

Each SAR granted under the Plan shall terminate, and all rights thereunder shall cease, on the tenth (10th) anniversary of the Grant Date of such SAR or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Committee and stated in the Award Agreement relating to such SAR.

#### 9.4 Rights of Holders of SARs.

Unless otherwise stated in the applicable Award Agreement, a Grantee or other Person holding or exercising a SAR shall have none of the rights of a stockholder of the Company (such as the right to receive cash or dividend payments or distributions attributable to the shares of Stock underlying such SAR, to direct the voting of the shares of Stock underlying such SAR, or to receive notice of any meeting of the Company's stockholders) until the shares of Stock underlying such SAR, if any, are issued to such Grantee or other Person. Except as provided in **Article 16**, no adjustment shall be made for dividends, distributions, or other rights with respect to any shares of Stock underlying a SAR for which the record date is prior to the date of issuance of such shares of Stock, if any.

#### 9.5 Transferability of SARs.

Except as provided in **Section 9.6**, during the lifetime of a Grantee of a SAR, only the Grantee (or, in the event of such Grantee's legal incapacity or incompetency, such Grantee's guardian or legal representative) may exercise such SAR. Except as provided in **Section 9.6**, no SAR shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution.

#### 9.6 Family Transfers.

If authorized in the applicable Award Agreement and by the Committee, in its sole discretion, a Grantee may transfer, not for value, all or part of a SAR to any Family Member. For the purpose of this **Section 9.6**, a transfer "not for value" is a transfer which is (a) a gift, (b) a transfer under a domestic relations order in settlement of marital property rights, or (c) unless Applicable Laws do not permit such transfer, a transfer to an entity in which more than fifty percent (50%) of the voting interests are owned by Family Members (and/or the Grantee) in exchange for an interest in such entity. Following a transfer under this **Section 9.6**, any such SAR shall continue to be subject to the same terms and conditions as were in effect immediately prior to such transfer. Subsequent transfers of transferred SARs shall be prohibited except to Family Members of the original Grantee in accordance with this **Section 9.6** or by will or the laws of descent and distribution.

### 10. TERMS AND CONDITIONS OF RESTRICTED STOCK, RESTRICTED STOCK UNITS, AND DEFERRED STOCK UNITS

#### 10.1 Grant of Restricted Stock, Restricted Stock Units, and Deferred Stock Units.

Awards of Restricted Stock, Restricted Stock Units, and Deferred Stock Units may be made for consideration or for no consideration, other than the par value of the shares of Stock, which shall be deemed paid by past Service or, if so provided in the related Award Agreement or a separate agreement, the promise by the Grantee to perform future Service to the Company or an Affiliate.

#### 10.2 Restrictions.

At the time a grant of Restricted Stock, Restricted Stock Units, or Deferred Stock Units is made, the Committee may, in its sole discretion, (a) establish a Restricted Period applicable to such Restricted Stock, Restricted Stock Units, or Deferred Stock Units and (b) prescribe restrictions in addition to or other than the expiration of the Restricted Period, including the achievement of corporate or individual performance goals, which may be applicable to all or any portion of such Restricted Stock, Restricted Stock Units, or Deferred Stock Units as provided in **Article 13**. Awards of Restricted Stock, Restricted Stock Units, and Deferred Stock Units may not be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period or prior to the satisfaction of any other restrictions prescribed by the Committee with respect to such Awards.

#### 10.3 Registration; Restricted Stock Certificates.

Pursuant to **Section 3.6**, to the extent that ownership of Restricted Stock is evidenced by a book-entry registration or direct registration (including transaction advices), such registration shall be notated to evidence the restrictions imposed on such Award of Restricted Stock under the Plan and the applicable Award Agreement.

Subject to **Section 3.6** and the immediately following sentence, the Company may issue, in the name of each Grantee to whom Restricted Stock has been granted, certificates representing the total number of shares of Restricted Stock granted to the Grantee, as soon as reasonably practicable after the Grant Date of such Restricted Stock. The Committee may provide in an Award Agreement with respect to an Award of Restricted Stock that either (a) the Secretary of the Company shall hold such certificates for such Grantee's benefit until such time as such shares of Restricted Stock are forfeited to the Company or the restrictions applicable thereto lapse and such Grantee shall deliver a stock power to the Company with respect to each certificate, or (b) such certificates shall be delivered to such Grantee, provided that such certificates shall bear legends that comply with Applicable Laws and

make appropriate reference to the restrictions imposed on such Award of Restricted Stock under the Plan and such Award Agreement.

#### **10.4 Rights of Holders of Restricted Stock.**

Unless the Committee provides otherwise in an Award Agreement and subject to the restrictions set forth in the Plan, any applicable Company program, and the applicable Award Agreement, holders of Restricted Stock shall have the right to vote such shares of Restricted Stock and the right to receive any dividend payments or distributions declared or paid with respect to such shares of Restricted Stock. The Committee may provide in an Award Agreement evidencing a grant of Restricted Stock that (a) any cash dividend payments or distributions paid on Restricted Stock shall be reinvested in shares of Stock, which may or may not be subject to the same vesting conditions and restrictions as applicable to such underlying shares of Restricted Stock, or (b) any dividend payments or distributions declared or paid on shares of Restricted Stock shall only be made or paid upon satisfaction of the vesting conditions and restrictions applicable to such shares of Restricted Stock. Dividend payments or distributions declared or paid on shares of Restricted Stock which vest or are earned based upon the achievement of performance goals shall not vest unless such performance goals for such shares of Restricted Stock are achieved, and if such performance goals are not achieved, the Grantee of such shares of Restricted Stock shall promptly forfeit and, to the extent already paid or distributed, repay to the Company such dividend payments or distributions. All stock dividend payments or distributions, if any, received by a Grantee with respect to shares of Restricted Stock as a result of any stock split, stock dividend, combination of stock, or other similar transaction shall be subject to the same vesting conditions and restrictions as those applicable to such underlying shares of Restricted Stock.

#### **10.5 Rights of Holders of Restricted Stock Units and Deferred Stock Units.**

##### **10.5.1 Voting and Dividend Rights.**

Holders of Restricted Stock Units and Deferred Stock Units shall have no rights as stockholders of the Company (such as the right to receive dividend payments or distributions attributable to the shares of Stock underlying such Restricted Stock Units and Deferred Stock Units, to direct the voting of the shares of Stock underlying such Restricted Stock Units and Deferred Stock Units, or to receive notice of any meeting of the Company's stockholders). The Committee may provide in an Award Agreement evidencing a grant of Restricted Stock Units or Deferred Stock Units that the holder of such Restricted Stock Units or Deferred Stock Units, as applicable, shall be entitled to receive Dividend Equivalent Rights, in accordance with **Article 12**.

##### **10.5.2 Creditors' Rights.**

A holder of Restricted Stock Units or Deferred Stock Units shall have no rights other than those of a general unsecured creditor of the Company. Restricted Stock Units and Deferred Stock Units represent unfunded and unsecured obligations of the Company, subject to the terms and conditions of the applicable Award Agreement.

#### **10.6 Termination of Service.**

Unless the Committee provides otherwise in an Award Agreement, in another agreement with the Grantee, or otherwise in writing after such Award Agreement is issued, but prior to termination of a Grantee's Service, upon the termination of such Grantee's Service, any Restricted Stock, Restricted Stock Units, or Deferred Stock Units held by such Grantee that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, shall immediately be deemed forfeited. Upon forfeiture of such Restricted Stock, Restricted Stock Units, or Deferred Stock Units, the Grantee thereof shall have no further rights with respect thereto, including any right to vote such Restricted Stock or any right to receive dividends or Dividend Equivalent Rights, as applicable, with respect to such Restricted Stock, Restricted Stock Units, or Deferred Stock Units.

#### **10.7 Purchase of Restricted Stock and Shares of Stock Subject to Restricted Stock Units and Deferred Stock Units.**

The Grantee of an Award of Restricted Stock, vested Restricted Stock Units, or vested Deferred Stock Units shall be required, to the extent required by Applicable Laws, to purchase such Restricted Stock or the shares of Stock subject to such vested Restricted Stock Units or Deferred Stock Units from the Company at a purchase price equal to the greater of (x) the aggregate par value of the shares of Stock represented by such Restricted Stock or such vested Restricted Stock Units or Deferred Stock Units or (y) the purchase price, if any, specified in the Award Agreement relating to such Restricted Stock or such vested Restricted Stock Units or Deferred Stock Units. Such purchase price shall be payable in a form provided in **Article 14** or, in the sole discretion of the Committee, in consideration for Service rendered or to be rendered by the Grantee to the Company or an Affiliate.

#### **10.8 Delivery of Shares of Stock.**

Upon the expiration or termination of any Restricted Period and the satisfaction of any other conditions prescribed by the Committee, including, without limitation, any performance goals or delayed delivery period, the restrictions applicable to Restricted Stock, Restricted Stock Units, or Deferred Stock Units settled in shares of Stock shall lapse, and, unless otherwise provided in the applicable Award Agreement, a book-entry or direct registration (including transaction advices) or a certificate evidencing ownership of such shares of Stock shall, consistent with **Section 3.6**, be issued, free of all such restrictions, to the Grantee thereof or such Grantee's beneficiary or estate, as the case may be. Neither the Grantee, nor the Grantee's beneficiary or estate, shall have any further rights with regard to a Restricted Stock Unit or Deferred Stock Unit once the shares of Stock represented by such Restricted Stock Unit or Deferred Stock Unit have been delivered in accordance with this **Section 10.8**.

### **11. TERMS AND CONDITIONS OF UNRESTRICTED STOCK AWARDS AND OTHER EQUITY-BASED AWARDS**

#### **11.1 Unrestricted Stock Awards.**

The Committee may, in its sole discretion, grant (or sell at the par value of a share of Stock or at such other higher purchase price as shall be determined by the Committee) an Award to any Grantee pursuant to which such Grantee may receive shares of Unrestricted Stock under the Plan. Awards of Unrestricted Stock may be granted or sold to any Grantee as provided in the immediately preceding sentence in respect of Service rendered or, if so provided in the related Award Agreement or a separate agreement, to be rendered by the Grantee to the Company or an Affiliate or other valid consideration, in lieu of or in addition to any cash compensation due to such Grantee.

#### **11.2 Other Equity-Based Awards.**

The Committee may, in its sole discretion, grant Awards in the form of Other Equity-Based Awards, as deemed by the Committee to be consistent with the purposes of the Plan. Awards granted pursuant to this **Section 11.2** may be granted with vesting, value, and/or payment conditioned upon the achievement of one or more performance goals. The Committee shall determine the terms and conditions of Other Equity-Based Awards on the Grant Date or thereafter. Unless the Committee provides otherwise in an Award Agreement, in another agreement with the Grantee, or otherwise in writing after such Award Agreement is issued, but prior to termination of a Grantee's Service, upon the termination of such Grantee's Service, any Other Equity-Based Awards held by such Grantee that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, shall immediately be deemed forfeited. Upon forfeiture of any Other Equity-Based Award, the Grantee thereof shall have no further rights with respect to such Other Equity-Based Award.

### **12. TERMS AND CONDITIONS OF DIVIDEND EQUIVALENT RIGHTS**

#### **12.1 Dividend Equivalent Rights.**

A Dividend Equivalent Right may be granted hereunder, provided that no Dividend Equivalent Rights may be granted in connection with, or related to, an Award of Options or SARs. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award Agreement therefor. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently (with or without being subject to forfeiture or a repayment obligation) or may be deemed to be reinvested in additional shares of Stock or Awards, which may thereafter accrue additional Dividend Equivalent Rights (with or without being subject to forfeiture or a repayment obligation). Any such reinvestment shall be at the Fair Market Value thereof on the date of such reinvestment. Dividend Equivalent Rights may be settled in cash, shares of Stock, or a combination thereof, in a single

installment or in multiple installments, all as determined in the sole discretion of the Committee. A Dividend Equivalent Right granted as a component of another Award may (a) provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other Award and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award or (b) contain terms and conditions which are different from the terms and conditions of such other Award, provided that Dividend Equivalent Rights credited pursuant to a Dividend Equivalent Right granted as a component of another Award which vests or is earned based upon the achievement of performance goals shall not vest unless such performance goals for such underlying Award are achieved, and if such performance goals are not achieved, the Grantee of such Dividend Equivalent Rights shall promptly forfeit and, to the extent already paid or distributed, repay to the Company payments or distributions made in connection with such Dividend Equivalent Rights.

#### **12.2 Termination of Service.**

Unless the Committee provides otherwise in an Award Agreement, in another agreement with the Grantee, or otherwise in writing after such Award Agreement is issued, a Grantee's rights in all Dividend Equivalent Rights shall automatically terminate upon such Grantee's termination of Service for any reason.

### **13. TERMS AND CONDITIONS OF PERFORMANCE AWARDS AND ANNUAL INCENTIVE AWARDS**

#### **13.1 Grant of Performance Awards and Annual Incentive Awards.**

Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Performance Awards and/or Annual Incentive Awards in such amounts and upon such terms as the Committee shall determine.

#### **13.2 Value of Performance Awards and Annual Incentive Awards.**

Each Performance Award and Annual Incentive Award shall have an initial actual or target cash value or an actual or target number of shares of Stock that is established by the Committee as of the Grant Date. The Committee shall set performance goals in its discretion which, depending on the extent to which they are achieved, shall determine the amount of cash or value and/or number of shares of Stock that will be paid out to the Grantee thereof.

#### **13.3 Earning of Performance Awards and Annual Incentive Awards.**

Subject to the terms of the Plan, in particular **Section 13.6.3**, after the applicable Performance Period has ended, the Grantee of a Performance Award or Annual Incentive Award shall be entitled to receive a payout of the value earned under such Performance Award or Annual Incentive Award by such Grantee over such Performance Period, to be determined based on the extent to which the corresponding performance goals have been achieved.

#### **13.4 Form and Timing of Payment of Performance Awards and Annual Incentive Awards.**

Payment of the value earned under Performance Awards and Annual Incentive Awards shall be made, as determined by the Committee, in the form, at the time, and in the manner described in the applicable Award Agreement. Subject to the terms of the Plan, the Committee, in its sole discretion, (a) may pay the value earned under Performance Awards in the form of cash, shares of Stock, other Awards, or a combination thereof, including shares of Stock and/or other Awards that are subject to any restrictions deemed appropriate by the Committee, and (b) shall pay the value earned under Performance Awards and Annual Incentive Awards at the close of the applicable Performance Period, or as soon as reasonably practicable after the Committee has determined that the performance goal or goals relating thereto have been achieved, provided that, unless specifically provided in the Award Agreement, such payment shall occur no later than the fifteenth (15<sup>th</sup>) day of the third (3<sup>rd</sup>) month following the end of the calendar year in which the Performance Period ends.

### **13.5 Performance Conditions.**

The right of a Grantee to exercise or to receive a grant or settlement of any Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions. Any power or authority relating to an Award intended to qualify under the Section 162(m) Grandfather shall be exercised by the Committee and not by the Board to the extent so required by the Section 162(m) Grandfather.

### **13.6 Performance Awards or Annual Incentive Awards Granted to Designated Covered Employees.**

If and to the extent that the Committee determines that a Performance Award or Annual Incentive Award to be granted to a Grantee who is designated by the Committee as likely to be a Covered Employee may constitute Qualified Performance-Based Compensation for purposes of the Section 162(m) Grandfather, the grant, exercise, and/or settlement of such Award shall be conditioned upon achievement of pre-established Performance Measures and other terms set forth in this **Section 13.6**, set at performance levels targeted by the Committee such that the resulting achievement of performance goals is "substantially uncertain" when established. Except as required under the preceding sentence, the Committee may condition a Performance Award or Annual Incentive Award on such performance goals as it determines, in its sole discretion, without regard to whether such performance goals are set forth in this **Section 13.6**.

#### **13.6.1 Performance Goals Generally.**

The performance goals for Performance Awards or Annual Incentive Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this **Section 13.6**. The Committee may determine that such Awards shall be granted, exercised, and/or settled upon achievement of any single performance goal or of two (2) or more performance goals. Performance goals may differ for Awards granted to any one Grantee or to different Grantees.

#### **13.6.2 Timing For Establishing Performance Goals.**

If and to the extent that the Committee determines that a Performance Award or Annual Incentive Award to be granted to a Grantee who is designated by the Committee as likely to be a Covered Employee may constitute Qualified Performance-Based Compensation for purposes of the Section 162(m) Grandfather, the applicable Performance Measures shall be established not later than the earlier of (a) ninety (90) days after the beginning of any Performance Period applicable to such Awards, and (b) the date on which twenty-five percent (25%) of any Performance Period applicable to such Awards has expired, or at such other date as may be required or permitted for compensation payable to a Covered Employee to constitute Qualified Performance-Based Compensation.

Except as required under the preceding sentence, the Committee may establish performance goals at such times as it determines, in its sole discretion.

#### **13.6.3 Payment of Awards; Other Terms.**

Payment of such Awards shall be in cash, shares of Stock, other Awards, or a combination thereof, including shares of Stock and/or Awards that are subject to any restrictions deemed appropriate by the Committee, in each case as determined in the sole discretion of the Committee. The Committee may, in its sole discretion, adjust the amount of a payment otherwise to be made in connection with such Awards, except to the extent the Committee determines that such adjustment would be inconsistent with the requirements of the Section 162(m) Grandfather for deductibility of Qualified Performance-Based Compensation. The Committee shall specify the circumstances in which such Performance Awards or Annual Incentive Awards shall be paid or forfeited in the event of termination of Service by the Grantee prior to the end of a Performance Period or settlement of such Awards. In the event payment of the Performance Award is made in the form of another Award subject to Service-based vesting, the Committee shall specify the circumstances in which the payment Award shall be paid or forfeited in the event of a termination of Service.

#### 13.6.4 Performance Measures.

The performance goals upon which the vesting or payment of a Performance Award or Annual Incentive Award to a Covered Employee may include the following Performance Measures, with or without adjustment (including pro forma adjustments):

- (a) net earnings or net income;
- (b) operating earnings;
- (c) pretax earnings;
- (d) earnings per share;
- (e) share price, including growth measures and total stockholder return;
- (f) earnings before interest and taxes;
- (g) earnings before interest, taxes, depreciation, and/or amortization;
- (h) earnings before interest, taxes, depreciation, and/or amortization as adjusted to exclude any one or more of the following:
  - stock-based compensation expense;
  - income from discontinued operations;
  - gain on cancellation of debt;
  - debt extinguishment and related costs;
  - restructuring, separation, and/or integration charges and costs;
  - reorganization and/or recapitalization charges and costs;
  - impairment charges;
  - merger-related events;
  - impact of purchase accounting;
  - gain or loss related to investments;
  - amortization of intangible assets;
  - sales and use tax settlements;
  - legal proceeding settlements;
  - gain on non-monetary transactions; and
  - adjustments for the income tax effect of any of the above adjustments;
- (i) sales or revenue growth or targets, whether in general or by type of product, service, or customer;
- (j) gross or operating margins;
- (k) return measures, including return on assets, capital, investment, equity, sales, or revenue;
- (l) cash flow, including:
  - operating cash flow;
  - free cash flow, defined as (i) operating cash flow less capital expenditures or (ii) earnings before interest, taxes, depreciation, and/or amortization (as adjusted to exclude any one or more of the items that may be excluded pursuant to the Performance Measure specified in clause (h) above) less capital expenditures;
  - levered free cash flow, defined as free cash flow less interest expense;

- cash flow return on equity; and
  - cash flow return on investment;
- (m) productivity ratios;
- (n) costs, reductions in cost, and cost control measures;
- (o) expense targets;
- (p) market or market segment share or penetration;
- (q) financial ratios as provided in credit agreements of the Company and its subsidiaries;
- (r) working capital targets;
- (s) completion of acquisitions of businesses, companies, or assets or completion of integration activities following an acquisition of businesses, companies, or assets;
- (t) completion of divestitures and asset sales;
- (u) regulatory achievements or compliance;
- (v) customer satisfaction measurements;
- (w) execution of contractual arrangements or satisfaction of contractual requirements or milestones;
- (x) product development achievements;
- (y) monthly recurring revenue;
- (z) revenue retention rates; and
- (aa) any combination of the foregoing business criteria.

Performance under any of the foregoing Performance Measures (a) may be used to measure the performance of (i) the Company, its Subsidiaries, and other Affiliates as a whole, (ii) the Company, any Subsidiary, any other Affiliate, or any combination thereof, or (iii) any one or more business units or operating segments of the Company, any Subsidiary, and/or any other Affiliate, in each case as the Committee, in its sole discretion, deems appropriate, and (b) may be compared to the performance of one or more other companies or one or more published or special indices designated or approved by the Committee for such comparison, as the Committee, in its sole discretion, deems appropriate. In addition, the Committee, in its sole discretion, may select performance under the Performance Measure specified in clause (e) above for comparison to performance under one or more stock market indices designated or approved by the Committee. The Committee shall also have the authority to provide for accelerated vesting of any Performance Award or Annual Incentive Award based on the achievement of performance goals pursuant to the Performance Measures specified in this **Article 13**.

#### **13.6.5** Evaluation of Performance.

The Committee may provide in any Performance Award or Annual Incentive Award that any evaluation of performance may include or exclude any of the following events that occur during a Performance Period: (a) asset write-downs; (b) litigation or claims, judgments, or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (d) any reorganization or restructuring events or programs; (e) extraordinary, unusual, non-core, non-operating, or non-recurring items and items that are either of an unusual nature or of a type that indicates infrequency of occurrence as a separate component of income from continuing operations; (f) acquisitions or divestitures; (g) foreign exchange gains and losses; (h) impact of repurchase of shares of Stock acquired through share repurchase programs; (i) tax valuation allowance reversals; (j) impairment expense; and (k) environmental expense. To the extent such inclusions or exclusions affect Awards to Covered Employees that are intended to constitute Qualified Performance-Based Compensation, such inclusions or exclusions shall be prescribed in a form that meets the requirements of the Section 162(m) Grandfather for deductibility.

#### **13.6.6** Adjustment of Performance-Based Compensation.

The Committee shall have the sole discretion to adjust Awards that are intended to qualify as Qualified Performance-Based Compensation, either on a formula or discretionary basis, or on any combination thereof, as the Committee determines consistent with the requirements of the Section 162(m) Grandfather for deductibility.

#### **13.6.7** Status of Awards Under Prior Code Section 162(m).

Notwithstanding anything to the contrary herein, no provision of the Plan is intended to result in non-deductibility of Performance-Based Awards or other Awards granted under the Plan before the Amendment Date, or of Substitute Awards granted under the Plan on or after the Amendment Date, that are intended to be deductible in accordance with Prior Code Section 162(m). The Company intends to avail itself of transition relief applicable to such Awards, if any, in connection with Code Section 162(m) (including, but not limited to, the Section 162(m) Grandfather) to the maximum extent permitted by regulations and other guidance promulgated to implement such transition relief. The determination by the Company regarding whether transition relief is available shall be made in its sole discretion, and shall be final, binding and conclusive.

### **14. FORMS OF PAYMENT**

#### **14.1** General Rule.

Payment of the Option Price for the shares of Stock purchased pursuant to the exercise of an Option or the purchase price, if any, for Restricted Stock, vested Restricted Stock Units, and/or vested Deferred Stock Units shall be made in cash or in cash equivalents acceptable to the Company.

#### **14.2** Surrender of Shares of Stock.

To the extent that the applicable Award Agreement so provides, payment of the Option Price for shares of Stock purchased pursuant to the exercise of an Option or the purchase price, if any, for Restricted Stock, vested Restricted Stock Units, and/or vested Deferred Stock Units may be made all or in part through the tender or attestation to the Company of shares of Stock, which shall be valued, for purposes of determining the extent to which such Option Price or purchase price has been paid thereby, at their Fair Market Value on the date of such tender or attestation.

#### **14.3** Cashless Exercise.

To the extent permitted by Applicable Laws and to the extent the Award Agreement so provides, payment of the Option Price for shares of Stock purchased pursuant to the exercise of an Option may be made all or in part by delivery (on a form acceptable to the Committee) of an irrevocable direction to a licensed securities broker acceptable to the Company to sell shares of Stock and to deliver all or part of the proceeds of such sale to the Company in payment of such Option Price and any withholding taxes described in **Section 18.3**.

#### **14.4** Other Forms of Payment.

To the extent that the applicable Award Agreement so provides and/or unless otherwise specified in an Award Agreement, payment of the Option Price for shares of Stock purchased pursuant to exercise of an Option or the purchase price, if any, for Restricted Stock, vested Restricted Stock Units, and/or vested Deferred Stock Units may be made in any other form that is consistent with Applicable Laws, including (a) with respect to Restricted Stock, vested Restricted Stock Units, and/or vested Deferred Stock Units only, Service rendered or to be rendered by the Grantee thereof to the Company or an Affiliate and (b) with the consent of the Company, by withholding the number of shares of Stock that would otherwise vest or be issuable in an amount equal in value to the Option Price or purchase price and/or the required tax withholding amount.

### **15. REQUIREMENTS OF LAW**

#### **15.1** General.

The Company shall not be required to offer, sell, or issue any shares of Stock under any Award, whether pursuant to the exercise of an Option, a SAR, or otherwise, if the offer, sale, or issuance of such shares of Stock would constitute a violation by the Grantee, the Company, an Affiliate, or any other Person of any provision of the Company's certificate of incorporation or bylaws or of Applicable Laws, including any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration, or qualification of any shares of Stock subject to an Award upon any Stock Exchange or Securities Market or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the offering, sale, issuance, or purchase of shares of

Stock in connection with any Award, no shares of Stock may be offered, sold, or issued to the Grantee or any other Person under such Award, whether pursuant to the exercise of an Option, a SAR, or otherwise, unless such listing, registration, or qualification shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of such Award. Without limiting the generality of the foregoing, upon the exercise of any Option or any SAR that may be settled in shares of Stock or the delivery of any shares of Stock underlying an Award, unless a registration statement under the Securities Act is in effect with respect to the shares of Stock subject to such Award, the Company shall not be required to offer, sell, or issue such shares of Stock unless the Committee shall have received evidence satisfactory to it that the Grantee or any other Person exercising such Option or SAR or accepting delivery of such shares may acquire such shares of Stock pursuant to an exemption from registration under the Securities Act. Any determination by the Committee in connection with the foregoing shall be final, binding, and conclusive. The Company may register, but shall in no event be obligated to register, any shares of Stock or other securities issuable pursuant to the Plan pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or a SAR or the issuance of shares of Stock or other securities issuable pursuant to the Plan or any Award to comply with any Applicable Laws. As to any jurisdiction that expressly imposes the requirement that an Option or SAR that may be settled in shares of Stock shall not be exercisable until the shares of Stock subject to such Option or SAR are registered under the securities laws thereof or are exempt from such registration, the exercise of such Option or SAR under circumstances in which the laws of such jurisdiction apply shall be deemed to be conditioned upon the effectiveness of such registration or the availability of such an exemption.

#### **15.2 Rule 16b-3.**

During any time when the Company has any class of common equity securities registered under Section 12 of the Exchange Act, it is the intention of the Company that Awards pursuant to the Plan and the exercise of Options and SARs granted hereunder that would otherwise be subject to Section 16(b) of the Exchange Act shall qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Committee does not comply with the requirements of such Rule 16b-3, such provision or action shall be deemed inoperative with respect to such Awards to the extent permitted by Applicable Laws and deemed advisable by the Committee and shall not affect the validity of the Plan. In the event that such Rule 16b-3 is revised or replaced, the Board may exercise its discretion to modify the Plan in any respect necessary or advisable in its judgment to satisfy the requirements of, or to permit the Company to avail itself of the benefits of, the revised exemption or its replacement.

### **16. EFFECT OF CHANGES IN CAPITALIZATION**

#### **16.1 Changes in Stock.**

If the number of outstanding shares of Stock is increased or decreased or the shares of Stock are changed into or exchanged for a different number of shares or kind of Capital Stock or other securities of the Company on account of any recapitalization, reclassification, stock split, reverse stock split, spin-off, combination of stock, exchange of stock, stock dividend or other distribution payable in capital stock, or other increase or decrease in shares of Stock effected without receipt of consideration by the Company occurring after the Effective Date, the number and kinds of shares of Capital Stock for which grants of Options and other Awards may be made under the Plan, including the Share Limit set forth in **Section 4.1** and the individual share limitations set forth in **Section 6.2**, shall be adjusted proportionately and accordingly by the Committee. In addition, the number and kind of shares of Capital Stock for which Awards are outstanding shall be adjusted proportionately and accordingly by the Committee so that the proportionate interest of the Grantee therein immediately following such event shall, to the extent practicable, be the same as immediately before such event. Any such adjustment in outstanding Options or SARs shall not change the aggregate Option Price or SAR Price payable with respect to shares that are subject to the unexercised portion of such outstanding Options or SARs, as applicable, but shall include a corresponding proportionate adjustment in the per share Option Price or SAR Price, as the case may be. The conversion of any convertible securities of the Company shall not be treated as an increase in shares effected without receipt of consideration. Notwithstanding the foregoing, in the event of any distribution to the Company's stockholders of securities of any other entity or other assets (including an extraordinary cash dividend, but excluding a non-extraordinary dividend, declared and paid by the Company) without receipt of consideration by the Company, the Board or the Committee constituted pursuant to **Section 3.1.2** shall, in such manner as the Board or the Committee deems appropriate, adjust (a) the number and kind of shares of Capital Stock subject to outstanding Awards and/or (b) the aggregate and per share Option Price of outstanding Options and the aggregate and per share SAR Price of outstanding SARs as required to reflect such distribution.

**16.2** Transaction in Which the Company Is the Surviving Entity Which Does not Constitute a Change in Control.

Subject to **Section 16.3**, if the Company shall be the surviving entity in any reorganization, merger, or consolidation of the Company with one or more other entities which does not constitute a Change in Control, any Award theretofore granted pursuant to the Plan shall pertain to and apply to the Capital Stock to which a holder of the number of shares of Stock subject to such Award would have been entitled immediately following such reorganization, merger, or consolidation, with a corresponding proportionate adjustment of the per share Option Price or SAR Price of any outstanding Option or SAR so that the aggregate Option Price or SAR Price thereafter shall be the same as the aggregate Option Price or SAR Price of the shares of Stock remaining subject to the Option or SAR as in effect immediately prior to such reorganization, merger, or consolidation. Subject to any contrary language in an Award Agreement, in another agreement with the Grantee, or as otherwise set forth in writing, any restrictions applicable to such Award shall apply as well to any replacement shares of Capital Stock subject to such Award received by the Grantee as a result of such reorganization, merger, or consolidation. In the event of any reorganization, merger, or consolidation of the Company referred to in this **Section 16.2**, Performance Awards and Annual Incentive Awards shall be adjusted (including any adjustment to the Performance Measures or other performance goals applicable to such Awards deemed appropriate by the Committee) so as to apply to the Capital Stock that a holder of the number of shares of Stock subject to the Performance Awards or Annual Incentive Awards, as applicable, would have been entitled to receive immediately following such reorganization, merger, or consolidation.

**16.3** Change in Control in Which Awards are not Assumed.

Except as otherwise provided in the applicable Award Agreement, in another agreement with the Grantee, or as otherwise set forth in writing, upon the occurrence of a Change in Control in which outstanding Awards are not being assumed or continued, the following provisions shall apply to such Awards, to the extent not assumed or continued:

(a) Immediately prior to the occurrence of such Change in Control, in each case with the exception of Performance Awards and Annual Incentive Awards, all outstanding shares of Restricted Stock and all Restricted Stock Units, Deferred Stock Units, and Dividend Equivalent Rights shall be deemed to have vested, and all shares of Stock and/or cash subject to such Awards shall be delivered; and either or both of the following two (2) actions shall be taken:

(i) At least fifteen (15) days prior to the scheduled consummation of such Change in Control, all Options and SARs outstanding hereunder shall become immediately exercisable and shall remain exercisable for a period of fifteen (15) days. Any exercise of an Option or SAR during this fifteen (15)-day period shall be conditioned upon the consummation of the applicable Change in Control and shall be effective only immediately before the consummation thereof, and upon consummation of such Change in Control, the Plan and all outstanding but unexercised Options and SARs shall terminate, with or without consideration (including, without limitation, consideration in accordance with clause (ii) below) as determined by the Committee in its sole discretion. The Committee shall send notice of an event that shall result in such a termination to all Persons who hold Options and SARs not later than the time at which the Company gives notice thereof to its stockholders.

and/or

(ii) The Committee may elect, in its sole discretion, to cancel any outstanding Awards of Options, SARs, Restricted Stock, Restricted Stock Units, Deferred Stock Units, and/or Dividend Equivalent Rights and pay or deliver, or cause to be paid or delivered, to the holder thereof an amount in cash or Capital Stock having a value (as determined by the Committee acting in good faith), in the case of Restricted Stock, Restricted Stock Units, Deferred Stock Units, and Dividend Equivalent Rights (for shares of Stock subject thereto), equal to the formula or fixed price per share paid to holders of shares of Stock pursuant to such Change in Control and, in the case of Options or SARs, equal to the product of the number of shares of Stock subject to such Options or SARs multiplied by the amount, if any, by which (x) the formula or fixed price per share paid to holders of shares of Stock pursuant to such transaction exceeds (y) the Option Price or SAR Price applicable to such Options or SARs.

(b) For Performance Awards and Annual Incentive Awards, if less than half of the Performance Period has lapsed, such Awards shall be treated as though the target performance thereunder has been achieved. If at least half the Performance Period has lapsed, actual performance to date shall be determined as of a date reasonably proximate to the date of consummation of the Change in Control as determined by the Committee in its sole discretion, and that level of performance thus determined shall be treated as achieved immediately prior to occurrence of the Change in Control. For purposes of the preceding sentence, if, based on the discretion of the Committee, actual performance is not determinable, the Performance Awards and Annual Incentive Awards shall be treated as though the target performance thereunder has been achieved. After application of this **Section 16.3(b)**, if any Awards arise from application of this **Article 16**, such Awards shall be settled under the applicable provision of **Section 16.3(a)**.

(c) Other Equity-Based Awards shall be governed by the terms of the applicable Award Agreement.

#### **16.4 Change in Control in Which Awards are Assumed.**

Except as otherwise provided in the applicable Award Agreement, in another agreement with the Grantee, or as otherwise set forth in writing, upon the occurrence of a Change in Control in which outstanding Awards are being assumed or continued, the following provisions shall apply to such Award, to the extent assumed or continued:

The Plan and the Options, SARs, Restricted Stock, Restricted Stock Units, Deferred Stock Units, Dividend Equivalent Rights, and Other Equity-Based Awards granted under the Plan shall continue in the manner and under the terms so provided in the event of any Change in Control to the extent that provision is made in writing in connection with such Change in Control for the assumption or continuation of such Options, SARs, Restricted Stock, Restricted Stock Units, Deferred Stock Units, Dividend Equivalent Rights, and Other Equity-Based Awards, or for the substitution for such Options, SARs, Restricted Stock, Restricted Stock Units, Deferred Stock Units, Dividend Equivalent Rights, and Other Equity-Based Awards of new stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, dividend equivalent rights, and other equity-based awards relating to the Capital Stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number of shares (disregarding any consideration that is not common stock) and exercise prices of options and stock appreciation rights.

#### **16.5 Adjustments.**

Adjustments under this **Article 16** related to shares of Stock or other Capital Stock of the Company shall be made by the Committee, whose determination in that respect shall be final, binding, and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

The Committee may provide in the applicable Award Agreement as of the Grant Date, in another agreement with the Grantee, or otherwise in writing at any time thereafter with the consent of the Grantee, for different provisions to apply to an Award in place of those set forth in **Section 16.1**, **Section 16.2**, **Section 16.3**, and **Section 16.4**. This **Article 16** shall not limit the Committee's ability to provide for alternative treatment of Awards outstanding under the Plan in the event of a change in control event involving the Company that is not a Change in Control.

#### **16.6 No Limitations on Company.**

The making of Awards pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate, or to sell or transfer all or any part of its business or assets (including all or any part of the business or assets of any Subsidiary or other Affiliate) or engage in any other transaction or activity.

## 17. PARACHUTE LIMITATIONS

If any Grantee is a Disqualified Individual, then, notwithstanding any other provision of the Plan or of any Other Agreement to the contrary and notwithstanding any Benefit Arrangement, any right of such Grantee to any exercise, vesting, payment, or benefit under the Plan shall be reduced or eliminated:

(a) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the Grantee under the Plan, all Other Agreements, and all Benefit Arrangements, would cause any exercise, vesting, payment, or benefit to such Grantee under the Plan to be considered a Parachute Payment; and

(b) if, as a result of receiving such Parachute Payment, the aggregate after-tax amounts received by such Grantee from the Company under the Plan, all Other Agreements, and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by such Grantee without causing any such payment or benefit to be considered a Parachute Payment.

Except as required by Code Section 409A or to the extent that Code Section 409A permits discretion, the Committee shall have the right, in the Committee's sole discretion, to designate those rights, payments, or benefits under the Plan, all Other Agreements, and all Benefit Arrangements that should be reduced or eliminated so as to avoid having such rights, payments, or benefits be considered a Parachute Payment, provided that, to the extent any payment or benefit constitutes deferred compensation under Code Section 409A, in order to comply with Code Section 409A, the Company shall instead accomplish such reduction by first reducing or eliminating any cash payments (with the payments to be made latest in the future being reduced first), then by reducing or eliminating any accelerated vesting of Performance Awards and Annual Incentive Awards, then by reducing or eliminating any accelerated vesting of Options or SARs, then by reducing or eliminating any accelerated vesting of Restricted Stock, Restricted Stock Units, or Deferred Stock Units, then by reducing or eliminating any other remaining Parachute Payments.

## 18. GENERAL PROVISIONS

### 18.1 Disclaimer of Rights.

No provision in the Plan, any Award, or any Award Agreement shall be construed (a) to confer upon any individual the right to remain in the Service of the Company or an Affiliate, (b) to interfere in any way with any contractual or other right or authority of the Company or an Affiliate either to increase or decrease the compensation or other payments to any Person at any time, or (c) to terminate any Service or other relationship between any Person and the Company or an Affiliate. In addition, notwithstanding any provision of the Plan to the contrary, unless otherwise stated in the applicable Award Agreement, in another agreement with the Grantee, or otherwise in writing, no Award granted under the Plan shall be affected by any change of duties or position of the Grantee thereof, so long as such Grantee continues to provide Service. The obligation of the Company to pay any benefits pursuant to the Plan shall be interpreted as a contractual obligation to pay only those amounts provided herein, in the manner and under the conditions prescribed herein. The Plan and Awards shall in no way be interpreted to require the Company to transfer any amounts to a third-party trustee or otherwise to hold any amounts in trust or escrow for payment to any Grantee or beneficiary under the terms of the Plan.

### 18.2 Nonexclusivity of the Plan.

Neither the adoption of the Plan nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations upon the right and authority of the Board to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals) as the Board in its discretion determines desirable.

### 18.3 Withholding Taxes.

The Company or an Affiliate, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Grantee any federal, state, or local taxes of any kind required by Applicable Laws to be withheld with respect to the vesting of or other lapse of restrictions applicable to an Award or upon the issuance of any shares of Stock upon the exercise of an Option or pursuant to any other Award. At the time of such vesting, lapse of restrictions, or exercise, the Grantee shall pay in cash to the Company or an Affiliate, as the case may be, any amount that the Company or such Affiliate may reasonably determine to be necessary to satisfy such withholding obligation, provided that if there is a same-day sale of shares of Stock subject to an Award, the Grantee shall pay such withholding obligation on the day on which such same-day sale is completed. Subject to the prior approval of the Company or an Affiliate, which may be withheld by the Company or such Affiliate, as the case may be, in its sole discretion, the Grantee may elect to satisfy

such withholding obligation, in whole or in part, (a) by causing the Company or such Affiliate to withhold shares of Stock otherwise issuable to the Grantee or (b) by delivering to the Company or such Affiliate shares of Stock already owned by the Grantee. The shares of Stock so withheld or delivered shall have an aggregate Fair Market Value equal to such withholding obligation. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company or such Affiliate as of the date on which the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this **Section 18.3** may satisfy such Grantee's withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements. The maximum number of shares of Stock that may be withheld from any Award to satisfy any federal, state, or local tax withholding requirements upon the vesting, lapse of restrictions, or exercise applicable to any Award or payment of shares of Stock pursuant to such Award, as applicable, may not exceed such number of shares of Stock having a Fair Market Value equal to the maximum statutory amount required by the Company or the applicable Affiliate to be withheld and paid to any such federal, state, or local taxing authority with respect to such vesting, lapse of restrictions, exercise, or payment of shares of Stock.

**18.4 Captions.**

The use of captions in the Plan or any Award Agreement is for convenience of reference only and shall not affect the meaning of any provision of the Plan or such Award Agreement.

**18.5 Construction.**

Unless the context otherwise requires, all references in the Plan to "including" shall mean "including without limitation."

**18.6 Other Provisions.**

Each Award granted under the Plan may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Committee, in its sole discretion.

**18.7 Number and Gender.**

With respect to words used in the Plan, the singular form shall include the plural form, and the masculine gender shall include the feminine gender, as the context requires.

**18.8 Severability.**

If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

**18.9 Governing Law.**

The Plan and the instruments evidencing the Awards hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Delaware, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan and the instruments evidencing the Awards hereunder to the substantive laws of any other jurisdiction.

**18.10 Foreign Jurisdictions.**

To the extent the Committee determines that the material terms set by the Committee imposed by the Plan preclude the achievement of the material purposes of the Plan in jurisdictions outside the United States, the Committee shall have the authority and discretion to modify those terms and provide for such additional terms and conditions as the Committee determines to be necessary, appropriate, or desirable to accommodate differences in local law, policy, or custom or to facilitate administration of the Plan. The Committee may adopt or approve sub-plans, appendices, or supplements to, or amendments, restatements, or alternative versions of, the Plan as in effect for any other purposes. The special terms and any such sub-plans, appendices, supplements, amendments, restatements, or alternative versions, however, shall not include any provisions that are inconsistent with the terms of the Plan as in effect, unless the Plan could have been amended to eliminate such inconsistency without further approval by the Company's stockholders.

**18.11** Section 409A of the Code.

The Plan is intended to comply with Code Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and administered to be in compliance with Code Section 409A. Any payments described in the Plan that are due within the Short-Term Deferral Period shall not be treated as deferred compensation unless Applicable Laws require otherwise. Any grant of an Option or SAR pursuant to the Plan is intended to comply with the "stock rights" exemption from Code Section 409A. Notwithstanding any provision of the Plan to the contrary, to the extent required to avoid accelerated taxation and tax penalties under Code Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Plan during the six (6)-month period immediately following the Grantee's Separation from Service shall instead be paid on the first payroll date after the six (6)-month anniversary of the Grantee's Separation from Service (or the Grantee's death, if earlier).

Furthermore, notwithstanding anything in the Plan to the contrary, in the case of an Award that is characterized as deferred compensation under Code Section 409A, and pursuant to which settlement and delivery of the cash or shares of Stock subject to the Award is triggered based on a Change in Control, in no event shall a Change in Control be deemed to have occurred for purposes of such settlement and delivery of cash or shares of Stock if the transaction is not also a "change in the ownership or effective control of" the Company or "a change in the ownership of a substantial portion of the assets of" the Company as determined under Treasury Regulation Section 1.409A-3(i)(5) (without regard to any alternative definition thereunder). If an Award characterized as deferred compensation under Code Section 409A is not settled and delivered on account of the provision of the preceding sentence, the settlement and delivery shall occur on the next succeeding settlement and delivery triggering event that is a permissible triggering event under Code Section 409A. No provision of this paragraph shall in any way affect the determination of a Change in Control for purposes of vesting in an Award that is characterized as deferred compensation under Code Section 409A.

Notwithstanding the foregoing, neither the Company nor the Committee shall have any obligation to take any action to prevent the assessment of any excise tax or penalty on any Grantee under Code Section 409A, and neither the Company or an Affiliate nor the Board or the Committee shall have any liability to any Grantee for such tax or penalty.

**18.12** Limitation on Liability.

No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan, any Award, or any Award Agreement. Notwithstanding any provision of the Plan to the contrary, none of the Company, an Affiliate, the Board, the Committee, or any person acting on behalf of the Company, an Affiliate, the Board, or the Committee shall be liable to any Grantee or to the estate or beneficiary of any Grantee or to any other holder of an Award under the Plan by reason of any acceleration of income, or any additional tax (including any interest and penalties), asserted by reason of the failure of an Award to satisfy the requirements of Code Section 422 or Code Section 409A or by reason of Code Section 4999, or otherwise asserted with respect to the Award, provided, that this **Section 18.12** shall not affect any of the rights or obligations set forth in an applicable agreement between the Grantee and the Company or an Affiliate.

*[Remainder of page intentionally left blank]*

To record the amendment and restatement of the SecureWorks Corp. 2016 Long-Term Incentive Plan by the Board as of May 14, 2024 and the effectiveness of an amendment to the Plan in accordance with the approval of such amendment by the Company's stockholders on the Amendment Date, the Company has caused its authorized officer to execute the Plan.

SECUREWORKS CORP.

By: /s/ George B. Hanna

Name: George B. Hanna

Title: Senior Vice President, Chief Legal and Administrative Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
OF THE COMPANY PURSUANT TO RULE 13a-14(a)  
OR RULE 15d-14(a) UNDER THE SECURITIES EXCHANGE  
ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Wendy K. Thomas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SecureWorks Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 6, 2024

/s/ Wendy K. Thomas

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Wendy K. Thomas  
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
OF THE COMPANY PURSUANT TO RULE 13a-14(a)  
OR RULE 15d-14(a) UNDER THE SECURITIES EXCHANGE  
ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Alpana Wenger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SecureWorks Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 6, 2024

/s/ Alpana Wegner

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Alpana Wegner  
Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER OF THE COMPANY  
PURSUANT TO RULE 13a-14(b) OR RULE 15d-14(b)  
UNDER THE SECURITIES EXCHANGE ACT OF 1934  
AND 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, in the undersigned's capacity as an officer of SecureWorks Corp. (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge:

1. The quarterly report on Form 10-Q of the Company for the quarter ended August 2, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such quarterly report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 6, 2024

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*/s/ Wendy K. Thomas*

Wendy K. Thomas  
*Chief Executive Officer*

Date: September 6, 2024

\_\_\_\_\_  
*/s/ Alpana Wegner*

Alpana Wegner  
*Chief Financial Officer*