Secureworks®

May 17, 2023

Dear Secureworks Stakeholder:

In 2022, we accelerated the transformation of our company with our Taegis™ XDR platform, the next generation of cybersecurity technology. To fulfill our company Purpose to Secure Human Progress, Secureworks is taking a proactive, data-science driven approach to cyber defense, enabling organizations to bolster their security posture with the power of Secureworks' technology and security expertise. We delivered Taegis revenue growth of 120% during fiscal year 2023, and ended the year with more than 80% of our annual recurring revenue (ARR) from Taegis solutions.

***Securing our Customers***

Our top priority is enabling our customers and partners to fulfill their missions by keeping them secure, and we partner with thousands of organizations responsible for the health, livelihood, and prosperity of the communities they serve. Governments, businesses, and individuals are all subject to a relentless, sophisticated, and complex threat landscape, and cannot solve their security challenges with either people or point solutions alone. All face the need to secure a broader and more porous attack surface, driven by the continued migration of critical data workloads to cloud applications and transformation of their digital presence in support of a hybrid workforce. Regulatory scrutiny of cyber security rigor and compliance are increasing, and most organizations don't have the necessary level and diversity of cybersecurity expertise in-house.

We designed Taegis to address these challenges by seamlessly securing the diversity and complexity of evolving customer technology environments and leveraging our deep expertise and threat intelligence data.

***Innovation and Transformation***

The decision to make our strategic shift and invest in the next generation of security technology began with our recognition of the need for greater collaboration and innovation as a community. Secureworks is a product-led Software-as-a-Service, or SaaS, company with $261 million of ARR from Taegis, representing over 80% of our total ARR as of year-end fiscal 2023, up from 42% of the total at the end of the previous year. Since launching Taegis in 2020, we've delivered a 3-year compound annual growth rate of 156% in Taegis ARR, and 2,000 Taegis customers are now seeing the benefits of our XDR-based approach to managed detection and response.

Security is a big data challenge – and opportunity – and we continue to innovate to outpace and outmaneuver the adversary. With thousands of security investigations and incident response activities each year, our platform leverages these insights to create machine-readable threat intelligence that updates our detectors every hour of every day. The quantity and quality of data drive machine-learning model performance, creating that virtuous cycle of protection for all. Taegis powers the critical ability to detect and respond with unmatched speed in real time, reduces alert noise, prevents threat actors from lingering in blind spots, and enables rapid high-fidelity response to prevent costly breaches.

The Taegis platform also was designed for optionality around who manages detection and response activities, giving organizations flexibility and choice in the design of their security program management. Last year, we announced our commitment to "Partner First," elevating our collaboration with critical managed service and solution providers, as well as technology alliance partners.

As we complete the sunset of several non-strategic service lines, we have been actively aligning our expense base to our new, go-forward business, benefiting from the scaled, higher margin solutions on the Taegis platform. With the growth and scale of Taegis, and our ability to reduce duplicative costs, we are on a path to profitable growth.

***Our Commitment to ESG***

As we have transformed our business, we have continually shown our commitment to sustainability, social responsibility, and corporate governance. There is no doubt that cultural diversity fosters creativity, increases collaboration, and enhances innovation in how we protect customers. We are proud of our 8% year-over-year increase in diverse representation in our workforce.

Fiscal year 2023 was also marked by several achievements in our governance practices, as we continue to pride ourselves on setting a tone of accountability to ensure financial reporting controls remain effective. Above all else, we are grateful to work with one of the world's great cybersecurity teams, whose spirit and dedication inspire us every day. Thank you to our Board and teammates around the globe for their diligence and integrity, engraining compliance into all we do.

On behalf of the entire Secureworks team, we thank you for investing in our vision to transform security as Taegis defines the future of threat detection and analysis and drives superior long-term and sustainable growth and value creation for investors. We look forward to our continued partnership in 2023 and beyond.

Sincerely,

Wendy K. Thomas,

Chief Executive Officer

**Operating Metrics**

The Company defines annual recurring revenue (ARR) as the value of its subscription contracts as of a particular date. Because the Company uses recurring revenue as a leading indicator of future annual revenue, it includes operational backlog. Operational backlog is defined as the recurring revenue associated with pending contracts, which are contracts that have been sold but for which the service period has not yet commenced.

**Special Note Regarding Forward-Looking Statements**

This letter contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Forward-looking statements in this letter include statements related to our operations, results of operations, product and service offerings and other matters that are based on our current expectations, estimates, assumptions and projections. In some cases, words such as "will," "plan," "believe" and similar expressions are used to identify these forward-looking statements. Secureworks' expectations expressed or implied in these forward-looking statements may not turn out to be correct. Secureworks' actual results could be materially different from our expectations because of various risks and uncertainties including, but not limited to, competitive uncertainties and general economic and business conditions in Secureworks' markets as well as the other risks and uncertainties that are described in Secureworks' periodic and current reports and other filings with the Securities and Exchange Commission, which are available for review through the SEC's website at www.sec.gov. 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 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.

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
# Washington, D.C. 20549
# FORM 10-K

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

**For the fiscal year ended February 3, 2023**

**or**

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

**For the transition period from_____ to_____**

**Commission file number: 001-37748**

Secureworks®

## SecureWorks Corp.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **27-0463349** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**One Concourse Parkway NE Suite 500, Atlanta, Georgia 30328**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(404)327-6339**
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Class A Common Stock, par value $0.01 per share** | **SCWX** | **The Nasdaq Stock Market LLC (Nasdaq Global Select Market)** |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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, 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 | ☐ | Accelerated filer | ☑ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report ☑

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 July 29, 2022, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $124.0 million (based on the closing price of $9.93 per share of Class A common stock reported on the Nasdaq Global Select Market on that date).

As of March 20, 2023, there were 85,730,474 shares of the registrant's common stock outstanding, consisting of 15,730,474 outstanding shares of Class A common stock and 70,000,000 outstanding shares of Class B common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the registrant's proxy statement relating to the annual meeting of stockholders in 2023. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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,” “will,” “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 the risks discussed in this report under “Part I – Item 1A – Risk Factors” 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, business strategy, 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.

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

*Our fiscal year is the 52- or 53-week period ending on the Friday nearest January 31. Our 2023 fiscal year ended on February 3, 2023, our 2022 fiscal year ended on January 28, 2022, and our 2021 fiscal year ended on January 29, 2021. Our 2023 fiscal year consisted of 53 weeks. Our 2022 and 2021 fiscal years each consisted of 52 weeks.*

# Part I

## Item 1. Business

### Overview

We are a leading global cybersecurity provider of technology-driven solutions singularly focused on protecting our customers by outpacing and outmaneuvering the adversary.

Our vision is to be the essential cybersecurity company for a digitally connected world by providing the software platform of choice to deliver our holistic approach to security at scale for our customers to achieve their best security outcomes. We combine considerable experience from securing thousands of customers, machine-learning capabilities in our software platform, and 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 experience shows that security based on "point" products operating in silos is not sufficient to outpace the adversary at scale. Through our open platform approach, we create integrated and comprehensive solutions by proactively managing the collection of point products deployed by our customers to address specific security issues and provide solutions to fortify gaps in their defenses.

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 knowledge, we utilize unique insights to build an integrated security platform that fuels efficient and effective security operations for customers and partners.

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 as the customer's organization grows and changes over time. Our flexible and scalable solutions support the evolving needs of the largest, most sophisticated 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 services.

Our solutions leverage the proprietary technologies, software security operations workflows, 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 cloud-native security software platform of choice,
- broaden our reach with security service providers to deliver our security software platform globally, and
- empower the global security community to beat the adversary at scale.

**Our Competitive Strengths**

We believe that the following key competitive advantages will allow us to maintain and extend our leadership position in providing technology-driven security solutions:

***A Leader in Technology-Driven Security Solutions.*** We are a global leader in providing technology-driven security solutions and believe we have become a mission-critical partner to many of the large enterprises, small and medium-sized businesses and U.S. state and local government agencies we serve. With decades of security operations expertise, we are recognized by our customers, partners and industry analysts as a leader in empowering effective security outcomes. We leverage this knowledge and expertise to help customers optimize their security investments and teams, and we enable our partners to build a highly effective and high margin security services business. We believe our position as a technology and market leader enhances our brand and positions our offerings as a preferred solution.

***Purpose-Built, Proprietary Technology.*** At the core of our solutions is the proprietary Taegis™ software platform that collects, aggregates, correlates and analyzes billions of daily events and data points and generates enriched security intelligence on adversary groups and global threat indicators. Our Taegis platform is designed with a Big Data plus Fast Data architecture optimized to deliver comprehensive answers to security challenges, and allows for expanded visibility and timely detections that, coupled with 1-click response actions, drive efficiency and faster remediation times.

***Open Platform Approach***. Taegis leverages an open architecture that is designed to process a wide variety of telemetry to see security threats quickly and to 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.

***Threat Intelligence***. Our proprietary and purpose-built technology uses analytical models and sophisticated algorithms to generate threat intelligence. This intelligence is augmented by our Counter Threat Unit™ research team, which conducts research into adversaries, uncovers new attack techniques, analyzes emerging threats and evaluates the risks posed to our customers. Applying this intelligence across our solutions portfolio provides customers with deeper insights and enriched context regarding tactics, techniques and procedures employed by those adversaries.

***Breadth and Depth of Detection Capabilities.*** Our powerful and unique combination of threat intelligence, which is continuously fueled by incident response engagements, adversarial testing exercises, activity in our security operations centers and by our Counter Threat Unit research team, is turned into machine readable software that enhances our artificial intelligence and machine learning capabilities. We are thus able to deliver an innovative set of detectors and threat context indicators, each of which is powerful in its own right, but are even more powerful when working in unison for our customers and partners.

***Simple, Predictable Pricing Structure.*** Taegis pricing is based on customer endpoint and/or asset counts, which are easily attainable and predictable by our customers. This simple pricing approach avoids unpredictable charges that make forecasting difficult and disincentivizes customers from sharing their data.

***Scalable Software Platforms with Powerful Network Effects***. Our multi-tenant software platforms provide rapid threat detection and response. As our customer base increases, our software platforms are able to analyze more event data and that additional intelligence makes the software platforms more effective. This in turn drives broader customer adoption and enhances the value of the solutions to both new and existing customers.

***Global Customer Base.*** Our global customer base provides visibility into the cyber threat landscape through 4,500 customers across 77 countries. We gain real-time insights that enable us to identify, detect and respond to threats quickly and effectively. We also are able to identify threats originating within a particular geographic area or related to a particular industry and we proactively leverage this threat intelligence to protect our customers against those threats.

***Specialist Focus and Expertise.*** Our company, technology and culture were built with a singular focus on protecting our customers by delivering technology-driven security solutions to outpace and outmaneuver the adversary. We believe this continued focus reinforces our differentiation from other information security vendors, including network providers, IT security product companies, and local and regional information security solutions providers.

***Strong Team Culture.*** The fight against sophisticated and malicious cybersecurity threats is a personal one for our company, and we take great pride in helping our customers protect their critical business data and processes. We dedicate significant resources to ensure that our culture and brand reflect our singular focus on protecting our customers against the adversary.

## Our Growth Strategy

Our strategy is to be the essential cybersecurity company for a digitally connected world. To pursue our strategy, we seek to:

***Broaden our portfolio of software-as-a-service solutions.*** In fiscal 2020, we launched our first SaaS application, called Taegis$^{TM}$ XDR, an Extended Detection and Response solution. We deploy a managed version of this application called Taegis ManagedXDR, which allows Secureworks or our partners to manage the application for customers. Since fiscal 2020, we have expanded our SaaS portfolio by launching our vulnerability management application, called Taegis VDR, and our next generation anti-virus, or NGAV, add-on solution called Taegis NGAV. We intend to continue expanding our Taegis portfolio with additional internally developed or acquired SaaS solutions.

***Extend our technology leadership.*** We intend to enhance our leading technology-driven integrated suite of solutions by adding complementary solutions that strengthen the security posture of our customers. We intend to meet this goal by continuing to invest in research and development, increasing our global threat research capabilities and hiring personnel with extensive cybersecurity expertise.

***Embrace our partner ecosystem.*** We are embracing strategic partnerships with our channel partners, technology alliance partners, and system integrators. Our Partner First strategy is focused on further expanding our partner ecosystem to open up new channels to market and enabling customers to succeed with our open platform through the delivery of comprehensive security solutions.

***Expand and diversify our customer base.*** We intend to continue to expand and diversify our customer base, both domestically and internationally, by investing in our demand generation and marketing capabilities, investing in our Partner First strategic relationships, and pursuing opportunities across a broad range of industries. We also intend to continue increasing our geographic footprint to further enhance our deep insight into the global threat landscape and ability to deliver comprehensive threat intelligence to our customers.

***Deepen our existing customer relationships.*** We provide scalable software-as-a-service solutions and intend to continue leveraging the strong customer relationships and high customer satisfaction from across our customer base to sell additional solutions to existing customers. We will continue to invest in our account management, marketing initiatives and customer success programs in seeking to achieve high customer renewal rates, help customers realize greater value from their existing solutions and encourage them to expand their use of our solutions over time.

***Attract and retain top talent.*** Our technology leadership, brand, exclusive focus on information security, customer-first culture and robust training and development program have enabled us to attract and retain highly skilled professionals with a passion for building a career in the information security industry. We will continue to invest in attracting and retaining top talent to support and enhance our information security offerings.

## Our Subscription and Professional Services Offerings

We offer an integrated suite of technology-driven security solutions enabled by our Taegis software 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. Our Taegis software 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, we provide global visibility and insight into malicious activity, enabling our customers to detect, respond to and effectively remediate threats quickly.

We leverage current threat intelligence and our extensive expertise and knowledge of the tactics, techniques and procedures of the adversary, which we have developed over two decades of processing and handling events, to provide insight into how attacks are initiated and spread across our customers' networks. The Taegis software platform applies security intelligence based on threat indicators continuously gathered by our Counter Threat Unit research team through in-depth analysis of the cyber threat environment. This team conducts research into emerging adversaries and new attack tactics and develops countermeasures to enable customers to prevent and detect potential compromises. Our ability to see more security incidents along with the applied intelligence acts as an early warning system that enables us to proactively alert customers, apply protections and respond quickly with appropriate context. The more security events we see, the more effective are the countermeasures, detections and response actions we deploy. Our software platform is designed to be open, enabling our customers to aggregate events from a wide range of endpoint, network, cloud and business systems.

Through delivering integrated solutions by security experts for security experts, we allow organizations to:

- measurably reduce their business risk from cyber exposure;
- optimize their investment in security controls; and
- address the shortage of personnel with cybersecurity expertise.

Customers may subscribe to our full suite of solutions or elect to subscribe to various combinations of individual solutions. We offer solutions, including the offerings discussed below, primarily on a subscription basis with terms typically ranging from one to three years.

The transformation of our subscription business to our Taegis solutions began in fiscal 2021. As part of that transformation, we informed customers early in the fourth quarter of fiscal 2022 that many of our other managed security services would no longer be available for purchase and renewals would not extend beyond the end of fiscal 2023.

### *Taegis Subscription Solutions*

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

Taegis XDR, ManagedXDR and VDR are the first in a suite of software-driven applications and solutions driven by our Taegis software platform that we plan to release.

*Extended Detection and Response.* Taegis XDR collects and processes vast amounts of data from a wide range of sources through hundreds of out-of-the-box integrations. The resulting advanced security analytics that are enriched by the company's extensive understanding of the evolving threat environment and by the network effect of our diverse customer base.

- Taegis XDR analyzes activity from endpoint, network, cloud, email, identity and other systems while reducing the number of false-positive results security professionals face. It detects advanced threats by correlating information from a variety of sources and threat intelligence feeds, integrating Secureworks' knowledge of adversary behaviors, and applying machine-learning to provide much-needed context about the threat. Taegis XDR builds trust in prioritized security alerts and frees security teams to focus on the most critical threats.
- Taegis XDR unifies security environments and analyzes all relevant signals in one place. Customers gain additional context so they can quickly and accurately judge the implications of each event.
- By enabling collaborative investigations with seamless hand-offs, Taegis enables customers to quickly reach conclusions with confidence. Customers can use a built-in chat feature from the user interface during an investigation to get real-time expert help from Secureworks in in less than 90 seconds.
- The application allows for a quick, accurate, software-driven response that gives users the ability to automate the right action.

- Taegis XDR is a cloud-based SaaS application that is continuously updated with new features and updates pushed to the production environment.
- Taegis XDR includes advanced endpoint threat detection and network solutions with enhanced features such as next-generation anti-virus prevention capabilities, or NGAV. These features enable customers to consolidate spending with a single vendor based on the platform as the centralized solution.
- The application is designed to efficiently integrate into an organization’s current control framework.

*Managed Detection and Response.* Taegis ManagedXDR, a fully managed cybersecurity solution, combines the capabilities of the Taegis XDR platform with extensive security expertise for 24/7 protection.

- Taegis ManagedXDR leverages the knowledge gained from our long history of security analysis, threat research and incident response engagements to continuously update our threat intelligence and analytics used to recognize malicious activity. The Taegis platform uses advanced analytics and machine learning to discover stealthy threats and automatically prioritize the most serious threats, allowing customers to focus on the events that matter.
- Taegis ManagedXDR provides customers with access to the same intuitive interface and platform as our Secureworks analysts to collaborate in the ways customers prefer. Customers can reach our analysts directly 24/7 via live chat functionality in Taegis XDR.
- Taegis ManagedXDR includes threat hunting to proactively isolate and contain threats that evade existing controls.
- Taegis ManagedXDR incorporates incident response support that can be deployed quickly during a critical investigation.

Customers are able to extend the benefits of Taegis ManagedXDR with high-value add-ons:

- Taegis ManagedXDR *Elite* solution provides a designated threat-hunting expert to perform continuous, proactive and iterative threat hunting across endpoint, network and cloud environments with bi-weekly updates on an organization’s exposure to targeted threats.
- Taegis ManagedXDR *Enhanced* solution delivers higher-touch threat analysis and orchestrated response in which enhanced security analysts swivel between the Taegis XDR platform and multiple customer systems to provide a deeper level of analysis, yielding clear business context that consolidates everything occurring in a customer’s environment into one holistic picture, enabling intelligent and rapid escalation and orchestrated remediation.

*Vulnerability Detection and Response.* Taegis VDR simplifies vulnerability management with a risk-based approach that prioritizes the most critical threats and optimizes remediation efforts to protect what's most important. Powered by automated intelligent machine learning, VDR is a fully integrated, comprehensive solution that requires no configuration and automatically discovers endpoints, network equipment and devices, web applications and forgotten assets to scan for vulnerabilities and prioritize them. It's a self learning system that improves autonomously with use, further reducing risk and creating more efficiency and time for your security team to focus on what matters most for your organization.

- Taegis VDR helps organizations reduce risk by simplifying security operations with a single solution to identify and respond to vulnerabilities instead of relying on multiple technologies.
- Taegis VDR identifies vulnerabilities that require remediation by deploying a machine-learning risk prioritization engine. The solution provides context to determine which vulnerabilities pose the biggest risk to each customer. The machine-learning engine will continuously learn and improve its performance as it collects data over time, leading to a more effective and efficient vulnerability management program.
- Taegis VDR features an automated approach to vulnerability management that helps an organization’s staff focus on other tasks while VDR continues to scan for vulnerabilities.

***Other Managed Security Services***

Our proprietary Secureworks Counter Threat Platform was built to be the foundation of our other managed security services, which were end-of-life at the end of fiscal 2023 and are only provided to customers in Japan or customers who have contracts that extend beyond fiscal 2023. These other managed security services described below accounted for 37.8% of our total revenue in fiscal 2023.

*Security Monitoring*. Our security monitoring service collected, correlated and analyzed logs, alerts and other messages generated by most leading security technologies and critical information assets to identify anomalies and respond to threats in near real time.

*Advanced Endpoint Threat Detection.* Advanced endpoint threat detection, or AETD, was a managed security service that monitored the state of endpoints (which included Windows servers, laptops and desktops) for threat indicators and investigated events to determine their severity, accuracy and context, while allowing for quick escalation of critical events to the customer's attention.

*Firewall and Next-Generation Firewall Services.* Our firewall management services provided policy-based control over applications, users and content, device provisioning and deployment, while enabling customers to respond immediately to security events.

*Managed Network Intrusion Detection System, or IDS, and Intrusion Prevention System, or IPS, Services.* Our IDS or IPS services included security monitoring, performance and availability management, device upgrades and patch management, policy and signature management, integration of threat intelligence and use of our proprietary iSensor device.

*Log Retention Services.* Our log retention services provided support for a wide range of sources, allowing the capture and aggregation of millions of logs generated daily by critical information assets such as servers, routers, firewalls, databases, applications and other systems of the log retention appliance.

We provided two delivery options for these other managed security services.

*Managed Delivery.* With managed delivery, we assumed control of a customer's security technology so the customer could focus on running its business.

*Monitored Delivery.* Customers selecting monitored services obtained access to our on-demand Counter Threat Platform through our web-based portal, plus monitoring and analysis by our security analysts of events collected from security and network devices and applications.

**Professional Services**

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

***Incident Response***

In our incident response engagements, we help customers rapidly analyze, contain and remediate security incidents to minimize their duration and impact. In addition, our incident response services can increase customer awareness of and interest in our Taegis subscription solutions as we help customers develop a stronger and more comprehensive security program and posture.

*Incident Readiness.* Secureworks provides incident readiness services to help customers understand current state and identify areas of weakness or existing compromise and expert guidance to enable pragmatic and risk-based improvements. Our incident management risk assessment reduces the risk of compromise by evaluating a customer's ability to detect, resist, and respond to a variety of cyber attacks, including advanced persistent threats. Our deep experience in incident response investigations and security best practices forms the basis of our comprehensive incident response plan review, which is designed to assist our customers in guarding against gaps and uncertainty in the midst of a crisis and incorporates the latest threat intelligence tailored to the customer's specific needs.

*Emergency Incident Response Solutions.* We seek to ensure that organizations experience minimal economic loss and operational disruption when facing a cyber security incident. Our team of experienced security professionals work hand-in-hand with customers to minimize the duration and impact of security incidents through incident management, technical expertise, investigative know-how, malware analysis and reverse engineering. Layered into our incident response investigations and integrated into our Taegis platform is the threat intelligence developed by our Counter Threat Unit™ research team, which enriches our overall knowledge of the adversary and allows investigators to take a targeted approach and get to a faster resolution for our customers.

***Taegis and Adversarial Professional Services***

We facilitate improving our customers' security posture by assessing their security capabilities, preparing employees against cyber-attacks, improving compliance and identifying, prioritizing and resolving the vulnerabilities that pose the greatest threat.

Our team has extensive experience conducting security engagements across many industries and geographic areas, and under recent regulations and industry standards that impose security mandates. Professional services we offer include the following:

*Taegis Professional Services.* Our Taegis Professional Services assist customers by providing training, onboarding and integration services to assist with the implementation and adoption of our Taegis XDR platform. The services include assessing the customer's environment, performing data integration activities and application training.

*Adversarial Testing.* Our adversarial testing solutions provide customers with a thorough analysis of their security posture to include logical, physical, technical and non-technical threats. These adversarial testing services identify risk-generating gaps in people, process and technology, and help organizations construct a stronger security posture and meet compliance mandates. Our testing solutions touch upon nearly every aspect of offensive security to include:

- Application security
- Network security
- Adversary exercises
- Vulnerability assessments delivered using Taegis VDR
- Other customized and specialized testing services

All of our offensive services simulate cyber attacks using real-world tactics, techniques, and procedures through a blend of automated and manual attacks. Our offensive professionals also assist the Incident Response team during their investigations and provide adversarial insight that continually helps improve the detection efficacy of the Taegis platform.

*Threat Hunting Assessment*. The Secureworks Threat Hunting Assessment is a point-in-time 30-day comprehensive and intensive evaluation of the customer's environment to identify previously unknown compromise activity, security misconfigurations, visibility gaps, control issues, and cyber threats and risks. Our team of security experts possess decades of combined experience countering adversary tradecraft. This human intelligence along with our proprietary hunting technology and Secureworks' advanced security analytics enables us to identify the presence of historical and active compromises entrenched within the environment. This solution helps the customer increase its cyber resilience with focused, tailored recommendations on security architecture, instrumentation, and controls.

*Security Residency Solutions.* Our security residency solutions provide customers with security consultants who serve as extended members of their staff either on-site or remotely to extend and heighten an organization's security expertise and capabilities. Residency solutions are combined with other Secureworks solutions in complex enterprise environments to enhance the value customers experience. We align with each customer's internal processes, integrate our data feeds into customer applications and dashboards, and produce customized analytics and reporting. In addition, we assist customers with handling the security events identified by our solutions.

**Research and Development**

We believe that innovation and the timely development of new solutions are essential to meeting the needs of our customers and improving our competitive position. We plan to continue making investments in our research and development effort as we evolve and extend the capabilities of our solutions portfolio.

We focus our research and development efforts on enhancing and adding new functionality to our Taegis software platform and purpose-built technologies that are critical enablers of our solutions and services. The Taegis software platform and its capabilities follow an agile development, continuous release process with new features pushed to production environments on a daily basis, and user interface enhancements released every two weeks.

Our research and development organization is responsible for the architecture, design, development and testing of all aspects of our suite of security solutions. We have deep security, software and data science expertise and work closely with our product management, customer success and support teams and with customers to gain insights into future product development opportunities. We focus our research on identifying next-generation threats and adversaries and developing countermeasures, which are continuously applied to our software platforms and are used to respond to the rapidly evolving security threat landscape. In addition to improving on our features and functionality, our research and development organization works closely with our information technology team to ensure that our software platforms are available, reliable and stable.

**Our Customers**

As of February 3, 2023, we had approximately 4,500 customers, including approximately 2,000 Taegis and 700 managed security subscription customers, across 77 countries. We serve customers in a broad range of industries, including the financial services, manufacturing, technology, retail, insurance, utility and healthcare sectors. No one customer represented more than 10% of our annual revenue in any of our last three fiscal years. In fiscal 2023, financial services and manufacturing customers accounted for 20% and 26%, respectively, of our revenue. No other industries accounted for 10% or more of our fiscal 2023 revenue.

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. Approximately 78% of our revenue is derived from subscription-based arrangements, attributable to Taegis solutions and managed security services, while approximately 22% is 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 34%, 33% and 30% of our revenue in fiscal 2023, fiscal 2022 and fiscal 2021, respectively. For additional information about our non-U.S. revenues and assets, see "Notes to Consolidated Financial Statements—Note 12—Selected Financial Information" in our consolidated financial statements included in this report.

***Customer Success and Support***

Customer success, training and support are key elements of our commitment to provide a superior customer experience and differentiated value. We have a comprehensive customer success training and support program to continuously improve the customer experience and to enhance the value that our customers derive from our solutions. We provide education, training and support on the functionality of our solutions so that our customers fully utilize their benefits and we regularly conduct customer surveys to improve and enhance both our customer relationships and solutions portfolio. Our Taegis XDR and Taegis VDR customers receive 24/7 application support as well as an integrated chat function. Our Taegis platform has an integrated customer experience software that analyzes how customers use our applications, highlights new features available, and solicits customer feedback.

## Sales and Marketing

Sales and Marketing, together with Secureworks partners, drives growth by focusing on defining the Secureworks brand, increasing awareness, building a robust opportunity and revenue pipeline, and cultivating partner and customer relationships. We create customer value with our managed detection and response cybersecurity solutions that are cloud native and are offered primarily on a subscription basis. We typically offer contract terms from one to three years and, as of February 3, 2023, are averaging two years in duration. We provide additional customer value through expert incident response and adversarial security testing services.

### *Partner Program*

Secureworks Taegis™ is a cloud-native XDR platform that rests at the core of the Secureworks MDR solution. The Taegis architecture enables us to quickly integrate solutions and innovations from our partners, offering the best-fit cybersecurity solutions to our joint Secureworks + partner customers.

Our Partner First strategy, which has been fully implemented in North America, equips and enables our partners to leverage Taegis, together with Secureworks expert services, as an engine for growth. Our partners in turn enable Secureworks to be more flexible and fast to market, driving superior customer retention with their supplemental solution offerings and knowledge of customer needs. Our growing partner ecosystem includes cyber risk partners, solution providers, technology alliance partners, and managed security service providers (MSSPs).

### *Sales Teams*

Our Sales teams are committed to driving sales opportunities through our partner community, and to closing all deals together. - Our Customer Success and Account Management teams extend the value of our solutions by identifying cross-selling and upselling opportunities within our customer base and enhancing customer satisfaction. Our routes to market vary by country and the size of the customer organization.

Our Sales teams are a mix of inside sales and field sales professionals who are aligned with geographic regions. They are supported by technical Sales Engineers with deep security experience, who assess customer environments and needs, and by our partner community, which matches the best solutions to customer needs.

In fiscal 2023, approximately 82% of Secureworks revenue, and 77% of our Taegis revenue, was generated through Secureworks-sourced sales opportunities; in some cases this was done in collaboration with members of Dell’s sales force, with the remaining portion generated through partners. We market our solutions through Dell’s channel partners as well as our own, and continuously work to optimize our commercial arrangements with Dell.

### *Marketing Team*

Our Marketing team builds our Secureworks and Taegis brands, and increases awareness for our platform and solutions, as well as generating market demand and driving pipeline growth and helping grow and maintain our competitive advantage. We develop and continuously refine company and solution messages, based on customer and buyer dialogs, and we launch new and enhanced offerings to market.

We deploy demand generation campaigns, including digital marketing programs, to engage, educate, and inspire prospects to action by creating marketing content that is relevant to buyer needs at every stage of the buying cycle. Our awareness programs are yielding consistent editorial coverage in widely distributed business publications and industry trade publications. Our social media programs regularly engage individual buyers and influencers with marketing and executive content, and we participate in digital marketing programs and face-to-face events to create customer and prospect awareness and action.

We frequently brief industry analysts and are a subject of analyst publications and references, building third-party validation of our company and our solutions. We also enable our sales and partner teams with sales tools, education, competitive insights, and field marketing activities to help them convert leads into customers.

## Competition

The markets for our technology-driven security solutions and services are intensely competitive, and we expect competition to continue to increase in the future with the introduction of new security solutions, new technologies and new market entrants. Conditions in our market could change rapidly and significantly as a result of technological advances, partnerships, or acquisitions by our competitors. Changes in the threat and technology landscape have led to constantly evolving customer requirements for protection from security threats and adversaries.

We compete primarily against the following three types of security product and services providers, some of which operate principally in the large enterprise market and others in the market for small and medium-sized businesses:

- security providers and niche IT security products and services such as CrowdStrike, Inc., Rapid7, Inc., SentinelOne, Inc. and Arctic Wolf;
- diversified technology and telecommunications companies such as Palo Alto Networks, Inc., Microsoft, International Business Machines Corporation and AT&T Inc.; and
- small regional managed security service providers, including new market entrants, that compete in the small and medium-sized businesses market.

As the extended detection and response market continues its rapid growth, it will continue to attract new market entrants as well as existing security vendors acquiring or bundling their products more effectively.

We believe that the principal competitive factors in our market include:

- global visibility into the threat landscape;
- ability to generate actionable intelligence based on historical data and emerging threats;
- speed of innovation;
- scalability and overall performance of platform technologies;
- deep understanding of security operations best practices;
- ability of our technology to integrate with a variety of third-party products;
- ability to deliver SaaS solutions to meet specific customer needs;
- ability to attract and retain high-quality professional staff with information security expertise;
- brand awareness and reputation;
- strength of sales and marketing efforts;
- cost effectiveness;
- customer success and support; and
- breadth and richness of threat intelligence, including a history of data collection and diversity and geographic scope of customers.

We believe that we generally compete favorably with our competitors on the basis of these factors as a result of the features and performance of our portfolio, the quality of our threat intelligence, the security expertise within our organization and the ease of integration of our solutions with other technology infrastructures. However, many of our competitors, particularly in the large enterprise market, have advantages over us because of their greater brand name recognition, larger customer bases, more extensive relationships within large commercial enterprises, more mature intellectual property portfolios and greater financial and technical resources.

## Intellectual Property

Our intellectual property is an essential element of our business. To protect our intellectual property rights, we rely on a combination of patent, trademark, copyright, trade secret and other intellectual property laws as well as confidentiality, employee non-disclosure and invention assignment agreements.

Our employees and contractors involved in technology development are required to sign agreements acknowledging that all inventions, trade secrets, works of authorship, developments, processes and other intellectual property rights conceived or reduced to practice by them on our behalf are our property, and assigning to us any ownership that they may claim in those intellectual property rights. We maintain internal policies regarding confidentiality and disclosure. Our customer and resale contracts prohibit reverse engineering, decompiling and other similar uses of our technologies and require that our technologies be returned to us upon termination of the contract. We also require our vendors and other third parties who have access to our confidential information or proprietary technology to enter into confidentiality agreements with us.

Despite our precautions, it may be possible for third parties to obtain and use, without our consent, intellectual property that we own or otherwise have the right to use. Unauthorized use of our intellectual property by third parties, and the expenses we incur in protecting our intellectual property rights, may adversely affect our business.

Our industry is characterized by the existence of a large number of patents, which leads to frequent claims and related litigation regarding patent and other intellectual property rights. In particular, large and established companies in the IT security industry have extensive patent portfolios and are regularly involved in litigation asserting or defending against patent infringement claims. From time to time, third parties, including some of these large companies as well as non-practicing entities, may assert patent, copyright, trademark and other intellectual property rights against us, our channel partners or our end-customers, which we are obligated to indemnify against such claims under our standard license and other agreements. Successful claims of infringement by a third party, if any, could prevent us from performing certain solutions, require us to expend time and money to develop non-infringing solutions, or force us to pay substantial damages (including, in the United States, treble damages if we are found to have willfully infringed patents), royalties or other fees.

### *Patents and Patent Applications*

As of February 3, 2023, we owned 56 issued patents and 10 pending patent applications in the United States and four issued patents and eight pending patent applications outside the United States. The issued patents are currently expected to expire between 2023 and 2040. Although we believe that our patents as a whole are important to our business, we are not substantially dependent on any single patent.

We do not know whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to modify or narrow our claims, as has happened in the past with respect to certain claims. Any patents that may be issued to us may not provide us with any meaningful protection or competitive advantages, or may be contested, circumvented, found unenforceable or invalid, and we may not be able to prevent third parties from infringing upon them.

### *Trademarks and Copyrights*

The U.S. Patent and Trademark Office has granted us federal registrations for some of our trademarks. Federal registration of trademarks is effective for as long as we continue to use the trademarks and maintain our registrations as permitted under federal law. We also have obtained protection for some of our trademarks, and have pending applications for trademark protection, in the European Community and various countries. We may, however, be unable to obtain trademark protection for our technologies and names that we use, and names, slogans or logos that we use or may use may be deemed non-distinctive, and therefore unable to distinguish our solutions from those of our competitors in one or more countries.

We have entered into a trademark license agreement with Dell Inc. under which Dell Inc. has granted us a non-exclusive, royalty-free worldwide license to use the trademark “DELL,” solely in the form of “SECUREWORKS-A DELL COMPANY,” in connection with our business and products, services and advertising and marketing materials related to our business.

## Backlog

We define backlog as the non-cancellable value of subscription-based solutions to be provided under our Taegis solutions and managed security services contracted with a customer that have not yet been provisioned or installed. Backlog is not recorded in revenue, deferred revenue or elsewhere in our consolidated financial statements until we establish a contractual right to invoice, at which point backlog is recorded as revenue or deferred revenue, as appropriate. All contractual amounts included in backlog are available to be installed with revenue recognition commencing within the coming fiscal year. As of February 3, 2023 and January 28, 2022, backlog of subscription-based solutions was approximately $3.0 million and $2.6 million, respectively. Backlog is influenced by several factors, including seasonality, the compounding effects of renewals and the mix of solutions under contract with customers. Accordingly, we believe that fluctuations in backlog are not always a reliable indicator of future revenues.

## Seasonality

Given the annual budget approval process of many of our customers, we have begun to see seasonal patterns in our business. Seasonal variations in our financial results may become more pronounced in future periods, with sales to new customers and additional sales to existing customers being greater in the second half of the year, particularly in the fourth quarter, as compared to the first half of the year. In addition, we also experience seasonality in our gross and operating margins, with lower margins in the first half of our fiscal year as a result of greater expenditures for payroll taxes and annual sales and marketing events. This seasonality may also affect the timing of our operating cash flow.

## Human Capital Resources

### *Employee Population*

As of February 3, 2023, we employed 2,149 full-time employees. Approximately 55.7 percent of our employees were located in the United States and the remainder were located in 25 other countries. None of our employees in the United States are represented by a labor organization or the subject of a collective-bargaining agreement. Employees of some of our foreign subsidiaries are represented on workers' councils.

### *Compensation, Benefits and Well-being*

We are committed to providing employees with compensation and benefits that support their physical, mental and financial well-being. We believe our compensation program is designed to attract and reward talented individuals who possess the skills necessary to support our business objectives and assist in the achievement of our strategic goals. In addition to competitive base salaries, eligible employees can receive short-term incentives and long-term cash or equity awards. We also offer employees a wide array of benefits, including life and health and welfare insurance, retirement benefits, and paid time off.

In response to the COVID-19 pandemic, we instituted a mandatory work-from-home policy for almost all but a small number of onsite essential personnel, and we restricted travel to essential "business-critical" needs. With the support and commitment of our employees, we were able to transition to a work-from-home model and continue protecting our customers without interruption. Early in the COVID-19 pandemic, our Chief Executive Officer hosted weekly all-hands update calls, and we believe open and on-going communications have been critical to maintaining our culture and productivity during the pandemic. During this period, we have taken a flexible approach to help our employees manage their work and personal responsibilities, with a focus on employee well-being, health and safety.

### *Diversity and Inclusion*

We believe that our future growth and innovation depend on a company culture that promotes diversity and inclusion, and we seek to advance these values in our hiring, development and advancement practices. We also seek to connect our employees across regions and provide them with opportunities to enhance cultural awareness and enable collaboration.

### *Communication and Engagement*

We believe that our corporate culture depends on our employees' engagement and understanding of their contribution to the achievement of our strategic imperatives, vision and mission. In addition to prioritizing regular communications, we conduct regular employee surveys to seek feedback on what is going well and where we can focus our efforts to do more. We also have active employee resource groups, which are designed to address the need for more social and community interaction in our globally diverse workforce.

### *Community Involvement*

We aim to give back to the communities where we live and work and believe that this commitment helps in our efforts to attract and retain employees. We partner with a variety of universities and inclusion-focused programs in the United States and abroad to promote STEM education for all. Beyond contributions of cash, we encourage employees to participate in numerous local events and engage in volunteer service throughout the year.

## Corporate Information

We are a holding company that conducts operations through our wholly-owned subsidiaries. The mailing address of our principal executive offices is One Concourse Parkway NE, Suite 500, Atlanta, Georgia 30328. Our telephone number at that address is (404) 327-6339.

Secureworks was acquired by Dell, Inc. in February 2011 and completed its initial public offering, or IPO, in April 2016. Upon the closing of our IPO, Dell Technologies Inc., the ultimate parent company of Dell, Inc., owned indirectly through Dell Inc. and Dell Inc.'s subsidiaries all shares of our outstanding Class B common stock, which as of February 3, 2023 represented approximately 82.6% of our total outstanding shares of common stock and approximately 97.9% of the combined voting power of both classes of our outstanding common stock.

**Available Information**

We maintain a corporate Internet website at www.secureworks.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file the reports with, or furnish the reports to, the Securities and Exchange Commission. Information appearing on, or that can be accessed through, our website is not a part of this report.

**Information about our Executive Officers**

The following table sets forth information as of March 23, 2023 concerning our executive officers.

| Name | Age | Position |
|---|---|---|
| Wendy K. Thomas | 51 | Chief Executive Officer |
| Paul M. Parrish | 61 | Senior Vice President, Chief Financial Officer |
| George B. Hanna | 56 | Senior Vice President, Chief Legal & Administrative Officer and Corporate Secretary |
| Stephen L. Fulton | 49 | President, Customer Success |

Each executive officer is appointed by, and serves at the discretion of, our board of directors.

*Wendy K. Thomas* has served as our Chief Executive Officer since September 2021. Prior to this appointment, Ms. Thomas served in a number of critical positions at Secureworks, including as President, Customer Success from April 2020 to September 2021, as Chief Product Officer from June 2019 to April 2020, as Senior Vice President, Business and Product Strategy, from March 2018 to June 2019, as Vice President, Strategic and Financial Planning, from March 2017 to March 2018, and as Vice President, Financial Planning and Analysis from July 2015 to March 2017 and from June 2008 to June 2011. In addition, Ms. Thomas served as Chief Financial Officer of Bridgevine, Inc. (currently Updater Inc.), a marketing software company, from November 2013 to July 2015, and as Vice President, Financial Planning and Analysis, at First Data Corporation (currently Fiserv, Inc.), a payment processing and financial services technology company, from July 2011 to October 2013. Earlier in her career, Ms. Thomas held other positions, including multiple finance roles at BellSouth Corporation, a telecommunications company, culminating in the position of Director, Finance.

*Paul M. Parrish* has served as our Senior Vice President and Chief Financial Officer since December 2019. Before joining us, Mr. Parrish was the Chief Financial Officer of CIOX Health, LLC, a healthcare data management solutions company, from August 2016 to December 2019. Before his service at CIOX, Mr. Parrish served as Chief Financial Officer of Brightree, LLC, a company providing a cloud-based software and services platform for the post-acute medical care market, from June 2014 to July 2016. Mr. Parrish's previous experience includes multiple senior financial and accounting roles, including service as Chief Financial Officer of US Security Associates, Inc., a security services company, from September 2012 to January 2014, and Chief Financial Officer of S1 Corporation, a payments and financial services software company, from January 2009 to February 2012. Earlier in his career, Mr. Parrish was a Senior Manager with Deloitte, a global professional services firm. Mr. Parrish is a Certified Public Accountant.

*George B. Hanna* has served as our Chief Legal & Administrative Officer and Corporate Secretary since October 2015. Before joining us, Mr. Hanna was the Executive Vice President, Chief Legal & Administrative Officer for YP Holdings, one of the country's largest digital media companies, from January 2013 to October 2015. Prior to his service with YP Holdings, Mr. Hanna served in various leadership roles at Wellmark Blue Cross Blue Shield from July 2007 to January 2013, including as the Chief Executive Officer of Wellmark Health Plan of Iowa and as Executive Vice President of Sales & Marketing and Chief Legal Officer for Wellmark Blue Cross Blue Shield. Mr. Hanna previously was employed at BellSouth Corporation from February 1995 to July 2007, where he held senior legal roles including a position as Vice President & Deputy General Counsel.

*Stephen L. Fulton* has served as our President, Customer Success since February 2023. Prior to this appointment, Mr. Fulton served in several instrumental positions at Secureworks leading all aspects of the Taegis XDR platform vision and development, including as Senior Vice President & Chief Product Officer from September 2020 to January 2023, and as Vice President, Software Engineering from May 2017 to September 2020. Before joining us, Mr. Fulton held a number of senior leader roles at a variety of software companies, including as a Vice President at Velostrata (acquired by Google) from 2015 to 2017, as Vice President of Business Development at EMC from 2014 to 2015, as Vice President, Corporate Development at ScaleIO (acquired by EMC) from 2013 to 2014. Mr. Fulton's previous experience also includes multiple strategy, software and business development roles as Director, Cloud Strategy at Dell from 2011 to 2013, as Vice President, New Software Development at ServiceMesh (acquired by CSC) from 2010 to 2011, as Vice President, PM and Business Development at Wanova (acquired by VMware) from 2008 to 2010, and in a business development and product management role as Senior Director, Product Management at NetQoS (acquired by CA Technologies) from 2000 to 2008.

## Item 1A. Risk Factors

*A description of the risks and uncertainties associated with our business and industry, our relationship with Dell and Dell Technologies, and ownership of our Class A common stock is set forth below. You should carefully consider the following risks, together with all of the other information in this report, including our consolidated financial statements and the related notes thereto. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect us. If any of the following risks occur, our business, financial condition, operating results and prospects could be materially and adversely affected.*

### Risks Related to Our Business and Our Industry

***We have a history of losses and may not be able to achieve or maintain profitability.***

We incurred net losses of $114.5 million in fiscal 2023, $39.8 million in fiscal 2022 and $21.9 million in fiscal 2021. Any failure to increase our revenue as we grow our business could prevent us from achieving or maintaining profitability on a consistent basis or at all. As we pursue our growth strategy, we expect our operating expenses to continue to increase as we expand and diversify our customer base and attract and retain top talent. Our strategic initiatives may be more expensive than we expect, and we may not be able to increase our revenue to offset these increased operating expenses. Our revenue growth may slow, or revenue may decline, for a number of reasons described in this Risk Factors section, which may lead to increased pressure on our profit margins. If we are unable to meet these risks as we encounter them, our business, financial condition and results of operations may suffer.

***We must continue to enhance our existing solutions and technologies, and develop or acquire new solutions and technologies, or we will lose customers and our competitive position will suffer.***

Many of our customers operate in markets characterized by rapidly changing technologies, which require them to support a variety of hardware, software applications, operating systems and networks. As their technologies grow more complex, we expect these customers to face new technological vulnerabilities and increasingly sophisticated methods of cyber-attack. To maintain or increase our market share, we must continue to adapt and improve our solutions in response to these evolving cyber-attacks without compromising the high service levels and security demanded by our customers. If we fail to predict, detect and respond effectively to the changing needs of our customers in light of emerging technological trends necessitating timely development or enhancement of our products and features, we will lose customers and our business will suffer.

Our future growth also depends on our ability to continue enhancing the efficacy of the detection and response capabilities of our Taegis software platform and increasing the platform's interoperability with third-party products and services adopted by our customers. If our Taegis software platform is unable to successfully analyze, categorize and process the increasing number of events, we might fail to identify events as significant threat events, which could harm our customers and negatively affect our business reputation and operating results.

***Our revenue growth may vary due to the current economic conditions, geopolitical uncertainty and volatile financial market, which may have an adverse effect on our business and financial condition.***

As a company, we operate on a global basis, serving thousands of customers throughout the world. Accordingly, our business, revenue and operating results are impacted by global economic conditions, geopolitical uncertainty and volatile financial markets that affect us and our existing and potential customers. Impacts of the ongoing conflict between Russia and Ukraine and geopolitical tensions between the United States and China, which may result in further domestic and international regulatory changes, import and export restrictions or other effects on international trade relations, may hinder our ability to grow our customer base and continue servicing our existing customers. Continued disruption or uncertainty in economic and market conditions, including the continued failure of banks and other financial institutions globally, also may prolong sales cycles, cause reduction in spending by potential customers, or slow the adoption of new cybersecurity technologies, which may negatively impact our business, financial condition and results of operations.

***We rely on personnel with extensive information security expertise, and the loss of, or our inability to attract and retain, qualified personnel in this highly competitive labor market could harm our business.***

Our future success depends on our ability to identify, attract, retain, and motivate qualified personnel. We depend on the continued contributions of Wendy K. Thomas, our Chief Executive Officer, and our other senior executives, who have extensive information security expertise. From time to time, there may be changes to our senior management team or other key personnel resulting from termination, departure, or retirement. The temporary or permanent loss of any of these executives or key personnel could harm our business and distract from the operating responsibilities of those who must perform the responsibilities of lost executives or key employees or actively participate in the search for personnel to replace them.

We also employ experts in information security, software coding, data science and advanced mathematics to staff our Counter Threat Unit and to support and enhance our Taegis software platform. We face intense competition, both within and outside of the cybersecurity industry, to hire and retain individuals with the requisite expertise, including from companies that have greater resources than we do. As a result of this competition, we may be unable to attract and retain suitably qualified individuals at acceptable compensation levels who have the technical, operational and managerial knowledge and experience to meet our needs. Any failure by us to attract and retain qualified individuals could adversely affect our competitive market position, revenue, financial condition and results of operations.

***Implementation of our plans to strategically realign and optimize our investments with our priorities may not be successful, which could adversely affect our reputation, profitability and financial condition.***

On February 7, 2023, we announced a plan to accelerate our transition to a software-as-a-service business through our Taegis software platform. In connection with this plan, we reduced our workforce and made decisions to optimize and align our facilities and investments with our strategic priorities. This plan may not succeed in reducing our overhead costs, optimizing our operating expenses, and enhancing our prospects for profitable operations. We may instead experience additional unexpected costs and negative impacts on our cash flows from operations and liquidity, employee attrition beyond the intended reductions, adverse effects on employee morale, diversion of management's attention, reputational impacts that may hinder our ability to attract and retain top talent in the future, and delays in operations resulting from the loss of qualified employees. If we do not realize the expected benefits of our plan, our business, reputation, financial condition, and results of operations could be negatively impacted.

***We face intense competition, including from larger companies, and may lack sufficient financial or other resources to maintain or improve our competitive position.***

The market for our Taegis software solutions, managed security services and other security consulting services is highly competitive, and we expect competition to intensify in the future from both established competitors and new market entrants. Increased competition could result in greater pricing pressure, reductions in profit margins, increases to sales and marketing expenses, replacement by newer or disruptive products or technologies, and risks to holding or increasing our market share.

Many of our existing and potential competitors, particularly in the large enterprise market, enjoy substantial competitive advantages because of their longer operating histories, greater brand name recognition, larger customer bases, more extensive customer relationships, greater customer support resources, broader distribution relationships, more mature intellectual property portfolios, and greater financial and technical resources. In addition, some of our competitors have made acquisitions or entered into partnerships or other strategic relationships with one another to offer more comprehensive cybersecurity solutions than each could offer individually.

In addition, rapidly changing market conditions and significant technological advancements, partnerships or acquisitions by our competitors, as well as continued market consolidation, may alter the market for our Taegis software solutions. Start-up companies that innovate and large competitors that make significant research and development investments may develop similar or superior products or services that compete with our Taegis software platform. Additionally, some of our larger competitors have broader and more diverse product and service offerings, which may lead customers to choose a competitor's bundled product or service offerings even if the competitor's security solution has more limited functionality than our security solution. These competitive pressures within our market could result in price reductions for our solutions, margin erosion, fewer orders and loss of market share.

***If we are unable to attract new customers, retain existing customers or increase our annual contract values, our revenue growth will be adversely affected.***

To achieve revenue growth, we must expand our customer base, retain existing customers, and increase our annual contract values. In addition to attracting additional large enterprise and small and medium-sized business customers, our strategy is to continue to obtain non-U.S. customers, government entity customers and customers in other industry sectors in which our competitors may have a stronger position. If we fail to attract new customers, our revenue may decline or cease to grow.

Some customers also may elect not to renew their contracts with us or negotiate to renew them on less favorable terms, as a result of which we may not be able, on a consistent basis, to increase our annual contract values by obtaining advantageous contract renewals. We offer Taegis software solutions and managed security services on a subscription basis under contracts with initial terms that typically range from one to three years and, as of February 3, 2023, averaged two years in duration. Our customers have no obligation to renew their contracts after the expiration of their initial terms. Our initial contracts with customers may include amounts for hardware, installation, onboarding, and other professional services that may not recur. Further, if a customer renews a contract for a term longer than the preceding term, it may pay us greater total fees than it paid under the preceding contract, but may pay a lower average annual fee, because we generally offer discounted rates in connection with longer contract terms. In any of these situations, we would need to sell additional solutions or enhancements to the Taegis software solutions to maintain the same level of annual fees from the customer but may be unable to do so. As a result, existing customers renewing on lower average annual fees, or choosing not to renew their contracts with us would have a negative impact on our revenue, financial condition and operating results.

***We generate a significant portion of our revenue from customers in the financial services industry, and changes within that industry, including new or altered compliance obligations or priorities, or an unfavorable review by the federal banking regulatory agencies could reduce demand for our solutions.***

We derived approximately 20% of our revenue in fiscal 2023 from financial services institutions and expect to continue to derive a substantial portion of our revenue from customers in that industry. Changes in the industry, including new or altered compliance obligations or regulatory priorities, could adversely affect our revenue, profitability and financial condition. Technology spending by financial services customers generally has fluctuated, and may continue to fluctuate, based on changing regulatory and economic conditions, among other factors, such as decisions by customers to reduce or restructure their technology spending to improve profitability or mitigate risk. Further, mergers or consolidations of financial institutions could reduce our current and potential customer base, resulting in a smaller market for our security solutions.

Some of our solutions have been deemed to be mission-critical functions of our financial institution customers that are regulated by one or more member agencies of the Federal Financial Institutions Examination Council, or the FFIEC. Accordingly, we are subject to examination by the member agencies of the FFIEC. An unfavorable review of our operations could result in our financial institution customers not being allowed, or not choosing, to continue using our solutions, which could adversely affect our revenue, financial condition and results of operations.

***If we fail to manage our growth effectively, we may be unable to execute our business plan and maintain high levels of customer service due to operational disruptions.***

As our customer base and software solutions offerings continue to grow, we plan to further expand our operations, which could place a strain on our resources and infrastructure. This strain may affect our ability to maintain the quality of our software solutions, successfully deploy our software solutions, support our customers after deployment, and preserve our customer-centric culture. Our productivity, customer-focused culture and the quality of our solutions may be negatively affected if we do not integrate and train our new employees and channel partners, particularly sales and account management personnel, quickly and effectively. In addition, we may need to make substantial investments to adapt our IT infrastructure to support our growth and interoperability, while maintaining or improving our operational, financial and managerial controls reporting procedures. If we are unable to manage our growth, expenses or business effectively, our financial condition, results of operations and profitability could be adversely affected.

***Failure to maintain high-quality customer service and support functions, including the quality of the services and support provided by our channel partners, could adversely affect our reputation, sales and growth prospects.***

Once our solutions are deployed within our customers' networks, our customers depend on our technical and other support services, including those provided by our channel partners in relation to the Taegis software solutions, to ensure the security of their IT systems. The potential for human error in connection with our customer service and support functions, or that of our channel partners, or the internal systems and networks that underpin our ability to provide solutions to our customers, even if promptly discovered and remediated, could disrupt customer operations, cause losses for customers or harm our internal operations, lead to regulatory fines or damage our reputation. In addition, if we, or our channel partners, do not effectively assist our customers to deploy our software solutions, resolve post-deployment issues or provide effective ongoing support, our ability to sell additional solutions or subscriptions to existing customers could suffer and our reputation with potential customers could be damaged. If we, or our channel partners, fail to meet the requirements of our existing customers, particularly larger enterprises that may require complex and sophisticated support, it may be more difficult to realize our strategy of selling higher-margin and differentiated solutions to those customers.

***Our results of operations may be adversely affected by service level agreements with some of our customers that require us to provide them with credits for service failures or inadequacies.***

We have agreements with some customers that include commitments to providing them with our solutions at specified levels. If we are unable to meet these commitments, we may be obligated to extend service credits to those customers or could face terminations of the service agreements. Damages for failure to meet the service levels specified in our service level agreements generally are limited to the fees charged over the previous 12 months. If disputed by the customer, however, such limits may not be upheld, and we may be required to pay damages that exceed such fees. Repeated or significant service failures or inadequacies could adversely affect our reputation and results of operations.

***Because we recognize revenue ratably over the terms of our Taegis solutions and managed security services contracts, decreases in sales of these solutions may not immediately be reflected in our results of operations.***

The effect of significant downturns in sales and marketing acceptance of our solutions may not be fully reflected in our results of operations in the current period, making it more difficult for investors to evaluate our financial performance.

In fiscal 2023, approximately 78% of our revenue was derived from subscription-based solutions, attributable to Taegis solutions and managed security services contracts, while approximately 22% was derived from professional services engagements. Our subscription contracts typically range from one to three years in duration and, as of February 3, 2023, averaged two years in duration. Revenue related to these contracts is generally recognized ratably over the contract term. As a result, we derive most of our quarterly revenue from contracts we entered into during previous fiscal quarters. A decline in new or renewed contracts and any renewals at reduced annual dollar amounts in a particular quarter may not be reflected in any significant manner in our revenue for that quarter but would negatively affect revenue in future quarters. Accordingly, the effect of significant downturns in contracts may not be fully reflected in our results of operations until future periods.

As of February 3, 2023, we billed approximately 63% of our recurring revenue in advance. We may not be able to adjust our outflows of cash to match any decreases in cash received from prepayments if sales decline. In addition, we may be unable to adjust our cost structure to reflect reduced revenue, which would negatively affect our earnings in future periods. Our subscription model also makes it difficult for us to increase our revenue rapidly through additional sales in any period, as revenue from new customers must be recognized over the applicable contract term.

***Our sales cycles are long and unpredictable, and our sales efforts require considerable time and expense, which could adversely affect our results of operations.***

If we do not realize the sales we expect from potential customers, our revenue and results of operations could be adversely affected. Sales of our security solutions usually require lengthy sales cycles, which are typically three to nine months, but can exceed 12 months for larger customers. Given the current macroeconomic conditions, we may experience further lengthening of sales cycles for our security solutions. Sales to our customers can be complex and require us to educate our customers about our technical capabilities and the use and benefits of our solutions. Even if we are successful in convincing a prospective customer that the Taegis software platform will increase their defenses against cybersecurity threats, the customer may decide not to, or may delay its decision to, purchase the Taegis software platform for various reasons, which may include budgetary constraints, timing concerns, unexpected administrative, processing and other delays, or uncertain economic conditions, all of which are outside of our control. If organizations, especially new potential customers, do not decide to adopt our Taegis software platform, our sales will not grow as quickly as anticipated, or at all, and our business, operating results and financial condition would be harmed. We spend substantial time, effort and resources in our sales efforts without any assurance that our efforts will generate long-term contracts.

***As we continue to expand sales of our information security solutions to customers located outside the United States, our business increasingly will be susceptible to risks associated with international sales and operations.***

We expect to increase our presence internationally through new or expanded relationships with local and regional strategic and channel partnerships and potentially through acquisitions of other companies. International revenue, which we define as revenue contracted through non-U.S. entities, contributed approximately 34% of our total revenue in fiscal 2023. Our relative lack of experience in operating our business outside the United States increases the risk that any international expansion efforts will not be successful. In addition, operating in international markets requires significant management attention, financial resources, and legal risks. The investment and additional resources required to establish operations and manage growth in other countries may not produce the expected levels of revenue or earnings. Conducting international operations subjects us to a variety of risks, including those described elsewhere in this section. Such risks could negatively affect our international business and our overall business, results of operations and financial condition.

***Tax matters may materially affect our financial position and results of operations.***

Changes in tax laws in the United States, the European Union and around the globe have impacted and will continue to impact our effective worldwide tax rate, which may materially affect our financial position and results of operations. Further, organizations such as the Organisation for Economic Co-operation and Development have published action plans that, if adopted by countries where we do business, could increase our tax obligations in these countries. Because of the scale of our U.S. and international business activities, many of these enacted and proposed changes to the taxation of our activities, including cash movements, could increase our worldwide effective tax rate and harm our business. Beginning in our fiscal year 2023, the Tax Cuts and Jobs Act of 2017 eliminates the option to deduct research and development expenditures in the year incurred, requiring amortization in accordance with Internal Revenue Code Section 174. If this requirement is not repealed or otherwise modified, it will materially increase our effective tax rate and reduce our operating cash flows. Additionally, portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays that expire in whole or in part from time to time, or may be terminated if certain conditions are not met. Although many of these holidays may be extended when certain conditions are met, we may not be able to meet such conditions. If the tax holidays are not extended, or if we fail to satisfy the conditions of the reduced tax rate, our effective tax rate could increase in the future.

***We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.***

Our revenue and expenses denominated in foreign currencies are subject to fluctuations due to changes in foreign currency exchange rates. Although more of our sales contracts are denominated in U.S. dollars, our strategy to grow internationally will lead to more of our sales contracts being denominated in foreign currencies and to an increase in operating expenses incurred outside the United States. Because of significant volatility in foreign currency exchange rates, which has increased in recent periods, sales contracts that are denominated, or operating expenses that are incurred, in currencies other than in the U.S. dollar may negatively impact our financial condition and operating results.

Geopolitical developments, including the ongoing conflict between Russia and Ukraine, trade tariff developments and international economic tensions between the United States and China, the strengthening of the U.S. dollar and increasing inflation, could amplify the volatility of currency fluctuations and increase the real cost of our solutions and subscriptions to our customers outside the United States, which could adversely affect our non-U.S. sales and results of operations. Although we do not currently hedge against the risks associated with currency fluctuations, we may begin to use foreign exchange forward contracts to partially mitigate the impact of fluctuations in net monetary assets denominated in foreign currencies. Any such hedges may be ineffective to protect us fully against foreign currency risk.

***The imposition of new governmental export or import controls or of international sanctions could require us to comply with additional compliance obligations or limit our ability to compete in foreign markets.***

If we fail to comply with applicable export and import regulations or our sanctions compliance obligations, we may be subjected to fines or other penalties or be unable to export our technologies into other countries. Our cybersecurity solutions and technologies incorporate encryption technology that may be exported outside the United States only if we obtain an export license or qualify for an export license exception. Compliance with applicable regulatory requirements regarding the export of our solutions and technologies may create delays in the introduction of our solutions and technologies in international markets, prevent our customers with international operations from utilizing our solutions and technologies throughout their global systems, or hinder the export of our solutions and technologies to some countries altogether. In addition, various countries regulate the import of our appliance-based technologies and have enacted laws that could limit our ability to distribute, and our customers' ability to implement, our technologies in those countries. New export, import, or sanctions restrictions against certain persons, entities, regions, or countries (such as those imposed on Russia and otherwise in response to the ongoing military conflict between Russia and Ukraine), changes to product classification processes, or new legislation or shifting approaches in the enforcement or scope of existing regulations, could result in decreased use of our solutions and technologies by existing customers with international operations, loss of sales to potential customers with international operations, and decreased revenue.

***An inability to expand our key distribution relationships could constrain the growth of our business.***

We intend to continue strategically growing our business and domestic and international customer base through our channel partners, including distributors, resellers and managed security service providers. Approximately 18% of our revenue in fiscal 2023 was generated through our channel partners, which include referral agents, regional value-added resellers, trade associations and managed security service providers. We assist these channel partners with selling our Taegis software solutions by providing training and other sales support, but such time, effort and costs may not result in increased revenue for us. Our channel partners may be unable to market, sell and support the Taegis software solutions successfully, or these partners may not be properly incentivized to sell our Taegis software solutions to end-customers. Our inability to maintain or further develop relationships with our current and prospective distribution partners could reduce sales of our solutions. If we fail to effectively manage our sales channels or channel partners, our ability to sell our Taegis software solutions may be limited, adversely affecting our revenue growth and financial condition.

Our agreements with our partners generally are non-exclusive, and our partners may have more established relationships with one or more of our competitors. If our partners do not effectively market and sell our software solutions, if they choose to place greater emphasis on their own products or services or those offered by our competitors, if they are not properly incentivized to sell software solutions, or if they fail to meet the needs of customers utilizing our software solutions, our ability to expand our business and sell our solutions may be adversely affected. Our business also may suffer from the loss of a substantial number of our partners, the failure to recruit additional partners, any reduction or delay in the sales of our solutions by our partners, or conflicts between sales by our partners and our direct sales and marketing activities.

Even if we do expand relationships with our channel partners, our results will reflect that the gross margins to us from sales by our partners generally are lower than gross margins to us from direct sales. In addition, sales by our partners are more likely than direct sales to involve collectability concerns and may contribute to periodic fluctuations in our results of operations.

***Our technology alliance partnerships expose us to a range of business risks and uncertainties that could prevent us from realizing the benefits we seek from these partnerships.***

We have entered, and intend to continue to enter, into technology alliance partnerships with third parties to support our future growth plans. Such relationships include technology licensing, joint technology development and integration, research cooperation, co-marketing and sell-through arrangements. We face a number of risks relating to our technology alliance partnerships that could prevent us from fully realizing the benefits we seek from these partnerships. Technology alliance partnerships can require significant coordination between the partners and a significant commitment of time and resources by their technical staffs. In cases where we wish to integrate a partner's products or services into our solutions, the integration process may be more difficult than we anticipate, and the risk of difficulties, incompatibility and undetected programming errors or defects may be higher than with the introduction of new products or services. In addition, any particular relationship may not continue for any specific period of time. If we lose a significant technology alliance partner, we could lose the benefit of our investment of time, money and resources in the relationship. Moreover, we could be required to incur significant expenses to develop a new strategic alliance or to formulate and implement an alternative plan to pursue the opportunity that we targeted with the former partner.

***Real or perceived defects, errors or vulnerabilities in our solutions or real or perceived failure of our solutions to prevent or detect a security breach could harm our reputation, cause us to lose customers and expose us to costly litigation.***

Our software solutions are complex and may contain defects or errors that are undetectable until after customer adoption. Such defects may cause our customers to be vulnerable to cyber-attacks, and hackers or other threat actors may misappropriate our customers' data or other assets or otherwise compromise their IT systems. Because the techniques used to access or sabotage IT systems and networks change frequently and generally are not recognized until launched against a target, an advanced attack could emerge that our solutions are unable to detect or prevent. A security breach of proprietary information could result in significant legal and financial exposure, damage to our reputation and a loss of confidence in our security solutions, which could adversely affect our business.

If any of our customers experiences an IT security breach after adopting our solutions, even if our solutions protected the customer from data theft or provided remediation, the customer could be disappointed with our solutions and could seek alternatives to our solutions. In addition, if any enterprise or government entity publicly known to use our solutions is the subject of a publicized cyber-attack, some of our other current customers could seek to replace our solutions with those provided by our competitors. Further, our reputation could be damaged if a cyber-attack were to occur through a customer's security or network devices, applications or endpoints that we are not contractually obligated to monitor, if there is a perception that Secureworks monitors all the affected customer's devices, applications and endpoints.

Any person that circumvents our security measures could misappropriate customer confidential information or other valuable property or disrupt the customer's operations. Because our solutions provide and monitor information security and may protect valuable information, we could face liability claims or claims for breach of service level agreements. Provisions in our service agreements that limit our exposure to liability claims may not be enforceable in some circumstances or may not protect us fully against such claims and related costs. Alleviating any of these problems could require significant expenditures by us and result in interruptions to, and delays in, the delivery of our solutions, which could cause us to lose existing or potential customers and damage our business.

***Cyber-attacks or other data security incidents that disrupt our operations or result in the breach or compromise of proprietary or confidential information about us, our workforce, customers, or other third parties could harm our business and expose us to costly regulatory enforcement and other liability.***

As a well-known cybersecurity solutions provider, we are a high-profile target and our websites, networks, information systems, solutions and technologies may be selected for sabotage, disruption or misappropriation by cyber-attacks specifically designed to interrupt our business and harm our reputation. Our solutions frequently involve collecting, filtering and logging of customer information, while our enterprise operations collect, process, store and dispose of our own human resources, intellectual property and other information. We also rely, in certain limited capacities, on third-party data management providers and other vendors to host, accept, transmit or otherwise process electronic data in connection with our business activities. Criminals, terrorists, or other threat actors may seek to penetrate our network security or the security of our third-party service providers and misappropriate or compromise our confidential information or that of our customers or other third parties, create system disruptions or cause shutdowns. In addition, cyber-attacks are increasingly being used in geopolitical conflicts, including Russia's military action in Ukraine, which may cause increased risk to our customers, our third-party service providers and our company as a leading cybersecurity solutions provider. We may experience breaches or other compromises of our information technology systems. Further, hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture that could unexpectedly provide access to our systems and data to a threat actor, criminal or terrorist. The shift to work-from-home arrangements may also increase our vulnerability, as third-party providers' networks and employees' home networks may pose a significant network security risk.

The costs to address the foregoing security problems and vulnerabilities before or after a cyber incident could be significant, regardless of whether incidents result from an attack on us directly or on third-party vendors upon which we rely. Cyber-attacks could compromise our internal systems and products or the systems of our customers or third-party service providers, resulting in interruptions, delays, or cessation of service that could disrupt business operations for us and our customers and that could impede our sales. Remediation efforts may not be successful or timely. Breaches of our security measures or those of our third-party service providers and the unapproved dissemination of proprietary information or sensitive or confidential data about us or our customers or other third parties could expose us, our customers or other affected third parties to a risk of loss or misuse of this information, resulting in regulatory enforcement, litigation and potential liability for us, and damaging our brand and reputation or otherwise harming our business.

Although we maintain insurance policies that may cover liabilities in certain situations in connection with a threat event or cybersecurity incident, we cannot be certain that the insurance company will cover the claim, that our insurance policy coverage will adequately cover the liability incurred, or that the insurance policy will continue to be available on commercially reasonable terms. Any claim against our insurance policy, changes to the policy, or increases in premiums or deductibles could have a negative effect on our business, reputation, financial condition or results of operation.

***If our solutions do not interoperate with our customers' IT infrastructure, our solutions may become less competitive and our results of operations may be harmed.***

Our solutions must effectively interoperate with each customer's existing or future IT infrastructure, which often has different specifications, utilizes multiple protocol standards, deploys products and services from multiple vendors and contains multiple generations of products and services that have been added over time. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems and avoid disruptions when we provide software updates or patches to defend against particular vulnerabilities. Ineffective interoperation could increase the risk of a successful cyber-attack and violations of our service level agreements, which would require us to provide service credits that would reduce our revenue.

***Loss of our right or ability to use various third-party technologies could result in short-term disruptions to our business.***

We rely on certain third-party vendors to provide technology to perform certain critical business functions, some of which are incorporated into our solutions. We may seek to utilize additional third-party technologies in our solutions, and we will continue to use technology to assist us as we operate our business. Any loss of our rights to use third-party or other technologies could result in business delays or hinder our ability to produce or deliver our solutions until we identify, evaluate and integrate equivalent technologies. If any of the technologies we license or purchase from others, or functional equivalents of these technologies, are no longer available to us or are no longer offered to us on commercially reasonable terms, we would be required either find another third-party vendor or develop these capabilities ourselves, which could result in increased costs to our business or cause delays in the delivery of our solutions. We also might have to limit the features available in our current or future solutions. If we fail to maintain or renegotiate some of our technology agreements with third parties, we could face significant delays and diversion of resources in attempting to license and integrate other technologies with equivalent functions. Any inability to procure and implement suitable replacement technologies could adversely affect our business and results of operations by impeding delivery of our solutions.

In addition, any errors or defects in third-party technologies or any inability to utilize third-party technologies as contemplated, may negatively impact our ability to perform business activities or provide our solutions to customers. Although we take steps to implement appropriate risk management controls over such third-party technologies, any failure to appropriately assess, test and mitigate the risks associated with the implementation of third-party technologies may cause delays in our business activities or delivery of solutions to customers, which may hinder our ability to restore operations in the event of a third-party failure.

***New and evolving information security, cybersecurity and data privacy laws and regulations may result in increased compliance costs, impediments to the development or performance of our offerings, and monetary or other penalties.***

We are currently subject, and may become further subject, to federal, state and foreign laws and regulations regarding the privacy and protection of personal data or other potentially sensitive information. These laws and regulations address a range of issues, including data privacy, cybersecurity and restrictions or technological requirements regarding the collection, use, storage, protection, retention or transfer of data. The regulatory frameworks for data privacy and cybersecurity issues worldwide can vary substantially from jurisdiction to jurisdiction, are rapidly evolving and are likely to remain uncertain for the foreseeable future.

In the United States, federal, state and local governments have enacted data privacy and cybersecurity laws (including data breach notification laws, personal data privacy laws and consumer protection laws). For example, the California Privacy Rights Act, referred to as the CPRA, which updated the California Consumer Privacy Act of 2018, referred to as the CCPA, went into effect on January 1, 2023 and imposes obligations on certain businesses, service providers, third parties and contractors. These obligations include providing specific disclosures in privacy notices and granting California residents certain rights related to their personal data. The CCPA imposes statutory fines for non-compliance (up to $7,500 per violation). Other states have proposed privacy laws with similar compliance obligations.

Internationally, most of the jurisdictions in which we operate have established their own data security and privacy legal frameworks with which we or our customers must comply. For example, in the European Economic Area, the General Data Protection Regulation, or GDPR, imposes stringent operational and governance requirements for companies that collect or process personal data of residents of the European Union and Iceland, Norway and Lichtenstein. The GDPR also provides for significant penalties for non-compliance, which can be up to four percent of annual worldwide "turnover" (a measure similar to revenues in the United States). Following the withdrawal of the United Kingdom from the European Union (i.e., Brexit), and the expiry of the Brexit transition period which ended on December 31, 2020, the European Union GDPR has been implemented in the United Kingdom, referred to as the U.K. GDPR. The U.K. GDPR sits alongside the U.K. Data Protection Act 2018, which implements certain derogations in the E.U. GDPR into English law. The requirements of the U.K. GDPR, which are (at this time) largely aligned with those under the E.U. GDPR, may lead to similar compliance and operational costs and potential fines.

Some countries are considering or have enacted legislation requiring local storage and processing of data that could increase the cost and complexity of delivering our services. In addition, under the GDPR and a growing number of other legislative and regulatory requirements globally, jurisdictions are adopting consumer, regulator and customer notification obligations and other requirements in the event of a data breach.

The costs of compliance with, and other burdens imposed by, these laws and regulations may become substantial and may limit the use and adoption of our offerings in new or existing locations, require us to change our business practices, impede the performance and development of our solutions, lead to significant fines, penalties or liabilities for noncompliance with such laws or regulations, including through individual or class action litigation, or result in reputational harm. We also may be subject to claims of liability or responsibility for the actions of third parties with which we interact or upon which we rely in relation to various services, including, among others, vendors and business partners.

***If we are not able to maintain and enhance our brand, our revenue and profitability could be adversely affected.***

We believe that maintaining and enhancing the Secureworks brand is critical to our relationships with our existing and potential customers, channel partners and employees and to our revenue growth and profitability. Our brand promotion activities, however, may not be successful. Any successful promotion of our brand will depend on our marketing and public relations efforts, our ability to continue to offer high-quality information security solutions and our ability to successfully differentiate our solutions from the services offered by our competitors.

We believe our association with Dell has helped us to build relationships with many of our customers because of Dell's globally recognized brand and the favorable market perception of the quality of its products. We have entered into a trademark license agreement with Dell Inc. under which Dell Inc. has granted us a non-exclusive, royalty-free worldwide license to use the trademark "DELL," solely in the form of "SECUREWORKS-A DELL COMPANY," in connection with our business and products, services and advertising and marketing materials related to our business. Under the agreement, our use of the Dell trademark in connection with any product, service or otherwise is subject to Dell Inc.'s prior review and written approval, which may be revoked at any time. The agreement is terminable at will by either party, and we must cease all use of the Dell trademark upon any such termination in connection with any product, service or material. If we discontinue our association with Dell in the future, our ability to attract new customers may suffer.

***We may expand through acquisitions of other companies, which could divert our management's attention and company resources from our current business, which may result in unforeseen operating difficulties, increased costs and dilution to our stockholders.***

We may make strategic acquisitions of other companies to supplement our internal growth. We may not realize the anticipated benefits of any acquisition we are able to complete. We could experience unforeseen operating difficulties in assimilating or integrating the businesses, technologies, services, products, personnel or operations of acquired companies, especially if the key personnel of any acquired company choose not to work for us. To complete an acquisition, we may be required to use a substantial amount of our cash, sell or use equity securities or incur debt to secure additional funds. If we raise additional funds through issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges senior to those of our Class A common stock. Any debt financing obtained by us in the future could involve restrictive covenants that will limit our capital-raising activities and operating flexibility. In addition, we may not be able to obtain additional financing on terms favorable to us or at all, which could limit our ability to engage in acquisitions or develop new products or technologies.

***Earthquakes, fires, power outages, floods, terrorist attacks, geopolitical and military conflicts, public health issues, and other catastrophic events could disrupt our business and ability to serve our customers and could have a material adverse effect on our business, supply chain, results of operations or financial condition.***

A significant natural disaster, such as an earthquake, a fire, a flood or a significant power outage, geopolitical conflicts, such as the ongoing military action between Russia and Ukraine, increasing tensions between the United States and China, or a widespread public health issue including a pandemic such as COVID-19, could have a material adverse effect on our business, supply chain, results of operations or financial condition. We rely on public cloud providers to sustain our operations. While these public cloud providers are capable of sustaining our operations, a failure of these public cloud providers could disrupt our ability to serve our customers.

In addition, our ability to deliver our solutions as agreed with our customers depends on the ability of our supply chain, manufacturing vendors or logistics providers to deliver products or perform services we have procured from them. If any natural disaster, terrorist attacks, war, geopolitical turmoil, civil unrest, or other catastrophic event, including widespread public health issues, impairs the ability of our vendors or service providers to provide timely support or disrupts our cybersecurity services offerings, our ability to perform our customer engagements may suffer. Disruptions resulting from COVID-19 included restrictions on the ability of our employees or the employees of our customers, vendors or suppliers to travel, as well as closures of our facilities or the facilities of these third parties. Any expansion of hostilities into nearby countries related to the ongoing conflict between Russia and Ukraine may have a direct impact on our employees and operations in Romania as well as on the businesses of our customers, vendors and suppliers. Any restrictions or closures could affect our ability to sell our solutions, develop and maintain customer relationships or render services, such as our consulting services, could adversely affect our ability to generate revenues or could lead to inadvertent breaches of contract by us or by our customers, vendors or suppliers.

During fiscal 2023, we experienced a limited reduction in customer demand and lengthening of sales cycles that we believe is attributable to COVID-19, which may also impact our results in future periods. Although we are unable to predict the extent and severity of all future impacts of COVID-19, the pandemic might further curtail customer spending, lead to delayed or deferred purchasing decisions, lengthen sales cycles and result in delays in receiving customer or partner payments. These effects, individually or in the aggregate, could have a material negative impact on our business and future financial results.

**Risks Related to Intellectual Property**

***We rely in part on patents to protect our intellectual property rights, and if our patents are ineffective in doing so, third parties may be able to use aspects of our proprietary technology without compensating us.***

As of February 3, 2023, we owned 56 issued patents and 10 pending patent applications in the United States and four issued patents and eight pending patent applications outside the United States. Any failure of our patents and patent strategy to adequately protect our intellectual property rights could harm our competitive position. The legal systems of some countries do not favor the aggressive enforcement of patents, and the laws of other countries may not allow us to protect our inventions with patents to the same extent as U.S. laws. Changes in patent laws, implementing regulations or the interpretation of patent laws may diminish the value of our rights. Our competitors may design around technologies we have patented, licensed or developed. In addition, the issuance of a patent does not give us the right to practice the patented invention. Third parties may have blocking patents that could prevent us from marketing our solutions or practicing our own patented technology. If any of our patents is challenged, invalidated or circumvented by third parties, and if we do not own or have exclusive rights to other enforceable patents protecting our solutions or other technologies, competitors and other third parties could market products or services and use processes that incorporate aspects of our proprietary technology without compensating us, which may have an adverse effect on our business.

***If we are unable to protect, maintain or enforce our non-patented intellectual property rights and proprietary information, our competitive position could be harmed, and we could be required to incur significant expenses to enforce our rights.***

Our business relies in part on non-patented intellectual property rights and proprietary information, such as trade secrets, confidential information and know-how, all of which offer only limited protection to our technology. The legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in the information technology industry are highly uncertain and evolving. Although we regularly enter into non-disclosure and confidentiality agreements with employees, vendors, customers, partners and other third parties, these agreements may be breached or otherwise fail to prevent disclosure of proprietary or confidential information effectively or to provide an adequate remedy in the event of such unauthorized disclosure. Our ability to police that misappropriation or infringement is uncertain, particularly in other countries. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to maintain trade secret protection could adversely affect our competitive business position.

***Claims by others that we infringe their proprietary technology could harm our business and financial condition.***

Third parties could claim that our technologies and the processes underlying our solutions infringe or otherwise violate their proprietary rights. The software and technology industries are characterized by the existence of a large number of patents, copyrights, trademarks and trade secrets and by frequent litigation, including by non-practicing entities, based on allegations of infringement or other violations of intellectual property rights. We expect that such claims may increase as competition in the information security market continues to intensify, as we introduce new solutions (including in geographic areas where we currently do not operate), and as business-model or service overlaps between our competitors and us continue to occur.

***Our use of open source technology could require us in some circumstances to make available source code of our modifications to that technology, which could include source code of our proprietary technologies, and may restrict our ability to commercialize our solutions.***

Some of our solutions and technologies incorporate software licensed by its authors or other third parties under open source licenses. To the extent that we use open source software, we face risks arising from the scope and requirements of common open source software licenses. Some of these licenses contain requirements that we make available source code for modifications or derivative works that we create based on the open source software and that we license such modifications or derivative works under the terms of a particular open source license or another license granting third parties certain rights of further use. If we combine our proprietary technology with open source software in a certain manner, we may face periodic claims from third parties claiming ownership, or demanding release, of the open source software or derivative works that we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license.

Our ability to commercialize solutions or technologies incorporating open source software may be restricted because, among other reasons, open source license terms may be ambiguous and may result in unanticipated or uncertain obligations regarding our solutions, litigation or loss of the right to use this software. Therefore, there is a risk that the terms of these licenses will be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our solutions. As a result, we could be required to seek licenses from third parties to continue offering our solutions, re-engineer our technology or discontinue offering our solutions if re-engineering is not commercially reasonable.

**Risks Related to Our Relationship with Dell and Dell Technologies**

***Our inability to favorably resolve any potential conflicts or disputes that arise between us and Dell or Dell Technologies with respect to our past and ongoing relationships may adversely affect our business and prospects.***

Potential conflicts or disputes may arise between Dell or Dell Technologies and us in a number of areas relating to our past or ongoing relationships, including:

- intellectual property, tax, employee benefits, indemnification, and other matters arising from our agreements and relationship with Dell;
- employee retention and recruiting;
- business combinations involving us;
- our ability to engage in activities with certain channel, technology or other marketing partners;
- sales or dispositions by Dell Technologies of all or any portion of its beneficial ownership interest in us;
- the nature, quality and pricing of services Dell has agreed to provide us;
- business opportunities that may be attractive to both Dell and us;
- Dell's ability to use and sublicense patents that we have licensed to Dell under a patent license agreement; and
- product or technology development or marketing activities that may require consent of Dell or Dell Technologies.

The resolution of any potential conflicts or disputes between us and Dell or Dell Technologies over these or other matters may be less favorable to us than the resolution we might achieve if we were dealing with an unaffiliated party.

***If Dell Technologies, Dell or Dell Technologies' other affiliates, or Silver Lake or its affiliates engage in the same type of business we conduct or take advantage of business opportunities that might be attractive to us, our ability to operate successfully and expand our business may be hampered.***

Our certificate of incorporation, or charter, provides that, except as otherwise agreed in writing between us and Dell Technologies, Dell or Dell Technologies' other affiliates (other than us or our controlled affiliates), referred to as the Dell Technologies Entities, have no duty to refrain from:

- engaging in the same or similar activities or lines of business as those in which we are engaged;
- doing business with any of our customers, partners or vendors; or
- employing, or otherwise engaging or soliciting for such purpose, any of our officers, directors or employees.

In addition, under our charter, Silver Lake and its affiliates, referred to as the Silver Lake Entities, which are significant stockholders in Dell Technologies, have no duty to refrain from any of the foregoing activities except as otherwise agreed in writing between us and a Silver Lake Entity. These and related provisions of our charter could result in the Dell Technologies Entities and the Silver Lake Entities having rights to corporate opportunities in which both we and the Dell Technologies Entities or the Silver Lake Entities have an interest, which might impede our ability to operate successfully and expand our business.

***To preserve Dell Technologies' ability to conduct a tax-free distribution of the shares of our Class B common stock that it beneficially owns and its ability to consolidate with us for tax purposes, we may be prevented from pursuing opportunities to raise capital, acquire other companies or undertake other transactions, which could hurt our ability to grow.***

To preserve its ability to effectuate a future tax-free spin-off of our company, or certain other tax-free transactions involving us, Dell Technologies is required to maintain "control" of us within the meaning of Section 368(c) of the Internal Revenue Code, which is defined as 80% of the total voting power and 80% of each class of nonvoting stock. In addition, to preserve its ability to consolidate with us for tax purposes, Dell Technologies generally is required to maintain 80% of the voting power and 80% of the value of our outstanding stock. We have entered into a tax matters agreement with Dell Technologies that restricts our ability to issue any stock, issue any instrument that is convertible, exercisable or exchangeable into any of our stock or which may be deemed to be equity for tax purposes, or take any other action that would be reasonably expected to cause Dell Technologies to beneficially own stock in us that, on a fully diluted basis, does not constitute "control" within the meaning of Section 368(c) of the Internal Revenue Code or to cause a deconsolidation of us for tax purposes with respect to the Dell Technologies consolidated group. We also have agreed to indemnify Dell Technologies for any breach by us of the tax matters agreement. As a result, we may be prevented from raising equity capital or pursuing acquisitions or other growth initiatives that involve issuing equity securities as consideration.

**Risks Related to Ownership of Our Class A Common Stock**

***The market price for our Class A common stock has been and is likely to continue to be volatile or may decline regardless of our operating performance.***

The stock markets, and securities of technology companies in particular, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In particular, stock prices of companies with significant operating losses have recently declined significantly, and in many instances more significantly than stock prices of companies with operating profits. The economic impact and uncertainty of changes in the inflation, interest and macroeconomic environments and Russia's ongoing conflict with Ukraine have exacerbated this volatility in both the overall stock markets and the market price of our Class A common stock. The market price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated changes or fluctuations in our operating results;
- the financial forecasts and guidance we may provide to the public, any changes in our forecasts or guidance or our failure to meet the forecasts or guidance;
- industry or financial analyst or investor reaction to our press releases, other public announcements, and SEC filings
- failure of industry or financial analysts to maintain coverage of us, changes in financial estimates by any analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of new offerings or new or terminated significant contracts, commercial relationships or capital commitments;
- rumors and market speculation involving us or other companies in our industry;
- a gain or loss of investor confidence in the market for technology stocks or the stock market in general;
- investor perceptions of us, the benefits of our offerings and the industries in which we operate;
- price and volume fluctuations in the overall stock market from time to time;
- changes in operating performance and/or stock market valuations of other technology companies generally, or those in our industry in particular;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry, both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property rights or our solutions, or third-party proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- breaches of, or failures relating to, privacy, data protection or information security;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- any major changes in our management or our board of directors;
- general economic conditions and slow growth of our markets; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to those events.

***As long as Dell Technologies Inc. controls us, the ability of our other stockholders to influence matters requiring stockholder approval will be limited.***

As of February 3, 2023, Dell Technologies owned, indirectly through Dell Inc. and Dell Inc.'s subsidiaries, all 70,000,000 outstanding shares of our Class B common stock, which represented approximately 82.6% of our total outstanding shares of common stock and approximately 97.9% of the combined voting power of both classes of our outstanding common stock.

So long as Dell Technologies controls the majority of the voting power of our outstanding common stock, our other stockholders will not be able to affect the outcome of any stockholder vote in which holders of the Class B common stock are entitled to vote. Dell Technologies is generally able to control, directly or indirectly and subject to applicable law, significant matters affecting us, including, among others, the election and removal of our directors, and determinations with respect to business combinations, dispositions of assets or other extraordinary corporate transactions. If Dell Technologies does not provide any required affirmative vote on matters requiring stockholder approval allowing us to take particular corporate actions when requested, we will not be able to take such actions, and, as a result, our business and our results of operations may be adversely affected.

Dell Technologies could have interests that differ from, or conflict with, the interests of our other stockholders, and could cause us to take corporate actions even if the actions are not in the interest of our company or our other stockholders, or are opposed by our other stockholders. For example, Dell Technologies' voting control could discourage or prevent a change in control of our company even if some of our other stockholders might favor such a transaction.

***We do not expect to pay any dividends on our Class A common stock for the foreseeable future.***

We intend to retain any earnings to finance the operation and expansion of our business, and do not expect to pay any cash dividends on our Class A common stock for the foreseeable future. Accordingly, investors must rely on sales of our Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

***The dual-class structure of our common stock may adversely affect the trading price of our Class A common stock.***

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. The limited ability of holders of our Class A common stock to influence matters requiring stockholder approval may adversely affect the market price of our Class A common stock.

In addition, FTSE Russell and S&P Dow Jones have adopted eligibility criteria to exclude new companies with multiple classes of common stock from being added to certain of their stock indices. Under the current criteria, our dual-class capital structure makes our Class A common stock ineligible for inclusion in any of these indices and, as a result, mutual funds, exchange-traded funds and other investment vehicles that track these indices will not invest in our stock. Other major stock indices might adopt similar requirements in the future. It is unclear what effect, if any, exclusion from any indices will have on the valuations of the affected publicly-traded companies. It is possible that such policies could depress the valuations of public companies excluded from such indices compared to those of other companies that do not have multi-class capital structures.

***As a "controlled company" under the marketplace rules of the Nasdaq Stock Market, we may rely on exemptions from certain corporate governance requirements that provide protection to stockholders of companies that are subject to such requirements.***

As of February 3, 2023, Dell Technologies beneficially owns more than 50% of the combined voting power of both classes of our outstanding shares of common stock. As a result, we are a "controlled company" under the marketplace rules of the Nasdaq Stock Market, or Nasdaq, and eligible to rely on exemptions from Nasdaq corporate governance requirements that generally obligate listed companies to maintain a board of directors having a majority of independent directors and compensation and nominating committees composed solely of independent directors. We currently rely on the exemption from the requirement to maintain a board of directors having a majority of independent directors. Although we do not currently rely on the other exemptions from Nasdaq's corporate governance requirements, we may decide to avail ourselves of one or more of these exemptions in the future. During any period in which we do so, investors may not have the same protections afforded to stockholders of companies that must comply with all of Nasdaq's corporate governance requirements. Our status as a controlled company could make our Class A common stock less attractive to some investors or otherwise adversely affect its trading price.

***Future sales, or the perception of future sales, of a substantial number of shares of our Class A common stock could depress the trading price of our Class A common stock.***

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales may occur, could adversely affect the market price of the Class A common stock.

As of February 3, 2023, we have outstanding 14,748,810 shares of our Class A common stock and 70,000,000 shares of our Class B common stock. The shares of Class A common stock are freely tradeable without restriction or further registration under the Securities Act of 1933, or Securities Act, unless these shares are held by our "affiliates," as that term is defined in

Rule 144 under the Securities Act, or Rule 144. As of February 3, 2023, Dell Technologies owned, indirectly through its subsidiary Dell Inc. and through Dell Inc.'s subsidiaries, no shares of our Class A common stock and all 70,000,000 outstanding shares of our Class B common stock. The shares of our Class A common stock eligible for resale by our affiliates under Rule 144, subject to the volume limitations and other requirements of Rule 144, include the 70,000,000 shares of Class A common stock issuable upon conversion of the same number of shares of our Class B common stock that are outstanding.

We have entered into a registration rights agreement with Dell Marketing L.P. (the record holder of our Class B common stock), Michael S. Dell, the Susan Lieberman Dell Separate Property Trust, MSDC Denali Investors, L.P., MSDC Denali EIV, LLC and the Silver Lake investment funds that own Dell Technologies common stock in which we have granted them and their respective permitted transferees demand and piggyback registration rights with respect to the shares of our Class A common stock and Class B common stock held by them from time to time. Registration of those shares under the Securities Act would permit the stockholders under the registration rights agreement to sell their shares into the public market.

***Our charter designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or with our directors, our officers or other employees, or our majority stockholder.***

Our charter provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by law, be the exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed, or other wrongdoing, by any of our directors, officers or other employees, or stockholders to us or our stockholders;
- any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or as to which the Delaware General Corporation Law confers jurisdiction on the Court of Chancery of the State of Delaware; and
- any action asserting a claim governed by the internal affairs doctrine.

Any person purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have received notice of and consented to the foregoing provisions. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds more favorable for disputes with us or with our directors, our officers or other employees, or our other stockholders, including our majority stockholder, which may discourage such lawsuits against us and such other persons. Alternatively, if a court were to find this choice of forum provision inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, results of operations and financial condition.

Our choice of forum provision is intended to apply to the fullest extent permitted by law to the types of actions and proceedings specified above, including, to the extent permitted by the federal securities laws, to lawsuits asserting claims under such actions and proceedings and claims under the federal securities laws. Application of the choice of forum provision may be limited in some instances by applicable law. Section 27 of the Securities Exchange Act of 1934, or Exchange Act, creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. As a result, the choice of forum provision will not apply to actions arising under the Exchange Act or the rules and regulations thereunder. Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder, subject to a limited exception for certain "covered class actions." There is uncertainty, particularly in light of current litigation, as to whether a court would enforce the choice of forum provision with respect to claims under the Securities Act. Our stockholders will not be deemed, by operation of our choice of forum provision, to have waived claims arising under the federal securities laws and the rules and regulations thereunder.

***We are obligated to develop and maintain proper and effective internal control over financial reporting and any failure to maintain the adequacy of our internal controls may adversely affect investor confidence in our company and, as a result, the value of our Class A common stock.***

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act to furnish a report by our management each year on the effectiveness of our internal control over financial reporting. We are required to disclose significant changes made in our internal control procedures on a quarterly basis. In addition, our independent registered public accounting firm is required annually to express an opinion as to the effectiveness of our internal control over financial reporting.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We may experience material weaknesses or significant deficiencies in our internal control over financial reporting. Any failure to maintain internal control over financial reporting could severely inhibit our ability to report accurately our financial condition or results of operations. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness in our internal control over financial reporting, investors could lose confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, also could restrict our future access to the capital markets.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

As of February 3, 2023, our facilities consisted of our corporate headquarters and various other facilities housing our security operations center personnel as well as research and development, marketing and sales, administrative and IT functions. We either lease these facilities or have the right to use them pursuant to service agreements with Dell or with other third parties. As of February 3, 2023, we did not own any facilities.

Our corporate headquarters is located in Atlanta, Georgia, where we lease facilities of approximately 115,800 square feet. As of February 3, 2023, we leased or licensed additional facilities in the following locations: Providence, Rhode Island; Edinburgh, Scotland; and Bucharest, Romania. Our employees also operate out of a number of Dell facilities internationally pursuant to arrangements with Dell. For information about our facility leases, see "Notes to Consolidated Financial Statements—Note 8—Leases" in our consolidated financial statements included in this report.

In future periods, we may lease or license additional sites, either from Dell or other third parties for sales offices and other functions. We believe that suitable additional facilities will be available on commercially reasonable terms.

## Item 3. Legal Proceedings

From time to time, we are a party to or otherwise subject to legal proceedings that arise in the ordinary course of our business. As of February 3, 2023, we were not subject to any material pending legal proceedings.

## Item 4. Mine Safety Disclosures

Not applicable.

## Part II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market for Class A Common Stock

Our Class A common stock is listed and traded on the Nasdaq Global Select Market under the symbol “SCWX.” There is no public market for our Class B common stock.

#### Holders

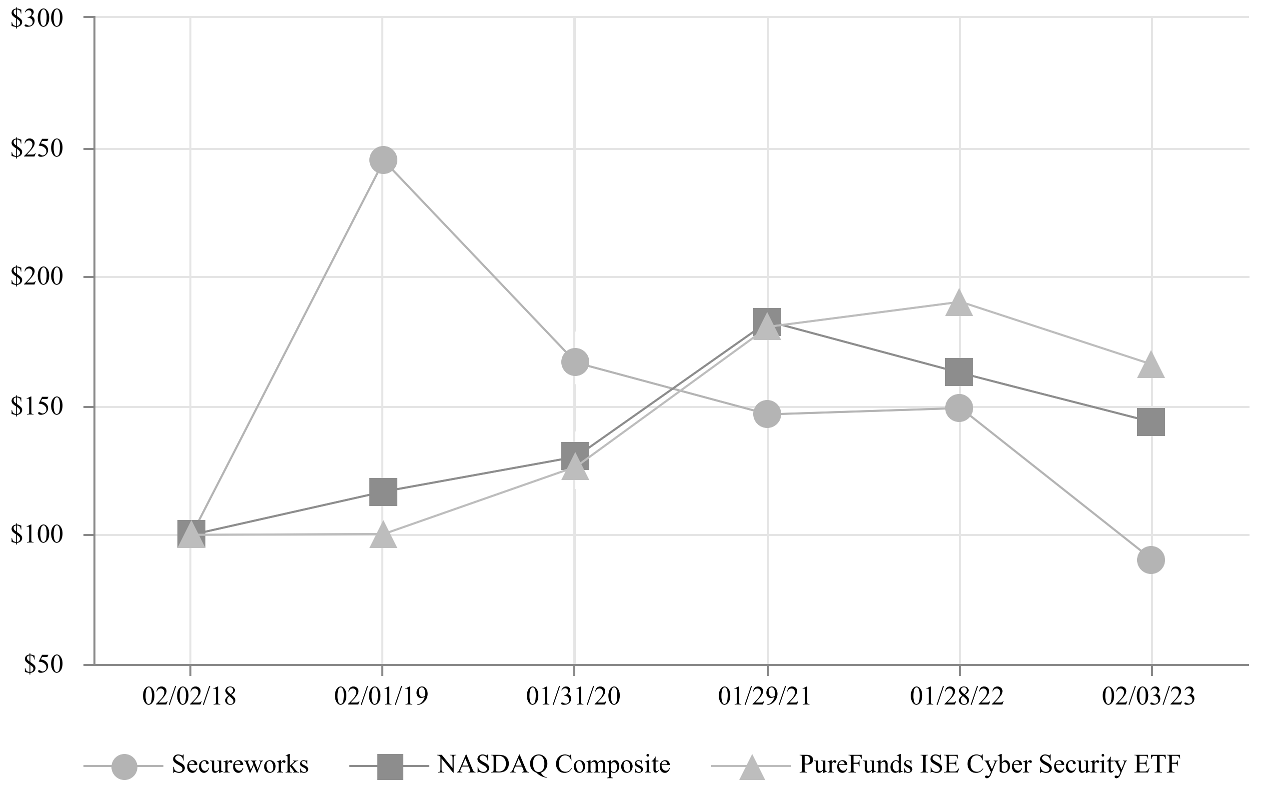
As of March 20, 2023, there were seven holders of record of our Class A common stock and one holder of record of our Class B common stock. The number of record holders of our Class A common stock does not include individuals or entities that beneficially own shares of Class A common stock, but whose shares are held of record by a broker, bank or other nominee.

#### Dividends

We have not declared or paid cash dividends on our common stock. We do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. Any future determination related to our dividend policy will be made at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contractual restrictions, business prospects and other factors our board of directors may deem relevant.

**Stock Performance Graph**

The following graph compares the cumulative total return on the Class A common stock for the period from February 2, 2018 through February 3, 2023 with the total return over the same period on the Nasdaq Composite Index and the PureFunds ISE Cyber Security ETF Index. The graph assumes that $100 was invested on February 2, 2018 in the Class A common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any. The comparisons in the graph are based on historical data and are not necessarily indicative of the future price performance of the Class A common stock.




| | February 2, 2018 | February 1, 2019 | January 31, 2020 | January 29, 2021 | January 28, 2022 | February 3, 2023 |
|---|---|---|---|---|---|---|
| Secureworks | $ 100.00 | $ 244.81 | $ 166.63 | $ 146.61 | $ 149.05 | $ 90.20 |
| NASDAQ Composite | 100.00 | 116.73 | 130.22 | 182.63 | 162.67 | 143.56 |
| PureFunds ISE Cyber Security ETF | 100.00 | 100.32 | 126.38 | 180.51 | 190.18 | 165.82 |

This performance graph shall not be deemed to be incorporated by reference by means of any general statement incorporating by reference this annual report on Form 10-K into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that Secureworks specifically incorporates such information by reference, and shall not otherwise be deemed filed under the Securities Act or the Exchange Act.

**Item 6. Reserved**

## Item 7. 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 consolidated financial statements and related notes included in this report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, beliefs, expected future responses to and effects of the COVID-19 pandemic, the Ukraine/Russia conflict, the macroeconomic environment and other future events or circumstances. 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 "Risk Factors."*

*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 February 3, 2023 as fiscal 2023 and the fiscal years ended January 28, 2022 and January 29, 2021 as fiscal 2022 and fiscal 2021, respectively. Fiscal 2023 consisted of 53 weeks. Fiscal 2022 and fiscal 2021 each consisted of 52 weeks. Unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal period. For discussion and analysis related to our financial results comparing fiscal 2022 with fiscal 2021, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for fiscal year ended January 28, 2022, which was filed with the Securities and Exchange Commission on March 23, 2022.*

*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 where 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 by outpacing and outmaneuvering the adversary.

Our vision is to be the essential cybersecurity company for a digitally connected world by providing the security platform of choice to deliver our holistic approach to security at scale for our customers to achieve their best security outcomes. We combine considerable experience from securing thousands of customers, processing billions of customer events with our machine-learning capabilities in our security platform, and 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 experience shows that security based on "point" products operating in silos is not sufficient to outpace the adversary at scale. Through our open platform approach, we create integrated and comprehensive solutions by proactively managing the collection of point products deployed by our customers to address specific security issues and provide solutions to fortify gaps in their defenses.

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 knowledge, we utilize unique insights to build an integrated security platform that fuels efficient and effective security operations for customers and partners.

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 as the customer's organization grows and changes over time. Our flexible and scalable solutions support the evolving needs of the largest, most sophisticated 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 services.

Our solutions leverage the proprietary technologies, security operations workflows, 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 cloud-native 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.

Our proprietary Taegis security platform was purpose-built as a cloud-native software platform that combines the power of machine-learning with 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 software platform is a core element for 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 software 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 platforms collect, aggregate, correlate and analyze 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 that advise customers on a broad range of security and risk-related matters, which include incident response, adversarial services, and Taegis professional services to accelerate adoption of our software solutions.

**Reorganization and other related costs**

During the 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, the Company intends to rebalance investments across all functions to align with the Company's top strategic priorities and growth opportunities, such as higher value, higher margin Taegis solutions and other priorities, in order to balance continued growth with improving operating margins over time. The Company incurred expenses of approximately $15.5 million, consisting primarily of severance and other termination benefits, real estate-related expenses, as well as other related costs. See Note 14 —"Reorganization and other related costs." for further discussion.

## COVID-19

We did not incur significant disruptions in our business operations or a material impact on our results of operations, financial condition, liquidity or capital resources during fiscal 2023 as a result of the COVID-19 pandemic. We have experienced a limited reduction in customer demand for our solutions that we believe is attributable to COVID-19, which may impact our results in future periods.

We continue to actively monitor the impacts and potential impacts of the COVID-19 pandemic in all aspects of our business. The extent of the impact of COVID-19 on our future operational and financial performance will depend on various developments, including the duration and spread of variations of the virus, effectiveness and acceptance of vaccines deployed to contain the virus, impact on our employees, customers and vendors, impact on our customers' liquidity and our volume of sales, and length of our sales cycles, none of which can be predicted with certainty.

## Key Factors Affecting Our Performance

We believe that our future 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 our future success. For additional information about these risks, refer to “Risk Factors” in this report. We operate in an intensely competitive industry and face, among other competitive challenges, pricing pressures within the information security market as a result of action 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. We must continue to manage our investments in an efficient manner and effectively execute our strategy to succeed. If we are unable to address these challenges, 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 a threat actor can attack a target, by giving users greater access to important business networks and information and by facilitating the transfer of control of underlying applications and infrastructure to third-party vendors. An effective cyber defense strategy requires the coordinated deployment of multiple products and solutions tailored to an organization’s specific security needs. Our integrated suite of solutions, including our new Taegis offerings, is designed to facilitate the successful implementation of such a strategy, but continuous investment in, and adaptation of, our technology will be required as the threat landscape continues to evolve rapidly. The degree to which prospective and current customers recognize the mission-critical nature of our technology-driven information security solutions, and subsequently allocate budget dollars to our solutions, will affect our future financial results.

***Investment in Our Technology and Threat Intelligence Research***. Our software platforms constitute the core of our technology-driven security solutions. They provide our customers with an integrated perspective and intelligence regarding their network environments and security threats. Our software platforms are augmented by 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. Our performance is significantly dependent on the investments we make in our research and development efforts and on our ability to be at the forefront of threat intelligence research and adapt these software platforms to new technologies as well as to changes in existing technologies. This is an area in which we will continue to invest, while leveraging a flexible staffing model to align with solutions development. We believe that investment in our Taegis software platform and solutions will contribute to long-term revenue growth, but the costs of our investment 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 continue to invest in 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 solutions development will contribute to 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 will need to continue to devote resources to the development of strategic partnerships with our channel partners, technology alliance partners, and system integrators. We have made and plan to continue to make investments in both marketing and go-to-market efforts with our partners. These investments may not result in an increase in revenue or an improvement in 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. Our technology leadership, brand, exclusive focus on information security, customer-first culture, and robust training and development program have enabled 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 will continue to invest in attracting and retaining top talent to support and enhance our information security offerings.

**Key Operating Metrics**

Commencing in fiscal 2021, we began transitioning our subscription customers to our Taegis solutions from our non-strategic, lower margin other managed security subscription services. This transition has resulted in a decline in both our total customer base and total annual recurring revenue. Despite these declines, our gross profit has remained relatively stable and our gross margins have increased. We believe the transition of our subscription business to our Taegis solutions is resulting in a higher value, higher margin business. As part of our ongoing transition, we informed our customers early in the fourth quarter of fiscal 2022 that many of our other managed security subscription services would no longer be available for purchase effective as of the beginning of fiscal 2023, as many of those services offer a natural transition to our Taegis platform. Renewals associated with many of our existing other managed security subscription services were not extended beyond the end of fiscal 2023.

The transition has resulted in the growth of our Taegis portfolio of technology-driven information security solutions offered to customers of all sizes and across all industries. We have achieved this organic growth by re-solutioning existing customers to our Taegis offerings, which generate more average revenue per customer, and through continued expansion in volume and breadth of the Taegis solutions we deploy. The transformation of our Taegis subscription-based model has required ongoing investment in our business, which has contributed to higher net losses. We believe these investments are critical to our long-term success, although they may continue to impact our prospects for near-term profitability.

Relevant key operating metrics are presented below as of the dates indicated and for the fiscal years then ended.

| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
|---|---|---|---|
| Taegis subscription customer base | 2,000 | 1,200 | 400 |
| Managed security subscription customer base | 700 | 2,400 | 3,500 |
| Total subscription customer base | 2,500 | 3,400 | 3,800 |
| Total customer base | 4,500 | 5,000 | 5,200 |
| Taegis annual recurring revenue (in millions) | $ 261.5 | $ 164.7 | $ 54.9 |
| Managed security annual recurring revenue (in millions) | 58.4 | 224.4 | 371.9 |
| Total annual recurring revenue (in millions) | $ 319.9 | $ 389.1 | $ 426.8 |
| Taegis average subscription revenue per customer (in thousands) | $ 132.3 | $ 134.6 | $ 138.3 |
| Managed security average subscription revenue per customer (in thousands) | $ 86.9 | $ 92.9 | $ 106.1 |
| Total average subscription revenue per customer (in thousands) | $ 129.1 | $ 113.9 | $ 113.8 |
| Net revenue retention rate | 75 % | 86 % | 88 % |

*Taegis Subscription Customer Base and Managed Security Subscription Customer Base.* We define our Taegis subscription customer base and managed security subscription customer base as the number of customers who have a subscription agreement for that respective offering as of a particular date. Some customers may have subscription agreements for both security offerings to address their current security needs.

*Total Subscription Customer Base.* We define our total subscription customer base as the number of unique customers who have a subscription agreement for our Taegis solutions and/or managed security services as of a particular date. We believe that growing our existing customer base and our ability to grow our average subscription revenue per customer represent significant future revenue opportunities for us.

*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 and other 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.* Total average subscription revenue per customer is primarily related to 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. For fiscal 2023, fiscal 2022 and fiscal 2021, approximately 47%, 58% and 65%, respectively, 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 year (base recurring revenue) to the same measure from that same cohort of customers at the end of the fiscal year (retained recurring revenue). By dividing the retained recurring revenue by the base recurring revenue, 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 or service 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 rates may increase or decline from period to period as a result of various factors, including the timing of solutions installations and customer renewal rates.

**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 subscription cost of revenue, non-GAAP professional services cost of revenue, non-GAAP gross profit, non-GAAP subscription gross profit, non-GAAP professional services gross profit, non-GAAP 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 net (loss) income, non-GAAP (loss) earnings per share and 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 operating results by facilitating an enhanced understanding of our operating performance and enabling more meaningful period-to-period comparisons.

There are 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, gross profit, subscription cost of revenue, professional services cost of revenue, operating expense, research and development expenses, sales and marketing expenses, general and administrative expenses, operating income (loss), net income (loss), earnings (loss) per share in accordance with GAAP and 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 external 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.
- *Aggregate Adjustment for Income Taxes.* The aggregate adjustment for income taxes is the estimated combined income tax effect for the adjustments mentioned above. The tax effects are determined based on the tax jurisdictions where the above items were incurred.

- *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.

| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
|---|---|---|---|
| GAAP net revenue[1] | $ 463,475 | $ 535,214 | $ 561,034 |
| | | | |
| GAAP subscription cost of revenue | $ 131,998 | $ 143,515 | $ 162,139 |
| Amortization of intangibles | (17,133) | (16,080) | (14,587) |
| Stock-based compensation expense | (642) | (218) | (665) |
| Reorganization and other related charges | (444) | — | — |
| Non-GAAP subscription cost of revenue | $ 113,779 | $ 127,217 | $ 146,887 |
| | | | |
| GAAP professional services cost of revenue | $ 59,644 | $ 73,611 | $ 80,028 |
| Stock-based compensation expense | (1,358) | (905) | (680) |
| Reorganization and other related charges | (141) | — | — |
| Non-GAAP professional services cost of revenue | $ 58,145 | $ 72,706 | $ 79,348 |
| | | | |
| GAAP gross profit | $ 271,833 | $ 318,088 | $ 318,867 |
| Amortization of intangibles | 17,133 | 16,080 | 14,587 |
| Stock-based compensation expense | 2,000 | 1,123 | 1,346 |
| Reorganization and other related charges | 585 | — | — |
| Non-GAAP gross profit | $ 291,551 | $ 335,291 | $ 334,800 |
| | | | |
| GAAP research and development expenses | $ 141,837 | $ 122,494 | $ 105,008 |
| Stock-based compensation expense | (11,589) | (7,220) | (4,410) |
| Reorganization and other related charges | (2,052) | — | — |
| Non-GAAP research and development expenses | $ 128,196 | $ 115,274 | $ 100,598 |
| | | | |
| GAAP sales and marketing expenses | $ 166,410 | $ 145,134 | $ 144,934 |
| Stock-based compensation expense | (6,568) | (4,065) | (3,676) |
| Reorganization and other related charges | (2,773) | — | — |
| Non-GAAP sales and marketing expenses | $ 157,069 | $ 141,069 | $ 141,258 |
| | | | |
| GAAP general and administrative expenses | $ 111,615 | $ 102,834 | $ 101,760 |
| Amortization of intangibles | (14,094) | (14,094) | (14,094) |
| Stock-based compensation expense | (16,698) | (18,038) | (14,982) |
| Reorganization and other related charges | (10,061) | — | — |
| Non-GAAP general and administrative expenses | $ 70,762 | $ 70,702 | $ 72,684 |

| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
|---|---|---|---|
| GAAP operating loss | $ (148,029) | $ (52,374) | $ (32,835) |
| Amortization of intangibles | 31,228 | 30,174 | 28,682 |
| Stock-based compensation expense | 36,855 | 30,446 | 24,414 |
| Reorganization and other related charges | 15,471 | — | — |
| Non-GAAP operating (loss)/income | $ (64,475) | $ 8,246 | $ 20,261 |
| | | | |
| GAAP net loss | $ (114,499) | $ (39,791) | $ (21,902) |
| Amortization of intangibles | 31,228 | 30,174 | 28,682 |
| Stock-based compensation expense | 36,855 | 30,446 | 24,414 |
| Reorganization and other related charges | 15,471 | — | — |
| Aggregate adjustment for income taxes | (15,941) | (12,113) | (13,267) |
| Non-GAAP net (loss)/income | $ (46,886) | $ 8,716 | $ 17,927 |
| | | | |
| GAAP loss per share | $ (1.36) | $ (0.48) | $ (0.27) |
| Amortization of intangibles | 0.37 | 0.36 | 0.35 |
| Stock-based compensation expense | 0.44 | 0.36 | 0.30 |
| Reorganization and other related charges | 0.18 | — | — |
| Aggregate adjustment for income taxes | (0.19) | (0.14) | (0.16) |
| Non-GAAP (loss)/earnings per share * | $ (0.56) | $ 0.11 | $ 0.22 |

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

| | | | |
|---|---|---|---|
| GAAP net loss | $ (114,499) | $ (39,791) | $ (21,902) |
| Interest and other expense/(income), net | (1,248) | 3,532 | (1,034) |
| Income tax benefit | (32,282) | (16,115) | (9,899) |
| Depreciation and amortization | 36,668 | 40,520 | 41,614 |
| Stock-based compensation expense | 36,855 | 30,446 | 24,414 |
| Reorganization and other related charges | 15,471 | — | — |
| Adjusted EBITDA | $ (59,035) | $ 18,592 | $ 33,193 |

(1) Historically the Company has presented non-GAAP net revenue as a financial measure. There are no such adjustments that give rise to non-GAAP net revenue for any of the periods presented. GAAP net revenue is inclusive of both subscription and professional services revenue.

**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 February 3, 2023 represented approximately 82.6% of our total outstanding shares of common stock and approximately 97.9% of the combined voting power of both classes of our outstanding common stock.

As a majority-owned subsidiary of Dell, we receive from Dell various corporate services in the ordinary course of business, including 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 that went into effect on August 1, 2015, the effective date of our carve-out from Dell. For more information regarding the allocated costs and related party transactions, see "Notes to Consolidated Financial Statements—Note 13—Related Party Transactions" in our consolidated financial statements included in this report.

During the periods presented in the consolidated financial statements included in this report, Secureworks did not file separate federal tax returns, as Secureworks was generally 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 or as realizable by Secureworks when those attributes are utilized or expected to be utilized by other members of the Dell consolidated group. For more information, see "Notes to Consolidated Financial Statements—Note 11—Income and Other Taxes" in our consolidated financial statements included in this report.

Additionally, we participate in various commercial arrangements with Dell, under which, for example, we provide information security solutions to third-party customers with which Dell has contracted 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. These agreements generally were initially effective for up to one to three years and include extension and cancellation options. To the extent that we choose to, 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 Consolidated Financial Statements—Note 13—Related Party Transactions" in our 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 and managed security services. Taegis subscription-based revenue currently includes two applications, Extended Detection and Response, or XDR, and Vulnerability Detection and Response, or VDR, along with the add-on managed service to supplement the XDR SaaS application, referred to as Managed Detection and Response, or ManagedXDR. Managed security service subscription-based arrangements typically include a suite of security services, up-front installation fees and maintenance, and also may include the provision of an associated hardware appliance. Our subscription contracts typically range from one to three years and, as of February 3, 2023, averaged approximately two years in duration. The revenue and any related costs for these deliverables are recognized ratably over the contractual term, beginning on the date on which service is made available to customers.
- *Professional Services Revenue.* Professional services revenue consists primarily of incident response solutions and security and risk consulting. 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 fiscal 2023, approximately 78% of our revenue was derived from subscription-based arrangements, attributable to Taegis solutions and managed security services, while approximately 22% 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 34%, 33% and 30% of our total net revenue in fiscal 2023, fiscal 2022 and fiscal 2021, respectively. Although our international customers are located primarily in the United Kingdom, Japan, Australia and Canada, we provided our Taegis solutions or managed security services to customers across 77 countries as of February 3, 2023.

Over all of the periods presented in this report, our pricing strategy for our various offerings was relatively consistent, and accordingly did not significantly affect our revenue growth. However, we may 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 and delivering managed services to our subscription customers, as well as hosting costs for these platforms. Personnel-related expenses consist primarily of salaries, benefits and performance-based compensation. Also included in cost of subscription revenue are 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 Revenue.* Cost of professional services revenue consists primarily of personnel-related expenses, such as salaries, benefits and performance-based compensation. Also included in cost of professional services revenue are 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, but we expect them to increase over time with expected growth and higher mix of Taegis subscription solutions revenue compared to managed security services and professional services revenue. As we balance revenue growth and continue to invest in initiatives to drive the efficiency of our business, however, we expect gross margin as a percentage of total revenue to continue to fluctuate from period to period.

### *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 expenses 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 to 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. As we continue to grow our business, both domestically and internationally, we will invest in our sales capability, which will increase our sales and marketing expenses in absolute dollars.
- *General and Administrative, or G&A, Expenses.* General and administrative expenses include primarily 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.

### *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 Consolidated Statements of Operations. To date, we have had minimal interest income.

### *Income Tax Expense (Benefit)*

Our effective tax benefit rate was 22.0% and 28.8% for fiscal 2023 and fiscal 2022, respectively. The change in effective tax rate between the periods was primarily attributable to the impact of certain adjustments related to the vesting of stock-based compensation awards and the recognition of additional benefits relating to research and development credits.

We calculate a provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. We provide valuation allowances for deferred tax assets, where appropriate. We file U.S. federal returns on a consolidated basis with Dell and we expect to continue doing so until such time (if any) as we are deconsolidated for tax purposes with respect to the Dell consolidated group. According to the terms of the tax matters agreement between Dell Technologies and Secureworks that went into effect on August 1, 2015, Dell Technologies will reimburse us for any amounts by which our tax assets reduce the amount of tax liability owed by the Dell group on an unconsolidated basis. For a further discussion of income tax matters, see “Notes to Consolidated Financial Statements—Note 11—Income and Other Taxes” in our consolidated financial statements included in this report.

## Results of Operations

***Fiscal 2023 Compared to Fiscal 2022***

The following table summarizes our key performance indicators for the fiscal years ended February 3, 2023 and January 28, 2022.

| | Fiscal Years Ended | | | | | |
|---|---|---|---|---|---|---|
| | February 3, 2023 | | January 28, 2022 | | Change | |
| | $ | % of Revenue | $ | % of Revenue | $ | % |
| | (in thousands, except percentages) | | | | | |
| Net revenue: | | | | | | |
| Subscription | $ 363,448 | 78.4 % | $ 408,947 | 76.4 % | $ (45,499) | (11.1)% |
| Professional Services | 100,027 | 21.6 % | 126,267 | 23.6 % | (26,240) | (20.8)% |
| Total net revenue | $ 463,475 | 100.0 % | $ 535,214 | 100.0 % | $ (71,739) | (13.4)% |
| Cost of revenue: | | | | | | |
| Subscription | $ 131,998 | 36.3 % | $ 143,515 | 35.1 % | $ (11,517) | (8.0)% |
| Professional Services | 59,644 | 59.6 % | 73,611 | 58.3 % | (13,967) | (19.0)% |
| Total cost of revenue | $ 191,642 | 41.3 % | $ 217,126 | 40.6 % | $ (25,484) | (11.7)% |
| Total gross profit | $ 271,833 | 58.7 % | $ 318,088 | 59.4 % | $ (46,255) | (14.5)% |
| Operating expenses: | | | | | | |
| Research and development | $ 141,837 | 30.6 % | $ 122,494 | 22.9 % | $ 19,343 | 15.8 % |
| Sales and marketing | 166,410 | 35.9 % | 145,134 | 27.1 % | 21,276 | 14.7 % |
| General and administrative | 111,615 | 24.1 % | 102,834 | 19.2 % | 8,781 | 8.5 % |
| Total operating expenses: | $ 419,862 | 90.6 % | $ 370,462 | 69.2 % | $ 49,400 | 13.3 % |
| Operating loss | (148,029) | (31.9)% | (52,374) | (9.8)% | (95,655) | 182.6 % |
| Net loss | $ (114,499) | (24.7)% | $ (39,791) | (7.4)% | $ (74,708) | 187.8 % |
| ***Other Financial Information*** (1) | | | | | | |
| GAAP net revenue: | | | | | | |
| Subscription | $ 363,448 | 78.4 % | $ 408,947 | 76.4 % | $ (45,499) | (11.1)% |
| Professional Services | 100,027 | 21.6 % | 126,267 | 23.6 % | (26,240) | (20.8)% |
| Total GAAP net revenue | $ 463,475 | 100.0 % | $ 535,214 | 100.0 % | $ (71,739) | (13.4)% |
| Non-GAAP cost of revenue: | | | | | | |
| Non-GAAP Subscription | $ 113,779 | 31.3 % | 127,217 | 31.1 % | (13,438) | (10.6)% |
| Non-GAAP Professional Services | 58,145 | 58.1 % | 72,706 | 57.6 % | (14,561) | (20.0)% |
| Total Non-GAAP cost of revenue | $ 171,924 | 37.1 % | $ 199,923 | 37.4 % | $ (27,999) | (14.0)% |
| Non-GAAP gross profit | $ 291,551 | 62.9 % | 335,291 | 62.6 % | (43,740) | (13.0)% |
| Non-GAAP operating expenses: | | | | | | |
| Non-GAAP research and development | $ 128,196 | 27.7 % | $ 115,274 | 21.5 % | $ 12,922 | 11.2 % |
| Non-GAAP sales and marketing | 157,069 | 33.9 % | 141,069 | 26.4 % | 16,000 | 11.3 % |
| Non-GAAP general and administrative | 70,762 | 15.3 % | 70,702 | 13.2 % | 60 | 0.1 % |
| Non-GAAP operating expenses | $ 356,027 | 76.8 % | $ 327,045 | 61.1 % | $ 28,982 | 8.9 % |
| Non-GAAP operating (loss) income | (64,475) | (13.9)% | 8,246 | 1.5 % | (72,721) | (881.9)% |
| Non-GAAP net (loss) income | $ (46,886) | (10.1)% | 8,716 | 1.6 % | (55,602) | (637.9)% |
| Adjusted EBITDA | $ (59,035) | (12.7)% | $ 18,592 | 3.5 % | $ (77,627) | (417.5)% |

(1) 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 fiscal years ended February 3, 2023 and January 28, 2022.

| | Fiscal Years Ended | | | | Change | |
|---|---|---|---|---|---|---|
| | February 3, 2023 | | January 28, 2022 | | | |
| | $ | % of Revenue | $ | % of Revenue | $ | % |
| | (in thousands, except percentages) | | | | | |
| Net revenue: | | | | | | |
| Taegis Subscription Solutions | $ 188,085 | 40.6 % | $ 85,599 | 16.0 % | $ 102,486 | 119.7 % |
| Managed Security Services | 175,363 | 37.8 % | 323,348 | 60.4 % | (147,985) | (45.8)% |
| Total Subscription revenue | $ 363,448 | 78.4 % | $ 408,947 | 76.4 % | $ (45,499) | (11.1)% |
| Professional services | 100,027 | 21.6 % | 126,267 | 23.6 % | (26,240) | (20.8)% |
| Total net revenue | $ 463,475 | 100.0 % | $ 535,214 | 100.0 % | $ (71,739) | (13.4)% |

*Subscription Revenue.* Subscription revenue decreased $45.5 million, or 11.1%, in fiscal 2023, which consisted of 53 weeks, compared to fiscal 2022, which consisted of 52 weeks. Adjusting for the additional week in fiscal 2023, subscription revenue decreased $52.0 million, or 12.7%. The revenue decrease reflected our continued focus on reducing non-strategic service offerings and prioritizing the growth of our Taegis subscription solutions, which includes reselling Taegis offerings to our current managed security services customer base.

*Professional Services Revenue*. Professional services revenue decreased $26.2 million, or 20.8%, in fiscal 2023, which consisted of 53 weeks, compared to fiscal 2022, which consisted of 52 weeks. Adjusting for the additional week in fiscal 2023, professional services revenue decreased $27.9 million, or 22.1%. The revenue decrease reflects our focus on reducing non-strategic professional service offerings and an overall decrease of billable hours.

Revenue for certain services provided to or on behalf of Dell under our commercial agreements with Dell totaled approximately $4.6 million and $11.7 million for fiscal 2023 and fiscal 2022, respectively. Of the revenue derived from Dell, subscription revenue represented approximately 22% and 35% for fiscal 2023 and fiscal 2022, respectively. For more information regarding the commercial agreements with Dell, see "Notes to Consolidated Financial Statements—Note 13—Related Party Transactions" in our consolidated financial statements included in this report.

We primarily generate revenue from sales in the United States. For fiscal 2023, international revenue, which we define as revenue contracted through non-U.S. entities, totaled $156.7 million, or 34% of our total revenue. For fiscal 2022, international revenue totaled $175.5 million, or 33% of our total revenue. Currently, our international customers are primarily located in United Kingdom, Japan, Australia and Canada. We are focused on continuing to grow our international customer base in future periods.

### *Cost of Revenue*

The following table presents information regarding our cost of revenue for the fiscal years ended February 3, 2023 and January 28, 2022.

| | Fiscal Years Ended | | | | Change | |
|---|---|---|---|---|---|---|
| | February 3, 2023 | | January 28, 2022 | | | |
| | $ | % of Revenue | $ | % of Revenue | $ | % |
| | (in thousands, except percentages) | | | | | |
| Cost of revenue: | | | | | | |
| Subscription | $ 131,998 | 36.3 % | $ 143,515 | 35.1 % | $ (11,517) | (8.0)% |
| Professional Services | 59,644 | 59.6 % | 73,611 | 58.3 % | (13,967) | (19.0)% |
| Total cost of revenue | $ 191,642 | 41.3 % | $ 217,126 | 40.6 % | $ (25,484) | (11.7)% |
| ***Other Financial Information*** | | | | | | |
| Non-GAAP cost of revenue: | | | | | | |
| Non-GAAP Subscription | $ 113,779 | 31.3 % | $ 127,217 | 31.1 % | $ (13,438) | (10.6)% |
| Non-GAAP Professional Services | 58,145 | 58.1 % | 72,706 | 57.6 % | (14,561) | (20.0)% |
| Total Non-GAAP cost of revenue[(1)] | $ 171,924 | 37.1 % | $ 199,923 | 37.4 % | $ (27,999) | (14.0)% |

(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 Cost of Revenue.* Subscription cost of revenue decreased $11.5 million, or 8.0%, in fiscal 2023, which consisted of 53 weeks, compared to fiscal 2022 which consisted of 52 weeks. Adjusting for the additional week in fiscal 2023, subscription cost of revenue decreased 13.9 million, or 9.7%. As a percentage of subscription revenue, subscription cost of revenue increased 120 basis points to 36.3%. On a non-GAAP basis, subscription cost of revenue as a percentage of subscription revenue increased 20 basis points to 31.3%. The decrease in subscription cost of revenue was primarily attributable our focus on delivering comprehensive higher-value security solutions and driving scale and operational efficiencies associated with reducing non-strategic service offerings.

*Professional Services Cost of Revenue.* Professional services cost of revenue decreased $14.0 million, or 19.0%, in fiscal 2023, which consisted of 53 weeks, compared to fiscal 2022 which consisted of 52 weeks. Adjusting for the additional week in fiscal 2023, professional services cost of revenue decreased 15.0 million, or 20.3%. As a percentage of professional services revenue, professional services cost of revenue increased 130 basis points to 59.6%. On a non-GAAP basis, professional services cost of revenue as a percentage of revenue increased 50 basis points to 58.1%. 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.

### *Gross Profit and Gross Margin*

The following table presents information regarding our gross profit and gross margin for the fiscal years ended February 3, 2023 and January 28, 2022.

| | Fiscal Years Ended | | | |
|---|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | Change | |
| | $ | $ | $ | % |
| | (in thousands, except percentages) | | | |
| Gross Profit: | | | | |
| Subscription | $ 231,450 | $ 265,432 | $ (33,982) | (12.8)% |
| Professional Services | 40,383 | 52,656 | (12,273) | (23.3)% |
| Total Gross Profit | $ 271,833 | $ 318,088 | $ (46,255) | (14.5)% |
| | | | | |
| Gross Margin: | | | | |
| Subscription | 63.7 % | 64.9 % | (1.2)% | |
| Professional Services | 40.4 % | 41.7 % | (1.3)% | |
| Total Gross Margin | 58.7 % | 59.4 % | (0.7)% | |
| | | | | |
| ***Other Financial Information*** | | | | |
| Non-GAAP Gross Profit: | | | | |
| Non-GAAP Subscription | $ 249,669 | $ 281,730 | $ (32,061) | (11.4)% |
| Non-GAAP Professional Services | 41,882 | 53,561 | (11,679) | (21.8)% |
| Total Non-GAAP Gross Profit | $ 291,551 | $ 335,291 | $ (43,740) | (13.0)% |
| | | | | |
| Non-GAAP Gross Margin: | | | | |
| Non-GAAP Subscription | 68.7 % | 68.9 % | (0.2)% | |
| Non-GAAP Professional Services | 41.9 % | 42.4 % | (0.5)% | |
| Total Non-GAAP Gross Margin | 62.9 % | 62.6 % | 0.3 % | |

*Subscription Gross Margin.* Subscription gross margin decreased 1.2% in fiscal 2023. We expect subscription gross margin to fluctuate from period to period as we continue to prioritize the growth and delivery of comprehensive higher-value security offerings with our Taegis subscription solutions, while driving scale and operational efficiencies associated with our non-strategic managed security services.

Subscription gross margin 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, fiscal 2023 gross margin decreased 0.2%.

*Professional Services Gross Margin*. Professional services gross margin decreased 1.3% in fiscal 2023. 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 and reorganization related costs. On a non-GAAP basis, excluding that adjustment, fiscal 2023 gross margin decreased 0.5%.

### *Operating Expenses*

The following table presents information regarding our operating expenses during the fiscal years ended February 3, 2023 and January 28, 2022.

| | Fiscal Year Ended | | | | |
|---|---|---|---|---|---|
| | February 3, 2023 | | % Change | January 28, 2022 | |
| | $ | % of Revenue | | $ | % of Revenue |
| Operating expenses: | | | | | |
| Research and development | 141,837 | 30.6 % | 15.8% | 122,494 | 22.9 % |
| Sales and marketing | 166,410 | 35.9 % | 14.7% | 145,134 | 27.1 % |
| General and administrative | 111,615 | 24.1 % | 8.5% | 102,834 | 19.2 % |
| Total operating expenses | $ 419,862 | 90.6 % | 13.3% | $ 370,462 | 69.2 % |
| | | | | | |
| ***Other Financial Information*** | | | | | |
| Non-GAAP research and development | 128,196 | 27.7 % | 11.2% | 115,274 | 21.5 % |
| Non-GAAP sales and marketing | 157,069 | 33.9 % | 11.3% | 141,069 | 26.4 % |
| Non-GAAP general and administrative | 70,762 | 15.3 % | 0.1% | 70,702 | 13.2 % |
| Total Non-GAAP operating expenses [(1)] | $ 356,027 | 76.8 % | 8.9% | $ 327,045 | 61.1 % |

(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.

*Research and Development Expenses.* R&D expenses increased $19.3 million, or 15.8%, in fiscal 2023. As a percentage of revenue, R&D expenses increased 770 basis points to 30.6% in fiscal 2023. As a percentage of revenue on a non-GAAP basis, R&D expenses increased 620 basis points to 27.7%. The increase in R&D expenses was primarily attributable to higher employee-related expenses associated with R&D personnel resulting from the continued development of our Taegis solutions. Additionally, we incurred $2.1 million of severance costs, classified as R&D expenses, associated with our reorganization.

*Sales and Marketing Expenses*. S&M expenses increased $21.3 million, or 14.7%, in fiscal 2023. As a percentage of revenue, S&M expenses increased 880 basis points to 35.9% in fiscal 2023. On a non-GAAP basis, S&M expenses as a percentage of revenue increased 750 basis points to 33.9%. The increase in S&M expenses was primarily attributable to costs incurred in connection with our Taegis marketing campaigns and headcount growth, the effect of which was partially offset by a decrease in commission expenses. Additionally, we incurred $2.5 million of severance costs, classified as S&M expenses, associated with our reorganization.

*General and Administrative Expenses*. G&A expenses increased $8.8 million, or 8.5%, in fiscal 2023. As a percentage of revenue, G&A expenses increased 490 basis points to 24.1% in fiscal 2023. On a non-GAAP basis, G&A expenses as a percentage of revenue increased 210 basis points to 15.3%. The increase in G&A expenses was primarily attributable to our plan to align our investments more closely with our strategic priorities. We incurred $10.1 million of severance, real estate, and other costs, classified as G&A expenses, associated with our reorganization. These costs were partially offset by lower professional services and consulting related costs.

### *Operating Loss*

Our operating loss for fiscal 2023 and fiscal 2022 was $148.0 million and $52.4 million, respectively. As a percentage of revenue, our operating loss was 31.9% and 9.8% in fiscal 2023 and fiscal 2022, respectively. The increase in our operating loss as a percentage of revenue was primarily attributable to our decreased gross profit and increased operating expenses as we continue to invest in the business to drive growth.

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 operating loss for fiscal 2023 was $64.5 million compared to operating income of $8.2 million in fiscal 2022 respectively.

### *Interest and Other, Net*

Interest and other, net represented net income of $1.2 million in fiscal 2023 compared with expense of $3.5 million in fiscal 2022. The change primarily reflected the effects of foreign currency transactions and related exchange rate fluctuations.

### *Income Tax Expense (Benefit)*

Our income tax benefit was $32.3 million, or 22.0% of our pre-tax loss, in fiscal 2023 and $16.1 million, or 28.8% of our pre-tax loss, in fiscal 2022. The changes in the effective tax benefit rate were primarily attributable to both the increase in loss before income taxes, the impact of certain adjustments related to stock-based compensation awards, and the recognition of additional benefits relating to research and development credits.

### *Net Income (Loss)*

Our net loss of $114.5 million increased $74.7 million, or 187.8%, in fiscal 2023 compared to fiscal 2022. Net loss on a non-GAAP basis was $46.9 million in fiscal 2023, which represented an increase of $55.6 million from fiscal 2022. The changes on both a GAAP and non-GAAP basis were attributable to lower revenue from our continued focus on reducing non-strategic service offerings with a corresponding increase in operating expenses, the effect of which was offset in part by the higher income tax benefit recognized in the current period.

**Liquidity, Capital Commitments and Contractual Cash Obligations**

***Overview***

We believe that our cash and cash equivalents will provide us with sufficient liquidity to meet our material 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. Our future capital requirements will depend on many factors, including our rate of revenue growth, the rate of expansion of our workforce, the timing and extent of our expansion into new markets, the timing of introductions of new functionality 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 may need to raise additional capital or incur indebtedness to continue to fund our operations in the future or to fund our needs for less predictable strategic initiatives, such as acquisitions. In addition to our $30 million revolving credit facility from Dell, described below, sources of financing may include arrangements with unaffiliated third parties, depending on the availability of capital, the cost of funds and lender collateral requirements.

***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.

| | February 3, 2023 | January 28, 2022 |
|---|---|---|
| | (in thousands) | |
| Cash and cash equivalents | $ 143,517 | $ 220,655 |

*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 have obtained a $30 million senior unsecured revolving credit facility. Under the facility, up to $30 million principal amount of borrowings may be outstanding at any time. The maximum amount of borrowings may be increased by up to an additional $30 million by mutual agreement of the lender and borrower. The proceeds from loans made under the facility may be used for general corporate purposes. The facility is not guaranteed by us or our subsidiaries. There was no outstanding balance under the facility as of February 3, 2023, and we did not borrow any amounts under the facility during any period covered by this report. Effective as of March 24, 2023, the facility agreement was amended and restated to extend the maturity date to March 24, 2024 and to modify the annual rate at which interest accrues to the applicable Secured Overnight Financing Rate ("SOFR") plus 1.15%. The unused portion of the facility is subject to a commitment fee of 0.35%, which is due upon expiration of the facility. For more information regarding the facility, see "Notes to Consolidated Financial Statements—Note 6—Debt" in our consolidated financial statements included in this report.

*Cash Flows*

The following table presents information concerning our cash flows for the fiscal years ended February 3, 2023 and January 28, 2022.

| | Fiscal Year Ended | |
|---|---|---|
| | February 3, 2023 | January 28, 2022 |
| | (in thousands) | |
| *Net change in cash from:* | | |
| Operating activities | $ (62,600) | $ 16,737 |
| Investing activities | (5,651) | (8,014) |
| Financing activities | (8,887) | (8,368) |
| Change in cash and cash equivalents | $ (77,138) | $ 355 |

- Operating Activities — Cash used in operating activities was $62.6 million in fiscal 2023 compared to cash provided by operating activities of $16.7 million in fiscal 2022. The increased use of our operating cash was primarily driven by our strategic investment in the business focused on marketing and research and development initiatives regarding our Taegis offerings.
- Investing Activities — Cash used in investing activities totaled $5.7 million and $8.0 million in fiscal 2023 and fiscal 2022, respectively. Investing activities consisted primarily of capitalized expenses related to the continued development of our Taegis software platform and SaaS applications, which decreased slightly in fiscal 2023 when compared to fiscal 2022.
- Financing Activities — Cash used in financing activities was $8.9 million and $8.4 million in fiscal 2023 and fiscal 2022, respectively. The use of cash in fiscal 2023 reflected employee tax withholding payments paid by us of $8.9 million on restricted stock-based awards. The use of cash in fiscal 2022 reflected employee tax withholding payments paid by us of $12.5 million on restricted stock-based awards, which were partially offset by proceeds of $4.1 million from stock options exercised during fiscal 2022.

***Contractual Cash Obligations***

Our material cash requirements represented by contractual cash obligations as of February 3, 2023 are summarized in the following table:

| | Payments Due by Fiscal Year | | | | |
|---|---|---|---|---|---|
| (in thousands) | Less than 1 year | 1-3 years | 3-5 years | Thereafter | Total |
| Operating leases | $ 5,321 | $ 9,622 | $ 4,088 | $ — | $ 19,031 |
| Purchase obligations | 47,061 | 78,775 | 44,000 | — | 169,836 |
| Total | $ 52,382 | $ 88,397 | $ 48,088 | $ — | $ 188,867 |

For information about leases and purchase obligations, see “Notes to Consolidated Financial Statements—Note 8—Leases” and “Notes to Consolidated Financial Statements—Note 7—Commitments and Contingencies” in our consolidated financial statements included in this report.

## Critical Accounting Policies and Estimates

We prepare our financial statements in conformity with GAAP, which requires certain estimates, assumptions and judgments to be made that may affect our consolidated financial statements. Accounting policies that have a significant impact on our results are described in "Notes to Consolidated Financial Statements—Note 2—Significant Accounting Policies" in our consolidated financial statements included in this report. The accounting policies discussed in this section are those that we consider to be the most critical. We consider an accounting policy to be critical if the policy is subject to a material level of judgment and if changes in those judgments are reasonably likely to materially impact our results.

*Revenue Recognition.* Secureworks derives revenue primarily from subscription services and professional services. Subscription revenue is derived from (i) Taegis software-as-a-service, or SaaS, security platform and (ii) managed security services. Professional services typically include incident response and security and risk consulting solutions.

Taegis is a cloud-native security software platform deployed as a subscription-based software-as-as-service, or SaaS, designed to unify detection and response across endpoint, network and cloud environments for better security outcomes and simpler security operations for our customers. Taegis offerings currently includes two applications, Extended Detection and Response, or XDR, and Vulnerability Detection and Response, or VDR. The two SaaS applications are separate performance obligations. They are promises that are both capable of being distinct and distinct within the context of the contract, primarily because they function independently and can be purchased separately from one another. Customers do not have the right to take possession of the software platform. Revenue for our SaaS applications is recognized on a straight-line basis over the term of the arrangement, beginning with provision of the tenant by grant of access to the software platform. Customers also have the option to purchase an add-on managed service to supplement the XDR SaaS application, referred to as our Managed Detection and Response, or as ManagedXDR, subscription service. The ManagedXDR service is identified as a distinct performance obligation that is separable from the SaaS application. While a customer must purchase and deploy the XDR software to gain utility from the ManagedXDR service, a customer may purchase and benefit from using the XDR SaaS application on its own. In order to conclude that the two promises are not separately identifiable, the interrelationship/interdependence would most likely have to be reciprocal between the two separate offerings. The nature of the ManagedXDR service is to stand-ready, or deliver an unspecified quantity of services each day during the contract term, based on customer-specific needs. The ManagedXDR service period is contractually tied to the related software application and, as a stand ready obligation, will be recognized on a straight-line basis over the term of the arrangement.

Subscription-based managed security service arrangements typically include security services, up-front installation fees and maintenance, and also may include the provision of an associated hardware appliance. We use our hardware appliances in providing security services required to access our Counter Threat Platform. The arrangements that require hardware do not typically convey ownership of the appliance to the customer. Moreover, any related installation fees are non-refundable and are also incapable of being distinct within the context of the arrangement. Therefore, we have determined that these arrangements constitute a single performance obligation for which the revenue and any related costs are recognized ratably over the term of the arrangement, which reflects our performance in transferring control of the services to the customer.

Amounts that have been invoiced for the managed security service subscription arrangements and the Taegis SaaS application offerings where the relevant revenue recognition criteria have not been met will be included in deferred revenue.

Professional services consist primarily of fixed-fee and retainer-based contracts. Revenue from these engagements is recognized using an input method over the contract term.

Secureworks reports revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on, and concurrently with, specific revenue-producing transactions.

We recognize revenue when all of the following criteria are met:

- ***Identification of the contract, or contracts, with a customer***—A contract with a customer exists when (i) we enter into an enforceable contract with a customer, (ii) the contract has commercial substance and the parties are committed to perform, and (iii) payment terms can be identified and collection of substantially all consideration to which we will be entitled in exchange for goods or services that will be transferred is deemed probable based on the customer's intent and ability to pay. Contracts entered into for professional services and subscription-based solutions near or at the same time are generally not combined as a single contract for accounting purposes, since neither the pricing nor the services are interrelated.
- ***Identification of the performance obligations in the contract***—Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both (i) capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and (ii) distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. When promised goods or services are incapable of being distinct, we account for them as a combined performance obligation. With regard to a

typical contract for subscription-based managed security services, the performance obligation represents a series of distinct services that will be accounted for as a single performance obligation. For a typical contract that includes subscription-based SaaS applications, each application is generally considered to be distinct and accounted for as a separate performance obligation. In a typical professional services contract, Secureworks has a separate performance obligation associated with each service. We generally act as a principal when delivering either our subscription-based solutions or our professional services arrangement and, thus, recognize revenue on a gross basis.

- ***Determination of the transaction price***—The total transaction price is primarily fixed in nature as the consideration is tied to the specific services purchased by the customer, which constitutes a series of distinct services for delivery of the solutions over the duration of the contract for our subscription services. For professional services contracts, variable consideration exists in the form of rescheduling penalties and expense reimbursements; no estimation is required at contract inception, since variable consideration is allocated to the applicable period.
- ***Allocation of the transaction price to the performance obligations in the contract***—We allocate the transaction price to each performance obligation based on the performance obligation's standalone selling price. Standalone selling price is determined by considering all information available to us, such as historical selling prices of the performance obligation, geographic location, overall strategic pricing objective, market conditions and internally approved pricing guidelines related to the performance obligations.
- ***Recognition of revenue when, or as, the Company satisfies performance obligation***—We recognize revenue over time on a ratable recognition basis using a time-elapsed output method to measure progress for all subscription-based performance obligations, including managed security services and SaaS applications, over the contract term. For any upgraded installation services, which we have determined represent a performance obligation separate from its subscription-based arrangements, revenue is recognized over time using hours elapsed over the service term as an appropriate method to measure progress. For the performance obligation pertaining to professional services arrangements, we recognize revenue over time using an input method based on time (hours or days) incurred to measure progress over the contract term.

*Business Combinations.* The Company accounts for business combinations under the acquisition method of accounting. This method requires the recording of acquired assets and assumed liabilities at their acquisition date fair values. The allocation of the purchase price in a business combination requires us to make significant estimates in determining the fair value of acquired assets and assumed liabilities, especially with respect to intangible assets. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. These estimates are based upon a number of factors, including historical experience, market conditions and information obtained from the management of the acquired company. Critical estimates in valuing certain intangible assets include, but are not limited to, cash flows that an asset is expected to generate in the future, discount rates and the profit margin a market participant would receive. Results of operations related to business combinations are included prospectively beginning with the date of acquisition and transaction costs related to business combinations are recorded within selling, general and administrative expenses in the Consolidated Statements of Operations.

*Intangible Assets Including Goodwill.* Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are reviewed for impairment on a quarterly basis, or as potential triggering events are identified. Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis in the third fiscal quarter, or sooner if an indicator of impairment exists.

We may elect to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of goodwill at the reporting unit level, as well as indefinite-lived intangible assets at the individual asset level, are less than their respective carrying amounts. We determined that we have one reporting unit.

The qualitative assessment includes our consideration of relevant events and circumstances that would affect our single reporting unit and indefinite-lived assets, including macroeconomic, industry and market conditions, our overall financial performance, and trends in the market price of our Class A common stock. If indicators of impairment exist after performing the qualitative assessment, we will perform a quantitative assessment of goodwill and indefinite-lived intangible assets. We also may choose to perform the quantitative assessment periodically even if the qualitative assessment does not require us to do so. If the carrying amount exceeds the fair value of the reporting unit determined through the quantitative analysis, an impairment charge is recognized in an amount equal to that excess.

For the annual impairment review in the third quarter of fiscal 2023, we elected to bypass the assessment of qualitative factors to determine whether it was more likely than not that the fair value of its reporting unit was less than its carrying amount, including goodwill. In electing to bypass the qualitative assessment, we proceeded directly to performing a quantitative goodwill impairment test to measure the fair value of its reporting unit relative to its carrying amount.

The fair value of the reporting unit is generally estimated using a combination of public company multiples and discounted cash flow methodologies. The discounted cash flow and public company multiples methodologies require significant judgment, including estimation of future revenues, gross margins, and operating expenses, which are dependent on internal forecasts, current and anticipated economic conditions and trends, selection of market multiples through assessment of the reporting unit's performance relative to peer competitors, the estimation of the long-term revenue growth rate and discount rate of our business, and the determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the fair value of the reporting unit, potentially resulting in a non-cash impairment charge.

The fair value of the indefinite-lived trade names is generally estimated using discounted cash flow methodologies. The discounted cash flow methodology requires significant judgment, including estimation of future revenue, the estimation of the long-term revenue growth rate of the our business and the determination of our weighted average cost of capital and royalty rates. Changes in these estimates and assumptions could materially affect the fair value of the indefinite-lived intangible assets, potentially resulting in a non-cash impairment charge.

Based on the results of the annual impairment test, we determined that the derived fair values of the reporting unit and indefinite-lived intangible asset exceeded their respective carrying values, which indicated no impairment as of the annual impairment date. Further, no triggering events have transpired since the performance of the quantitative assessment that would indicate a potential impairment during the fiscal year ended February 3, 2023.

*Impairment of long-lived assets.* We evaluate all long-lived assets, other than goodwill, whenever events or circumstances change that indicate the asset's carrying value may no longer be recoverable. If impairment indicators exist, a test of recoverability is performed by comparing the sum of the estimated undiscounted future cash flows attributable to the asset's carrying value. Impairment analyses are performed at the asset group level. If the asset's carrying value is not recoverable, impairment is measured by determining the asset's fair value and recording any difference as an impairment loss. Long-lived assets subject to this policy include property, plant & equipment, intangible assets and Right-of-use assets. An impairment loss of $4.0 million was recognized to our right-of-use assets for the fiscal year ended February 3, 2023. No impairments were recognized in the fiscal years ended January 28, 2022 and January 29, 2021, respectively.

*Stock-Based Compensation.* Our compensation programs include grants under the SecureWorks Corp. 2016 Long-Term Incentive Plan and, prior to the IPO date, grants under share-based payment plans of Dell Technologies Inc., or Dell Technologies. Under the plans, we and, prior to the IPO date, Dell Technologies have granted stock options, restricted stock awards and restricted stock units. Compensation expense related to stock-based transactions is measured and recognized in the financial statements based on grant date fair value. Fair value for restricted stock awards and restricted stock units under our plan is based on the closing price of our Class A common stock as reported on the Nasdaq Global Select Market on the day of the grant. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model and a single option award approach. This model requires that at the date of grant we determine the fair value of the underlying Class A common stock, the expected term of the award, the expected volatility, risk-free interest rates and expected dividend yield. The annual grant of restricted stock and restricted stock units issued during the fiscal year ended February 3, 2023 vest over an average service period of three years and approximately 16% of such awards are subject to performance conditions. Stock-based compensation expense, regarding service-based awards, is adjusted for forfeitures, and recognized using a straight-line basis over the requisite service periods of the awards, which is generally three to four years. Stock-based compensation expense, regarding performance awards, is adjusted for forfeitures and performance criteria, and recognized on a graded vesting basis. We estimate a forfeiture rate, based on an analysis of actual historical forfeitures, to calculate stock-based compensation expense.

*Loss Contingencies.* We are subject to the possibility of various losses arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can reasonably be estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required.

### *Recently Issued Accounting Pronouncements*

Information about recently issued accounting pronouncements is presented in "Notes to Consolidated Financial Statements—Note 2—Significant Accounting Policies" in our consolidated financial statements included in this report.

**Item 7A. 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 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 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 to use foreign exchange forward contracts to partially mitigate the impact of fluctuations in net monetary assets denominated in foreign currencies.

## Item 8. Financial Statements and Supplementary Data

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of SecureWorks Corp.

### *Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated statements of financial position of SecureWorks Corp. and its subsidiaries (the "Company") as of February 3, 2023 and January 28, 2022, and the related consolidated statements of operations, of comprehensive loss, of stockholders' equity and of cash flows for each of the three years in the period ended February 3, 2023, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of February 3, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 3, 2023 and January 28, 2022, and the results of its operations and its cash flows for each of the three years in the period ended February 3, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

### *Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### *Definition and Limitations of Internal Control over Financial Reporting*

A company's internal control over financial reporting 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Revenue recognition – subscription contracts*

As described in Note 2 to the consolidated financial statements, the Company recognizes revenue when all of the following criteria are met: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of the revenue when, or as, the Company satisfies a performance obligation. Subscription revenue is derived from (i) the Taegis software-as-a-service security platform and (ii) managed security services. The Company recognizes revenue over time on a ratable recognition basis using a time-elapsed output method to measure progress for all subscription-based performance obligations, over the contract term. As disclosed by management, judgment is applied in recognizing revenue based on determining all the aforementioned criteria have been met. For the year ended February 3, 2023, the Company's subscription revenue was $363.4 million.

The principal considerations for our determination that performing procedures relating to revenue recognition for subscription contracts is a critical audit matter are (i) the significant judgment by management in assessing whether all of the criteria have been met related to revenue recognition for subscription contracts and (ii) the significant auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to management's assessment of the revenue recognition criteria.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the Company's revenue recognition process for subscription contracts. These procedures also included, among others (i) evaluating management's accounting policies related to the recognition of subscription revenue, (ii) testing, for a sample of contracts, management's assessment of whether all of the criteria for revenue recognition have been met based on the contractual terms and conditions and evaluating the impact of management's assessment on the completeness, accuracy, and occurrence of revenue recognized, and (iii) testing the completeness and accuracy of data provided by management.

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia
March 23, 2023

We have served as the Company's auditor since 2014.

**SECUREWORKS CORP.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(in thousands)**

| | February 3, 2023 | January 28, 2022 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 143,517 | $ 220,655 |
| Accounts receivable, net | 72,627 | 86,231 |
| Inventories | 620 | 505 |
| Other current assets | 17,526 | 26,040 |
| Total current assets | 234,290 | 333,431 |
| Property and equipment, net | 4,632 | 8,426 |
| Goodwill | 425,519 | 425,926 |
| Operating lease right-of-use assets, net | 9,256 | 17,441 |
| Intangible assets, net | 106,208 | 133,732 |
| Other non-current assets | 60,965 | 68,346 |
| Total assets | $ 840,870 | $ 987,302 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 18,847 | $ 15,062 |
| Accrued and other current liabilities | 81,566 | 88,122 |
| Deferred revenue | 145,170 | 163,304 |
| Total current liabilities | 245,583 | 266,488 |
| Long-term deferred revenue | 11,162 | 12,764 |
| Operating lease liabilities, non-current | 12,141 | 16,869 |
| Other non-current liabilities | 14,023 | 43,124 |
| Total liabilities | 282,909 | 339,245 |
| Commitments and contingencies (Note 7) | | |
| 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; 14,749 and 14,282 shares issued and outstanding at February 3, 2023 and January 28, 2022, respectively | 147 | 143 |
| 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 | 967,367 | 939,404 |
| Accumulated deficit | (384,121) | (269,622) |
| Accumulated other comprehensive loss | (6,237) | (2,672) |
| Treasury stock, at cost - 1,257 and 1,257 shares, respectively | (19,896) | (19,896) |
| Total stockholders' equity | 557,961 | 648,057 |
| Total liabilities and stockholders' equity | $ 840,870 | $ 987,302 |

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

## SECUREWORKS CORP.

## CONSOLIDATED STATEMENTS OF OPERATIONS
**(in thousands, except per share data)**

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| Net revenue: | | | |
| Subscription | $ 363,448 | $ 408,947 | $ 427,937 |
| Professional services | 100,027 | 126,267 | 133,097 |
| Total net revenue | 463,475 | 535,214 | 561,034 |
| Cost of revenue: | | | |
| Subscription | 131,998 | 143,515 | 162,139 |
| Professional services | 59,644 | 73,611 | 80,028 |
| Total cost of revenue | 191,642 | 217,126 | 242,167 |
| Gross profit | 271,833 | 318,088 | 318,867 |
| Operating expenses: | | | |
| Research and development | 141,837 | 122,494 | 105,008 |
| Sales and marketing | 166,410 | 145,134 | 144,934 |
| General and administrative | 111,615 | 102,834 | 101,760 |
| Total operating expenses | 419,862 | 370,462 | 351,702 |
| Operating loss | (148,029) | (52,374) | (32,835) |
| Interest and other (expense) income, net | 1,248 | (3,532) | 1,034 |
| Loss before income taxes | (146,781) | (55,906) | (31,801) |
| Income tax benefit | (32,282) | (16,115) | (9,899) |
| Net loss | $ (114,499) | $ (39,791) | $ (21,902) |
| Loss per common share (basic and diluted) | $ (1.36) | $ (0.48) | $ (0.27) |
| Weighted-average common shares outstanding (basic and diluted) | 84,389 | 82,916 | 81,358 |

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

**SECUREWORKS CORP.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(in thousands)**

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| Net loss | $ (114,499) | $ (39,791) | $ (21,902) |
| Foreign currency translation adjustments, net of tax | (3,565) | (2,012) | 2,430 |
| Comprehensive loss | $ (118,064) | $ (41,803) | $ (19,472) |

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

**SECUREWORKS CORP.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| Cash flows from operating activities: | | | |
| Net loss | $ (114,499) | $ (39,791) | (21,902) |
| Adjustments to reconcile net loss to net cash (used) provided by operating activities: | | | |
| Depreciation and amortization | 36,668 | 40,520 | 41,614 |
| Amortization of right of use asset | 3,800 | 3,846 | 4,482 |
| Reorganization and other related charges | 6,112 | — | — |
| Amortization of costs capitalized to obtain revenue contracts | 18,203 | 19,330 | 21,273 |
| Amortization of costs capitalized to fulfill revenue contracts | 4,773 | 5,186 | 5,699 |
| Stock-based compensation expense | 36,855 | 30,446 | 24,414 |
| Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies | (824) | 3,393 | (1,485) |
| Income tax benefit | (32,282) | (16,115) | (9,899) |
| Other non-cash impacts | — | — | 392 |
| Provision for credit losses | (524) | (430) | 1,810 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | 13,729 | 21,221 | 2,557 |
| Net transactions with Dell | (2,561) | (12,025) | 11,788 |
| Inventories | (115) | 55 | 186 |
| Other assets | 25,451 | (15,967) | (9,460) |
| Accounts payable | 3,587 | (1,623) | (1,527) |
| Deferred revenue | (20,309) | (3,253) | (9,759) |
| Operating leases, net | (5,184) | (5,707) | (3,284) |
| Accrued and other liabilities | (35,480) | (12,349) | 3,690 |
| Net cash (used in) provided by operating activities | (62,600) | 16,737 | 60,589 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (1,947) | (1,928) | (3,005) |
| Software development costs | (3,704) | (6,086) | — |
| Acquisition of business, net of cash acquired | — | — | (15,081) |
| Net cash used in investing activities | (5,651) | (8,014) | (18,086) |
| Cash flows from financing activities: | | | |
| Proceeds from stock option exercises | — | 4,134 | 1,469 |
| Taxes paid on vested restricted shares | (8,887) | (12,502) | (5,510) |
| Net cash used in financing activities | (8,887) | (8,368) | (4,041) |
| Net (decrease) increase in cash and cash equivalents | (77,138) | 355 | 38,462 |
| Cash and cash equivalents at beginning of the period | 220,655 | 220,300 | 181,838 |
| Cash and cash equivalents at end of the period | 143,517 | 220,655 | 220,300 |
| | | | |
| Supplemental Disclosures of Non-Cash Investing and Financing Activities: | | | |
| Income taxes paid | $ 2,461 | $ 2,554 | $ 1,933 |

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

## SECUREWORKS CORP.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except per share data)

| | Common Stock - Class A | | Common Stock - Class B | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Outstanding Shares** | **Amount** | **Outstanding Shares** | **Amount** | **Additional Paid in Capital** | **Accumulated Deficit** | **Accumulated Other Comprehensive Loss** | **Treasury Stock** | **Total Stockholders' Equity** |
| **Balances, January 31, 2020** | **11,206** | **$ 112** | **70,000** | **$ 700** | **$ 896,983** | **$ (207,929)** | **$ (3,090)** | **$ (19,896)** | **$ 666,880** |
| Net loss | — | — | — | — | — | (21,902) | — | — | (21,902) |
| Other comprehensive income | — | — | — | — | — | — | 2,430 | — | 2,430 |
| Vesting of restricted stock units | 1,148 | 11 | — | — | (11) | — | — | — | — |
| Exercise of stock options | 105 | 1 | — | — | 1,468 | — | — | — | 1,469 |
| Grant and forfeitures of restricted stock awards | 455 | 5 | — | — | (5) | — | — | — | — |
| Common stock withheld as payment of taxes and cost for equity awards | (464) | (5) | — | — | (5,505) | — | — | — | (5,510) |
| Stock-based compensation | — | — | — | — | 24,414 | — | — | — | 24,414 |
| Shares repurchased | — | — | — | — | — | — | — | — | — |
| **Balances, January 29, 2021** | **12,450** | **$ 125** | **70,000** | **$ 700** | **$ 917,344** | **$ (229,831)** | **$ (660)** | **$ (19,896)** | **$ 667,781** |
| Net loss | — | — | — | — | — | (39,791) | — | — | (39,791) |
| Other comprehensive income | — | — | — | — | — | — | (2,012) | — | (2,012) |
| Vesting of restricted stock units | 1,515 | 15 | — | — | (15) | — | — | — | — |
| Exercise of stock options | 1,417 | 14 | — | — | 4,120 | — | — | — | 4,134 |
| Grant and forfeitures of restricted stock awards | 485 | 5 | — | — | (5) | — | — | — | — |
| Common stock withheld as payment of taxes and cost for equity awards | (1,585) | (16) | — | — | (12,486) | — | — | — | (12,502) |
| Stock-based compensation | — | — | — | — | 30,446 | — | — | — | 30,446 |
| **Balances, January 28, 2022** | **14,282** | **$ 143** | **70,000** | **$ 700** | **$ 939,404** | **$ (269,622)** | **$ (2,672)** | **$ (19,896)** | **$ 648,057** |
| Net loss | — | — | — | — | — | (114,499) | — | — | (114,499) |
| Other comprehensive loss | — | — | — | — | — | — | (3,565) | — | (3,565) |
| Vesting of restricted stock units | 1,718 | 17 | — | — | (17) | — | — | — | — |
| Grant and forfeitures of restricted stock awards | (423) | (4) | — | — | 4 | — | — | — | — |
| Common stock withheld as payment of taxes and cost for equity awards | (828) | (8) | — | — | (8,879) | — | — | — | (8,887) |
| Stock-based compensation | — | — | — | — | 36,855 | — | — | — | 36,855 |
| **Balance, February 3, 2023** | **14,749** | **$ 147** | **70,000** | **$ 700** | **$ 967,367** | **$ (384,121)** | **$ (6,237)** | **$ (19,896)** | **$ 557,961** |

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

## 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 by outpacing and outmaneuvering adversaries.

On April 27, 2016, the Company completed its initial public offering ("IPO"). Upon the closing of the IPO, Dell Technologies Inc. ("Dell Technologies") owned, indirectly through Dell Inc. and Dell Inc.'s subsidiaries (Dell Inc., individually and collectively with its consolidated subsidiaries, "Dell") all shares of the Company's outstanding Class B common stock, which as of February 3, 2023 represented approximately 82.6% of the Company's total outstanding shares of common stock and approximately 97.9% of the combined voting power of both classes of the Company's outstanding common stock.

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.

### *Basis of Presentation and Consolidation*

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of 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 inputs into certain of the Company's assumptions and estimations considered the economic implications of the coronavirus 2019 ("COVID-19") pandemic, the Ukraine/Russia conflict and inflation concerns on the Company's critical and significant accounting estimates. The 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 that went into effect on August 1, 2015. For more information regarding the related party transactions, see "Note 13—Related Party Transactions."

During the periods presented in the financial statements, Secureworks did not file separate federal tax returns, as the Company is generally 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 this approach, net operating losses or other tax attributes are characterized as realized or as realizable by Secureworks when those attributes are utilized or expected to be utilized by other members of the Dell consolidated group. See "Note 11—Income and Other Taxes" for more information.

### *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 years ended February 3, 2023, January 28, 2022 and January 29, 2021, as fiscal 2023, fiscal 2022 and fiscal 2021, respectively. Fiscal 2023 consists of 53 weeks. Fiscal 2022 and fiscal 2021 each consisted of 52 weeks.

### *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 Consolidated Statements of Operations, estimates are used when accounting for revenue arrangements, determining the cost of revenue, allocating cost and estimating the impact of contingencies. In the 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, and purchase price allocation for business combinations. 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 Consolidated Statements of Operations. Actual results could differ from these estimates due to risks and uncertainties, including uncertainty in the current economic environment as a result of the COVID-19 pandemic, the Ukraine/Russia conflict and impacts of inflation. The Company considered the potential impact of the COVID-19 pandemic and current economic and geopolitical uncertainty on its estimates and assumptions and determined there was not a material impact to the Company's consolidated financial statements as of and for the fiscal year ended February 3, 2023. As the COVID-19 pandemic and current economic environment 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.

## NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

*Cash and Cash Equivalents.* As of February 3, 2023 and January 28, 2022, cash and cash equivalents are comprised of cash held in bank accounts and money market funds. The cash and cash equivalents are reported at their current carrying value, which approximates fair value due to the short-term nature of these instruments. The money market funds are valued using quoted market prices and are included as Level 1 inputs. As of February 3, 2023 and January 28, 2022, the Company had $16.5 million and $115.8 million, respectively, invested in money market funds.

*Accounts Receivable.* Trade accounts receivable are recorded at the invoiced amount, net of allowances for credit losses. Accounts receivable are charged against the allowance for credit losses when deemed uncollectible. Management regularly reviews the adequacy of the allowance for credit losses by considering the age of each outstanding invoice, each customer's expected ability to pay, and the collection history with each customer, when applicable, to determine whether a specific allowance is appropriate. As of February 3, 2023 and January 28, 2022, the allowance for credit losses was $2.4 million and $3.5 million, respectively.

Unbilled accounts receivable included in accounts receivable, totaling $4.8 million and $7.4 million as of February 3, 2023 and January 28, 2022, respectively, relate to work that has been performed, though invoicing has not yet occurred. All of the unbilled receivables are expected to be billed and collected within the upcoming fiscal year.

*Allowance for Credit Losses.* The Company recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses, net of recoveries. The Company assesses its allowance by taking into consideration forecasts of future economic conditions, information about past events, such as its historical trend of write-offs, and customer-specific circumstances, such as bankruptcies and disputes. The expense associated with the allowance for credit losses is recognized in general and administrative expenses.

*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 carrying amounts of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate their respective fair values due to their short-term nature.

*Inventories.* Inventories consist of finished goods, which include hardware devices such as servers, log retention devices and appliances that are sold in connection with the Company's solutions offerings. Inventories are stated at lower of cost or net realizable value, with cost being determined on a first-in, first-out (FIFO) basis.

*Prepaid Maintenance and Support Agreements.* Prepaid maintenance and support agreements represent amounts paid to third-party service providers for maintenance, support and software license agreements in connection with the Company's obligations to provide maintenance and support services. The prepaid maintenance and support agreement balance is amortized on a straight-line basis over the contract term and is primarily recognized as a component of cost of revenue. Amounts that are expected to be amortized within one year are recorded in other current assets and the remaining balance is recorded in other non-current assets.

*Property and Equipment.* Property and equipment are carried at depreciated cost. Depreciation is calculated using the straight-line method over the estimated economic lives of the assets, which range from two to five years. Leasehold improvements are amortized over the shorter of five years or the lease term. For the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, depreciation expense was $5.9 million, $10.3 million and $12.9 million, respectively. Gains or losses related to retirement or disposition of fixed assets are recognized in the period incurred.

*Leases.* The Company determines if any arrangement is, or contains, a lease at inception based on whether or not the Company has the right to control the asset during the contract period and other facts and circumstances. Secureworks is the lessee in a lease contract when the Company obtains the right to control the asset. Operating leases are included in the line items operating lease right-of-use assets, net; accrued and other current liabilities; and operating lease liabilities, non-current in the Consolidated Statements of Financial Position. Leases with a lease term of 12 months or less at inception are not recorded in the Consolidated Statements of Financial Position and are expensed on a straight-line basis over the lease term in the Consolidated Statements of Operations. The Company determines the lease term by assuming the exercise of renewal options that are reasonably certain. As most of the Company's leases do not provide an implicit interest rate, Secureworks uses the Company's incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. When the Company's contracts contain lease and non-lease components, the Company accounts for both components as a single lease component. See "Note 8—Leases" for further discussion.

*Intangible Assets Including Goodwill.* Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Finite-lived intangible assets are reviewed for impairment on a quarterly basis, or as potential triggering events are identified. Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis in the third fiscal quarter, or sooner if an indicator of impairment exists.

The Company may elect to first assess qualitative factors to determine whether it is more likely than not (greater than 50% likelihood) that the fair value of the Company's goodwill at the reporting unit, as well as indefinite-lived assets at the individual asset level, are less than their respective carrying amounts. The Company has determined it has one reporting unit.

The qualitative assessment includes the Company's consideration of 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, and trends in the market price of the Company's Class A common stock. If indicators of impairment exist after performing the qualitative assessment, the Company will perform a quantitative impairment assessment of goodwill and indefinite-lived assets. The Company may also choose to perform the quantitative assessment periodically even if the qualitative assessment does not require the Company to do so. For the Company's goodwill and indefinite-lived intangible assets, if the carrying amount exceeds the fair value of the reporting unit determined through the quantitative analysis, an impairment charge is recognized in an amount equal to that excess.

For the annual impairment review in the third quarter of fiscal 2023, the Company elected to bypass the assessment of qualitative factors to determine whether it was more likely than not that the fair value of its reporting unit was less than its carrying amount, including goodwill. In electing to bypass the qualitative assessment, the Company proceeded directly to performing a quantitative goodwill impairment test to measure the fair value of its reporting unit relative to its carrying amount.

Based on the results of the annual impairment test, the Company determined that the derived fair values of the reporting unit and indefinite-lived intangible asset exceeded their respective carrying values, which indicated no impairment as of the annual impairment date. Further, no triggering events have transpired since the performance of the quantitative assessment that would indicate a potential impairment during the fiscal year ended February 3, 2023. See Note 5 —"Goodwill and Intangible Assets" for further discussion.

*Business Combinations.* The Company accounts for business combinations under the acquisition method of accounting. This method requires the recording of acquired assets and assumed liabilities at their acquisition date fair values. The allocation of the purchase price in a business combination requires significant estimates to be made in determining the fair value of acquired assets and assumed liabilities, especially with respect to intangible assets. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. These estimates are based upon a number of factors, including historical experience, market conditions and information obtained from the management of the acquired company. Critical estimates in valuing certain intangible assets include, but are not limited to, cash flows that an asset is expected to generate in the future, discount rates and the profit margin a market participant would receive. Results of operations related to business combinations are included prospectively beginning with the date of acquisition and transaction costs related to business combinations are recorded within selling, general and administrative expenses in the Consolidated Statements of Operations. For more information, see Note 15 —"Business Combinations."

*Impairment of long-lived assets.* The Company evaluates all long-lived assets, other than goodwill, whenever events or circumstances change that indicate the asset's carrying value may no longer be recoverable. If impairment indicators exist, a test of recoverability is performed by comparing the sum of the estimated undiscounted future cash flows attributable to the asset's carrying value. Impairment analyses are performed at the asset group level. If the asset's carrying value is not recoverable, impairment is measured by determining the asset's fair value and recording any difference as an impairment loss. Long-lived assets subject to this policy include property, plant & equipment, definite-lived intangible assets and Right-of-use assets. An impairment loss of $4.0 million was recognized to the Company's right-of-use assets for the fiscal year ended February 3, 2023. No impairments were recognized in the fiscal years ended January 28, 2022 and January 29, 2021, respectively.

*Deferred Commissions and Deferred Fulfillment Costs.* The Company accounts for both costs to obtain a contract for a customer, which are defined as costs that the Company would not have incurred if the contract had not been obtained, and costs to fulfill a contract by capitalizing and systematically amortizing the assets on a basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. These costs generate or enhance resources used in satisfying performance obligations that directly relate to contracts. The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the incremental costs of obtaining contracts that the Company otherwise would have recognized is one year or less.

The Company's customer acquisition costs are primarily attributable to sales commissions and related fringe benefits earned by the Company's sales force and such costs are considered incremental costs to obtain a contract. Sales commissions for initial contracts are deferred and amortized taking into consideration the pattern of transfer to which assets relate and may include expected renewal periods where renewal commissions are not commensurate with the initial commission period. The Company recognizes deferred commissions on a straight-line basis over the life of the customer relationship (estimated to be six years) in sales and marketing expenses. These assets are classified as non-current and included in other non-current assets in the Consolidated Statements of Financial Position. As of February 3, 2023 and January 28, 2022, the amount of deferred commissions included in other non-current assets was $49.6 million and $54.0 million, respectively.

Additionally, the Company incurred certain costs to install and activate hardware and software related to its other managed security services, primarily associated with a portion of the compensation for the personnel who performed the installation activities. The Company made judgments regarding the fulfillment costs to be capitalized. Specifically, the Company capitalized direct labor and associated fringe benefits using standards developed from actual costs and applicable operational data. The Company updated the information quarterly for items such as the estimated amount of time required to perform such activity. The Company recognizes deferred fulfillment costs related to its other managed security services on a straight-line basis that is consistent with the transfer to the customer of the related goods and services (estimated to be four years) in cost of revenue. As of February 3, 2023 and January 28, 2022, the amount of deferred fulfillment costs included in other non-current assets was $3.2 million and $7.6 million, respectively.

*Foreign Currency Translation.* During the periods presented, Secureworks primarily operated in the United States. For the majority of the Company's international subsidiaries, the Company has determined that the functional currency of those subsidiaries is the local currency. Accordingly, assets and liabilities for these entities are translated at current exchange rates in effect at the balance sheet date. Revenue and expenses from these international subsidiaries are translated using the monthly average exchange rates in effect for the period in which the items occur. Foreign currency translation adjustments are included as a component of accumulated other comprehensive loss, while foreign currency transaction gains and losses are recognized in the Consolidated Statements of Operations within interest and other, net. These transaction gains (losses) totaled $0.8 million, $(3.4) million and $1.5 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively.

*Revenue Recognition.* Secureworks derives revenue primarily from subscription services and professional services. Subscription revenue is derived from (i) the Taegis software-as-a-service ("SaaS") security platform and (ii) managed security services. Professional services typically include incident response and security and risk consulting solutions.

As indicated above, the Company has one primary business activity, which is to provide customers with technology-driven information security 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, the Company is considered to be in a single reportable segment and operating unit structure.

Beginning in fiscal 2021, the Company began transitioning its subscription business to its Taegis subscription solutions from non-strategic other managed security subscription services. As part of the Company's ongoing transition, early in the fourth quarter of fiscal 2022, it informed customers that many of its other managed security subscription services would no longer be available for purchase effective as of the beginning of fiscal 2023, as many of those services offer a natural transition to its Taegis platform. Renewals associated with many of the Company's existing other managed security subscription services are not expected to extend beyond the end of fiscal 2023.

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

| | Fiscal Year Ended | | |
|---|---|---|---|
| | **February 3, 2023** | **January 28, 2022** | **January 29, 2021** |
| Net revenue: | | | |
| Taegis Subscription Solutions | $ 188,085 | $ 85,599 | $ 32,149 |
| Managed Security Services | 175,363 | 323,348 | 395,788 |
| Total Subscription revenue | 363,448 | 408,947 | 427,937 |
| Professional Services | 100,027 | 126,267 | 133,097 |
| Total net revenue | $ 463,475 | $ 535,214 | $ 561,034 |

*Taegis Subscription Solutions revenue for the fiscal year ended January 29, 2021 has been presented for consistency with current period presentation but was not separately disclosed in the annual filing for that period.*

Taegis is a cloud-native security software platform deployed as a subscription-based software-as-as-service ("SaaS"), and designed to unify detection and response across endpoint, network and cloud environments for better security outcomes and simpler security operations for customers. Taegis offerings currently include two applications, Extended Detection and Response ("XDR"), and Vulnerability Detection and Response ("VDR"). The two SaaS applications are separate performance obligations. They are promises that are both capable of being distinct and distinct within the context of the contract, primarily because they function independently and can be purchased separately from one another. Customers do not have the right to take possession of the software platform. Revenue for the SaaS applications is recognized on a straight-line basis over the term of the arrangement, beginning with provision of the tenant by grant of access to the software platform.

Customers also have the option to purchase an add-on managed service to supplement the XDR SaaS application, referred to as the Managed Detection and Response ("ManagedXDR") subscription service. The ManagedXDR service is identified as a distinct performance obligation that is separable from the SaaS application. While a customer must purchase and deploy the XDR software to gain any utility from the ManagedXDR service, a customer can purchase and benefit from using the XDR SaaS application on its own. In order to conclude that the two promises are not separately identifiable, the interrelationship/interdependence would most likely have to be reciprocal between the two separate offerings. The nature of the ManagedXDR service is to stand ready or deliver an unspecified quantity of services each day during the contract term, based on customer-specific needs. The ManagedXDR service period is contractually tied to the related software application, and as a stand-ready obligation will be recognized on a straight-line basis over the term of the arrangement.

Subscription-based managed security service arrangements typically include security services, up-front installation fees and maintenance, and also may include the provision of an associated hardware appliance. The Company uses its hardware appliances in providing security services required to access the Company's Counter Threat Platform. The arrangements that require hardware do not typically convey ownership of the appliance to the customer. Moreover, any related installation fees are non-refundable and are also incapable of being distinct within the context of the arrangement. Therefore, the Company has determined that these arrangements constitute a single performance obligation for which the revenue and any related costs are recognized over the term of the arrangement ratably, which reflects the Company's performance in transferring control of the services to the customer.

Amounts that have been invoiced for the managed security service subscription arrangements and the Taegis SaaS application offerings where the relevant revenue recognition criteria have not been met will be included in deferred revenue.

Professional services consist primarily of fixed-fee and retainer-based contracts. Revenue from these engagements is recognized using an input method over the contract term.

The Company reports revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on, and concurrently with, specific revenue-producing transactions.

The Company recognizes revenue when all of the following criteria are met:

- ***Identification of the contract, or contracts, with a customer***—A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer, (ii) the contract has commercial substance and the parties are committed to perform, and (iii) payment terms can be identified and collection of substantially all consideration to which the Company will be entitled in exchange for goods or services that will be transferred is deemed probable based on the customer's intent and ability to pay. Contracts entered into for professional services and subscription-based solutions near or at the same time are generally not combined as a single contract for accounting purposes, since neither the pricing nor the services are interrelated.
- ***Identification of the performance obligations in the contract***—Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both (i) capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from the Company, and (ii) distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. When promised goods or services are incapable of being distinct, the Company accounts for them as a combined performance obligation. With regard to a typical contract for subscription-based managed security services, the performance obligation represents a series of distinct services that will be accounted for as a single performance obligation. For a typical contract that includes subscription-based SaaS applications, each is generally considered to be distinct and accounted for as separate performance obligations. In a typical professional services contract, Secureworks has a separate performance obligation associated with each service. The Company generally acts as a principal when delivering either the subscription-based solutions or the professional services arrangement and, thus, recognizes revenue on a gross basis.
- ***Determination of the transaction price***—The total transaction price is primarily fixed in nature as the consideration is tied to the specific services purchased by the customer, which constitutes a series for delivery of the solutions over the duration of the contract for the Company's subscription services. For professional services contracts, variable consideration exists in the form of rescheduling penalties and expense reimbursements; no estimation is required at contract inception, since variable consideration is allocated to the applicable period.
- ***Allocation of the transaction price to the performance obligations in the contract***—The Company allocates the transaction price to each performance obligation based on the performance obligation's standalone selling price. Standalone selling price is determined by considering all information available to the Company, such as historical selling prices of the performance obligation, geographic location, overall strategic pricing objective, market conditions and internally approved pricing guidelines related to the performance obligations.

- ***Recognition of revenue when, or as, the Company satisfies performance obligation*****—**The Company recognizes revenue over time on a ratable recognition basis using a time-elapsed output method to measure progress for all subscription-based performance obligations, including managed security services and SaaS applications, over the contract term. For any upgraded installation services which the Company has determined represent a performance obligation separate from its subscription-based arrangements, revenue is recognized over time using hours elapsed over the service term as an appropriate method to measure progress. For the performance obligation pertaining to professional services arrangements, the Company recognizes revenue over time using an input method based on time (hours or days) incurred to measure progress over the contract term.

*Deferred Revenue (Contract Liabilities).* Deferred revenue represents amounts contractually billed to customers or payments received from customers for which revenue has not yet been recognized. Deferred revenue that is expected to be recognized as revenue within one year is recorded as short-term deferred revenue and the remaining portion is recorded as long-term deferred revenue.

The Company has determined that its contracts generally do not include a significant financing component. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing its solutions, not to receive financing from customers or to provide customers with financing. Examples of such terms include invoicing at the beginning of a subscription term with revenue recognized ratably over the contract period.

*Cost of Revenue.* Cost of revenue consists primarily of compensation and related expenses, including salaries, benefits and performance-based compensation for employees who maintain the Counter Threat Platform and provide support services to customers, as well as perform other critical functions. Other expenses include depreciation of equipment and costs associated with maintenance agreements for hardware provided to customers as part of their subscription-based solutions. In addition, cost of revenue includes amortization of technology licensing fees and external software development costs capitalized, fees paid to contractors who supplement or support solutions offerings, maintenance fees and overhead allocations.

*Research and Development Costs.* Research and development costs are expensed as incurred. Research and development expenses include compensation and related expenses for the continued development of solutions offerings, including a portion of expenses related to the threat research team, which focuses on the identification of system vulnerabilities, data forensics and malware analysis and product management. In addition, expenses related to the development and prototype of new solutions offerings also are included in research and development costs, as well as allocated overhead. The Company's solutions offerings have generally been developed internally.

*Sales and Marketing.* Sales and marketing expense consists of compensation and related expenses that include salaries, benefits, and performance-based compensation (including sales commissions and related expenses for sales and marketing personnel), marketing and advertising programs, such as lead generation, customer advocacy events, other brand-building expenses and allocated overhead. Advertising costs are expensed as incurred and were $42.8 million, $25.2 million and $19.2 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively.

*General, and Administrative.* General and administrative expense primarily includes the costs of human resources and recruiting, finance and accounting, legal support, management information systems and information security systems, facilities management and other administrative functions, offset by allocations of information technology and facilities costs to other functions.

*Software Development Costs.* Qualifying software costs developed for internal use are capitalized when application development begins, it is probable that the project will be completed, and the software will be used as intended. In order to expedite delivery of the Company's security solutions, the application stage typically commences before the preliminary development stage is completed. Accordingly, no significant internal-use software development costs have been capitalized during any period presented.

The Company capitalizes development costs associated with software and applications to be sold, leased or otherwise marketed after technological feasibility of the software or application is established. Under the Company's current practice of developing new software, the technological feasibility of the underlying software or application is not established until substantially all product development and testing is complete, which generally includes the development of a working model. Software development costs associated with software and applications to be sold, leased or otherwise marketed that have been capitalized to date total approximately $3.7 million for the fiscal year ended February 3, 2023.

*Income Taxes.* Current income tax expense is the amount of income taxes expected to be payable for the current year. Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statement of Operations in the period that includes the enactment date. The Company calculates a provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. The Company accounts for the tax impact of including Global Intangible Low Tax Income (“GILTI”) in U.S. taxable income as a period cost. The Company provides valuation allowances for deferred tax assets, where appropriate. In assessing the need for a valuation allowance, the Company considers all available evidence for each jurisdiction, including past operating results, estimates of future taxable income, and the feasibility of ongoing tax planning strategies. In the event the Company determines all or part of the net deferred tax assets are not realizable in the future, it will make an adjustment to the valuation allowance that would be charged to earnings in the period in which such determination is made.

The accounting guidance for uncertainties in income tax prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company recognizes a tax benefit from an uncertain tax position in the financial statements only when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits and a consideration of the relevant taxing authority’s administrative practices and precedents.

During the periods presented in the financial statements, the Company did not file separate federal tax returns, as the Company was generally 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 or as realizable by the Company when those attributes are utilized or expected to be utilized by other members of the Dell consolidated group.

*Stock-Based Compensation.* The Company’s compensation programs include grants under the SecureWorks Corp. 2016 Long-Term Incentive Plan and, prior to the IPO date, grants under share-based payment plans of Dell Technologies. Under the plans, the Company, and prior to the IPO, Dell Technologies, have granted stock options, restricted stock awards and restricted stock units. Compensation expense related to stock-based transactions is measured and recognized in the financial statements based on grant date fair value. Fair value for restricted stock awards and restricted stock units under the Company’s plan is based on the closing price of the Company’s Class A common stock as reported on the Nasdaq Global Select Market on the day of the grant. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model and a single option award approach. This model requires that at the date of grant the Company must determine the fair value of the underlying Class A common stock, the expected term of the award, the expected volatility, risk-free interest rates and expected dividend yield. The Company’s annual grant of restricted stock and restricted stock units issued during the fiscal year ended February 3, 2023 vest over an average service period of three years and approximately 16% of such awards are subject to performance conditions. Stock-based compensation expense with respect to service-based awards is adjusted for forfeitures, and recognized using a straight-line basis over the requisite service periods of the awards, which is generally three to four years. Stock-based compensation expense with respect to performance awards is adjusted for forfeitures and performance criteria, and recognized on a graded vesting basis. The Company estimates a forfeiture rate, based on an analysis of actual historical forfeitures, to calculate stock-based compensation expense.

*Loss Contingencies.* Secureworks is subject to the possibility of various losses arising in the ordinary course of business. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Company regularly evaluates current information available to determine whether such accruals should be adjusted and whether new accruals are required. See “Note 7–Commitments and Contingencies” for more information about loss contingencies.

***Recently Adopted Accounting Pronouncements***

*Business Combinations* – The Company has adopted Accounting Standard Update ("ASU") 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers." The guidance requires contract assets and contract liabilities (i.e., deferred revenue) acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC 606, "Revenue from Contracts with Customers." ASU 2021-08 was effective for the Company beginning on January 29, 2022. There was no impact to the Company's consolidated financial statements as a result of adoption of this standard update.

*Debt* - The Company has adopted Accounting Standard Update ("ASU") 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships, and other transactions, subject to meeting certain criteria, that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 was effective for the Company beginning on March 12, 2020 and the Company will apply the amendments prospectively through February 3, 2023. There was no impact to the Company's consolidated financial statements as a result of adoption of this standard update.

*Income Taxes* - The Company has adopted ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," effective February 1, 2021. ASU No. 2019-12 simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and allocation of consolidated income taxes to separate financial statements of entities not subject to income tax. The adoption of the standard had no material impact on the Company's consolidated financial statements.

## NOTE 3 — 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 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 unvested restricted common stock 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):

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| Numerator: | | | |
| Net loss | $ (114,499) | $ (39,791) | $ (21,902) |
| Denominator: | | | |
| Weighted-average number of shares outstanding: | | | |
| Basic and Diluted | 84,389 | 82,916 | 81,358 |
| Loss per common share: | | | |
| Basic and Diluted | $ (1.36) | $ (0.48) | $ (0.27) |
| Weighted-average anti-dilutive stock options, non-vested restricted stock and restricted stock units | 6,039 | 5,020 | 6,347 |

## NOTE 4 — CONTRACT BALANCES AND CONTRACT COSTS

Promises to provide the Company's subscription-based solutions related to SaaS applications are accounted for as separate performance obligations and managed security services are accounted for as a single performance obligation. Our subscription-based solutions have an average contract term of approximately two years as of February 3, 2023. Performance obligations related to the Company's security and risk consulting professional service contracts are separate obligations associated with each service. Although the Company has many multi-year customer relationships for its 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 fiscal year ended February 3, 2023, on average, 63% of the Company's recurring revenue was billed annually in advance and approximately 37% 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, invoice duration and invoice timing.

Changes to the Company's deferred revenue during the fiscal years ended February 3, 2023 and January 28, 2022 are as follows (in thousands):

| | As of January 28, 2022 | Upfront payments received and billings during the fiscal year ended February 3, 2023 | Revenue recognized during the fiscal year ended February 3, 2023 | As of February 3, 2023 |
|---|---|---|---|---|
| Deferred revenue | $ 176,068 | $ 220,063 | $ (239,799) | $ 156,332 |

| | As of January 29, 2021 | Upfront payments received and billings during the fiscal year ended January 28, 2022 | Revenue recognized during the fiscal year ended January 28, 2022 | As of January 28, 2022 |
|---|---|---|---|---|
| Deferred revenue | $ 178,027 | $ 265,977 | $ (267,936) | $ 176,068 |

***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 will 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 ("active"); and (ii) the value of subscription-based solutions contracted with customers that have not yet been installed ("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 ASC 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 February 3, 2023, 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 | $ 266,822 | $ 139,083 | $ 94,234 | $ 32,853 | $ 652 |
| Performance obligation - backlog | 3,275 | 1,128 | 1,099 | 1,048 | — |
| Total | $ 270,097 | $ 140,211 | $ 95,333 | $ 33,901 | $ 652 |

***Deferred Commissions and Fulfillment Costs***

The Company capitalizes a significant portion of its commission expense and related fringe benefits earned by its sales personnel. Additionally, the Company capitalizes 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 are 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 fiscal years ended February 3, 2023 and January 28, 2022 are as follows (in thousands):

| | As of January 28, 2022 | Amount capitalized | Amount expensed | As of February 3, 2023 |
|---|---|---|---|---|
| Deferred commissions | $ 53,978 | $ 13,790 | $ (18,203) | $ 49,565 |
| Deferred fulfillment costs | 7,597 | 408 | (4,773) | 3,232 |

| | As of January 29, 2021 | Amount capitalized | Amount expensed | As of January 28, 2022 |
|---|---|---|---|---|
| Deferred commissions | $ 57,888 | $ 15,420 | $ (19,330) | $ 53,978 |
| Deferred fulfillment costs | 11,009 | 1,774 | (5,186) | 7,597 |

As referenced in "Note 2 — Significant Accounting Policies," deferred commissions are recognized on a straight-line basis over the life of the customer relationship, which has a current estimated life of six years, while deferred fulfillment costs are recognized over the device service life estimated at four years. 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. The Company evaluated these deferred costs as part of a broader asset group for impairment and potential changes to their estimated lives. The Company did not record any impairment losses on the deferred commissions or deferred fulfillment costs, nor did it identify any material change to the expense recognition pattern during the fiscal year ended February 3, 2023.

## NOTE 5 — 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 $0.4 million due to foreign currency translation for the fiscal year ended February 3, 2023, as compared to the fiscal year ended January 28, 2022. Accordingly, goodwill totaled $425.5 million as of February 3, 2023 and $425.9 million as of January 28, 2022.

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 2023 by assessing 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 determined it has one reporting unit.

For the annual impairment review in the third quarter of fiscal 2023, the Company elected to bypass the assessment of qualitative factors to determine whether it was more likely than not that the fair value of its reporting unit was less than its carrying amount, including goodwill. In electing to bypass the qualitative assessment, the Company proceeded directly to performing a quantitative analysis to determine the fair value of its reporting unit relative to its carrying amount, as well as its indefinite-lived trade name asset at the individual asset level, to determine the amount of impairment loss to be recognized, if any.

The fair value of the reporting unit is generally estimated using a combination of public company multiples and discounted cash flow methodologies. The discounted cash flow and public company multiples methodologies require significant judgment, including estimation of future revenues, gross margins, and operating expenses, which are dependent on internal forecasts, current and anticipated economic conditions and trends, selection of market multiples through assessment of the reporting unit's performance relative to peer competitors, the estimation of the long-term revenue growth rate and discount rate of the Company's business, and the determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the fair value of the reporting unit, potentially resulting in a non-cash impairment charge.

The fair value of the indefinite-lived trade names is generally estimated using discounted cash flow methodologies. The discounted cash flow methodology requires significant judgment, including estimation of future revenue, the estimation of the long-term revenue growth rate of the Company's business and the determination of the Company's weighted average cost of capital and royalty rates. Changes in these estimates and assumptions could materially affect the fair value of the indefinite-lived intangible assets, potentially resulting in a non-cash impairment charge.

Based on the results of the annual impairment test, the Company determined that the derived fair values of the reporting unit and indefinite-lived intangible asset exceeded their respective carrying values, which indicated no impairment as of the annual impairment date. Further, no triggering events have transpired since the performance of the quantitative assessment that would indicate a potential impairment during the fiscal year ended February 3, 2023.

*Intangible Assets*

The Company's intangible assets at February 3, 2023 and January 28, 2022 were as follows:

| | February 3, 2023 | | | January 28, 2022 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| | (in thousands) | | | | | |
| Customer relationships | $ 189,518 | $ (133,530) | $ 55,988 | $ 189,518 | $ (119,435) | $ 70,083 |
| Acquired Technology | 141,784 | (128,612) | 13,172 | 141,784 | (113,937) | 27,847 |
| Developed Technology | 11,827 | (4,897) | 6,930 | 8,123 | (2,439) | 5,684 |
| Finite-lived intangible assets | 343,129 | (267,039) | 76,090 | 339,425 | (235,811) | 103,614 |
| Trade name | 30,118 | — | 30,118 | 30,118 | — | 30,118 |
| Total intangible assets | $ 373,247 | $ (267,039) | $ 106,208 | $ 369,543 | $ (235,811) | $ 133,732 |

Amortization expense related to finite-lived intangible assets was approximately $31.2 million, $30.2 million and $28.7 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively. Amortization expense is included within cost of revenue and general and administrative expenses in the Consolidated Statement of Operations. There were no impairment charges related to intangible assets during the past three fiscal years.

Estimated future amortization expense of finite-lived intangible assets as of February 3, 2023 over the next five years and thereafter is as follow (in thousands):

| Fiscal Years Ending | February 3, 2023 |
|---|---|
| 2024 | $ 27,772 |
| 2025 | 17,672 |
| 2026 | 16,167 |
| 2027 | 14,479 |
| 2028 | — |
| Thereafter | — |
| Total | $ 76,090 |

## NOTE 6 — DEBT

### Revolving Credit Facility

SecureWorks, Inc., a wholly-owned subsidiary of SecureWorks Corp., is party to a revolving credit agreement with a wholly-owned subsidiary of Dell Inc. under which the Company obtained a $30 million senior, unsecured revolving credit facility. Effective March 24, 2023, the revolving credit agreement was amended and restated to extend the maturity date from March 23, 2023 to March 24, 2024 and to modify the annual rate at which interest accrues to the applicable SOFR rate plus 1.15%. The amended and restated revolving credit agreement otherwise has terms substantially similar to those of the facility before the amendment and restatement. See “Note 16 - Subsequent Events.”

Under the facility, up to $30 million principal amount of borrowings may be outstanding at any time. 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 as of February 3, 2023 or January 28, 2022, and there were no amounts borrowed under the credit facility during the fiscal years ended February 3, 2023 or January 28, 2022.

The maximum amount of borrowings may be increased by up to an additional $30 million by mutual agreement of the lender and borrower. 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.

## NOTE 7 — COMMITMENTS AND CONTINGENCIES

*Purchase Obligations* —The Company had various purchase obligations at February 3, 2023 over a period of approximately four years with vendors or contractors, subject to the Company's operational needs. As of February 3, 2023, the purchase obligations (in thousands) are as follows:

| Fiscal Years Ending | Payments Due For Purchase Obligations | |
|---|---|---|
| 2024 | $ | 47,061 |
| 2025 | | 38,467 |
| 2026 | | 40,308 |
| 2027 | | 44,000 |
| 2028 | | — |
| 2029 and beyond | | — |
| Total | $ | 169,836 |

*Legal Contingencies* — From time to time, the Company is 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 that 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 number of factors, including the nature, timing and amount of any associated expenses, amounts paid in settlement, damages or other remedies or consequences. To the extent new information is obtained and the Company's views on the probable outcomes of claims, suits, assessments, investigations or legal proceedings change, changes in accrued liabilities would be recorded in the period in which such a determination is made. As of February 3, 2023, 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 Contingencie*s—Various government entities ("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 February 3, 2023, the Company is under audit with various state taxing authorities in which rulings related to the taxability of certain of its services are pending. During fiscal 2023, the Company paid $2.6 million related to such matters. As of February 3, 2023, the Company had recorded an estimated liability in the amount of $8.3 million related to such matters. The Company will continue to appeal 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, as well as additional taxes for periods subsequent to the tax audit period, including penalties and interest. While Dell does provide an indemnification for certain state tax issues for tax periods prior to August 1, 2015, such indemnification would not cover a material portion of the current estimated liability.

*Indemnifications* — 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 as to 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.

*Concentrations* — The Company sells solutions to customers of all sizes primarily through its sales organization, supplemented by sales through partners. During the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, the Company had no customer that represented 10% or more of its net revenue during any such fiscal year.

## NOTE 8 — LEASES

The Company recorded operating lease cost for facilities of approximately $5.2 million and $5.4 million for the fiscal years ended February 3, 2023 and January 28, 2022, respectively. For the fiscal years ended February 3, 2023 and January 28, 2022, operating lease cost included expenses in connection with variable lease costs of $0.6 million and $0.3 million, respectively, which primarily consisted of utilities and common area charges.

For the fiscal years ended February 3, 2023 and January 28, 2022, the Company recorded operating lease costs of equipment leases of approximately $0.0 million and $0.3 million, respectively. For the fiscal years ended February 3, 2023 and January 28, 2022, equipment leases included short-term lease costs of $0.0 million and $0.3 million, respectively. Lease expense for equipment was included in cost of revenues.

Cash paid for amounts included in the measurement of operating lease liabilities was $5.9 million and $6.9 million during the fiscal years ended February 3, 2023 and January 28, 2022, respectively.

As part of the Company's plan to align its investments more closely with its strategic priorities to meet the expected future needs of the business, an impairment loss of $4.0 million was recorded to one of its right-of-use assets for the fiscal year ended February 3, 2023. During this fiscal quarter, the Company ceased use of corporate office space on February 3, 2023 as a part of its real estate-related cost optimization actions. The asset impaired 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. An additional $0.5 million of expenses were incurred in fiscal 2023 associated with the real estate-related cost optimization actions taken by the Company.

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

| | February 3, 2023 |
|---|---|
| Weighted-average remaining lease term | 3.6 years |
| Weighted-average discount rate | 5.38 % |

The following table summarizes the maturity of the Company's operating lease liabilities as of February 3, 2023 (in thousands):

| Fiscal Years Ending | | February 3, 2023 |
|---|---|---|
| 2024 | $ | 5,321 |
| 2025 | | 5,095 |
| 2026 | | 4,526 |
| 2027 | | 4,088 |
| 2028 | | — |
| Thereafter | | — |
| Total operating lease payments | $ | 19,030 |
| Less imputed interest | | 1,652 |
| Total operating lease liabilities | $ | 17,378 |

The Company's leases have remaining lease terms of 1.5 years to 3.9 years, inclusive of renewal or termination options that the Company is reasonably certain to exercise.

## NOTE 9 — STOCKHOLDERS' EQUITY

On September 26, 2018, the Company's board of directors authorized a stock repurchase program, under which the Company was authorized to repurchase up to $15 million of the Company's Class A common stock through September 30, 2019. On March 26, 2019, the board of directors expanded the repurchase program to authorize the repurchase up to an additional $15 million of the Company's Class A common stock through May 1, 2020, on which date the program terminated. No shares of Class A common stock were repurchased during the fiscal years ended January 28, 2022 and February 3, 2023.

## NOTE 10 — STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLAN

In connection with the IPO, the Company's board of directors adopted the SecureWorks Corp. 2016 Long-Term Incentive Plan (the "2016 Plan"). The 2016 Plan became effective on April 18, 2016, and will expire on the tenth anniversary of the effective date unless the 2016 Plan is terminated earlier by the board of directors or in connection with a change in control of SecureWorks Corp. The Company has reserved 17,500,000 shares of Class A common stock for issuance pursuant to awards under the 2016 Plan. The 2016 Plan provides for the grant 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. 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. The Company utilizes both authorized and unissued shares to satisfy all shares issued under the 2016 Plan. During fiscal 2022, the 2016 Plan was amended to increase the total shares of Class A common stock available for issuance by an additional 5,000,000 shares. As of February 3, 2023, there were approximately 2,435,679 shares of Class A common stock available for future grants under the 2016 Plan.

### *Stock Options*

Under the 2016 Plan, the exercise price of each option will be determined by the compensation committee, except that the exercise price may not be less than 100% (or, for incentive stock options to any 10% stockholder, 110%) of the fair market value of a share of Class A common stock on the date on which the option is granted. The term of an option may not exceed ten years (or, for incentive stock options to any 10% stockholder, five years) from the date of grant. The compensation committee will determine the time or times at which each option may be exercised and the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised. Options may be made exercisable in installments, and the exercisability of options may be accelerated by the compensation committee.

During the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, no stock options were granted to employees or directors. The Company recognized zero, $0.2 million and $1.4 million in compensation expense for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively, for previously granted options.

The fair value of stock options is estimated as of the date of the grant using the Black-Scholes option pricing model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. The expected term was estimated using the SEC simplified method. The risk-free interest rate is the continuously compounded, term-matching, zero-coupon rate from the valuation date. The volatility is the leverage-adjusted, term-matching, historical volatility of peer firms. The dividend yield assumption is consistent with management expectations of dividend distributions based upon the Company's business plan at the date of grant.

The following table summarizes stock option activity and options outstanding and exercisable for the fiscal years ended, and as of, February 3, 2023, January 28, 2022 and January 29, 2021.

| | Number of Options | Weighted-Average Exercise Price Per Share | Weighted-Average Contractual Life (years) | Weighted-Average Grant date Fair Value Per Share | Aggregate Intrinsic Value[1] (in thousands) |
|---|---|---|---|---|---|
| Balance, January 31, 2020 | 2,247,997 | $ 14.00 | | | |
| Granted | — | — | | | |
| Exercised | (104,921) | 14.00 | | | |
| Canceled, expired or forfeited | (367,511) | 14.00 | | | |
| Balance, January 29, 2021 | 1,775,565 | $ 14.00 | | | |
| Granted | — | — | | | |
| Exercised | (1,417,105) | 14.00 | | | |
| Canceled, expired or forfeited | (196,535) | 14.00 | | | |
| Balance, January 28, 2022 | 161,925 | $ 14.00 | | | |
| Granted | — | — | | | |
| Exercised | — | 14.00 | | | |
| Canceled, expired or forfeited | — | 14.00 | | | |
| Balance, February 3, 2023 | 161,925 | $ 14.00 | 3.3 | $ 6.17 | $ — |
| Options vested and expected to vest, February 3, 2023 | 161,925 | $ 14.00 | 3.3 | $ 6.17 | $ — |
| Options exercisable, February 3, 2023 | 161,925 | $ 14.00 | 3.3 | $ 6.17 | $ — |

(1) The aggregate intrinsic values represent the total pre-tax intrinsic values based on the Company's closing share price of $8.52 as reported on the Nasdaq Global Select Market on February 3, 2023, that would have been received by the option holders had all in-the-money options been exercised as of that date.

The total fair value of options vested was zero, $1.1 million and $2.6 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively. At February 3, 2023, there was no remaining unrecognized stock-based compensation expense related to stock options as all stock options outstanding are exercisable.

In connection with the acquisition of Dell by Dell Technologies in 2013, the Company's compensation programs included grants under the Dell Technologies Inc. 2013 Stock Incentive Plan (the "2013 Plan"). Under the 2013 Plan, time-based and performance-based options to purchase shares of the Series C common stock of Dell Technologies were awarded to two of the Company's executive officers. Upon the closing of the Company's IPO, all unvested time-based awards were forfeited and 32,000 vested time-based stock options remained outstanding and 400,001 performance-based options remained unvested and outstanding subject to award terms. During the fiscal year ended January 29, 2021, 332,001 options were exercised with a pre-tax intrinsic value of $16.1 million. Cash proceeds received by Dell Technologies from the exercise of these stock options were $4.6 million and the tax benefit realized was $3.9 million for the fiscal year ended January 29, 2021. During the fiscal year ended January 28, 2022, 10,000 options were exercised with a pre-tax intrinsic value of $1.0 million. Cash proceeds received by Dell Technologies from the exercise of these stock options were $0.1 million and the tax benefit realized was $0.2 million for the fiscal year ended January 28, 2022. As of January 28, 2022, there were no stock options outstanding.

***Restricted Stock and Restricted Stock Units***

Under the 2016 Plan, a restricted stock award ("RSA") is an award of shares of Class A common stock that may be subject to restrictions on transferability and other restrictions as the compensation committee determines in its sole discretion on the date of grant. The restrictions, if any, may lapse over a specified period of time or through the satisfaction of conditions, in installments or otherwise as the Company's compensation committee may determine. Unless otherwise provided in an award agreement, a grantee who receives restricted stock will have all of the rights of a stockholder as to those shares, including, without limitation, the right to vote and the right to receive dividends or distributions on the shares of Class A common stock, except that the compensation committee may require any dividends to be withheld and accumulated contingent on vesting of the underlying shares or reinvested in shares of restricted stock.

Under the 2016 Plan, a restricted stock unit ("RSU") represents the grantee's right to receive a compensation amount, based on the value of the shares of Class A common stock, if vesting criteria or other terms and conditions established by the compensation committee are met. If the vesting criteria or other terms and conditions are met, the Company may settle, subject to the terms and conditions of the applicable award agreement, restricted stock units in cash, shares of Class A common stock or a combination of the two. All award agreements currently outstanding require settlement in shares of Class A common stock.

During the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 the Company issued restricted stock awards and restricted stock units to employees at weighted-average fair values per share of $12.88, $19.81 and $11.60, respectively. The Company's annual grants of RSAs and RSUs issued during the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 vest ratably over three years. Approximately 16%, 26%, and 15% of such awards were subject to performance conditions for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively. Of the 5.3 million RSUs outstanding on February 3, 2023, approximately 0.9 million were performance-based awards and 4.4 million were service-based awards. For the fiscal year ended February 3, 2023, approximately 34,777 shares were forfeited for the performance-based awards that were tied to results for that fiscal year.

As of February 3, 2023, unrecognized stock-based compensation expense related to restricted stock awards and restricted stock units was $37.8 million, which is expected to be recognized over the weighted-average remaining requisite period of 1.8 years. The following table summarizes activity for restricted stock and restricted stock units for the fiscal years ended, and as of, February 3, 2023, January 28, 2022 and January 29, 2021.

| | Number of Shares | Weighted-Average Grant Date Fair Value Per Share | Weighted-Average Contractual Life (years) | Aggregate Intrinsic Value[1] |
|---|---|---|---|---|
| | | | | (in thousands) |
| Balance, January 31, 2020 | 3,062,617 | $ 14.32 | | |
| Granted | 3,334,932 | 11.60 | | |
| Vested | (1,441,689) | 13.51 | | |
| Forfeited | (442,767) | 13.11 | | |
| Balance, January 29, 2021 | 4,513,093 | $ 12.68 | | |
| Granted | 3,119,246 | 19.81 | | |
| Vested | (1,894,276) | 12.71 | | |
| Forfeited | (1,039,567) | 16.69 | | |
| Balance, January 28, 2022 | 4,698,496 | $ 16.52 | | |
| Granted | 4,250,300 | 12.88 | | |
| Vested | (2,060,611) | 15.93 | | |
| Forfeited | (1,600,683) | 14.91 | | |
| Balance, February 3, 2023 | 5,287,502 | $ 14.27 | 1.0 | $ 45,023 |
| Restricted stock and restricted stock units expected to vest, February 3, 2023 | 4,747,633 | $ 14.31 | 1.0 | $ 40,426 |

(1) The aggregate intrinsic values represent the total pre-tax intrinsic values based on the Company's closing share price of $8.52 as reported on the Nasdaq Global Select Market on February 3, 2023, that would have been received by the restricted stock and restricted stock unit holders had all restricted stock and restricted stock units been issued as of that date.

As of February 3, 2023, restricted stock units representing approximately 5.3 million shares of Class A common stock were outstanding, with an aggregate intrinsic value of $45.0 million based on the Company's closing stock price as reported on the Nasdaq Global Select Market on February 3, 2023. The total fair value of Secureworks' restricted stock and restricted stock units that vested during the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 was $32.8 million, $24.1 million and $19.5 million, respectively, and the pre-tax intrinsic value was $24.9 million, $29.2 million and $17.6 million respectively.

***Stock-based Compensation Expense***

The following table summarizes the classification of stock-based compensation expense related to stock options, restricted stock and restricted stock units for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021.

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| | | (in thousands) | |
| Cost of revenue: | | | |
| Subscription | $ 642 | $ 218 | $ 666 |
| Professional services | 1,358 | 905 | 680 |
| Total cost of revenue | $ 2,000 | $ 1,123 | $ 1,346 |
| Research and development | 11,589 | 7,220 | 4,410 |
| Sales and marketing | 6,568 | 4,065 | 3,676 |
| General and administrative | 16,698 | 18,038 | 14,982 |
| Total stock-based compensation expense | $ 36,855 | $ 30,446 | $ 24,414 |

The tax benefit related to stock-based compensation expense was $6.2 million, $4.2 million and $4.1 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 respectively.

***Long-term Incentive Cash Awards***

In March 2017, the Company began granting long-term cash awards to certain employees. Generally, employees who receive the cash awards did not receive equity awards as part of the long-term incentive program. The majority of the cash awards issued prior to the fiscal year ended January 29, 2021 are subject to various performance conditions and vest in equal annual installments over a three-year period. The cash awards issued during the fiscal year ended February 3, 2023 and January 28, 2022 are not subject to any performance conditions and vest in equal installments over a three-year period. For the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, the Company granted awards of approximately $0.1 million, $9.1 million and $8.7 million, respectively, and recognized $4.6 million, $6.4 million and $7.0 million of related compensation expense, respectively.

***Employee Benefit Plan***

Substantially all employees are eligible to participate in a defined contribution plan that complies with Section 401(k) of the Internal Revenue Code ("401(k) Plan"). Historically, and through May 31, 2020, the Company matched 100% of each participant's voluntary contributions ("401(k) employer match"), subject to a maximum contribution of 6% of the participant's compensation, up to an annual limit of $7,500, and participants vest immediately in all contributions to the 401(k) Plan. Effective June 1, 2020, the Company suspended the 401(k) employer match as a precautionary measure to preserve financial flexibility in light of COVID-19. Effective January 1, 2021, the 401(k) employer match was reinstated, with no changes to the employer match policy or participant eligibility requirements. For the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, total expense under this plan was $9.8 million, $10.1 million and $6.7 million, respectively.

## NOTE 11 — INCOME AND OTHER TAXES

The Company's loss before income taxes and income tax benefit (in thousands) and effective income tax rate for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 were as follows:

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| Loss before income taxes | $ (146,781) | $ (55,906) | $ (31,801) |
| Income tax benefit | $ (32,282) | $ (16,115) | $ (9,899) |
| Effective tax rate | 22.0 % | 28.8 % | 31.1 % |

During the periods presented in the accompanying Consolidated Financial Statements, 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 ("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.

The change in the Company's effective income tax rate for the fiscal years ended February 3, 2023 and January 28, 2022 was primarily attributable to the impact of certain nondeductible items related to the vesting of stock-based compensation units, and the recognition of additional benefits relating to the research and development credits. The change in the Company's effective income tax rate for the fiscal years ended January 28, 2022 and January 29, 2021 was primarily attributable to the improvement in loss before income taxes, the impact of certain nondeductible items related to the vesting of stock-based compensation, and the recognition of additional benefits from the utilization of state net operating losses.

Throughout the fiscal year ended February 3, 2023, the U.S. Department of the Treasury and Internal Revenue Service issued preliminary and final regulatory guidance clarifying certain provisions of the Tax Cuts and Jobs Act of 2017, and the Company anticipates additional regulatory guidance and technical clarifications to be issued. When additional guidance and technical clarifications are issued, the Company will recognize the related tax impact in the quarter in which such guidance is issued. The GILTI provisions of the Act signed into law on December 22, 2017 require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The Company has elected to account for GILTI as a current period cost included in the year incurred.

A reconciliation of the Company's benefit from income taxes to the statutory U.S. federal tax rate is as follows:

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| U.S. federal statutory rate | 21.0 % | 21.0 % | 21.0 % |
| Impact of foreign operations | (0.7) | (1.8) | (2.3) |
| State income taxes, net of federal tax benefit | 2.5 | 4.3 | 8.9 |
| Research and development credits | 2.4 | 8.8 | 7.2 |
| Nondeductible/nontaxable items | (0.7) | 0.3 | (3.0) |
| Stock-based compensation | (2.5) | (3.8) | (0.7) |
| Total | 22.0 % | 28.8 % | 31.1 % |

The benefit for income taxes consists of the following:

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| | (in thousands) | | |
| *Current:* | | | |
| Federal | $ (1,904) | $ (10,076) | $ 1,543 |
| State/Local | 688 | (2,603) | (3,755) |
| Foreign | 1,685 | 2,364 | 1,906 |
| Current | $ 469 | $ (10,315) | $ (306) |
| *Deferred:* | | | |
| Federal | (28,241) | (4,869) | (9,345) |
| State/Local | (4,257) | (328) | 137 |
| Foreign | (253) | (603) | (385) |
| Deferred | $ (32,751) | $ (5,800) | $ (9,593) |
| Income tax benefit | $ (32,282) | $ (16,115) | $ (9,899) |

Loss before provision for income taxes consists of the following:

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| | (in thousands) | | |
| Domestic | $ (154,426) | $ (59,541) | $ (35,064) |
| Foreign | 7,645 | 3,635 | 3,263 |
| Loss before income taxes | $ (146,781) | $ (55,906) | $ (31,801) |

The components of the Company's net deferred tax balances are as follows:

| | February 3, 2023 | January 28, 2022 |
|---|---|---|
| | (in thousands) | |
| *Deferred tax assets:* | | |
| Deferred revenue | $ 3,158 | $ 2,373 |
| Provision for credit losses | 523 | 689 |
| Credit carryforwards | 534 | 4,601 |
| Loss carryforwards | 5,717 | 5,632 |
| Stock-based and deferred compensation | 5,896 | 5,084 |
| Lease right-of-use asset | 3,525 | 4,406 |
| Capitalized research and development | 27,482 | — |
| Other | 3,881 | 3,966 |
| Deferred tax assets | $ 50,716 | $ 26,751 |
| Valuation allowance | (5,824) | (5,533) |
| Deferred tax assets, net of valuation allowance | $ 44,892 | $ 21,218 |
| *Deferred tax liabilities:* | | |
| Property and equipment | (325) | (823) |
| Purchased intangible assets | (25,848) | (32,082) |
| Operating and compensation related accruals | (10,821) | (13,201) |
| Lease liability | (1,613) | (3,220) |
| Other | (2,347) | (1,480) |
| Deferred tax liabilities | $ (40,954) | $ (50,806) |
| Net deferred tax asset (liabilities) | $ 3,938 | $ (29,588) |

Net deferred tax balances are included in other non-current assets and other non-current liabilities in the Consolidated Statements of Financial Position.

As of February 3, 2023 and January 28, 2022, the Company had $5.8 million and $5.5 million, respectively, of deferred tax assets related to net operating loss carryforwards for state tax returns that are not included with those of other Dell entities. The change in the valuation allowance was $0.3 million and $0.2 million for the fiscal years ended February 3, 2023 and January 28, 2022, respectively. These net operating loss carryforwards began expiring in the fiscal year ended February 3, 2023. Due to the uncertainty surrounding the realization of these net operating loss carryforwards, the Company has provided valuation allowances for the full amount as of February 3, 2023 and January 28, 2022. Because the Company is included in the tax filings of certain other Dell entities, management has determined that it will be able to realize the remainder of its deferred tax assets. If the Company's tax provision had been prepared using the separate return method, the unaudited pro forma pre-tax loss, tax benefit and net loss for the fiscal year ended February 3, 2023 would have been $146.8 million, $5.3 million and $141.5 million, respectively, as a result of the recognition of a valuation allowance that would have been recorded on certain deferred tax assets, as well as certain attributes from the Tax Cuts and Jobs Act of 2017 that would be lost if not utilized by the Dell consolidated group.

As of February 3, 2023, the Company has cumulative undistributed foreign earnings that would incur some amount of local withholding and state taxes if the earnings are distributed to SecureWorks Corp., which is domiciled in the United States. The Tax Cuts and Jobs Act of 2017 fundamentally changes the U.S. approach to taxation of foreign earnings. The Company has analyzed its global working capital and cash requirements and the potential tax liabilities attributable to repatriation, and has determined that it may repatriate certain unremitted foreign earnings that were previously deemed indefinitely reinvested. As of February 3, 2023 and January 28, 2022, the Company has recorded withholding taxes of $0.1 million and $0.2 million, respectively, related to certain unremitted foreign earnings that may be repatriated.

A reconciliation of the Company's beginning and ending amount of unrecognized tax benefits is as follows:

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| | | (in thousands) | |
| Beginning unrecognized tax benefits | $ 6,509 | $ 6,148 | $ 6,134 |
| Increases related to tax positions of the current year | 106 | 107 | 21 |
| Increases related to tax position of prior years | 4 | 256 | — |
| Reductions for tax positions of prior years | — | (2) | (7) |
| Ending unrecognized tax benefits | $ 6,619 | $ 6,509 | $ 6,148 |

The Company's net unrecognized tax benefits of $4.5 million, $4.2 million and $3.8 million include amounts reflected in the table above, plus accrued interest and penalties of $0.4 million, $0.3 million and $0.2 million as of February 3, 2023, January 28, 2022 and January 29, 2021, respectively, and a tax benefit associated with other indirect jurisdictional effects of uncertain tax positions of $2.6 million as of February 3, 2023 and January 28, 2022 are included in other non-current liabilities in the Consolidated Statements of Financial Position. The net unrecognized tax benefits, if recognized, would increase the Company's income tax benefit and effective income tax benefit rate. Interest and penalties related to income tax liabilities are included in income tax expense. The Company recorded interest and penalties of $0.1 million, $0.1 million and $(0.3) million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively.

Judgment is required in evaluating the Company's uncertain tax positions and determining the Company's provision for income taxes. The Company does not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

The Company is currently under income tax audit in both domestic and foreign jurisdictions. The Company is undergoing negotiations, and in some cases contested proceedings, relating to tax matters with the taxing authorities in these jurisdictions. The Company believes that it has provided adequate reserves related to all matters contained in the tax periods open to examination. Although the Company believes it has made adequate provisions for the uncertainties relating to these audits, if the Company should experience unfavorable outcomes, such outcomes could have a material impact on its results of operations, financial position and cash flows.

The Company takes certain non-income tax positions in the jurisdictions in which it operates and has received certain non-income tax assessments from various jurisdictions. The Company believes that a material loss in these matters is not probable and that it is not reasonably possible that a material loss exceeding amounts already accrued has been incurred. The Company believes its positions in these non-income tax litigation matters are supportable and that it ultimately will prevail. In the normal course of business, the Company's positions and conclusions related to its non-income taxes could be challenged and assessments may be made. To the extent new information is obtained and the Company's views on its positions, probable outcomes of assessments, or litigation change, changes in estimates to the Company's accrued liabilities would be recorded in the period in which such a determination is made. In the resolution process for income tax and non-income tax audits, the Company may be required to provide collateral guarantees or indemnification to regulators and tax authorities until the matter is resolved. As of February 3, 2023, the Company is under audit with various state taxing authorities in which rulings related to the taxability of certain of our services are in appeals. See "Note 7 — Commitments and Contingencies, Customer-based Taxation Contingencies" for more information about loss contingencies.

The Company is no longer subject to tax examinations for years prior to fiscal 2016.

## NOTE 12 — SELECTED FINANCIAL INFORMATION

The following table provides information on amounts included in accounts receivable, net, other current assets, property and equipment, net, accrued and other current liabilities, and other non-current liabilities as of February 3, 2023 and January 28, 2022.

| | Consolidated | |
|---|---|---|
| | February 3, 2023 | January 28, 2022 |
| | (in thousands) | |
| *Accounts receivable, net:* | | |
| Gross accounts receivable | $ 75,029 | $ 89,742 |
| Allowance for credit losses | (2,402) | (3,511) |
| Total | $ 72,627 | $ 86,231 |
| *Other current assets:* | | |
| Income tax receivable | $ 4,733 | $ 11,639 |
| Prepaid maintenance and support agreements | 7,276 | 8,547 |
| Prepaid other | 5,517 | 5,854 |
| Total | $ 17,526 | $ 26,040 |
| *Property and equipment, net* | | |
| Computer equipment | $ 30,108 | $ 32,250 |
| Leasehold improvements | 22,390 | 23,841 |
| Other equipment | 2,144 | 2,816 |
| Total property and equipment | 54,642 | 58,907 |
| Accumulated depreciation and amortization | (50,010) | (50,481) |
| Total | $ 4,632 | $ 8,426 |
| *Other noncurrent assets* | | |
| Prepaid maintenance agreements | $ 799 | $ 2,461 |
| Deferred tax asset | 3,951 | 2,571 |
| Deferred commission and fulfillment costs | 52,797 | 61,575 |
| Other | 3,418 | 1,739 |
| Total | $ 60,965 | $ 68,346 |
| *Accrued and other current liabilities* | | |
| Compensation | $ 50,397 | $ 60,203 |
| Related party payable, net | 1,141 | 3,088 |
| Other | 30,028 | 24,831 |
| Total | $ 81,566 | $ 88,122 |
| *Other non-current liabilities* | | |
| Deferred tax liabilities | $ 13 | $ 32,157 |
| Other | 14,010 | 10,967 |
| Total | $ 14,023 | $ 43,124 |

The allocation between domestic and foreign net revenue is based on the location of the Company's customers. Net revenue from any single foreign country did not constitute 10% or more of the Company's net revenue during any of the periods presented. As of February 3, 2023 and January 28, 2022, net property and equipment in Romania represented 7% and 14%, respectively, of the Company's consolidated net property and equipment.

The following tables present net revenue and property, plant and equipment allocated between the United States and international locations. The Company defines international revenue as revenue contracted through non-U.S. entities.

| | Fiscal Year Ended | | |
|---|---|---|---|
| | February 3, 2023 | January 28, 2022 | January 29, 2021 |
| *Net revenue* | | | |
| United States | $ 306,799 | $ 359,707 | $ 392,515 |
| International | 156,676 | 175,507 | 168,519 |
| Total | $ 463,475 | $ 535,214 | $ 561,034 |

| | February 3, 2023 | January 28, 2022 |
|---|---|---|
| *Property and equipment, net* | | |
| United States | $ 3,945 | $ 6,767 |
| International | 687 | 1,659 |
| Total | $ 4,632 | $ 8,426 |

## NOTE 13 — 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 services provided to Secureworks by Dell 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 $3.8 million, $3.8 million and $4.0 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively. Management believes that the basis on which the expenses have been allocated is a reasonable reflection of 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 Consolidated Statements of Financial Position. Purchases of computer equipment from Dell and EMC Corporation, a wholly-owned subsidiary of Dell that provides enterprise software and storage ("EMC"), totaled $0.9 million, $0.7 million and $0.8 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively.

EMC previously maintained a majority ownership interest in VMware, Inc. ("VMware"), a company that provides cloud and virtualization software and services. The Company's purchases of annual maintenance services, software licenses and hardware systems for internal use from Dell, EMC and VMware totaled $1.1 million, $1.6 million and $2.8 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively. On November 1, 2021, Dell Technologies completed its spin-off of all shares of common stock of VMware that were beneficially owned by Dell Technologies and its subsidiaries, including EMC, to Dell Technologies' stockholders. As a result of the spin-off transaction, the businesses of VMware were separated from the remaining businesses of Dell Technologies, although Michael S. Dell, the Chairman, Chief Executive Officer and majority stockholder of Dell Technologies, continues to serve as Chairman of the Board of VMware.

The Company recognized revenue related to solutions provided to VMware that totaled $0.6 million and $0.5 million for the fiscal years ended February 3, 2023 and January 28, 2022. In October 2019, VMware acquired Carbon Black Inc., a security business with which the Company had an existing commercial relationship. Purchases by the Company of solutions from Carbon Black totaled $2.9 million, $6.2 million, and $5.5 million for the fiscal years ended February 3, 2023, January 28, 2022, and January 29, 2021, 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. (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 totaled $0.3 million, $0.2 million and $0.2 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively.

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, many of such customer contracts were transferred from Dell 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 $65.0 million, $61.7 million and $59.1 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively. In addition, as of February 3, 2023, the Company had approximately $3.2 million of contingent obligations to Dell related to outstanding performance bonds for certain customer contracts which Dell issued on behalf of the Company. These contingent obligations are not recognized as liabilities on the Company's financial statements.

As the Company's customer and on behalf of certain of its own customers, Dell also purchases solutions from the Company. The Company recognized revenues from such purchases of approximately $4.6 million, $11.7 million and $18.6 million for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021, respectively.

As a result of the foregoing related party arrangements, the Company has recorded the following related party balances in the Consolidated Statement of Financial Position as of February 3, 2023 and January 28, 2022:

| | February 3, 2023 | January 28, 2022 |
|---|---|---|
| | (in thousands) | |
| Related party payable (in accrued and other current liabilities) | $ 1,141 | $ 3,088 |
| Accounts receivable from customers under reseller agreements with Dell (in accounts receivable, net) | $ 5,584 | $ 7,700 |
| Net operating loss tax sharing receivable under agreement with Dell (in other current assets) | $ 3,472 | $ 10,693 |

## NOTE 14 — REORGANIZATION AND OTHER RELATED COSTS

During the 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, the Company intends to rebalance investments across all functions to align with the Company's top strategic priorities and growth opportunities, such as higher value, higher margin Taegis solutions and other priorities, in order to balance continued growth with improving operating margins over time. For the fiscal year ended February 3, 2023, the Company incurred expenses of approximately $15.5 million under the plan, consisting primarily of severance and other termination benefits, real estate-related expenses, and various other cost saving measures.

Expenses recognized in the current fiscal year relating to the Company's plan (in thousands) are as follows.

| | Workforce | Real estate-related | Other | Total |
|---|---|---|---|---|
| Subscription cost of revenue | $ 444 | $ — | $ — | $ 444 |
| Professional services cost of revenue | 141 | — | — | 141 |
| Research and development | 2,052 | — | — | 2,052 |
| Sales and marketing | 2,510 | — | 263 | 2,773 |
| General and administrative | 2,403 | 4,570 | 3,088 | 10,061 |
| Total reorganization and other related charges | $ 7,550 | $ 4,570 | $ 3,351 | $ 15,471 |

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

| | Workforce | Real estate-related | Other | Total |
|---|---|---|---|---|
| Balance as of January 28, 2022 | $ — | $ — | $ — | $ — |
| Reorganization charge | 7,550 | 4,570 | 3,351 | 15,471 |
| Charges settled in cash | — | (90) | (325) | (415) |
| Charges settled in non-cash | — | (4,480) | (1,632) | (6,112) |
| Balance as of February 3, 2023 | $ 7,550 | $ — | $ 1,394 | $ 8,944 |

## NOTE 15 — BUSINESS COMBINATIONS

The following disclosure information relates to business combination activity that occurred during the comparative periods presented in the Company's financial statements. There were no business combination transactions entered into by the Company during the fiscal year ended February 3, 2023.

On September 21, 2020, the Company acquired all of the outstanding shares (representing 100% of the voting interest) of Delve Laboratories Inc. ("Delve") for approximately $15.4 million. Delve provides comprehensive vulnerability assessment solutions through its automated vulnerability platform. Delve's software-as-a-service solution is powered by artificial intelligence and machine-learning to provide customers with more accurate and actionable data about the highest risk vulnerabilities across their network, endpoints and cloud. Secureworks is integrating the vulnerability discovery and prioritization technology into new offerings within its cloud-based portfolio, including its Taegis software platform and XDR application, expanding visibility and insights for users. The financial results of Delve have been included in the Company's consolidated financial statements prospectively from the date of acquisition within the Company's single reporting unit. The goodwill recognized as described below in connection with the transaction is primarily attributable to the anticipated synergies from future growth of the product and the Company's Taegis software platform. The acquisition was treated as an asset transaction for tax purposes and $9.1 million of goodwill acquired is expected to be deductible for tax purposes. Transaction costs were approximately $0.6 million and were expensed as incurred by the Company. The acquired business did not have a material impact on the Company's consolidated financial statements, and therefore historical and pro forma disclosures have not been presented.

The following table summarizes the allocation of the aggregate purchase price to the fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands), which was completed as of January 29, 2021:

| | Total Purchase Price Allocation for Acquisitions |
|---|---|
| Assets acquired: | |
| Cash | $ 343 |
| Accounts and notes receivable | 101 |
| Other current assets | 608 |
| Intangibles | 6,200 |
| Total identifiable assets | 7,252 |
| Goodwill | 9,108 |
| | 16,360 |
| Liabilities assumed: | |
| Accounts Payable | 28 |
| Accrued and other liabilities | 688 |
| Non-current liabilities | 220 |
| Total Liabilities Assumed | 936 |
| Purchase consideration | $ 15,424 |

The intangibles identified in the transaction represent technology-based assets with an established useful life of 6 years. The value of the acquired assets was estimated using the relief from royalty method, an income approach (Level 3), which provides an estimate of cost savings that accrue to the owner of the asset that would otherwise be payable as royalties or license fees on revenue earned through the use of the asset.

## NOTE 16 — SUBSEQUENT EVENTS

SecureWorks, Inc., the Company's wholly-owned subsidiary, extended a revolving credit agreement with a wholly-owned subsidiary of Dell Inc. under which the Company has a $30 million senior unsecured revolving credit facility. Subsequent to the end of fiscal 2023, the revolving credit agreement was amended and restated, effective as of March 24, 2023, to extend the maturity date to March 24, 2024 and to modify the annual rate at which interest accrues from the London Interbank Offered Rate ("LIBOR") plus 1.23% to the applicable SOFR rate plus 1.15%. The amended and restated revolving credit agreement otherwise has terms substantially similar to those of the facility before the amendment and restatement.

## SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Valuation and Qualifying Accounts

| Fiscal Year | Description | Balance at Beginning of Period | Charged to Income Statement | Charged to Allowance | Balance at End of Period |
|---|---|---|---|---|---|
| Trade Receivables: | | | | | |
| 2023 | Allowance for credit losses | $ 3,511 | $ (524) | $ (585) | $ 2,402 |
| 2022 | Allowance for credit losses | $ 4,830 | $ (430) | $ (889) | $ 3,511 |
| 2021 | Allowance for credit losses | $ 5,121 | $ 1,810 | $ (2,101) | $ 4,830 |

## Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

## Item 9A. Controls and Procedures

This report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). See Exhibits 31.1 and 31.2 filed with this report. This Item 9A includes information concerning the controls and control evaluations referred to in those certifications.

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

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance 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 the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this report, our management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of February 3, 2023. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of February 3, 2023.

***Management’s Report on Internal Control Over Financial Reporting***

Management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate 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.

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 our internal control over financial reporting as of February 3, 2023, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of that evaluation, management has concluded that our internal control over financial reporting was effective as of February 3, 2023.

The effectiveness of our internal control over financial reporting as of February 3, 2023 has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report, which is included in “Item 8 — Financial Statements and Supplementary Data.”

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

***Limitations on the Effectiveness of Controls***

Our system of controls is designed to provide reasonable, not absolute, assurance regarding the reliability and integrity of accounting and financial reporting. Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. These inherent limitations include the following:

- Judgments in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes.
- Controls can be circumvented by individuals, acting alone or in collusion with each other, or by management override.
- The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.
- Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures.
- The design of a control system must reflect the fact that resources are constrained, and the benefits of controls must be considered relative to their costs.

**Item 9B. Other Information**

SecureWorks, Inc., our wholly-owned subsidiary, is party to a revolving credit agreement with a wholly-owned subsidiary of Dell Inc. under which we have a $30 million senior unsecured revolving credit facility. Subsequent to the end of fiscal 2023, the revolving credit agreement was amended and restated, effective as of March 24, 2023, to extend the maturity date to March 24, 2024 and to modify the annual rate at which interest accrues from the applicable LIBOR rate plus 1.23% to the applicable SOFR rate plus 1.15%. The amended and restated revolving credit agreement otherwise has terms substantially similar to those of the facility before the amendment and restatement. The credit facility and the recent amendment and restatement to the credit facility to extend the term are described under “Notes to Consolidated Financial Statements—Note 6—Debt” and “—Note 16—Subsequent Events” in our consolidated financial statements included in this annual report on Form 10-K.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable

# Part III

## Item 10. Directors, Executive Officers and Corporate Governance

We have adopted a code of ethics applicable to our principal executive officer and other senior financial officers. The code of ethics, which we refer to as our Code of Ethics for Senior Financial Officers, is available on the Investors page of our website at www.secureworks.com. To the extent required by SEC rules, we intend to disclose any amendments to this code and any waiver of a provision of the code for the benefit of any senior financial officer on our website within any period that may be required under SEC rules from time to time.

See "Part I — Item 1 — Business — Information about our Executive Officers" for information about our executive officers, which is incorporated by reference in this Item 10. Other information required by this Item 10 is incorporated herein by reference to our definitive proxy statement for our 2023 annual meeting of stockholders, referred to as the "2023 proxy statement," which we will file with the SEC on or before 120 days after our 2023 fiscal year end, and which will appear in the 2023 proxy statement, including the information in the 2023 proxy statement appearing under the captions "Proposal 1 — Election of Directors" and "Delinquent Section 16(a) Reports."

The following lists the members of our board of directors and the principal occupation of each director as of the date of this report.

*Wendy K. Thomas*
Chief Executive Officer
SecureWorks Corp.

*Pamela Daley*
Retired Senior Vice President and
Senior Advisor to the Chairman
of General Electric Company

*Michael S. Dell*
Chairman and Chief Executive Officer
Dell Technologies Inc.

*Mark J. Hawkins*
Former President and Chief Financial Officer
Salesforce.com, Inc.
(software)

*Kyle Paster*
Managing Director
Silver Lake Partners
(private equity)

*Yagyensh C. (Buno) Pati*
Partner Centerview Capital Technology
(investments)

## Item 11. Executive Compensation

Information required by this Item 11 is incorporated herein by reference to the 2023 proxy statement, including the information in the 2023 proxy statement appearing under the captions "Proposal 1 — Election of Directors — Director Compensation" and "Compensation of Executive Officers."

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item 12 is incorporated herein by reference to the 2023 proxy statement, including the information in the 2023 proxy statement appearing under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management."

## Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this Item 13 is incorporated herein by reference to the 2023 proxy statement, including the information in the 2023 proxy statement appearing under the captions "Proposal 1—Election of Directors" and "Transactions with Related Persons."

## Item 14. Principal Accountant Fees and Services

Information required by this Item 14 is incorporated herein by reference to the 2023 proxy statement, including the information in the 2023 proxy statement appearing under the caption "Proposal 2 — Ratification of Appointment of Independent Registered Public Accounting Firm."

## Part IV

### Item 15. Exhibit and Financial Schedules

The following documents are filed as a part of this annual report on Form 10-K:

(1) *Financial Statements*: The following financial statements are filed as a part of this report under "Part II — Item 8 Financial Statements and Supplementary Data":

| |
|---|
| Report of Independent Registered Public Accounting Firm |
| Consolidated Statements of Financial Position as of February 3, 2023 and January 28, 2022 |
| Consolidated Statements of Operations for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 |
| Consolidated Statements of Comprehensive Loss for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 |
| Consolidated Statements of Cash Flows for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 |
| Consolidated Statements of Stockholder's Equity for the fiscal years ended February 3, 2023, January 28, 2022 and January 29, 2021 |
| Notes to Consolidated Financial Statements |
| Schedule II - Valuation and Qualifying Accounts |

(2) *Financial Statement Schedules*: The following financial statement schedule is included following the Notes to the Consolidated Financial Statements under "Part II — Item 8 — Financial Statements and Supplementary Data":

Schedule II — Valuation and Qualifying Accounts

(3) *Exhibits*:

## EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of SecureWorks Corp. (the "Company") (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission (the "Commission") on April 22, 2016 (the "Form S-8")) (Registration No. 333-210866). |
| 3.2 | Amended and Restated Bylaws of SecureWorks Corp. (incorporated by reference to Exhibit 4.2 to the Form S-8) (Registration No. 333-210866). |
| 4.1 | Specimen Certificate of Class A Common Stock, $0.01 par value per share, of the Company (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed with the Commission on December 17, 2015 (the "Form S-1")) (Registration No. 333-208596). |
| 4.2 | Description of the Company’s Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.2 to the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2020) (Commission File No. 001-37748). |
| 10.1 | Shared Services Agreement, effective as of August 1, 2015, between Dell Inc., for itself and its subsidiaries, and the Company (formerly known as SecureWorks Holding Corporation), for itself and its subsidiaries (incorporated by reference to Exhibit 10.1 to the Form S-1) (Registration No. 333-208596). |
| 10.1.1 | Amendment #1 to Shared Services Agreement, dated December 8, 2015, between Dell Inc., for itself and its subsidiaries, and the Company, for itself and its subsidiaries (incorporated by reference to Exhibit 10.1.1 to the Form S-1) (Registration No. 333-208596). |
| 10.1.2 | Amendment #2 to Shared Services Agreement, dated November 8, 2017, between Dell Inc., for itself and its subsidiaries, and the Company, for itself and its subsidiaries (incorporated by reference to Exhibit 10.1.2 to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2018) (Commission File No. 001-37748). |
| 10.1.3 | Amendment #3 to Shared Services Agreement, dated as of July 11, 2018, between Dell Inc., for itself and its subsidiaries, and the Company, for itself and its subsidiaries (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended August 3, 2018) (Commission File No. 001-37748). |
| 10.1.4 | Amendment #4 to Shared Services Agreement, dated as of May 29, 2019, between Dell Inc., for itself and its subsidiaries, and the Company, for itself and its subsidiaries (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended May 3, 2019) (Commission File No. 001-37748). |
| 10.1.5 | Amendment #5 to Shared Services Agreement, dated as of February 1, 2022, between Dell Inc., for itself and its subsidiaries, and the Company, for itself and its subsidiaries (incorporated by reference to Exhibit 10.1.5 to the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2022) (Commission File No. 001-37748). |
| 10.1.6†† | Amendment #6 to Shared Services Agreement, dated September 13, 2022, between Dell Inc., for itself and its subsidiaries, and the Company, for itself and its subsidiaries). |
| 10.2 | Intellectual Property Contribution Agreement, effective as of August 1, 2015, among Dell Inc., the Company and other subsidiaries of Dell Inc. party thereto (incorporated by reference to Exhibit 10.2 to the Form S-1) (Registration No. 333-208596). |
| 10.3 | Patent License Agreement, effective as of August 1, 2015, between Dell Inc., for itself and its subsidiaries, and the Company, for itself and its subsidiaries (incorporated by reference to Exhibit 10.3 to the Form S-1) (Registration No. 333-208596). |
| 10.4 | License Agreement, dated as of September 9, 2015, between Dell Inc. and the Company (incorporated by reference to Exhibit 10.4 to the Form S-1) (Registration No. 333-208596). |
| 10.5 | Tax Matters Agreement, effective as of August 1, 2015, between the Company, for itself and its subsidiaries, and Dell Technologies Inc. (formerly known as Denali Holding Inc.), for itself and its subsidiaries other than the Company (incorporated by reference to Exhibit 10.5 to the Form S-1) (Registration No. 333-208596). |
| 10.5.1 | Amendment #1 to Tax Matters Agreement, dated December 8, 2015, between the Company, for itself and its subsidiaries, and Dell Technologies Inc., for itself and its subsidiaries other than the Company (incorporated by reference to Exhibit 10.5.1 to the Form S-1) (Registration No. 333-208596). |
| 10.6 | Amended and Restated Employee Matters Agreement, effective as of August 1, 2015, among Dell Technologies Inc., Dell Inc. and the Company (incorporated by reference to Exhibit 10.6 to the Form S-1) (Registration No. 333-208596). |
| 10.7+ | Security Services Customer Master Services Agreement, effective as of July 7, 2015, between SecureWorks, Inc. and Dell USA L.P., on behalf of itself, Dell Inc., and Dell Inc.'s subsidiaries (incorporated by reference to Exhibit 10.7 to the Form S-1) (Registration No. 333-208596). |
| 10.8 | Letter Agreement to Security Services Customer Master Services Agreement and Reseller Agreement, effective as of August 1, 2015, between Dell Inc. and SecureWorks, Inc. (incorporated by reference to Exhibit 10.8 to the Form S-1) (Registration No. 333-208596). |

| Exhibit No. | Description |
|---|---|
| 10.8.1+ | First Amendment to Security Services Customer Master Services Agreement, effective as of November 3, 2017, between Dell USA L.P. and SecureWorks, Inc. (incorporated by reference to Exhibit 10.8.1 to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2018) (Commission File No. 001-37748). |
| 10.8.2+ | Amendment #2 to Security Services Customer Master Services Agreement, effective as of August 18, 2022, between Dell USA L.P., for itself and its subsidiaries (excluding SecureWorks, Inc.), and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended October 28, 2022) (Commission File No. 001-37748). |
| 10.9+ | Amended and Restated Master Commercial Customer Agreement, effective as of August 1, 2015, between Dell Marketing L.P. and SecureWorks, Inc. (incorporated by reference to Exhibit 10.9 to the Form S-1) (Registration No. 333-208596). |
| 10.9.1+ | Amendment No. 1 to Amended and Restated Master Commercial Customer Agreement, effective as of August 4, 2018, between Dell Marketing L.P. and SecureWorks, Inc. (incorporated by reference to Exhibit 10.9.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 2, 2018) (Commission File No. 001-37748). |
| 10.9.2 | Joinder of EMC Corporation to the Amended and Restated Master Commercial Customer Agreement, dated as of March 8, 2019 (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended May 3, 2019) (Commission File No. 001-37748). |
| 10.10+ | Amended and Restated Reseller Agreement, effective as of August 1, 2015, between SecureWorks, Inc., for itself and its subsidiaries, and Dell Inc., for itself and its subsidiaries other than the Company (incorporated by reference to Exhibit 10.10 to the Form S-1) (Registration No. 333-208596). |
| 10.10.1+ | Amendment No. 1 to Amended and Restated Reseller Agreement, dated as of January 23, 2019, between Dell, Inc., for itself and its subsidiaries other than SecureWorks, Inc. and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.10.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended February 1, 2019) (Commission File No. 001-37748). |
| 10.10.2** | Addendum No. 1 to Amendment No. 1 to Amended and Restated Reseller Agreement, dated as of May 8, 2019, between Dell, Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.5 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended May 3, 2019) (Commission File No. 001-37748). |
| 10.10.3** | Amendment No. 2 to Amended and Restated Reseller Agreement, dated as of May 21, 2019, between Dell Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended August 2, 2019) (Commission File No. 001-37748). |
| 10.10.4** | Amendment No. 3 to Amended and Restated Reseller Agreement, dated as of June 13, 2019, between Dell Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended August 2, 2019) (Commission File No. 001-37748). |
| 10.10.5** | Amendment No. 4 to Amended and Restated Reseller Agreement, dated as of July 30, 2019, between Dell Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended August 2, 2019) (Commission File No. 001-37748). |
| 10.10.6 | Amendment No. 5 to Amended and Restated Reseller Agreement, dated as of October 1, 2019, between Dell Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended November 1, 2019) (Commission File No. 001-37748). |
| 10.10.7** | Amendment No. 6 to Amended and Restated Reseller Agreement, dated as of October 23, 2019, between Dell Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended November 1, 2019) (Commission File No. 001-37748). |
| 10.10.8** | Amended and Restated Amendment No. 6 to Amended and Restated Reseller Agreement, dated as of December 3, 2020, between Dell Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.10.8 to the Company’s Annual Report on Form 10-K for the fiscal year ended January 29, 2021) (Commission File No. 001-37748). |
| 10.10.9 | Letter Agreement to Amended and Restated Reseller Agreement, dated as of December 30, 2021, between Dell Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.10.9 to the Company’s Annual Report on Form 10-K for the fiscal year ended January 28, 2022) (Commission File No. 001-37748). |

| Exhibit No. | Description |
|---|---|
| 10.10.10+ | Amendment No. 7 to Amended and Restated Reseller Agreement, dated as of June 23, 2022, between Dell Inc., for itself and its subsidiaries other than SecureWorks, Inc., and SecureWorks, Inc., for itself and its subsidiaries (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 29, 2022) (Commission File No. 001-37748). |
| 10.11 | Registration Rights Agreement, dated as of August 3, 2015, among the Company and the Holders party thereto (incorporated by reference to Exhibit 10.22 to the Form S-1) (Registration No. 333-208596). |
| 10.12 | Registration Rights Agreement, dated as of April 27, 2016, among the Company, Dell Marketing L.P., Michael S. Dell, the Susan Lieberman Dell Separate Property Trust, MSDC Denali Investors, L.P., MSDC Denali EIV, LLC, Silver Lake Partners III, L.P., Silver Lake Technology Investors III, L.P., Silver Lake Partners IV, L.P., Silver Lake Technology Investors IV, L.P. and SLP Denali Co-Invest, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 27, 2016) (Commission File No. 001-37748). |
| 10.13†† | Sixth Amended and Restated Revolving Credit Agreement, dated as of March 23, 2023, between SecureWorks, Inc. and Dell USA L.P. |
| 10.14 | Note Purchase Agreement, dated as of June 30, 2015 and amended on July 31, 2015, among the Company, Dell Technologies Inc. and the Investors party thereto (incorporated by reference to Exhibit 10.21 to the Form S-1) (Registration No. 333-208596). |
| 10.15 | Office Lease between Teachers Concourse, LLC and SecureWorks, Inc., dated as of April 20, 2012, as amended (incorporated by reference to Exhibit 10.23 to the Form S-1) (Registration No. 333-208596). |
| 10.16 | Unconditional Guaranty of Payment and Performance, entered into on April 20, 2012, by Dell Inc. in favor of Teachers Concourse, LLC (incorporated by reference to Exhibit 10.24 to the Form S-1) (Registration No. 333-208596). |
| 10.17 | Sublease Agreement between Dell International Services SRL and SecureWorks Europe SRL, dated as of June 22, 2015, as amended (incorporated by reference to Exhibit 10.26 to the Form S-1) (Registration No. 333-208596). |
| 10.18 | Lease Deed between Dell International Services India Private Limited and SecureWorks India Private Limited, dated as of August 8, 2015 (incorporated by reference to Exhibit 10.27 to the Form S-1) (Registration No. 333-208596). |
| 10.19* | Dell Technologies Inc. 2013 Stock Incentive Plan (as amended and restated) (incorporated by reference to Exhibit 10.8 to Dell Technologies Inc.'s Current Report on Form 8-K filed with the Commission on December 28, 2018) (Commission File No. 001-37867). |
| 10.20* | Dell Technologies Inc. 2012 Long-Term Incentive Plan (formerly known as Dell Inc. 2012 Long-Term Incentive Plan) as amended and restated as of October 6, 2017 (incorporated by reference to Exhibit 10.4 to Dell Technologies Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended November 3, 2017) (Commission File No. 001-37867). |
| 10.21* | Form of Indemnification Agreement between the Company and each director and executive officer of the Company (incorporated by reference to Exhibit 10.20 to the Form S-1) (Registration No. 333-208596). |
| 10.22* | SecureWorks Corp. 2016 Long-Term Incentive Plan, as amended and restated as of June 21, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 22, 2021) (Commission File No. 001-37748). |
| 10.23* | Form of Nonqualified Stock Option Agreement for Executives under SecureWorks Corp. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.13 to the Form S-1) (Registration No. 333-208596). |
| 10.24* | Form of Nonqualified Stock Option Agreement for Directors under SecureWorks Corp. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.13.1 to Amendment No. 1 to the Form S-1 filed with the Commission on March 22, 2016) (Registration No. 333-208596). |
| 10.25†† | Form of Restricted Stock Unit Agreement for Executives under SecureWorks Corp. 2016 Long-Term Incentive Plan. |
| 10.26* | Form of Restricted Stock Unit Agreement for Non-Employee Directors under SecureWorks Corp. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 30, 2021) (Commission File No. 001-37748). |
| 10.27* | SecureWorks Corp. Amended and Restated Severance Pay Plan for Executive Employees (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 1, 2020) (Commission File No. 001-37748). |
| 10.28†† | SecureWorks Corp. Amended and Restated Non-Employee Director Compensation Policy, effective March 20, 2023. |
| 10.29* | SecureWorks Corp. Form of Protection of Sensitive Information, Noncompetition and Nonsolicitation Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on December 7, 2016) (Commission File No. 001-37748). |

| Exhibit No. | Description |
|---|---|
| 10.30*†† | Form of Performance Stock Unit Agreement for Executives under the SecureWorks Corp. 2016 Long-Term Incentive Plan. |
| 10.31* | Amended and Restated SecureWorks Corp. Incentive Bonus Plan (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2017) (Commission File No. 001-37748). |
| 10.32* | Form of Deferred Stock Unit Agreement for Non-Employee Directors under SecureWorks Corp. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.35 to the Company’s Annual Report on Form 10-K for the fiscal year ended January 28, 2022) (Commission File No. 001-37748). |
| 10.33* | Separation Agreement and Release, dated as of June 1, 2021, between SecureWorks Corp. and Michael R. Cote (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 3, 2021) (Commission File No. 001-37748) |
| 10.34*†† | Separation Agreement and Release, dated as of March 21, 2023, between SecureWorks Corp. and Paul M. Parrish. |
| 21.1†† | Subsidiaries of SecureWorks Corp. |
| 23.1†† | Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm of SecureWorks Corp. |
| 31.1†† | 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. |
| 31.2†† | 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. |
| 32.1††† | 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. |
| 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). |

| | |
|---|---|
| + | Certain portions of this exhibit have been omitted pursuant to a confidential treatment request. Omitted information has been filed separately with the SEC. |
| †† | Filed with this report. |
| ††† | Furnished with this report. |
| * | Management contracts or compensation plans or arrangements in which directors or executive officers participate. |
| ** | Certain identified portions of this exhibit have been omitted in accordance with Item 601(b)(10)(iv) of Regulation S-K. |

**Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ Wendy K. Thomas
Wendy K. Thomas
Chief Executive Officer
(Duly Authorized Officer)

Date: March 23, 2023

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ Wendy K. Thomas<br>Wendy K. Thomas | Chief Executive Officer and Director<br>(Principal Executive Officer) | March 23, 2023 |
| /s/ Paul M. Parrish<br>Paul M. Parrish | Senior Vice President, Chief Financial Officer<br>(Principal Financial Officer) | March 23, 2023 |
| /s/ Christian Grant<br>Christian Grant | Vice President, Chief Accounting Officer<br>(Principal Accounting Officer) | March 23, 2023 |
| /s/ Michael S. Dell<br>Michael S. Dell | Chairman of the Board of Directors | March 23, 2023 |
| /s/ Kyle Paster<br>Kyle Paster | Director | March 23, 2023 |
| /s/ Pamela Daley<br>Pamela Daley | Director | March 23, 2023 |
| /s/ Yagyensh C. Pati<br>Yagyensh C. Pati | Director | March 23, 2023 |
| /s/ Mark J. Hawkins<br>Mark J. Hawkins | Director | March 23, 2023 |