

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

(Mark One)

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

For the quarterly period ended May 4, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 001-37748

Secureworks®

SecureWorks Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

27-0463349

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

One Concourse Parkway NE Suite 500

Atlanta, Georgia

(Address of principal executive offices)

30328

(Zip Code)

(404) 327-6339

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 (Do not check if a smaller reporting company)

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 1, 2018, there were 81,703,960 shares of the registrant's common stock outstanding, consisting of 11,703,960 outstanding shares of Class A common stock and 70,000,000 outstanding shares of Class B common stock.

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

Part I. Financial Information

Item 1. Financial Statements

SECUREWORKS CORP.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)
(in thousands)

	May 4, 2018	February 2, 2018*
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 77,302	\$ 101,539
Accounts receivable, net of allowances of \$8,589 and \$8,246, respectively	146,823	157,764
Inventories, net	670	1,030
Other current assets	42,125	40,551
Total current assets	<u>266,920</u>	<u>300,884</u>
Property and equipment, net	32,549	33,457
Goodwill	416,487	416,487
Purchased intangible assets, net	227,250	234,184
Other non-current assets	75,979	72,069
Total assets	<u>\$ 1,019,185</u>	<u>\$ 1,057,081</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 19,458	\$ 23,266
Accrued and other	53,142	81,625
Short-term deferred revenue	146,700	137,697
Total current liabilities	<u>219,300</u>	<u>242,588</u>
Long-term deferred revenue	14,926	14,948
Other non-current liabilities	66,541	68,455
Total liabilities	<u>300,767</u>	<u>325,991</u>
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock - \$0.01 par value: 200,000 shares authorized; 0 shares issued	—	—
Common stock - Class A of \$.01 par value: 2,500,000 shares authorized; 11,704 and 11,085 issued and outstanding as of May 4, 2018 and February 2, 2018, respectively.	117	111
Common stock - Class B of \$.01 par value: 500,000 shares authorized; 70,000 shares issued and outstanding as of May 4, 2018 and February 2, 2018	700	700
Additional paid in capital	870,122	867,411
Accumulated deficit	(150,981)	(137,162)
Accumulated other comprehensive loss	(1,540)	30
Total stockholders' equity	<u>718,418</u>	<u>731,090</u>
Total liabilities and stockholders' equity	<u>\$ 1,019,185</u>	<u>\$ 1,057,081</u>

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

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

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

	Three Months Ended	
	May 4, 2018	May 5, 2017*
Net revenue	\$ 126,161	\$ 113,678
Cost of revenue	60,530	53,613
Gross margin	65,631	60,065
Research and development	22,354	19,479
Sales and marketing	35,670	36,178
General and administrative	25,197	23,404
Total operating expenses	83,221	79,061
Operating loss	(17,590)	(18,996)
Interest and other, net	505	(649)
Loss before income taxes	(17,085)	(19,645)
Income tax benefit	(3,266)	(6,368)
Net loss	\$ (13,819)	\$ (13,277)
Net loss per common share (basic and diluted)	\$ (0.17)	\$ (0.17)
Weighted-average common shares outstanding (basic and diluted)	80,522	80,056

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

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

SECUREWORKS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)
(in thousands)

	Three Months Ended	
	May 4, 2018	May 5, 2017*
Net loss	\$ (13,819)	\$ (13,277)
Foreign currency translation adjustments, net of tax	(1,570)	735
Comprehensive loss	<u>\$ (15,389)</u>	<u>\$ (12,542)</u>

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

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

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

	Three Months Ended	
	May 4, 2018	May 5, 2017*
Cash flows from operating activities:		
Net loss	\$ (13,819)	\$ (13,277)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,287	10,261
Stock-based compensation expense	4,730	3,628
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	(377)	649
Income tax benefit	(3,266)	(6,368)
Provision for doubtful accounts	1,492	889
Changes in assets and liabilities:		
Accounts receivable	9,176	(10,494)
Due to / from parent	1,103	7,506
Inventories	360	475
Other assets	(2,350)	(1,124)
Accounts payable	(3,343)	1,027
Deferred revenue	8,668	8,155
Accrued and other liabilities	(31,065)	(20,982)
Net cash used in operating activities	<u>(18,404)</u>	<u>(19,655)</u>
Cash flows from investing activities:		
Capital expenditures	(2,216)	(3,350)
Net cash used in investing activities	<u>(2,216)</u>	<u>(3,350)</u>
Cash flows from financing activities:		
Principal payments on financing arrangement with Dell Financial Services	(1,104)	(800)
Taxes paid on vested restricted shares	(2,013)	(1,224)
Payments on financed capital expenditures	(500)	—
Net cash (used in) provided by financing activities	<u>(3,617)</u>	<u>(2,024)</u>
Net (decrease) increase in cash and cash equivalents	(24,237)	(25,029)
Cash and cash equivalents at beginning of the period	101,539	116,595
Cash and cash equivalents at end of the period	<u>\$ 77,302</u>	<u>\$ 91,566</u>

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

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

SECUREWORKS CORP.

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

	Common Stock - Class A		Common Stock - Class B		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Outstanding Shares	Amount	Outstanding Shares	Amount				
Balances, February 2, 2018*	11,085	\$ 111	70,000	\$ 700	\$ 867,411	\$ (137,162)	\$ 30	\$ 731,090
Net loss	—	—	—	—	—	(13,819)	—	(13,819)
Other comprehensive loss	—	—	—	—	—	—	(1,570)	(1,570)
Vesting of restricted stock units	448	4	—	—	(4)	—	—	—
Grant of restricted stock awards	386	4	—	—	(4)	—	—	—
Common stock withheld as payment for withholding taxes upon the vesting of restricted shares	(215)	(2)	—	—	(2,011)	—	—	(2,013)
Stock-based compensation	—	—	—	—	4,730	—	—	4,730
Balances, May 4, 2018	11,704	\$ 117	70,000	\$ 700	\$ 870,122	\$ (150,981)	\$ (1,540)	\$ 718,418

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

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

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

NOTE 1 — DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Description of the Business

SecureWorks Corp. (individually and collectively with its consolidated subsidiaries, "Secureworks" or the "Company") is a leading global provider of intelligence-driven information security solutions singularly focused on protecting the Company's clients from cyber attacks. The Company's solutions enable organizations of varying size and complexity to fortify their cyber defenses to prevent security breaches, detect malicious activity in near real time, prioritize and respond rapidly to security incidents and predict emerging threats.

On February 8, 2011, the Company was acquired by Dell Inc. (individually and collectively with its consolidated subsidiaries, "Dell" or "Parent"). On October 29, 2013, Dell was acquired by Dell Technologies Inc., formerly known as Denali Holding Inc. ("Dell Technologies"), a parent holding corporation. For the purposes of the accompanying financial statements, the Company elected to utilize pushdown accounting for the acquisition of Dell by Dell Technologies. On April 27, 2016, the Company completed its initial public offering ("IPO"). Upon the closing of the IPO, Dell Technologies owned, indirectly through Dell Inc. and Dell Inc.'s subsidiaries, no shares of the Company's outstanding Class A common stock and all outstanding shares of the Company's outstanding Class B common stock, which as of May 4, 2018 represented approximately 85.7% of the Company's total outstanding shares of common stock and approximately 98.4% 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 clients with intelligence-driven information security solutions. The Company's chief operating decision maker, who is the President and Chief Executive Officer, makes operating decisions, assesses performance, and allocates resources on a consolidated basis. Accordingly, Secureworks operates its business as a single reportable segment.

Basis of Presentation and Consolidation

The Company's condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company's financial statements. The condensed consolidated financial statements include assets, liabilities, revenue and expenses of all majority-owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

For the periods presented, Dell has provided various corporate services to the Company in the ordinary course of business, including finance, tax, human resources, legal, insurance, IT, procurement and facilities-related services. The costs of these services are charged in accordance with a shared services agreement that went into effect on August 1, 2015. For more information regarding the charges for these services and related party transactions, see "Note 9—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 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. See "Note 8—Income and Other Taxes" for more information.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the requirements of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statement presentation. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments consisting of normal recurring accruals and disclosures considered necessary for a fair statement have been included. All inter-company accounts and transactions have been eliminated in consolidation. The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended February 2, 2018 included in Part II, Item 8 of the Company's Annual Report on Form 10-K filed with the SEC on March 28, 2018 (the "Annual Report").

Fiscal Year

The Company's fiscal year is the 52- or 53-week period ending on the Friday closest to January 31. The Company refers to the fiscal year ending February 1, 2019 and the fiscal year ended February 2, 2018 as fiscal 2019 and fiscal 2018, respectively. Both fiscal 2019 and fiscal 2018 have 52 weeks, and each quarter has 13 weeks.

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Estimates are revised as additional information becomes available. In the Condensed Consolidated Statements of Operations, estimates are used when accounting for revenue arrangements, determining the cost of revenue, allocating costs and estimating the impact of contingencies. In the Condensed Consolidated Statements of Financial Position, estimates are used in determining the valuation and recoverability of assets, such as accounts receivables, inventories, fixed assets, goodwill and other identifiable intangible assets, and estimates are used in determining the reported amounts of liabilities, such as taxes payable and the impact of contingencies, all of which also impact the Condensed Consolidated Statements of Operations. Actual results could differ from these estimates.

Revision of Previously Issued Financial Statements

During the fiscal year ended February 2, 2018, the Company revised its balance sheet as of and for the period ended February 3, 2017 as a result of the correction of an error related to prepaid expenses for which the Company had been invoiced, but for which cash had not been remitted. This error resulted in an overstatement of other current assets and accounts payable balances in the Consolidated Statements of Financial Position and had a corresponding impact to the changes in the balances in the Consolidated Statements of Cash Flows, with no impact on the cash used in operating activities, for the period ended February 3, 2017. The error had no impact on the Consolidated Statements of Operations. Management has concluded that the impact of the misstatement was not material to the previously issued financial statements. Additional information concerning the effect of this revision on the previously issued consolidated financial statements is provided in Note 1 to Consolidated Financial Statements included in Part II, Item 8 of the Annual Report.

Recently Adopted Accounting Pronouncements

Compensation - Stock Compensation—In May 2017, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. The Company adopted this guidance during the three months ended May 4, 2018 with no material impact on its condensed consolidated financial statements.

Statement of Cash Flows—In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments - A consensus of the FASB Emerging Issues Task Force." The update was issued with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230 and other topics. The adoption of this standard had no impact on the Condensed Consolidated Statements of Cash Flows.

Revenue from Contracts with Customers—The Company adopted ASU 2014-09, "Revenue From Contracts With Customers" ("ASC 606") effective February 3, 2018 using the full retrospective method. The cumulative effect of the adoption was recognized as a decrease to accumulated deficit of \$51.8 million on February 2, 2018 and impacted certain other prior period amounts. Certain amounts and disclosures set forth in this Quarterly Report on Form 10-Q have been updated to comply with the new ASC 606 standard.

Summary of Significant Accounting Policies

Except for the accounting policies for revenue, deferred revenue, deferred commissions and deferred installation costs updated as a result of adopting ASC 606 (including Subtopic 340-40), there have been no significant changes to the Company's significant accounting policies as of and for the three months ended May 4, 2018, as compared to the significant accounting policies described in the Annual Report.

Revenue Recognition—Secureworks derives revenue primarily from two sources: (1) subscription revenue related to managed security and threat intelligence solutions; and (2) professional services, including security and risk consulting and incident response solutions.

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

Subscription-based arrangements typically include security solutions, the associated hardware appliance, up-front installation fees and maintenance agreements, which are all typically recognized over the life of the related agreement. The Company has determined that hardware appliances and the related maintenance agreement included in the subscription-based solutions arrangements are incapable of being distinct within the context of the contract as they are required to access the Company's Counter Threat Platform. Moreover, any related installation fees are non-refundable and also incapable of being distinct within the context of the contract. Therefore, the Company has deemed these arrangements as a single performance obligation within the context of a typical subscription-based arrangement. The revenue and any related costs for these deliverables are recognized ratably over the contract term, beginning on the date on which service is made available to clients. Amounts that have been invoiced, but for which the above revenue recognition criteria have not been met, are 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 that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and the parties are committed to perform and, (iii) 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) are 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 solutions, the performance obligation represents a series of distinct services that will be accounted for as a single performance obligation. In a typical professional services contract, the Company has a separate performance obligation associated with each service. The Company is generally acting as a principal in each subscription-based and 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 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 using a time-elapsed output method to measure progress (i.e., ratable recognition) for the subscription-based performance obligation 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.

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

As indicated above, the Company has one primary business activity, which is to provide clients with intelligence-driven information security solutions. The Company's chief operating decision maker, who is the President and 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.

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

	Three Months Ended May 4, 2018	Three Months Ended May 5, 2017
Managed Security Services revenue	\$ 98,700	\$ 88,909
Security and Risk Consulting revenue	27,461	24,769
Total revenue	<u>\$ 126,161</u>	<u>\$ 113,678</u>

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 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.

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 contract costs 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. Applying the practical expedient guidance, 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 the deferred commissions on a straight-line basis over the life of the customer relationship (estimated to be seven years) in sales and marketing expenses. These assets are classified as non-current, and included in other non-current assets in the Condensed Consolidated Statements of Financial Position. As of May 4, 2018 and February 2, 2018, the amount of deferred commissions included in other non-current assets was \$57.8 million and \$57.2 million, respectively.

Additionally, the Company incurs 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. The Company makes judgments regarding the fulfillment costs to be capitalized. Specifically, the Company capitalizes direct labor and associated fringe benefits using standards developed from actual costs and applicable operational data. The Company updates the information quarterly for items such as the estimated amount of time required to perform such activity. The Company capitalizes and amortizes these fulfillment costs on a straight-line basis over the economic life of the services, or approximately four years, in cost of revenue. As of May 4, 2018 and February 2, 2018, the amount of deferred fulfillment costs included in other non-current assets was \$10.6 million and \$10.2 million, respectively.

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

ASC 606 Adoption and Revision Impact to Previously Reported Results

The Company adjusted its condensed consolidated financial statements from amounts previously reported due to the retrospective adoption of ASC 606 and the revision discussed above.

Select unaudited condensed consolidated statements of financial position line items which reflect the adoption of ASC 606 are as follows (in thousands):

	February 2, 2018 (as reported)	Adjustments for Adoption of ASC 606	February 2, 2018 (as adjusted)
Current assets:			
Other current assets	\$ 42,163	\$ (1,612)	\$ 40,551
Total current assets	302,496	(1,612)	300,884
Other non-current assets	4,677	67,392	72,069
Total assets	<u>\$ 991,301</u>	<u>\$ 65,780</u>	<u>\$ 1,057,081</u>
Current liabilities:			
Deferred revenue	\$ 139,632	\$ (1,935)	\$ 137,697
Total current liabilities	244,523	(1,935)	242,588
Other non-current liabilities	52,681	15,774	68,455
Total liabilities	312,152	13,839	325,991
Stockholders' equity:			
Accumulated deficit	(188,936)	51,774	(137,162)
Accumulated other comprehensive loss	(137)	167	30
Total stockholders' equity	<u>\$ 679,149</u>	<u>\$ 51,941</u>	<u>\$ 731,090</u>

Select unaudited condensed consolidated statements of operations line items which reflect the retrospective adoption of ASC 606 are as follows (in thousands):

	May 5, 2017 (as reported)	Adjustments for Adoption of ASC 606	May 5, 2017 (as adjusted)
Net revenue	\$ 113,593	\$ 85	\$ 113,678
Cost of revenue	53,942	(329)	53,613
Gross margin	59,651	414	60,065
Total operating expenses	80,052	(991)	79,061
Operating loss	(20,401)	1,405	(18,996)
Income tax benefit	(6,814)	446	(6,368)
Net loss	<u>\$ (14,236)</u>	<u>\$ 959</u>	<u>\$ (13,277)</u>
Net loss per common share (basic and diluted)	<u>\$ (0.18)</u>	<u>\$ 0.01</u>	<u>\$ (0.17)</u>

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

Select unaudited condensed consolidated statement of cash flows line items which reflect the retrospective adoption of ASC 606 and the impact of the revision discussed above are as follows (in thousands):

	Three Months Ended May 5, 2017 (as reported)	Adjustments for Adoption of ASC 606	Adjustments for Revision	Three Months Ended May 5, 2017 (as adjusted)
Cash flows from operating activities:				
Net loss	\$ (14,236)	\$ 959	\$ —	\$ (13,277)
Adjustments to reconcile net loss to net cash used in operating activities:				
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	602	47	—	649
Income tax benefit	(6,814)	446	—	(6,368)
Changes in assets and liabilities:				
Other assets	(160)	(1,360)	396	(1,124)
Accounts payable	1,423	—	(396)	1,027
Deferred revenue	8,247	(92)	—	8,155
Net cash provided by (used in) operating activities	<u>\$ (19,655)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (19,655)</u>

Recently Issued Accounting Pronouncements

Intangibles - Goodwill and Other—In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 eliminates Step 2 of the goodwill impairment test, which required the Company to determine the implied fair value of goodwill by allocating the reporting unit's fair value to each of its assets and liabilities as if the reporting unit was acquired in a business acquisition. Instead, the updated guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit to its carrying value, and recognizing a non-cash impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value, with the loss not exceeding the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for the Company for annual and interim periods beginning in the Company's 2021 fiscal year, with early adoption permitted, and will be applied on a prospective basis. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

Financial Instruments—Credit Losses—In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The update is effective for the Company for fiscal years beginning with the Company's 2021 fiscal year, including interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

Leases—In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize most lease liabilities on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The update states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. Companies are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The update is effective for the Company for annual and interim periods beginning with the Company's 2020 fiscal year, and early adoption is permitted. The Company continues to evaluate the impact of this guidance on its consolidated financial statements and related disclosures, but expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-to-use assets upon adoption.

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

NOTE 2 — NET LOSS PER SHARE

Net 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 as they would 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. 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 net loss per common share (in thousands, except per share amounts):

	Three Months Ended	
	May 4, 2018	May 5, 2017*
Numerator:		
Net loss	\$ (13,819)	\$ (13,277)
Denominator:		
Weighted-average number of shares outstanding:		
Basic and Diluted	80,522	80,056
Loss per common share:		
Basic and Diluted	\$ (0.17)	\$ (0.17)
Weighted-average anti-dilutive stock options, non-vested restricted stock and restricted stock units	5,531	5,050

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

NOTE 3 — CONTRACT BALANCES AND CONTRACT COSTS

Promises to provide services related to the Company's subscription-based solutions are accounted for as a single performance obligation over an average period of two years. Performance obligations related to the Company's professional service contracts are separate obligations associated with each service. Although the Company has many multi-year customer relationships for its professional service solutions, the contractual period is typically structured as a separate performance obligation and recognized over a duration of less than one year. The Company invoices its clients based on a variety of billing schedules. During the first quarter of fiscal 2019, on average, approximately half of the Company's recurring revenue was billed in advance. In addition, many of the Company's strategic risk consulting engagements are billed in advance of service commencement. Deferred revenue represents the aggregate amount of billing in advance of service delivery.

Changes to the Company's deferred revenue during the three months ended May 4, 2018 are as follows (in thousands):

	As of February 2, 2018*	Upfront payments received and billings during the three months ended May 4, 2018	Revenue recognized during the three months ended May 4, 2018	As of May 4, 2018
Deferred revenue	\$ 152,645	\$ 77,262	\$ (68,281)	\$ 161,626

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

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

Remaining Performance Obligation

The remaining performance obligation represents the transaction price allocated to contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancellable contracts that will be invoiced and recognized as revenue in future periods. The remaining performance obligation is comprised of two elements: (i) the value of remaining services to be provided through the contract term for client's whose services have been activated; and (ii) the value of services contracted with clients that have not yet been installed ("backlog"). Backlog is not recorded in revenue, deferred revenue or elsewhere in the condensed consolidated financial statements until the Company establishes a contractual right to invoice at which point it 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. Additionally, the Company has elected to use the practical expedient to not disclose backlog related to the comparative period under ASC 606-10-65.

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, any fluctuations in backlog are not always a reliable indicator of future revenues.

As of May 4, 2018 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	\$ 243,247	\$ 135,208	\$ 72,997	\$ 29,538	\$ 5,504
Performance obligation - backlog	\$ 47,899	\$ 15,614	\$ 15,614	\$ 14,394	\$ 2,277
Total	\$ 291,146	\$ 150,822	\$ 88,611	\$ 43,932	\$ 7,781

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 three months ended May 4, 2018 are as follows (in thousands):

	As of February 2, 2018	Amount capitalized	Amount recognized	As of May 4, 2018
Deferred commissions	\$ 57,229	\$ 3,996	\$ (3,463)	\$ 57,762
Deferred fulfillment costs	10,163	1,672	(1,200)	10,635

The Company did not record any impairment losses on the deferred commissions or deferred fulfillment costs during the three months ended May 4, 2018.

NOTE 4 — GOODWILL AND INTANGIBLE ASSETS

Goodwill relates to the acquisition of Dell by Dell Technologies and represents the excess of the purchase price attributable to Secureworks over the fair value of the assets acquired and liabilities assumed. There were no additions, adjustments or impairments to goodwill during the periods presented. Accordingly, goodwill totaled \$416.5 million as of May 4, 2018 and February 2, 2018.

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

Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis during the third fiscal quarter, or earlier if an indicator of impairment occurs. The Company completed its most recent annual impairment test by performing a qualitative assessment of goodwill at the reporting unit level. In performing this qualitative assessment, the Company evaluated events and circumstances since the date of the last quantitative impairment test including the results of that test, macroeconomic conditions, industry and market conditions, key financial metrics and the overall financial performance of the Company. After assessing the totality of the events and circumstances, the Company determined that it was not more likely than not that the fair value of the Secureworks reporting unit was less than its carrying amount and, therefore, that the first and second steps of the quantitative goodwill impairment test were unnecessary. Further, no triggering events have subsequently transpired that would indicate a potential impairment as of May 4, 2018.

Intangible Assets

The Company's intangible assets as of May 4, 2018 and February 2, 2018 were as follows:

	May 4, 2018			February 2, 2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in thousands)					
Customer relationships	\$ 189,518	\$ (66,581)	\$ 122,937	\$ 189,518	\$ (63,058)	\$ 126,460
Technology	135,584	(61,389)	74,195	135,584	(57,978)	77,606
Finite-lived intangible assets	325,102	(127,970)	197,132	325,102	(121,036)	204,066
Trade name	30,118	—	30,118	30,118	—	30,118
Total intangible assets	\$ 355,220	\$ (127,970)	\$ 227,250	\$ 355,220	\$ (121,036)	\$ 234,184

Amortization expense related to finite-lived intangible assets was approximately \$6.9 million for each of the three months ended May 4, 2018 and May 5, 2017. Amortization expense is included within cost of revenue and general and administrative in the Condensed Consolidated Statements of Operations. There were no impairment charges related to intangible assets during the three months ended May 4, 2018 and May 5, 2017.

NOTE 5 — DEBT

Revolving Credit Facility

On November 2, 2015, SecureWorks, Inc., a wholly-owned subsidiary of SecureWorks Corp., entered into 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. This facility was initially available for a one-year term beginning on April 21, 2016. Effective as of March 28, 2017, the term of the facility was extended on the same terms for an additional one-year term ending on April 21, 2018. During the three months ended May 4, 2018, the facility was amended and restated to extend the maturity date to March 27, 2019 and to reduce the annual rate at which interest accrues from the applicable London Interbank Offered Rate plus 1.60% to such rate plus 1.15%.

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 SecureWorks Corp. or its subsidiaries. There was no outstanding balance under the credit facility as of May 4, 2018 or February 2, 2018.

Each loan made under the revolving credit facility will accrue interest at an annual rate equal to the applicable London Interbank Offered Rate plus 1.15%. Amounts under the facility may be borrowed, repaid and reborrowed from time to time during the term of the facility. 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 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.

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

NOTE 6 — COMMITMENTS AND CONTINGENCIES

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 May 4, 2018, the Company does not believe that there were any such matters that, individually or in the aggregate, could have a material adverse effect on its business, financial condition, results of operations or cash flows.

Client-based Taxation Contingencies—Various government entities ("taxing authorities") require the Company to bill its clients 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.

Indemnifications—In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to indemnify its clients from certain losses incurred by the client as to third-party claims relating to the services performed on behalf of the Company or for certain losses incurred by the client 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 clients of all sizes primarily through its direct sales organization, supplemented by sales through channel partners. The Company had no client that represented 10% or more of its net revenue for the three months ended May 4, 2018 or May 5, 2017.

NOTE 7 — STOCK-BASED COMPENSATION AND OTHER LONG-TERM PERFORMANCE INCENTIVES

The Company's board of directors adopted the SecureWorks Corp. 2016 Long-Term Incentive Plan (the "2016 Plan") effective April 18, 2016. 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.

In March 2017, the Company began granting long-term performance cash awards to certain employees. The employees who receive these performance cash awards do not receive equity awards as part of the long-term incentive program. The long-term performance cash awards are subject to various performance conditions and vest in equal annual installments over a three-year period. During the three months ended May 4, 2018 and May 5, 2017, the Company granted \$15.7 million and \$10.8 million, respectively, of these awards. The Company recognized \$1.5 million and \$0.5 million of related compensation expense for the three months ended May 4, 2018 and May 5, 2017, respectively.

For the three months ended May 4, 2018 and May 5, 2017, the Company granted 1,602,953 and 621,164 restricted stock units, respectively, under the 2016 Plan. The Company granted 405,000 and 283,988 restricted stock awards during the three months ended May 4, 2018 and May 5, 2017, respectively, under the 2016 Plan. The annual restricted stock unit and restricted stock awards granted during fiscal 2019 and 2018 vest over a three-year period and approximately 50% of such awards are subject to performance conditions.

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

NOTE 8 — INCOME AND OTHER TAXES

The Company's effective income tax rate for the three months ended May 4, 2018 and May 5, 2017 was as follows:

	Three Months Ended	
	May 4, 2018	May 5, 2017
Loss before income taxes	\$ (17,085)	\$ (19,645)
Income tax benefit	\$ (3,266)	\$ (6,368)
Effective tax rate	19.1%	32.4%

During the periods presented in the accompanying condensed 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.

The change in the Company's effective income tax rate for the three months ended May 4, 2018 compared to the effective income tax rate for the three months ended May 5, 2017 was primarily driven by lower U.S. corporate income tax rate from 35% to 21% and the impact of the minimum tax on foreign earnings from the enactment of the U.S. Tax Cuts and Jobs Act ("U.S. Tax Reform Act" or the "Act") The Company's effective tax rate for the three months ended May 4, 2018 also includes the discrete impact of approximately \$0.3 million relating to the impact of the vesting of certain equity awards for which the fair value on the vesting date was lower than the fair value on the date the equity awards were originally granted. This change in fair value, which is measured by the price of the Class A common stock as reported on the NASDAQ Global Select Market, resulted in a lower actual tax deduction than was deducted for financial reporting purposes.

The U.S. Tax Reform Act was enacted in December 2017. GAAP requires the effect of changes in tax laws to be recognized in the period that includes enactment date. Among other things, the U.S. Tax Reform Act decreases the U.S. corporate income tax, establishes a modified territorial system by requiring a mandatory deemed repatriation tax on undistributed earnings of foreign subsidiaries (the "Transition Tax") and requires a minimum tax on certain future earnings generated by foreign subsidiaries. Due to the complexities involved in accounting for the enactment of the Act, SEC Staff Accounting Bulletin No. 118 ("SAB 118") allows companies to record provisional amounts in earnings for the first year following the Act's enactment, with those provisional amounts required to be finalized by the end of that year.

In accordance with GAAP and SAB 118, the Company recognized a provisional tax benefit in the fourth quarter of fiscal 2018 of \$27.0 million primarily attributable to the remeasurement of deferred tax assets and liabilities at the lower statutory rate. This tax benefit was net of an expense estimate of approximately \$0.6 million for the impact of the Transition Tax. The provisional estimates were made based on the Company's initial analysis using available information and estimates. During the three months ended May 4, 2018, the Company recorded an adjustment to the provisional benefit recognized in fiscal 2018 of approximately \$0.4 million due to a change in the remeasurement of a deferred tax liability. No other adjustments have been made to the provisional amounts recorded in the fourth quarter of fiscal 2018. The Company is continuing to gather additional information and refine its analysis to more precisely compute the amount of the Transition Tax and, as a result, the Company's accounting for this item is not yet complete. As the Company refines its provisional estimate calculation, further analyzes provisions of the Act and considers any subsequent guidance in accordance with SAB 118, these provisional estimates could be adjusted during the measurement period, which ends during the fourth quarter of fiscal 2019. As indicated above, the Company is included in the tax groupings of other Dell entities and recognized a tax benefit when its tax attributes are utilized by other members of the Dell consolidated group. Adjustments to these provisional estimates could have an impact on the Company's future financial results. Additionally, further regulatory or GAAP accounting guidance regarding the U.S. Tax Reform Act also could impact the Company's future financial results.

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

As of May 4, 2018 and February 2, 2018, the Company had \$4.5 million and \$4.0 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. These net operating loss carryforwards began expiring in the fiscal year ended February 2, 2018. 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 May 4, 2018 and February 2, 2018. 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 three months ended May 4, 2018 would have been \$17.2 million, \$2.8 million and \$14.5 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 U.S. Tax Reform Act that would be lost if not utilized by the Dell consolidated group.

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

As of May 4, 2018 and February 2, 2018, the Company had \$23.2 million and \$21.4 million, respectively, of a net operating loss tax receivable from Dell. The Company had \$0.9 million and \$0.8 million of unrecognized tax benefits as of May 4, 2018 and February 2, 2018, respectively.

NOTE 9 — 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. or its wholly-owned subsidiaries. The total amounts of the charges under the shared services agreement with Dell were \$1.1 million and \$1.4 million for the three months ended May 4, 2018 and May 5, 2017, 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 that is capitalized within property and equipment in the Condensed Consolidated Statements of Financial Position. These purchases were made at pricing that is intended to approximate arm's-length pricing. Purchases of computer equipment from Dell and EMC Corporation, a wholly-owned subsidiary of Dell ("EMC"), totaled \$0.7 million for the three months ended May 4, 2018, and \$0.6 million for the three months ended May 5, 2017.

EMC, a company that provides enterprise software and storage, maintains a majority ownership interest in a subsidiary, VMware, Inc. ("VMware"), 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 EMC and VMware totaled \$0.3 million and \$0.2 million for the three months ended May 4, 2018 and May 5, 2017, respectively. Approximately \$3.0 million of the purchases from VMware prior to the three months ended May 4, 2018 were financed through Dell Financial Services, of which approximately \$1.1 million of such purchases were included in intercompany liabilities as of May 4, 2018.

The Company recognized revenue related to solutions provided to other subsidiaries of Dell, consisting of RSA Security LLC, Pivotal Software, Inc., and Boomi, Inc. The revenue recognized by the Company for security solutions provided to these entities totaled \$0.1 million and \$16.0 thousand for the three months ended May 4, 2018 and May 5, 2017, respectively. Purchases by the Company from these subsidiaries totaled \$28.0 thousand for the three months ended May 4, 2018. The Company did not make any purchases from these subsidiaries for the three months ended May 5, 2017.

The Company recognized revenue related to solutions provided to principal stockholders of Dell Technologies consisting of Michael S. Dell, Chairman and Chief Executive Officer of Dell Technologies and Dell Inc., the Susan Lieberman Dell Separate Property Trust (a separate property trust for the benefit of Mr. Dell's wife) and MSD Capital, L.P. (a firm founded for the purposes of managing investments of Mr. Dell and his family). The revenues recognized by the Company from solutions provided to Mr. Dell, the Susan Lieberman Dell Separate Property Trust and MSD Capital, L.P. totaled \$19 thousand and \$23 thousand for the three months ended May 4, 2018 and May 5, 2017, respectively.

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

The Company provides solutions to certain clients whose contractual relationship has historically been with Dell rather than Secureworks, although the Company is the primary obligor and carries credit and inventory risk in these arrangements. Effective August 1, 2015, upon the creation of new subsidiaries to segregate some of the Company's operations from Dell's operations, as described in "Note 1—Description of the Business and Basis of Presentation," many of such client contracts were transferred from Dell to the Company, forming a direct contractual relationship between the Company and the end client. For clients whose contracts have not yet been transferred and for contracts subsequently originated through Dell under a reseller agreement, the Company recognized revenues of approximately \$12.7 million for the three months ended May 4, 2018, and approximately \$10.2 million for the three months ended May 5, 2017.

As the Company's client and on behalf of certain of its own clients, Dell also purchases solutions from the Company at pricing that is intended to approximate arm's-length pricing. Such revenues totaled approximately \$5.0 million for the three months ended May 4, 2018 and \$5.9 million for the three months ended May 5, 2017.

As a result of the foregoing related party arrangements, the Company has recorded the following related party balances in the Condensed Consolidated Statements of Financial Position as of May 4, 2018 and February 2, 2018. During the third quarter of fiscal 2017, the Company began settling in cash its related party balances with Dell on a quarterly basis.

	<u>May 4, 2018</u>	<u>February 2, 2018</u>
	(in thousands)	
Intercompany receivable	\$ —	\$ —
Intercompany payable	(19,808)	(19,580)
Net intercompany payable (in accrued and other)	<u>\$ (19,808)</u>	<u>\$ (19,580)</u>
Accounts receivable from clients under reseller agreements with Dell (included in accounts receivable, net)	<u>\$ 22,451</u>	<u>\$ 25,229</u>
Net operating loss tax sharing receivable under agreement with Dell (included in "Other current assets" and "Other non-current assets" at May 4, 2018 and in "Other current assets" at February 2, 2018)	<u>\$ 23,211</u>	<u>\$ 21,380</u>

NOTE 10 — FAIR VALUE MEASUREMENTS

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The assets and liabilities of the Company that are measured at fair value on a recurring basis using the respective input levels as of May 4, 2018 and February 2, 2018 were as follows:

	<u>May 4, 2018</u>	<u>February 2, 2018</u>
	<u>Level 1</u>	<u>Level 1</u>
	(in thousands)	
Cash equivalents - Money Market Funds	\$ 34,125	\$ 58,967

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

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

This management's discussion and analysis is based upon the financial statements of Secureworks which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP, and should be read in conjunction with our audited financial statements and related notes for the year ended February 2, 2018 included in Part II, Item 8 of our Annual Report on Form 10-K as filed with the SEC on March 28, 2018, which we refer to as the Annual Report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. 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" in Part I, Item 1A of our Annual Report.

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 1, 2019 and the fiscal year ended February 2, 2018 as fiscal 2019 and fiscal 2018, respectively. Fiscal 2019 and fiscal 2018 each have 52 weeks, and each quarter has 13 weeks. All percentage amounts and ratios presented in this management's discussion and analysis were calculated using the underlying data in thousands. Unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal periods.

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 company that protects organizations in the digitally connected world. We combine visibility from thousands of clients, machine learning and automation from our industry-leading SecureWorks Counter Threat Platform™, and actionable insights from our team of elite researchers and analysts to create a powerful network effect that provides increasingly strong protection for our clients. By aggregating and analyzing data from various sources around the world, we prevent security breaches, detect malicious activity in real time, respond rapidly and predict emerging threats.

Our mission is to unlock the value of our clients' security investments by simplifying their complex security operations and amplifying their defenses. Through our vendor-neutral approach, we create integrated and comprehensive solutions by proactively managing the collection of "point" products deployed by our clients to address specific security issues and provide supplemental solutions where gaps exist in our clients' defenses. We customize the right level of security for each client's unique situation, which evolves as the client's organization grows and changes.

We have pioneered an integrated approach that delivers a broad portfolio of information security solutions to organizations of varying size and complexity. Our flexible and scalable solutions support the evolving needs of the largest, most sophisticated enterprises staffed with in-house security experts, as well as small and medium-sized businesses and government agencies with limited in-house capabilities and resources.

Our solutions enable organizations to:

- prevent security breaches by fortifying their cyber defenses,
- detect malicious activity,
- respond rapidly to security breaches, and
- predict emerging threats.

The solutions leverage our proprietary technologies, processes and extensive expertise in the information security industry, which we have developed over more than 18 years. Key elements of our strategy include:

- maintain and extend our technology leadership,
- expand and diversify our client base,
- deepen our existing client relationships, and
- attract and retain top talent.

Our intelligence-driven information security solutions offer an innovative approach to prevent, detect, respond to and predict cybersecurity breaches. Through our *managed security offerings*, which are sold on a subscription basis, we provide global visibility and insight into malicious activity, enabling our clients to detect and effectively remediate threats quickly. *Threat intelligence*, which is typically deployed as part of our managed security offerings, delivers early warnings of vulnerabilities and threats along with actionable information to help prevent any adverse impact. In addition to these solutions, we also offer a variety of professional services, which include security and risk consulting and incident response. Through *security and risk consulting*, we advise clients on a broad range of security and risk-related matters. *Incident response* minimizes the impact and duration of security breaches through proactive client preparation, rapid containment and thorough event analysis followed by effective remediation. We continuously evaluate potential investments and acquisitions of businesses, services and technologies that could complement our existing offerings. We have a single organization responsible for the delivery of our security solutions, which enables us to respond quickly to our clients' evolving needs and help them secure themselves against cyber attacks.

The fees we charge for our solutions vary based on a number of factors, including the solutions selected, the number of client devices covered by the selected solutions, and the level of management we provide for the solutions. Over all of the periods presented, approximately 78% of our revenue was derived from subscription-based solutions, attributable to managed security contracts, while approximately 22% was derived from professional services engagements. As we respond to the evolving needs of our clients, the relative mix of subscription-based solutions and professional services we provide our clients may fluctuate.

Key Operating Metrics

In recent years, we have experienced broad growth across our portfolio of intelligence-driven information security solutions being provided to all sizes of clients. We have achieved much of this growth by providing solutions to large enterprise clients, which generate substantially more average revenue than our small and medium-sized business, or SMB clients, and by continually expanding the volume and breadth of the security solutions that we provide to all clients. This has resulted in steady growth in our average revenue per client. This growth has required continuous investment in our business, resulting in net losses. We believe these investments are critical to our success, although they may continue to impact our profitability.

We believe the operating metrics described below provide further insight into the long-term value of our subscription agreements and our ability to maintain and grow our client relationships. Relevant key operating metrics are presented below as of the dates indicated and for the quarterly periods then ended:

	May 4, 2018	February 2, 2018	May 5, 2017
Client base	4,400	4,400	4,400
Average revenue per client (in thousands)	\$ 97.6	\$ 95.6	\$ 87.9
Monthly recurring revenue (in millions)	\$ 35.5	\$ 35.3	\$ 31.9
Revenue retention rate	100%	96%	99%

Client Base. We define our client base as the number of clients who subscribe to our managed security solutions as of a particular date. We believe that growing our existing client base and our ability to grow our average revenue per client represent significant future revenue opportunities for us. The increase in average revenue per client are primarily related to the persistence of cyber threats and the results of our sales and marketing efforts to increase the awareness of our solutions. Additionally, our client composition of both enterprise and SMB companies provides us with an opportunity to expand our professional services revenue.

Monthly Recurring Revenue. We define monthly recurring revenue as the monthly value of our subscription contracts as of a particular date. Because we use monthly recurring revenue as a leading indicator of future annual revenue, we include operational backlog. We define operational backlog as the monthly recurring revenue associated with pending contracts, which are contracts that have been sold but for which the service period has not yet commenced. Our increase in monthly recurring revenue has been driven primarily by our continuing ability to expand our offerings and sell additional solutions to existing clients, as well as by growth in our client base. Overall, we expect monthly recurring revenue to continue to grow as we retain and expand our client base, and as our clients extend the use of our solutions over time.

Revenue Retention Rate. Our revenue retention rate is an important measure of our success in retaining and growing revenue from our subscription-based clients. To calculate our revenue retention rate for any period, we compare the monthly recurring revenue excluding operational backlog of our subscription-based client base at the beginning of the fiscal year, which we call our base recurring revenue, to the monthly recurring revenue excluding operational backlog from that same cohort of clients at the end of the period, which we call our 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 clients 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 clients and the negative revenue impacts of client or service attrition during the period. However, the calculation does not include the positive impact on revenue from sales of solutions to any clients acquired during the period. Our revenue retention rates may decline or increase from period to period as a result of several factors, including the timing of solution installations and client 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 GAAP. Non-GAAP financial measures presented in this management's discussion and analysis include non-GAAP revenue, non-GAAP gross margin, non-GAAP research and development expenses, non-GAAP sales and marketing expenses, non-GAAP general and administrative expenses, non-GAAP operating loss, non-GAAP net loss, non-GAAP net loss 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.

In particular, we have excluded the impact of certain purchase accounting adjustments related to a change in the basis of deferred revenue for the acquisition of Dell by Dell Technologies in fiscal 2014. We believe it is useful to exclude such purchase accounting adjustments related to the foregoing transactions as this deferred revenue generally results from multi-year service contracts under which deferred revenue is established upon sale and revenue is recognized over the term of the contract. Pursuant to the fair value provisions applicable to the accounting for business combinations, GAAP requires this deferred revenue to be recorded at its fair value, which is typically less than the book value. In presenting non-GAAP earnings, we add back the reduction in revenue that results from this revaluation on the expectation that a significant majority of these service contracts will be renewed in the future and therefore the revaluation is not helpful in predicting our ongoing revenue trends. We believe that this non-GAAP financial adjustment is useful to investors because it allows investors to (1) evaluate the effectiveness of the methodology and information used by management in its financial and operational decision-making, and (2) compare past and future reports of financial results of our Company as the revenue reduction related to acquired deferred revenue will not recur when related service contracts are renewed in future periods.

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.

Non-GAAP revenue, non-GAAP gross margin, non-GAAP research and development expenses, non-GAAP sales and marketing expenses, non-GAAP general and administrative expenses, non-GAAP operating loss, non-GAAP net loss and non-GAAP net loss per share, 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 margin, research and development expenses, sales and marketing expenses, general and administrative expenses, operating loss or net loss prepared 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:

- *Impact of Purchase Accounting.* The impact of purchase accounting consists primarily of purchase accounting adjustments related to a change in the basis of deferred revenue related to the acquisition of Dell by Dell Technologies in fiscal 2014.
- *Amortization of Intangible Assets.* Amortization of intangible assets consists of amortization of customer relationships and acquired technology. In connection with the acquisition of Dell by Dell Technologies in fiscal 2014, all of our tangible and intangible assets and liabilities were accounted for and recognized at fair value on the transaction date.

Accordingly, amortization of intangible assets consists of amortization associated with intangible assets recognized in connection with this transaction.

- *Stock-based Compensation Expense.* Non-cash stock-based compensation relates to both the Dell Technologies and Secureworks equity plans. We exclude such expenses 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.

	Three Months Ended	
	May 4, 2018	May 5, 2017*
	(in thousands)	
GAAP revenue	\$ 126,161	\$ 113,678
Impact of purchase accounting	—	146
Non-GAAP revenue	<u>\$ 126,161</u>	<u>\$ 113,824</u>
GAAP gross margin	\$ 65,631	\$ 60,065
Amortization of intangibles	3,410	3,410
Impact of purchase accounting	—	156
Stock-based compensation expense	269	224
Non-GAAP gross margin	<u>\$ 69,310</u>	<u>\$ 63,855</u>
GAAP research and development expenses	\$ 22,354	\$ 19,479
Stock-based compensation expense	(1,031)	(814)
Non-GAAP research and development expenses	<u>\$ 21,323</u>	<u>\$ 18,665</u>
GAAP sales and marketing expenses	\$ 35,670	\$ 36,178
Stock-based compensation expense	(621)	(214)
Non-GAAP sales and marketing expenses	<u>\$ 35,049</u>	<u>\$ 35,964</u>
GAAP general and administrative expenses	\$ 25,197	\$ 23,404
Amortization of intangibles	(3,524)	(3,524)
Impact of purchase accounting	—	(256)
Stock-based compensation expense	(2,809)	(2,376)
Non-GAAP general and administrative expenses	<u>\$ 18,864</u>	<u>\$ 17,248</u>
GAAP operating loss	\$ (17,590)	\$ (18,996)
Amortization of intangibles	6,934	6,934
Impact of purchase accounting	—	412
Stock-based compensation expense	4,730	3,628
Non-GAAP operating loss	<u>\$ (5,926)</u>	<u>\$ (8,022)</u>
GAAP net loss	\$ (13,819)	\$ (13,277)
Amortization of intangibles	6,934	6,934
Impact of purchase accounting	—	412
Stock-based compensation expense	4,730	3,628
Aggregate adjustment for income taxes	(2,391)	(3,234)
Non-GAAP net loss	<u>\$ (4,546)</u>	<u>\$ (5,537)</u>

GAAP net loss per share	\$	(0.17)	\$	(0.17)
Amortization of intangibles		0.09		0.09
Impact of purchase accounting		—		0.01
Stock-based compensation expense		0.06		0.05
Aggregate adjustment for income taxes		(0.03)		(0.04)
Non-GAAP net loss per share *	\$	(0.06)	\$	(0.07)

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

GAAP net loss	\$	(13,819)	\$	(13,277)
Interest and other, net		(505)		649
Income tax benefit		(3,266)		(6,368)
Depreciation and amortization		10,287		10,261
Stock-based compensation expense		4,730		3,628
Impact of purchase accounting		—		146
Adjusted EBITDA	\$	(2,573)	\$	(4,961)

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

Our Relationship with Dell and Dell Technologies

On February 8, 2011, we were acquired by Dell Inc. On October 29, 2013, Dell was acquired by Dell Technologies Inc. (formerly known as Denali Holding Inc.), a parent holding corporation. For the purposes of the accompanying condensed consolidated financial statements, we elected to utilize pushdown accounting for the acquisition of Dell by Dell Technologies. On April 27, 2016, we completed our IPO, as further described below. Upon the closing of our IPO, Dell Technologies owned, indirectly through Dell Inc. and Dell Inc.'s subsidiaries, no shares of our outstanding Class A common stock and all shares of our outstanding Class B common stock, which as of May 4, 2018 represented approximately 85.7% of our total outstanding shares of common stock and approximately 98.4% of the combined voting power of both classes of our outstanding common stock.

Since acquiring us in 2011, Dell has provided us with 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 Condensed Consolidated Financial Statements—Note 9—Related Party Transactions" in our condensed consolidated financial statements included in this report.

During the periods presented in the condensed consolidated financial statements included in this report, Secureworks did not file separate federal tax returns, as Secureworks 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 or as realizable by Secureworks when those attributes are utilized or expect to be utilized by other members of the Dell consolidated group. For more information, see "Notes to Condensed Consolidated Financial Statements—Note 8—Income and Other Taxes" in our condensed consolidated financial statements included in this report.

As a majority-owned subsidiary of Dell, we have participated in various commercial arrangements with Dell, under which, for example, we provide information security solutions to third-party clients 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. The commercial agreements set the terms and conditions for transactions between Dell and us, while our shared services agreement with Dell sets the terms and conditions for certain administrative functions that continue to be provided by Dell. These agreements generally are 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. As of May 4, 2018, we have established a substantial portion of our stand-alone corporate functions. For more information regarding the allocated costs and related party transactions, see "Notes to Condensed Consolidated Financial Statements—Note 9—Related Party Transactions" in our condensed consolidated financial statements included in this report.

Initial Public Offering

On April 27, 2016, we completed our IPO in which we issued and sold 8,000,000 shares of Class A common stock at a price to the public of \$14.00 per share. We received net proceeds of \$99.6 million from the sale of shares of Class A common stock, after deducting \$12.4 million of underwriting discounts and commissions and unpaid offering expenses payable by us.

Components of Results of Operations

Revenue

We sell managed security solutions and threat intelligence solutions on a subscription basis and various professional services, including security and risk consulting and incident response solutions. Our managed security subscription contracts typically range from one to three years and, as of May 4, 2018, averaged two years in duration. The revenue and any related costs for these deliverables are recognized ratably over the contract term, beginning on the date on which service is made available to clients. Professional services clients typically purchase solutions pursuant to customized contracts that are shorter in duration. In general, these contracts have terms of less than one year. Professional services consist primarily of fixed-fee and retainer-based contracts. 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.

The fees we charge for our solutions vary based on a number of factors, including the solutions selected, the number of client 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 solutions, attributable to managed security contracts, while approximately 22% is derived from professional services engagements. International revenue, which we define as revenue contracted through non-U.S. entities, represented approximately 20% of our total net revenue in the first quarter of fiscal 2019 and 14% of our total net revenue in the first quarter of fiscal 2018. Although our international clients are located primarily in the United Kingdom, we provided managed security services to clients across 57 countries as of May 4, 2018.

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.

A significant portion of the contract to provide managed security solutions with Bank of America, N.A., our largest client, is up for renewal at the end of the second quarter of fiscal 2019. We are currently in discussions with the client regarding the renewal of the agreement, but the contract may not be renewed.

Gross Margin

We operate in a challenging business environment, where the complexity and number of cyber attacks are constantly increasing. Accordingly, initiatives to drive the efficiency of our Counter Threat Platform and the continued training and development of our employees are critical to our long-term success. Gross margin has been and will continue to be affected by these factors as well as others, including the mix of solutions sold, the mix between large and small clients, timing of revenue recognition and the extent to which we expand our counter threat operations centers.

Cost of revenue consists primarily of personnel expenses, including salaries, benefits and performance-based compensation for employees who maintain our Counter Threat Platform and provide solutions to our clients, as well as perform other critical functions. Also included in cost of revenue are amortization of equipment and costs associated with hardware provided to clients as part of their subscription services, amortization of technology licensing fees, fees paid to contractors who supplement or support our solutions, maintenance fees and overhead allocations. As our business grows, the cost of revenue associated with our solutions may fluctuate.

We operate in a high-growth industry and have experienced significant revenue growth since our inception. Accordingly, we expect our gross margin to increase in absolute dollars. We continue to invest in initiatives to drive the efficiency of our business to increase gross margin as a percentage of total revenue. However, as we balance revenue growth and efficiency initiatives, gross margin as a percentage of total revenue may 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 solutions offerings 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), client advocacy events, and other brand-building expenses, as well as allocated overhead.
- *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.

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. In addition, we expect to incur additional costs as we increase our G&A functions to further support stand-alone public company requirements.

Interest and Other, Net

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

Income Tax Expense (Benefit)

Our effective tax rate was a benefit of 19.1% and 32.4% for the three months ended May 4, 2018 and May 5, 2017, respectively. The change in the Company's effective income tax rate for the three months ended May 4, 2018 compared to the effective income tax rate for the three months ended May 5, 2017 was primarily attributable to the impact of the Tax Cuts and Jobs Act of 2017 on the federal statutory rate and impact of certain discrete adjustments and non-deductible stock compensation expense in the current period.

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 Condensed Consolidated Financial Statements—Note 8—Income and Other Taxes" in our condensed consolidated financial statements included in this report.

Results of Operations

The following tables summarize our key performance indicators for the three months ended May 4, 2018 and May 5, 2017.

	Three Months Ended				
	May 4, 2018			May 5, 2017	
	\$	% of Revenue	% Change	\$	% of Revenue
	(in thousands, except percentages)				
Net revenue	\$ 126,161	100.0 %	11.0 %	\$ 113,678	100.0 %
Cost of revenue	\$ 60,530	48.0 %	12.9 %	\$ 53,613	47.2 %
Total gross margin	\$ 65,631	52.0 %	9.3 %	\$ 60,065	52.8 %
Operating expenses	\$ 83,221	66.0 %	5.3 %	\$ 79,061	69.5 %
Operating loss	\$ (17,590)	(13.9)%	(7.4)%	\$ (18,996)	(16.7)%
Net loss	\$ (13,819)	(11.0)%	4.1 %	\$ (13,277)	(11.7)%
Other Financial Information ⁽¹⁾					
Non-GAAP net revenue	\$ 126,161	100.0 %	10.8 %	\$ 113,824	100.0 %
Non-GAAP cost of revenue	\$ 56,851	45.1 %	13.8 %	\$ 49,969	43.9 %
Non-GAAP gross margin	\$ 69,310	54.9 %	8.5 %	\$ 63,855	56.1 %
Non-GAAP operating expenses	\$ 75,236	59.6 %	4.7 %	\$ 71,877	63.1 %
Non-GAAP operating loss	\$ (5,926)	(4.7)%	(26.1)%	\$ (8,022)	(7.0)%
Non-GAAP net loss	\$ (4,546)	(3.6)%	(17.9)%	\$ (5,537)	(4.9)%
Adjusted EBITDA	\$ (2,573)	(2.0)%	(48.1)%	\$ (4,961)	(4.4)%

(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 non-GAAP revenue.

Three months ended May 4, 2018 compared to the three months ended May 5, 2017

Revenue

Net revenue, which we refer to as revenue, increased \$12.5 million, or 11.0%, for the three months ended May 4, 2018. This revenue increase resulted primarily from revenue generated by subscription-based solutions, as revenue attributable to these solutions represented approximately 78% of net revenue for the three months ended May 4, 2018. The number of clients subscribing to such solutions grew approximately 0.4% over May 5, 2017, while existing clients continued to increase their contracted subscriptions for our solutions. Average revenue per client increased 11% year over year.

Revenue for certain services provided to or on behalf of Dell under our commercial agreements with Dell totaled approximately \$5.0 million and \$5.9 million for the three months ended May 4, 2018 and May 5, 2017, respectively. For more information regarding the commercial agreements, see "Notes to Condensed Consolidated Financial Statements—Note 9—Related Party Transactions" in our condensed consolidated financial statements included in this report.

We primarily generate revenue from sales in the United States. However, for the three months ended May 4, 2018, international revenue, which we define as revenue contracted through non-U.S. entities, increased to \$25.8 million, or 56.8%, from the three months ended May 5, 2017. Currently, our international clients are primarily located in Europe, Asia/Pacific and Canada. We are focused on continuing to grow our international client base in future periods.

Gross Margin

Our total gross margin increased \$5.6 million, or 9.3%, for the three months ended May 4, 2018. As a percentage of revenue, our gross margin decreased 80 basis points to 52.0% for the three months ended May 4, 2018. Gross margin on a GAAP basis includes amortization of intangible assets, stock compensation expense and purchase accounting adjustments. On a non-GAAP basis, excluding these adjustments, gross margin increased \$5.5 million, or 8.5%, for the three months ended May 4, 2018 to \$69.3 million, or 54.9% as a percentage of revenue, a decrease of 120 basis points compared to the three months ended May 5, 2017. The decrease in gross margin on both a GAAP and non-GAAP basis during the three months ended May 4, 2018 was primarily attributable to pressure from the consulting business, including higher consulting costs compared to the prior year.

Operating Expenses

The following table presents information regarding our operating expenses during the three months ended May 4, 2018 and May 5, 2017.

	Three Months Ended				
	May 4, 2018		% Change	May 5, 2017*	
	Dollars	% of Revenue		Dollars	% of Revenue
(in thousands, except percentages)					
<i>Operating expenses:</i>					
Research and development	\$ 22,354	17.7%	14.8 %	\$ 19,479	17.1%
Sales and marketing	35,670	28.3%	(1.4)%	36,178	31.8%
General and administrative	25,197	20.0%	7.7 %	23,404	20.6%
Total operating expenses	<u>\$ 83,221</u>	66.0%	5.3 %	<u>\$ 79,061</u>	69.5%
<i>Other Financial Information</i>					
Non-GAAP research and development	\$ 21,323	16.9%	14.2 %	\$ 18,665	16.4%
Non-GAAP sales and marketing	35,049	27.8%	(2.5)%	35,964	31.6%
Non-GAAP general and administrative	18,864	15.0%	9.4 %	17,248	15.2%
Non-GAAP operating expenses ⁽¹⁾	<u>\$ 75,236</u>	59.6%	4.7 %	<u>\$ 71,877</u>	63.1%

(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.

* Certain prior period amounts have been adjusted as a result of the adoption of the accounting standard for revenue recognition set forth in ASC 606.

Research and Development Expenses. R&D expenses increased \$2.9 million, or 14.8%, for the three months ended May 4, 2018. As a percentage of revenue, R&D expenses increased 60 basis points to 17.7% for the three months ended May 4, 2018. On a non-GAAP basis, R&D expenses as a percentage of revenue increased 50 basis points to 16.9% for the three months ended May 4, 2018. The increases were primarily attributable to compensation and benefit costs for additional engineers and the use of outside resources associated with strategic initiatives related to the development of a new application framework.

Sales and Marketing Expenses. S&M expenses decreased \$0.5 million, or 1.4%, for the three months ended May 4, 2018. As a percentage of revenue, S&M expenses decreased 350 basis points to 28.3% for the three months ended May 4, 2018. On a non-GAAP basis, S&M expenses as a percentage of revenue decreased 380 basis points to 27.8% for the three months ended May 4, 2018. The decrease in expenses were primarily attributable to lower non-quota carrying headcount, lower commission expense, and greater leverage on the overall cost base as revenue increased.

General and Administrative Expenses. G&A expenses increased \$1.8 million, or 7.7%, for the three months ended May 4, 2018. As a percentage of revenue, G&A expenses decreased 60 basis points to 20.0% for the three months ended May 4, 2018. On a non-GAAP basis, G&A expenses as a percentage of revenue decreased 20 basis points to 15.0% for the three months ended May 4, 2018. The increase in expenses resulted from an overall increase in our allowance for doubtful accounts, as well as increases in our long-term incentive and stock compensation expense.

Operating Loss

Our GAAP operating loss decreased to \$17.6 million for the three months ended May 4, 2018 from \$19.0 million for the three months ended May 5, 2017. As a percentage of revenue, our operating loss decreased to 13.9% for the three months ended May 4, 2018. The decrease in our GAAP operating loss on a dollar basis was primarily attributable to increased gross margin, which was partially offset by research and development investments in our business together with higher general and administrative expenses relating to bad debt and costs of long-term compensation programs combined with lower sales and marketing expenses. Operating loss on a GAAP basis includes amortization of intangible assets, purchase accounting adjustments and stock-based compensation expense. On a non-GAAP basis, excluding these charges, our operating loss as a percentage of revenue decreased to 4.7% for the three months ended May 4, 2018. The decrease in our non-GAAP net operating loss as a percentage of revenue during the three months ended May 4, 2018 was primarily attributable to improved operating leverage as we grow, which was partially offset by research and development investments in our business, including the addition of personnel.

Interest and Other, Net

Our interest and other was \$0.5 million of income for the three months ended May 4, 2018 compared with \$(0.6) million of expense for the three months ended May 5, 2017. The changes primarily reflected the effects of foreign currency transactions and related exchange rate fluctuations.

Income Tax Benefit

Our income tax benefit was \$3.2 million, or 19.1%, of our pre-tax loss in the first quarter of fiscal 2019, compared with \$6.4 million, or 32.4%, of our pre-tax loss in first quarter of fiscal 2018. The decrease in the effective tax rate is primarily attributable to the decrease in the federal statutory rate from 35% to 21% as a result of the Tax Cuts and Jobs Act of 2017 and the impact of certain discrete adjustments and non-deductible stock-based compensation expense in the period.

Net Loss

Our net loss of \$13.8 million increased \$0.5 million, or 4.1%, for the three months ended May 4, 2018. Net loss on a non-GAAP basis was \$4.5 million, which represented a decrease of \$1.0 million, or (17.9)%, from the three months ended May 5, 2017. The changes in net loss were attributable to our improved operating loss results offset in part by the lower income tax benefit recognized in the period.

Liquidity, Capital Commitments and Contractual Cash Obligations

Overview

We believe that our cash and cash equivalents together with our accounts receivable will provide us with sufficient liquidity to fund our business and meet our obligations for at least 12 months. 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 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

Selected measures of our liquidity and capital resources are as follows:

	May 4, 2018	February 2, 2018
	(in thousands)	
Cash and cash equivalents	\$ 77,302	\$ 101,539
Accounts receivable, net	\$ 146,823	\$ 157,764

As of May 4, 2018, our principal sources of liquidity consisted of cash and cash equivalents of \$77.3 million and accounts receivable of \$146.8 million. Our cash and cash equivalents balance as of May 4, 2018 included \$34.1 million of net proceeds from our IPO.

We invoice our clients based on a variety of billing schedules. During the first quarter of fiscal 2019, on average, 55% of our recurring revenue was billed in advance and approximately 45% was billed on either a monthly or a quarterly basis. Invoiced accounts receivable generally are collected over a period of 30 to 120 days. The decrease in accounts receivable as of May 4, 2018, reflected increased collection activity, partially offset by an increase in revenue. We regularly monitor our accounts receivable for collectability, particularly in markets where economic conditions remain uncertain and continue to take actions to reduce our exposure to credit losses. As of May 4, 2018 and February 2, 2018, the allowance for doubtful accounts was \$8.6 million and \$8.2 million, respectively. The increase in the allowance for doubtful accounts was due to the impact of a small number of larger accounts with longer-aged receivables. Based on our assessment, we believe we are adequately reserved for credit risk.

Revolving Credit Facility

SecureWorks, Inc., our wholly-owned subsidiary, has entered into 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. During the three months ended May 4, 2018, the facility was amended and restated to extend the maturity date to March 27, 2019 and to reduce the annual rate at which interest accrues from the applicable London Interbank Offered Rate plus 1.60% to such rate plus 1.15%. 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 as of May 4, 2018 or February 2, 2018.

The unused portion of the facility is subject to a commitment fee of 0.35%, which is due upon expiration of the facility. For additional information about the facility, see "Notes to Condensed Consolidated Financial Statements—Note 5—Debt" in our condensed consolidated financial statements included in this report.

Cash Flows

The following table presents information concerning our cash flows during the three months ended May 4, 2018 and May 5, 2017.

	Three Months Ended	
	May 4, 2018	May 5, 2017
	(in thousands)	
<i>Net change in cash from:</i>		
Operating activities	\$ (18,404)	\$ (19,655)
Investing activities	(2,216)	(3,350)
Financing activities	(3,617)	(2,024)
Change in cash and cash equivalents	<u>\$ (24,237)</u>	<u>\$ (25,029)</u>

Operating Activities — Cash used in operating activities totaled \$18.4 million and \$19.7 million for the three months ended May 4, 2018 and May 5, 2017, respectively. The decrease in our operating cash flows was primarily driven by increased benefit costs, higher stock-based compensation expense and our net transactions with Dell. These decreases were significantly offset by the decrease in our net accounts receivable balance.

We began fiscal 2019 with a net payable to Dell of \$19.6 million. On a continuing basis, we incur liabilities to Dell for charges under our commercial agreements with Dell and for costs Dell continues to pay directly on our behalf, such as the cost of employee benefits for our employees provided under the Dell benefit plans. Offsetting these liabilities, we charge to, or through, Dell for sales to our clients that we make through Dell legal entities or for services we provide directly to Dell. As of May 4, 2018, the amount due to Dell had increased to approximately \$19.8 million. During the third quarter of fiscal 2017, we began settling in cash our related party balances with Dell and will continue doing so on a quarterly basis. We expect that over time our transactions with Dell will not be a use of cash as we anticipate that our charges to Dell will continue to exceed Dell's charges to us, although the timing of charges and settlements may vary from period to period.

Investing Activities — Cash used in investing activities totaled \$2.2 million and \$3.4 million for the three months ended May 4, 2018 and May 5, 2017, respectively. For the periods presented, investing activities consisted primarily of capital expenditures for property and equipment to support our data center and facility infrastructure.

Financing Activities — Cash flows used in financing activities totaled \$3.6 million and \$2.0 million for the three months ended May 4, 2018 and May 5, 2017, respectively. The usage in the three months ended May 4, 2018 reflected employee tax withholding payments of \$2.0 million on restricted stock awards paid by us and payments of long-term financing arrangements of \$1.6 million, including an intercompany obligation with a Dell subsidiary of \$1.1 million. The usage in the three months ended May 5, 2017 reflected employee tax withholding payments of \$1.2 million on restricted stock awards paid by us and payment of an intercompany obligation of \$0.8 million.

Off-Balance Sheet Arrangements

As of May 4, 2018, we were not subject to any obligations pursuant to any off-balance sheet arrangements that have or are reasonably likely to have a material effect on our financial condition, results of operations or liquidity.

Critical Accounting Policies

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

As described in "Notes to Condensed Consolidated Financial Statements—Note 1—Description of the Business and Basis of Presentation," we have adopted the new revenue recognition accounting guidance set forth in ASC 606. Management assessed the critical accounting policies as disclosed in our 2018 Form 10-K and determined that, other than the change in accounting for revenue recognition, there were no changes to our critical accounting policies or our estimates associated with those policies during the three months ended May 4, 2018.

Recently Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our results of operations and cash flows have been and will continue to be subject to fluctuations because of changes in foreign currency exchange rates, particularly changes in exchange rates between the U.S. dollar and the Euro, the British Pound, the Romanian Leu 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 4. Controls and Procedures

Limitations on Effectiveness of Disclosure Controls and Procedures

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

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of May 4, 2018. Based on that evaluation, our management has concluded that our disclosure controls and procedures were effective as of May 4, 2018.

Changes in Internal Control over Financial Reporting

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

There were no changes in our internal control over financial reporting that occurred during the quarter ended May 4, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1A. Risk Factors

We have discussed risks affecting us under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2018 filed with the SEC on March 28, 2018. The risks described in that Annual Report are not the only risks facing us. In addition to the risk discussed below, there are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial that may also materially adversely affect our business, financial condition or operating results.

Risks Related to Ownership of Our Class A Common Stock

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, in 2017, FTSE Russell, S&P Dow Jones and MSCI announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices to exclude companies with multiple classes of common stock or certain voting structures from being added to, or in some cases remaining part of, such indices. FTSE Russell announced plans to require new and, beginning in September 2022, existing constituents of its indices such as us to have at least 5% of their voting rights in the hands of public stockholders. S&P Dow Jones announced that companies with multiple share classes, such as ours, will not be eligible for inclusion as new constituents in the S&P 500, S&P MidCap 400 and S&P SmallCap 600, which together make up the S&P Composite 1500. MSCI also opened public consultations on their treatment of no-vote and multi-class structures and has temporarily barred new multi-class constituents from its ACWI Investable Market Index and U.S. Investable Market 2500 Index. Other stock indices might take a similar approach in the future. Under the announced policies, our dual class capital structure would make us ineligible for inclusion in any of these indices and, as a result, mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track these indices will not invest in our stock. These policies are new and it is unclear what effect, if any, they will have on the valuations of publicly traded companies excluded from the indices, but it is possible that they may depress these valuations compared to those of other similar companies that are included.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

As of May 4, 2018, we have expended approximately \$65.5 million of the net proceeds of our IPO for general corporate purposes and have invested approximately \$34.1 million of such proceeds in money market funds pending their use in our business.

Item 6. Exhibits

Secureworks hereby files or furnishes the following exhibits:

<u>Exhibit No.</u>	<u>Description</u>
10.1	<u>Amended and Restated Revolving Credit Agreement, dated as of March 27, 2018, between SecureWorks, Inc. and Dell USA L.P. Filed herewith.</u>
10.2+	<u>Non-Employee Director Compensation Policy, adopted March 2, 2018 and effective June 21, 2018. Filed herewith.</u>
31.1	<u>Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.</u>
31.2	<u>Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.</u>
32.1	<u>Certifications of Chief Executive Officer and Chief Financial Officer of the Company pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

+ Indicates a management contract or any compensatory plan, contract or arrangement

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

This AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT (this "Agreement"), dated as of March 27, 2018 and effective as of the Effective Date, is made by and between SecureWorks, Inc., a Georgia corporation, as borrower (the "Borrower"), and Dell USA L.P., a Texas limited partnership, as lender (the "Lender").

RECITALS

WHEREAS, the Borrower and the Lender entered into that certain Revolving Credit Agreement dated as of November 2, 2015, as amended by that certain First Amendment to Revolving Credit Agreement dated as of March 28, 2017 (collectively, the "Original Agreement");

WHEREAS, the Borrower and the Lender each desire to amend and restate the Original Agreement in its entirety; and

WHEREAS, the Borrower has requested that the Lender make loans to the Borrower and the Lender is prepared to make such loans on a revolving basis and subject to the terms and conditions hereof.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, and subject to the conditions set forth herein, the parties hereto agree to amend and restate the Original Agreement as follows:

SECTION 1. DEFINITIONS.

1.1. Certain Defined Terms. As used herein, the following terms have the following respective meanings:

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person; and for purposes of this definition, the term "control" (including the terms "controlling," "controlled by" and "under common control with") of a Person means the possession, direct or indirect, of 50% or more of the total voting power of the Voting Stock of such Person or the power to direct or cause the direction of the management and policies of such Person, whether through the possession of such voting power, by contract or otherwise.

"Applicable Margin" means a margin of 1.15% above the LIBOR applicable to each Loan.

"Asset Disposition" means any sale, lease, license, assignment, sale leaseback, transfer or other disposition by the Borrower or any of its Subsidiaries of any of their respective assets, other than (a) sales of inventory for at least fair value in the ordinary course of business, and (b) sales of obsolete or worn out property if promptly replaced with other similar property of at least equal usefulness.

"Assignment and Assumption" means an assignment and assumption entered into between the Lender and an assignee in a form approved by the Lender.

"Availability Period" means the period from the Effective Date to, but excluding, the Commitment Termination Date.

“Available Commitment” means, at any time, the Commitment then in effect less the aggregate principal amount of all Loans outstanding under the Agreement at such time.

“Beneficial Owner” has the meaning set forth in Rule 13d-3 under the Exchange Act.

“Borrower” has the meaning set forth in the introduction hereto.

“Borrowing” means a borrowing by the Borrower of a Loan.

“Borrowing Date” means the date of a Borrowing.

“Business Day” means a day (other than a Saturday or Sunday) on which commercial banks are not authorized or required to close in New York, New York.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty; (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority; or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority.

“Change of Control” means the occurrence of any of the following:

- (a) The Borrower ceases for any reason to be a direct or indirect wholly-owned Subsidiary of the Company;
- (b) A transaction or a series of related transactions pursuant to which any Person or Group (other than a Dell Entity or Group of Dell Entities) becomes the Beneficial Owner of more than fifty percent (50%) of the total voting power of the Voting Stock of the Company, on a Fully Diluted Basis;
- (c) Individuals who, as of the Effective Date, constitute the Board of Directors of the Company (the “Incumbent Board”) (together with any new directors whose election by such Incumbent Board or whose nomination by such Incumbent Board for election by the stockholders of the Company was approved by a vote of at least a majority of the members of such Incumbent Board then in office who either were members of such Incumbent Board or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the members of the Board of Directors of the Company then in office;
- (d) The Company consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, the Company (regardless of whether the Company is the surviving Person), other than any such transaction in which one or more Dell Entities continues to be the Beneficial Owner of more than 50% of the total voting power of the Voting Stock of the Company, on a Fully Diluted Basis; or
- (e) The consummation of any direct or indirect sale, lease, transfer, conveyance, or other disposition (other than by way of reorganization, merger, or consolidation), in one transaction or a series of related transactions, of all or substantially all of the assets of the Company and its Subsidiaries, taken as a whole, to any Person or Group (other than one or more Dell Entities).

“Commitment” means the obligation of the Lender to make, on and subject to the terms and conditions hereof, Loans to the Borrower pursuant to Section 2.1 in an aggregate principal amount at any one time outstanding up to but not exceeding \$30 million, as such amount may be increased or reduced pursuant to Section 2.3 or reduced pursuant to assignments effected in accordance with Section 10.5.

“Commitment Termination Date” means the one-year anniversary of the Effective Date.

“Company” means SecureWorks Corp., a Delaware corporation, and any successor thereto.

“Default” means an Event of Default specified in Section 9 or an event that with the giving of notice or lapse of time or both would become an Event of Default.

“Dell Entity” means Dell Technologies Inc. or any direct or indirect Subsidiary thereof.

“Dollars” and “\$” mean lawful money for the time being of the United States of America.

“Effective Date” means the date on which all of the conditions precedent set forth in Section 6 have been fulfilled.

“Event of Default” has the meaning set forth in Section 9.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, as the same shall be in effect from time to time.

“Excluded Taxes” means, with respect to the Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower under this Agreement, Taxes imposed on or measured by its overall net income, overall gross income or overall gross receipts (however denominated), and franchise taxes imposed on it (in lieu of net income taxes) or capital taxes, by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized, in which it is resident for tax purposes or in which its principal office is located.

“Fully Diluted Basis” means, as of any date of determination, the sum of (a) the number of shares of Voting Stock outstanding as of such date of determination plus (b) the number of shares of Voting Stock issuable upon the exercise, conversion, or exchange of all then-outstanding warrants, options, convertible capital stock or indebtedness, exchangeable capital stock or indebtedness, or other rights exercisable for or convertible or exchangeable into, directly or indirectly, shares of Voting Stock (excluding, for the avoidance of doubt, securities issuable in connection with the conversion or exchange of outstanding shares of Voting Stock), whether at the time of issue or upon the passage of time or upon the occurrence of some future event, and whether or not in-the-money as of such date of determination.

“GAAP” means accounting principles generally accepted in the United States of America in effect from time to time.

“Governmental Authority” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Group” has the meaning set forth in Sections 13(d) and 14(d)(2) of the Exchange Act.

“Indebtedness” means, with respect to any Person, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business not overdue for more than 60 days), (d) all obligations of such Person to reimburse any Person with respect to amounts paid under a letter of credit or similar instrument, (e) all Indebtedness of other Persons secured by a Lien on any property of such Person, whether or not such Indebtedness is assumed by such Person, and (f) all Indebtedness of other Persons guaranteed by such Person.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indemnitee” has the meaning set forth in Section 10.3(b).

“Interest Period” means, with respect to each Borrowing and the Loan constituting the same, each fiscal quarterly period of the Borrower occurring during the Availability Period.

“Lender” has the meaning set forth in the introduction hereto.

“LIBOR” means the 3 Month LIBOR for Dollars published by Reuters (or such other published source as the Lender may select in its sole discretion) on the first day of each Interest Period.

“Lien” means any mortgage, lien, pledge, charge, encumbrance or other security interest or any preferential arrangement that has the practical effect of creating a security interest.

“Loan” has the meaning set forth in Section 2.1.

“Material Adverse Effect” means a material adverse change in or effect on (a) the business, condition (financial or otherwise), operations, performance, property or prospects of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower to perform its obligations under this Agreement, (c) the legality, validity, binding effect or enforceability of any provision of this Agreement or (d) the rights and remedies of the Lender under any provision of this Agreement.

“Material Indebtedness” means, at any time, as to any Person, Indebtedness of such Person the outstanding principal amount of which, individually or in the aggregate, is equal to or greater than \$5,000,000.

“Net Proceeds” means, with respect to any Asset Disposition, (a) the proceeds received in respect of such Asset Disposition in cash, instruments, securities or other property, including any cash, instruments, securities or other property received in respect of any non-cash proceeds, including any cash received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment or earn-out, but only as and when received, minus (b) the sum of (i) all fees and out-of-pocket expenses actually paid by the Borrower or the relevant Subsidiary, as applicable, in connection with such Asset Disposition, (ii) any funded escrow established pursuant to the documents evidencing any Asset Disposition to secure any indemnification obligations or adjustments to the purchase price associated with such Asset Disposition, provided that the amount of any subsequent reduction of such escrow (other than in connection with a payment in respect of any such liability) shall be deemed to be Net Proceeds occurring on the date of such reduction solely to the extent that the Borrower or any of its Subsidiaries receives cash in an amount equal to the amount of such reduction, (iii) the amount of all payments that are permitted hereunder and are actually made by the Borrower or the relevant Subsidiary, as applicable, as a result of such event to repay Indebtedness (other than the Loans) directly secured by such asset, (iv) the pro rata portion of net cash proceeds thereof (calculated without regard to this clause (b)(iv)) attributable to minority interests or other shareholdings (other than that of the Lender) and not lawfully available for distribution to or for the account of the Borrower or any of its Subsidiaries as a result thereof, (v) the amount of any liabilities directly associated with such asset and retained by the Borrower or the relevant Subsidiary, as applicable, and (vi) the amount of all Taxes actually paid (or reasonably estimated to be payable, including any withholding Taxes estimated to be payable in connection with the repatriation of such Net Proceeds) with respect to such Asset Disposition.

“Notice of Borrowing” has the meaning set forth in Section 2.2.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under this Agreement or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

“Permitted Indebtedness” means (a) Indebtedness owing to the Lender, (b) Indebtedness in respect of workers’ compensation claims, property casualty or liability insurance, and self-insurance obligations, in each case in the ordinary course of business, (c) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, and (d) Indebtedness in connection with performance bonds, bid bonds, appeal bonds, bankers acceptances, insurance obligations, workers’ compensation claims, health or other types of social security benefits, surety bonds, completion guarantees or other similar bonds and obligations, including self-bonding arrangements, issued by the Borrower or a Subsidiary thereof in the ordinary course of business or pursuant to self-insurance obligations and in each case not in connection with the borrowing of money or the obtaining of advances.

“Permitted Liens” means (a) non-commercial Liens arising solely by operation of applicable law, (b) Liens in favor of the Lender, (c) Liens for Taxes, assessments or other governmental charges not delinquent or being contested in good faith, (d) deposits or pledges to secure obligations under worker’s compensation, social security or similar laws, or under unemployment insurance, (e) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the ordinary course of business, (f) mechanics’, workers’, materialmen’s, carrier’s, repairmen’s or other like Liens arising in the ordinary course of business with respect to obligations which are not yet due and payable or which are being contested in good faith, and (g) licenses or sublicenses of patents, trademarks and other intellectual property rights granted by the Borrower or any of its Subsidiaries in the ordinary course of business and not interfering in any respect with the ordinary course of business of the Borrower or such Subsidiary.

“Person” means any natural person, corporation, company, voluntary association, partnership, limited liability company, joint venture, trust, unincorporated organization or Governmental Authority or other entity of whatever nature.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and such Person’s and such Person’s Affiliates’ respective managers, administrators, trustees, partners, members, directors, officers, employees, agents and advisors.

“Subsidiary” of any Person means any corporation, partnership, limited liability company or other entity more than 50% of the voting power represented by the Voting Stock of which is owned or controlled, directly or indirectly, by such Person and/or by any Subsidiary of such Person.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to Tax or penalties applicable thereto.

“Voting Stock” means, with respect to any Person, any class or classes of capital stock or partnership or limited liability company units or other ownership interests pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect directors, managers or trustees of such Person (irrespective of whether or not, at the time, stock of any other class or classes has, or might have, voting power by reason of the happening of any contingency).

1.2. GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time.

1.3. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be

construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein,” “hereof” and “hereunder,” and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Sections or Exhibits shall be construed to refer to Sections of or Exhibits to this Agreement, (e) any reference to any law or regulation herein shall, unless otherwise specified, refer to such law or regulation as amended, supplemented or otherwise modified from time to time, (f) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights, (g) the word “from” when used in connection with a period of time means “from and including” and the word “until” means “to but not including” and (h) references to days, months, quarters and years refer to calendar days, months, quarters and years, respectively.

SECTION 2. THE COMMITMENT.

2.1. Loans. The Lender agrees, on and after the Effective Date, and subject to the terms and conditions of this Agreement, to make loans to the Borrower (each, a “Loan”) from time to time on any Business Day during the Availability Period in Dollars in an aggregate principal amount at any one time outstanding up to but not exceeding the Commitment. Within such limit and subject to the other terms and conditions of this Agreement, the Borrower may borrow under this Section 2.1, prepay under Section 3.3, and reborrow under this Section 2.1. The Borrower agrees that the Lender’s books and records shall be *prima facie* evidence of the date, amount and due date of each Loan and of all interest accrued thereon.

2.2. Borrowing. The Borrower shall give the Lender notice of each Borrowing in substantially the form of Exhibit A hereto (each, a “Notice of Borrowing”). Each Notice of Borrowing shall be signed by the chief financial officer of the Borrower and will include the information and the certifications set forth in Exhibit A. Each Borrowing shall be in the amount of \$500,000 or an integral multiple of \$100,000 in excess thereof. Each Notice of Borrowing shall be effective only if received by the Lender not later than 11:00 a.m. Eastern time on the date which is five (5) Business Days prior to the relevant Borrowing Date. Each Notice of Borrowing shall specify the amount to be borrowed and the relevant Borrowing Date. Not later than 11:00 a.m. Eastern time on each Borrowing Date, subject to the terms and conditions of this Agreement, the Lender shall make available to the Borrower the amount of the Loan to be made on such Borrowing Date in such manner as may be agreed by the Lender and the Borrower.

2.3. Changes of Commitment.

(a) The Borrower shall have the right to request a one-time increase to the amount of the Commitment of up to \$30 million (such that, following such \$30 million increase, the aggregate principal amount at any one time outstanding under this Agreement may equal but shall not exceed \$60 million); provided that the Lender shall have the right either to approve or to deny such request in whole or in part in its sole discretion. In connection with such a request, the Borrower shall deliver to the Lender a notice of the request not later than 11:00 a.m. Eastern time on the date ten (10) Business Days prior to the date upon which the requested increase shall become effective. Such notice shall specify the amount of the increase in the Commitment requested by the Borrower and the requested effective date of such

increase. No later than five (5) Business Days following receipt of such a notice pursuant to this Section 2.3(a), the Lender shall notify the Borrower as to whether the requested increase to the amount of the Commitment has been approved or denied in whole or in part; provided that any failure by the Lender to deliver such notice shall be deemed to be a denial of the requested increase.

(b) The Commitment shall be automatically reduced to zero on the earlier of (i) 5:00 p.m. Eastern time on the last day of the Availability Period and (ii) the date on which a Change of Control of the Borrower shall occur.

(c) The Borrower shall have the right to terminate or reduce the unused amount of the Commitment at any time or from time to time upon not less than three (3) Business Days' prior notice to the Lender; provided that the Borrower may not reduce the Commitment to an amount less than the aggregate principal amount of all Loans then outstanding under the Agreement. The Commitment once terminated or reduced pursuant to this Section 2.3 may not be reinstated. Following such a termination or reduction in the unused amount of the Commitment, any Loans made by the Lender shall remain outstanding, and shall become due in accordance with the terms of this Agreement.

2.4. Fees. The Borrower agrees to pay to the Lender a commitment fee, which shall accrue at a rate of 0.35% on the average daily amount of the Available Commitment during the period from and including the Effective Date to but excluding the Commitment Termination Date. Accrued commitment fees shall be payable on the Commitment Termination Date and shall be calculated on the basis of a 360-day year for the actual number of days elapsed.

2.5. Use of Proceeds. The Borrower shall use the proceeds of the Loans for working capital, acquisitions of companies, business and assets, and other general corporate purposes; provided that the proceeds of the Loans shall not be used to repay other Indebtedness incurred by the Borrower. The Lender shall not have any responsibility as to the use of any of such proceeds.

SECTION 3. PAYMENTS OF PRINCIPAL AND INTEREST.

3.1. Repayment. The Borrower agrees to repay to the Lender the full principal amount of each Loan outstanding, together with accrued interest thereon, on the Commitment Termination Date.

3.2. Interest.

(a) Interest Generally. Interest shall accrue on the outstanding principal amount of each Loan for the period from the relevant Borrowing Date until the date such Loan shall be paid in full, at the per annum rate of interest which, for each Interest Period, is equal to the Applicable Margin plus LIBOR for such Interest Period, calculated on the basis of a 360-day year for the actual number of days elapsed.

(b) Interest Payment Dates. Accrued interest on each Loan shall be payable on the last day of each Interest Period, and upon the payment or prepayment thereof (on the principal amount so paid or prepaid).

(c) Any principal of or interest on any Loan that is not paid in full when due (whether at stated maturity, by acceleration or otherwise) shall bear interest until paid in full at a rate per annum equal to 2% above the rate of interest otherwise applicable to Loans under this Agreement. Interest on amounts in Default shall be payable on demand by the Lender from time to time.

3.3. Prepayments.

(a) Optional Prepayments. The Borrower shall have the right to prepay the Loans in whole or in part at any time or from time to time, without penalty or premium. In connection with any such optional prepayment, the Borrower shall give the Lender a notice of such optional prepayment, which shall be effective only if received by the Lender not later than 11:00 a.m. Eastern time on the date which is five (5) Business Days prior to the relevant date of prepayment. Each notice of optional prepayment shall specify the amount to be prepaid and the date of prepayment (and, upon the date specified in any such notice, the amount to be prepaid shall become due and payable hereunder). Each partial prepayment shall be in the aggregate amount of \$250,000 or an integral multiple of \$50,000 in excess thereof.

(b) Mandatory Prepayments.

(i) Repayment Upon Change of Control. In the event that a Change of Control occurs after the date hereof and prior to the repayment in full of the Loans and the termination of the Commitments, the Commitments shall automatically terminate, and the Borrower shall pay to the Lender an aggregate amount equal to all amounts outstanding under this Agreement, including principal of all Loans, all accrued and unpaid interest thereon and any other amounts that may be or become due under this Agreement to the Lender.

(ii) Illegality, etc. Notwithstanding any other provision of this Agreement, if the Lender shall notify the Borrower that any Change in Law makes it unlawful for the Lender to perform its obligations hereunder to make Loans or to fund or otherwise maintain Loans hereunder, (a) the obligation of the Lender to make Loans shall be suspended until the Lender shall notify the Borrower that the circumstances causing such suspension no longer exist and (b) if such Change in Law shall so mandate, the Loans shall be prepaid by the Borrower, together with accrued and unpaid interest thereon and all other amounts payable by the Borrower under this Agreement, on or before such date as shall be mandated by such Change in Law or, if earlier, on the date required by the Lender in a notice to the Borrower.

(iii) In the event of any Asset Disposition, the Borrower shall, on the date of receipt by it or a Subsidiary of any Net Proceeds of such Asset Distribution, prepay the Loans and Notes in an amount equal to the Net Proceeds of such Asset Dispositions, together with accrued and unpaid interest on the amount prepaid through the date of prepayment and all other amounts payable by the Borrower under this Agreement, and the Commitment, if then in effect, shall be reduced or terminated, as applicable, by an amount equal to such Net Proceeds; provided, that the Borrower shall not be required to make any prepayment pursuant to this Section 3.3(b)(iii) until the Net Proceeds of Asset Dispositions exceed \$5,000,000 in the aggregate, in which event, the Borrower shall be required to make prepayment only of the amount of such Net Proceeds which exceeds \$5,000,000.

(c) Other Amounts. All prepayments under this Section 3.3 shall be accompanied by interest accrued on the principal amount prepaid.

SECTION 4. PAYMENTS, ETC.

4.1. Payments.

(a) Payments Generally. Each payment of principal, interest and other amounts to be made by the Borrower under this Agreement shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to such account as the Lender may specify from time to time, not later than 11:00 a.m. Eastern time on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

(b) Application of Payments. The Borrower shall, at the time of making each payment under this Agreement, specify to the Lender the amounts payable by the Borrower hereunder to which such payment is to be applied (and in the event that the Borrower fails to so specify, or if an Event of Default has occurred and is continuing, the Lender may apply such payment in such manner as it may determine to be appropriate in its sole discretion).

(c) Application of Insufficient Payments. If at any time insufficient funds are received by the Lender to pay fully all amounts of principal, interest, fees and other amounts then due and payable hereunder, such funds shall be applied (i) first, to pay interest then due and payable hereunder, (ii) then, to pay principal then due and payable hereunder, and (iii) then, to pay other amounts then due and payable under this Agreement.

(d) Non-Business Days. If the due date of any payment under this Agreement would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension.

4.2. Computations. Interest on the Loans and fees hereunder shall be computed on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) occurring in the period for which payable.

4.3. Set-Off. Upon the occurrence and during the continuance of any Event of Default, the Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all indebtedness at any time owing by the Lender or such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement to the Lender, irrespective of whether or not the Lender shall have made any demand under this Agreement. The Lender agrees promptly to notify the Borrower after any such set-off and application; provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Lender and its Affiliates under this Section 4.3 are in addition to other rights and remedies (including other rights of set-off) that the Lender and its Affiliates may have. Nothing contained in this Section 4.3 shall require the Lender to exercise any such right or shall affect the right of the Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of the Borrower.

SECTION 5. TAXES.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required by applicable law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions for Indemnified Taxes or Other Taxes (including deductions for Indemnified Taxes or Other Taxes applicable to additional sums payable under this Section) the Lender shall receive an amount equal to the sum it would have received had no such deductions for Indemnified Taxes or Other Taxes been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes that arise from any payment made by it under, or otherwise with respect to, this Agreement to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Lender for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 5) attributable to the Borrower under this Agreement and paid by the Lender and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by the Lender shall be conclusive and binding absent manifest error.

SECTION 6. CONDITIONS PRECEDENT.

6.1. Conditions to Closing. The effectiveness of this Agreement and the Commitment of the Lender shall be subject to the conditions precedent that (a) no applicable law or regulation shall restrain, prevent or, in the reasonable judgment of the Lender, impose materially adverse conditions upon the transactions contemplated hereby, and (b) the Lender shall have received, on or prior to March 27, 2018 the following documents, each of which shall be in form and substance satisfactory to the Lender:

- (a) this Agreement, duly executed and delivered by the Borrower and the Lender;
- (b) copies of all licenses, consents, authorizations and approvals of, and notices to and filings and registrations with, any Governmental Authority (including all foreign exchange approvals), and of all third-party consents and approvals, necessary in connection with the making and performance by the Borrower of the Agreement and the transactions contemplated thereby;
- (c) copies of the resolutions of the Board of Directors of the Borrower authorizing the making and performance by it of the Agreement; and
- (d) such other documents relating hereto as the Lender shall reasonably request.

6.2. Additional Conditions to Borrowings. The obligation of the Lender to make each Loan to be made by it is also subject to the further conditions precedent that both immediately prior to the making of such Loan and after giving effect thereto and to the intended use of proceeds thereof:

- (a) no Default shall have occurred and be continuing;
- (b) there shall have occurred no event or condition that could reasonably be expected to result in a Material Adverse Effect;
- (c) the representations and warranties made by the Borrower in Section 7 shall be true in all respects on and as of the relevant Borrowing Date and immediately after giving effect to the application of the proceeds of the relevant Borrowing with the same force and effect as if made on and as of such date (unless expressly stated to relate to an earlier date, in which case such representations and warranties shall be true in all respects as of such earlier date); and
- (d) the Lender shall have received such other documents relating hereto as the Lender shall reasonably request, each of which shall be in form and substance satisfactory to the Lender.

The giving of a Notice of Borrowing shall constitute a certification by the Borrower to the effect that the conditions set forth in this Section 6.2 have been fulfilled (both as of the date of such Notice of Borrowing and, unless the Borrower otherwise notifies the Lender prior to the relevant Borrowing Date, as of such Borrowing Date).

SECTION 7. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants to the Lender that:

7.1. Power and Authority. Each of the Borrower and each of its Subsidiaries (a) is a company duly organized and validly existing under the laws of its jurisdiction of organization, (b) has all requisite corporate or other power, and has all material governmental licenses, authorizations, consents and approvals necessary to own its property and carry on its business as now being or as proposed to be conducted except to the extent that failure to have the same could not reasonably be expected to have a Material Adverse Effect, (c) is qualified to do business and is in good standing in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify could (either individually or in the aggregate) have a Material Adverse Effect, (d) is in material compliance with all applicable laws and regulations and all agreements binding on or affecting it or any of its property, and (e) has good title to all its assets, free and clear of any Liens or adverse claims except as expressly permitted by this Agreement. The Borrower has full power, authority and legal right to make and perform this Agreement and to borrow the Loans hereunder.

7.2. Due Authorization, Etc. The making and performance by the Borrower of this Agreement and all other documents and instruments to be executed and delivered hereunder by the Borrower have been duly authorized by all necessary corporate action, and do not and will not contravene (a) the constitutive documents of the Borrower, (b) any applicable law or regulation, (c) any judgment, award, injunction or similar legal restriction or (d) any agreement or instrument binding on or affecting the Borrower or any of its property, and do not and will not result in the imposition of any Lien on any property of the Borrower.

7.3. Governmental and Other Approvals. No license, consent, authorization or approval or other action by, or notice to or filing or registration with, any Governmental Authority (including any foreign exchange approval), and no other third-party consent or approval, is necessary for the due execution, delivery and performance by the Borrower of this Agreement or for the legality, validity

or enforceability thereof against the Borrower, and there is no law, regulation or decree that imposes material adverse conditions upon the credit facility contemplated hereby.

7.4. Legal Effect. This Agreement has been duly executed and delivered by the Borrower and is the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws relating to or affecting the rights of creditors generally, and except as the enforceability of this Agreement is subject to the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law).

7.5. No Default. No Default has occurred and is continuing.

7.6. Ranking. The payment obligations of the Borrower hereunder are and will at all times be senior unsecured obligations of the Borrower, and will at all times rank at least pari passu in right of payment with all other present and future senior unsecured Indebtedness of the Borrower.

7.7. Litigation. There is no litigation, investigation or proceeding pending or, to the best of the Borrower's knowledge, threatened by or before any Governmental Authority or arbitrator that (either individually or in the aggregate) could reasonably be expected to have a Material Adverse Effect.

SECTION 8. COVENANTS OF THE BORROWER.

The Borrower covenants and agrees with the Lender that, so long as the Commitment or any Loan is outstanding and until payment in full of all amounts payable by the Borrower hereunder:

8.1. Corporate Existence, Etc. The Borrower will, and will cause each of its Subsidiaries to, (a) preserve and maintain its corporate existence and (b) preserve and maintain all of its material rights, privileges, licenses and franchises, including all trade names, patents and other intellectual property necessary for its business, except in the case of this clause (b) to the extent the failure to preserve and maintain the same could not reasonably be expected to have a Material Adverse Effect.

8.2. Compliance with Law. The Borrower will, and will cause each of its Subsidiaries to, (a) comply in all material respects with the requirements of all applicable laws, rules, regulations and orders of Governmental Authorities and all agreements binding on or affecting the Borrower or such Subsidiary or any of their respective properties, except where the necessity of compliance therewith is being contested in good faith by appropriate proceedings and for which adequate reserves have been made if required in accordance with GAAP, (b) timely file all required tax returns and pay and discharge at or before maturity all of its material obligations (including tax liabilities, except where the same are contested in good faith and by appropriate proceedings and against which adequate reserves are being maintained to the extent required by GAAP and where the failure to pay or discharge such obligations or liabilities would not result in a Material Adverse Effect), (c) maintain all of its property used in its business in good working order and condition, ordinary wear and tear excepted, and (d) maintain insurance with respect to its property and businesses.

8.3. Governmental Authorizations. The Borrower will, and will cause each of its Subsidiaries to, promptly from time to time obtain and maintain in full force and effect all licenses, consents, authorizations and approvals of, and make all filings and registrations with, any Governmental Authority necessary under applicable law for the making and performance by it of this Agreement.

8.4. Information. The Borrower will provide to the Lender: (a) such information relating to the financial condition, business, prospects, or affairs of the Borrower as the Lender may from time to time reasonably request; (b) not later than five (5) days after any officer of the Borrower obtains knowledge of the occurrence of any Default, a certificate of the chief financial officer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto; and (c) promptly upon the commencement of, or any material adverse development in, any litigation, investigation or proceeding against the Borrower or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect, notice thereof with a description thereof in reasonable detail.

8.5. Keeping of Books: Inspection Rights. The Borrower will, and will cause each of its Subsidiaries to, (a) keep proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and such Subsidiary in accordance with GAAP and (b) permit representatives of the Lender to visit and inspect the Borrower's properties, examine its books of account and records and discuss the Borrower's affairs, finances, and accounts with its officers, during normal business hours of the Borrower as may be reasonably requested by the Lender.

8.6. Ranking. The Borrower will promptly take all actions as may be necessary to ensure that the payment obligations of the Borrower under this Agreement will at all times constitute senior unsecured obligations of the Borrower ranking at least pari passu in right of payment with all other present and future senior unsecured Indebtedness of the Borrower.

8.7. Negative Pledge. The Borrower shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien (other than Permitted Liens) on any of their property or assets, tangible or intangible, now owned or hereafter acquired, or agree or become liable to do so.

8.8. Indebtedness. The Borrower shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Indebtedness (other than Permitted Indebtedness).

8.9. Net Proceeds Reporting. The Borrower shall promptly notify the Lender in writing if the Net Proceeds of Asset Dispositions exceed \$5,000,000 in the aggregate.

8.10. Remedies Cumulative. All remedies, either under this Agreement or by law or otherwise afforded to any party, shall be cumulative and not alternative.

8.11. Further Assurances. The Borrower will from time to time give, execute, deliver, file and/or record any notice, instrument, document, agreement or other papers that may be necessary or desirable or that may be reasonably requested by the Lender to further effectuate the purposes of this Agreement or the enforceability thereof against the Borrower.

SECTION 9. EVENTS OF DEFAULT.

If one or more of the following events (each, an "Event of Default") shall occur and be continuing:

(a) the Borrower shall fail to pay when due (i) any principal of any Loan or (ii) any interest or any other amount whatsoever payable hereunder, and such failure to pay shall, in the case of this clause (ii) only, continue for five (5) Business Days;

(b) any representation, warranty or certification made or deemed made by the Borrower herein (or in any modification or supplement hereto or thereto) or in any certificate furnished to the Lender pursuant to the provisions hereof or thereof shall prove to have been untrue in any material respect as of the time made or furnished;

(c) (i) the Borrower shall fail to perform or observe any of its obligations under Section 8.1, or (ii) the Borrower shall fail to perform or observe any of its obligations under this Agreement (other than as referred to in clause (a) or (c)(i) above) if such failure shall remain unremedied for thirty (30) or more days;

(d) (i) the Borrower or any Subsidiary thereof shall default in the payment of any principal of or interest on any Material Indebtedness (whether at stated maturity or at mandatory or optional prepayment or otherwise) and such default shall continue beyond any applicable grace period set forth in the agreements or instruments evidencing or governing such Material Indebtedness, or (ii) any default or event of default shall occur under any agreement or instrument evidencing or governing any Material Indebtedness of the Borrower or any Subsidiary thereof if the effect thereof is to accelerate the maturity thereof, or to permit the holder or holders of such Material Indebtedness, or an agent or trustee on its or their behalf, to accelerate the maturity thereof, or to require the mandatory prepayment or redemption thereof;

(e) the Borrower or any of its Subsidiaries shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due;

(f) the Borrower or any of its Subsidiaries shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, examiner or liquidator of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its creditors, (iii) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, suspension of payments, liquidation, dissolution, arrangement or winding-up, or composition or readjustment of debts or (iv) take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in this clause (f);

(g) a proceeding or case shall be commenced against the Borrower or any of its Subsidiaries, without its application or consent, seeking (i) its reorganization, liquidation, dissolution, arrangement or winding up, (ii) the appointment of a receiver, custodian, trustee, examiner, liquidator or like Person of it or of all or any substantial part of its property or (iii) similar relief with respect to it under any law relating to bankruptcy, insolvency, reorganization, winding up, or composition or adjustment or debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of sixty (60) or more days, or a declaration of bankruptcy or suspension of payments shall be entered against the Borrower or such Subsidiary under the bankruptcy laws of the United States of America as now or hereafter in effect; or

(h) this Agreement shall become unenforceable or the performance of the obligations of the Borrower thereunder shall become illegal; or

(i) a Change of Control shall occur;

THEREUPON: in any such event, the Lender may, by notice to the Borrower, (i) declare the Commitment to be terminated forthwith, whereupon the Commitment shall forthwith terminate, and/or

(ii) declare the principal of and the accrued interest on the Loans and all other amounts whatsoever payable by the Borrower hereunder to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower; provided that, in the case of an Event of Default of the kinds referred to in clause (f) or (g) with respect to the Borrower, the Commitment shall automatically terminate and the Loans and all such other amounts shall automatically become due and payable, without any further action by any party.

SECTION 10. MISCELLANEOUS.

10.1. Notices.

(a) All notices, demands, requests, consents and other communications provided for in this Agreement shall be given in writing and addressed to the party to be notified as follows:

(i) if to the Borrower:

SecureWorks, Inc.

One Concourse Parkway NE

Atlanta, Georgia 30328

Attention of: R. Wayne Jackson

E-Mail Address: wjackson@secureworks.com

(ii) if to the Lender:

Dell USA L.P.

c/o Dell Inc.

One Dell Way

Round Rock, Texas 78682 Attention of: Janet Bawcom

E-Mail Address: Janet.Bawcom@Dell.com

or, as to either party, at such other address as it shall notify the other party in writing.

(b) All notices, demands, requests, consents and other communications described in clause (a) shall be effective (i) if delivered by hand, including any overnight courier service, upon personal delivery, (ii) if delivered by mail, when deposited in the mail, or (iii) if delivered by electronic mail, when transmitted to an electronic mail address and sender has received a return receipt thereof; provided that notices and communications to the Lender pursuant to Section 2 or Section 9 shall not be effective until received by the Lender.

10.2. No Waiver. No failure on the part of the Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

10.3. Expenses, Etc.

(a) Costs and Expenses. The parties shall pay their own expenses with respect this Agreement and the transactions contemplated hereby; provided that the Borrower shall pay to the Lender, no later than thirty (30) days after receipt of a reasonably detailed invoice from the Lender, all reasonable and documented out-of-pocket expenses incurred by the Lender, including the reasonable fees, charges and disbursements of counsel to the Lender, in connection with the enforcement or protection of its rights in connection with this Agreement, including such expenses incurred during any workout, restructuring or negotiations in respect of the Loans.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Lender and each Related Party thereof (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, (ii) any Loan or the use or proposed use of the proceeds therefrom, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

10.4. Amendments, Etc. Except as otherwise expressly provided in this Agreement, any provision of this Agreement may be modified or supplemented only by an instrument in writing signed by the Borrower and the Lender, and any provision of this Agreement may be waived only by the Lender.

10.5. Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Lender, and the Lender may not assign or otherwise transfer any of its rights or obligations hereunder except as permitted by this Section 10.5 (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, and, to the extent expressly contemplated hereby, the respective Related Parties of the Lender) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lender. The Lender may at any time assign all or a portion of its rights and obligations under this Agreement (including all or a portion of the Commitment and the Loans) with the prior written consent of the Borrower, which consent shall not be unreasonably withheld or delayed; provided that no such consent shall be required for an assignment to an Affiliate of the Lender, or, if a Default has occurred and is continuing, any other Person. In the event of any such assignment, the Lender and the assignee or assignees may enter such intercreditor arrangements as they may determine to be necessary or advisable for the purpose of determining voting rights and similar issues hereunder. From and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be

a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of the Lender under this Agreement, and the Lender shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the Lender's rights and obligations under this Agreement, the Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 5 and 10.3 with respect to facts and circumstances occurring prior to the effective date of such assignment.

(c) Certain Pledges. The Lender may at any time pledge or assign as collateral all or any portion of its rights under this Agreement to secure obligations of the Lender; provided that no such pledge or assignment shall release the Lender from any of its obligations hereunder or substitute any such pledgee or assignee for the Lender as a party hereto.

10.6. Survival. The obligations of the Borrower under Sections 5 and 10 shall survive the repayment of the Loans and the termination of the Commitment and, in the case of any assignment by the Lender of any interest in the Commitment or Loans hereunder, shall survive, in the case of any event or circumstance that occurred prior to the effective date of such assignment, the making of such assignment, notwithstanding that the Lender may cease to be the "Lender" hereunder. In addition, each representation and warranty made, or deemed to be made by a notice of any Loan, herein or pursuant hereto shall survive the making of such representation and warranty.

10.7. Captions. The section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

10.8. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or electronic mail shall be effective as delivery of a manually executed counterpart of this Agreement.

10.9. Governing Law; Jurisdiction, Service of Process and Venue.

(a) Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Texas, without giving effect to any choice or conflict of law provision or rule (whether of the State of Texas or any other jurisdiction) that would cause the application of the applicable laws of any jurisdiction other than the State of Texas.

(b) Submission to Jurisdiction. The Borrower irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the courts of the State of Texas sitting in Travis County and of the United States District Court for the Western District of Texas, and any applicable appellate court, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto irrevocably and unconditionally agrees that all claims with respect to any such action or proceeding may be heard and determined in such Texas State court or, to the fullest extent permitted by applicable law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its property in the courts of any jurisdiction.

(c) Alternative Process. Nothing herein shall in any way be deemed to limit the ability of the Lender to serve any such process or summonses in any other manner permitted by applicable law.

(d) Waiver of Venue, Etc. Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Agreement in any court referred to in subsection (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

10.10. Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.11. Entire Agreement. This Agreement constitutes the entire contract among the parties relating to the subject matter hereof and thereof and supersedes any and all previous agreements and understandings, oral or written, relating to the subject matter hereof and thereof.

10.12. Severability. If any provision hereof is found by a court to be invalid or unenforceable, to the fullest extent permitted by applicable law the parties agree that such invalidity or unenforceability shall not impair the validity or enforceability of any other provision hereof.

10.13. No Fiduciary Relationship. The Borrower acknowledges that the Lender has no fiduciary relationship with, or fiduciary duty to, the Borrower arising out of or in connection with this Agreement. This Agreement does not create a joint venture among the parties.

[Signatures on Next Page]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

BORROWER

SECUREWORKS, INC.

By: /s/ R. Wayne Jackson
Name: R. Wayne Jackson
Title: Chief Financial Officer

LENDER

DELL USA L.P.

By: /s/ Janet M. Bawcom
Name: Janet M. Bawcom
Title: Senior Vice President and Assistant Secretary

EXHIBIT A

[FORM OF NOTICE OF BORROWING] NOTICE OF BORROWING

— —

Dell USA L.P.
c/o Dell Inc.
One Dell Way
Round Rock, Texas 78682 Attention of: [●]

Ladies and Gentlemen:

The undersigned refers to the Amended and Restated Revolving Credit Agreement, dated as of _____ [●], 2018 (as amended, supplemented or otherwise modified, the "Credit Agreement"), by and between the undersigned and you. Capitalized terms used herein shall have the meanings ascribed to them in the Credit Agreement. The undersigned hereby gives you notice, irrevocably, pursuant to Section 2.2 of the Credit Agreement, that the undersigned hereby wishes to make a Borrowing, and in that connection sets forth below the information relating to such Borrowing:

- (i) The Business Day of the requested Borrowing is____,____.
- (ii) The amount of the requested Borrowing is \$____.
- (iii) The proceeds of the Loan constituting the requested Borrowing are to be remitted to: [*specify account information*].

The undersigned hereby certifies that the conditions precedent set forth in clauses (a) and (b) of Section 6.2 of the Credit Agreement have been fulfilled as of the date hereof, and that the representations and warranties set forth in Section 7 thereof are true in all respects on the date hereof and will be true in all respects as of the date of the requested Borrowing with the same force and effect as if made on and as of each such date (unless expressly stated to relate to an earlier date, in which case such representations and warranties shall be true in all respects as of such earlier date).

Very truly yours, SECUREWORKS, INC.

ByName:

Title:

SecureWorks Corp.
Non-Employee Director Compensation Policy

The Board of Directors (“**Board**”) of SecureWorks Corp. (the “**Company**”) has adopted this SecureWorks Corp. Non-Employee Director Compensation Policy (the “**Policy**”) to assist the Compensation Committee of the Board (or its successor, the “**Committee**”) in establishing retainers, fees, and equity grants (and payment or award thereof, as applicable) associated with director compensation. Any new director compensation policies enacted from time to time are deemed to be incorporated herein upon their effective date. The Committee and/or the Board shall review and reassess this Policy from time to time to determine whether the Policy should be updated.

Each director who is not an employee of the Company or an Affiliate of the Company shall be entitled to the payments described below while serving as a director on the Board.

Annual Cash Retainer: An annual retainer fee of USD \$35,000 shall be payable in a lump sum following each annual meeting of Company’s stockholders at which directors are elected to serve on the Board (the “**Annual Meeting**”) to each director who becomes or remains a member of the Board following the conclusion of such Annual Meeting. A director appointed to the Board other than pursuant to election at the Annual Meeting shall be entitled to pro-rated payment of the annual retainer fee for the partial year of service, payable in a lump sum upon his or her commencement of service on the Board. A director must be actively serving as a director on the date of such payment to receive his or her payment.

Committee Chairmanship Fee: The corresponding annual chairmanship fee set forth below shall also be payable in a lump sum following the Annual Meeting to each director who becomes or remains the chairman of any of the following committees of the Board following the conclusion of such Annual Meeting for his or her chairmanship services. A director appointed to serve as chairman during a year and prior to an Annual Meeting shall be entitled to pro-rated payment of the annual chairmanship fee for the partial year of chairmanship service, payable in a lump sum upon his or her commencement of service as chairman. The chairman must be actively serving as the chairman of the applicable committee on the date of such payment to receive his or her payment.

Audit Committee: USD \$20,000

Compensation Committee: USD \$12,000

Nominating and Corporate Governance Committee: USD \$8,000

Committee Membership Fee: The corresponding annual committee fee set forth below shall also be payable in a lump sum following the Annual Meeting to each director who becomes or remains a member of the following committees of the Board (excluding the chairman) for his or her committee member services. A director appointed to serve on a committee during a year and prior to an Annual Meeting shall be entitled to pro-rated payment of

the annual committee service fee for the partial year of committee service, payable in a lump sum upon his or her commencement of service as a committee member. The member must be actively serving as a member of the applicable committee on the date of such payment to receive his or her payment.

Audit Committee: USD \$10,000

Compensation Committee: USD \$6,000

Nominating and Corporate
Governance Committee: USD \$4,000

Initial Equity Grant:

Following initial election or appointment to the Board, upon commencing service as a director or as promptly thereafter as reasonably practicable, a director shall be granted restricted stock units relating to that number of shares of the Company's Class A common stock, par value \$0.01 per share (the "**Stock**"), having a value equal to USD \$400,000 as of the grant date, pursuant to the terms of the Company's standard form of restricted stock unit agreement for directors, which restricted stock units shall vest in equal installments on the first, second, and third anniversaries of the grant date, subject to the director's continued, active service as a director on each such vesting date.

Annual Equity Grant:

Following the conclusion of each Annual Meeting, each director who remains a member of the Board following the conclusion of such Annual Meeting shall be granted restricted stock units relating to that number of shares of Stock having a value equal to \$180,000 as of the grant date (but rounded down to the next integer of Stock in the case of a valuation that produces a fractional share), pursuant to the terms of the Company's standard form of restricted stock unit agreement for directors, which restricted stock units shall vest in full on the first anniversary of the grant date, subject to the director's continued, active service as a director on such vesting date.

Each director appointed to the Board other than pursuant to election at the Annual Meeting may, at the discretion of the Board, receive a pro-rated annual grant of restricted stock units, pursuant to the terms of the Company's standard form of restricted stock unit agreement for directors, which restricted stock units shall vest in full on the first anniversary of the grant date, subject to the director's continued, active service as a director on such vesting date.

In addition to the foregoing payments, each member of the Board shall be entitled to reimbursement for travel expenses incurred in attending Board meetings and any committee meetings (travel expense reimbursement is subject to the Company's current expense policy, as amended from time to time).

The Company does not pay any Board retainers or fees or provide any Board equity grants not set forth above. These retainers, fees, or grants may be modified or adjusted from time to time as determined by the Board on recommendation of the Committee.

Directors of the Board who are employees of the Company or an Affiliate of the Company shall receive no compensation for their Board service.

This Policy supersedes all prior agreements or policies concerning director compensation.

Capitalized terms used in this Policy but not otherwise defined herein shall have the meaning set forth in the Company's Amended and Restated 2016 Long-Term Incentive Plan, as it may be amended from time to time, or any successor plan thereto.

Effective: June 21, 2018

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

I, Michael R. Cote, certify that:

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

June 6, 2018

/s/ Michael R. Cote

Michael R. Cote

President and Chief Executive Officer

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

I, R. Wayne Jackson, certify that:

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

June 6, 2018

/s/ R. Wayne Jackson

R. Wayne Jackson
Chief Financial Officer

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

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

1. The quarterly report on Form 10-Q of the Company for the quarter ended May 4, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such quarterly report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 6, 2018

/s/ Michael R. Cote

Michael R. Cote

President and Chief Executive Officer

Date: June 6, 2018

/s/ R. Wayne Jackson

R. Wayne Jackson

Chief Financial Officer

