

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended August 1, 2021

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: 001-37570

**Pure Storage, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**27-1069557**  
(I.R.S. Employer  
Identification No.)

**650 Castro Street, Suite 400  
Mountain View, California 94041**  
(Address of principal executive offices, including zip code)

**(800) 379-7873**  
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.0001 par value per share	PSTG	New York Stock Exchange LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of September 1, 2021, the registrant had 285,074,082 shares of its Class A common stock outstanding.

**PURE STORAGE, INC.**  
**FORM 10-Q for the Quarter Ended August 1, 2021**  
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## NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this report, including statements regarding our future results of operations and financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, forward-looking statements may be identified by words such as “anticipate,” “believe,” “continue,” “could,” “design,” “estimate,” “expect,” “intend,” “may,” “plan,” “potentially,” “predict,” “project,” “should,” “will” or the negative of these terms or other similar expressions.

Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements regarding our ability to sustain or manage our profitability and growth, our expectations regarding demand for our products and services and trends in the external storage market, our expectations that sales prices may decrease or fluctuate over time, our plans to expand and continue to invest internationally, our plans to continue investing in marketing, sales, support and research and development, our shift to subscription services, including as-a-Service offerings, our expectations regarding fluctuations in our revenue and operating results, our expectations that we may continue to experience losses despite revenue growth, our ability to successfully attract, motivate, and retain qualified personnel and maintain our culture, our expectations regarding our technological leadership and market opportunity, our ability to realize benefits from our investments, including development efforts and acquisitions, our ability to innovate and introduce new or enhanced products, our expectations regarding product acceptance and our technologies, products and solutions, our competitive position and the effects of competition and industry dynamics, including alternative offerings from incumbent, emerging and public cloud vendors, our expectations concerning relationships with third parties, including our partners, customers and contract manufacturers, the success of the Portworx acquisition and technology, the adequacy of our intellectual property rights, expectations concerning potential legal proceedings and related costs, the impact of adverse economic conditions and the duration and scope of the COVID-19 pandemic and related restrictions and its impact on our business, operating results, cash flows and/or financial condition.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, and financial needs. These forward-looking statements are subject to a number of known and unknown risks, uncertainties and assumptions, including risks described in the section titled “Risk Factors.” These risks are not exhaustive. Other sections of this report include additional factors that could harm our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in, or implied by, any forward-looking statements.

Investors should not rely upon forward-looking statements as predictions of future events. We cannot assure investors that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report or to conform these statements to actual results or to changes in our expectations. Investors should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this report with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**PURE STORAGE, INC.**  
**Condensed Consolidated Balance Sheets**  
(in thousands, except per share data, unaudited)

	At the End of	
	Fiscal 2021	Second Quarter of Fiscal 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 337,147	\$ 340,252
Marketable securities	916,388	944,285
Accounts receivable, net of allowance of \$1,033 and \$960	460,879	358,460
Inventory	46,733	47,169
Deferred commissions, current	57,183	58,003
Prepaid expenses and other current assets	89,836	111,390
Total current assets	1,908,166	1,859,559
Property and equipment, net	163,041	184,048
Operating lease right-of-use assets	134,668	122,638
Deferred commissions, non-current	130,741	137,962
Intangible assets, net	76,648	68,279
Goodwill	358,736	358,736
Restricted cash	10,544	10,544
Other assets, non-current	36,896	41,918
Total assets	\$ 2,819,440	\$ 2,783,684
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 67,530	\$ 54,686
Accrued compensation and benefits	160,817	126,589
Accrued expenses and other liabilities	61,754	53,043
Operating lease liabilities, current	32,231	34,482
Deferred revenue, current	438,321	485,927
Total current liabilities	760,653	754,727
Long-term debt	755,814	770,662
Operating lease liabilities, non-current	120,361	106,693
Deferred revenue, non-current	405,376	423,887
Other liabilities, non-current	27,230	30,271
Total liabilities	2,069,434	2,086,240
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, par value of \$0.0001 per share— 20,000 shares authorized; no shares issued and outstanding	—	—
Class A and Class B common stock, par value of \$0.0001 per share— 2,250,000 (Class A 2,000,000, Class B 250,000) shares authorized; 278,363 and 284,734 Class A shares issued and outstanding	28	28
Additional paid-in capital	2,307,580	2,388,418
Accumulated other comprehensive income	7,410	3,481
Accumulated deficit	(1,565,012)	(1,694,483)
Total stockholders' equity	750,006	697,444
Total liabilities and stockholders' equity	\$ 2,819,440	\$ 2,783,684

*See the accompanying notes to condensed consolidated financial statements.*

**PURE STORAGE, INC.**  
**Condensed Consolidated Statements of Operations**  
(in thousands, except per share data, unaudited)

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
<b>Revenue:</b>				
Product	\$ 272,309	\$ 324,935	\$ 519,248	\$ 574,823
Subscription services	131,414	171,896	251,594	334,715
Total revenue	403,723	496,831	770,842	909,538
<b>Cost of revenue:</b>				
Product	84,731	101,150	154,016	180,214
Subscription services	44,266	55,654	85,275	107,431
Total cost of revenue	128,997	156,804	239,291	287,645
Gross profit	274,726	340,027	531,551	621,893
<b>Operating expenses:</b>				
Research and development	114,652	140,107	227,098	271,488
Sales and marketing	171,434	190,386	344,867	373,882
General and administrative	44,471	43,464	85,596	86,610
Restructuring and other	8,288	—	22,990	—
Total operating expenses	338,845	373,957	680,551	731,980
Loss from operations	(64,119)	(33,930)	(149,000)	(110,087)
Other income (expense), net	1,603	(7,410)	(1,813)	(12,137)
Loss before provision for income taxes	(62,516)	(41,340)	(150,813)	(122,224)
Provision for income taxes	2,451	3,925	4,748	7,247
Net loss	\$ (64,967)	\$ (45,265)	\$ (155,561)	\$ (129,471)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.25)	\$ (0.16)	\$ (0.59)	\$ (0.46)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	264,799	283,931	263,867	282,147

*See the accompanying notes to condensed consolidated financial statements.*

**PURE STORAGE, INC.**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(in thousands, unaudited)**

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Net loss	\$ (64,967)	\$ (45,265)	\$ (155,561)	\$ (129,471)
Other comprehensive income (loss):				
Unrealized net gains (losses) on available-for-sale securities	2,715	(1,192)	7,605	(3,411)
Less: reclassification adjustment for net gains on available-for-sale securities included in net loss	(703)	(95)	(869)	(518)
Change in unrealized net gains (losses) on available-for-sale securities	2,012	(1,287)	6,736	(3,929)
Comprehensive loss	<u>\$ (62,955)</u>	<u>\$ (46,552)</u>	<u>\$ (148,825)</u>	<u>\$ (133,400)</u>

*See the accompanying notes to condensed consolidated financial statements.*

**PURE STORAGE, INC.**
**Condensed Consolidated Statements of Stockholders' Equity**  
**(in thousands, unaudited)**

<b>Second Quarter of Fiscal 2021</b>						
	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>				
Balance at the end of the first quarter of fiscal 2021	263,970	\$ 26	\$ 2,120,189	\$ 10,173	\$ (1,373,530)	\$ 756,858
Issuance of common stock upon exercise of stock options	2,138	1	12,237	—	—	12,238
Stock-based compensation expense	—	—	61,456	—	—	61,456
Vesting of restricted stock units	2,930	1	(1)	—	—	—
Tax withholding on vesting of restricted stock	(85)	—	(1,467)	—	—	(1,467)
Repurchases of common stock	(1,177)	(1)	(20,023)	—	—	(20,024)
Other comprehensive income	—	—	—	2,012	—	2,012
Net loss	—	—	—	—	(64,967)	(64,967)
Balance at the end of the second quarter of fiscal 2021	<u>267,776</u>	<u>\$ 27</u>	<u>\$ 2,172,391</u>	<u>\$ 12,185</u>	<u>\$ (1,438,497)</u>	<u>\$ 746,106</u>

<b>Second Quarter of Fiscal 2022</b>						
	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>				
Balance at the end of the first quarter of fiscal 2022	283,352	\$ 28	\$ 2,359,895	\$ 4,768	\$ (1,649,218)	\$ 715,473
Issuance of common stock upon exercise of stock options	566	—	3,389	—	—	3,389
Stock-based compensation expense	—	—	71,021	—	—	71,021
Vesting of restricted stock units	3,246	—	—	—	—	—
Tax withholding on vesting of equity awards	(80)	—	(1,514)	—	—	(1,514)
Forfeiture of restricted stock	(37)	—	—	—	—	—
Repurchases of common stock	(2,313)	—	(44,373)	—	—	(44,373)
Other comprehensive loss	—	—	—	(1,287)	—	(1,287)
Net loss	—	—	—	—	(45,265)	(45,265)
Balance at the end of the second quarter of fiscal 2022	<u>284,734</u>	<u>\$ 28</u>	<u>\$ 2,388,418</u>	<u>\$ 3,481</u>	<u>\$ (1,694,483)</u>	<u>\$ 697,444</u>

See the accompanying notes to condensed consolidated financial statements.

**PURE STORAGE, INC.**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(in thousands, unaudited)

First Two Quarters of Fiscal 2021						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at the end of fiscal 2020	264,008	\$ 26	\$ 2,107,579	\$ 5,449	\$ (1,282,936)	\$ 830,118
Issuance of common stock upon exercise of stock options	4,313	1	21,625	—	—	21,626
Stock-based compensation expense	—	—	120,150	—	—	120,150
Vesting of restricted stock units	5,455	1	(1)	—	—	—
Cancellation of restricted stock	(230)	—	—	—	—	—
Tax withholding on vesting of restricted stock	(219)	—	(2,841)	—	—	(2,841)
Common stock issued under employee stock purchase plan	1,585	—	16,021	—	—	16,021
Repurchases of common stock	(7,136)	(1)	(90,142)	—	—	(90,143)
Other comprehensive income	—	—	—	6,736	—	6,736
Net loss	—	—	—	—	(155,561)	(155,561)
Balance at the end of the second quarter of fiscal 2021	<u>267,776</u>	<u>\$ 27</u>	<u>\$ 2,172,391</u>	<u>\$ 12,185</u>	<u>\$ (1,438,497)</u>	<u>\$ 746,106</u>

First Two Quarters of Fiscal 2022						
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at the end of fiscal 2021	278,363	\$ 28	\$ 2,307,580	\$ 7,410	\$ (1,565,012)	\$ 750,006
Issuance of common stock upon exercise of stock options	1,897	—	11,284	—	—	11,284
Stock-based compensation expense	—	—	132,785	—	—	132,785
Vesting of restricted stock units	6,327	—	—	—	—	—
Tax withholding on vesting of equity awards	(305)	—	(6,564)	—	—	(6,564)
Forfeiture of restricted stock	(37)	—	—	—	—	—
Common stock issued under employee stock purchase plan	2,185	—	17,726	—	—	17,726
Repurchases of common stock	(3,696)	—	(74,393)	—	—	(74,393)
Other comprehensive loss	—	—	—	(3,929)	—	(3,929)
Net loss	—	—	—	—	(129,471)	(129,471)
Balance at the end of the second quarter of fiscal 2022	<u>284,734</u>	<u>\$ 28</u>	<u>\$ 2,388,418</u>	<u>\$ 3,481</u>	<u>\$ (1,694,483)</u>	<u>\$ 697,444</u>

*See the accompanying notes to condensed consolidated financial statements.*



**PURE STORAGE, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
(in thousands, unaudited)

	First Two Quarters of Fiscal	
	2021	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (155,561)	\$ (129,471)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	31,597	38,099
Amortization of debt discount and debt issuance costs	14,125	15,154
Stock-based compensation expense	120,146	131,763
Impairment of long-lived assets	7,505	—
Other	1,972	6,516
Changes in operating assets and liabilities:		
Accounts receivable, net	91,896	102,506
Inventory	1,735	(3,242)
Deferred commissions	(5,483)	(8,041)
Prepaid expenses and other assets	(26,389)	(24,955)
Operating lease right-of-use assets	14,181	14,818
Accounts payable	(21,090)	(9,267)
Accrued compensation and other liabilities	(3,217)	(40,952)
Operating lease liabilities	(13,071)	(14,205)
Deferred revenue	27,463	66,117
Net cash provided by operating activities	<u>85,809</u>	<u>144,840</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(48,776)	(55,499)
Purchases of marketable securities	(291,237)	(317,371)
Sales of marketable securities	91,351	114,038
Maturities of marketable securities	206,174	169,770
Net cash used in investing activities	<u>(42,488)</u>	<u>(89,062)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from exercise of stock options	21,658	11,163
Proceeds from issuance of common stock under employee stock purchase plan	16,021	17,726
Proceeds from borrowing	4,950	—
Repayments of borrowing	—	(605)
Tax withholding on vesting of equity awards	(2,841)	(6,564)
Repurchases of common stock	(90,143)	(74,393)
Net cash used in financing activities	<u>(50,355)</u>	<u>(52,673)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(7,034)	3,105
Cash, cash equivalents and restricted cash, beginning of period	377,922	347,691
Cash, cash equivalents and restricted cash, end of period	<u>\$ 370,888</u>	<u>\$ 350,796</u>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD</b>		
Cash and cash equivalents	\$ 355,601	\$ 340,252
Restricted cash	15,287	10,544
Cash, cash equivalents and restricted cash, end of period	<u>\$ 370,888</u>	<u>\$ 350,796</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 359	\$ 2,520
Cash paid for income taxes	\$ 5,070	\$ 6,050
Cash paid for amounts included in the measurement of operating lease liabilities	<u>\$ 17,849</u>	<u>\$ 17,904</u>
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION</b>		
Property and equipment purchased but not yet paid	\$ 6,619	\$ 7,402
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ 29,754</u>	<u>\$ 2,787</u>

See the accompanying notes to condensed consolidated financial statements.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

**Note 1. Business Overview**

***Organization and Description of Business***

Pure Storage, Inc. (the Company, we, us, or other similar pronouns) was originally incorporated in the state of Delaware in October 2009 under the name OS76, Inc. In January 2010, we changed our name to Pure Storage, Inc. We are headquartered in Mountain View, California and have wholly owned subsidiaries throughout the world.

Data is foundational to our customers' digital transformation and we deliver innovative and disruptive technology and data storage solutions that enable customers to maximize the value of their data.

**Note 2. Basis of Presentation and Summary of Significant Accounting Policies**

***Basis of Presentation and Principles of Consolidation***

In September 2019, we adopted a 52/53 week fiscal year consisting of four 13-week quarters ending on the first Sunday after January 30, which for fiscal 2021 was January 31, 2021 and for fiscal 2022 will be February 6, 2022. The second quarter of fiscal 2021 and 2022 ended on August 2, 2020 and August 1, 2021. Unless otherwise stated, all dates refer to our fiscal year and fiscal periods.

The condensed consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

There were no material changes in the second quarter of fiscal 2022 to our significant accounting policies as described in our Annual Report on Form 10-K for fiscal 2021.

***Unaudited Interim Consolidated Financial Information***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for fiscal 2021.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year 2022 or any future period.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions due to risks and uncertainties, including uncertainty in the current economic environment from the ongoing COVID-19 pandemic. Such estimates include, but are not limited to, the determination of standalone selling price for revenue arrangements with multiple performance obligations, useful lives of intangible assets and property and equipment, the period of benefit for deferred contract costs for commissions, stock-based compensation, provision for income taxes including related reserves, and the fair value of equity assumed, intangible and tangible assets acquired and liabilities assumed for business combinations. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

**PURE STORAGE, INC.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**Restricted Cash**

Restricted cash is comprised of cash collateral for letters of credit related to our leases and for a vendor credit card program. At the end of fiscal 2021 and the second quarter of fiscal 2022, we had restricted cash of \$10.5 million.

**Recent Accounting Pronouncements Not Yet Adopted**

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)* which refines the scope of Topic 848 and clarifies some of its guidance. The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impact of this standard on our condensed consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for certain convertible instruments, amends guidance on derivative scope exceptions for contracts in an entity's own equity, and modifies the guidance on diluted earnings per share calculations as a result of these changes. The standard will be effective for us beginning February 7, 2022 and can be applied on either a fully retrospective or modified retrospective basis. We are currently evaluating the impact of this standard on our condensed consolidated financial statements.

**Note 3. Financial Instruments**

**Fair Value Measurements**

We define fair value as the exchange price that would be received from sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure our financial assets and liabilities at fair value at each reporting period using a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Three levels of inputs may be used to measure fair value:

- *Level 1* - Observable inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- *Level 2* - Observable inputs are quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments; and
- *Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs are based on our own assumptions used to measure assets and liabilities at fair value and require significant management judgment or estimation.

**PURE STORAGE, INC.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

***Cash Equivalents, Marketable Securities and Restricted Cash***

We measure our cash equivalents, marketable securities, and restricted cash at fair value on a recurring basis. We classify our cash equivalents, marketable securities and restricted cash within Level 1 or Level 2 because they are valued using either quoted market prices or inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded. Our fixed income available-for-sale securities consist of high quality, investment grade securities from diverse issuers. The valuation techniques used to measure the fair value of our marketable securities were derived from non-binding market consensus prices that are corroborated by observable market data or quoted market prices for similar instruments. The following tables summarize our cash equivalents, marketable securities and restricted cash by significant investment categories and their classification within the valuation hierarchy at the end of fiscal 2021 and the second quarter of fiscal 2022 (in thousands):

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

At the End of Fiscal 2021							
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Marketable Securities	Restricted Cash
Level 1							
Money market accounts	\$ —	\$ —	\$ —	\$ 49,984	\$ 39,440	\$ —	\$ 10,544
Level 2							
U.S. government treasury notes	339,253	3,241	(1)	342,493	15,340	327,153	—
U.S. government agencies	56,729	516	—	57,245	—	57,245	—
Corporate debt securities	425,115	4,176	(33)	429,258	—	429,258	—
Foreign government bonds	21,486	307	—	21,793	—	21,793	—
Asset-backed securities	79,924	1,015	—	80,939	—	80,939	—
Total	<u>\$ 922,507</u>	<u>\$ 9,255</u>	<u>\$ (34)</u>	<u>\$ 981,712</u>	<u>\$ 54,780</u>	<u>\$ 916,388</u>	<u>\$ 10,544</u>

At the End of the Second Quarter of Fiscal 2022							
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Marketable Securities	Restricted Cash
Level 1							
Money market accounts	\$ —	\$ —	\$ —	\$ 29,449	\$ 18,905	\$ —	\$ 10,544
Level 2							
U.S. government treasury notes	341,033	1,842	(8)	342,867	10,000	332,867	—
U.S. government agencies	54,741	322	—	55,063	—	55,063	—
Corporate debt securities	465,168	2,535	(48)	467,655	—	467,655	—
Foreign government bonds	17,281	177	—	17,458	—	17,458	—
Asset-backed securities	68,331	477	(4)	68,804	—	68,804	—
Municipal bonds	2,440	—	(2)	2,438	—	2,438	—
Total	<u>\$ 948,994</u>	<u>\$ 5,353</u>	<u>\$ (62)</u>	<u>\$ 983,734</u>	<u>\$ 28,905</u>	<u>\$ 944,285</u>	<u>\$ 10,544</u>

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

The amortized cost and estimated fair value of our marketable securities are shown below by contractual maturity (in thousands):

	At the End of the Second Quarter of Fiscal 2022	
	Amortized Cost	Fair Value
Due within one year	\$ 355,927	\$ 358,013
Due in one to five years	579,137	582,333
Due in five to ten years	3,930	3,939
Total	<u>\$ 938,994</u>	<u>\$ 944,285</u>

Unrealized losses on our debt securities have not been recorded into income because we do not intend to sell nor is it more likely than not that we will be required to sell these investments prior to recovery of their amortized cost basis. The decline in fair value of our debt securities is largely due to changes in credit spreads as a result of market conditions. The credit ratings associated with our debt securities are mostly unchanged, are highly rated and the issuers continue to make timely principal and interest payments. As a result, there were no credit losses in the second quarter and the first two quarters of fiscal 2021 and 2022.

The following table presents gross unrealized losses and fair values for those investments that were in a continuous unrealized loss position at the end of fiscal 2021 and the second quarter of fiscal 2022, aggregated by investment category (in thousands):

	At the End of Fiscal 2021					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government treasury notes	\$ 8,301	\$ (1)	\$ —	\$ —	\$ 8,301	\$ (1)
Corporate debt securities	32,996	(33)	—	—	32,996	(33)
Total	<u>\$ 41,297</u>	<u>\$ (34)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 41,297</u>	<u>\$ (34)</u>

	At the End of the Second Quarter of Fiscal 2022					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government treasury notes	\$ 33,652	\$ (8)	\$ —	\$ —	\$ 33,652	\$ (8)
Corporate debt securities	44,011	(48)	—	—	44,011	(48)
Asset-backed securities	3,917	(4)	—	—	3,917	(4)
Municipal bonds	2,438	(2)	—	—	2,438	(2)
Total	<u>\$ 84,018</u>	<u>\$ (62)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 84,018</u>	<u>\$ (62)</u>

Realized gains or losses on sale of marketable securities were not significant for all periods presented.

**Fair Value Measurements of Other Financial Instruments**

We measure the fair value of our convertible senior notes (the Notes) on a quarterly basis for disclosure purposes. We consider the fair value of the Notes at the end of the second quarter of fiscal 2022 to be a Level 2 measurement due to its limited trading activity. Refer to Note 6 for the carrying amount and estimated fair value of our Notes at the end of the second quarter of fiscal 2022.

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**Note 4. Balance Sheet Components**
**Inventory**

Inventory consists of the following (in thousands):

	At the End of	
	Fiscal 2021	Second Quarter of Fiscal 2022
Raw materials	\$ 4,991	\$ 8,443
Finished goods	41,742	38,726
Inventory	<u>\$ 46,733</u>	<u>\$ 47,169</u>

**Property and Equipment, Net**

Property and equipment, net consists of the following (in thousands):

	At the End of	
	Fiscal 2021	Second Quarter of Fiscal 2022
Test equipment	\$ 238,069	\$ 255,982
Computer equipment and software	184,518	207,734
Furniture and fixtures	8,484	8,492
Leasehold improvements	44,444	44,456
Total property and equipment	475,515	516,664
Less: accumulated depreciation and amortization	(312,474)	(332,616)
Property and equipment, net	<u>\$ 163,041</u>	<u>\$ 184,048</u>

Depreciation and amortization expense related to property and equipment was \$13.8 million and \$15.2 million for the second quarter of fiscal 2021 and 2022, and \$26.2 million and \$29.7 million for the first two quarters of fiscal 2021 and 2022. No amount of internal-use software development costs were capitalized during the second quarter and first two quarters of fiscal 2021 and the amount capitalized and related amortization expense during the second quarter and first two quarters of fiscal 2022 were not material.

**Intangible Assets, Net**

Intangible assets, net consist of the following (in thousands):

	At the End of					
	Fiscal 2021			Second Quarter of Fiscal 2022		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Technology patents	\$ 19,125	\$ (11,722)	\$ 7,403	\$ 19,125	\$ (12,891)	\$ 6,234
Developed technology	77,373	(17,499)	59,874	77,373	(23,635)	53,738
Customer relationships	6,459	(308)	6,151	6,459	(769)	5,690
Trade name	3,623	(403)	3,220	3,623	(1,006)	2,617
Intangible assets, net	<u>\$ 106,580</u>	<u>\$ (29,932)</u>	<u>\$ 76,648</u>	<u>\$ 106,580</u>	<u>\$ (38,301)</u>	<u>\$ 68,279</u>

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

Intangible assets amortization expense was \$2.7 million and \$4.1 million for the second quarter of fiscal 2021 and 2022, and \$5.4 million and \$8.4 million for the first two quarters of fiscal 2021 and 2022. At the end of the second quarter of fiscal 2022, the weighted-average remaining amortization period was 2.3 years for technology patents, 4.4 years for developed technology, 6.2 years for customer relationships, and 2.2 years for trade name. We recorded amortization of technology patents in general and administrative expenses due to their defensive nature, developed technology in cost of product revenue, and customer relationships and trade name in sales and marketing expenses in the condensed consolidated statements of operations.

At the end of the second quarter of fiscal 2022, future expected amortization expense for intangible assets is as follows (in thousands):

Fiscal Years Ending	Estimated Future Amortization Expense
Remainder of 2022	\$ 7,862
2023	15,685
2024	15,282
2025	14,477
2026	11,924
Thereafter	3,049
Total	<u>\$ 68,279</u>

**Goodwill**

As of the end of fiscal 2021 and the second quarter of fiscal 2022, goodwill was \$358.7 million. There were no impairments to goodwill during the second quarter and first two quarters of fiscal 2021 and 2022.

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities consist of the following (in thousands):

	At the End of	
	Fiscal 2021	Second Quarter of Fiscal 2022
Taxes payable	\$ 4,097	\$ 4,892
Accrued marketing	15,638	10,125
Accrued travel and entertainment expenses	866	1,007
Acquisition consideration	9,600	4,154
Other accrued liabilities	31,553	32,865
Total accrued expenses and other liabilities	<u>\$ 61,754</u>	<u>\$ 53,043</u>



**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**Note 5. Deferred Revenue and Commissions**

**Deferred Commissions**

Deferred commissions consist of incremental costs paid to our sales force to obtain customer contracts.

Changes in total deferred commissions during the periods presented are as follows (in thousands):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Beginning balance	\$ 142,363	\$ 185,875	\$ 139,204	\$ 187,924
Additions	30,534	42,791	60,296	71,980
Recognition of deferred commissions	(28,210)	(32,701)	(54,813)	(63,939)
Ending balance	\$ 144,687	\$ 195,965	\$ 144,687	\$ 195,965

Of the \$196.0 million total deferred commissions balance at the end of the second quarter of fiscal 2022, we expect to recognize approximately 30% as commission expense over the next 12 months and the remainder thereafter.

There was no impairment related to capitalized commissions for the second quarter and first two quarters of fiscal 2021 and 2022.

**Deferred Revenue**

Deferred revenue primarily consists of amounts that have been invoiced but have not yet been recognized as revenue including performance obligations pertaining to subscription services.

Changes in total deferred revenue during the periods presented are as follows (in thousands):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Beginning balance	\$ 706,060	\$ 866,160	\$ 697,288	\$ 843,697
Additions	155,435	215,613	287,169	402,464
Recognition of deferred revenue	(136,744)	(171,959)	(259,706)	(336,347)
Ending balance	\$ 724,751	\$ 909,814	\$ 724,751	\$ 909,814

Revenue recognized during the second quarter of fiscal 2021 and 2022 from deferred revenue at the beginning of each respective period was \$119.4 million and \$155.3 million. Revenue recognized during the first two quarters of fiscal 2021 and 2022 from deferred revenue at the beginning of each respective period was \$204.6 million and \$258.6 million.

**Remaining Performance Obligations**

Total remaining performance obligations (RPO) which is contracted but not recognized revenue was \$1,196.0 million at the end of the second quarter of fiscal 2022. RPO consists of both deferred revenue and non-cancelable amounts that are expected to be invoiced and recognized as revenue in future periods. Product orders are generally cancelable until delivery has occurred, and as such unfulfilled product orders are excluded from RPO. Of the \$1,196.0 million contracted but not recognized revenue at the end of the second quarter of fiscal 2022, we expect to recognize approximately 45% over the next 12 months, and the remainder thereafter.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 6. Debt

**Convertible Senior Notes**

In April 2018, we issued \$575.0 million in principal amount of 0.125% convertible senior notes due 2023, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act and received proceeds of \$562.1 million, after deducting the underwriters' discounts and commissions. The Notes are governed by an indenture (the Indenture) between us, as the issuer, and U.S. Bank National Association, as trustee. The Notes are our senior unsecured obligations. The Indenture does not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness, or the issuance or repurchase of securities by us or any of our subsidiaries. The Notes mature on April 15, 2023 unless repurchased or redeemed by us or converted in accordance with their terms prior to the maturity date. Interest is payable semi-annually in arrears on April 15 and October 15 of each year.

The Notes are convertible for up to 21,884,155 shares of our common stock at an initial conversion rate of approximately 38.0594 shares of common stock per \$1,000 principal amount, which is equal to an initial conversion price of approximately \$26.27 per share of common stock, subject to adjustment. Holders of the Notes may surrender their Notes for conversion at their option at any time prior to the close of business on the business day immediately preceding October 15, 2022, only under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarter ended on July 31, 2018 (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price for the Notes on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the measurement period), in which the trading price per \$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the Notes on each such trading day;
- if we call any or all of the Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- upon the occurrence of specified corporate events.

On or after October 15, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at any time regardless of the foregoing circumstances. Upon conversion, holders will receive cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. We intend to settle the principal of the Notes in cash.

The conversion price will be subject to adjustment in some events. Following certain corporate events that occur prior to the maturity date or following our issuance of a notice of redemption, we will increase the conversion rate for a holder who elects to convert its Notes in connection with such corporate event or during the related redemption period in certain circumstances. Additionally, upon the occurrence of a corporate event that constitutes a "fundamental change" per the Indenture, holders of the Notes may require us to repurchase for cash all or a portion of the Notes at a purchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid contingent interest.

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

Subsequent to April 19, 2021, we may redeem for cash all or any portion of the Notes, at our option, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending not more than two trading days immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Notes.

Upon the issuance of the Notes, we recorded total debt issuance costs of \$12.9 million, of which \$9.8 million was allocated to the Notes and \$3.1 million was allocated to additional paid-in capital.

The Notes consisted of the following (in thousands):

	At the End of	
	Fiscal 2021	Second Quarter of Fiscal 2022
<b>Liability:</b>		
Principal	\$ 575,000	\$ 575,000
Less: debt discount, net of amortization	(64,515)	(50,670)
Less: debt issuance costs, net of amortization	(4,671)	(3,668)
Net carrying amount of the Notes	<u>\$ 505,814</u>	<u>\$ 520,662</u>
<b>Stockholders' equity recorded at issuance:</b>		
Allocated value of the conversion feature		\$ 136,333
Less: debt issuance costs		(3,068)
Additional paid-in capital		<u>\$ 133,265</u>

The total estimated fair value of the Notes at the end of the second quarter of fiscal 2022 was \$607.3 million. The fair value was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the period. The fair value of the Notes is primarily affected by the trading price of our common stock and market interest rates. Based on the closing price of our common stock of \$19.52 on the last day of the second quarter of fiscal 2022, the if-converted value of the Notes of \$427.2 million was less than its principal amount. At the end of the second quarter of fiscal 2022, the remaining term of the Notes is approximately 20 months.

The following table sets forth total interest expense recognized related to the Notes for the second quarter and first two quarters of fiscal 2021 and 2022 (in thousands):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Amortization of debt discount	\$ 6,703	\$ 7,085	\$ 13,171	\$ 13,845
Amortization of debt issuance costs	486	513	954	1,003
Total amortization of debt discount and debt issuance costs	<u>7,189</u>	<u>7,598</u>	<u>14,125</u>	<u>14,848</u>
Contractual interest expense	181	181	358	356
Total interest expense related to the Notes	<u>\$ 7,370</u>	<u>\$ 7,779</u>	<u>\$ 14,483</u>	<u>\$ 15,204</u>
Effective interest rate of the liability component	5.6 %	5.6 %	5.6 %	5.6 %

**PURE STORAGE, INC.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

In connection with the offering of the Notes, we paid \$64.6 million to enter into capped call transactions with certain of the underwriters and their affiliates (the Capped Calls), whereby we have the option to purchase a total of 21,884,155 shares of our common stock upon any conversion of Notes and/or offset any cash payments we are required to make in excess of the principal amount of the Notes, as the case may be, with such reduction or offset subject to a cap initially equal to \$39.66 per share (which represents a premium of 100% over the last reported sales price of our common stock on April 4, 2018), subject to certain adjustments (the Cap Price). The cost of the Capped Calls was accounted for as a reduction to additional paid-in capital on the condensed consolidated balance sheet. The Capped Calls are intended to reduce or offset potential dilution of our common stock upon any conversion of the Notes, subject to a cap based on the Cap Price.

***Impact on Earnings Per Share***

The Notes will not impact our diluted earnings per share until the average market price of our common stock exceeds the conversion price of \$26.27 per share, as we intend to settle the principal amount of the Notes in cash upon conversion. We are required under the treasury stock method to compute the potentially dilutive shares of common stock related to the Notes for periods we report net income. However, upon conversion, there will be no economic dilution from the Notes until the average market price of our common stock exceeds the Cap Price of \$39.66 per share, as exercise of the Capped Calls offsets any dilution from the Notes from the conversion price up to the Cap Price. Capped Calls are excluded from the calculation of diluted earnings per share, as they would be anti-dilutive under the treasury stock method.

***Revolving Credit Facility***

On August 24, 2020, we entered into a Credit Agreement with a consortium of financial institutions and lenders that provides for a five-year, senior secured revolving credit facility of \$300.0 million (Credit Facility). Proceeds from the Credit Facility may be used for general corporate purposes and working capital. The Credit Facility expires, absent default or early termination by us, on the earlier of (i) August 24, 2025 or (ii) 91 days prior to the stated maturity of the Notes unless, on such date and each subsequent day until the Notes are paid in full, the sum of our cash, cash equivalents and marketable securities and the aggregate unused commitments then available to us exceed \$625.0 million.

The annual interest rates applicable to loans under the Credit Facility are, at our option, equal to either a base rate plus a margin ranging from 0.50% to 1.25% or LIBOR (based on one, three or six-month interest periods), subject to a floor of 0%, plus a margin ranging from 1.50% to 2.25%. Interest on revolving loans is payable quarterly in arrears with respect to loans based on the base rate and at the end of an interest period in the case of loans based on LIBOR (or at each three-month interval if the interest period is longer than three months). We are also required to pay a commitment fee on the unused portion of the commitments ranging from 0.25% to 0.40% per annum, payable quarterly in arrears.

In September 2020, we drew down \$250.0 million under the Credit Facility which remained outstanding at the end of the second quarter of fiscal 2022. The outstanding loan bore weighted-average interest at the one-month LIBOR of approximately 1.60% and 1.61% resulting in interest expense of \$1.0 million and \$2.0 million during the second quarter and first two quarters of fiscal 2022.

Loans under the Credit Facility are collateralized by substantially all of our assets and subject to certain restrictions and two financial ratios measured as of the last day of each fiscal quarter: a Consolidated Leverage Ratio not to exceed 4.5:1 and an Interest Coverage Ratio not to be less than 3:1. We were in compliance with all covenants under the Credit Facility at the end of the second quarter of fiscal 2022.

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**Note 7. Commitments and Contingencies****Letters of Credit**

At the end of fiscal 2021 and the second quarter of fiscal 2022, we had outstanding letters of credit in the aggregate amount of \$6.7 million in connection with our facility leases. The letters of credit are collateralized by restricted cash and mature on various dates through August 2029.

**Legal Matters**

From time to time, we have become involved in claims and other legal matters arising in the normal course of business. We investigate these claims as they arise. Although claims are inherently unpredictable, we currently are not aware of any matters that we expect to have a material adverse effect on our business, financial position, results of operations or cash flows. Accordingly, we have not recorded any loss contingency on our condensed consolidated balance sheet at the end of the second quarter of fiscal 2022.

**Indemnification**

Our arrangements generally include certain provisions for indemnifying customers against liabilities if our products or services infringe a third party's intellectual property rights. Other guarantees or indemnification arrangements include guarantees of product and service performance and standby letters of credit for lease facilities. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, we have not incurred any material costs as a result of such obligations and have not accrued any liabilities related to such obligations in the condensed consolidated financial statements. In addition, we indemnify our officers, directors and certain key employees while they are serving in good faith in their respective capacities. To date, there have been no claims under any indemnification provisions.

**Note 8. Leases**

We lease office facilities under non-cancelable operating lease agreements expiring through July 2032. Our lease agreements do not contain any material residual value guarantees or restrictive covenants. The components of lease costs related to our operating leases during the periods presented were as follows (in thousands):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Fixed operating lease cost	\$ 9,532	\$ 9,309	\$ 18,281	\$ 19,065
Variable lease cost <sup>(1)</sup>	2,291	1,653	4,942	3,648
Short-term lease cost (12 months or less)	1,559	1,032	3,066	2,133
Total lease cost	\$ 13,382	\$ 11,994	\$ 26,289	\$ 24,846

<sup>(1)</sup> Variable lease cost predominantly included common area maintenance charges.

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

At the end of the second quarter of fiscal 2022, the weighted-average remaining lease term for our operating leases was 4.8 years and the weighted-average discount rate for our operating leases was 5.75%. Future lease payments under our non-cancelable operating leases at the end of the second quarter of fiscal 2022 were as follows (in thousands):

Fiscal Years Ending	Operating Leases
The remainder of 2022	\$ 22,528
2023	37,914
2024	32,308
2025	27,727
2026	19,322
Thereafter	24,371
Total future lease payments	164,170
Less: imputed interest	(22,995)
Present value of lease liabilities	\$ 141,175

**Note 9. Restructuring and Other**

During the second quarter and first two quarters of fiscal 2021, we ceased use of certain leased facilities. The unamortized costs of \$7.5 million relating to operating lease right-of-use assets and leasehold improvements for these leases were expensed.

During the second quarter and first two quarters of fiscal 2021, we effected workforce realignment plans to streamline our operations and recognized \$0.8 million and \$6.6 million of restructuring costs related to involuntary termination benefit costs. The restructuring charges are included in restructuring and other expenses in our condensed consolidated statement of operations.

During the first two quarters of fiscal 2021, we incurred incremental costs of \$9.8 million directly related to the COVID-19 pandemic. These costs primarily included the write-off of marketing commitments no longer deemed to have value for the remainder of fiscal 2021, estimated non-recoverable costs for internal events that could not be held, and hazard related premiums to support manufacturing operations. Of these costs, \$8.9 million is included in restructuring and other expenses and \$0.9 million is included in cost of revenue in our condensed consolidated statements of operations for the first two quarters of fiscal 2021.

**Note 10. Stockholders' Equity**

***Preferred Stock***

We have 20,000,000 authorized shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by our board of directors. At the end of the second quarter of fiscal 2022, there were no shares of preferred stock issued or outstanding.

***Class A and Class B Common Stock***

We have two classes of authorized common stock, Class A common stock, which we refer to as our "common stock", and Class B common stock. At the end of the second quarter of fiscal 2022, we had 2,000,000,000 authorized shares of Class A common stock and 250,000,000 authorized shares of Class B common stock, with each class having a par value of \$0.0001 per share. At the end of the second quarter of fiscal 2022, 284,733,647 shares of Class A common stock were issued and outstanding.

**PURE STORAGE, INC.**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

***Share Repurchase Program***

In February 2021, our board of directors authorized the repurchase of up to an additional \$200.0 million of our common stock. During the second quarter of fiscal 2022, we repurchased and retired 2,312,697 shares of common stock at an average purchase price of \$19.17 per share for an aggregate repurchase price of \$44.3 million. During the first two quarters of fiscal 2022, we repurchased and retired 3,695,766 shares of common stock at an average purchase price of \$20.11 per share for an aggregate repurchase price of \$74.3 million. At the end of the second quarter of fiscal 2022, \$125.7 million remained available for future share repurchases under our current repurchase authorization.

**Note 11. Equity Incentive Plans**

***Equity Incentive Plans***

We maintain two equity incentive plans: the 2009 Equity Incentive Plan (the 2009 Plan) and the 2015 Equity Incentive Plan (the 2015 Plan). The 2015 Plan serves as the successor to our 2009 Plan and provides for grants of incentive stock options to our employees and non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), performance stock awards, performance cash awards, and other forms of stock awards to our employees, directors and consultants. Our equity awards generally vest over a two to four year period and expire no later than ten years from the date of grant.

We net-share settle equity awards held by certain employees by withholding shares upon vesting to satisfy tax withholding obligations. The shares withheld to satisfy employee tax withholding obligations are returned to our 2015 Plan and will be available for future issuance. Payments for employees' tax obligations to the tax authorities are recognized as a reduction to additional paid-in capital and reflected as a financing activity in our condensed consolidated statements of cash flows.

***2015 Amended and Restated Employee Stock Purchase Plan***

Under our Amended and Restated 2015 Employee Stock Purchase Plan (2015 ESPP), our board of directors (or a committee thereof) has the authority to establish the length and terms of the offering periods and purchase periods and the purchase price of the shares of common stock which may be purchased under the plan. The current offering terms allow eligible employees to purchase shares of our common stock at a discount through payroll deductions of up to 30% of their eligible compensation, subject to a cap of 3,000 shares on any purchase date, a dollar cap of \$7,500 per purchase period, or \$25,000 in any calendar year (as determined under applicable tax rules). The current terms also allow for a 24-month offering period beginning March 16th and September 16th of each year, with each offering period consisting of four 6-month purchase periods, subject to a reset provision. Further, currently, on each purchase date, eligible employees may purchase our common stock at a price per share equal to 85% of the lesser of the fair market value of our common stock (1) on the first trading day of the applicable offering period or (2) the purchase date.

Under the reset provision currently authorized, if the closing stock price on the offering date of a new offering falls below the closing stock price on the offering date of an ongoing offering, the ongoing offering would terminate immediately following the purchase of ESPP shares on the purchase date immediately preceding the new offering and participants in the terminated ongoing offering would automatically be enrolled in the new offering (ESPP reset), resulting in a modification charge to be recognized over the new offering period. During the first quarter of fiscal 2021, there was an ESPP reset that resulted in a modification charge of \$23.8 million, which is being recognized over an offering period ending March 15, 2022. There was no ESPP reset during the first two quarters of fiscal 2022.

Stock-based compensation expense related to our 2015 ESPP was \$6.4 million and \$8.8 million during the second quarter of fiscal 2021 and 2022, and \$12.0 million and \$16.4 million during the first two quarters of fiscal 2021 and 2022. At the end of the second quarter of fiscal 2022, total unrecognized stock-based compensation cost related to our 2015 ESPP was \$25.2 million, which is expected to be recognized over a weighted-average period of 0.8 years.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

**Stock Options**

A summary of the stock option activity under our equity incentive plans and related information is as follows:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (in thousands)
Balance at the end of fiscal 2021	18,558,974	\$ 9.60	4.3	\$ 251,503
Options exercised	(1,897,316)	5.94		
Options forfeited	(206,000)	12.13		
Balance at the end of the second quarter of fiscal 2022	<u>16,455,658</u>	\$ 9.99	3.8	\$ 157,211
Vested and exercisable at the end of the second quarter of fiscal 2022	<u>15,048,622</u>	\$ 10.41	3.5	\$ 137,085

The aggregate intrinsic value of options vested and exercisable at the end of the second quarter of fiscal 2022 is calculated based on the difference between the exercise price and the closing price of \$19.52 of our common stock on the last day of the second quarter of fiscal 2022.

Stock-based compensation expense recognized related to stock options was \$2.1 million and \$2.0 million during the second quarter of fiscal 2021 and 2022, and \$4.1 million and \$4.3 million during the first two quarters of fiscal 2021 and 2022.

At the end of the second quarter of fiscal 2022, total unrecognized employee stock-based compensation cost related to outstanding options was \$11.7 million, which is expected to be recognized over a weighted-average period of 2.0 years.

**RSUs**

A summary of the RSU activity under our equity incentive plans and related information is as follows:

	Number of RSUs Outstanding	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Unvested balance at the end of fiscal 2021	30,830,082	\$ 15.77	\$ 712,657
Granted	12,888,506	21.54	
Vested	(6,327,142)	16.58	
Forfeited	(2,957,268)	15.83	
Unvested balance at the end of the second quarter of fiscal 2022	<u>34,434,178</u>	\$ 17.74	\$ 672,155

RSUs granted during the second quarter and first two quarters of fiscal 2022 include 1,115,453 and 1,236,005 shares of performance RSUs, at a target percentage of 100%, with both performance and service vesting conditions payable in common stock, from 0% to 150% of the target number granted, contingent upon the degree to which the performance condition is met. Any portion of shares that are not earned will be canceled.

Stock-based compensation expense recognized related to RSUs was \$50.1 million and \$59.0 million during the second quarter of fiscal 2021 and 2022, and \$96.9 million and \$109.9 million during the first two quarters of fiscal 2021 and 2022. At the end of the second quarter of fiscal 2022, total unrecognized employee stock-based compensation cost related to unvested RSUs was \$559.9 million, which is expected to be recognized over a weighted-average period of 2.9 years.



**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**Restricted Stock**

A summary of the restricted stock activity under our 2015 Plan and related information is as follows:

	Number of Restricted Stock Outstanding	Weighted- Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Unvested balance at the end of fiscal 2021	557,836	\$ 19.06	\$ 12,903
Vested	(289,234)	18.88	
Forfeited	(37,262)	20.92	
Unvested balance at the end of the second quarter of fiscal 2022	<u>231,340</u>	<u>\$ 19.00</u>	<u>\$ 4,516</u>

All unvested shares of restricted stock are subject to cancellation to the extent vesting conditions are not met. Stock-based compensation expense recognized related to restricted stock was \$2.8 million and \$0.6 million during the second quarter of fiscal 2021 and 2022, and \$7.1 million and \$1.2 million during the first two quarters of fiscal 2021 and 2022. At the end of the second quarter of fiscal 2022, total unrecognized employee compensation cost related to unvested restricted stock was \$0.6 million, which is expected to be recognized over a weighted-average period of 0.5 years.

**Stock-Based Compensation Expense**

The following table summarizes the components of stock-based compensation expense recognized in the condensed consolidated statements of operations (in thousands):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Cost of revenue—product	\$ 990	\$ 1,566	\$ 1,986	\$ 2,913
Cost of revenue—subscription services	3,686	5,137	7,078	9,543
Research and development	29,839	35,125	58,550	65,546
Sales and marketing	16,848	18,358	33,120	35,166
General and administrative	10,089	10,243	19,412	18,595
Total stock-based compensation expense	<u>\$ 61,452</u>	<u>\$ 70,429</u>	<u>\$ 120,146</u>	<u>\$ 131,763</u>

The tax benefit related to stock-based compensation expense for all periods presented was not material.

**Note 12. Net Loss per Share Attributable to Common Stockholders**

Basic and diluted net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive common stock equivalents, including our outstanding stock options, common stock related to unvested RSUs, unvested restricted stock, our Notes to the extent dilutive, and common stock issuable pursuant to the ESPP. These potentially dilutive common stock equivalents have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is anti-dilutive.

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except per share data):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Net loss	\$ (64,967)	\$ (45,265)	\$ (155,561)	\$ (129,471)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	264,799	283,931	263,867	282,147
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.25)	\$ (0.16)	\$ (0.59)	\$ (0.46)

The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been anti-dilutive (in thousands):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Stock options to purchase common stock	23,329	16,817	24,482	17,336
Unvested restricted stock units	33,286	35,006	31,216	33,905
Unvested restricted stock	1,236	310	1,473	391
Shares related to convertible senior notes	21,884	21,884	21,884	21,884
Shares issuable pursuant to the ESPP	2,040	2,203	2,040	2,203
Total	81,775	76,220	81,095	75,719

**Note 13. Other Income (Expense), Net**

Other income (expense), net consists of the following (in thousands):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Interest income <sup>(1)</sup>	\$ 4,424	\$ 2,330	\$ 10,655	\$ 5,104
Interest expense <sup>(2)</sup>	(7,433)	(9,005)	(14,584)	(17,664)
Foreign currency transactions gains (losses)	2,808	(1,234)	422	(1,198)
Other income	1,804	499	1,694	1,621
Total other income (expense), net	\$ 1,603	\$ (7,410)	\$ (1,813)	\$ (12,137)

<sup>(1)</sup> Interest income includes interest income related to our cash, cash equivalents and marketable securities and non-cash interest income (expense) related to accretion (amortization) of the discount (premium) on marketable securities.

<sup>(2)</sup> Interest expense includes non-cash interest expense related to amortization of the debt discount and debt issuance costs and the contractual interest expense related to our debt.

**PURE STORAGE, INC.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**Note 14. Income Taxes**

Our provision for income tax primarily reflects taxes on international operations and state income taxes. The difference between the income tax provision that would be derived by applying the statutory rate to our loss before income taxes and the income tax provision recorded was primarily attributable to changes in our valuation allowance, U.S. taxes on foreign income and research and development credits.

At the end of the second quarter of fiscal 2022, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for fiscal 2021.

**Note 15. Segment Information**

Our chief operating decision maker is our Chief Executive Officer. Our chief operating decision maker reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. We have one business activity and there are no segment managers who are held accountable for operations or operating results. Accordingly, we have a single reportable segment.

**Disaggregation of Revenue**

The following table depicts the disaggregation of revenue by geographic area based on the billing address of our customers and is consistent with how we evaluate our financial performance (in thousands):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
United States	\$ 281,679	\$ 353,176	\$ 545,825	\$ 648,283
Rest of the world	122,044	143,655	225,017	261,255
Total revenue	<u>\$ 403,723</u>	<u>\$ 496,831</u>	<u>\$ 770,842</u>	<u>\$ 909,538</u>

**Long-Lived Assets by Geographic Area**

Long-lived assets, which are comprised of property and equipment, net, by geographic area are summarized as follows (in thousands):

	At the End of	
	Fiscal 2021	Second Quarter of Fiscal 2022
United States	\$ 152,859	\$ 175,966
Rest of the world	10,182	8,082
Total long-lived assets	<u>\$ 163,041</u>	<u>\$ 184,048</u>

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

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2021. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, impacts on our business and general economic conditions due to the COVID-19 pandemic, those identified herein, and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Form 10-Q and in our other SEC filings. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Our fiscal year end is the first Sunday after January 30.

### Overview

Data is foundational to our customers' digital transformation and we are focused on delivering innovative and disruptive technology and data storage solutions that enable customers to maximize the value of their data. In our first decade, we completely changed customers' expectations of what they should see from storage arrays and storage vendors, making flash storage widely available to enterprise organizations and revolutionizing the customer experience with our *Evergreen Storage* subscription model that radically simplified and reduced total cost of storage ownership. Today, we are changing the expectations for data and storage management by providing customers a cloud experience with flexible on-demand data services consumption through delivery of a *Modern Data Experience* that empowers organizations to run their operations as a true, automated, storage as-a-service model seamlessly across multiple clouds.

Our solutions support a wide range of structured and unstructured data, at scale and across any data workloads on-premise, in the cloud, or hybrid environments and include mission-critical production, test/development, analytics, disaster recovery, and backup/recovery.

Our *Modern Data Experience* vision begins with our portfolio of products and subscription services that is transforming and modernizing storage operations for our customers. Our *Modern Data Experience* vision extends to an innovative and highly-integrated data platform of products and subscription services, consisting of *Cloud Data Infrastructure* (integrated hardware and software appliances which run in on-premise data centers), *Cloud Data Services* (software and container data services, which run natively in major public cloud infrastructures), and *Cloud Data Management* (software hosted data management services to manage our entire platform). The *Modern Data Experience* is based on four key pillars: Fast Matters, Cloud Everywhere, Simple is Smart, and Subscription to Innovation.

**Fast Matters** - Speed is critical to customer experience and engagement, and therefore, we design our high-performance solutions to allow applications, analytics, and development to move and execute quickly in order for our customers to make impactful decisions. We redefine fast by delivering low-latency, high bandwidth, and maximum density technologies. For example, accelerating core applications enables rapid response and deployment which reduces costs while increasing enterprise resilience.

**Cloud Everywhere** - Providing our customers the opportunity to transform their data management to a full or hybrid cloud model. This model reduces costs and adds agility through an API-defined platform, a consistent on-premise and public cloud experience, seamless data mobility and comprehensive data protection. This multi-cloud environment delivers increased flexibility, fast global recovery, and minimized application downtime through automated response.

**Simple is Smart** - From day one, our storage solutions are designed to be simple, allowing our customers to reduce time spent managing the storage platform including issue resolution. Our storage dashboards present real-time and intuitive platform analytics; meanwhile, AI-based optimization proactively analyzes future workloads and global network issues to limit unforeseen infrastructure problems.

**Subscription to Innovation** - Delivering a subscription with low total cost of ownership, eliminating the need for forklift hardware replacements, and providing customizable capacity and mobility, whether on-premise, in the cloud or hybrid cloud.

#### **Coronavirus (COVID-19)**

We continue to actively monitor, evaluate and respond to developments relating to the Coronavirus (COVID-19) pandemic.

During the second quarter of fiscal 2022, we continued to improve our operating leverage, in part from reduced travel, while navigating the various challenges that arise from COVID-19, including new customer acquisitions.

#### **Components of Results of Operations**

##### **Revenue**

We derive revenue primarily from the sale of our *Cloud Data Infrastructure*, including *FlashArray* and *FlashBlade* products and subscription services which includes our *Evergreen Storage* subscription, our unified subscription that includes *Pure as-a-Service* and *Cloud Block Store*. Subscription services also include our professional services offerings such as installation and implementation consulting services.

Provided that all other revenue recognition criteria have been met, we typically recognize product revenue upon transfer of control to our customers and the satisfaction of our performance obligations. Products are typically shipped directly by us to customers, and our channel partners do not stock our inventory. We expect our product revenue may vary from period to period based on, among other things, the timing and size of orders and delivery of products and the impact of significant transactions.

We generally recognize revenue from subscription services ratably over the contractual service period and professional services as delivered. We expect our subscription services revenue to increase and continue to grow faster than our product revenue as more customers choose to consume our storage solutions as a service and our existing subscription customers renew and expand their consumption and service levels.

##### **Cost of Revenue**

Cost of product revenue primarily consists of costs paid to our third-party contract manufacturers, which includes the costs of our raw material components, and personnel costs associated with our supply chain operations. Personnel costs consist of salaries, bonuses and stock-based compensation expense. Our cost of product revenue also includes allocated overhead costs, inventory write-offs, amortization of intangible assets pertaining to developed technology, and freight. Allocated overhead costs consist of certain employee benefits and facilities-related costs. We expect our cost of product revenue to increase in absolute dollars as our product revenue increases.

Cost of subscription services revenue primarily consists of personnel costs associated with delivering our subscription and professional services, part replacements, allocated overhead costs and depreciation of infrastructure used to deliver our subscription services. We expect our cost of subscription services revenue to increase in absolute dollars, as our subscription services revenue increases.

**Operating Expenses**

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Salaries and personnel-related costs, including stock-based compensation expense, are the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs for employee benefits and facilities-related costs.

*Research and Development.* Research and development expenses consist primarily of employee compensation and related expenses, prototype expenses, depreciation associated with assets acquired for research and development, third-party engineering and contractor support costs, as well as allocated overhead. We expect our research and development expense to increase in absolute dollars and it may decrease as a percentage of revenue.

*Sales and Marketing.* Sales and marketing expenses consist primarily of employee compensation and related expenses, sales commissions, marketing programs, travel and entertainment expenses as well as allocated overhead. Marketing programs consist of advertising, events, corporate communications and brand-building activities. We expect our sales and marketing expense to increase in absolute dollars and it may decrease as a percentage of revenue as we continue to realize efficiencies from scaling our business.

*General and Administrative.* General and administrative expenses consist primarily of employee compensation and related expenses for administrative functions including finance, legal, human resources, IT and fees for third-party professional services as well as amortization of intangible assets pertaining to defensive technology patents and allocated overhead. We expect our general and administrative expenses to increase in absolute dollars and it may decrease as a percentage of revenue.

**Other Income (Expense), Net**

Other income (expense), net consists primarily of interest income related to cash, cash equivalents and marketable securities, interest expense related to our debt and gains (losses) from foreign currency transactions.

**Provision for Income Taxes**

Provision for income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business and state income taxes in the United States. We have recorded no U.S. federal current income tax and provided a full valuation allowance for U.S. deferred tax assets, which includes net operating loss carryforwards and tax credits related primarily to research and development. We expect to maintain this full valuation allowance for the foreseeable future as it is more likely than not that the assets will not be realized based on our history of losses.

## Results of Operations

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of total revenue (dollars in thousands, unaudited):

### Revenue

	Second Quarter of Fiscal		Change		First Two Quarters of Fiscal		Change	
	2021	2022	\$	%	2021	2022	\$	%
	(dollars in thousands, unaudited)							
Product revenue	\$ 272,309	\$ 324,935	\$ 52,626	19 %	\$ 519,248	\$ 574,823	\$ 55,575	11 %
Subscription services revenue	131,414	171,896	40,482	31 %	251,594	334,715	83,121	33 %
Total revenue	\$ 403,723	\$ 496,831	\$ 93,108	23 %	\$ 770,842	\$ 909,538	\$ 138,696	18 %

Total revenue accelerated during the second quarter of fiscal 2022 driven from both enterprise and commercial customers across our entire product and solutions portfolio and key geographies. Total revenue increased by \$93.1 million, or 23%, during the second quarter of fiscal 2022 compared to the second quarter of fiscal 2021 and increased by \$138.7 million, or 18%, during the first two quarters of fiscal 2022 compared to the first two quarters of fiscal 2021.

The increase in subscription services revenue during these periods was largely driven by increases in sales of both our *Evergreen Storage* subscription services, and our unified subscription that includes *Pure as-a-Service* and *Cloud Block Store*. The increase in product revenue during these periods was driven by increased sales from our entire portfolio of *FlashArray* and *FlashBlade* products and repeat sales to existing customers.

During the second quarter of fiscal 2022 compared to the second quarter of fiscal 2021, total revenue in the United States grew 25% from \$281.7 million to \$353.2 million and total rest of the world revenue grew 18% from \$122.0 million to \$143.6 million. During the first two quarters of fiscal 2022 compared to the first two quarters of fiscal 2021, total revenue in the United States grew 19% from \$545.8 million to \$648.3 million and total rest of the world revenue grew 16% from \$225.0 million to \$261.3 million. For further details on revenue by geography, see Note 15 of Part I, Item 1 of this Quarterly Report on Form 10-Q.

### Deferred Revenue

Deferred revenue primarily consists of amounts that have been invoiced but have not yet been recognized as revenue including performance obligations pertaining to subscription services. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the condensed consolidated balance sheet dates.

Changes in total deferred revenue during the periods presented are as follows (in thousands, unaudited):

	Second Quarter of Fiscal		First Two Quarters of Fiscal	
	2021	2022	2021	2022
Beginning balance	\$ 706,060	\$ 866,160	\$ 697,288	\$ 843,697
Additions	155,435	215,613	287,169	402,464
Recognition of deferred revenue	(136,744)	(171,959)	(259,706)	(336,347)
Ending balance	\$ 724,751	\$ 909,814	\$ 724,751	\$ 909,814

Revenue recognized during the second quarter of fiscal 2021 and 2022 from deferred revenue at the beginning of each respective period was \$119.4 million and \$155.3 million. Revenue recognized during the first two quarters of fiscal 2021 and 2022 from deferred revenue at the beginning of each respective period was \$204.6 million and \$258.6 million.

### Remaining Performance Obligations

Total remaining performance obligations (RPO) which is total contracted but not recognized revenue was \$1,196.0 million at the end of the second quarter. RPO consists of both deferred revenue and non-cancelable amounts that are expected to be invoiced and recognized as revenue in future periods. Product orders are generally cancelable until delivery has occurred, and as such unfulfilled product orders are excluded from RPO. Cancelable orders will fluctuate depending on numerous factors and have increased sequentially. Of the \$1,196.0 million contracted but not recognized revenue at the end of the second quarter of fiscal 2022, we expect to recognize approximately 45% over the next 12 months, and the remainder thereafter. RPO is expected to increase as our subscription services business grows over time.

### Cost of Revenue and Gross Margin

	Second Quarter of Fiscal		Change		First Two Quarters of Fiscal		Change	
	2021	2022	\$	%	2021	2022	\$	%
<b>(dollars in thousands, unaudited)</b>								
Product cost of revenue	\$ 83,741	\$ 99,584	\$ 15,843	19 %	\$ 152,030	\$ 177,301	\$ 25,271	17 %
Stock-based compensation	990	1,566	576	58 %	1,986	2,913	927	47 %
Total product cost of revenue	\$ 84,731	\$ 101,150	\$ 16,419	19 %	\$ 154,016	\$ 180,214	\$ 26,198	17 %
% of Product revenue	31 %	31 %			30 %	31 %		
Subscription services cost of revenue	\$ 40,580	\$ 50,517	\$ 9,937	24 %	\$ 78,197	\$ 97,888	\$ 19,691	25 %
Stock-based compensation	3,686	5,137	1,451	39 %	7,078	9,543	2,465	35 %
Total subscription services cost of revenue	\$ 44,266	\$ 55,654	\$ 11,388	26 %	\$ 85,275	\$ 107,431	\$ 22,156	26 %
% of Subscription services revenue	34 %	32 %			34 %	32 %		
Total cost of revenue	\$ 128,997	\$ 156,804	\$ 27,807	22 %	\$ 239,291	\$ 287,645	\$ 48,354	20 %
% of Total revenue	32 %	32 %			31 %	32 %		
Product gross margin	69 %	69 %			70 %	69 %		
Subscription services gross margin	66 %	68 %			66 %	68 %		
Total gross margin	68 %	68 %			69 %	68 %		

Cost of revenue increased by \$27.8 million, or 22%, during the second quarter of fiscal 2022 compared to the second quarter of fiscal 2021, and increased by \$48.4 million, or 20% during the first two quarters of fiscal 2022 compared to the first two quarters of fiscal 2021. The increase in product cost of revenue during these periods was primarily attributable to increased costs within our supply chain operations associated with increased headcount and an increase in the amortization of acquired intangible assets. The increase in subscription services cost of revenue during these periods was primarily attributable to higher costs in our customer support organization.

The slight decline in product gross margin during the first two quarters of fiscal 2022 was primarily driven by a shift in product mix dynamics across our product portfolio, including increased sales of *FlashArray//C* and *FlashBlade* products which generally have a modestly lower gross margin compared to our *FlashArray* products, and higher component costs due to supply chain shortages.

The increase in subscription services gross margin during the second quarter and first two quarters of fiscal 2022 was driven by increased sales of unified subscription services, *Pure as-a-Service* and *Cloud Block Store*, higher renewals in *Evergreen Storage* subscriptions, and increasing economies of scale.



**Operating Expenses**

*Research and Development*

	Second Quarter of Fiscal		Change		First Two Quarters of Fiscal		Change	
	2021	2022	\$	%	2021	2022	\$	%
<i>(dollars in thousands, unaudited)</i>								
Research and development	\$ 84,813	\$ 104,982	\$ 20,169	24 %	\$ 168,548	\$ 205,942	\$ 37,394	22 %
Stock-based compensation	29,839	35,125	5,286	18 %	58,550	65,546	6,996	12 %
Total expenses	\$ 114,652	\$ 140,107	\$ 25,455	22 %	\$ 227,098	\$ 271,488	\$ 44,390	20 %
% of Total revenue	28 %	28 %			29 %	30 %		

Research and development expense increased by \$25.5 million, or 22%, during the second quarter of fiscal 2022 compared to the second quarter of fiscal 2021, as we continue to innovate and develop technologies to both enhance and expand our solution portfolio. The increase was primarily driven by a \$19.2 million increase in employee compensation and related costs, which included a \$5.3 million increase in stock-based compensation expense, a \$2.6 million increase in outside services expenses, and a \$2.0 million increase in depreciation expense from property and equipment due, in part, to revising our estimated useful lives of test equipment, and certain computer equipment and software during the first quarter of fiscal 2021.

Research and development expense increased by \$44.4 million, or 20%, during the first two quarters of fiscal 2022 compared to the first two quarters of fiscal 2021, primarily due to a \$31.2 million increase in employee compensation and related costs, which included a \$7.0 million increase in stock-based compensation expense, a \$7.3 million increase in outside services expense, and a \$4.5 million increase in depreciation expense from property and equipment due, in part, to revising our estimated useful lives of test equipment and certain computer equipment and software during the first quarter of fiscal 2021.

### Sales and Marketing

	Second Quarter of Fiscal		Change		First Two Quarters of Fiscal		Change	
	2021	2022	\$	%	2021	2022	\$	%
<b>(dollars in thousands, unaudited)</b>								
Sales and marketing	\$ 154,586	\$ 172,028	\$ 17,442	11 %	\$ 311,747	\$ 338,716	\$ 26,969	9 %
Stock-based compensation	16,848	18,358	1,510	9 %	33,120	35,166	2,046	6 %
Total expenses	\$ 171,434	\$ 190,386	\$ 18,952	11 %	\$ 344,867	\$ 373,882	\$ 29,015	8 %
% of Total revenue	42 %	38 %			45 %	41 %		

Sales and marketing expense increased by \$19.0 million, or 11%, during the second quarter of fiscal 2022 compared to the second quarter of fiscal 2021, primarily due to a \$12.0 million increase in employee compensation and related costs, which included a \$2.0 million increase in sales commission expense, as we continue to invest in certain areas within sales and marketing, a \$5.5 million increase in marketing and travel spend due to gradual reduction in COVID-19 restrictions, and a \$1.1 million increase in outside services expense.

Sales and marketing expense increased by \$29.0 million, or 8%, during the first two quarters of fiscal 2022 compared to the first two quarters of fiscal 2021, primarily due to a \$27.6 million increase in employee compensation and related costs, which included a \$5.9 million increase in sales commission expense, as we continue to invest in certain areas within sales and marketing, and a \$3.8 million increase in marketing and travel spend due to gradual reduction in COVID-19 restrictions, partially offset by a \$3.9 million decrease in outside services expense.

The decrease in sales and marketing expense as a percentage of total revenue during the second quarter and the first two quarters of fiscal 2022 compared to the corresponding periods of fiscal 2021 was due to improved sales efficiencies and execution.

### General and Administrative

	Second Quarter of Fiscal		Change		First Two Quarters of Fiscal		Change	
	2021	2022	\$	%	2021	2022	\$	%
<b>(dollars in thousands, unaudited)</b>								
General and administrative	\$ 34,382	\$ 33,221	\$ (1,161)	(3)%	\$ 66,184	\$ 68,015	\$ 1,831	3 %
Stock-based compensation	10,089	10,243	154	2 %	19,412	18,595	(817)	(4)%
Total expenses	\$ 44,471	\$ 43,464	\$ (1,007)	(2)%	\$ 85,596	\$ 86,610	\$ 1,014	1 %
% of Total revenue	11 %	9 %			11 %	10 %		

General and administrative expense decreased by \$1.0 million, or 2%, during the second quarter of fiscal 2022 compared to the second quarter of fiscal 2021 primarily due to a decrease in office and facilities-related expenses and a decrease in outside services expenses, partially offset by an increase in employee compensation and related costs driven by increased headcount.

General and administrative expense increased by \$1.0 million, or 1% during the first two quarters of fiscal 2022 compared to the first two quarters of fiscal 2021 primarily due to an increase in employee compensation and related costs driven by increased headcount, partially offset by a decrease in office and facilities-related expenses.

### Restructuring and Other

	Second Quarter of Fiscal		Change	First Two Quarters of Fiscal		Change
	2021	2022	\$	2021	2022	\$
<b>(dollars in thousands, unaudited)</b>						
Restructuring and other	\$ 8,288	\$ —	\$ (8,288)	\$ 22,990	\$ —	\$ (22,990)
% of Total revenue	2 %	— %		3 %	— %	

During the second quarter of fiscal 2021, we ceased use of certain leased facilities. The unamortized costs of \$7.5 million relating to operating lease right-of-use assets and leasehold improvements for these leases were expensed. We also recognized \$0.8 million in involuntary termination benefit costs related to a workforce realignment plan.

During the first two quarters of fiscal 2021, we incurred incremental costs of \$8.9 million directly related to the COVID-19 pandemic. These costs primarily included the write-off of marketing commitments no longer deemed to have value for the remainder of fiscal 2021 and estimated non-recoverable costs for internal events that could not be held. In addition, we expensed unamortized costs of \$7.5 million relating to the cease use of certain lease facilities (as discussed above) and recognized \$6.6 million in one-time involuntary termination benefit costs related to workforce realignment plans.

### Other Income (Expense), Net

	Second Quarter of Fiscal		Change	First Two Quarters of Fiscal		Change
	2021	2022	\$	2021	2022	\$
<b>(dollars in thousands, unaudited)</b>						
Other income (expense), net	\$ 1,603	\$ (7,410)	\$ (9,013)	\$ (1,813)	\$ (12,137)	\$ (10,324)
% of Total revenue	— %	(1)%		— %	(1)%	

Other income (expense), net decreased by \$9.0 million during the second quarter of fiscal 2022 compared to the second quarter of fiscal 2021 and decreased by \$10.3 million during the first two quarters of fiscal 2022 compared to the first two quarters of fiscal 2021, primarily due to an increase in net foreign exchange losses as the U.S. dollar strengthened relative to certain foreign currencies, a decrease in interest income resulting from lower interest rate environment, and higher interest expense due to borrowings under our revolving line of credit.

### Provision for Income Taxes

	Second Quarter of Fiscal		Change		First Two Quarters of Fiscal		Change	
	2021	2022	\$	%	2021	2022	\$	%
<b>(dollars in thousands, unaudited)</b>								
Provision for income taxes	\$ 2,451	\$ 3,925	\$ 1,474	60 %	\$ 4,748	\$ 7,247	\$ 2,499	53%
% of Total revenue	1 %	1 %			1 %	1 %		

The provision for income taxes increased during the second quarter and first two quarters of fiscal 2022 compared to the second quarter and first two quarters of fiscal 2021 primarily attributable to an increase in foreign income taxes.

## **Liquidity and Capital Resources**

At the end of the second quarter of fiscal 2022, we had cash, cash equivalents and marketable securities of \$1,284.5 million. Our cash and cash equivalents primarily consist of bank deposits and money market accounts. Our marketable securities consist of highly rated debt instruments of the U.S. government and its agencies, debt instruments of highly rated corporations, debt instruments issued by foreign governments, asset-backed securities, and municipal bonds.

We believe our existing cash, cash equivalents and marketable securities will be sufficient to fund our operating and capital needs for at least the next 12 months. Our future capital requirements will depend on many factors including our sales growth, the timing and extent of spending to support development efforts, the expansion of sales and marketing and international operation activities, the addition or closure of office space, the timing of new product introductions and the continuing market acceptance of our products and services, the volume and timing of our share repurchases, the timing and settlement election of the Notes, and any potential impacts of the COVID-19 pandemic on our business which has resulted in reduced sales and certain of our customers or partners being unable to timely fulfill their payment obligations to us. We may continue to enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We may seek additional equity or debt financing in the future.

### ***Revolving Credit Facility***

In August 2020, we entered into a Credit Agreement with a consortium of financial institutions and lenders that provides for a five-year, senior secured revolving credit facility of \$300.0 million (Credit Facility). Proceeds from the Credit Facility may be used for general corporate purposes and working capital. The Credit Facility expires, absent default or early termination by us, on the earlier of (i) August 24, 2025 or (ii) 91 days prior to the stated maturity of the convertible senior notes unless, on such date and each subsequent day until the convertible senior notes are paid in full, the sum of our cash, cash equivalents and marketable securities and the aggregate unused commitments then available to us exceed \$625.0 million. The annual interest rates applicable to loans under the Credit Facility are, at our option, equal to either a base rate plus a margin ranging from 0.50% to 1.25% or LIBOR (based on one, three, or six-month interest periods), subject to a floor of 0%, plus a margin ranging from 1.50% to 2.25%. Interest on revolving loans is payable quarterly in arrears with respect to loans based on the base rate and at the end of an interest period in the case of loans based on LIBOR (or at each three-month interval, if the interest period is longer than three months). We are also required to pay a commitment fee on the unused portion of the commitments ranging from 0.25% to 0.40% per annum, payable quarterly in arrears. Loans under the Credit Facility are collateralized by substantially all of our assets and subject to certain restrictions and two financial ratios measured as of the last day of each fiscal quarter: a Consolidated Leverage Ratio not to exceed 4.5:1 and an Interest Coverage Ratio not to be less than 3:1.

In September 2020, we drew down \$250.0 million under the Credit Facility to fund the acquisition of Portworx which remained outstanding at the end of the second quarter of fiscal 2022. The outstanding loan bore weighted-average interest at the one-month LIBOR of approximately 1.60% and 1.61% during the second quarter and first two quarters of fiscal 2022. Assuming interest rates remain relatively constant and no repayment, we expect our quarterly interest expense for the outstanding borrowing under the revolver to be approximately \$1.0 million. We were in compliance with all covenants under the Credit Facility at the end of the second quarter of fiscal 2022.

### ***Letters of Credit***

At the end of fiscal 2021 and the end of the second quarter of fiscal 2022, we had outstanding letters of credit in the aggregate amount of \$6.7 million in connection with our facility leases. The letters of credit are collateralized by restricted cash and mature on various dates through August 2029.

### **Convertible Senior Notes**

In April 2018, we issued \$575.0 million of 0.125% convertible senior notes due 2023 (the Notes), in a private placement and received proceeds of \$562.1 million, after deducting the underwriters' discounts and commissions. The Notes are unsecured obligations that do not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness, or the issuance or repurchase of securities by us or any of our subsidiaries. The Notes mature on April 15, 2023 unless repurchased or redeemed by us or converted in accordance with their terms prior to the maturity date. The Notes are convertible for up to 21,884,155 shares of our common stock at an initial conversion rate of approximately 38.0594 shares of common stock per \$1,000 principal amount, which is equal to an initial conversion price of approximately \$26.27 per share of common stock, subject to adjustment.

Holders may surrender their Notes for conversion at their option at any time prior to the close of business on the business day immediately preceding October 15, 2022, only under specific circumstances. On or after October 15, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at any time regardless of the foregoing conditions. Upon conversion, holders will receive cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. We intend to settle the principal of the Notes in cash. See further discussion in Note 6 in Part I, Item 1 of this report.

### **Share Repurchase Program**

In February 2021, our board of directors authorized the repurchase of up to an additional \$200.0 million of our common stock. The authorization allows us to repurchase shares of our common stock opportunistically and will be funded from available working capital. Repurchases may be made at management's discretion from time to time on the open market through privately negotiated transactions structured through investment banking institutions, block purchase techniques, 10b5-1 trading plans, or a combination of the foregoing. The share repurchase program does not obligate us to acquire any of our common stock, has no end date, and may be suspended or discontinued by us at any time without prior notice.

During the second quarter of fiscal 2022, we repurchased and retired 2,312,697 shares of common stock at an average purchase price of \$19.17 per share for an aggregate repurchase price of \$44.3 million. During the first two quarters of fiscal 2022, we repurchased and retired 3,695,766 shares of common stock at an average purchase price of \$20.11 per share for an aggregate repurchase price of \$74.3 million. Approximately \$125.7 million remained under our share repurchase authorization as of the end of the second quarter of fiscal 2022.

The following table summarizes our cash flows for the periods presented (in thousands, unaudited):

	First Two Quarters of Fiscal	
	2021	2022
Net cash provided by operating activities	\$ 85,809	\$ 144,840
Net cash used in investing activities	\$ (42,488)	\$ (89,062)
Net cash used in financing activities	\$ (50,355)	\$ (52,673)

#### ***Operating Activities***

Net cash provided by operating activities during the first two quarters of fiscal 2021 and 2022 was primarily driven by cash collections from sales of our product and subscription services and improving operating leverage, partially offset by payments to our contract manufacturers, employee compensation, and general corporate operating expenditures. Net cash provided by operating activities increased year-over-year primarily due to improved timing of cash collections from sales of our product and subscription services, partially offset by the timing of vendor payments and deferral of the employer portion of social security payroll tax under the CARES Act during the first two quarters of fiscal 2021.

#### ***Investing Activities***

Net cash used in investing activities during the first two quarters of fiscal 2022 was driven by \$55.5 million in capital expenditures and net purchases of \$33.6 million in marketable securities.

Net cash used in investing activities during the first two quarters of fiscal 2021 was driven by \$48.8 million in capital expenditures, partially offset by net sales and maturities of \$6.3 million in marketable securities.

#### ***Financing Activities***

Net cash used in financing activities during the first two quarters of fiscal 2022 was primarily driven by share repurchases of \$74.4 million and tax withholding on vesting of equity awards of \$6.6 million, partially offset by proceeds from the issuance of common stock from ESPP of \$17.7 million and proceeds from the exercise of stock options of \$11.2 million.

Net cash used in financing activities during the first two quarters of fiscal 2021 was primarily driven by share repurchases of \$90.1 million, partially offset by proceeds from the exercise of stock options of \$21.7 million, proceeds from the issuance of common stock from ESPP of \$16.0 million, and proceeds from borrowing of \$5.0 million.

#### **Contractual Obligations and Commitments**

Except as set forth in Notes 6 to 8 of Part I, Item 1 of this Quarterly Report on Form 10-Q, there have been no material changes to our non-cancelable contractual obligations and commitments disclosed in our Annual Report on 10-K for fiscal 2021.

#### **Critical Accounting Policies and Estimates**

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

Refer to Note 2 of Part I, Item 1 of this Quarterly Report on Form 10-Q for the summary of significant accounting policies. In addition, see "Critical Accounting Policies and Estimates" in our latest 10-K. There have been no material changes to our critical accounting policies and estimates since our 10-K filed on March 25, 2021.

### Available Information

Our website is located at [www.purestorage.com](http://www.purestorage.com), and our investor relations website is located at [investor.purestorage.com](http://investor.purestorage.com). The following filings will be available through our investor relations website free of charge after we file them with the SEC: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements for our annual meetings of stockholders. We will also provide a link to the section of the SEC's website at [www.sec.gov](http://www.sec.gov) that has all of our public filings, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, our Proxy Statements, and other ownership related filings.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, social media accounts (Twitter, Facebook and LinkedIn), and blogs as part of our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including our certificate of incorporation, bylaws, governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading "Corporate Governance." The content of our websites are not incorporated by reference into this Quarterly Report on Form 10-Q or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We have operations both within the United States and internationally, and we are exposed to market risk in the ordinary course of our business.

#### Interest Rate Risk

Our cash, cash equivalents and marketable securities primarily consist of bank deposits and money market accounts, highly rated debt instruments of the U.S. government and its agencies, debt instruments of highly rated corporations, debt instruments issued by foreign governments, and asset-backed securities. At the end of the second quarter of fiscal 2022 we had cash, cash equivalents and marketable securities of \$1,284.5 million. The carrying amount of our cash equivalents reasonably approximates fair value, due to the short maturities of these instruments. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to fluctuation in interest rates, which may affect our interest income and the fair value of our investments.

We considered the historical volatility of short-term interest rates and determined that it was reasonably possible that an adverse change of 100 basis points could be experienced in the near term. A hypothetical 1.00% (100 basis points) increase in interest rates would have resulted in a decrease in the fair value of our marketable securities of approximately \$10.2 million at the end of the second quarter of fiscal 2022.

#### Foreign Currency Exchange Risk

Our sales contracts are primarily denominated in U.S. dollars with a proportionally small number of contracts denominated in foreign currencies. A portion of our operating expenses are incurred outside the United States and denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British pound and Euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. Given the impact of foreign currency exchange rates has not been material to our historical operating results, we have not entered into any derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency exchange should become more significant.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 10% for all currencies could be experienced in the near term. These reasonably possible adverse changes in exchange rates of 10% were applied to total monetary assets and liabilities denominated in currencies other than U.S. dollar at the end of the second quarter of fiscal 2022 to compute the adverse impact these changes would have had on our loss before income taxes in the near term. These changes would have resulted in an adverse impact on loss before provision for income taxes of approximately \$4.5 million at the end of the second quarter of fiscal 2022.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO concluded that, at the end of the second quarter of fiscal 2022, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

As a result of COVID-19, most of our workforce has been working from home since March 2020. During the second quarter of fiscal 2022 there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) of the Exchange Act that occurred during the second quarter of fiscal 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Limitations on Effectiveness of Controls**

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, 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 and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.



## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we are involved in various legal proceedings arising from the normal course of business, and an unfavorable resolution of any of these matters could negatively affect our future results of operations, cash flows or financial position. We are not presently party to any legal proceedings that, in the opinion of management, would have a material adverse effect on our business.

### Item 1A. Risk Factors.

*Investing in our Class A common stock, which we refer to as our "common stock", involves a high degree of risk. Investors should carefully consider the risks and uncertainties described below, together with all of the other information contained in this report, including our consolidated financial statements and the related notes appearing in this quarterly report, before deciding to invest in our common stock. If any of the following risks actually occur, it could harm our business, prospects, operating results and financial condition. In such event, the trading price of our common stock could decline and investors might lose all or part of their investment.*

#### Summary of Risk Factors

Our business is subject to numerous risks and uncertainties, many of which are beyond our control. Some of the principal risks associated with our business include the following:

- Our business, operating results, cash flows and financial condition may be materially adversely affected by the COVID-19 pandemic, including the resulting global economic uncertainty and measures taken in response to the pandemic.
- The rapidly evolving market for data storage products makes it difficult to forecast demand for our products.
- Our business may be harmed by trends in the overall external storage market.
- We face intense competition from established companies and new entrants.
- Many of our competitors have long-standing relationships with key decision makers at current and prospective customers, which may inhibit our ability to compete.
- If we fail to develop and introduce new or enhanced products successfully, our ability to attract and retain customers could be harmed.
- If we fail to manage our transition to subscription offerings successfully, our revenues and results of operation may be harmed.
- Our products are highly technical and may contain defects, which could cause data unavailability, loss or corruption that might, in turn, result in liability and harm to our reputation and business.
- We intend to continue focusing on revenue growth and increasing our market penetration and international presence by investing heavily in our business, which may put pressure on near-term profitability.
- Our gross margins are impacted by a variety of company-specific factors and vary from period to period.
- The sales prices of our products and services may fluctuate or decline, which may reduce our gross profits, revenue growth, and adversely impact our financial results.
- Any disruption to our contract manufacturer or other supply arrangements could delay shipments of our products and could harm our relationships with current and prospective customers.
- We derive the majority of our revenue from our *FlashArray* products, and a decline in demand for these products would cause our revenue to grow more slowly or to decline.

## Risks Related to Our Business and Industry

***Our business, operating results, cash flows and financial condition may be materially adversely affected by the COVID-19 pandemic, including the resulting global economic uncertainty and measures taken in response to the pandemic, the impacts of which will depend on ongoing and future developments, which are highly uncertain and difficult to predict.***

The COVID-19 pandemic has resulted in significant global social and business disruption and economic contraction. The pandemic has impacted our business and has also put unprecedented strains on governments, health care systems, educational institutions, businesses and individuals around the world. The ongoing impact on the global population and the magnitude and duration of the COVID-19 pandemic is difficult to assess or predict. It is even more difficult to predict the ongoing impact on the global economic market, which will be highly dependent, among other things, upon the actions of governments, businesses and other organizations in response to the pandemic and the effectiveness of those actions.

The extent and continued impact of the COVID-19 pandemic on our business and operational and financial performance depends on many factors, including the duration and spread of the outbreak; the availability and effectiveness of vaccines; government responses to and restrictions related to the pandemic; impact on our customers and our sales efforts and cycles; impact on our customer, industry or employee events; and effect on our partners, vendors and supply chains, all of which are uncertain and outside of our control. Potential negative impacts of these external factors include, but are not limited to, material adverse effects on demand for our products and services, including due to budget constraints and other uncertainties; our ability to gain new customers; our employee productivity; our supply chain and sales and distribution channels; collectability of customer accounts; our ability to execute strategic plans; impairments; and our profitability and cost structure.

Further, the COVID-19 pandemic has enhanced, and may further exacerbate, other risks discussed in this “Risk Factors” section, particularly risks associated with demand, market trends, supply chain, relationship building and sales efforts, as well as risks affected by the shift to our workforce largely working from home. We are continuing to monitor the pandemic and intend to continue taking appropriate steps in accordance with the recommendations and requirements of relevant authorities.

***The rapidly evolving market for data storage products makes it difficult to forecast demand for our products.***

The market for data storage products is rapidly evolving. Changes in the application requirements, data center infrastructure trends and the broader technology landscape result in evolving customer requirements for capacity, scalability and other enterprise features of storage systems. Our future financial performance depends on our ability to adapt to competitive dynamics and emerging customer demands and trends. The introduction of all-flash storage products by incumbent vendors and changes or advances in alternative technologies or adoption of cloud storage offerings that do not utilize our storage platform could adversely affect the demand for our products.

Offerings from large public cloud providers are expanding quickly and serve as alternatives to our products for a variety of customer workloads. Since these providers are known for developing storage systems internally, this trend reduces the demand for storage systems developed by original equipment manufacturers, such as us. It is difficult to predict with any precision customer adoption rates of new offerings, customer demand for our products or the future growth rate and size of our addressable market. A slowing or reduction in demand for our data storage products caused by technological challenges, alternative technologies and products or any other reason would result in a lower revenue growth rate or decreased revenue, either of which would negatively impact our business and operating results.

***Our business may be harmed by trends in the overall external storage market.***

Despite ongoing data growth, the external storage market in which we compete has not experienced substantial growth in the past few years due to a combination of technology transitions, increased storage efficiency, competitive pricing dynamics and changing economic and business environments. Customers are rethinking how they consume IT, increasing spending toward the public cloud, software as a service, hyperconverged and converged infrastructure and software-defined storage. Any failure on our part to accurately predict trends, successfully update our product offerings or to adapt our sales programs to meet changing customer demands could harm our business, operating results and financial condition. The future impact of these trends on both the short-term and long-term growth of the overall external storage market is uncertain. Reductions in the overall external storage market or the specific markets in which we compete would harm our business and operating results.

***We face intense competition from established companies and new entrants.***

We face intense competition from a number of established companies that sell competitive storage products, including Dell EMC, HP Enterprise, Hitachi Vantara, IBM, NetApp and others. Our competitors may have:

- greater name and brand recognition and longer operating histories;
- larger sales and marketing and customer support budgets and resources;
- broader distribution and established relationships with distribution partners and customers;
- the ability to bundle storage products with other products and services to address customers' requirements;
- greater resources to make acquisitions;
- larger and more mature product and intellectual property portfolios; and
- substantially greater financial, technical and other resources.

We also compete against cloud providers and vendors of hyperconverged products, which combine compute, networking and storage. These providers are growing and expanding their product offerings, potentially displacing some demand for our products. In addition, some of our competitors offer bundled products and services in order to reduce the initial cost of their storage products. Further, some of our competitors offer their storage products either at significant discounts or even for free in competing against us.

Many competitors have developed or acquired competing storage technologies with features or data reduction technologies that directly compete with our products or have introduced business programs designed, among other things, to compete with our innovative programs, such as our *Evergreen Storage* model. We expect our competitors to continue to improve their products, reduce their prices and introduce new features, services and technologies that may, or may claim to, offer greater value compared to our products. In addition, these developments may render our products or technologies obsolete or less competitive. These and other competitive pressures may prevent us from competing successfully against our current or future competitors.

***Many of our competitors have long-standing relationships with key decision makers at current and prospective customers, which may inhibit our ability to compete.***

Many of our competitors benefit from established brand awareness and long-standing relationships with key decision makers at our current and prospective customers. Our competitors often leverage these existing relationships to discourage customers from evaluating or purchasing our products. Additionally, most of our prospective customers have existing storage products supplied by our competitors who have an advantage in retaining the customer because, among other things, the incumbent vendor already understands the customer's IT infrastructure, user demands and needs, or the customer is concerned about actual or perceived costs of switching to a new vendor and technology, particularly during the uncertainty created by COVID-19. If we are unable to successfully sell our products to new customers or persuade our customers to continue purchasing our products, we will not be able to maintain or increase our market share and revenue, which would adversely affect our business and operating results.

***Our brand name and our business may be harmed by the marketing strategies of our competitors.***

We believe that building and maintaining brand recognition and customer goodwill is critical to our success. Our efforts in this area have, on occasion, been hampered by the marketing efforts of our competitors, which have included negative or misleading statements about us and our products. If we are unable to effectively respond to the marketing efforts of our competitors and protect our brand and customer goodwill now or in the future, our business will be adversely affected.

***If we fail to successfully maintain or grow our relationships with partners, our business, operating results and financial condition could be harmed.***

Our future success is highly dependent upon our ability to establish and maintain successful relationships with our partners, including value-added resellers, service providers and systems integrators. In addition to selling our products, our partners may offer installation, post-sale service and support in their local markets. In markets where we rely on partners more heavily, we have less contact with our customers and less control over the sales process and the quality and responsiveness of our partners. As a result, it may be more difficult for us to ensure the proper delivery and installation of our products or the quality or responsiveness of the support and services being offered. Any failure on our part to effectively identify, train and manage our channel partners and to monitor their sales activity, as well as the customer support and services provided to our customers, could harm our business, operating results and financial condition.

Our partners may choose to discontinue offering our products and services or may not devote sufficient attention and resources toward selling our products and services. We typically enter into non-exclusive, written agreements with our channel partners. These agreements generally have a one-year, self-renewing term, have no minimum sales commitment and do not prohibit our channel partners from offering products and services that compete with ours. Additionally, our competitors provide incentives to our existing and potential channel partners to use, purchase or offer their products and services or to prevent or reduce sales of our products and services. The occurrence of any of these events could harm our business, operating results and financial condition.

***Our sales cycles can be long, unpredictable and expensive, making it difficult for us to predict future sales.***

Our sales efforts involve educating our customers about the use and benefits of our products and often involves an evaluation process that can result in a lengthy sales cycle, particularly for larger customers. We spend substantial time and resources on our sales efforts without any assurance that our efforts will produce any sales. COVID-19 has impacted our sales efforts, such as limiting our ability to travel for or host in-person meetings or events. In addition, product purchases are frequently subject to budget constraints, multiple approvals and unplanned administrative and other delays. Some of our customers make large concentrated purchases to complete or upgrade specific data storage deployments. As a consequence, our quarterly revenue and operating results may fluctuate from quarter to quarter. A substantial portion of our quarterly sales typically occurs during the last several weeks of the quarter, which we believe largely reflects customer buying patterns of products similar to ours and other products in the technology industry generally.

Since revenue from a product sale is not recognized until performance obligations are satisfied, a substantial portion of our sales late in a quarter may negatively impact the recognition of the associated revenue. Furthermore, our products come with a 30-day money back guarantee, allowing a customer to return a product within 30 days of receipt if the customer is not satisfied with its purchase for any reason. These factors, among others, make it difficult for us to predict when customers will purchase our products, which may adversely affect our operating results and cause our operating results to fluctuate. In addition, if sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, our operating results may suffer.

***Sales to U.S. federal, state, local and foreign governments are subject to a number of challenges and risks that may adversely impact our business.***

Sales to U.S. federal, state, local and foreign governmental agencies may in the future account for a significant portion of our revenue and sales to governmental agencies impose additional challenges and risks to our sales efforts. Government certification requirements applicable to our products may change and in doing so restrict our ability to sell into the U.S. federal government sector until we have attained the revised certification. Government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, including in connection with an extended federal government shutdown, with funding reductions or delays adversely affecting public sector demand for our products and services. We sell our products to governmental agencies through our channel partners, and these agencies may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future results of operations. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our products, which would adversely impact our revenue and results of operations, or institute fines or civil or criminal liability if the audit uncovers improper or illegal activities. Finally, governments may require certain products to be manufactured in the United States and other relatively high-cost manufacturing locations, and we may not manufacture all products in locations that meet these requirements, affecting our ability to sell these products to governmental agencies.

**Risks Related to Our Products and Subscription Services Offerings**

***If we fail to develop and introduce new or enhanced products successfully, our ability to attract and retain customers could be harmed.***

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. To compete successfully, we must design, develop, market and sell new or enhanced products that provide increasingly higher levels of performance, capacity, functionality and reliability and that meet the expectations of our customers, which is a complex and uncertain process. We believe that we must continue to dedicate significant resources to our research and development efforts and innovate business models such as *Pure as-a-Service* to maintain or expand our competitive position. Our investments may take longer to generate revenue or may generate less revenue than we anticipate. The introduction of new products by our competitors, or the emergence of alternative technologies or industry standards could render our existing or future products obsolete or less competitive.

As we introduce new or enhanced products, we must successfully manage product launches and transitions to the next generations of our products and encourage our customers to adopt new products and features. If we are not able to successfully manage the development and release of new or enhanced products, our business, operating results and financial condition could be harmed. Similarly, if we fail to introduce new or enhanced products, such as new or improved software features, that meet our customers' needs in a timely or cost-effective fashion, we may lose market share and our operating results could be adversely affected.

***If we fail to execute our transition to subscription offerings successfully, our revenues and results of operation may be harmed.***

We are now offering all of our products and services on a subscription basis, including our hardware and software products through *Pure as-a-Service* and *Cloud Data Services*. These business models are relatively new to the storage market and will continue to evolve, and we may not be able to compete effectively, drive continued revenue growth or maintain the profitability with these business models. These business models require different accounting of our customer transactions, such as changing how we recognize revenue and capitalize commissions, among other things. Continued market acceptance of subscription offerings will be dependent on our ability to create a seamless customer experience and to optimally price our products in light of marketplace conditions, our costs and customer demand. Subscription offerings will cause us to incur incremental operational, technical, legal and other costs. Additionally, the subscription models offered by us and our competitors may unfavorably impact the pricing of and demand for our on-premise offerings, which could reduce our revenues and profitability. If we do not successfully execute our business strategy, which includes subscription offerings, or anticipate the needs of our customers, our financial results could be negatively impacted.

***Our products are highly technical and may contain defects, which could cause data unavailability, loss or corruption that might, in turn, result in liability and harm to our reputation and business.***

Our products are highly technical and complex and are often used to store information critical to our customers' business operations. Our products may contain errors, defects or security vulnerabilities that could result in data unavailability, loss, corruption or other harm to our customers. Some errors in our products may only be discovered after they have been installed and used by customers. We have, from time to time, identified vulnerabilities in our products. Despite our efforts to detect and remediate actual and potential vulnerabilities in our systems, we cannot be certain that we will be able to address any such vulnerabilities, in whole or part, and there may be delays in developing and deploying patches and other remedial measures to adequately address vulnerabilities. Any of these errors, defects, or security vulnerabilities may leave us and our products susceptible to exploitation, including by malicious actors. Any errors, defects or security vulnerabilities in our products could result in a loss of revenue, injury to our reputation, loss of customers or increased service and warranty costs, any of which could adversely affect our business and operating results. In addition, errors or failures in the products of third-party technology vendors may be attributed to us and may harm our reputation.

We could face claims for product liability, tort or breach of warranty. We may not be able to enforce provisions in our contracts relating to warranty disclaimers and liability limitations. Defending a lawsuit, regardless of its merit, would be costly and could divert management's attention and adversely affect the market's perception of us and our products. Our business liability insurance coverage may be inadequate with respect to a claim and future coverage may not be available on acceptable terms or at all. These product-related issues could result in claims against us, and our business, operating results and financial condition could be harmed.

***If we are unable to ensure that our products interoperate with third party operating systems, software applications and hardware, we may lose or fail to increase our market share.***

Our products must interoperate with our customers' infrastructure, specifically networks, servers, software and operating systems, which are offered by a wide variety of vendors. When new or updated versions of these operating systems or applications are introduced, we may need to develop updated versions of our software so that our products continue to interoperate properly. We may not deliver or maintain interoperability quickly, cost-effectively or at all as these efforts require capital investment and engineering resources. If we fail to maintain compatibility of our products with these infrastructure components, our customers may not be able to fully utilize our products, and we may, among other consequences, lose or fail to increase our market share and experience reduced demand for our products, which may harm our business, operating results and financial condition.

***Our products must conform to industry standards in order to be accepted by customers in our markets.***

Generally, our products comprise only a part of an IT environment. The servers, network, software and other components and systems deployed by our customers must comply with established industry standards in order to interoperate and function efficiently together. We depend on companies that provide other systems in this ecosystem to conform to prevailing industry standards. These companies are often significantly larger and more influential in driving industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly and competing standards may emerge that may be preferred by our customers. If larger companies do not conform to the same industry standards that we do, or if competing standards emerge, sales of our products could be adversely affected, which may harm our business.

***Our ability to successfully market and sell our products is dependent in part on ease of use and the quality of our support offerings, and any failure to offer high-quality installation and technical support could harm our business.***

Once our products are deployed by our customers, customers depend on our support organization to resolve technical issues relating to our products. Our ability to provide effective support is largely dependent on our ability to attract, train and retain qualified personnel, as well as to engage with qualified support partners that provide a similar level of customer support. In addition, our sales process is highly dependent on our product and business reputation and on recommendations from our existing customers. Although our products are designed to be interoperable with existing servers and systems, we may need to provide customized installation and configuration support to our customers before our products become fully operational in their environments. Any failure to maintain or a market perception that we do not maintain, high-quality installation and technical support could harm our reputation, our ability to sell our products to existing and prospective customers and our business.

***We rely on contract manufacturers to manufacture our products, and if we fail to manage our relationships with our contract manufacturers successfully, our business could be negatively impacted.***

We rely on a limited number of contract manufacturers to manufacture our products, which reduces our control over the assembly process and exposes us to risks, such as reduced control over quality assurance, costs and product supply. If we fail to manage our relationships with these contract manufacturers effectively, or if these contract manufacturers experience delays, disruptions, capacity constraints or quality control problems, our ability to timely ship products to our customers will be impaired, potentially on short notice, and our competitive position, reputation and financial results could be harmed. If we are required, for whatever reason, to change contract manufacturers or assume internal manufacturing operations, we may lose revenue, incur increased costs and damage our customer relationships. Qualifying a new contract manufacturer and commencing production is expensive and time-consuming. We may need to increase our component purchases, contract manufacturing capacity and internal test and quality functions if we experience increased demand. The inability of our contract manufacturers to provide us with adequate supplies of high-quality products could cause a delay in our order fulfillment, and our business, operating results and financial condition may be harmed.

***We rely on a limited number of suppliers, and in some cases single-source suppliers, and any disruption or termination of our supply arrangements could delay shipments of our products and could harm our relationships with current and prospective customers.***

We rely on a limited number of suppliers and, in some cases, on single-source suppliers, for several key components of our products, and we have not generally entered into agreements for the long-term purchase of these components. For example, the CPUs utilized in our products are supplied by Intel Corporation (Intel), and neither we nor our contract manufacturers have an agreement with Intel for the procurement of these CPUs. Instead, we purchase the CPUs either directly from Intel or through a reseller on a purchase order basis. Intel or its resellers could stop selling to us at any time or could raise their prices without notice. While we actively monitor and manage our supply chain, we cannot anticipate the potential impact that new or current restrictions due to COVID-19 may have on the manufacturing and shipment of our products.

This reliance on a limited number of suppliers and the lack of any guaranteed sources of supply exposes us to several risks, including:

- the inability to obtain an adequate supply of key components, including flash;
- price volatility for the components of our products;
- failure of a supplier to meet our quality or production requirements;
- failure of a supplier of key components to remain in business or adjust to market conditions; and
- consolidation among suppliers, resulting in some suppliers exiting the industry, discontinuing the manufacture of components or increasing the price of components.

Further, some of the components in our products are sourced from component suppliers outside the United States, including from China. The portion of our products that are sourced outside the United States may subject us to additional logistical risks or risks associated with complying with local rules and regulations in foreign countries. Significant changes to existing international trade agreements could lead to sourcing or logistics disruption resulting from import delays or the imposition of increased tariffs on our sourcing partners. For example, there have been discussions regarding potential significant changes to U.S. trade policies, legislation, treaties and tariffs, and the United States and Chinese governments have announced import tariffs by both countries. If any new legislation and/or regulations are implemented, if existing trade agreements are renegotiated or terminated, or if tariffs are imposed on foreign-sourced or U.S. goods, it may be inefficient and expensive for us to alter our business operations in order to adapt to or comply with such changes. Such operational changes could have a material adverse effect on our business, financial condition, results of operations or cash flows.

As a result of these risks, we cannot assure investors that we will be able to obtain a sufficient supply of these key components in the future or that the cost of these components will not increase. If our supply of components is disrupted or delayed, or if we need to replace our existing suppliers, there can be no assurance that additional components will be available when required or that components will be available on terms that are favorable to us, which could extend our lead times, increase the costs of our components and harm our business, operating results and financial condition. We may not be able to continue to procure components at reasonable prices, which may require us to enter into longer-term contracts with component suppliers to obtain components at competitive prices. Any of the foregoing disruptions could increase our costs and decrease our gross margins, harming our business, operating results and financial condition.

***If we do not manage the supply of our products and their components efficiently, our results of operation could be adversely affected.***

Managing the supply of our products and underlying components is complex and has become increasingly difficult, in part, due to supply chain constraints and inflationary pressure. Our third-party contract manufacturers procure components and build our products based on our forecasts, and we generally do not hold inventory for a prolonged period of time. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and analyses from our sales and marketing organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate component supply, from time to time we may issue orders for components and products that are non-cancelable and non-returnable. Our inventory management systems and related supply chain visibility tools may be inadequate to enable us to make accurate forecasts and effectively manage the supply of our products and components. If we ultimately determine that we have excess supply, we may have to reduce our prices and write down or write off excess or obsolete inventory, which in turn could result in lower gross margins. Alternatively, insufficient supply levels may lead to shortages that result in delayed revenue, reduced product margins or loss of sales opportunities altogether. If we are unable to effectively manage our supply and inventory, our results of operations could be adversely affected.



## Risks Related to Our Operating Results or Financial Condition

### ***We have experienced growth in prior periods, and we may not be able to sustain future growth effectively or at all.***

We have significantly expanded our overall business, customer base, headcount, channel partner relationships and operations in prior periods, and we anticipate that we will continue to expand and experience growth in future periods. For example, we delivered year-over-year revenue growth of 23% for the second quarter of fiscal 2022 compared to the second quarter of fiscal 2021, and our headcount increased from over 3,700 at the end of the second quarter of fiscal 2021 to over 3,900 employees at the end of the second quarter of fiscal 2022. Our future operating results will depend to a large extent on our ability to successfully sustain our growth and manage our continued expansion. To sustain and manage our growth successfully, we believe that we must, among other things, effectively allocate resources and operate our business across a wide range of priorities.

We expect that our future growth will continue to place strain on our managerial, administrative, operational, financial and other resources. We will incur costs associated with this future growth prior to realizing the anticipated benefits, and the return on these investments may be lower, may develop more slowly than we expect or may never materialize. Investors should not consider our revenue growth in prior quarterly or annual periods as indicative of our future performance. In future periods, we may not achieve similar percentage revenue growth rates as we have achieved in some past periods. If we are unable to maintain adequate revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability. If we are unable to manage our growth successfully, we may not be able to take advantage of market opportunities or release new products or enhancements in a timely manner, and we may fail to satisfy customers' expectations, maintain product quality, execute on our business plan or adequately respond to competitive pressures, each of which could adversely impact our growth and affect our business and operating results.

### ***We intend to continue focusing on revenue growth and increasing our market penetration and international presence by investing heavily in our business, which may put pressure on near-term profitability.***

We have not achieved profitability for any year since our inception. We incurred a net loss of \$282.1 million for fiscal 2021, and \$129.5 million for the first two quarters of fiscal 2022, and we had an accumulated deficit of \$1,565.0 million at the end of fiscal 2021 and \$1,694.5 million at the end of the second quarter of fiscal 2022. Our operating expenses largely are based on anticipated revenue, and a high percentage of our expenses are, and will continue to be, fixed in the short term. If we fail to adequately increase revenue and manage costs, we may not achieve or maintain profitability in the future. As a result, our business could be harmed, and our operating results could suffer.

Our strategy is to continue investing in marketing, sales, support and research and development. We believe continuing to invest heavily in our business is critical to our future success and meeting our growth objectives. We anticipate that our operating costs and expenses will continue to increase in absolute terms. Even if we achieve or maintain significant revenue growth, we may continue to experience losses, forgoing near-term profitability on a U.S. GAAP basis.

***Our gross margins are impacted by a variety of factors and vary from period to period, making them difficult to predict with certainty.***

Our gross margins fluctuate from period to period due primarily to product costs, customer mix and product mix. A variety of factors may cause our gross margins to fluctuate and make them difficult to predict, including, but not limited to:

- sales and marketing initiatives, discount levels, rebates and competitive pricing;
- changes in customer, geographic or product mix, including mix of product configurations;
- the cost of components, including flash and DRAM, and freight;
- new product introductions and enhancements with higher product costs;
- excess inventory levels or purchase obligations as a result of changes in demand forecasts or product transitions;
- an increase in product returns, order rescheduling and cancellations;
- the timing of technical support service contracts and contract renewals;
- inventory stocking requirements to mitigate supply chain constraints, accommodate unforeseen demand or support new product introductions; and
- inflation and other adverse economic pressures.

If we are unable to manage these factors effectively, our gross margins may decline, and fluctuations in gross margins may make it difficult to manage our business and achieve or maintain profitability, which could materially harm our business, operating results and financial condition.

***Our operating results may fluctuate significantly, which could make our future results difficult to predict and could cause our operating results to fall below expectations.***

Our operating results may fluctuate due to a variety of factors, a portion of which are outside of our control. As a result, comparing our results on a period-to-period basis may not be meaningful.

Factors that are difficult to predict and that could cause our operating results to fluctuate include:

- the timing and magnitude of orders, shipments and acceptance of our products in any quarter, including product returns, order rescheduling and cancellations by our customers;
- the impact on timing and amount of revenue recognized resulting from the cancellation of unfulfilled orders by our customers;
- fluctuations or seasonality in demand and prices for our products;
- our ability to control the costs of the components we use or to timely adopt subsequent generations of components;
- disruption in our supply chains, component availability and related procurement costs;
- reductions in customers' budgets for IT purchases;
- changes in industry standards in the data storage industry;
- our ability to develop, introduce and ship new products and product enhancements that meet customer requirements and to effectively manage product transitions;
- changes in the competitive dynamics of our markets, including new entrants or discounting of product prices;
- our ability to control costs, including our operating expenses;
- the impact of inflation or other adverse economic conditions and the impact of public health epidemics or pandemics, such as the COVID-19 pandemic; and

- future accounting pronouncements and changes in accounting policies.

The occurrence of any one of these factors could negatively affect our operating results in any particular quarter.

***The sales prices of our products and services may fluctuate or decline, which may reduce our gross profits, revenue growth, and adversely impact our financial results.***

The sales prices of our products and services may fluctuate or decline for a variety of reasons, including competitive pricing pressures, discounts, the introduction of competing products or services or promotional programs, a change in our mix of products and services, cost of components, supply chain constraints and inflation and other adverse economic conditions. Competition continues to increase in the markets in which we participate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors may reduce the price of products or services that compete with ours or may bundle them with other products and services. Additionally, although we price our products and services predominantly in U.S. dollars, currency fluctuations in certain countries and regions may negatively impact actual prices that partners and customers are willing to pay in those countries and regions. Furthermore, we anticipate that the prices for our products will decrease over product life cycles. If we are required to decrease our prices to be competitive and are not able to offset this decrease by increases in the volume of sales or the sales of new products with higher margins, our gross margins and operating results could be adversely affected.

***We derive the majority of our revenue from our FlashArray products, and a decline in demand for these products would cause our revenue to grow more slowly or to decline.***

Our FlashArray products have historically accounted for the majority of our revenue and will continue to comprise a significant portion of our revenue for the foreseeable future, including through our subscription offerings. As a result, our revenue could be reduced by any decline or fluctuation in demand for these products, regardless of the reason. If demand for our core products slows or declines, we may not be able to increase our revenue or achieve and maintain profitability.

***If we are unable to sell renewals of our subscription services to our customers, our future revenue and operating results will be harmed.***

Existing customers may not renew their subscription services agreements after the initial period and, given changing customer purchasing preferences, we may not be able to accurately predict our renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their available budget and the level of their satisfaction with our products, customer support and pricing compared to that offered by our competitors. If our customers renew their contracts, they may renew on terms that are less economically beneficial to us. If our customers do not renew their agreements or renew on less favorable terms, our revenue may grow more slowly than expected, if at all.

***We expect that revenue from subscription services will increase as a percentage of total revenue over time, and because we recognize this revenue over the term of the relevant contract period, downturns or upturns in sales of subscription services are not immediately reflected in full in our results of operations.***

Our revenue from subscription services has been increasing as a percentage of total revenue over time. We are also increasing the number of our subscription-based offerings, such as Pure as-a-Service, though it is more difficult to predict the rate at which customers will adopt, and the rate at which our revenue will grow from these new offerings. We recognize subscription services revenue ratably over the term of the relevant period. As a result, much of the subscription services revenue we report each quarter is derived from agreements that we sold in prior quarters. Consequently, a decline in new or renewed subscription services agreements in any one quarter will not be fully reflected in revenue in that quarter but will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales of subscription services is not reflected in full in our results of operations until future periods. It is also difficult for us to rapidly increase our subscription services revenue through additional sales in any period, as revenue from renewals must be recognized ratably over the applicable service period.

***We may require additional capital to support business growth, and this capital might not be available on acceptable terms, or at all.***

We intend to continue to make investments to support our business growth and may require additional funds to support business initiatives, including the need to develop new products or enhance our existing products, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing we undertake in the future could involve additional restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to support our business growth and to respond to business challenges could be significantly limited and our prospects and financial condition could be harmed.

***We are exposed to the credit risk of some of our customers, which could harm our business, operating results and financial condition.***

Most of our sales are made on an open credit basis. We monitor individual customer payment capability when we grant open credit arrangements and may limit these open credit arrangements based on perceived creditworthiness. We also maintain allowances we believe are adequate to cover exposure for doubtful accounts. Although we have programs in place that are designed to monitor and mitigate these risks, we cannot assure investors these programs will be effective in managing our credit risks, especially as we expand our business internationally. If we are unable to adequately control these risks, our business, operating results and financial condition could be harmed.

**Risks Related to Our Operations**

***If we are unable to attract, motivate and retain sales, engineering and other key personnel, including our management team, we may not be able to increase our revenue and our business, operating results and financial condition could be harmed.***

Our ability to increase our revenue depends on our ability to attract, motivate, and retain qualified sales, engineering and other key employees, including our management. These positions may require candidates with specific backgrounds in software and the storage industry, and competition for employees with such expertise is intense. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. To the extent that we are successful in hiring to fill these positions, we may need a significant amount of time to train new employees before they are effective and efficient in performing their jobs. Further, the COVID-19 pandemic has introduced new challenges regarding workforce planning, employee expectations regarding the ability to work from home or remotely and maintaining employee productivity. If we are unable to adequately address these challenges, our ability to recruit and retain employees and to ensure employee productivity could be negatively affected. From time to time, there may be changes in our management team, which could create short term uncertainty. All of our employees, including members of our management team and executive officers, are generally employed on an at-will basis, which means that they could terminate their employment with us at any time. If we are unable to attract, motivate and retain qualified sales, engineering and other key employees, including our management or if they are unable to work effectively or at all due to the COVID-19 pandemic, our business and operating results could suffer.

***If we fail to adequately expand and optimize our sales force, our growth will be impeded.***

We need to continue to expand and optimize our sales organization in order to grow our customer base and our business. We plan to continue to expand and train our sales force, both domestically and internationally. We must design and implement effective sales incentive programs, and it can take time before new sales representatives are fully trained and productive. We must adapt our sales processes for new sales and marketing approaches, including those required by our shift to subscription services and the changes resulting from the pandemic. If we are unable to hire, develop and retain qualified sales personnel or if new sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the expected benefits of these investments or increase our revenue and our business and operating results could suffer.

***Our company culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.***

We believe that our company culture has been a critical contributor to our success. Our culture fosters innovation, creativity, teamwork, passion for customers and focus on execution, and facilitates critical knowledge transfer and knowledge sharing. In particular, we believe that the difference between our sales, support and engineering cultures and those of incumbent vendors, is a key competitive advantage and differentiator for our customers and partners. As we grow and change or are required to adapt to changes in business operations as a result of the COVID-19 pandemic, we may find it difficult to maintain these important aspects of our company culture, which could limit our ability to innovate and operate effectively. Any failure to preserve our culture could also negatively affect our ability to retain and recruit personnel, continue to perform at current levels or execute on our business strategy.

***Our long-term success depends, in part, on sales outside of the United States, which subjects us to costs and risks associated with international operations.***

We maintain operations outside of the United States, which we have been expanding and intend to continue to expand in the future. As a company headquartered in the United States, conducting and expanding international operations subjects us to costs and risks that we may not generally face in the United States, including:

- exposure to foreign currency exchange rate risk;
- difficulties in collecting payments internationally;
- managing and staffing international operations;
- public health pandemics or epidemics, such as the COVID-19 pandemic;
- establishing relationships with channel partners in international locations;
- increased travel, infrastructure and legal compliance costs associated with international locations;
- requirements to comply with a wide variety of laws and regulations associated with international operations, including taxes and customs;
- significant fines, penalties and collateral consequences if we or our partners fail to comply with anti-bribery laws;
- heightened risk of improper, unfair or corrupt business practices in certain geographies;
- potentially adverse tax consequences, including repatriation of earnings;
- increased financial accounting and reporting burdens and complexities;
- political, social and economic instability abroad, terrorist attacks and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could negatively affect our international operations and, consequently, our business, operating results and financial condition generally.

***Our international operations, as well as U.S. tax reform, could expose us to potentially adverse tax consequences.***

Changes in federal, state, or international tax laws or tax rulings could adversely affect our effective tax rate and our operating results. Due to expansion of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and adversely affect our financial condition and operating results. We generally conduct our international operations through wholly owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Given proposed tax legislation and other global tax developments, we continue to evaluate our corporate structure and intercompany relationships. Future changes to U.S. and global tax laws may adversely impact our effective tax rate.

Our intercompany relationships are, and after the implementation of any changes to our corporate structure will continue to be, subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties, which could result in tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations.

***Third-party claims that we infringe their intellectual property rights could be costly and harm our business.***

There is a substantial amount of intellectual property litigation in the data storage industry, and we may become party to, or threatened with, litigation or other adversarial proceedings regarding our intellectual property rights. The outcome of intellectual property litigation is subject to uncertainties that cannot be adequately quantified in advance. We have been, and may in the future be, subject to claims that we infringe upon the intellectual property rights of other intellectual property holders, particularly as we grow and face increasing competition.

Any intellectual property rights claim against us or our customers, suppliers, and channel partners, with or without merit, could be time-consuming and expensive to litigate or settle, could divert management's resources and attention from operating our business and could force us to acquire intellectual property rights and licenses, which may involve substantial royalty payments. Further, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. An adverse determination also could invalidate our intellectual property rights, prevent us from manufacturing and selling our products and may require that we procure or develop substitute products that do not infringe, which could require significant effort and expense.

We may not be able to re-engineer our products to avoid infringement, and we may have to seek a license for the infringed technology, which may not be available on reasonable terms or at all, may significantly increase our operating expenses or may require us to restrict our business activities in one or more respects. Even if we were able to obtain a license, it could be non-exclusive, which may give our competitors access to the same technologies licensed to us. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business. Any of these events could harm our business and financial condition.

We currently have a number of agreements in effect with our customers, suppliers and channel partners pursuant to which we have agreed to defend, indemnify and hold them harmless from damages and costs which may arise from claims of infringement by our products of third-party patents, trademarks or other proprietary rights. The scope of these indemnity obligations varies but may, in some instances, include indemnification for damages and expenses, including attorneys' fees. Our insurance may not cover intellectual property infringement claims. A claim that our products infringe a third party's intellectual property rights could harm our relationships with our customers, deter future customers from purchasing our products and expose us to costly litigation and settlement expenses. Even if we are not a party to any litigation between a customer and a third party relating to infringement claims by our products, an adverse outcome in any such litigation could make it more difficult for us to defend our products against intellectual property infringement claims in any subsequent litigation in which we are a named party. Any of these results could harm our brand, business and financial condition.

***The success of our business depends in part on our ability to protect and enforce our intellectual property rights.***

We rely on a combination of patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. We have over 2,000 issued patents and patent applications in the United States and foreign countries. We cannot assure investors that future patents issued to us, if any, will give us the protection that we seek, if at all, or that any patents issued to us will not be challenged, invalidated, circumvented or held to be unenforceable. Our issued and future patents may not provide sufficiently broad protection or may not be enforceable. Further, the laws of certain foreign countries do not provide the same level of protection of corporate proprietary information and assets such as intellectual property, trademarks, trade secrets, know-how and records, as the laws of the United States. For instance, the legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection. As a result, we may encounter significant problems in protecting and defending our intellectual property or proprietary rights abroad.

Changes to the intellectual property law in the United States and other jurisdictions could also diminish the value of our patents and patent applications or narrow the scope of our patent protection, among other intellectual property rights. We cannot be certain that the steps we have taken will prevent theft, unauthorized use or the reverse engineering of our proprietary information and other intellectual property, including technical data, manufacturing processes, data sets or other sensitive information. Moreover, others may independently develop technologies that are competitive to ours or that infringe our intellectual property. Furthermore, any of our trademarks may be challenged by others or invalidated through administrative process or litigation.

Protecting against the unauthorized use of our intellectual property, products and other proprietary rights is expensive and difficult. Litigation may be necessary in the future to enforce or defend our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could result in substantial costs and diversion of management's resources and attention, either of which could harm our business, operating results and financial condition. Further, many of our current and potential competitors have the ability to dedicate substantially greater resources than us to defend intellectual property infringement claims and enforce their intellectual property rights. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our products are available. An inability to adequately protect and enforce our intellectual property and other proprietary rights could harm our business and financial condition.

***Our use of open source software could impose limitations on our ability to commercialize our products.***

We use open source software in our products and expect to continue to use open source software in the future. Although we monitor our use of open source software, the terms of many open source licenses have not been interpreted by U.S. or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our products. From time to time, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we have developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to make our software source code freely available, seek licenses from third parties in order to continue offering our products for certain uses or cease offering the implicated solutions unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may be required to discontinue providing some of our software if re-engineering cannot be accomplished on a timely basis, any of which could harm our business, operating results and financial condition.

***Failure to comply with governmental laws and regulations could harm our business.***

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in the United States. For example, the European Union has adopted certain directives to facilitate the recycling of electrical and electronic equipment sold in the European Union, including the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment directive and the Waste Electrical and Electronic Equipment directive.



Changes in applicable laws, regulations and standards could harm our business, operating results and financial condition. For example, we have been subject to the EU General Data Protection Regulation, or GDPR, since May 2018 and to the California Consumer Privacy Act (CCPA) since January 2020. These and potentially other future privacy regulations may require us to make further changes to our policies and procedures in the future beyond what we have already done. Our business could be impacted, to some extent, by the United Kingdom's exit from the European Union and related changes in law and regulation. We made changes to our data protection compliance program in relation to data privacy regulations and will continue to monitor the implementation and evolution of global data protection regulations, but if we are not compliant with such privacy regulations, we may be subject to significant fines and our business may be harmed. In addition, the CCPA places additional requirements on the handling of personal data and is currently subject to a revision and update process. The potential effects of this legislation are far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses. Customers may choose to implement technological solutions to comply with such regulations that impact the performance and competitiveness of our products and solutions.

Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, operating results and financial condition could be harmed. Even the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit competitiveness and adoption of our products by current and future customers. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, operating results and financial condition.

***Governmental regulations affecting the import or export of products could negatively affect our revenue.***

The U.S. and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of some technologies, especially encryption technology. From time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring the escrow of imports or exports. If we fail to obtain required import or export approval for our products or its various components, our international and domestic sales could be harmed and our revenue may be adversely affected. In many cases, we rely on vendors and channel partners to handle logistics associated with the import and export of our products, so our visibility and control over these matters may be limited. In addition, failure to comply with such regulations could result in penalties, costs and restrictions on export privileges, which could harm our business, operating results and financial condition.

***If our security measures, or those maintained on our behalf, are compromised now, or in the future, or the security, confidentiality, integrity or availability of our information technology, software, services, networks, products, communications or data is compromised, limited, or fails, our business could experience a material adverse impact, including without limitation, a material interruption to our operations, harm to our reputation, a loss of customers, significant fines, penalties and liabilities, or breach or triggering of data protection laws, privacy policies or other obligations.***

In the ordinary course of our business, we collect, store, transit and otherwise process proprietary, confidential and sensitive data, including by using our internal systems, networks and servers, which may include intellectual property, our proprietary business information and that of our customers, suppliers and business partners and sales data, which may, on occasion, include personally identifiable information. Additionally, we design and sell products that allow our customers to store their data. The security of our own networks and the intrusion protection features of our products are both critical to our operations and business strategy.

Cyberattacks, malicious internet-based activity and online and offline fraud are prevalent and continue to increase. These threats are becoming increasingly difficult to detect. The threats to information systems and information may include: traditional computer "hackers," social engineering schemes (for example, attempts to induce fraudulent invoice payments or divert money to us), software bugs, malicious code (such as viruses and worms), personnel misconduct or error, faulty password management, theft, denial-of-service attacks (such as credential stuffing), advanced persistent threat intrusions, as well as attacks from nation-state and nation-state supported actors. We may also be the subject of phishing attacks, viruses, malware installation, server malfunction, software or hardware failures, loss of data or other computer assets, adware and other similar issues. Additionally, ransomware attacks, including those from organized criminal threat actors, nation-states and nation-state supported actors, are becoming increasingly prevalent and severe and can lead to significant interruptions, delays, or outages in our operations, disruptions in our services, loss of data, loss of income, significant extra expense to restore data or systems, reputational loss and the diversion of funds. To alleviate the financial, operational and reputational impact of a ransomware attack, it may be preferable to make extortion payments, but we may be unwilling or unable to do so (including, for example, if applicable laws or regulations prohibit such payments). Similarly, supply chain attacks have increased in frequency and severity, and we cannot guarantee that third parties and infrastructure in our supply chain have not been compromised or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our platform, systems and network or the systems and networks of third parties that support us and our business.

We devote significant resources to network security, authentication technologies, data encryption and other security measures designed to protect our systems and data, including to secure the transmission and storage of data and prevent third-party access to our data or accounts, but there can be no assurance that our security measures or those of our service providers, partners and other third parties upon whom we rely will be effective in protecting against a security incident or the materially adverse impacts that may arise from a security incident. Any destructive or intrusive breach of our internal systems could result in the information stored on our networks and systems or the networks and systems of third parties upon whom we rely being accessed, publicly disclosed, lost or stolen.

Additionally, an effective attack on our products could disrupt the proper functioning of our products, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers, disrupt or temporarily interrupt our and our customers' operations or cause other destructive outcomes, including the theft of information sufficient to engage in fraudulent transactions. The risk that these types of events could seriously harm our business is likely to increase as we expand our network of channel partners, resellers and authorized service providers and operate in more countries. The economic costs to us to eliminate or alleviate cyber or other security problems, viruses, worms, malicious software systems and security vulnerabilities could be significant and may be difficult to anticipate or measure because the damage may differ based on the identity and motive of the programmer or hacker, which are often difficult to identify. If any of these types of security breaches were to occur and we were unable to protect our products, systems and data, or if we were perceived to have such a security incident, our relationships with our business partners and customers could be materially damaged, our reputation and brand could be materially harmed, use of our products could decrease and we could be exposed to a risk of loss or litigation, including, without limitation, class action litigation, and other possible liabilities. A security incident could also result in government enforcement actions that could include investigations, fines, penalties, audits and inspections, additional reporting requirements and/or oversight, temporary or permanent bans on all or some processing of personal information.

Moreover, applicable data protection laws, contracts, policies and other data protection obligations may require us to notify relevant stakeholders of security incidents, including affected individuals, customers, regulators, and credit reporting agencies. Such disclosures are costly and the disclosures or the failure to comply with such requirements could lead to material adverse impacts such as negative publicity, loss of customer confidence in our services our security measures, investigations and private or government claims. Security incidents that impact our information technology systems could also result in breaches of our contracts (some of which may not have liability limitations and/or require us to indemnify affected parties) and could lead to litigation with customers, partners or other relevant stakeholders. These proceedings could force us to spend money in defense or settlement, divert management's time and attention, increase our costs of doing business and adversely affect our reputation or otherwise adversely affect our business.

***We may acquire other businesses which could require significant management attention, disrupt our business, dilute stockholder value, and adversely affect our operating results.***

We may, from time to time, acquire complementary products, technologies or businesses, such as our acquisitions of Portworx in October 2020 and Compuverde AB in April 2019. We also may enter into relationships with other businesses in order to expand our product offerings, which could involve preferred or exclusive licenses, additional channels of distribution or discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to third-party or government approvals, which are beyond our control. Consequently, we can make no assurance that these transactions, once undertaken and announced, will close.

These kinds of acquisitions or investments may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of acquired companies, particularly if the key personnel of the acquired business choose not to work for us, and we may have difficulty retaining the customers of any acquired business. Acquisitions may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for development of our business. Any acquisition or investment could expose us to unknown liabilities. Moreover, we cannot assure investors that the anticipated benefits of any acquisition or investment will be realized. In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur large charges or substantial liabilities, encounter difficulties integrating diverse business cultures and become subject to adverse tax consequences, substantial depreciation or deferred compensation charges. These challenges related to acquisitions or investments could harm our business and financial condition.

## Risks Related to Our Credit Facility and Notes

### ***Restrictive covenants in the agreement governing our senior secured revolving credit facility may restrict our ability to pursue business strategies.***

In August 2020, we entered into a Credit Agreement with a consortium of financial institutions and lenders that provides for a five-year, senior secured revolving credit facility of \$300.0 million (Credit Facility). We have borrowed \$250.0 million under this Credit Facility. We could repay and re-borrow funds under this Credit Facility at any time, subject to customary borrowing conditions, for general corporate purposes and working capital.

The agreement governing our senior secured revolving Credit Facility limits our ability, among other things, to: incur additional secured indebtedness; sell, transfer, license or dispose of assets; consolidate or merge; enter into transactions with our affiliates; and incur liens. In addition, our senior secured revolving Credit Facility contains financial and other restrictive covenants that limit our ability to engage in activities that may be in our long term best interest, such as, subject to permitted exceptions, making capital expenditures in excess of certain thresholds, making investments, loans and other advances, and prepaying any additional indebtedness while our indebtedness under our senior secured revolving Credit Facility is outstanding. Our failure to comply with financial and other restrictive covenants could result in an event of default, which if not cured or waived, could result in the lenders requiring immediate payment of all outstanding borrowings or foreclosing on collateral pledged to them to secure the indebtedness.

### ***We may not have the ability to raise the funds necessary to settle conversions of the Notes or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.***

Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest. In addition, if a make-whole fundamental change (as defined in the indenture for the Notes) occurs prior to the maturity date of the Notes, we will in some cases be required to increase the conversion rate for a holder that elects to convert its Notes in connection with such make-whole fundamental change. Upon a conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or pay cash with respect to Notes being converted.

In addition, our ability to repurchase or to pay cash upon conversion of the Notes may be limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the indenture governing the Notes or to pay cash upon conversion of the Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or to pay cash upon conversion of the Notes.

***Servicing our debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.***

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the amounts payable under the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

***We may still incur substantially more debt or take other actions that would diminish our ability to make payments on the Notes when due.***

We and our subsidiaries may incur substantial additional debt in the future, subject to the restrictions contained in our future debt instruments, some of which may be secured debt, like the Credit Facility. We are not restricted under the terms of the indenture governing the Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that could have the effect of diminishing our ability to make payments on the Notes when due. Furthermore, the indenture prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes and the indenture. These and other provisions in the indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to holders of the Notes.

***The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.***

If the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than by paying cash in lieu of delivering any fractional share), we may settle all or a portion of our conversion obligation in cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***The capped call transactions may affect the value of the Notes and our common stock.***

In connection with the Notes, we entered into capped call transactions with certain financial institutions (the option counterparties). The capped call transactions are expected generally to reduce the potential dilution upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of the Notes, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the capped call transactions, the option counterparties and/or their respective affiliates purchased shares of our common stock and/or entered into various derivative transactions with respect to our common stock. This activity could have increased (or reduced the size of any decrease in) the market price of our common stock or the Notes at that time.

In addition, the option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in secondary market transactions (and are likely to do so during any observation period related to a conversion of notes or following any repurchase of notes by us on any fundamental change repurchase date or otherwise). This activity could also cause or avoid an increase or a decrease in the price of our common stock or the Notes.

The potential effect, if any, of these transactions and activities on the price of our common stock or the Notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our common stock.

#### **Risks Related to Our Common Stock**

***The trading price of our common stock has been and may continue to be highly volatile, and an active, liquid, and orderly market for our common stock may not be sustained.***

The trading price of our common stock has been, and will likely continue to be, highly volatile. Since shares of our common stock were sold in our initial public offering in October 2015 at a price of \$17.00 per share, our closing stock price has ranged from \$8.76 to \$28.90, through September 1, 2021. Some of the factors, many of which are beyond our control, affecting our volatility may include:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of technology companies in general and of companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our operating results;
- whether our operating results meet the expectations of securities analysts or investors;
- issuance or new or updated research or reports by securities analysts, including the publication of unfavorable reports or change in recommendation or downgrading of our common stock;
- actual or anticipated developments in our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both;
- general economic conditions and trends, including the impact of the COVID pandemic;
- major catastrophic events;
- sales of large blocks of our stock; or
- departures of key personnel.

In several recent situations where the price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, the defense and disposition of the lawsuit could be costly and divert the time and attention of our management and harm our business, operating results and financial condition.

***We cannot guarantee that our share repurchase program will enhance shareholder value, and share repurchases could affect the price of our common stock.***

In February 2021, our board of directors authorized a \$200.0 million share repurchase program, which is being funded from available working capital. The repurchase authorization has no fixed end date. Although our board of directors has authorized a share repurchase program, this program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The share repurchase program could affect the price of our common stock, increase volatility and diminish our cash reserves.

***If securities analysts do not publish research or reports about our business, or if they downgrade our stock, the price of our stock could decline.***

The trading market for our common stock will likely be influenced by research and reports that securities or industry analysts publish about us or our business. If one or more of these analysts downgrades our stock, lowers their price target, or publishes unfavorable or inaccurate research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

***We have never paid dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future.***

We have never declared or paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, investors may only receive a return on their investment in our common stock if the market price of our common stock increases.

***Provisions in our amended and restated certificate of incorporation and amended and restated bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the price of our common stock.***

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- authorize the issuance of "blank check" preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- prohibit stockholders from calling a special meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder and which may discourage, delay, or prevent a change of control of our company.

Any provision of our amended and restated certificate of incorporation, bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

***Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. If a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business and financial condition.

## General Risk Factors

### ***Adverse economic conditions may harm our revenues and profitability.***

Our operations and performance depend in part on worldwide economic conditions and the economic health of our current and prospective customers. Inflation, global economic uncertainty, civil unrest and political and fiscal challenges in the United States and abroad can arise suddenly and affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our products and services. For example, the global macroeconomic environment could be negatively affected by the growth rate in the economy of the European Union, China, or the United States, trade relations between the United States and China, the impact of public health epidemics or pandemics, such as the COVID-19 pandemic, political uncertainty in the Middle East and other geopolitical events. Additionally, the United Kingdom's exit from the European Union is disruptive and remains subject to the successful conclusion of a final withdrawal agreement between the parties. In the absence of such an agreement, there would be no transitional provisions and any exit from the European Union could lead to adverse economic consequences. Weak economic conditions would likely adversely impact our business, operating results and financial condition in a number of ways, including by reducing sales, lengthening sales cycles and lowering prices of our products and services.

### ***Our business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events, and to interruption by man-made factors such as computer viruses or terrorism or by the impact of public health epidemics or pandemics, such as the COVID-19 pandemic.***

We and our suppliers have operations in locations, including our headquarters in California, that are subject to earthquakes, fires, floods and other natural catastrophic events, such as severe weather and geological events, which could disrupt our operations or the operations of our customers and suppliers. Our customers affected by a natural disaster could postpone or cancel orders of our products, which could negatively impact our business. Moreover, should any of our key suppliers fail to deliver components to us as a result of a natural disaster, we may be unable to purchase these components in necessary quantities or may be forced to purchase components in the open market at significantly higher costs. We may also be forced to purchase components in advance of our normal supply chain demand to avoid potential market shortages. Our business interruption insurance may be insufficient to compensate us for losses due to a significant natural disaster or due to man-made factors. Any natural catastrophic events may also prevent our employees from being able to reach our offices in any jurisdiction around the world, and therefore impede our ability to conduct business as usual.

In addition, man-made factors, such as acts of terrorism or malicious computer viruses, and public health epidemics or pandemics, such as the COVID-19 pandemic, could cause disruptions in our or our customers' businesses or the economy as a whole. To the extent that these disruptions result in delays or cancellations of customer orders or the deployment of our products, our business, operating results and financial condition could be harmed.



**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Purchases of Equity Securities by the Issuer**

The following table summarizes our stock repurchase activity for the second quarter of fiscal 2022 (in thousands except for price per share):

Period	Average Price Paid per Share	Total Number of Shares Purchased as Part of Share Repurchase Program <sup>(1)</sup>	Shares that May Yet Be Purchased Under the Plans or Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Program
May 3 - May 30	\$ —	—	\$ —	170,008
May 31 - June 27	\$ 19.19	1,043	\$ 1,043	150,001
June 28 - August 1	\$ 19.15	1,270	\$ 1,270	125,681

<sup>(1)</sup> In February 2021, our board of directors authorized additional share repurchases of up to \$200.0 million of our outstanding common stock. See "Liquidity and Capital Resources—Share Repurchase Program" included under Part I, Item 2 in this Quarterly Report on Form 10-Q.

The following table summarizes the shares of restricted common stock that were delivered by certain employees upon vesting of equity awards to satisfy tax withholding requirements during the second quarter of fiscal 2022 (in thousands except for price per share):

Period	Average Price per Share Delivered	Total Number of Shares Delivered to Satisfy Tax Withholding Requirements	Approximate Dollar Value of Shares Delivered to Satisfy Tax Withholding Requirements
May 3 - May 30	\$ —	—	\$ —
May 31 - June 27	\$ 18.91	80	\$ 1,514
June 28 - August 1	\$ —	—	\$ —

**Item 3. Defaults upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits.**

Exhibit Number	Description	Incorporation By Reference			Filing Date
		Form	SEC File No.	Exhibit	
3.1	<a href="#">Amended and Restated Certificate of Incorporation.</a>	10-Q	001-37570	3.1	12/11/2015
3.2	<a href="#">Amended and Restated Bylaws.</a>	S-1	333-206312	3.4	9/9/2015
4.1	<a href="#">Form of Class A Common Stock Certificate of the Company.</a>	S-1	333-206312	4.1	9/9/2015
4.2	<a href="#">Indenture dated as of April 9, 2018 by and between Pure Storage, Inc. and U.S. Bank National Association, as Trustee</a>	8-K	001-37570	4.1	4/10/2018
4.3	<a href="#">Form of Global Note, representing Pure Storage, Inc.'s 0.125% Convertible Senior Notes due 2023 (included as Exhibit A to the Indenture incorporated by reference as Exhibit 4.2 hereto)</a>	8-K	001-37570	4.2	4/10/2018
4.4	Reference is made to Exhibits 3.1 and 3.2				
31.1*	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>				
31.2*	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>				
32.1**	<a href="#">Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>				
99.1	<a href="#">Form of Confirmation for Capped Call Transactions.</a>	8-K	001-37570	99.1	4/10/2018
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 Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)				

\* Filed herewith.

\*\* Furnished herewith.

+ Indicates management contract or compensatory plan.



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
EXCHANGE RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles Giancarlo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pure Storage, Inc.;
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.

Date: September 8, 2021

By:

/s/ CHARLES GIANCARLO

**Charles Giancarlo**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
EXCHANGE RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kevan Kryslar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pure Storage, Inc.;
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.

Date: September 8, 2021

By:

/s/ KEVAN KRYSLER

**Kevan Kryslar**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

