

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 July 1, 2022

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 000-17781

NortonLifeLock Inc.

(Exact name of the registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

77-0181864

(I.R.S. employer identification no.)

60 E. Rio Salado Parkway, Suite 1000, Tempe, Arizona
(Address of principal executive offices)

85281
(Zip code)

Registrant's telephone number, including area code:

(650) 527-8000

Former name or former address, if changed since last report:

Not applicable

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	NLOK	The Nasdaq Stock Market 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. (Check one):

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐
						Emerging growth company	☐

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

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

The number of shares of NortonLifeLock common stock, \$0.01 par value per share, outstanding as of July 29, 2022 was 571,368,785 shares.

NORTONLIFELOCK INC.
FORM 10-Q
Quarterly Period Ended July 1, 2022
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"NortonLifeLock," "we," "us," "our," and "the Company" refer to NortonLifeLock Inc. and all of its subsidiaries. NortonLifeLock, the NortonLifeLock Logo, the Checkmark Logo, Norton, LifeLock, and the LockMan Logo are trademarks or registered trademarks of NortonLifeLock Inc. or its affiliates in the United States (U.S.) and other countries. Other names may be trademarks of their respective owners.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NORTONLIFELOCK INC. CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in millions, except par value per share amounts)

	July 1, 2022	April 1, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,291	\$ 1,887
Short-term investments	—	4
Accounts receivable, net	102	120
Other current assets	180	193
Assets held for sale	56	56
Total current assets	1,629	2,260
Property and equipment, net	56	60
Operating lease assets	70	74
Intangible assets, net	993	1,023
Goodwill	2,861	2,873
Other long-term assets	638	653
Total assets	\$ 6,247	\$ 6,943
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 71	\$ 63
Accrued compensation and benefits	48	81
Current portion of long-term debt	614	1,000
Contract liabilities	1,183	1,264
Current operating lease liabilities	19	18
Other current liabilities	689	639
Total current liabilities	2,624	3,065
Long-term debt	2,714	2,736
Long-term contract liabilities	37	42
Deferred income tax liabilities	63	75
Long-term income taxes payable	996	996
Long-term operating lease liabilities	69	75
Other long-term liabilities	43	47
Total liabilities	6,546	7,036
Commitments and contingencies (Note 18)		
Stockholders' equity (deficit):		
Common stock and additional paid-in capital, \$0.01 par value: 3,000 shares authorized; 571 and 580 shares issued and outstanding as of July 1, 2022 and April 1, 2022, respectively	1,479	1,851
Accumulated other comprehensive income (loss)	(44)	(4)
Retained earnings (accumulated deficit)	(1,734)	(1,940)
Total stockholders' equity (deficit)	(299)	(93)
Total liabilities and stockholders' equity (deficit)	\$ 6,247	\$ 6,943

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

NORTONLIFELOCK INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in millions, except per share amounts)

	Three Months Ended	
	July 1, 2022	July 2, 2021
Net revenues	\$ 707	\$ 686
Cost of revenues	102	102
Gross profit	605	584
Operating expenses:		
Sales and marketing	156	156
Research and development	61	68
General and administrative	104	45
Amortization of intangible assets	21	21
Restructuring and other costs	2	7
Total operating expenses	344	297
Operating income (loss)	261	287
Interest expense	(31)	(32)
Other income (expense), net	(1)	(3)
Income (loss) before income taxes	229	252
Income tax expense (benefit)	29	71
Net income (loss)	\$ 200	\$ 181
Net income (loss) per share - basic	\$ 0.35	\$ 0.31
Net income (loss) per share - diluted	\$ 0.33	\$ 0.31
Weighted-average shares outstanding:		
Basic	578	580
Diluted	604	591

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

NORTONLIFELOCK INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in millions)

	Three Months Ended	
	July 1, 2022	July 2, 2021
Net income (loss)	\$ 200	\$ 181
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustments	(40)	2
Other comprehensive income (loss), net of taxes	(40)	2
Comprehensive income (loss)	<u>\$ 160</u>	<u>\$ 183</u>

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

NORTONLIFELOCK INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(Unaudited, in millions, except share amounts)

Three months ended July 1, 2022	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance as of April 1, 2022	582	\$ 1,851	\$ (4)	\$ (1,940)	\$ (93)
Net income (loss)	—	—	—	200	200
Other comprehensive income (loss), net of taxes	—	—	(40)	—	(40)
Common stock issued under employee stock incentive plans	2	—	—	—	—
Shares withheld for taxes related to vesting of restricted stock units	(1)	(16)	—	—	(16)
Repurchases of common stock	(12)	(300)	—	—	(300)
Cash dividends declared (\$0.125 per share of common stock) and dividend equivalents accrued	—	(73)	—	—	(73)
Stock-based compensation	—	24	—	—	24
Cumulative effect adjustment from adoption of ASU 2020-06 ⁽¹⁾	—	(7)	—	6	(1)
Balance as of July 1, 2022	571	\$ 1,479	\$ (44)	\$ (1,734)	\$ (299)

Three months ended July 2, 2021	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity (Deficit)
	Shares	Amount			
Balance as of April 2, 2021	580	\$ 2,229	\$ 47	\$ (2,776)	\$ (500)
Net income (loss)	—	—	—	181	181
Other comprehensive income (loss), net of taxes	—	—	2	—	2
Common stock issued under employee stock incentive plans	2	1	—	—	1
Shares withheld for taxes related to vesting of restricted stock units	(1)	(15)	—	—	(15)
Cash dividends declared (\$0.125 per share of common stock) and dividend equivalents accrued	—	(74)	—	—	(74)
Stock-based compensation	—	20	—	—	20
Extinguishment of convertible debt	—	(112)	—	—	(112)
Balance as of July 2, 2021	581	\$ 2,049	\$ 49	\$ (2,595)	\$ (497)

(1) Effective on April 2, 2022, the Company adopted ASU 2020-06 (*Debt with Conversion and Other Options*, ASC 470-20) using a modified retrospective method. See Note 2 for further information about this recently adopted guidance.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

NORTONLIFELOCK INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Three Months Ended	
	July 1, 2022	July 2, 2021
OPERATING ACTIVITIES:		
Net income (loss)	\$ 200	\$ 181
Adjustments:		
Amortization and depreciation	29	36
Stock-based compensation expense	24	20
Deferred income taxes	(32)	1
Loss (gain) on extinguishment of debt	—	5
Non-cash operating lease expense	4	5
Other	(26)	7
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	13	12
Accounts payable	9	24
Accrued compensation and benefits	(32)	(42)
Contract liabilities	(53)	(34)
Income taxes payable	60	21
Other assets	—	41
Other liabilities	19	(19)
Net cash provided by (used in) operating activities	215	258
INVESTING ACTIVITIES:		
Purchases of property and equipment	(2)	(1)
Proceeds from the maturities and sales of short-term investments	4	4
Other	2	(4)
Net cash provided by (used in) investing activities	4	(1)
FINANCING ACTIVITIES:		
Repayments of debt	(410)	(372)
Proceeds from issuance of debt, net of issuance costs	—	512
Net proceeds from sales of common stock under employee stock incentive plans	—	1
Tax payments related to vesting of restricted stock units	(16)	(13)
Dividends and dividend equivalents paid	(81)	(84)
Repurchases of common stock	(300)	—
Net cash provided by (used in) financing activities	(807)	44
Effect of exchange rate fluctuations on cash and cash equivalents	(8)	(4)
Change in cash and cash equivalents	(596)	297
Beginning cash and cash equivalents	1,887	933
Ending cash and cash equivalents	\$ 1,291	\$ 1,230

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

NORTONLIFELOCK INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Description of Business and Significant Accounting Policies

Business

NortonLifeLock, Inc. is a global, leading provider of consumer Cyber Safety solutions. Our portfolio provides protection across three Cyber Security categories: security, identity protection and online privacy. We help customers protect their computer and mobile devices from online threats, safeguard their identity and personal information and strengthen online privacy capabilities and functionalities.

Basis of presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America for interim financial information. In the opinion of management, the unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting only of normal recurring items, except as otherwise noted, necessary for the fair presentation of our financial position, results of operations and cash flows for the interim periods. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended April 1, 2022. The results of operations for the three months ended July 1, 2022 are not necessarily indicative of the results expected for the entire fiscal year.

Fiscal calendar

We have a 52/53-week fiscal year ending on the Friday closest to March 31. Unless otherwise stated, references to three month periods in this report relate to fiscal periods ended July 1, 2022 and July 2, 2021. The three months ended July 1, 2022 and July 2, 2021 each consisted of 13 weeks. Our 2023 fiscal year consists of 52 weeks and ends on March 31, 2023.

Use of estimates

The preparation of Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying Notes. Such estimates include, but are not limited to, valuation of business combinations including acquired intangible assets and goodwill, loss contingencies, the recognition and measurement of current and deferred income taxes, including the measurement of uncertain tax positions, and valuation of assets and liabilities. On an ongoing basis, management determines these estimates and assumptions based on historical experience and on various other assumptions that are believed to be reasonable. Third-party valuation specialists are also utilized for certain estimates. Actual results could differ from such estimates and assumptions due to risks and uncertainties, including uncertainty in the current economic environment as a result of the COVID-19 pandemic and continuing Russia-Ukraine conflict, and such differences may be material to the Condensed Consolidated Financial Statements.

Significant accounting policies

With the exception of those discussed in Note 2, there have been no material changes to our significant accounting policies as of and for the three months ended July 1, 2022, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended April 1, 2022.

Note 2. Recent Accounting Standards

Recently adopted authoritative guidance

Debt with Conversion and Other Options. In August 2020, the FASB issued Accounting Standards Update 2020-06 (ASU 2020-06) which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments. The new guidance removes from GAAP the separation models for convertible debt with embedded conversion features. As a result, entities will no longer separately present embedded conversion features in equity. A convertible debt instrument will be accounted for wholly as debt unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC Topic 815, *Derivatives and Hedging*, or (2) a convertible debt instrument was issued at a substantial premium. In addition, the debt discount, which is equal to the carry value of the embedded conversion feature upon issuance, will no longer be amortized as interest expense over the life of the instrument. The new guidance also requires the use of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share and include the effect of share settlement for instruments that may be settled in cash or shares. See Note 16 for further information related to the diluted earnings per share calculation.

We adopted this standard as of April 2, 2022, the first day of fiscal 2023, using a modified retrospective method of transition, under which, financial results and earnings per share amounts reported in prior periods were not adjusted or restated in the Condensed Consolidated Financial Statements. As such, the new guidance was applied to the convertible debt instruments outstanding as of the beginning of this fiscal year, with the cumulative effect of adoption recognized through an adjustment to the opening balance of retained earnings. We increased the carrying amount of the New 2.00% Convertible Notes (as defined in Note 10) by approximately \$1 million and reduced additional paid-in capital by approximately \$7 million, net of tax. The net effect of these adjustments was recorded as an increase to retained earnings as of April 2, 2022.

Recently issued authoritative guidance not yet adopted

Reference Rate Reform. In March 2020, the FASB issued new guidance providing temporary optional expedients and exceptions to ease the financial reporting burden of the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. The standard was effective upon issuance and may generally be applied through December 31, 2022, to any new or amended contracts, hedging relationships, and other transactions that reference LIBOR. We continue to evaluate our contractual arrangements and hedging relationships that reference LIBOR.

Although there are several other new accounting pronouncements issued or proposed by the FASB that we have adopted or will adopt, as applicable, we do not believe any of these accounting pronouncements has had, or will have, a material impact on our Condensed Consolidated Financial Statements and disclosures.

Note 3. Assets Held for Sale

Assets held for sale

During fiscal 2020, we reclassified certain land and buildings previously reported as property and equipment to assets held for sale when the properties were approved for immediate sale in their present condition and the sale was expected to be completed within one year.

We continue to actively market the remaining properties for sale; however, during fiscal 2023, the commercial real estate market continues to be adversely affected by the COVID-19 pandemic, which delayed the expected timing of sale. We have taken into consideration the current real estate values and demand and continue to execute plans to sell these properties. As of July 1, 2022, these assets are classified as assets held for sale. During the three months ended July 1, 2022, there were no impairments because the fair value of the properties less costs to sell either equals or exceeds their carrying value.

Note 4. Business Combinations

Proposed Merger with Avast

On August 10, 2021, we announced a transaction under which we intend to acquire the entire issued and to be issued ordinary share capital of Avast plc, a public company incorporated in England and Wales and a global leader of digital security and privacy headquartered in Prague, Czech Republic (Avast and such transaction, the Proposed Merger). The Proposed Merger will be implemented by means of a court-sanctioned scheme of arrangement under the UK Companies Act 2006, as amended (the Scheme), and remains subject to a certain number of conditions. Under the terms of the Proposed Merger, Avast shareholders will be entitled to elect to receive, for each ordinary share of Avast held, in respect of their entire holding of Avast shares, either: (i) \$7.61 in cash and 0.0302 of a new share of our common stock (such option, the Majority Cash Option); or (ii) \$2.37 in cash and 0.1937 of a new share of our common stock (such option, the Majority Stock Option). Based on our undisturbed closing share price of \$27.20 on July 13, 2021, and depending on the Avast shareholder elections, the estimated purchase price range for the Avast shares under the Proposed Merger is \$8.1 billion to \$8.6 billion. Each of the directors of Avast who holds shares has undertaken to elect for the Majority Stock Option in respect of their entire beneficial holdings of Avast shares. We plan to finance the Proposed Merger with existing cash, cash to be generated by operations and new debt financing.

In conjunction with the Proposed Merger, on August 10, 2021, we entered into an agreement (as amended, the Interim Facilities Agreement) with certain financial institutions, in which they agreed to provide us with (i) a \$3,600 million term loan interim facility B (the Interim Facility B), (ii) \$750 million term loan interim facility A1 (the Interim Facility A1) and \$3,500 million term loan interim facility A2 (the Interim Facility A2), and (iii) a \$1,500 million interim revolving facility (the Interim Revolving

Facility) (collectively, the Interim Facilities) and a commitment letter (as amended, the Commitment Letter) with certain financial institutions, in which they agreed to provide us with financing no less than the financing available under the Interim Facilities (the Definitive Facilities and, together with the Interim Facilities, the Facilities) to finance the cash consideration payable in connection with the Proposed Merger. The Definitive Facilities will be financed by a syndicate of lenders led by Bank of America, N.A. and Wells Fargo Bank N.A. On January 28, 2022, Bank of America N.A. and Wells Fargo Bank N.A. agreed to arrange, on a best efforts basis, additional term loans under the Definitive Facilities in an amount up to \$500 million. The Interim Facilities Agreement contains, and any definitive financing documentation for the Definitive Facilities entered into in connection with the Commitment Letter (the Facilities Agreement) will contain, customary representations and warranties, events of default and covenants for transactions of this type. The Facilities Agreement will replace the existing credit facility agreement upon the close of the transaction.

In conjunction with the Proposed Merger, on August 10, 2021, we entered into a Co-operation Agreement (the Co-operation Agreement) with Nitro Bidco Limited, our wholly-owned subsidiary (Bidco), and Avast, pursuant to which we and Bidco agreed to, among other things, use all reasonable endeavors for the purposes of obtaining any regulatory authorizations which are required to implement the Proposed Merger, and we, Bidco and Avast agreed to cooperate with each other in preparing required transaction documents and certain other matters in connection with the Proposed Merger. The Co-operation Agreement also contains certain termination rights. The Co-operation Agreement also provides that, subject to certain exceptions, if we fail to receive approval from the U.K. Competition and Markets Authority and cannot consummate the Proposed Merger, we may be required to pay Avast a break fee of up to \$200 million.

The Proposed Merger was approved by our Board of Directors and by our shareholders, the Board of Directors and shareholders of Avast, and regulators including the Federal Trade Commission under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act) and in Europe, the German Federal Cartel Office and the Spanish National Markets and Competition Commission. On August 3, 2022, the U.K. Competition and Markets Authority (CMA) provisionally cleared the Proposed Merger. Subject to final approval by the CMA and changes based on operational considerations mutually agreed upon by the parties and other requirements, the closing is anticipated to be between mid-September to early October 2022, given the CMA's published schedule and the currently scheduled U.K. Court Hearing to approve the scheme.

Note 5. Revenues

Contract liabilities

During the three months ended July 1, 2022, we recognized \$508 million from the contract liabilities balance as of April 1, 2022. During the three months ended July 2, 2021, we recognized \$498 million from the contract liabilities balance as of April 2, 2021.

Remaining performance obligations

Remaining performance obligations represent contract revenue that has not been recognized, which include contract liabilities and amounts that will be billed and recognized as revenue in future periods. As of July 1, 2022, we had \$783 million of remaining performance obligations, excluding customer deposit liabilities of \$437 million, of which we expect to recognize approximately 94% as revenue over the next 12 months.

See Note 17 for tabular disclosures of disaggregated revenue by solution and geographic region.

Note 6. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill were as follows:

(In millions)		
Balance as of April 1, 2022	\$	2,873
Translation adjustments		(12)
Balance as of July 1, 2022	\$	2,861

Intangible assets, net

(In millions)	July 1, 2022			April 1, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 583	\$ (403)	\$ 180	\$ 583	\$ (382)	\$ 201
Developed technology	217	(148)	69	217	(143)	74
Other	8	(3)	5	8	(3)	5
Total finite-lived intangible assets	808	(554)	254	808	(528)	280
Indefinite-lived trade names	739	—	739	743	—	743
Total intangible assets	\$ 1,547	\$ (554)	\$ 993	\$ 1,551	\$ (528)	\$ 1,023

Amortization expense for purchased intangible assets is summarized below:

(In millions)	Three Months Ended		Condensed Consolidated Statements of Operations Classification
	July 1, 2022	July 2, 2021	
Customer relationships and other	\$ 21	\$ 21	Operating expenses
Developed technology	5	10	Cost of revenues
Total	<u>\$ 26</u>	<u>\$ 31</u>	

As of July 1, 2022, future amortization expense related to intangible assets that have finite lives is as follows by fiscal year:

(In millions)	
Remainder of 2023	\$ 79
2024	93
2025	32
2026	26
2027	12
Thereafter	12
Total	<u>\$ 254</u>

Note 7. Supplementary Information

Cash and cash equivalents:

(In millions)	July 1, 2022	April 1, 2022
Cash	\$ 509	\$ 609
Cash equivalents	782	1,278
Total cash and cash equivalents	<u>\$ 1,291</u>	<u>\$ 1,887</u>

Accounts receivable, net:

(In millions)	July 1, 2022	April 1, 2022
Accounts receivable	\$ 103	\$ 121
Allowance for doubtful accounts	(1)	(1)
Total accounts receivable, net	<u>\$ 102</u>	<u>\$ 120</u>

Other current assets:

(In millions)	July 1, 2022	April 1, 2022
Prepaid expenses	\$ 113	\$ 107
Income tax receivable and prepaid income taxes	26	35
Other tax receivable	19	27
Other	22	24
Total other current assets	<u>\$ 180</u>	<u>\$ 193</u>

Property and equipment, net:

(In millions)	July 1, 2022	April 1, 2022
Land	\$ 2	\$ 2
Computer hardware and software	464	462
Office furniture and equipment	26	27
Buildings	25	27
Leasehold improvements	54	56
Construction in progress	1	1
Total property and equipment, gross	<u>572</u>	<u>575</u>
Accumulated depreciation and amortization	<u>(516)</u>	<u>(515)</u>
Total property and equipment, net	<u>\$ 56</u>	<u>\$ 60</u>

Other long-term assets:

(In millions)	July 1, 2022	April 1, 2022
Non-marketable equity investments	\$ 178	\$ 178
Long-term income tax receivable and prepaid income taxes	23	25
Deferred income tax assets	344	351
Long-term prepaid royalty	48	53
Other	45	46
Total other long-term assets	<u>\$ 638</u>	<u>\$ 653</u>

Short-term contract liabilities:

(In millions)	July 1, 2022	April 1, 2022
Deferred revenue	\$ 746	\$ 743
Customer deposit liabilities	437	521
Total short-term contract liabilities	<u>\$ 1,183</u>	<u>\$ 1,264</u>

Other current liabilities:

(In millions)	July 1, 2022	April 1, 2022
Income taxes payable	\$ 148	\$ 109
Other taxes payable	70	87
Accrued legal fees	330	273
Accrued royalties	46	49
Other	95	121
Total other current liabilities	<u>\$ 689</u>	<u>\$ 639</u>

Long-term income taxes payable:

(In millions)	July 1, 2022	April 1, 2022
Deemed repatriation tax payable	\$ 437	\$ 437
Other long-term income taxes	3	3
Uncertain tax positions (including interest and penalties)	556	556
Total long-term income taxes payable	<u>\$ 996</u>	<u>\$ 996</u>

Other income (expense), net:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Interest income	\$ 2	\$ —
Foreign exchange gain (loss)	(1)	1
Gain (loss) on early extinguishment of debt	—	(5)
Other	(2)	1
Other income (expense), net	<u>\$ (1)</u>	<u>\$ (3)</u>

Supplemental cash flow information:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Income taxes paid, net of refunds	\$ 1	\$ 14
Interest expense paid	\$ 46	\$ 44
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 6	\$ 8
Non-cash investing and financing activities:		
Extinguishment of debt with borrowings from same creditors	\$ —	\$ 494

Note 8. Financial Instruments and Fair Value Measurements

For financial instruments measured at fair value, fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability.

The three levels of inputs that may be used to measure fair value are:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in less active markets or model-derived valuations. All significant inputs used in our valuations, such as discounted cash flows, are observable or can be derived principally from or corroborated with observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of assets or liabilities. We monitor and review the inputs and results of these valuation models to help ensure the fair value measurements are reasonable and consistent with market experience in similar asset classes.

Assets measured and recorded at fair value on a recurring basis

The following table summarizes our financial instruments measured at fair value on a recurring basis:

(In millions)	July 1, 2022			April 1, 2022		
	Fair Value	Level 1	Level 2	Fair Value	Level 1	Level 2
Assets:						
Money market funds	\$ 782	\$ 782	\$ —	\$ 1,278	\$ 1,278	\$ —
Corporate bonds	—	—	—	4	—	4
Total	\$ 782	\$ 782	\$ —	\$ 1,282	\$ 1,278	\$ 4

Financial instruments not recorded at fair value on a recurring basis include our non-marketable equity investments and long-term debt.

Non-marketable equity investments

As of July 1, 2022 and April 1, 2022, the carrying value of our non-marketable equity investments was \$178 million.

Current and long-term debt

As of July 1, 2022 and April 1, 2022, the total fair value of our fixed rate debt was \$1,597 million and \$2,021 million, respectively. The fair value of our variable rate debt approximated its carrying value. The fair values of all our debt obligations were based on Level 2 inputs.

Note 9. Leases

We lease certain of our facilities, equipment, and data center co-locations under operating leases that expire on various dates through fiscal 2029. Our leases generally have terms that range from 1 year to 8 years for our facilities, 1 year to 3 years for equipment and 1 year to 5 years for data center co-locations. Some of our leases contain renewal options, escalation clauses, rent concessions and leasehold improvement incentives.

The following summarizes our lease costs:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Operating lease costs	\$ 4	\$ 4
Short-term lease costs	1	1
Variable lease costs	1	1
Total lease costs	\$ 6	\$ 6

Other information related to our operating leases was as follows:

	Three Months Ended	
	July 1, 2022	July 2, 2021
Weighted-average remaining lease term	4.6 years	4.2 years
Weighted-average discount rate	4.05 %	4.11 %

See Note 7 for cash flow information related to our operating leases.

As of July 1, 2022, the maturities of our lease liabilities by fiscal year are as follows:

(In millions)		
Remainder of 2023	\$	16
2024		26
2025		21
2026		15
2027		15
Thereafter		3
Total lease payments		96
Less: Imputed interest		(8)
Present value of lease liabilities	\$	88

Note 10. Debt

The following table summarizes components of our debt:

(In millions, except percentages)	July 1, 2022	April 1, 2022	Effective Interest Rate
3.95% Senior Notes due June 15, 2022	\$ —	\$ 400	4.05 %
New 2.00% Convertible Unsecured Notes due August 15, 2022	525	525	2.62 %
5.00% Senior Notes due April 15, 2025	1,100	1,100	5.00 %
Initial Term Loan due May 7, 2026	1,009	1,010	LIBOR plus ⁽¹⁾
Delayed Term loan due May 7, 2026	694	703	LIBOR plus ⁽¹⁾
0.95% Avira Mortgage due December 30, 2030	4	4	0.95 %
1.29% Avira Mortgage due December 30, 2029	4	5	1.29 %
Total principal amount	3,336	3,747	
Less: unamortized discount and issuance costs	(8)	(11)	
Total debt	3,328	3,736	
Less: current portion	(614)	(1,000)	
Total long-term debt	\$ 2,714	\$ 2,736	

(1) The term loans bear interest at a rate equal to LIBOR plus a margin based either on the current debt rating of our non-credit-enhanced, senior unsecured long-term debt or consolidated adjusted leverage as defined in the underlying loan agreement. The interest rates for the outstanding term loans are as follows:

	July 1, 2022	April 1, 2022
Initial Term Loan due May 7, 2026	2.94 %	1.75 %
Delayed Term Loan due May 7, 2026	2.94 %	1.75 %

As of July 1, 2022, the future contractual maturities of debt by fiscal year are as follows:

(In millions)		
Remainder of 2023	\$	592
2024		89
2025		89
2026		1,189
2027		1,374
Thereafter		3
Total future maturities of debt	\$	3,336

Credit facility

We have a credit agreement with financial institutions, which provides a revolving line of credit of \$1 billion, a 5-year term loan of \$500 million (the Initial Term Loan) and a delayed draw 5-year term loan commitment of \$750 million (the Delayed Draw Term Loan). An amendment to the agreement (the First Amendment) also provides for an incremental increase under the Initial Term Loan of \$525 million. All term loans and revolver credit facilities mature in May 2026, and the credit facilities remain senior secured.

The principal amount of the Initial Term Loan and the additional borrowings under the First Amendment must be repaid in quarterly installments on the last business day of each calendar quarter in an amount equal to 1.25% of the aggregate principal amount as of the date of the First Amendment. The principal amount of the Delayed Draw Term Loan must be repaid in quarterly installments on the last business day of each calendar quarter in an amount equal to 1.25% of aggregate principal amount as of the borrowing date of the Delayed Draw Term Loan. We may voluntarily repay outstanding principal balances without penalty. As of July 1, 2022, there were no borrowings outstanding under our revolving credit facilities.

Interest on borrowings under the credit agreement can be based on a base rate or the LIBOR at our election. Based on our debt ratings and our consolidated leverage ratios as determined in accordance with the credit agreement, loans borrowed bear interest, in the case of base rate loans, at a per annum rate equal to the applicable base rate plus a margin ranging from 0.125% to 0.75%, and in the case of LIBOR loans, LIBOR, as adjusted for statutory reserves, plus a margin ranging from 1.125% to 1.75%. The unused revolving line of credit is subject to a commitment fee ranging from 0.125% to 0.30% per annum.

Debt covenant compliance

The credit agreement contains customary representations and warranties, non-financial covenants for financial reporting, affirmative and negative covenants, including a covenant that we maintain a consolidated leverage ratio of not more than 5.25 to 1.0, or 5.75 to 1.0 if we acquire assets or business in an aggregate amount greater than \$250 million, and restrictions on indebtedness, liens, investments, stock repurchases, and dividends (with exceptions permitting our regular quarterly dividend and other specific capital returns). As of July 1, 2022, we were in compliance with all debt covenants.

Interim facilities

On August 10, 2021, in conjunction with the Proposed Merger, we entered into the Interim Facilities Agreement with certain financial institutions, in which they agreed to provide us with (i) a 7-year term loan interim facility B of \$3,600 million (the Interim Facility B), (ii) a 60-day term loan interim facility A1 of \$750 million (the Interim Facility A1) and 5-year term loan interim facility A2 of \$3,500 million (the Interim Facility A2), and (iii) a 5-year interim revolving facility of \$1,500 million (the Interim Revolving Facility) (collectively, the Interim Facilities) and the Commitment Letter (as amended, the Commitment Letter) with certain financial institutions, in which the agreed to provide us with financing no less than the financing available under the Interim Facilities (the Definitive Facilities and, together with the Interim Facilities, the Facilities) to finance the cash consideration payable in connection with the Proposed Merger. The Definitive Facilities will be financed by a syndicate of lenders led by Bank of America, N.A. and Wells Fargo Bank N.A. On January 28, 2022, Bank of America, N.A. and Wells Fargo Bank N.A. agreed to arrange, on a best efforts basis, additional term loans under the Definitive Facilities in an amount up to \$500 million. The Interim Facilities Agreement contains, and any definitive financing documentation for the Definitive Facilities entered into in connection with the Commitment Letter (the Facilities Agreement) will contain, customary representations and warranties, events of default and covenants for transactions of this type. The Facilities Agreement will replace the existing credit facility agreement upon the close of the transactions contemplated thereby.

Senior notes

On June 1, 2022, we fully repaid the principal and accrued interest under the 3.95% Senior Notes due June 2022, which had an aggregate principal amount outstanding of \$400 million. In addition, we paid \$7 million of accrued and unpaid interest through the redemption date.

Accounting for the New 2.00% Convertible Notes

As described in Note 2, on April 2, 2022, we adopted ASU 2020-06 using the modified retrospective method. Prior to the adoption of this guidance, we accounted for our convertible debt instruments under the cash conversion model, requiring the convertible notes to be separated into an equity and liability component. We recognized \$56 million in equity, net of tax, which consisted of \$9 million in debt discount, representing the difference between the fair value of the liability component and par value, and \$47 million in substantial premium due to the fiscal year 2020 amendment, which was accounted for as a debt extinguishment and resulted in the recognition of the New 2.00% Convertible Notes.

Upon adoption of ASU 2020-06, the cash conversion model is now eliminated. We de-recognized the remaining unamortized debt discount of \$1 million on the New 2.00% Convertible Notes and therefore will no longer recognize the related amortization as interest expense. Additionally, we recorded a cumulative adjustment to retained earnings of \$6 million, net of tax, for the debt discount amortization incurred from issuance through April 2, 2022. The remaining \$47 million of substantial premium will remain in equity, as the new guidance did not eliminate the substantial premium model for convertible instruments. Under this new guidance, the New 2.00% Convertible Notes included in our Condensed Consolidated Balance Sheet reflect the par value of the liability

In accordance with the New 2.00% Convertible Notes agreement, we communicated our intent to the convertible note holders to settle the principal and conversion rights in cash upon maturity in August 2022. This election did not have a material impact on our financial results.

As of July 1, 2022 and April 1, 2022, our Convertible Senior Notes consisted of the following:

(In millions)	July 1, 2022	April 1, 2022
	New 2.00% Convertible Notes	New 2.00% Convertible Notes
Liability components:		
Principal	\$ 525	\$ 525
Unamortized debt discount	—	(1)
Net carrying amount	\$ 525	\$ 524

Based on the closing price of our common stock of \$22.28 on July 1, 2022, the if-converted value of the New 2.00% Convertible Notes exceeded the principal amount by approximately \$48 million.

The following table sets forth total interest expense recognized related to our Convertible Senior Notes:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Contractual interest expense	\$ 3	\$ 3
Amortization of debt discount	\$ —	\$ 1
Payments in lieu of conversion price adjustments ⁽¹⁾	\$ 1	\$ 2

(1) Payments in lieu of conversion price adjustments consist of amounts paid to holders of the Convertible Senior Notes when our quarterly dividend to our common stockholders exceeds the amounts defined in the Convertible Senior Notes agreements.

Note 11. Derivatives

We conduct business in numerous currencies throughout our worldwide operations and our entities hold monetary assets or liabilities, earn revenues or incur costs in currencies other than the entity's functional currency. As a result, we are exposed to foreign exchange gains or losses, which impact our operating results. As part of our foreign currency risk mitigation strategy, we have entered into monthly foreign exchange forward contracts. We do not use derivative financial instruments for speculative trading purposes, nor do we hedge our foreign currency exposure in a manner that entirely offsets the effects of the changes in foreign exchange rates.

We enter into foreign currency forward contracts to hedge foreign currency balance sheet exposure. These forward contracts are not designated as hedging instruments. As of July 1, 2022 and April 1, 2022, the fair value of these contracts was immaterial. The related gain (loss) recognized in Other income (expense), net in our Condensed Consolidated Statements of Operations was as follows:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Foreign exchange forward contracts gain (loss)	\$ (7)	\$ 3

The notional amount of our outstanding foreign exchange forward contracts in U.S. dollar equivalent was as follows:

(In millions)	July 1, 2022	April 1, 2022
Foreign exchange forward contracts purchased	\$ 156	\$ 155
Foreign exchange forward contracts sold	\$ 82	\$ 191

Note 12. Restructuring and Other Costs

Our restructuring costs consist primarily of severance and termination benefits, contract cancellation charges, asset write-offs and impairments and other exit and disposal costs. Severance costs generally include severance payments, outplacement services, health insurance coverage and legal costs. Contract cancellation charges primarily include penalties for early termination of contracts and write-offs of related prepaid assets. Other exit and disposal costs include costs to exit and consolidate facilities in connection with restructuring events.

December 2020 Plan

In December 2020, our Board of Directors approved a restructuring plan (the December 2020 Plan) to consolidate facilities and reduce operating costs in connection with our acquisition of Avira. These actions were completed in fiscal 2022. Any remaining costs or adjustments are immaterial. We incurred total costs of \$24 million under the December 2020 Plan.

Restructuring and other costs summary

During the three months ended July 1, 2022 and July 2, 2021, we incurred total restructuring costs of \$2 million and \$7 million, respectively.

Note 13. Income Taxes

The following table summarizes our effective tax rate for the periods presented:

(In millions, except percentages)	Three Months Ended	
	July 1, 2022	July 2, 2021
Income (loss) before income taxes	\$ 229	\$ 252
Income tax expense (benefit)	\$ 29	\$ 71
Effective tax rate	13 %	28 %

Our effective tax rate for the three months ended July 1, 2022 differs from the federal statutory income tax rate primarily due to tax benefits related to the foreign currency remeasurement of an Irish deferred tax asset and discrete legal expenses booked during the quarter, partially offset by state taxes.

Our effective tax rate for the three months ended July 2, 2021 differs from the federal statutory income tax rate primarily due to state taxes, partially offset by the benefits of lower-tax international earnings and various permanent differences.

We are a U.S.-based multinational company subject to tax in multiple U.S. and international tax jurisdictions. Our results of operations would be adversely affected to the extent that our geographical mix of income becomes more weighted toward jurisdictions with higher tax rates and would be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions. Any change in our mix of earnings is dependent upon many factors and is therefore difficult to predict.

The timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Given the potential resolution of uncertain tax positions involves multiple tax periods and jurisdictions, we are unable to accurately estimate when these unrecognized tax benefits will be realized or released. However, it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next 12 months.

We continue to monitor the progress of ongoing income tax controversies and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions.

Note 14. Stockholders' Equity

Dividends

On August 4, 2022, we announced that our Board of Directors declared a cash dividend of \$0.125 per share of common stock to be paid in September 2022. All shares of common stock issued and outstanding and all restricted stock units (RSUs) and performance-based restricted stock units (PRUs) as of the record date will be entitled to the dividend and dividend equivalent rights (DERs), respectively, which will be paid out if and when the underlying shares are released. Any future dividends and DERs will be subject to the approval of our Board of Directors.

Stock repurchase program

Under our stock repurchase program, we may purchase shares of our outstanding common stock on the open market and through accelerated stock repurchase transactions. As of July 1, 2022, we had \$1,474 million remaining under the authorization to be completed in future periods with no expiration date. No shares were repurchased during the three months ended July 2, 2021.

The following table summarizes activity related to this program during the three months ended July 1, 2022:

(In millions, except per share amounts)	Three Months Ended	
	July 1, 2022	
Number of shares repurchased	12	
Average price per share	\$	24.35
Aggregate purchase price	\$	300

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss), net of taxes, consisted of foreign currency translation adjustments:

(In millions)	Foreign Currency Translation Adjustments	
Balance as of April 1, 2022	\$	(4)
Other comprehensive income (loss), net of taxes		(40)
Balance as of July 1, 2022	\$	(44)

Note 15. Stock-Based Compensation

The following table sets forth the stock-based compensation expense recognized for our equity incentive plans:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Cost of revenues	\$ 1	\$ —
Sales and marketing	7	5
Research and development	6	6
General and administrative	10	9
Total stock-based compensation expense	\$ 24	\$ 20
Income tax benefit for stock-based compensation expense	\$ (4)	\$ (4)

As of July 1, 2022, the total unrecognized stock-based compensation costs related to our unvested stock-based awards was \$213 million, which will be recognized over an estimated weighted-average amortization period of 2.4 years.

The following table summarizes additional information related to our stock-based awards:

(In millions, except per grant data)	Three Months Ended	
	July 1, 2022	July 2, 2021
Restricted stock units (RSUs):		
Weighted-average fair value per award granted	\$ 24.51	\$ 21.29
Awards granted	2	3
Total fair value of awards released	\$ 46	\$ 49
Outstanding and unvested	6	6
Performance-based restricted stock units (PRUs):		
Weighted-average fair value per award granted	\$ 33.04	\$ 28.84
Awards granted	1	1
Total fair value of awards released	\$ 2	\$ —
Outstanding and unvested at target payout	4	2

Dividend equivalent rights (DERs)

Our RSUs and PRUs contain DERs that entitles the recipient of an award to receive cash dividend payments if and when the underlying shares are released. The amount of DERs equals the amount of cumulated dividends on the issued number of common stock that would have been payable since the date the associated award was granted. As of July 1, 2022 and April 1, 2022, current dividends payable related to DER was \$3 million and \$11 million, respectively, recorded as part of Other current liabilities in the Condensed Consolidated Balance Sheets, and long-term dividends payable related to DER was \$2 million and \$2 million, respectively, recorded as part of Other long-term liabilities.

Note 16. Net Income Per Share

Basic income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share also includes the incremental effect of dilutive potentially issuable common shares outstanding. Dilutive potentially issuable common shares include the dilutive effect of the shares underlying convertible debt and employee equity awards.

The components of basic and diluted net income (loss) per share are as follows:

(In millions, except per share amounts)	Three Months Ended	
	July 1, 2022	July 2, 2021
Net income (loss)	\$ 200	\$ 181
Net income (loss) per share - basic	\$ 0.35	\$ 0.31
Net income (loss) per share - diluted	\$ 0.33	\$ 0.31
Weighted-average shares outstanding - basic	578	580
Dilutive potentially issuable shares:		
Convertible debt	22	7
Employee equity awards	4	4
Weighted-average shares outstanding - diluted	604	591

Upon adoption of ASU 2020-06 under the modified retrospective method, we are required to apply the if-converted method to our calculation of diluted earnings per share. For the three months ended July 1, 2022, we adjust for the dilutive effect of the maximum number of potential shares to be issued upon settlement of our outstanding convertible debt instruments. Prior period earnings per share amounts are not restated under the modified retrospective method. For the three months ended July 2, 2021, the dilutive effect of our debt instruments is calculated using the treasury stock method, under which our convertible debt instruments generally had a dilutive impact on net income per share when our average stock price for the period exceeds the conversion prices for the convertible debt instruments. The adoption of ASU 2020-06 had a \$0.01 impact on dilutive earnings per share for the three months ended July 1, 2022, with the dilutive shares underlying the convertible debt increasing by 18 million shares.

The conversion price of each convertible debt instrument applicable in the periods presented is as follows:

	Three Months Ended	
	July 1, 2022	July 2, 2021
New 2.00% Convertible Senior Notes due August 15, 2022	\$ 20.41	\$ 20.41

Note 17. Segment and Geographic Information

We operate as one reportable segment. Our Chief Operating Decision Maker reviews financial information presented on a consolidated basis to evaluate company performance and to allocate resources.

The following table summarizes net revenues for our major solutions:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Consumer security	\$ 413	\$ 412
Identity and information protection	294	274
Total net revenues ⁽¹⁾	\$ 707	\$ 686

(1) During the three months ended July 1, 2022, total net revenues include an unfavorable foreign exchange impact of \$27 million, consisting of \$26 million from our consumer security solutions and \$1 million from our identity and information protection solutions.

Consumer security products include our Norton 360 Security offerings, Norton Security, Norton Secure VPN, Avira Security, and other consumer security solutions. Identity and information protection products include our Norton 360 with LifeLock offerings, LifeLock identity theft protection and other information protection solutions.

Geographic information

Net revenues by geography are based on the billing addresses of our customers. The following table represents net revenues by geographic area for the periods presented:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Americas	\$ 508	\$ 477
EMEA	120	127
APJ	79	82
Total net revenues ⁽¹⁾	\$ 707	\$ 686

Note: The Americas include U.S., Canada and Latin America; EMEA includes Europe, Middle East and Africa; APJ includes Asia Pacific and Japan.

(1) During the three months ended July 1, 2022, total net revenues include an unfavorable foreign exchange impact of \$27 million, consisting of \$16 million from EMEA and \$11 million from APJ.

Revenues from customers inside the U.S. were \$479 million and \$456 million during the three months ended July 1, 2022 and July 2, 2021, respectively. No other individual country accounted for more than 10% of revenues.

The table below represents cash, cash equivalents and short-term investments held in the U.S. and internationally in various foreign subsidiaries.

(In millions)	July 1, 2022	April 1, 2022
	\$	\$
U.S.	597	1,220
International	694	671
Total cash, cash equivalents and short-term investments	\$ 1,291	\$ 1,891

The table below represents our property and equipment, net of accumulated depreciation and amortization, by geographic area, based on the physical location of the asset, at the end of each period presented.

(In millions)	July 1, 2022	April 1, 2022
U.S.	\$ 16	\$ 16
Ireland	25	27
Germany	12	13
Other countries ⁽¹⁾	3	4
Total property and equipment, net	<u>\$ 56</u>	<u>\$ 60</u>

(1) No other individual country represented more than 10% of the respective totals.

Our operating lease assets by geographic area, based on the physical location of the asset, at the end of each period presented, are as follows:

(In millions)	July 1, 2022	April 1, 2022
U.S.	\$ 63	\$ 66
Other countries ⁽¹⁾	7	8
Total operating lease assets	<u>\$ 70</u>	<u>\$ 74</u>

(1) No other individual country represented more than 10% of the respective totals.

Significant customers

No customer accounted for 10% or more of our net revenues during the three months ended July 1, 2022 and July 2, 2021. Customers which are distributors that accounted for over 10% of our net accounts receivable were as follows:

	July 1, 2022	April 1, 2022
Customer A	40 %	41 %
Customer B	10 %	13 %

Note 18. Commitments and Contingencies

Indemnifications

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, subsidiaries and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements or representations and warranties made by us. In addition, our bylaws contain indemnification obligations to our directors, officers, employees, and agents, and we have entered into indemnification agreements with our directors and certain of our officers to give such directors and officers additional contractual assurances regarding the scope of the indemnification set forth in our bylaws and to provide additional procedural protections. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers. It is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements might not be subject to maximum loss clauses. Historically, we have not incurred material costs as a result of obligations under these agreements, and we have not accrued any material liabilities related to such indemnification obligations in our Condensed Consolidated Financial Statements.

In connection with the sale of Veritas and the sale of our Enterprise Security business to Broadcom, we assigned several leases to Veritas Technologies LLC or Broadcom and/or their related subsidiaries. As a condition to consenting to the assignments, certain lessors required us to agree to indemnify the lessor under the applicable lease with respect to certain matters, including, but not limited to, losses arising out of Veritas Technologies LLC, Broadcom, or their related subsidiaries' breach of payment obligations under the terms of the lease. As with our other indemnification obligations discussed above and in general, it is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. As with our other indemnification obligations, such indemnification agreements might not be subject to maximum loss clauses, and to date, generally under our real estate obligations, we have not incurred material costs as a result of such obligations under our leases and have not accrued any liabilities related to such indemnification obligations in our Condensed Consolidated Financial Statements.

We provide limited product warranties, and the majority of our software license agreements contain provisions that indemnify licensees of our software from damages and costs resulting from claims alleging that our software infringes on the intellectual property rights of a third party. Such indemnification provisions may not be subject to maximum loss clauses. Historically, payments made under these provisions have been immaterial. We monitor the conditions that are subject to indemnification to identify if a loss has occurred.

Litigation contingencies

Trustees of the University of Columbia in the City of New York v. NortonLifeLock

As previously disclosed in our public filings, on May 2, 2022, a jury returned its verdict in a patent infringement case filed in 2013 by the Trustees of Columbia University in the City of New York in the U.S. District Court for the Eastern District of Virginia. Columbia originally brought suit alleging infringement of six patents owned by the university. The Company won a favorable claim construction order on all six patents, and the claim construction was upheld by the Federal Circuit in 2016 on all but U.S. Patent Nos. 8,601,322 and 8,074,115. The Company also sought inter partes review by the Patent Trial and Appeal Board of the claims of the '322 and '115 Patents and all but two claims of the '322 Patent and three claims of the '115 Patent were invalidated. The remaining claims of the '322 and '115 Patents were the only claims that remained in suit at trial.

The jury found that the Company's Norton Security products and Symantec Endpoint Protection products (the latter of which were sold to Broadcom as part of an Asset Purchase Agreement with NortonLifeLock dated November 4, 2019) willfully infringe the '322 and '115 Patents through the use of SONAR/BASH behavioral protection technology. The jury awarded damages in the amount of \$185 million. Columbia did not seek injunctive relief against the Company. The Company intends to cease use of the technology found by the jury to infringe. The jury also found that the Company did not fraudulently conceal its prosecution of U.S. Patent No. 8,549,643 but did find that two Columbia professors were coinventors of this patent. No damages were awarded related to this patent.

A formal judgment has not yet been entered in the case. Post-verdict motions have been filed, and the Company intends to file an appeal challenging the verdict.

At this time, our current estimate of the low end of the range of probable estimated losses from this matter is approximately \$230 million, reflecting the jury award and prejudgment interest, which we have accrued. The jury's verdict may be enhanced and, should it be upheld on appeal, could ultimately result in the payment of somewhere between one and three times the jury's verdict, plus interest and attorneys' fees. There is a reasonable possibility that a loss may be incurred in excess of our accrual for this matter; however, such loss cannot be reasonably estimated.

SEC Investigation

As previously disclosed in our public filings, the Audit Committee of our Board of Directors (the Audit Committee) completed its internal investigation (the Audit Committee Investigation) in September 2018. In connection with the Audit Committee Investigation, we voluntarily contacted the U.S. Securities and Exchange Commission (SEC) in April 2018. The SEC commenced a formal investigation with which we cooperated. In April 2022, the SEC Staff informed the Company that it concluded its investigation and does not intend to recommend an enforcement action by the Commission against us.

Securities Class Action and Derivative Litigation

Securities class action lawsuits, which have since been consolidated, were filed in May 2018 against us and certain of our former officers, in the U.S. District Court for the Northern District of California. The lead plaintiff's consolidated amended complaint alleged that, during a purported class period of May 11, 2017 to August 2, 2018, defendants made false and misleading statements in violation of Sections 10(b) and 20(a), and that certain individuals violated Section 20A, of the Securities Exchange Act. Defendants filed motions to dismiss, which the Court granted in an order dated June 14, 2019. Pursuant to that order, plaintiff filed a motion seeking leave to amend and a proposed first amended complaint on July 11, 2019. The Court granted the motion in part on October 2, 2019, and the first amended complaint was filed on October 11, 2019. The Court's order dismissed certain claims against certain of our former officers. Defendants filed answers on November 7, 2019. On April 20, 2021, to resolve an alleged conflict of interest raised with respect to the lead plaintiff and its counsel, the Court ordered a second Class Notice disclosing the circumstances of the alleged conflict and providing a further period for class members to opt out, which closed on July 2, 2021. The initial class opt out period closed on August 25, 2020.

On May 24, 2021, the parties reached a proposed settlement and release of all claims in the class action, for \$70 million, and on June 8, 2021, the parties executed a Stipulation and Agreement of Settlement, subject to Court approval and exclusive of any claims that may be brought by shareholders who opted out of the class action. Of the \$70 million, \$67.1 million was covered under the applicable insurance policy with the remainder to be paid by the Company. The Court approved the settlement on February 12, 2022.

On November 22, 2021, investment funds managed by Orbis Investment Management Ltd. which previously opted out of the securities class action, filed suit under the Securities and Exchange Act of 1934, Arizona Securities Act, Arizona Consumer Fraud Act and certain common law causes of action to recover alleged damages for losses incurred by the funds for their purchases or acquisitions of our common stock during the class period. In the fourth quarter of fiscal 2022, we made an immaterial settlement offer in this matter, for which we have accrued. The Company's Motion to Dismiss is now pending.

Purported shareholder derivative lawsuits have been filed against us and certain of our former officers and current and former directors in the U.S. District Courts for the District of Delaware and the Northern District of California, Delaware Chancery Court, and Delaware Superior Court, arising generally out of the same facts and circumstances as alleged in the securities class action and alleging claims for breach of fiduciary duty and related claims; these lawsuits include an action brought derivatively on behalf of our 2008 Employee Stock Purchase Plan. No specific amount of damages has been alleged in these lawsuits. We have also received demands from purported stockholders to inspect corporate books and records under Delaware law. At this stage, we are unable to assess whether any material loss or adverse effect is reasonably possible as a result of the derivative lawsuits or estimate the range of any potential loss.

We will continue to incur legal fees in connection with these pending cases and demands, including expenses for the reimbursement of legal fees of present and former officers and directors under indemnification obligations. The expense of continuing to defend such litigation may be significant. We intend to defend these lawsuits vigorously, but there can be no assurance that we will be successful in any defense. If any of the lawsuits are decided adversely, we may be liable for significant damages directly or under our indemnification obligations, which could adversely affect our business, results of operations, and cash flows.

GSA

During the first quarter of fiscal 2013, we were advised by the Commercial Litigation Branch of the Department of Justice's (DOJ) Civil Division and the Civil Division of the U.S. Attorney's Office for the District of Columbia that the government is investigating our compliance with certain provisions of our U.S. General Services Administration (GSA) Multiple Award Schedule Contract No. GS-35F-0240T effective January 24, 2007, including provisions relating to pricing, country of origin, accessibility, and the disclosure of commercial sales practices.

As reported on the GSA's publicly-available database, our total sales under the GSA Schedule contract were approximately \$222 million from the period beginning January 2007 and ending September 2012. We fully cooperated with the government throughout its investigation, and in January 2014, representatives of the government indicated that their initial analysis of our actual damages exposure from direct government sales under the GSA Schedule contract was approximately \$145 million; since the initial meeting, the government's analysis of our potential damages exposure relating to direct sales has increased. The government also indicated they would pursue claims for certain sales to California, Florida, and New York as well as sales to the federal government through reseller GSA Schedule contracts, which could significantly increase our potential damages exposure.

In 2012, a sealed civil lawsuit was filed against us related to compliance with the GSA Schedule contract and contracts with California, Florida, and New York. On July 18, 2014, the Court-imposed seal expired, and the government intervened in the lawsuit. On September 16, 2014, the states of California and Florida intervened in the lawsuit, and the state of New York notified the Court that it would not intervene. On October 3, 2014, the DOJ filed an amended complaint, which did not state a specific damages amount. On October 17, 2014, California and Florida combined their claims with those of the DOJ and the relator on behalf of New York in an Omnibus Complaint, and a First Amended Omnibus Complaint was filed on October 8, 2015; the state claims also do not state specific damages amounts. On June 6, 2019, we filed a motion seeking summary judgment on all claims asserted by all plaintiffs, and the plaintiffs filed a motion for partial summary judgment on elements of liability on their claims. On October 21, 2019, the DOJ moved for a Prejudgment Writ of Sequestration for the Company to set aside \$1,090 million to pay a judgment, should the United States prevail in this litigation, under the Federal Debt Collection Procedures Act. The Writ was sought in response to the Company's announcement of its plans to distribute the after-tax proceeds of the sale of the Symantec enterprise business to Broadcom to its shareholders via a special dividend. The Court denied the Writ on December 12, 2019, on the basis of the Government's failure to establish the "probable validity" of the debt, the amount sought to be sequestered, and the Company's available cash, cash equivalents and short-term investments. The Court permitted the DOJ limited discovery of facts relevant to the Company's financial state and financial projections and the option to renew its motion if appropriate and supported by the analysis of its own financial expert. That discovery period has now closed. On March 30, 2020, the Court issued an Order granting in part and denying in part our motion for summary judgment and granting in part and denying in part the United States' motion for partial summary judgment. On September 30, 2020, the Company filed a Motion for Reconsideration of certain rulings in the Court's March 30 Summary Judgment Order. A second Motion for Reconsideration of certain rulings in the Summary Judgement Order based on significant change in the law was filed on July 23, 2021. Both Motions for Reconsideration were denied. Court ordered mediations in July 2020 and February 2021 were not successful.

On March 23, 2021, Plaintiffs withdrew their demand for a jury trial and the Company consented to proceed with a bench trial, which concluded on March 24, 2022. The Court has not yet issued its judgment and post-trial motions are pending.

On May 13, 2021, we reached a settlement in principle with the State of Florida to resolve all claims it asserted in the litigation for \$0.5 million, plus Relator's statutory attorney's fees with respect to the State of Florida's claims. On February 28, 2022, we reached a settlement in principle with the State of New York and Relator to resolve all of the New York claims asserted in the litigation for \$5 million.

At this time, our current estimate of the low end of the range of probable estimated losses from this matter is \$50 million, inclusive of the settlement with the States of Florida and New York, which we have accrued. It is possible that the litigation could lead to claims or findings of violations of the False Claims Act and could be material to our results of operations and cash flows for any period. Resolution of False Claims Act investigations can ultimately result in the payment of somewhere between one and three times the actual damages proven by the government, plus civil penalties. There is a reasonable possibility that a loss may have been incurred in excess of our accrual for this matter; however, such loss cannot be reasonably estimated.

Other

We are involved in a number of other judicial and administrative proceedings that are incidental to our business. Although adverse decisions (or settlements) may occur in one or more of the cases, it is not possible to estimate the possible loss or losses from each of these cases. The final resolution of these lawsuits, individually or in the aggregate, is not expected to have a material adverse effect on our business, results of operations, financial condition or cash flows.

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

Forward-looking statements and factors that may affect future results

The discussion below contains forward-looking statements, which are subject to safe harbors under the Securities Act of 1933, as amended (the Securities Act) and the Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements include references to our ability to utilize our deferred tax assets, as well as statements including words such as “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “goal,” “intent,” “momentum,” “projects,” and similar expressions. In addition, projections of our future financial performance; anticipated growth and trends in our businesses and in our industries; the consummation of or anticipated impacts of acquisitions (including the recent acquisition of Avira and the Proposed Merger with Avast and related financing), divestitures, restructurings, stock repurchases, and investment activities; the outcome or impact of pending litigation, claims or disputes; our intent to pay quarterly cash dividends in the future; plans for and anticipated benefits of our solutions; anticipated tax rates, benefits and expenses; the impact of the COVID-19 pandemic on our operations and financial performance; and other characterizations of future events or circumstances are forward-looking statements. These statements are only predictions, based on our current expectations about future events and may not prove to be accurate. We do not undertake any obligation to update these forward-looking statements to reflect events occurring or circumstances arising after the date of this report. These forward-looking statements involve risks and uncertainties, and our actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements on the basis of several factors, including those that we discuss in Part II Item 1A, of this Quarterly Report on Form 10-Q. We encourage you to read that section carefully.

OVERVIEW

NortonLifeLock Inc. has the largest consumer Cyber Safety platform in the world, empowering nearly 80 million users in more than 150 countries. We are the trusted and number one top of mind brand in consumer Cyber Safety, according to the 2022 NortonLifeLock brand tracking study. We help prevent, detect and restore potential damages caused by many cyber criminals.

Fiscal calendar

We have a 52/53-week fiscal year ending on the Friday closest to March 31. The three months ended July 1, 2022 and July 2, 2021 each consisted of 13 and 13 weeks, respectively. Our 2023 fiscal year consists of 52 weeks and ends on March 31, 2023.

Key financial metrics

The following tables provide our key financial metrics for the periods presented:

(In millions, except for per share amounts)	Three Months Ended	
	July 1, 2022	July 2, 2021
Net revenues	\$ 707	\$ 686
Operating income (loss)	\$ 261	\$ 287
Net income (loss)	\$ 200	\$ 181
Net income (loss) per share - diluted	\$ 0.33	\$ 0.31
Net cash provided by (used in) operating activities	\$ 215	\$ 258

(In millions)	As Of	
	July 1, 2022	April 1, 2022
Cash, cash equivalents and short-term investments	\$ 1,291	\$ 1,891
Contract liabilities	\$ 1,220	\$ 1,306

Below are our financial highlights for the first quarter of fiscal 2023, compared to the corresponding period in the prior year:

- Net revenues increased \$21 million, due to higher sales in both our consumer security products and our identity and information protection products.
- Net income increased \$19 million, primarily due to a decrease in income tax expense.
- Net income per share - diluted increased \$0.02, due to the increase in net income, offset by the adoption of ASU 2020-06.
- Cash, cash equivalents and short-term investments decreased by \$600 million compared to April 1, 2022, primarily due to the repayment of our Senior 3.95% Senior Notes and repurchases of common stock during the first three months of fiscal 2023.
- Contract liabilities decreased \$86 million compared to April 1, 2022, primarily due to a decline in billings due to seasonality and fluctuations in foreign currency rates.

Proposed Merger with Avast

On August 10, 2021, we announced a transaction under which we intend to acquire the entire issued and to be issued ordinary share capital of Avast plc, a public company incorporated in England and Wales and a global leader of digital security and privacy headquartered in Prague, Czech Republic (Avast and such transaction, the Proposed Merger). The Proposed Merger will be implemented by means of a court-sanctioned scheme of arrangement under the UK Companies Act 2006, as amended (the Scheme), and remains subject to a certain number of conditions. Under the terms of the Proposed Merger, Avast shareholders will be entitled to elect to receive, for each ordinary share of Avast held, in respect of their entire holding of Avast shares, either: (i) \$7.61 in cash and 0.0302 of a new share of our common stock (such option, the Majority Cash Option); or (ii) \$2.37 in cash and 0.1937 of a new share of our common stock (such option, the Majority Stock Option). Based on our undisturbed closing share price of \$27.20 on July 13, 2021, and depending on the Avast shareholder elections, the estimated purchase price range for the Avast shares under the Proposed Merger is \$8.1 billion to \$8.6 billion. Each of the directors of Avast who holds shares has undertaken to elect for the Majority Stock Option in respect of their entire beneficial holdings of Avast shares. We plan to finance the Proposed Merger with existing cash, cash to be generated by operations and new debt financing.

In conjunction with the Proposed Merger, on August 10, 2021, we entered into an agreement (as amended, the Interim Facilities Agreement) with certain financial institutions, in which they agreed to provide us with (i) a \$3,600 million term loan interim facility B (the Interim Facility B), (ii) \$750 million term loan interim facility A1 (the Interim Facility A1) and \$3,500 million term loan interim facility A2 (the Interim Facility A2), and (iii) a \$1,500 million interim revolving facility (the Interim Revolving Facility) (collectively, the Interim Facilities) and a commitment letter (as amended, the Commitment Letter) with certain financial institutions, in which they agreed to provide us with financing no less than the financing available under the Interim Facilities (the Definitive Facilities and, together with the Interim Facilities, the Facilities) to finance the cash consideration payable in connection with the Proposed Merger. The Definitive Facilities will be financed by a syndicate of lenders led by Bank of America, N.A. and Wells Fargo Bank N.A. On January 28, 2022, Bank of America, N.A. and Wells Fargo Bank N.A. agreed to arrange, on a best efforts basis, additional term loans under the Definitive Facilities in an amount up to \$500 million. The Interim Facilities Agreement contains, and any definitive financing documentation for the Definitive Facilities entered into in connection with the Commitment Letter (the Facilities Agreement) will contain, customary representations and warranties, events of default and covenants for transactions of this type. The Facilities Agreement will replace the existing credit facility agreement upon the close of the transaction.

In conjunction with the Proposed Merger, on August 10, 2021, we entered into a Co-operation Agreement (the Co-operation Agreement) with Nitro Bidco Limited, our wholly-owned subsidiary (Bidco), and Avast, pursuant to which we and Bidco agreed to, among other things, use all reasonable endeavors for the purposes of obtaining any regulatory authorizations which are required to implement the Proposed Merger, and we, Bidco and Avast agreed to cooperate with each other in preparing required transaction documents and certain other matters in connection with the Proposed Merger. The Co-operation Agreement also contains certain termination rights. The Co-operation Agreement also provides that, if we fail to receive approval from the U.K. Competition and Markets Authority and cannot consummate the Proposed Merger, we may be required to pay Avast a break fee of up to \$200 million.

The Proposed Merger was approved by our Board of Directors and by our shareholders, the Board of Directors and shareholders of Avast and regulators including the Federal Trade Commission under the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the HSR Act) and in Europe, the German Federal Cartel Office and the Spanish National Markets and Competition Commission. On August 3, 2022, the U.K. Competition and Markets Authority (CMA) provisionally cleared the Proposed Merger. Subject to final approval by the CMA and changes based on operational considerations mutually agreed upon by the parties and other requirements, the closing is anticipated to be between mid-September to early October 2022, given the CMA's published schedule and the currently scheduled U.K. Court Hearing to approve the scheme.

COVID-19 UPDATE

The COVID-19 pandemic has had widespread, rapidly evolving and unpredictable impacts on global society, economies, financial markets and business practices. At the onset of the pandemic, to protect the health and well-being of our employees, partners and third-party service providers, we facilitated a work-from-home requirement for most employees and established site-specific COVID-19 prevention protocols. We continue to monitor the situation and over the past several months have adjusted our policies and protocols to reflect changes to public health regulations and guidance. Our offices are now open to employees on a voluntary basis. To date, we have not seen any meaningful negative impact on our employee productivity. Nevertheless, as more employees, partners or third-party services providers return to work during the COVID-19 pandemic, the risk of inadvertent transmission of COVID-19 through human contact could still occur and result in litigation.

While the COVID-19 pandemic has negatively impacted many sectors of the U.S. and global economies, the consumer Cyber Safety market experienced increased demand as the pandemic greatly accelerated the digital lives of people around the world. However, with the extended duration of the pandemic and the easing of prevention protocols and restrictions, we are seeing decreasing demand and increased competition. In addition, while we did not experience a material increase in cancellations by customers or a material reduction in retention rate in fiscal 2022 or in the first quarter of fiscal 2023, should the negative macroeconomic impacts of the COVID-19 pandemic persist or worsen, we may experience continued slowdowns in our business activity and an increase in cancellations by customers or a material reduction in our retention rate in the future, especially in the event of a prolonged recession. A prolonged recession could adversely affect demand for our offerings, retention rates and harm our business and results of operations, particularly in light of the fact that our solutions are discretionary purchases and thus may be more susceptible to macroeconomic pressures, as well impact the value of our common stock, ability to refinance our debt and our access to capital.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately forecasted at this time, such as the severity and transmission rate of new variants of the disease, the extent, effectiveness and acceptance of containment actions, such as vaccination programs, and the impact of these and other factors on our employees, customers, partners and third-party service providers. For more information on the risks associated with the COVID-19 pandemic, please see "Risk Factors" in Part II, Item 1A below.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our Condensed Consolidated Financial Statements and related notes in accordance with generally accepted accounting principles in the U.S. requires us to make estimates, including judgments and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates on a regular basis and make changes accordingly. Management believes that the accounting estimates employed and the resulting amounts are reasonable; however, actual results may differ from these estimates. Making estimates and judgments about future events is inherently unpredictable and is subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows.

Our critical accounting policies and estimates were disclosed in Item 7, 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 April 1, 2022. There have been no material changes in the matters for which we make critical accounting estimates in the preparation of our Condensed Consolidated Financial Statements during the three months ended July 1, 2022.

RESULTS OF OPERATIONS

The following table sets forth our Condensed Consolidated Statements of Operations data as a percentage of net revenues for the periods indicated:

	Three Months Ended	
	July 1, 2022	July 2, 2021
Net revenues	100 %	100 %
Cost of revenues	14	15
Gross profit	86	85
Operating expenses:		
Sales and marketing	22	23
Research and development	9	10
General and administrative	15	7
Amortization of intangible assets	3	3
Restructuring and other costs	0	1
Total operating expenses	49	43
Operating income (loss)	37	42
Interest expense	(4)	(5)
Other income (expense), net	0	0
Income (loss) before income taxes	32	37
Income tax expense (benefit)	4	10
Net income (loss)	28 %	26 %

Note: Percentages may not add due to rounding.

Net revenues

(In millions, except for percentages)	Three Months Ended		
	July 1, 2022	July 2, 2021	Change in %
Net revenues	\$ 707	\$ 686	3 %

Net revenues increased \$21 million, primarily due to a \$20 million increase in sales of our identity and information protection products. Net revenues were impacted by \$27 million of foreign exchange headwinds, primarily in our consumer security solutions.

Performance Metrics

We regularly monitor a number of metrics in order to measure our current performance and estimate our future performance. Our metrics may be calculated in a manner different than similar metrics used by other companies.

The following table summarizes supplemental key performance metrics:

(In millions, except for per user amounts)	Three Months Ended	
	July 1, 2022	July 2, 2021
Direct customer revenues ⁽¹⁾	\$ 620	\$ 611
Partner revenues	\$ 88	\$ 80
Average direct customer count	23.4	23.0
Direct customer count (at quarter end)	23.3	23.1
Direct average revenue per user (ARPU)	\$ 8.82	\$ 8.84

(1) Direct customer revenues during the three months ended July 1, 2022 and July 2, 2021 excludes a \$1 million and \$5 million reduction of revenue, respectively, from a contract liability purchase accounting adjustment. We believe that eliminating the impact of this adjustment improves the comparability of revenues between periods. In addition, although the adjustment amounts will never be recognized in our GAAP financial statements, we do not expect the acquisitions to affect the future renewal rates of revenues excluded by the adjustments.

We define direct customer revenues as revenues from sales of our consumer solutions to direct customers, which we define as active paid users who have a direct billing relationship with the Company at the end of the reported period. We exclude users on free trials and users who have indirectly purchased our product or services through partners unless such users convert or renew their subscription directly with us, or sign up for a paid membership through our web store.

Average direct customer count presents the average of the total number of direct customers at the beginning and end of the fiscal quarter.

ARPU is calculated as estimated direct customer revenues for the period divided by the average direct customer count for the same period, expressed as a monthly figure. Non-GAAP estimated direct customer revenues and ARPU have limitations as analytical tools and should not be considered in isolation or as a substitute for GAAP estimated direct customer revenues or other GAAP measures. We monitor ARPU because it helps us understand the rate at which we are monetizing our consumer customer base.

Net revenues by geographical region

	Three Months Ended	
	July 1, 2022	July 2, 2021
Americas	72 %	70 %
EMEA	17 %	19 %
APJ	11 %	11 %

The Americas include the U.S., Canada and Latin America; EMEA includes Europe, the Middle East and Africa; APJ includes Asia Pacific and Japan.

Percentage of revenue by geographic region in the three months ended July 1, 2022 remained consistent with the corresponding period in the prior year.

Cost of revenues

(In millions, except for percentages)	Three Months Ended		
	July 1, 2022	July 2, 2021	Change in %
Cost of revenues	\$ 102	\$ 102	— %

Our cost of revenues remained relatively flat.

Operating expenses

(In millions, except for percentages)	Three Months Ended		
	July 1, 2022	July 2, 2021	Change in %
Sales and marketing	\$ 156	\$ 156	— %
Research and development	61	68	(10)%
General and administrative	104	45	131 %
Amortization of intangible assets	21	21	— %
Restructuring and other costs	2	7	(71)%
Total operating expenses	\$ 344	\$ 297	16 %

Sales and marketing expense, research and development expense and amortization of intangible assets remained relatively flat.

General and administrative expense increased \$59 million, primarily due to a \$52 million increase of a legal accrual, of which \$45 million was prejudgment interest, relating to an ongoing patent infringement lawsuit and the corresponding legal fees. See Note 18 of the Notes to the Condensed Consolidated Financial Statements for further information.

Restructuring and other costs decreased \$5 million, in connection with the December 2020 Plan, which was completed in the fourth quarter of fiscal 2022. See Note 12 of the Notes to the Condensed Consolidated Financial Statements for details of our restructuring activities.

Non-operating income (expense), net

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Interest expense	\$ (31)	\$ (32)
Interest income	2	—
Foreign exchange gain (loss)	(1)	1
Gain (loss) on early extinguishment of debt	—	(5)
Other	(2)	1
Total non-operating income (expense), net	<u>\$ (32)</u>	<u>\$ (35)</u>

Non-operating income (expense), net, remained relatively flat.

Provision for income taxes

(In millions, except for percentages)	Three Months Ended	
	July 1, 2022	July 2, 2021
Income (loss) before income taxes	\$ 229	\$ 252
Income tax expense (benefit)	\$ 29	\$ 71
Effective tax rate	13 %	28 %

Our effective tax rate for income for the three months ended July 1, 2022 differs from the federal statutory income tax rate primarily due to tax benefits related to the foreign currency remeasurement of an Irish deferred tax asset and discrete legal expenses booked during the quarter, partially offset by state taxes.

Our effective tax rate for the three months ended July 2, 2021 differs from the federal statutory income tax rate primarily due to state taxes, partially offset by the benefits of lower-tax international earnings and various permanent differences.

We are a U.S.-based multinational company subject to tax in multiple U.S. and international tax jurisdictions. Our results of operations would be adversely affected to the extent that our geographical mix of income becomes more weighted toward jurisdictions with higher tax rates and would be favorably affected to the extent the relative geographic mix shifts to lower tax jurisdictions. Any change in our mix of earnings is dependent upon many factors and therefore, is difficult to predict.

The timing of the resolution of income tax examinations is highly uncertain and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Given the potential resolution of uncertain tax positions involves multiple tax periods and jurisdictions, we are unable to accurately estimate when these unrecognized tax benefits will be realized or released. However, it is reasonably possible that there could be significant changes to our unrecognized tax benefits in the next 12 months.

We continue to monitor the progress of ongoing income tax controversies and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions.

LIQUIDITY, CAPITAL RESOURCES AND CASH REQUIREMENTS

Liquidity and Capital Resources

We have historically relied on cash generated from operations, borrowings under credit facilities, issuances of debt and proceeds from divestitures for our liquidity needs.

Our capital allocation strategy is to balance driving stockholder returns, managing financial risk and preserving our flexibility to pursue strategic options, including acquisitions and mergers. Historically, this has included a quarterly cash dividend, the repayment of debt and the repurchase of shares of our common stock.

Cash flows

The following summarizes our cash flow activities:

(In millions)	Three Months Ended	
	July 1, 2022	July 2, 2021
Net cash provided by (used in):		
Operating activities	\$ 215	\$ 258
Investing activities	\$ 4	\$ (1)
Financing activities	\$ (807)	\$ 44

See Note 7 of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for our supplemental cash flow information.

Cash from operating activities

Our cash flows provided by operating activities decreased by \$43 million, primarily due to a decrease in accounts payable as a result of higher cash payments and a decrease in contract liabilities reflecting higher revenue recognized than billings compared to the first three months of fiscal 2022.

Cash from investing activities

Our cash flows provided by investing activities remained relatively flat.

Cash from financing activities

Our cash flows used in financing activities decreased \$851 million, primarily due to the absence of proceeds from issuance of debt and the continuation of our stock repurchase program. The first three months of fiscal 2023 reflects the \$400 million repayment of our 3.95% Senior Notes and \$300 million of repurchases of common stock, compared to the \$512 million of proceeds from the issuance of our Initial Term Loan which was partially offset by the \$364 million settlement of our New 2.5% Convertible Notes during the first three months of fiscal 2022.

Cash and cash equivalents

As of July 1, 2022, we had cash, cash equivalents and short-term investments of \$1,291 million, of which \$694 million was held by our foreign subsidiaries. Our cash, cash equivalents and short-term investments are managed with the objective to preserve principal, maintain liquidity and generate investment returns. The participation exemption system under current U.S. federal tax regulations generally allows us to make distributions of non-U.S. earnings to the U.S. without incurring additional U.S. federal tax, however these distributions may be subject to applicable state or foreign taxes.

Debt

We have an undrawn revolving credit facility of \$1 billion, which expires in May 2026.

On June 1, 2022, we fully repaid the principal and accrued interest under the 3.95% Senior Notes due June 2022, which had an aggregate principal amount outstanding of \$400 million. In addition, we paid \$7 million of accrued and unpaid interest through the redemption date.

Cash Requirements

Our principal cash requirements are primarily to meet our working capital needs, support on-going business activities, including payment of taxes and cash dividends, payment of contractual obligations, funding capital expenditures, servicing existing debt, repurchasing shares of our common stock and investing in business acquisitions and mergers.

Proposed Merger with Avast

On August 10, 2021, the Company announced a transaction under which we intend to acquire the entire issued and to be issued ordinary share capital of Avast plc, a public company incorporated in England and Wales and a global leader of digital security and privacy headquartered in Prague, Czech Republic (Avast and such transaction, the Proposed Merger). Based on our undisturbed closing share price of \$27.20 on July 13, 2021, and depending on the Avast shareholder elections, the estimated purchase price range for the Avast shares under the Proposed Merger is \$8.1 billion to \$8.6 billion. In conjunction with the Proposed Merger, we and certain financial institution parties entered into an Interim Facilities Agreement, under which Bank of America, N.A. and Wells Fargo Bank N.A., as interim lenders, agreed to provide us with certain term loan and revolving facilities in order to finance the cash consideration payable and based on the terms and conditions set forth in a commitment letter. The Interim Facilities Agreement includes (i) the Interim Facility B, (ii) the Interim Facility A1 and the Interim Facility A2, and (iii) the Interim Revolving Facility which, on or before the final repayment date, are to be repaid/replaced in full by loans made under the definitive financing documentation for the Definitive Facilities (the Facilities Agreement). The obligations under the Facilities Agreement will be guaranteed, jointly and severally, by all of our present and future domestic subsidiaries, with certain exceptions, as applicable. The Facilities Agreement will replace the existing credit facility agreement upon the close of the transaction.

Debt instruments

As of July 1, 2022, our total outstanding principal amount of indebtedness is summarized as follows. See Note 10 of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further information on our debt.

(In millions)	July 1, 2022
Term Loans	\$ 1,703
Senior Notes	1,100
Convertible Senior Notes	525
Mortgage Loans	8
Total debt	\$ 3,336

Our credit agreement maturing in May 2026 contains customary representations and warranties, non-financial covenants for financial reporting and affirmative and negative covenants, including compliance with specified financial ratios. As of July 1, 2022, we were in compliance with all debt covenants. See Note 10 of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further information regarding financial ratios and debt covenant compliance.

Dividends

On August 4, 2022, we announced a cash dividend of \$0.125 per share of common stock to be paid in September 2022. Any future dividends and dividend equivalents will be subject to the approval of our Board of Directors.

Share repurchase program

Under our stock repurchase program, we may purchase shares of our outstanding common stock on the open market (including through trading plans intended to qualify under Rule 10b5-1 under the Exchange Act) and through accelerated stock repurchase transactions. As of July 1, 2022, the remaining balance of our stock repurchase authorization was \$1,474 million and does not have an expiration date. The timing and actual number of shares repurchased will depend on a variety of factors, including price, general business and market conditions and other investment opportunities.

Contractual obligations

Our principal commitments consist of principal and interest payments related to our debt instruments, obligations under our purchase agreements, repatriation tax payments under the Tax Cuts and Jobs Acts and obligations under various non-cancellable leases. Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits and other long-term taxes as of July 1, 2022, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities. Therefore, \$556 million in long-term income taxes payable has been excluded from our quarterly review of timing of contractual obligations.

Commitments related to the principal payments of our debt instruments decreased \$411 million from our Annual Report on Form 10-K for the fiscal year ended April 1, 2022 primarily due to the repayment of our 3.95% Senior Notes. There have been no other material changes, outside the ordinary course of business, to the contractual obligations reported in our Annual Report. For additional information about our debt obligations and certain other contingencies, see Note 10 and Note 18, respectively, of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Under the terms of the Proposed Merger, we expect to pay a purchase price for the Avast shares ranging from \$8.1 billion to \$8.6 billion upon the completion of the transaction in late calendar year 2022. In conjunction with the Proposed Merger, we have secured debt under the Interim Facilities which will be available upon the close of the transaction. If the Proposed Merger is completed, our debt obligations will include principal and interest payments related to these credit facilities. See Note 4 of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further information regarding this business combination and the related debt instruments.

Based on past performance and current expectations, we believe that our existing cash and cash equivalents, together with cash generated from operations and amounts available under our credit facility, will be sufficient to meet our working capital needs and support on-going business activities through at least the next 12 months and to meet our known long-term contractual obligations. We plan to finance the cash consideration payable to Avast primarily with borrowings under our Interim Facilities. We believe that our existing cash and cash to be generated by operations, along with amounts available under the new credit facility, will satisfy our long-term cash requirements for this transaction. However, our future liquidity and capital requirements may vary materially from those as of July 1, 2022 depending on several factors, including, but not limited to, economic conditions; political climate; the expansion of sales and marketing activities; the costs to acquire or invest in businesses; and the risks and uncertainties discussed in “Risk Factors” in Part II, Item 1A below.

Indemnifications

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, subsidiaries and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements or representations and warranties made by us. In connection with the sale of Veritas and the sale of our Enterprise Security business to Broadcom, we assigned several leases to Veritas Technologies LLC or Broadcom and/or their related subsidiaries. See Note 18 of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further information on our indemnifications.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes to our market risk exposures during the first three months of fiscal 2023, as compared to those discussed in Quantitative and Qualitative Disclosures About Market Risk, set forth in Part II, Item 7A, of our Annual Report on Form 10-K for the fiscal year ended April 1, 2022.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The SEC defines the term “disclosure controls and procedures” to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. “Disclosure controls and procedures” include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide reasonable assurance that such information is accumulated and communicated to our management. Our management (with the participation of our Chief Executive Officer and Chief Financial Officer) has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act). Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting or in other factors that occurred during the first quarter of fiscal 2023, that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

(c) Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to this Item may be found under the heading "Litigation contingencies" in Note 18 of the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q, which information is incorporated herein by reference.

Item 1A. Risk Factors

A description of the risk factors associated with our business is set forth below. The list is not exhaustive, and you should carefully consider these risks and uncertainties before investing in our common stock.

RISKS RELATED TO THE PROPOSED MERGER

We may fail to consummate the Proposed Merger with Avast plc, may not consummate the Proposed Merger on the expected terms, or may not achieve the anticipated benefits.

It is currently anticipated that the Proposed Merger will be consummated in late calendar year 2022. Completion of the Proposed Merger is subject to, among other things, approval from the U.K. Competition and Markets Authority (the CMA) and other customary closing conditions for the acquisition of a UK public company, including the sanction of the UK's High Court. All necessary regulatory approvals have been satisfied, with the exception of final approval required from the CMA, which has provisionally cleared the Proposed Merger on August 3, 2022. As a result, the possible timing and likelihood of completion are uncertain, and, accordingly, there can be no assurance that the Proposed Merger will be completed on the expected terms, on the anticipated schedule or at all. In addition, the CMA may require, in connection with granting its approval of the transaction, divestitures or ongoing restrictions on the operation of the combined business, each of which could have a material impact on the anticipated strategic benefits and synergies from the combination. Any delay in consummation of the Proposed Merger will result in greater transaction costs and professional fees and continue to expose us to market risk. If we fail to receive final approval from the CMA and cannot consummate the Proposed Merger, we may be required to pay Avast a break fee of up to \$200 million under the Co-operation Agreement. If consummated, the success of the Proposed Merger will depend, in significant part, on our ability to successfully integrate Avast and its subsidiaries, grow the revenue of the combined company and realize the anticipated strategic benefits and synergies from the combination. We believe that the addition of Avast and its subsidiaries represents an attractive opportunity to create a new, industry leading consumer Cyber Safety business, leveraging the established brands, technical expertise and innovation of both groups to deliver substantial benefits to consumers, shareholders and other stakeholders. Achieving these goals requires growth of the revenue of the combined company and realization of the targeted synergies expected from the Proposed Merger. This growth and the anticipated benefits of the Proposed Merger may not be realized fully or at all, or may take longer to realize than we expect. Actual operating, technological, strategic and revenue opportunities, if achieved at all, may be less significant than we expect or may take longer to achieve than anticipated. If we are not able to achieve these objectives and realize the anticipated benefits and synergies expected from the Proposed Merger within a reasonable time, our business, financial condition and operating results may be adversely affected.

Litigation filed against us could prevent or delay the completion of the Proposed Merger or result in the payment of damages following completion of the Proposed Merger.

As previously reported in our Form 8-K dated October 29, 2021, we received letters on behalf of our purported stockholders, in each case stating the stockholder's belief that the proxy statement filed by us on October 4, 2021 omitted material information with respect to the Merger and demanding that we make additional and supplemental disclosures regarding the Merger. Additionally, six complaints have been filed by our purported stockholders in connection with the Merger (collectively, the Merger Complaints). The Merger Complaints were brought by the plaintiffs individually and also allege that the proxy statement omitted material information with respect to the Merger. After the Company issued its October 29, 2021 Form 8-K, the plaintiffs in the Merger Complaints dismissed their actions as moot while reserving the right to seek a fee in connection with their respective litigations.

RISKS RELATED TO COVID-19

The COVID-19 pandemic has affected how we are operating our business, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

The COVID-19 pandemic has had widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets, and business practices. At the onset of the pandemic, to protect the health and well-being of our employees, partners and third-party service providers, we facilitated a work-from-home requirement for most employees and established site-specific COVID-19 prevention protocols. We continue to monitor the situation and over the past several months have adjusted our policies and protocols to reflect changes to public health regulations and guidance. Our offices are now open to employees on a voluntary basis. To date, we have not seen any meaningful negative impact on our customer success efforts, sales and marketing efforts, or employee productivity. Nevertheless, as more employees, partners or third-party services providers return to work during the COVID-19 pandemic, the risk of inadvertent transmission of COVID-19 through human contact could still occur and result in litigation.

While the COVID-19 pandemic has negatively impacted many sectors of the U.S. and global economies, the consumer Cyber Safety market experienced increased demand as the pandemic greatly accelerated the digital lives of people around the world. However, with the extended duration of the pandemic and the easing of prevention protocols and restrictions, we are seeing decreasing demand and increased competition. In addition, should the negative macroeconomic impacts of the COVID-19 pandemic persist or worsen, we may experience continued slowdowns in our business activity and an increase in cancellations.

by customers or a material reduction in our retention rate in the future, especially in the event of a prolonged recession. A prolonged recession could adversely affect demand for our offerings, retention rates and harm our business and results of operations, particularly in light of the fact that our solutions are discretionary purchases and thus may be more susceptible to macroeconomic pressures, as well impact the value of our common stock, ability to refinance our debt and our access to capital.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately forecasted at this time, such as the severity and transmission rate of new variants of the disease, the extent, effectiveness and acceptance of containment actions, such as vaccination programs, and the impact of these and other factors on our employees, customers and the overall demand for our products, partners and third-party service providers. If we are not able to respond to and manage the impact of such events effectively and if the macroeconomic conditions of the general economy or the industries in which we operate do not improve, or deteriorate further, our business, operating results, financial condition and cash flows could be adversely affected.

RISKS RELATED TO OUR BUSINESS STRATEGY AND INDUSTRY

If we are unable to develop new and enhanced solutions, or if we are unable to continually improve the performance, features, and reliability of our existing solutions, our business and operating results could be adversely affected.

Our future success depends on our ability to effectively respond to evolving threats to consumers, as well as competitive technological developments and industry changes, by developing or introducing new and enhanced solutions on a timely basis.

We have in the past incurred, and will continue to incur, significant research and development expenses as we focus on organic growth through internal innovation. We believe that we also must continue to dedicate a significant amount of resources to our research and development efforts to decrease our reliance on third parties. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our operating results may be adversely affected. Additionally, we must continually address the challenges of dynamic and accelerating market trends and competitive developments. Customers may require features and capabilities that our current solutions do not have. Our failure to develop new solutions and improve our existing solutions to satisfy customer preferences and effectively compete with other market offerings in a timely and cost-effective manner may harm our ability to retain our customers and attract new customers. A loss of customers would adversely impact our business and operating results.

The development and introduction of new solutions involve a significant commitment of time and resources and are subject to a number of risks and challenges including but not limited to:

- Lengthy development cycles;
- Evolving industry and regulatory standards and technological developments by our competitors and customers;
- Rapidly changing customer preferences;
- Evolving platforms, operating systems, and hardware products, such as mobile devices;
- Product and service interoperability challenges with customer's technology and third-party vendors;
- The integration of products and solutions from acquired companies;
- Entering into new or unproven market segments; and
- Executing new product and service strategies.

In addition, third parties, including operating systems and internet browser companies, may take steps to further limit the interoperability of our solutions with their own products and services, in some cases to promote their own offerings. This could delay the development of our solutions or our solutions may be unable to operate effectively. This could also result in decreased demand for our solutions, decreased revenue, and harm to our reputation, and adversely affect our business, financial condition, results of operations, and cash flows.

If we are not successful in managing these risks and challenges, or if our new or improved solutions are not technologically competitive or do not achieve market acceptance, our business and operating results could be adversely affected.

We operate in a highly competitive and dynamic environment, and if we are unable to compete effectively, we could experience a loss in market share and a reduction in revenue.

We operate in intensely competitive and dynamic markets that experience frequent and rapid technological developments, changes in industry and regulatory standards, changes in customer requirements and preferences, and frequent new product introductions and improvements. If we are unable to anticipate or react to these continually evolving conditions, we could experience a loss of market share and a reduction in our revenues, which could materially and adversely affect our business and financial results. To compete successfully, we must maintain an innovative research and development effort to develop new solutions and enhance our existing solutions, effectively adapt to changes in the technology or product rights held by our competitors as well as the ways our information is accessed, used and stored by our customers, and appropriately respond to competitive strategies.

We face competition from a broad range of companies, including software vendors focusing on Cyber Safety solutions, operating system providers such as Apple, Google and Microsoft, and 'pure play' companies that currently specialize in one or a few particular segments of the market and many of which are expanding their product portfolios into different segments. Many of these competitors offer solutions or are currently developing solutions that directly compete with our offerings. We also face

growing competition from other technology companies, as well as from companies in the identity threat protection space such as credit bureaus. Further, many of our competitors are increasingly developing and incorporating into their products data protection software and other competing Cyber Safety products such as antivirus protection or VPN, often free of charge, that compete with our offerings. Our competitive position could be adversely affected by the functionality incorporated into these products rendering our existing solutions obsolete. In addition, the introduction of new products or services by competitors, and/or market acceptance of products or services based on emerging or alternative technologies, could make it easier for other products or services to compete with our solutions.

We anticipate facing additional competition as new participants continue to enter the Cyber Safety market and as our current competitors seek to increase their market share and expand their existing offerings. Some of our competitors have greater financial, technical, marketing, or other resources than we do, including in new Cyber Safety and digital life segments, and consequently, may have the ability to influence customers to purchase their products instead of ours, including through investing more in internal innovation than we can and through benefiting from unique access to customer engagement points. Further consolidation among our competitors and within our industry or, in addition to other changes in the competitive environment, such as greater vertical integration from key computing and operating system suppliers could result in larger competitors that compete more frequently with us.

In addition to competing with these vendors directly for sales to end-users of our solutions, we compete with them for the opportunity to have our solutions bundled with the offerings of our strategic partners, such as computer hardware original equipment manufacturers (OEMs) and internet service providers (ISPs) and operating systems. Our competitors could gain market share from us if any of these strategic partners replace our solutions with those of our competitors or with their own solutions; similarly, they could gain market share from us if these partners more actively promote our competitors' solutions or their own solutions than our solutions. In addition, software vendors who have bundled our solutions with theirs may choose to bundle their solutions with their own or other vendors' solutions or may limit our access to standard interfaces and inhibit our ability to develop solutions for their platform. In the future, further product development by these vendors could cause our solutions to become redundant, which could significantly impact our sales and operating results.

We may need to change our pricing models to compete successfully.

The intense competition we face, in addition to general and economic business conditions, can put pressure on us to change our pricing practices. If our competitors offer deep discounts on certain solutions or provide offerings, or offer free introductory products that compete with ours, we may need to lower prices or offer similar free introductory products in order to compete successfully. Similarly, if external factors, such as economic conditions or market trends, require us to raise our prices, our ability to acquire new customers and retain existing customers may be diminished. Any such changes may reduce revenue and margins and could adversely affect our financial results.

Additionally, our business may be affected by changes in the macroeconomic environment. Our solutions are discretionary purchases, and customers may reduce or eliminate their discretionary spending on our solutions during a difficult macroeconomic environment. Although we did not experience a material increase in cancellations by customers or a material reduction in our retention rate in fiscal 2022 or in the first quarter of fiscal 2023, we may experience such an increase or reduction in the future, especially in the event of a prolonged recession or a worsening of current conditions as a result of the COVID-19 pandemic. In addition, during a recession, consumers may experience a decline in their credit or disposable income, which may result in less demand for our solutions. As a result, we may have to lower our prices or make other changes to our pricing model to address these dynamics, any of which could adversely affect our business and financial results.

In addition, in January 2021, we acquired Germany-based Avira. Many of Avira's users are freemium subscribers, meaning they do not pay for its basic services. Much of our anticipated growth in connection with the Avira acquisition is attributable to attracting and converting Avira's freemium users to a paid subscription option. Numerous factors, however, may impede our ability to attract, retain and convert these users into paying customers.

If we fail to manage our sales and distribution channels effectively, or if our partners choose not to market and sell our solutions to their customers, our operating results could be adversely affected.

A portion of our revenues is derived from sales through indirect channels, including, but not limited to, distributors that sell our products to end-users and other resellers, and OEM partners that incorporate our products into, or bundle our products with, their products. These channels involve a number of risks, including:

- Our resellers, distributors and OEMs are generally not subject to minimum sales requirements or any obligation to market our solutions to their customers;
- Our reseller and distributor agreements are generally nonexclusive and may be terminated at any time without cause and our OEM partners may terminate or renegotiate their arrangements with us and new terms may be less favorable due to competitive conditions in our markets and other factors;
- Our resellers, distributors and OEMs may encounter issues or have violations of applicable law or regulatory requirements or otherwise cause damage to our reputation through their actions;
- Our resellers and distributors frequently market and distribute competing solutions and may, from time to time, place greater emphasis on the sale of these competing solutions due to pricing, promotions, and other terms offered by our competitors;

- Any consolidation of electronics retailers can increase their negotiating power with respect to software providers such as us and any decline in the number of physical retailers could decrease the channels of distribution for us;
- The continued consolidation of online sales through a small number of larger channels has been increasing, which could reduce the channels available for online distribution of our solutions; and
- Sales through our partners are subject to changes in general economic conditions, strategic direction, competitive risks, and other issues that could result in a reduction of sales, or cause our partners to suffer financial difficulty which could delay payments to us, affecting our operating results.

If we fail to manage our sales and distribution channels successfully, these channels may conflict with one another or otherwise fail to perform as we anticipate, which could reduce our sales and increase our expenses as well as weaken our competitive position.

Our revenue and operating results depend significantly on our ability to retain our existing customers, convert existing non-paying customers to paying customers, and add new customers.

We generally sell our solutions to our customers on a monthly or annual subscription basis. Customers may choose not to renew their membership with us at any time. Renewing customers may require additional incentives to renew, may not renew for the same contract period, or may change their subscriptions. We therefore may be unable to retain our existing customers on the same or on more profitable terms, if at all. In addition, we may not be able to accurately predict or anticipate future trends in customer retention or effectively respond to such trends.

Our customer retention rates may decline or fluctuate due to a variety of factors, including the following:

- Our customers' levels of satisfaction or dissatisfaction with our solutions and the value they place on our solutions;
- The quality, breadth, and prices of our solutions;
- Our general reputation and events impacting that reputation;
- The services and related pricing offered by our competitors; including increasing availability and efficacy of free solutions;
- Disruption by new services or changes in law or regulations that impact the need for efficacy of our products and services;
- Changes in auto-renewal regulations;
- Our customers' dissatisfaction with our efforts to market additional products and services;
- Our customer service and responsiveness to the needs of our customers; and
- Changes in our target customers' spending levels as a result of general economic conditions, inflationary pressures or other factors.

Declining customer retention rates could cause our revenue to grow more slowly than expected or decline; and our operating results, gross margins and business will be harmed.

Our acquisitions and divestitures create special risks and challenges that could adversely affect our financial results.

As part of our business strategy, we may acquire or divest businesses or assets. For example, in 2019 we completed the sale of certain of our enterprise security assets to Broadcom Inc. (the Broadcom sale) and in January 2021, we completed the acquisition of Avira. These activities can involve a number of risks and challenges, including:

- Complexity, time, and costs associated with managing these transactions, including the integration of acquired and the winding down of divested business operations, workforce, products, IT systems, and technologies;
- Challenges in retaining customers of acquired businesses, or providing the same level of service to existing customers with reduced resources;
- Diversion of management time and attention;
- Loss or termination of employees, including costs associated with the termination or replacement of those employees;
- Assumption of liabilities of the acquired and divested business or assets, including pending or future litigation, investigations or claims related to the acquired business or assets;
- The addition of acquisition-related debt;
- Difficulty in entering into or expanding in new markets or geographies;
- Increased or unexpected costs and working capital requirements;
- Dilution of stock ownership of existing stockholders;
- Unanticipated delays or failure to meet contractual obligations;
- Substantial accounting charges for acquisition-related costs, asset impairments, amortization of intangible assets, and higher levels of stock-based compensation expense; and

- Difficulty in realizing potential benefits, including cost savings and operational efficiencies, synergies and growth prospects from integrating acquired businesses.

Moreover, to be successful, large complex acquisitions depend on large-scale product, technology, and sales force integrations that are difficult to complete on a timely basis or at all and may be more susceptible to the special risks and challenges described above. Any of the foregoing, and other factors, could harm our ability to achieve anticipated levels of profitability or other financial benefits from our acquired or divested businesses, product lines or assets or to realize other anticipated benefits of divestitures or acquisitions.

Changes in industry structure and market conditions could lead to charges related to discontinuance of certain of our products or businesses and asset impairments.

In response to changes in industry structure and market conditions, we may be required to strategically reallocate our resources and consider restructuring, disposing of, or otherwise exiting certain businesses. Any decision to limit investment in or dispose of or otherwise exit businesses may result in the recording of special charges, such as technology-related write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or claims from third parties who were resellers or users of discontinued products. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including purchased intangible assets, could change as a result of such assessments and decisions. Although in certain instances our vendor agreements allow us the option to cancel, reschedule, and adjust our requirements based on our business needs, our loss contingencies may include liabilities for contracts that we cannot cancel, reschedule or adjust with suppliers.

Further, our estimates relating to the liabilities for excess facilities are affected by changes in real estate market conditions. Additionally, we are required to evaluate goodwill impairment on an annual basis and between annual evaluations in certain circumstances, and future goodwill impairment evaluations may result in a charge to earnings.

RISKS RELATED TO OUR OPERATIONS

We are dependent upon Broadcom for certain engineering and threat response services, which are critical to our products and business.

Our endpoint security solution has historically relied upon certain threat analytics software engines and other software (the Engine-Related Services) that have been developed and provided by engineering teams that have transferred to Broadcom as part of the Broadcom sale. The technology, including source code, at issue is shared, and pursuant to the terms of the Broadcom sale, we retain rights to use, modify, enhance and create derivative works from such technology. Broadcom has committed to provide these Engine-Related Services substantially to the same extent and in substantially the same manner, as has been historically provided under a license agreement with a limited term.

As a result, we are dependent on Broadcom for services and technology that are critical to our Norton business, and if Broadcom fails to deliver these Engine-Related Services it would result in significant business disruption, and our business and operating results and financial condition could be materially and adversely affected. Furthermore, if our current sources become unavailable, and if we are unable to develop or obtain alternatives to integrate or deploy them in time, our ability to compete effectively could be impacted and have a material adverse effect on our business. Additionally, in connection with the Broadcom sale, we lost other capabilities, including certain threat intelligence data which were historically provided by our former Enterprise Security business, the lack of which could have a negative impact on our business and products.

Our future success depends on our ability to attract and retain personnel in a competitive marketplace.

Our future success depends upon our ability to recruit and retain key management, technical (including cyber security experts), sales, marketing, e-commerce, finance, and other personnel. Our officers and other key personnel are “at will” employees and we generally do not have employment or non-compete agreements with our employees. Competition for people with the specific skills that we require is significant. While we continue to monitor the competitive environment, it is possible that the COVID-19 pandemic may affect the productivity of our employees and our ability to attract and retain key talent. As a result of the pandemic, in March 2020, we transitioned to a remote working environment for the substantial majority of our employees. While our employees have transitioned effectively to working from home, over time such remote operations may decrease the cohesiveness of our employees and our ability to maintain our culture, both of which are integral to our success. Additionally, a remote working environment may impede our ability to undertake new business projects, to foster a creative environment, to hire new employees and to retain existing employees.

In order to attract and retain personnel in a competitive marketplace, we must provide competitive pay packages, including cash and equity-based compensation. Additionally, changes in immigration laws could impair our ability to attract and retain highly qualified employees. If we fail to attract, retain and motivate new or existing personnel, our business, results of operations and future growth prospects could suffer. The volatility in our stock price may from time to time adversely affect our ability to recruit or retain employees. In addition, we may not have an adequate number of shares reserved under our equity compensation plans, forcing us to reduce awards of equity-based compensation, which could impair our efforts to attract, retain and motivate necessary personnel. If we are unable to hire and retain qualified employees, or conversely, if we fail to manage employee performance or reduce staffing levels when required by market conditions, our business and operating results could be adversely affected.

Effective succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. From time to time, key personnel leave our company and the frequency and number of such departures have widely varied and have, in the past, resulted in significant changes to our executive leadership team. The loss of any key employee could result in significant

disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives, our internal control over financial reporting, and our results of operations. In addition, hiring, training, and successfully integrating replacement personnel can be time consuming and expensive, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact future financial results.

Our inability to successfully recover from a disaster or other business continuity event could impair our ability to deliver our products and services and harm our business.

We are heavily reliant on our technology and infrastructure to provide our products and services to our customers. For example, we host many of our products using third-party data center facilities, and while we require them to maintain formal service level agreements around availability, we do not control the operation of these facilities. These facilities are vulnerable to damage, interruption, or performance problems from earthquakes, hurricanes, floods, fires, power loss, telecommunications failures, pandemics and similar events. They are also subject to break-ins, computer viruses, sabotage, intentional acts of vandalism, and other misconduct. The occurrence of a natural disaster, an act of terrorism, a pandemic, and similar events could result in a decision to close the facilities without adequate notice or other unanticipated problems, which in turn, could result in lengthy interruptions in the delivery of our products and services, which could negatively impact our sales and operating results.

Furthermore, our business administration, human resources, compliance efforts, and finance services depend on the proper functioning of our computer, telecommunication, and other related systems and operations. A disruption or failure of these systems or operations because of a disaster, cyber-attack or other business continuity event, such as the COVID-19 pandemic, could cause data to be lost or otherwise delay our ability to complete sales and provide the highest level of service to our customers. In addition, we could have difficulty producing accurate financial statements on a timely basis, and deficiencies may arise in our internal control over financial reporting, which may impact our ability to certify our financial results, all of which could adversely affect the trading value of our stock. Although we endeavor to ensure there is redundancy in these systems and that they are regularly backed-up, there are no assurances that data recovery in the event of a disaster would be effective or occur in an efficient manner. If these systems or their functionality do not operate as we expect them to, we may be required to expend significant resources to make corrections or find alternative sources for performing these functions.

If we fail to offer high-quality customer support, our customer satisfaction may suffer and have a negative impact on our business and reputation.

Many of our customers rely on our customer support services to resolve issues, including technical support, billing and subscription issues, that may arise. If demand increases, or our resources decrease, we may be unable to offer the level of support our customers expect. Any failure by us to maintain the expected level of support could reduce customer satisfaction and negatively impact our customer retention and our business.

Our international operations involve risks that could increase our expenses, adversely affect our operating results and require increased time and attention of our management.

We derive a portion of our revenues from customers located outside of the U.S., and we have significant operations outside of the U.S., including engineering, finance, sales and customer support. Our international operations are subject to risks in addition to those faced by our domestic operations, including:

- Potential loss of proprietary information due to misappropriation or laws that may be less protective of our intellectual property rights than U.S. laws or that may not be adequately enforced;
- Requirements of foreign laws and other governmental controls, including tariffs, trade barriers and labor restrictions, and related laws that reduce the flexibility of our business operations;
- Potential changes in trade relations arising from policy initiatives or other political factors;
- Regulations or restrictions on the use, import, or export of encryption technologies that could delay or prevent the acceptance and use of encryption products and public networks for secure communications;
- Local business and cultural factors that differ from our normal standards and practices, including business practices that we are prohibited from engaging in by the Foreign Corrupt Practices Act and other anti-corruption laws and regulations;
- Central bank and other restrictions on our ability to repatriate cash from our international subsidiaries or to exchange cash in international subsidiaries into cash available for use in the U.S.;
- Fluctuations in currency exchange rates, economic instability, and inflationary conditions could make our solutions more expensive or could increase our costs of doing business in certain countries;
- Limitations on future growth or inability to maintain current levels of revenues from international sales if we do not invest sufficiently in our international operations;
- Difficulties in staffing, managing, and operating our international operations;
- Difficulties in coordinating the activities of our geographically dispersed and culturally diverse operations;
- Costs and delays associated with developing software and providing support in multiple languages; and
- Political unrest, war, or terrorism, or regional natural disasters, particularly in areas in which we have facilities.

RISKS RELATED TO OUR SOLUTIONS

Our solutions, systems, websites and the data on these sources may be subject to intentional disruption that could materially harm to our reputation and future sales.

Despite our precautions and significant ongoing investments to protect against security risks, data protection breaches, cyber-attacks, and other intentional disruptions of our solutions, we expect to be an ongoing target of attacks specifically designed to impede the performance and availability of our offerings and harm our reputation as a leading cyber security company. Similarly, experienced computer programmers or other sophisticated individuals or entities, including malicious hackers, state-sponsored organizations, and insider threats including actions by employees and third-party service providers, may attempt to penetrate our network security or the security of our systems and websites and misappropriate proprietary information or cause interruptions of our products and services. Such attempts are increasing in number and in technical sophistication, and if successful could expose us and the affected parties, to risk of loss or misuse of proprietary or confidential information or disruptions of our business operations.

While we engage in a number of measures aimed to protect against security breaches and to minimize the impact if a data breach were to occur, our information technology systems and infrastructure may be vulnerable to damage, compromise, disruption, and shutdown due to attacks or breaches by hackers or other circumstances, such as error or malfeasance by employees or third party service providers or technology malfunction. The occurrence of any of these events, as well as a failure to promptly remedy these events should they occur, could compromise our systems, and the information stored in our systems could be accessed, publicly disclosed, lost, stolen, or damaged. Any such circumstance could adversely affect our ability to attract and maintain customers as well as strategic partners, cause us to suffer negative publicity or damage to our brand, and subject us to legal claims and liabilities or regulatory penalties. In addition, unauthorized parties might alter information in our databases, which would adversely affect both the reliability of that information and our ability to market and perform our services as well as undermine our ability to remain compliant with relevant laws and regulations. Techniques used to obtain unauthorized access or to sabotage systems change frequently, are constantly evolving and generally are difficult to recognize and react to effectively. We may be unable to anticipate these techniques or to implement adequate preventive or reactive measures. Several recent, highly publicized data security breaches, including a large-scale attack on SolarWinds customers by a foreign nation state actor and a significant uptick in ransomware/extortion attacks at other companies have heightened consumer awareness of this issue and may embolden individuals or groups to target our systems or those of our strategic partners or enterprise customers. In December 2021, a critical remote code execution (RCE) vulnerability was identified in the Apache Software Foundation's Log4j software library (Log4j), which if exploited could result in unauthorized access to Company systems and data, and acquisition of the same. We are taking, and have taken, steps to remediate all known Log4j vulnerabilities within our environment, deployed compensating controls, and implemented additional changes to protect against an exploit of those vulnerabilities. A threat actor could exploit a Log4j vulnerability or newly discovered vulnerabilities before we complete our remediation work or identify a vulnerability that we did not effectively remediate. If that happens, there could be unauthorized access to, or acquisition of, data we maintain, and damage to Company systems. We could also face legal action from individuals, business partners, and regulators in connection with exploitation of those vulnerabilities, which would result in increased costs and fees incurred in our defense against those proceedings.

Our solutions are complex and operate in a wide variety of environments, systems and configurations, which could result in failures of our solutions to function as designed.

Because we offer very complex solutions, errors, defects, disruptions, or other performance problems with our solutions may and have occurred. For example, we may experience disruptions, outages, and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our websites simultaneously, fraud, or security attacks. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. Interruptions in our solutions, could impact our revenues or cause customers to cease doing business with us. Our operations are dependent upon our ability to protect our technology infrastructure against damage from business continuity events that could have a significant disruptive effect on our operations. We could potentially lose customer data or experience material adverse interruptions to our operations or delivery of solutions to our clients in a disaster recovery scenario.

Negative publicity regarding our brand, solutions and business could harm our competitive position.

Our brand recognition and reputation as a trusted service provider are critical aspects of our business and key to retaining existing customers and attracting new customers. Our business could be harmed due to errors, defects, disruptions or other performance problems with our solutions causing our customers and potential customers to believe our solutions are unreliable. Furthermore, negative publicity, whether or not justified, including intentional brand misappropriation, relating to events or activities attributed to us, our employees, our strategic partners, our affiliates, or others associated with any of these parties, may tarnish our reputation and reduce the value of our brands. In addition, the rapid rise and use of social media has the potential to harm our brand and reputation. We may be unable to timely respond to and resolve negative and inaccurate social media posts regarding our company, solutions and business in an appropriate manner. Damage to our reputation and loss of brand equity may reduce demand for our solutions and have an adverse effect on our business, operating results, and financial condition. Moreover, any attempts to rebuild our reputation and restore the value of our brands may be costly and time consuming, and such efforts may not ultimately be successful.

We collect, use, disclose, store or otherwise process personal information, which subjects us to privacy and data security laws and contractual commitments.

We collect, use, process, store, transmit or disclose (collectively, process) an increasingly large amount of confidential information, including personally identifiable information, credit card information and other critical data from employees and customers, in connection with the operation of our business, particularly in relation to our identity and information protection offerings.

The personal information we process is subject to an increasing number of federal, state, local, and foreign laws regarding privacy and data security, as well as contractual commitments. Any failure or perceived failure by us to comply with such obligations may result in governmental enforcement actions, fines, litigation, or public statements against us by consumer advocacy groups or others and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business.

Additionally, changes to applicable privacy or data security laws could impact how we process personal information and therefore limit the effectiveness of our solutions or our ability to develop new solutions. For example, the European Union General Data Protection Regulation imposes more stringent data protection requirements and provides for greater penalties for noncompliance of up to the greater of €20 million or four percent of our worldwide annual revenues.

Data protection legislation is also becoming increasingly common in the U.S. at both the federal and state level. For example, the California Consumer Privacy Act of 2018 (the CCPA) requires, among other things, covered companies to provide new disclosures to California consumers regarding the use of personal information, gives California residents expanded rights to access their personal information that has been collected and allows such consumers new abilities to opt-out of certain sales of personal information. Further, the new California Privacy Rights Act (the CPRA) significantly modifies the CCPA. These modifications may result in additional uncertainty and require us to incur additional costs and expenses in our effort to comply. Additionally, the Federal Trade Commission (the FTC) and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination, and security of data. The burdens imposed by the CCPA, CPRA and other similar laws that may be enacted at the federal and state level may require us to modify our data processing practices and policies, adapt our goods and services and incur substantial expenditures in order to comply.

Global privacy and data protection legislation, enforcement, and policy activity are rapidly expanding and evolving, and may be inconsistent from jurisdiction to jurisdiction. We may be or become subject to data localization laws mandating that data collected in a foreign country be processed and stored only within that country. If any country in which we have customers were to adopt a data localization law, we could be required to expand our data storage facilities there or build new ones in order to comply. The expenditure this would require, as well as costs of compliance generally, could harm our financial condition.

Additionally, third parties with whom we work, such as vendors or developers, may violate applicable laws or our policies and such violations can place personal information of our customers at risk. In addition, our customers may also accidentally disclose their passwords or store them on a device that is lost or stolen, creating the perception that our systems are not secure against third-party access. This could have an adverse effect on our reputation and business. In addition, such third parties could expose us to compromised data or technology, or be the target of cyberattack and other data breaches which could impact our systems or our customers' records. Further, we could be the target of a cyberattack or other action that impacts our systems and results in a data breach of our customers' records. This could have an adverse effect on our reputation and business.

LEGAL AND COMPLIANCE RISKS

Matters relating to or arising from our completed Audit Committee Investigation, including litigation matters, and potential additional expenses, may adversely affect our business and results of operations.

As previously disclosed in our public filings, the Audit Committee completed its internal investigation in September 2018. In connection with the Audit Committee Investigation, we voluntarily self-reported to the SEC. The SEC commenced a formal investigation with which we cooperated. In April 2022, the SEC Staff informed the Company that it concluded its investigation and does not intend to recommend an enforcement action by the Commission against us.

We have incurred, and may continue to incur, significant expenses related to legal and other professional services in connection with or relating to the SEC investigation, which may continue to adversely affect our business and financial condition. In addition, securities class actions and other lawsuits have been filed against us, certain current and former directors, and former officers. The outcome of the securities class actions and other litigation is difficult to predict, and the cost to defend, settle, or otherwise resolve these matters may be significant. Plaintiffs in these matters may seek recovery of very large or indeterminate amounts. The monetary and other impact of these litigations, proceedings, or actions may remain unknown for substantial periods of time. Further, an unfavorable resolution of litigations, proceedings or actions could have a material adverse effect on our business, financial condition, and results of operations and cash flows. Any future investigations or additional lawsuits may also adversely affect our business, financial condition, results of operations, and cash flows.

Our solutions are highly regulated, which could impede our ability to market and provide our solutions or adversely affect our business, financial position, and results of operations.

Our solutions are subject to a high degree of regulation, including a wide variety of federal, state, and local laws and regulations, such as the Fair Credit Reporting Act, the Gramm-Leach-Bliley Act, the Federal Trade Commission Act (FTC Act), and comparable state laws that are patterned after the FTC Act. LifeLock has previously entered into consent decrees and similar arrangements with the FTC and the attorney generals of 35 states as well as a settlement with the FTC relating to allegations that certain of LifeLock's advertising, marketing and security practices constituted deceptive acts or practices in

violation of the FTC Act, which impose additional restrictions on our business, including prohibitions against making any misrepresentation of “the means, methods, procedures, effects, effectiveness, coverage, or scope of” our solutions. NortonLifeLock signed an Undertaking, effective June 14, 2021, with the United Kingdom’s Competition and Markets Authority (CMA) requiring NortonLifeLock to make certain changes to its policies and practices related to automatically renewing subscriptions in the United Kingdom as part of the CMA’s investigation into auto-renewal practices in the antivirus sector it launched in December 2018. Any of the laws and regulations that apply to our business are subject to revision or new or changed interpretations, and we cannot predict the impact of such changes on our business.

Additionally, the nature of our identity and information protection products subjects us to the broad regulatory, supervisory, and enforcement powers of the Consumer Financial Protection Bureau which may exercise authority with respect to our services, or the marketing and servicing of those services, through the oversight of our financial institution or credit reporting agency customers and suppliers, or by otherwise exercising its supervisory, regulatory, or enforcement authority over consumer financial products and services.

If we do not protect our proprietary information and prevent third parties from making unauthorized use of our products and technology, our financial results could be harmed.

Much of our software and underlying technology is proprietary. We seek to protect our proprietary rights through a combination of confidentiality agreements and procedures and through copyright, patent, trademark, and trade secret laws. However, these measures afford only limited protection and may be challenged, invalidated, or circumvented by third parties. Third parties may copy all or portions of our products or otherwise obtain, use, distribute, and sell our proprietary information without authorization.

Third parties may also develop similar or superior technology independently by designing around our patents. Our consumer agreements do not require a signature and therefore may be unenforceable under the laws of some jurisdictions. Furthermore, the laws of some foreign countries do not offer the same level of protection of our proprietary rights as the laws of the U.S., and we may be subject to the unauthorized use of our products in those countries. The unauthorized copying or use of our products or proprietary information could result in reduced sales of our products. Any legal action to protect proprietary information that we may bring or be engaged in with a strategic partner or vendor could adversely affect our ability to access software, operating system, and hardware platforms of such partner or vendor, or cause such partner or vendor to choose not to offer our products to their customers. In addition, any legal action to protect proprietary information that we may bring or be engaged in, could be costly, may distract management from day-to-day operations, and may lead to additional claims against us, which could adversely affect our operating results.

From time to time we are a party to lawsuits and investigations, which typically require significant management time and attention and result in significant legal expenses.

We are frequently involved in litigation and other proceedings, including, but not limited to, patent litigation, class actions, and governmental claims or investigations, some of which may be material initially or become material over time. The expense of initiating and defending, and in some cases settling, such matters may be costly and divert management’s attention from the day-to-day operations of our business, which could have a materially adverse effect on our business, results of operations, and cash flows. In addition, such matters may thru the course of litigation or other proceedings incur an unfavorable change which could alter the profile of the matter and create potential material risk to the company. Any unfavorable outcome in a matter could result in significant fines, settlements, monetary damages, or injunctive relief that could negatively and materially impact our ability to conduct our business, results of operations, and cash flows. Additionally, in the event we did not previously accrue for such litigation or proceeding in our financial statements, we may be required to record retrospective accruals that adversely affect our results of operations and financial condition.

Third parties claiming that we infringe their proprietary rights could cause us to incur significant legal expenses and prevent us from selling our products.

From time to time, third parties may claim that we have infringed their intellectual property rights, including claims regarding patents, copyrights, and trademarks. Because of constant technological change in the segments in which we compete, the extensive patent coverage of existing technologies, and the rapid rate of issuance of new patents, it is possible that the number of these claims may grow. In addition, former employers of our former, current, or future employees may assert claims that such employees have improperly disclosed to us confidential or proprietary information of these former employers. Any such claim, with or without merit, could result in costly litigation and distract management from day-to-day operations. If we are not successful in defending such claims, we could be required to stop selling, delay shipments of, or redesign our solutions, pay monetary amounts as damages, enter into royalty or licensing arrangements, or satisfy indemnification obligations that we have with some of our partners. We cannot assure you that any royalty or licensing arrangements that we may seek in such circumstances will be available to us on commercially reasonable terms or at all. We have made and expect to continue making significant expenditures to investigate, defend, and settle claims related to the use of technology and intellectual property rights as part of our strategy to manage this risk.

In addition, we license and use software from third parties in our business. These third-party software licenses may not continue to be available to us on acceptable terms or at all and may expose us to additional liability. This liability, or our inability to use any of this third-party software, could result in delivery delays or other disruptions in our business that could materially and adversely affect our operating results.

Some of our products contain “open source” software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

Certain of our products are distributed with software licensed by its authors or other third parties under so-called “open source” licenses. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. By the terms of certain open source licenses, we could be required to release the source code of our proprietary software if we combine our proprietary software with open source software in a certain manner. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source, but we cannot be sure that all open source is submitted for approval prior to use in our products. In addition, many of the risks associated with usage of open source may not or cannot be eliminated and could, if not properly addressed, negatively affect our business.

RISKS RELATED TO OUR LIQUIDITY AND INDEBTEDNESS

There are risks associated with our outstanding and future indebtedness that could adversely affect our financial condition.

As of July 1, 2022, we had an aggregate of \$3,336 million of outstanding indebtedness that will mature in calendar years 2022 through 2030, and \$1,000 million available for borrowing under our revolving credit facility. See Note 10 of the Notes to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for further information on our outstanding debt. Our ability to meet expenses, remain in compliance with the covenants under our debt instruments, pay interest and repay principal for our substantial level of indebtedness depends on, among other things, our operating performance, competitive developments, and financial market conditions, all of which are significantly affected by financial, business, economic and other factors. We are not able to control many of these factors. Accordingly, our cash flow may not be sufficient to allow us to pay principal and interest on our debt, including the notes, and meet our other obligations. Our level of indebtedness could have other important consequences, including the following:

- We must use a substantial portion of our cash flow from operations to pay interest and principal on the term loans and revolving credit facility, our existing senior notes, and other indebtedness, which reduces funds available to us for other purposes such as working capital, capital expenditures, other general corporate purposes, and potential acquisitions;
- We may be unable to refinance our indebtedness or to obtain additional financing for working capital, capital expenditures, acquisitions, or general corporate purposes;
- We are exposed to fluctuations in interest rates because borrowings under our senior secured credit facilities bear interest at variable rates;
- Our leverage may be greater than that of some of our competitors, which may put us at a competitive disadvantage and reduce our flexibility in responding to current and changing industry and financial market conditions;
- We may be more vulnerable to an economic downturn or recession and adverse developments in our business;
- We may be unable to comply with financial and other covenants in our debt agreements, which could result in an event of default that, if not cured or waived, may result in acceleration of certain of our debt and would have an adverse effect on our business and prospects and could force us into bankruptcy or liquidation;
- Changes by any rating agency to our outlook or credit rating could negatively affect the value of our debt and/or our common stock, adversely affect our access to debt markets, and increase the interest we pay on outstanding or future debt; and
- Conversion of our convertible note could result in significant dilution of our common stock, which could result in significant dilution to our existing stockholders and cause the market price of our common stock to decline.

There can be no assurance that we will be able to manage any of these risks successfully. In addition, we conduct a significant portion of our operations through our subsidiaries. Accordingly, repayment of our indebtedness will be dependent in part on the generation of cash flow by our subsidiaries and their ability to make such cash available to us by dividend, debt repayment, or otherwise, which may not always be possible. In the event that we do not receive distributions from our subsidiaries, we may be unable to make the required principal and interest payments on our indebtedness.

The elimination of LIBOR after June 2023 may affect our financial results.

All LIBOR tenors relevant to us will cease to be published or will no longer be representative after June 30, 2023. This means that any of our LIBOR-based borrowings that extend beyond June 30, 2023 will need to be converted to a replacement rate. In the U.S., the Alternative Reference Rates Committee, a committee of private sector entities convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has recommended the Secured Overnight Financing Rate (SOFR) plus a recommended spread adjustment as LIBOR's replacement. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured lending rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities. If our LIBOR-based borrowings are converted to SOFR, the differences between LIBOR and SOFR, plus the recommended spread adjustment, could result in interest costs that are higher than if LIBOR remained

available, which could have a material adverse effect on our operating results. Although SOFR is the ARRC's recommended replacement rate, it is also possible that lenders may instead choose alternative replacement rates that may differ from LIBOR in ways similar to SOFR or in other ways that would result in higher interest costs for us. It is not yet possible to predict the magnitude of LIBOR's end on our borrowing costs given the remaining uncertainty about which rates will replace LIBOR.

Our term loan and revolving credit facility agreement impose operating and financial restrictions on us.

Our term loan and revolving credit facility agreement contain covenants that limit our ability and the ability of our restricted subsidiaries to:

- Incur additional debt;
- Create liens on certain assets to secure debt;
- Enter into certain sale and leaseback transactions;
- Pay dividends on or make other distributions in respect of our capital stock or make other restricted payments; and
- Consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

All of these covenants may adversely affect our ability to finance our operations, meet or otherwise address our capital needs, pursue business opportunities, react to market conditions, or otherwise restrict activities or business plans. A breach of any of these covenants could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable and, to the extent such indebtedness is secured in the future, proceed against any collateral securing that indebtedness.

GENERAL RISKS

Fluctuations in our quarterly financial results have affected the trading price of our outstanding securities in the past and could affect the trading price of our outstanding securities in the future.

Our quarterly financial results have fluctuated in the past and are likely to vary in the future due to a number of factors, many of which are outside of our control. If our quarterly financial results or our predictions of future financial results fail to meet our expectations or the expectations of securities analysts and investors, the trading price of our outstanding securities could be negatively affected. Volatility in our quarterly financial results may make it more difficult for us to raise capital in the future or pursue acquisitions. Factors associated with our industry, the operation of our business, and the markets for our solutions may cause our quarterly financial results to fluctuate, including but not limited to:

- Fluctuations in demand for our solutions;
- Disruptions in our business operations or target markets caused by, among other things, terrorism or other intentional acts, outbreaks of disease, such as the COVID-19 pandemic, or earthquakes, floods, or other natural disasters;
- Entry of new competition into our markets;
- Our ability to achieve targeted operating income and margins and revenues;
- Competitive pricing pressure or free offerings that compete with one or more of our solutions;
- Our ability to timely complete the release of new or enhanced versions of our solutions;
- The amount and timing of commencement and termination of major marketing campaigns;
- The number, severity, and timing of threat outbreaks and cyber security incidents;
- Loss of customers or strategic partners;
- Changes in the mix or type of solutions and subscriptions sold and changes in consumer retention rates;
- The rate of adoption of new technologies and new releases of operating systems, and new business processes;
- Consumer confidence and spending changes;
- The impact of litigation, regulatory inquiries, or investigations;
- The impact of acquisitions and divestitures and our ability to achieve expected synergies or attendant cost savings;
- Fluctuations in foreign currency exchange rates and interest rates;
- The publication of unfavorable or inaccurate research reports about our business by cybersecurity industry analysts;
- The success of our corporate responsibility initiatives;
- Changes in tax laws, rules, and regulations; and
- Changes in consumer protection laws and regulations.

Any of the foregoing factors could cause the trading price of our outstanding securities to fluctuate significantly.

Changes to our effective tax rate could increase our income tax expense and reduce (increase) our net income (loss), cash flows and working capital.

Our effective tax rate could be adversely affected by several factors, many of which are outside of our control, including:

- Changes to the U.S. federal income tax laws, including the potential for federal tax law changes put forward by Congress and the Biden administration including potentially increased corporate tax rates, new minimum taxes and other changes to the way that our US tax liability has been calculated following the 2017 Tax Cuts and Jobs Act. Certain of these proposals could have significant retroactive adjustments adding cash tax payments/liabilities if adopted;
- Changes to other tax laws, regulations, and interpretations in multiple jurisdictions in which we operate, including actions resulting from the Organisation for Economic Co-operation and Development's (OECD) base erosion and profit shifting project including recent proposals for a global minimum tax rate, proposed actions by international bodies such as digital services taxation, as well as the requirements of certain tax rulings. In October 2021, the OECD/G20 inclusive framework on Base Erosion and Profit Shifting (the Inclusive Framework) published a statement updating and finalizing the key components of a two-pillar plan on global tax reform which has now been agreed upon by the majority of OECD members. Pillar One allows countries to reallocate a portion of residual profits earned by multinational enterprises (MNE), with an annual global turnover exceeding €20 billion and a profit margin over 10%, to other market jurisdictions. Pillar Two requires MNEs with an annual global turnover exceeding €750 million to pay a global minimum tax of 15%. Additional guidance is expected to be published in 2022. We will continue to monitor the implementation of the Inclusive Framework agreement by the countries in which we operate. We are unable to predict if and how these legislative changes will be enacted into law, and it is possible that they could have a material effect on our corporate tax liability and our global effective tax rate;
- Changes in the relative proportions of revenues and income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- The tax effects of significant infrequently occurring events that may cause fluctuations between reporting periods;
- Tax assessments, or any related tax interest or penalties, that could significantly affect our income tax expense for the period in which the settlements take place; and
- Taxes arising in connection to changes in our workforce, corporate entity structure or operations as they relate to tax incentives and tax rates.

From time to time, we receive notices that a tax authority in a particular jurisdiction believes that we owe a greater amount of tax than we have reported to such authority. We are regularly engaged in discussions and sometimes disputes with these tax authorities. If the ultimate determination of our taxes owed in any of these jurisdictions is for an amount in excess of the tax provision we have recorded or reserved for, our operating results, cash flows, and financial condition could be adversely affected.

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

Repurchase of equity securities

Under our stock repurchase program, shares may be repurchased on the open market and through accelerated stock repurchase transactions. As of July 1, 2022, we have \$1,474 million remaining authorized to be completed in future periods with no expiration date. Stock repurchases during the three months ended July 1, 2022 were as follows:

(In millions, except per share data)	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
April 2, 2022 to April 29, 2022	—	\$ —	—	\$ 1,774
April 30, 2022 to May 27, 2022	6	\$ 24.17	6	\$ 1,633
May 28, 2022 to July 1, 2022	6	\$ 24.52	6	\$ 1,474
Total number of shares repurchased	12		12	

(1) The number of shares purchased is reported on trade date.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/Furnished with this 10-Q
		Form	File Number	Exhibit	File Date	
10.01	Registrant's Non-Employee Director Compensation Policy					X
31.01	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.02	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.01†	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.02†	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101	The following financial information from NortonLifeLock Inc.'s Quarterly Report on Form 10-Q for the quarter ended July 1, 2022 are formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Stockholders' Equity (Deficit), (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags.					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

† This exhibit is being furnished rather than filed, and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

SIGNATURES

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

NORTONLIFELOCK INC.
(Registrant)

By: /s/ Vincent Pilette
Vincent Pilette
Chief Executive Officer

By: /s/ Natalie Derse
Natalie Derse
Chief Financial Officer

August 5, 2022

NortonLifeLock Inc.

Non-Employee Director Compensation Policy

In accordance with the recommendations of the Compensation Committee of the Board of Directors (the “Board”) of NortonLifeLock Inc. (the “Company”), the Board has approved this Non-Employee Director Compensation Policy (the “Policy”), effective as of June 28, 2022.

Annual Cash Fees:

The below rates are effective as of the beginning of fiscal year 2023:

Non-Employee Director Retainer	\$ 50,000
Independent Chair/Lead Independent Director	\$ 100,000
Audit Committee Membership	\$ 15,000
Audit Committee Chair	\$ 15,000
Compensation & Leadership Development Committee Membership	\$ 10,000
Compensation & Leadership Development Committee Chair	\$ 15,000
Nominating & Governance Committee Membership	\$ 5,000
Nominating & Governance Committee Chair	\$ 10,000
Technology & Cybersecurity Committee Membership	\$ 5,000
Technology & Cybersecurity Committee Chair	\$ 10,000

Each non-employee director will earn his or her Non-Employee Director Retainer and committee cash fees in equal portions quarterly on the first December 1st, March 1st, June 1st and September 1st dates following the director’s election at the annual meeting of stockholders (the “Annual Meeting”), subject to the director’s service through each such date.

Directors may elect to receive 100% of their Non-Employee Director Retainer fee in the form of a restricted stock unit award with a grant date fair value equal to Non-Employee Director Retainer fee in lieu of receiving cash, provided such election is made at least three (3) business days prior to the date of the Annual Meeting in which they are elected; any such election must apply to the entire portion of the Non-Employee Director Retainer fee. Each such restricted stock unit award will be automatically granted on the date of the Annual Meeting under the 2013 Equity Incentive Plan (the “2013 Plan”) without further action on the part of the Board. Each such restricted stock unit award will vest in equal portions quarterly on the first December 1st, March 1st, June 1st and September 1st dates following the Annual Meeting, subject to the director’s service through each such date, and except as set forth herein with respect to vesting, will be subject to the terms of the Company’s standard form of restricted stock unit award agreement. Only whole shares will be subject to such awards, and the value of any fractional share will be settled in cash on the first vesting date.

Directors who retire or otherwise voluntarily or involuntarily leave the Board or any of the committees prior to the next Annual Meeting will receive prorated cash fees and their restricted stock unit award in lieu of cash will vest on a prorated basis, and such fees and units will be paid or settled at the next quarterly payment date, with such proration based on the number of days served in the quarter. Any remaining unearned cash and unvested restricted stock units in lieu of cash will be forfeited.

In the event the next Annual Meeting is held prior to the September 1st quarterly payment/settlement date, all current directors as of the date of immediately prior such annual meeting, including directors not standing for reelection, will be entitled to receive any remaining cash payments and shares on September 1st.

Annual Equity Awards:

Each non-employee director will be entitled to receive a restricted stock unit award with a grant date fair value of \$260,000, which will be automatically granted on the date of the non-employee director's election at the Annual Meeting under the 2013 Plan without further action on the part of the Board. Each such restricted stock unit award will vest fully after one year, subject to the director's service through such date, and except as set forth herein with respect to vesting, will be subject to the terms of the Company's standard form of restricted stock unit award agreement.

Directors who join the Board after the Annual Meeting will automatically receive a restricted stock unit award prorated for the remaining one-year period from the last Annual meeting (based on the number of the days remaining during such period) with the grant date being the date of the director joining the Board.

Only whole shares will be subject to such awards, and to the extent, the grant date fair value of such shares is less than \$260,000 or the pro-rated amount, the value of any fractional share will be forfeited.

Directors who retire or otherwise voluntarily or involuntarily leave the Board prior to the earlier of the next Annual Meeting or the one-year anniversary of the previous Annual Meeting will forfeit all unvested restricted stock units.

In the event the next Annual Meeting is held earlier than the one-year anniversary of the prior Annual Meeting, all current directors as of the date of such Annual Meeting, including directors not standing for reelection, will be entitled to vesting of their restricted stock unit awards on such Annual Meeting date, provided that such awards will be settled on the one-year anniversary date.

Change in Control:

In the event of the occurrence of any transaction described in Section 19.1 of the 2013 Plan, all unearned cash fees and unvested restricted stock unit awards granted to non-employee directors under this Policy will accelerate in full.

Gap Period 2022:

Fiscal year 2022 non-employee director fees were paid in full and fiscal year 2022 equity awards were fully vested at grant, in each case, at the beginning of fiscal year 2022. For the period from the beginning of fiscal year 2023 to the 2022 Annual Meeting, non-employee directors serving as of the 2022 Annual Meeting date will receive the following:

- Board and committee fees prorated at 5/12th of the effective annual rate set forth above. Directors electing to receive stock in lieu of cash for their prorated Non-Employee Director Retainer fee will automatically be granted a fully vested stock award under the 2013 Plan on the 2022 Annual Meeting date. No fractional shares will be rewarded, and the value of any fractional share will be settled in cash on the 2022 Annual Meeting date.
- A fully vested equity award with a grant date fair value equal to 5/12th of the annual award value (\$108,833), which will be automatically granted under the 2013 Plan on the 2022 Annual Meeting date. Only whole shares will be subject to such awards, and to the extent, the grant date fair value of such shares is less than \$108,833, the value of any fractional share will be forfeited.

Certification

I, Vincent Pilette, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NortonLifeLock 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.

/s/ Vincent Pilette

Vincent Pilette

Chief Executive Officer

Date: August 5, 2022

Certification

I, Natalie Derse, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NortonLifeLock 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.

/s/ Natalie Derse

Natalie Derse

Chief Financial Officer

Date: August 5, 2022

**Certification Pursuant to
18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Vincent Pilette, Chief Executive Officer of NortonLifeLock Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (i) the Company's quarterly report on Form 10-Q for the period ended July 1, 2022, to which this Certification is attached (the "Form 10-Q"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Vincent Pilette

Vincent Pilette

Chief Executive Officer

Date: August 5, 2022

This Certification which accompanies the Form 10-Q is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

**Certification Pursuant to
18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Natalie Derse, Chief Financial Officer of NortonLifeLock Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (i) the Company's quarterly report on Form 10-Q for the period ended July 1, 2022, to which this Certification is attached (the "Form 10-Q"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Natalie Derse

Natalie Derse

Chief Financial Officer

Date: August 5, 2022

This Certification which accompanies the Form 10-Q is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.