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 April 30, 2023

OR

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

For the transition period from __________ to

Commission File Number: 001-37883

NUTANIX, INC.

(Exact name of registrant as specified in its charter)

Delaware	**27-0989767**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1740 Technology Drive, Suite 150
San Jose, CA 95110
(Address of principal executive offices, including zip code)

(408) 216-8360
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.000025 par value per share	NTNX	Nasdaq Global Select Market

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

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

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

Large Accelerated Filer	☒	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 ☒

As of May 31, 2023, the registrant had 235,759,366 shares of Class A common stock, $0.000025 par value per share, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains express and implied forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which statements involve substantial risks and uncertainties. Other than statements of historical fact, all statements contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations and financial position, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "plan," "intend," "could," "would," "expect," or words or expressions of similar substance or the negative thereof, that convey uncertainty of future events or outcomes are intended to identify forward-looking statements. Forward-looking statements included in this Quarterly Report on Form 10-Q include, but are not limited to, statements regarding:

- our future billings, revenue, cost of revenue and operating expenses, as well as changes in the cost of product revenue, component costs, contract terms, product gross margins and support, entitlements and other services revenue and changes in research and development, sales and marketing and general and administrative expenses;
- our business plans, strategies, initiatives, objectives and outlook, as well as our ability to execute such plans, strategies, initiatives and objectives successfully and in a timely manner, and the benefits and impact of such plans, initiatives and objectives on our business, operations, and financial results, including any impact on our revenue and product mix, average contract term lengths and discounting behavior;
- our plans for, and the timing of, any current and future business model transitions, including our ongoing transition to a subscription-based business model, our ability to manage, complete or realize the benefits of such transitions successfully and in a timely manner, and the short-term and long-term impacts of such transitions on our business, operations and financial results;
- the benefits and capabilities of our platform, solutions, products, services and technology, including the interoperability and availability of our solutions with and on third-party platforms;
- our plans and expectations regarding new solutions, products, services, product features and technology, including those that are still under development or in process;
- our growth strategy, our ability to effectively achieve and manage our growth, and the amount, timing and impact of any investments to grow our business, including any plans to increase or decrease investments in our global engineering, research and development and sales and/or marketing teams;
- our go-to-market strategy and the impact of any adjustments thereto, including any adjustments to our go-to-market cost structure, in particular, our sales compensation structure, and our plans regarding pricing and packaging of our product portfolio;
- the success and impact of our customer, partner, industry, analyst, investor and employee events on our business, including on future pipeline generation;
- the impact of our decision to use new or different metrics, or to make adjustments to the metrics we use, to supplement our financial reporting;
- our reliance on key personnel;
- anticipated trends, growth rates and challenges in our business and in the markets in which we operate, including the segmentation and productivity of our sales team;
- market acceptance of new technology and recently introduced solutions;
- our ability to increase sales of our solutions, particularly to large enterprise customers;
- our ability to attract new end customers and retain and grow sales from our existing end customers;

- our plans to implement remedial measures in response to the material weakness identified by management;
- our plans to implement recommendations arising out of or relating to our Audit Committee's completed investigation;
- our ability to maintain and strengthen existing strategic alliances and partnerships and address macroeconomic supply chain shortages, including our relationships with our channel partners and original equipment manufacturers, and to develop any new strategic alliances and partnerships, and the impact of any changes to such relationships on our business, operations and financial results;
- the effects of seasonal trends on our results of operations;
- our expectations concerning relationships with third parties, including our ability to compress and stabilize sales cycles;
- our ability to maintain, protect and enhance our intellectual property;
- our exposure to and ability to guard against cyber attacks and other actual or perceived security breaches;
- our ability to continue to grow our business internationally;
- the competitive market, including our ability to compete effectively, the competitive advantages of our products, and the effects of increased competition in our market;
- anticipated capital expenditures;
- future acquisitions or investments in complementary companies, products, services or technologies and the ability to successfully integrate completed acquisitions;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business both in the United States and internationally, including recent changes in global tax laws;
- macroeconomic, geopolitical, and industry trends and environment, projected growth or trend analysis;
- the impact of events that may be outside of our control, such as political and social unrest, terrorist attacks, hostilities, war, malicious human acts, climate change, natural disasters (including extreme weather), pandemics or other major public health concerns, and other similar events;
- our ability to attract and retain qualified employees and key personnel; and
- the sufficiency of cash balances to meet cash needs for at least the next 12 months.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs in light of the information currently available to us. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 and in Part II, Item 1A of this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment and new risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained or implied in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or will occur. The forward-looking statements in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation, and expressly disclaim any obligation, to update, alter or otherwise revise or publicly release the results of any revision to these forward-looking statements to reflect new information or the occurrence of unanticipated or subsequent events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NUTANIX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	As of	
	July 31, 2022	April 30, 2023
	(in thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 402,850	$ 439,918
Short-term investments	921,429	918,570
Accounts receivable, net of allowances of $644 and $745, respectively	124,559	135,073
Deferred commissions—current	115,356	113,736
Prepaid expenses and other current assets	93,787	121,611
Total current assets	1,657,981	1,728,908
Property and equipment, net	113,440	115,465
Operating lease right-of-use assets	118,740	97,804
Deferred commissions—non-current	252,234	236,935
Intangible assets, net	15,829	7,334
Goodwill	185,260	185,260
Other assets—non-current	22,265	24,291
Total assets	$ 2,365,749	$ 2,395,997
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 44,931	$ 34,235
Accrued compensation and benefits	149,811	152,167
Accrued expenses and other current liabilities	59,568	108,965
Deferred revenue—current	720,993	806,002
Operating lease liabilities—current	39,801	31,481
Convertible senior notes, net—current	145,456	—
Total current liabilities	1,160,560	1,132,850
Deferred revenue—non-current	724,545	737,338
Operating lease liabilities—non-current	89,782	73,036
Convertible senior notes, net	1,156,205	1,207,296
Other liabilities—non-current	35,161	34,544
Total liabilities	3,166,253	3,185,064
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Preferred stock, par value of $0.000025 per share— 200,000 shares authorized as of July 31, 2022 and April 30, 2023; no shares issued and outstanding as of July 31, 2022 and April 30, 2023	—	—
Common stock, par value of $0.000025 per share—1,042,004 (1,000,000 Class A, 42,004 Class B) and 1,000,000 Class A shares authorized as of July 31, 2022 and April 30, 2023, respectively; 226,938 and 235,744 Class A shares issued and outstanding as of July 31, 2022 and April 30, 2023, respectively	6	6
Additional paid-in capital	3,583,928	3,834,845
Accumulated other comprehensive loss	(6,076)	(4,283)
Accumulated deficit	(4,378,362)	(4,619,635)
Total stockholders' deficit	(800,504)	(789,067)
Total liabilities and stockholders' deficit	$ 2,365,749	$ 2,395,997

See the accompanying notes to condensed consolidated financial statements.

NUTANIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	**2023**	**2022**	**2023**
	(in thousands, except per share data)			
Revenue:				
Product	$ 199,616	$ 212,507	$ 588,872	$ 671,619
Support, entitlements and other services	204,042	236,074	606,384	697,066
Total revenue	403,658	448,581	1,195,256	1,368,685
Cost of revenue:				
Product	13,739	12,430	43,056	40,452
Support, entitlements and other services	66,110	69,999	198,208	211,277
Total cost of revenue	79,849	82,429	241,264	251,729
Gross profit	323,809	366,152	953,992	1,116,956
Operating expenses:				
Sales and marketing	234,623	229,261	726,475	695,271
Research and development	142,334	143,016	428,731	434,760
General and administrative	39,552	52,515	123,871	182,728
Total operating expenses	416,509	424,792	1,279,077	1,312,759
Loss from operations	(92,700)	(58,640)	(325,085)	(195,803)
Other expense, net	(15,676)	(7,168)	(309,557)	(30,696)
Loss before provision for income taxes	(108,376)	(65,808)	(634,642)	(226,499)
Provision for income taxes	3,611	5,161	12,967	14,774
Net loss	$ (111,987)	$ (70,969)	$ (647,609)	$ (241,273)
Net loss per share attributable to Class A and Class B common stockholders—basic and diluted (1)	$ (0.50)	$ (0.30)	$ (2.96)	$ (1.04)
Weighted average shares used in computing net loss per share attributable to Class A and Class B common stockholders—basic and diluted (1)	222,473	234,735	218,888	231,702

(1) Effective January 3, 2022, all of the then outstanding shares of Nutanix, Inc. Class B common stock were automatically converted into the same number of shares of Nutanix, Inc. Class A common stock. See Note 9 for further details.

See the accompanying notes to condensed consolidated financial statements.

NUTANIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Net loss	$ (111,987)	$ (70,969)	$ (647,609)	$ (241,273)
Other comprehensive loss, net of tax:				
Change in unrealized loss on available-for-sale securities, net of tax	(3,711)	1,518	(6,138)	1,793
Comprehensive loss	$ (115,698)	$ (69,451)	$ (653,747)	$ (239,480)

See the accompanying notes to condensed consolidated financial statements.

NUTANIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Unaudited)

	Nine Months Ended April 30, 2022					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
	(in thousands)					
Balance - July 31, 2021	214,210	$ 5	$ 2,615,317	$ (8)	$ (3,636,283)	$ (1,020,969)
Adoption of ASU 2020-06	—	—	(148,598)	—	100,585	(48,013)
2026 Notes derivative liability reclassification	—	—	698,213	—	—	698,213
Issuance of common stock through employee equity incentive plans	2,809	—	1,352	—	—	1,352
Issuance of common stock from ESPP purchase	1,309	—	28,786	—	—	28,786
Repurchase and retirement of common stock	(1,369)	—	(14,852)	—	(43,718)	(58,570)
Unwinding of 2023 Notes hedges	—	—	39,880	—	—	39,880
Unwinding of 2023 Notes warrants	—	—	(18,390)	—	—	(18,390)
Stock-based compensation	—	—	90,547	—	—	90,547
Other comprehensive loss	—	—	—	(651)	—	(651)
Net loss	—	—	—	—	(420,206)	(420,206)
Balance - October 31, 2021	216,959	5	3,292,255	(659)	(3,999,622)	(708,021)
Issuance of common stock through employee equity incentive plans	3,580	—	1,914	—	—	1,914
Stock-based compensation	—	—	88,045	—	—	88,045
Other comprehensive loss	—	—	—	(1,776)	—	(1,776)
Net loss	—	—	—	—	(115,416)	(115,416)
Balance - January 31, 2022	220,539	5	3,382,214	(2,435)	(4,115,038)	(735,254)
Issuance of common stock through employee equity incentive plans	2,228	—	744	—	—	744
Issuance of common stock from ESPP purchase	1,518	—	33,847	—	—	33,847
Stock-based compensation	—	—	84,506	—	—	84,506
Other comprehensive loss	—	—	—	(3,711)	—	(3,711)
Net loss	—	—	—	—	(111,987)	(111,987)
Balance - April 30, 2022	224,285	$ 5	$ 3,501,311	$ (6,146)	$ (4,227,025)	$ (731,855)

	Nine Months Ended April 30, 2023					
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Loss	Deficit	Deficit
	(in thousands)					
Balance - July 31, 2022	226,938	$ 6	$ 3,583,928	$ (6,076)	$ (4,378,362)	$ (800,504)
Issuance of common stock through employee equity incentive plans	2,172	—	1,975	—	—	1,975
Issuance of common stock from ESPP purchase	998	—	18,947	—	—	18,947
Stock-based compensation	—	—	80,955	—	—	80,955
Other comprehensive loss	—	—	—	(3,642)	—	(3,642)
Net loss	—	—	—	—	(99,514)	(99,514)
Balance - October 31, 2022	230,108	6	3,685,805	(9,718)	(4,477,876)	(801,783)
Issuance of common stock through employee equity incentive plans	3,483	—	684	—	—	684
Stock-based compensation	—	—	85,290	—	—	85,290
Other comprehensive income	—	—	—	3,917	—	3,917
Net loss	—	—	—	—	(70,790)	(70,790)
Balance - January 31, 2023	233,591	6	3,771,779	(5,801)	(4,548,666)	(782,682)
Issuance of common stock through employee equity incentive plans	2,566	—	372	—	—	372
Shares withheld related to net share settlement of equity awards	(413)	—	(10,214)	—	—	(10,214)
Stock-based compensation	—	—	72,908	—	—	72,908
Other comprehensive loss	—	—	—	1,518	—	1,518
Net loss	—	—	—	—	(70,969)	(70,969)
Balance - April 30, 2023	235,744	$ 6	$ 3,834,845	$ (4,283)	$ (4,619,635)	$ (789,067)

See the accompanying notes to condensed consolidated financial statements.

NUTANIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended April 30,	
	2022	2023
	(in thousands)	
Cash flows from operating activities:		
Net loss	$ (647,609)	$ (241,273)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	67,123	59,078
Stock-based compensation	263,098	239,153
Change in fair value of derivative liability	198,038	—
Loss on debt extinguishment	64,910	—
Amortization of debt discount and issuance costs	29,929	31,767
Operating lease cost, net of accretion	27,496	27,065
Early exit of lease-related assets	—	(1,109)
Non-cash interest expense	14,408	14,772
Other	7,181	(6,275)
Changes in operating assets and liabilities:		
Accounts receivable, net	4,193	(4,768)
Deferred commissions	(10,377)	16,919
Prepaid expenses and other assets	(31,723)	(33,858)
Accounts payable	4,159	(5,106)
Accrued compensation and benefits	(46,379)	2,356
Accrued expenses and other liabilities	5,570	53,451
Operating leases, net	(35,743)	(30,134)
Deferred revenue	115,265	92,056
Net cash provided by operating activities	29,539	214,094
Cash flows from investing activities:		
Maturities of investments	778,914	722,983
Purchases of investments	(794,180)	(711,253)
Sales of investments	17,999	—
Purchases of property and equipment	(34,279)	(52,603)
Net cash used in investing activities	(31,546)	(40,873)
Cash flows from financing activities:		
Repayment of convertible notes	—	(145,704)
Payments of debt extinguishment costs	(14,709)	—
Proceeds from unwinding of convertible note hedges	39,880	—
Payments for unwinding of warrants	(18,390)	—
Proceeds from sales of shares through employee equity incentive plans	66,644	23,268
Taxes paid related to net share settlement of equity awards	—	(10,214)
Proceeds from the issuance of convertible notes, net of issuance costs	88,687	—
Repurchases of common stock	(58,570)	—
Payment of finance lease obligations	(626)	(3,711)
Net cash provided by (used in) financing activities	102,916	(136,361)
Net increase in cash, cash equivalents and restricted cash	$ 100,909	$ 36,860
Cash, cash equivalents and restricted cash—beginning of period	288,873	405,862
Cash, cash equivalents and restricted cash—end of period	$ 389,782	$ 442,722
Restricted cash (1)	3,061	2,804
Cash and cash equivalents—end of period	$ 386,721	$ 439,918
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 17,101	$ 21,578
Supplemental disclosures of non-cash investing and financing information:		
Purchases of property and equipment included in accounts payable and accrued and other liabilities	$ 20,026	$ 16,214
Finance lease liabilities arising from obtaining right-of-use assets	$ 11,159	$ 13,408

(1) Included within other assets—non-current in the condensed consolidated balance sheets.

See the accompanying notes to condensed consolidated financial statements.

NOTE 1. OVERVIEW AND BASIS OF PRESENTATION

Organization and Description of Business

Nutanix, Inc. was incorporated in the state of Delaware in September 2009. Nutanix, Inc. is headquartered in San Jose, California, and together with its wholly-owned subsidiaries (collectively, "we," "us," "our" or "Nutanix"), has operations throughout North America, Europe, Asia Pacific, the Middle East, Latin America, and Africa.

We provide a leading enterprise cloud platform, which we call the Nutanix Cloud Platform, that consists of software solutions and cloud services that power our customers' enterprise infrastructure. Our solutions deliver a consistent cloud operating model across edge, private-, hybrid- and multicloud environments for all applications and their data. Our solutions allow organizations to simply move their workloads, including enterprise applications, high-performance databases, end-user computing and virtual desktop infrastructure ("VDI") services, container-based modern applications, and analytics applications, between on-premises and public clouds. Our solutions are primarily sold through channel partners and original equipment manufacturers ("OEMs") (collectively, "Partners"), and delivered directly to our end customers.

Principles of Consolidation and Significant Accounting Policies

The accompanying condensed consolidated financial statements, which include the accounts of Nutanix, Inc. and its wholly-owned subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") and are consistent in all material respects with those included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022, filed with the Securities and Exchange Commission ("SEC") on September 21, 2022. All intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements are unaudited, but include all adjustments of a normal recurring nature necessary for a fair presentation of our quarterly results. The consolidated balance sheet as of July 31, 2022 is derived from audited financial statements; however, it does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022.

Use of Estimates

The preparation of interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Such management estimates and assumptions include, but are not limited to, the best estimate of selling prices for products and related support; useful lives and recoverability of intangible assets and property and equipment; allowance for credit losses; determination of fair value of stock-based awards; accounting for income taxes, including the valuation allowance on deferred tax assets and uncertain tax positions; warranty liability; purchase commitment liabilities to our contract manufacturers; sales commissions expense and the period of benefit for deferred commissions; whether an arrangement is or contains a lease; the incremental borrowing rate to measure the present value of right-of-use assets and lease liabilities; the inputs used to determine the fair value of the contingent liability associated with the conversion feature of the 2.50% convertible senior notes due 2026 (the "2026 Notes"); and contingencies and litigation. Management evaluates these estimates and assumptions on an ongoing basis using historical experience and other factors and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could materially differ from those estimates and assumptions.

NUTANIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Concentration of Risk

Concentration of revenue and accounts receivable—We sell our products primarily through our Partners and occasionally directly to end customers. For the three and nine months ended April 30, 2022 and 2023, no end customer accounted for more than 10% of total revenue or accounts receivable.

For each significant Partner, revenue as a percentage of total revenue and accounts receivable as a percentage of total accounts receivable, net are as follows:

	Revenue				Accounts Receivable as of	
	Three Months Ended April 30,		Nine Months Ended April 30,		July 31, 2022	April 30, 2023
Partners	2022	2023	2022	2023		
Partner A	15%	18%	14%	16%	11%	20%
Partner B	34%	32%	33%	32%	26%	16%
Partner C	(1)	(1)	11%	10%	(1)	(1)

(1) Less than 10%

Summary of Significant Accounting Policies

There have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022, filed with the SEC on September 21, 2022, that have had a material impact on our condensed consolidated financial statements.

NOTE 2. CORRECTION TO PRIOR PERIOD FINANCIAL STATEMENTS

In connection with the Audit Committee investigation described below in Part I, Item 2 of this Quarterly Report on Form 10-Q under the heading "Completion of Audit Committee Investigation" and subsequent to the issuance of the condensed consolidated financial statements for the fiscal quarter ended October 31, 2022, we discovered an error in the reporting of expenses for software licenses and support for each prior period beginning in August 2014, resulting in an immaterial understatement of operating expenses and accrued expenses and other current liabilities for these prior periods. We have evaluated the materiality of this error and determined that the impact is not material to our previously issued financial statements. We have determined to prospectively correct our previously issued financial statements to reflect the correction of this error rather than record a cumulative out-of-period adjustment for this error in the current period. As a result, we have corrected the accompanying condensed consolidated financial statements as of July 31, 2022 and for the three and nine months ended April 30, 2022, from amounts previously reported to reflect the correction of this error. The correction reflects our estimates of future payments for past non-compliant use of third-party software. Actual amounts may vary materially from these estimates.

The following tables summarize the effects of the correction:

	As of July 31, 2022		
	As Previously Reported	Adjustments	As Corrected
		(in thousands)	
Condensed Consolidated Balance Sheet:			
Accrued expenses and other current liabilities	$ 49,232	$ 10,336	$ 59,568
Total current liabilities	$ 1,150,224	$ 10,336	$ 1,160,560
Total liabilities	$ 3,155,917	$ 10,336	$ 3,166,253
Accumulated deficit	$ (4,368,026)	$ (10,336)	$ (4,378,362)
Total stockholders’ deficit	$ (790,168)	$ (10,336)	$ (800,504)

NUTANIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

	Three Months Ended April 30, 2022		
	As Previously Reported	Adjustments	As Corrected
		(in thousands)	
Condensed Consolidated Statement of Operations:			
Sales and marketing	$ 234,530	$ 93	$ 234,623
Research and development	$ 142,075	$ 259	$ 142,334
Total operating expenses	$ 416,157	$ 352	$ 416,509
Loss from operations	$ (92,348)	$ (352)	$ (92,700)
Loss before provision for income taxes	$ (108,024)	$ (352)	$ (108,376)
Net loss	$ (111,635)	$ (352)	$ (111,987)
Net loss per share attributable to Class A and Class B common stockholders—basic and diluted	$ (0.50)	$ (0.00)	$ (0.50)

	Nine Months Ended April 30, 2022		
	As Previously Reported	Adjustments	As Corrected
		(in thousands)	
Condensed Consolidated Statement of Operations:			
Sales and marketing	$ 726,196	$ 279	$ 726,475
Research and development	$ 427,949	$ 782	$ 428,731
Total operating expenses	$ 1,278,016	$ 1,061	$ 1,279,077
Loss from operations	$ (324,024)	$ (1,061)	$ (325,085)
Loss before provision for income taxes	$ (633,581)	$ (1,061)	$ (634,642)
Net loss	$ (646,548)	$ (1,061)	$ (647,609)
Net loss per share attributable to Class A and Class B common stockholders—basic and diluted	$ (2.95)	$ (0.01)	$ (2.96)

	Three Months Ended April 30, 2022		
	As Previously Reported	Adjustments	As Corrected
		(in thousands)	
Condensed Consolidated Statement of Comprehensive Loss:			
Net loss	$ (111,635)	$ (352)	$ (111,987)
Comprehensive loss	$ (115,346)	$ (352)	$ (115,698)

	Nine Months Ended April 30, 2022		
	As Previously Reported	Adjustments	As Corrected
		(in thousands)	
Condensed Consolidated Statement of Comprehensive Loss:			
Net loss	$ (646,548)	$ (1,061)	$ (647,609)
Comprehensive loss	$ (652,686)	$ (1,061)	$ (653,747)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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	As Previously Reported	Adjustments	As Corrected
		(in thousands)	
Condensed Consolidated Statement of Stockholders' Deficit:			
Accumulated Deficit as of:			
July 31, 2021	$ (3,627,355)	$ (8,928)	$ (3,636,283)
October 31, 2021	$ (3,990,340)	$ (9,282)	$ (3,999,622)
January 31, 2022	$ (4,105,401)	$ (9,637)	$ (4,115,038)
April 30, 2022	$ (4,217,036)	$ (9,989)	$ (4,227,025)
July 31, 2022	$ (4,368,026)	$ (10,336)	$ (4,378,362)
October 31, 2022	$ (4,467,142)	$ (10,734)	$ (4,477,876)
Total Stockholders' Deficit as of:			
July 31, 2021	$ (1,012,041)	$ (8,928)	$ (1,020,969)
October 31, 2021	$ (698,739)	$ (9,282)	$ (708,021)
January 31, 2022	$ (725,617)	$ (9,637)	$ (735,254)
April 30, 2022	$ (721,866)	$ (9,989)	$ (731,855)
July 31, 2022	$ (790,168)	$ (10,336)	$ (800,504)
October 31, 2022	$ (791,049)	$ (10,734)	$ (801,783)
Net Loss for the Three Months Ended:			
October 31, 2021	$ (419,852)	$ (354)	$ (420,206)
January 31, 2022	$ (115,061)	$ (355)	$ (115,416)
April 30, 2022	$ (111,635)	$ (352)	$ (111,987)
October 31, 2022	$ (99,116)	$ (398)	$ (99,514)

	Nine Months Ended April 30, 2022		
	As Previously Reported	Adjustments	As Corrected
		(in thousands)	
Condensed Consolidated Statement of Cash Flows:			
Net loss	$ (646,548)	$ (1,061)	$ (647,609)
Accrued expenses and other liabilities	$ 4,509	$ 1,061	$ 5,570

NOTE 3. REVENUE, DEFERRED REVENUE AND DEFERRED COMMISSIONS

Disaggregation of Revenue and Revenue Recognition

We generate revenue primarily from the sale of our enterprise cloud platform, which can be delivered pre-installed on an appliance that is configured to order or delivered separately to be utilized on a variety of certified hardware platforms. When the software license is not portable to other appliances, it can be used over the life of the associated appliance, while subscription term-based licenses typically have a term of one to five years. Configured-to-order appliances, including our Nutanix-branded NX hardware line, can be purchased from one of our OEMs or in limited cases, directly from Nutanix. Our enterprise cloud platform typically includes one or more years of support and entitlements, which provides customers with the right to software upgrades and enhancements as well as technical support. A substantial portion of sales are made through channel partners and OEM relationships.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following table depicts the disaggregation of revenue by revenue type, consistent with how we evaluate our financial performance:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Subscription	$ 370,496	$ 417,516	$ 1,083,141	$ 1,271,388
Non-portable software	9,368	8,345	38,247	27,003
Hardware	1,329	619	5,245	2,473
Professional services	22,465	22,101	68,623	67,821
Total revenue	$ 403,658	$ 448,581	$ 1,195,256	$ 1,368,685

Subscription revenue — Subscription revenue includes any performance obligation which has a defined term and is generated from the sales of software entitlement and support subscriptions, subscription software licenses and cloud-based software as a service ("SaaS") offerings.

- Ratable — We recognize revenue from software entitlement and support subscriptions and SaaS offerings ratably over the contractual service period, the substantial majority of which relate to software entitlement and support subscriptions. These offerings represented approximately $191.1 million and $565.5 million of our subscription revenue for the three and nine months ended April 30, 2022, respectively, and $226.1 million and $663.8 million of our subscription revenue for the three and nine months ended April 30, 2023, respectively.
- Upfront — Revenue from our subscription software licenses is generally recognized upfront upon transfer of control to the customer, which happens when we make the software available to the customer. These subscription software licenses represented approximately $179.4 million and $517.6 million of our subscription revenue for the three and nine months ended April 30, 2022, respectively, and $191.4 million and $607.6 million of our subscription revenue for the three and nine months ended April 30, 2023, respectively.

Non-portable software revenue — Non-portable software revenue includes sales of our enterprise cloud platform when delivered on a configured-to-order appliance by us or one of our OEM partners. The software licenses associated with these sales are typically non-portable and can be used over the life of the appliance on which the software is delivered. Revenue from our non-portable software products is generally recognized upon transfer of control to the customer.

Hardware revenue — In transactions where the hardware appliance is purchased directly from Nutanix, we consider ourselves to be the principal in the transaction and we record revenue and costs of goods sold on a gross basis. We consider the amount allocated to hardware revenue to be equivalent to the cost of the hardware procured. Hardware revenue is generally recognized upon transfer of control to the customer.

Professional services revenue — We also sell professional services with our products. We recognize revenue related to professional services as they are performed.

Contracts with multiple performance obligations — The majority of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price ("SSP") basis. For deliverables that we routinely sell separately, such as software entitlement and support subscriptions on our core offerings, we determine SSP by evaluating the standalone sales over the trailing 12 months. For those that are not sold routinely, we determine SSP based on our overall pricing trends and objectives, taking into consideration market conditions and other factors, including the value of our contracts, the products sold and geographic locations.

Contract balances — The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable are recorded at the invoiced amount, net of an allowance for credit losses. A receivable is recognized in the period in which we deliver goods or provide services, or when our right to consideration is unconditional. In situations where revenue recognition occurs before invoicing, an unbilled receivable is created, which represents a contract asset. Unbilled accounts receivable, included in accounts receivable, net on the condensed consolidated balance sheets, was not material for any of the periods presented.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Payment terms on invoiced amounts are typically 30-45 days. We assess credit losses on accounts receivable by taking into consideration past collection experience, the credit quality of the customer, the age of the receivable balance, current and future economic conditions, and forecasts that may affect the collectability of the reported amount. The balance of accounts receivable, net of allowance for credit losses, as of July 31, 2022 and April 30, 2023 is presented in the accompanying condensed consolidated balance sheets.

Costs to obtain and fulfill a contract — We capitalize commissions paid to sales personnel and the related payroll taxes when customer contracts are signed. These costs are recorded as deferred commissions in the condensed consolidated balance sheets, current and non-current. We determine whether costs should be deferred based on our sales compensation plans, if the commissions are incremental and would not have been incurred absent the execution of the customer contract. Commissions paid upon the initial acquisition of a contract are recognized over the estimated period of benefit, which may exceed the term of the initial contract if the commissions expected to be paid upon renewal are not commensurate with that of the initial contract. Accordingly, deferred costs are recognized on a systematic basis that is consistent with the pattern of revenue recognition allocated to each performance obligation over the entire period of benefit and included in sales and marketing expense in the condensed consolidated statements of operations. We determine the estimated period of benefit by evaluating the expected renewals of customer contracts, the duration of relationships with our customers, customer retention data, our technology development lifecycle and other factors. Deferred costs are periodically reviewed for impairment.

Taxes assessed by a government authority that are both imposed on and concurrent with specific revenue transactions between us and our customers are presented on a net basis in our condensed consolidated statements of operations.

Deferred revenue — Deferred revenue primarily consists of amounts that have been invoiced but not yet recognized as revenue and primarily pertain to software entitlement and support subscriptions and professional services. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the condensed consolidated balance sheet date.

Significant changes in the balance of deferred revenue (contract liability) and deferred commissions (contract asset) for the periods presented are as follows:

	Deferred Revenue	Deferred Commissions
	(in thousands)	
Balance as of July 31, 2022	$ 1,445,538	$ 367,590
Additions [1]	469,647	33,112
Revenue/commissions recognized	(433,609)	(48,325)
Balance as of October 31, 2022	1,481,576	352,377
Additions [1]	531,230	46,439
Revenue/commissions recognized	(486,495)	(50,336)
Balance as of January 31, 2023	1,526,311	348,480
Additions	465,610	48,571
Revenue/commissions recognized	(448,581)	(46,380)
Balance as of April 30, 2023	$ 1,543,340	$ 350,671

(1) Includes both billed and unbilled amounts.

During the three and nine months ended April 30, 2022, we recognized revenue of approximately $189.5 million and $475.8 million pertaining to amounts deferred as of January 31, 2022 and July 31, 2021, respectively. During the three and nine months ended April 30, 2023, we recognized revenue of approximately $218.7 million and $556.9 million pertaining to amounts deferred as of January 31, 2023 and July 31, 2022, respectively.

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Many of our contracted but not invoiced performance obligations are subject to cancellation terms. Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized ("contracted not recognized"), which includes deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenue in future periods and excludes performance obligations that are subject to cancellation terms. Contracted not recognized revenue was approximately $1.7 billion as of April 30, 2023, of which we expect to recognize approximately 53% over the next 12 months, and the remainder thereafter.

NOTE 4. FAIR VALUE MEASUREMENTS

The fair value of our financial assets measured on a recurring basis is as follows:

	As of July 31, 2022			
	Level I	Level II	Level III	Total
	(in thousands)			
Financial Assets:				
Cash equivalents:				
Money market funds	$ 227,796	$ —	$ —	$ 227,796
Commercial paper	—	27,927	—	27,927
Short-term investments:				
Corporate bonds	—	409,024	—	409,024
Commercial paper	—	317,738	—	317,738
U.S. Government securities	—	194,667	—	194,667
Total measured at fair value	$ 227,796	$ 949,356	$ —	$ 1,177,152
Cash				147,127
Total cash, cash equivalents and short-term investments				$ 1,324,279

	As of April 30, 2023			
	Level I	Level II	Level III	Total
	(in thousands)			
Financial Assets:				
Cash equivalents:				
Money market funds	$ 231,380	$ —	$ —	$ 231,380
Commercial paper	—	57,823	—	57,823
Short-term investments:				
Corporate bonds	—	462,506	—	462,506
Commercial paper	—	246,700	—	246,700
U.S. Government securities	—	209,364	—	209,364
Total measured at fair value	$ 231,380	$ 976,393	$ —	$ 1,207,773
Cash				150,715
Total cash, cash equivalents and short-term investments				$ 1,358,488

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Financial Instruments Not Recorded at Fair Value on a Recurring Basis

We report our financial instruments at fair value, with the exception of the 0% convertible senior notes due 2023 (the "2023 Notes"), the 2026 Notes and the 0.25% convertible senior notes due 2027 (the "2027 Notes") (collectively, the "Notes"). Financial instruments that are not recorded at fair value on a recurring basis are measured at fair value on a quarterly basis for disclosure purposes. The carrying values and estimated fair values of financial instruments not recorded at fair value are as follows:

	As of July 31, 2022		As of April 30, 2023	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
2023 Notes	$ 145,456	$ 143,154	$ —	$ —
2026 Notes	589,200	759,086	639,144	899,655
2027 Notes	567,005	400,252	568,152	475,094
Total	$ 1,301,661	$ 1,302,492	$ 1,207,296	$ 1,374,749

The carrying value of the 2023 Notes as of July 31, 2022 was net of unamortized debt issuance costs of $0.2 million. In January 2023, we settled the 2023 Notes in full at maturity with a cash payment of $145.7 million.

The carrying value of the 2026 Notes as of July 31, 2022 and April 30, 2023 included $28.0 million and $47.6 million, respectively, of non-cash interest expense that was converted to the principal balance, net of unamortized debt discounts of $169.4 million and $142.2 million, respectively, and unamortized debt issuance costs of $19.4 million and $16.2 million, respectively.

The carrying value of the 2027 Notes as of July 31, 2022 and April 30, 2023 was net of unamortized debt issuance costs of $8.0 million and $6.8 million, respectively.

The total estimated fair value of the 2023 Notes was determined based on the closing trading price per $100 of the 2023 Notes as of the last day of trading for the period. We consider the fair value of the 2023 Notes to be a Level 2 valuation due to the limited trading activity.

The total estimated fair value of the 2026 Notes is based on a binomial model. We consider the fair value of the 2026 Notes to be a Level 3 valuation, as the 2026 Notes are not publicly traded. The Level 3 inputs used are the same as those used to determine the estimated fair value of the associated derivative liability, as detailed below.

The total estimated fair value of the 2027 Notes was determined based on the closing trading price per $100 of the 2027 Notes as of the last day of trading for the period. We consider the fair value of the 2027 Notes to be a Level 2 valuation due to the limited trading activity.

Derivative Liability

The conversion feature of the 2026 Notes represented an embedded derivative at inception. The 2026 Notes are not considered to be conventional debt and we determined that the embedded conversion feature was required to be bifurcated from the host debt and accounted for as a derivative liability, as the 2026 Notes were convertible into a variable number of shares until the conversion price became fixed in September 2021, based on the level of achievement of the associated financial performance metric. As such, the initial fair value of the derivative instrument was recorded as a liability in the condensed consolidated balance sheet with the corresponding amount recorded as a discount to the 2026 Notes upon issuance. The derivative liability is considered a Level 3 valuation and was recorded at its estimated fair value at the end of each reporting period and as of September 15, 2021, when the conversion price became fixed, with the change in fair value recognized within other expense, net in the condensed consolidated statements of operations.

On September 15, 2021, the conversion price of the 2026 Notes became fixed and the bifurcated liability was no longer accounted for as a separate derivative because the conversion features are now considered indexed to our own equity and meet the equity classification conditions. We estimated the fair value of the derivative liability as of September 15, 2021 to be $698.2 million, which was reclassified to equity on that date.

NOTE 5. BALANCE SHEET COMPONENTS

Short-Term Investments

The amortized cost of our short-term investments approximates their fair value. Unrealized losses related to our short-term investments are generally due to interest rate fluctuations, as opposed to credit quality. However, we review individual securities that are in an unrealized loss position in order to evaluate whether or not they have experienced or are expected to experience credit losses that would result in a decline in fair value. As of July 31, 2022 and April 30, 2023, unrealized gains and losses from our short-term investments were not material and were not the result of a decline in credit quality. As a result, as of July 31, 2022 and April 30, 2023, we did not record any credit losses for these investments.

The following table summarizes the estimated fair value of our investments in marketable debt securities by their contractual maturity dates:

	As of April 30, 2023
	(in thousands)
Due within one year	$ 724,789
Due in one to two years	193,781
Total	$ 918,570

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consists of the following:

	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
Prepaid operating expenses	$ 48,842	$ 59,920
VAT receivables	7,514	6,325
Other current assets	37,431	55,366
Total prepaid expenses and other current assets	$ 93,787	$ 121,611

The increase in prepaid expenses and other current assets from July 31, 2022 to April 30, 2023 was due primarily to the insurance receivable related to our securities class action lawsuit. For additional details on this legal proceeding, refer to Note 8.

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Property and Equipment, Net

Property and equipment, net consists of the following:

	Estimated Useful Life	As of July 31, 2022	As of April 30, 2023
	(in months)	(in thousands)	
Computer, production, engineering and other equipment	36	$ 341,536	$ 381,321
Demonstration units	12	61,914	61,418
Leasehold improvements	(1)	61,443	65,960
Furniture and fixtures	60	16,508	16,254
Total property and equipment, gross		481,401	524,953
Less: accumulated depreciation		(367,961)	(409,488)
Total property and equipment, net		$ 113,440	$ 115,465

(1) Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the remaining lease term.

Depreciation expense related to our property and equipment was $16.8 million and $53.2 million for the three and nine months ended April 30, 2022, respectively, and $16.0 million and $47.8 million for the three and nine months ended April 30, 2023, respectively.

Goodwill and Intangible Assets, Net

There was no change in the carrying value of goodwill during the nine months ended April 30, 2023.

Intangible assets, net consists of the following:

	As of July 31, 2022	As of April 30, 2023
	(in thousands)	
Developed technology	$ 79,300	$ 79,300
Customer relationships	8,860	8,860
Trade name	4,170	4,170
Total intangible assets, gross	92,330	92,330
Less:		
Accumulated amortization of developed technology	(64,344)	(72,122)
Accumulated amortization of customer relationships	(8,074)	(8,704)
Accumulated amortization of trade name	(4,083)	(4,170)
Total accumulated amortization	(76,501)	(84,996)
Total intangible assets, net	$ 15,829	$ 7,334

Amortization expense related to our intangible assets is being recognized in the condensed consolidated statements of operations within product cost of revenue for developed technology and sales and marketing expense for customer relationships and trade name.

The estimated future amortization expense of our intangible assets is as follows:

Fiscal Year Ending July 31:	Amount
	(in thousands)
2023 (remaining three months)	$ 2,361
2024	3,210
2025	1,763
Total	$ 7,334

Accrued Compensation and Benefits

Accrued compensation and benefits consists of the following:

	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
Accrued commissions	$ 32,886	$ 30,820
Contributions to ESPP withheld	19,174	26,924
Accrued vacation	23,140	25,372
Accrued wages and taxes	20,807	18,702
Accrued benefits	11,774	13,573
Payroll taxes payable	21,060	13,070
Accrued bonus	9,782	11,729
Other	11,188	11,977
Total accrued compensation and benefits	$ 149,811	$ 152,167

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consists of the following:

	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
Litigation settlement reserves	$ 9,750	$ 71,000
Software usage liability	10,336	11,248
Income taxes payable	13,206	5,369
Accrued professional services	5,499	1,349
Other	20,777	19,999
Total accrued expenses and other current liabilities	$ 59,568	$ 108,965

The increase in accrued expenses and other current liabilities from July 31, 2022 to April 30, 2023 was due primarily to an increase in the litigation settlement reserve related to our securities class action lawsuit. For additional details on this legal proceeding, refer to Note 8.

NOTE 6. CONVERTIBLE SENIOR NOTES

2023 Notes

In January 2018, we issued the 2023 Notes with a 0% interest rate for an aggregate principal amount of $575.0 million, due in 2023, in a private placement to qualified institutional buyers pursuant to Rule144A under the Securities Act.

On September 22, 2021, we consummated privately negotiated exchanges with certain holders of the outstanding 2023 Notes, pursuant to which such holders exchanged approximately $416.5 million in aggregate principal amount of 2023 Notes for $477.3 million in aggregate principal amount of 2027 Notes. We also entered into privately negotiated transactions with certain holders of the 2023 Notes pursuant to which we repurchased approximately $12.8 million in aggregate principal amount of 2023 Notes for cash. Following the closing of these exchanges and repurchases, approximately $145.7 million in aggregate principal amount of 2023 Notes remained outstanding with terms unchanged.

In January 2023, we settled the 2023 Notes in full at maturity with a cash payment of $145.7 million.

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The 2023 Notes consisted of the following:

	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
Principal amounts:		
Principal	$ 145,704	$ 145,704
Unamortized debt issuance costs [(1)]	(248)	—
Repayment of convertible senior notes	—	(145,704)
Net carrying amount	$ 145,456	$ —

(1) Included in the condensed consolidated balance sheets within convertible senior notes, net and amortized over the remaining life of the 2023 Notes using the effective interest rate method. The effective interest rate was 0.41%.

The following table sets forth the total interest expense recognized related to the 2023 Notes:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Interest expense related to amortization of debt issuance costs	$ 148	$ —	$ 696	$ 248

Note Hedges and Warrants

Concurrently with the offering of the 2023 Notes in January 2018, we entered into convertible note hedge transactions with certain bank counterparties, whereby we have the initial option to purchase a total of approximately 11.8 million shares of our Class A common stock at a conversion price of approximately $48.85 per share, subject to adjustment for certain specified events. The total cost of the convertible note hedge transactions was approximately $143.2 million. In addition, we sold warrants to certain bank counterparties, whereby the holders of the warrants have the initial option to purchase a total of approximately 11.8 million shares of our Class A common stock at a price of $73.46 per share, subject to adjustment for certain specified events. We received approximately $88.0 million in cash proceeds from the sale of these warrants.

In September 2021, in connection with the exchange and repurchase transactions described above, we terminated portions of the convertible note hedge transactions and warrant transactions previously entered into with certain financial institutions in connection with the issuance of the 2023 Notes. The net effect of these unwind transactions was a $21.5 million cash payment received, consisting of an $18.4 million payment for the warrant unwind and the receipt of $39.9 million from the hedge unwind. The amounts paid and received as part of the unwind transactions were recorded to additional paid-in capital within the condensed consolidated balance sheet.

In January 2023, the convertible note hedges and warrant transactions expired concurrently with the expiration of the 2023 Notes. No settlement is required as the stock has remained below the strike price throughout the unwind settlement averaging period.

2026 Notes

In September 2020, we issued $750.0 million in aggregate principal amount of the 2026 Notes to BCPE Nucleon (DE) SPV, LP, an entity affiliated with Bain Capital, LP ("Bain"). The total net proceeds from this offering were approximately $723.7 million, after deducting $26.3 million of debt issuance costs.

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The 2026 Notes bear interest at a rate of 2.5% per annum, with such interest to be paid in kind ("PIK") on the 2026 Notes held by Bain through an increase in the principal amount of the 2026 Notes, and paid in cash on any 2026 Notes transferred to entities that are not affiliated with Bain. Interest on the 2026 Notes has accrued from the date of issuance, September 24, 2020, and is added to the principal amount, in the case of the 2026 Notes held by Bain, or paid in cash, in the case of the 2026 Notes held by entities that are not affiliated with Bain, as applicable, on a semi-annual basis (on March 15 and September 15 of each year). The 2026 Notes mature on September 15, 2026, subject to earlier conversion, redemption or repurchase.

The 2026 Notes are convertible at an initial conversion rate of 36.036 shares of Class A common stock per $1,000 principal amount of the 2026 Notes, which is equal to an initial conversion price of $27.75 per share, subject to customary anti-dilution and other adjustments, including in connection with any make-whole adjustments as a result of certain extraordinary transactions. In September 2021, the one-year anniversary of the issuance of the 2026 Notes, the conversion price was subject to a one-time adjustment, based on the level of achievement of certain financial milestones and as a result, the conversion price became fixed at $27.75 per share. For each $1,000 principal amount of 2026 Notes a holder elects to convert, we have initially elected to pay cash with respect to the first $1,000 of conversion value and deliver shares of Class A common stock with respect to any conversion value in excess of $1,000. Pursuant to the indenture governing the 2026 Notes, we may elect to change such default settlement method with respect to any conversion of 2026 Notes held by Bain by delivering written notice to Bain at least five trading days prior to the effective time of such settlement election. Additionally, if Bain elects to convert any 2026 Notes it holds upon our delivery of a notice of redemption, Bain will have the right to elect whether such conversion is settled in cash, shares of our Class A common stock or a combination thereof.

On or after September 15, 2025, the 2026 Notes will be redeemable by us, at our option, in the event that the closing sale price of our Class A common stock has been at least 150% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide the redemption notice, for cash, at a redemption price of 100% of the principal amount of such 2026 Notes, plus any accrued and unpaid interest to, but excluding, the redemption date.

A holder who converts their 2026 Notes in connection with certain corporate events that constitute a "make-whole fundamental change" (as defined in the indenture governing the 2026 Notes) is, under certain circumstances, entitled to an increase in the conversion rate. In addition, if we undergo a "fundamental change" (as defined in the indenture governing the 2026 Notes) prior to the maturity date, holders of the 2026 Notes may require us to repurchase for cash all or a portion of their 2026 Notes at a repurchase price equal to 100% of the principal amount of the repurchased 2026 Notes, plus accrued and unpaid interest thereon.

In accordance with accounting guidance on embedded conversion features, we valued and bifurcated the conversion option associated with the 2026 Notes from the respective host debt instrument, which is treated as a debt discount, and initially recorded the conversion option of $230.9 million as a derivative liability in our condensed consolidated balance sheet, with the corresponding amount recorded as a discount to the 2026 Notes to be amortized over the term of the 2026 Notes using the effective interest method.

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(Unaudited)

The 2026 Notes consisted of the following:

	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
Principal amounts:		
Principal	$ 750,000	$ 750,000
Non-cash interest expense converted to principal	27,997	47,569
Unamortized debt discount (conversion feature) [(1)]	(169,438)	(142,180)
Unamortized debt issuance costs [(1)]	(19,359)	(16,245)
Net carrying amount	$ 589,200	$ 639,144

(1) Included in the condensed consolidated balance sheets within convertible senior notes, net and amortized over the remaining life of the 2026 Notes using the effective interest rate method. The effective interest rate is 7.05%.

As of April 30, 2023, the remaining life of the 2026 Notes was approximately 3.4 years.

The following table sets forth the total interest expense recognized related to the 2026 Notes:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Interest expense related to amortization of debt discount	$ 8,619	$ 9,246	$ 25,408	$ 27,258
Interest expense related to amortization of debt issuance costs	985	1,056	2,904	3,114
Non-cash interest expense	4,833	4,955	14,408	14,772
Total interest expense	$ 14,437	$ 15,257	$ 42,720	$ 45,144

Non-cash interest expense is related to the 2.5% PIK interest that we accrued from the issuance of the 2026 Notes through April 30, 2023 and was recognized within other expense, net in the condensed consolidated statement of operations and other liabilities–non-current in the condensed consolidated balance sheet. The accrued PIK interest will be converted to the principal balance of the 2026 Notes at each payment date and will be convertible to shares of our Class A common stock at maturity or when converted.

Upon the conversion price of the 2026 Notes becoming fixed, subject to customary anti-dilution and other adjustments, in September 2021, the embedded conversion option for the 2026 Notes no longer required bifurcation because the conversion features are now considered indexed to our own equity and meet the equity classification conditions. The carrying amount of the derivative liability of $698.2 million as of that date was reclassified to additional paid-in capital within the condensed consolidated balance sheet. The remaining debt discount that arose from the original bifurcation continues to be amortized over the term of the 2026 Notes.

2027 Notes

In September 2021, we issued $575 million in aggregate principal amount of 0.25% convertible senior notes due 2027 consisting of (i) approximately $477.3 million principal amount of 2027 Notes in exchange for approximately $416.5 million principal amount of the 2023 Notes (the "Exchange Transactions") and (ii) approximately $97.7 million principal amount of 2027 Notes for cash (the "Subscription Transactions"). We did not receive any cash proceeds from the Exchange Transactions. The net cash proceeds from the Subscription Transactions was approximately $88.4 million after deducting the offering expenses for both the Exchange Transactions and the Subscription Transactions. We used (i) approximately $14.7 million of the net cash proceeds from the Subscription Transactions to repurchase approximately $12.8 million principal amount of the 2023 Notes and (ii) approximately $58.5 million of the net cash proceeds from the Subscription Transactions to repurchase approximately 1.4 million shares of our Class A common stock.

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The 2027 Notes bear interest at a rate of 0.25% per annum, and pay interest semi-annually in arrears on each April 1 and October 1. The 2027 Notes will mature on October 1, 2027, unless earlier converted, redeemed or repurchased.

The 2027 Notes are convertible into cash, shares of our Class A common stock, or a combination of cash and shares of Class A common stock, at our election. Each $1,000 of principal of the 2027 Notes is initially convertible into 17.3192 shares of our Class A common stock, which is equivalent to an initial conversion price of approximately $57.74 per share, subject to customary anti-dilution adjustments. Holders of these 2027 Notes may convert their 2027 Notes at their option at any time prior to the close of the business day immediately preceding July 1, 2027, only under the following circumstances:

(1) during any fiscal quarter, and only during such fiscal quarter, if the closing price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on, and including, the last trading day of the preceding fiscal quarter is greater than or equal to 130% of the then applicable conversion price for the Notes per share of common stock;

(2) during the five business day period after any five consecutive trading day period in which, for each trading day of that period, the trading price per $1,000 principal amount of 2027 Notes for such trading day was less than 98% of the product of the closing price of our common stock and the then applicable conversion rate on each such trading day;

(3) if we call the 2027 Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or

(4) upon the occurrence of certain specified corporate events.

Upon conversion of the 2027 Notes, we will pay or deliver, as the case may be, cash, shares of our Class A common stock or a combination of cash and shares of Class A common stock, at our election. We intend to settle the principal of the 2027 Notes in cash.

The conversion rate will be subject to adjustment in certain events, but will not be adjusted for any accrued or unpaid interest. A holder who converts their 2027 Notes in connection with certain corporate events that constitute a "make-whole fundamental change" (as defined in the indenture governing the 2027 Notes) are, under certain circumstances, entitled to an increase in the conversion rate. In addition, if we undergo a "fundamental change" (as defined in the indenture governing the 2027 Notes) prior to the maturity date, holders of the 2027 Notes may require us to repurchase for cash all or a portion of their 2027 Notes at a repurchase price equal to 100% of the principal amount of the repurchased 2027 Notes, plus accrued and unpaid interest thereon.

In accounting for the exchange of convertible notes, we evaluated whether the transaction should be treated as a modification or extinguishment transaction. The partial exchange of the 2023 Notes and issuance of the 2027 Notes were deemed to have substantially different terms due to the significant difference between the value of the conversion option immediately prior to and after the exchange, and consequently, the 2023 Notes partial exchange was accounted for as a debt extinguishment. The $64.9 million difference between the total reacquisition price paid and the net carrying amount of the 2023 Notes is recognized as a debt extinguishment loss within other expense, net in the condensed consolidated statement of operations.

The 2027 Notes consisted of the following:

	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
Principal amounts:		
Principal	$ 575,000	$ 575,000
Unamortized debt issuance costs [1]	(7,995)	(6,848)
Net carrying amount	$ 567,005	$ 568,152

(1) Included in the condensed consolidated balance sheets within convertible senior notes, net and amortized over the remaining life of the 2027 Notes using the effective interest rate method. The effective interest rate is 0.52%.

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As of April 30, 2023, the remaining life of the 2027 Notes was approximately 4.4 years.

The following table sets forth the total interest expense recognized related to the 2027 Notes:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Contractual interest expense	$ 359	$ 548	$ 870	$ 1,266
Interest expense related to amortization of debt issuance costs	381	383	921	1,147
Total interest expense	$ 740	$ 931	$ 1,791	$ 2,413

NOTE 7. LEASES

We have operating leases for offices, research and development facilities and datacenters and finance leases for certain datacenter equipment. Our leases have remaining lease terms of one year to approximately seven years, some of which include options to renew or terminate. We do not include renewal options in the lease terms for calculating our lease liability, as we are not reasonably certain that we will exercise these renewal options at the time of the lease commencement. Our lease agreements do not contain any residual value guarantees or restrictive covenants.

Total operating lease cost was $10.7 million and $32.4 million for the three and nine months ended April 30, 2022, respectively, and $10.6 million and $32.6 million for the three and nine months ended April 30, 2023, respectively, excluding short-term lease costs, variable lease costs and sublease income, each of which were not material. Variable lease costs primarily include common area maintenance charges. Total finance lease cost was $0.7 million and $1.7 million for the three and nine months ended April 30, 2022, respectively, and $1.0 million and $2.8 million for the three and nine months ended April 30, 2023, respectively.

During the nine months ended April 30, 2023, we signed agreements to early exit certain office spaces in the United States and the Netherlands. The reductions in the lease terms resulted in decreases to the carrying amounts of the operating lease liabilities and the operating lease right-of-use assets on our condensed consolidated balance sheet as of April 30, 2023. In addition, we recorded $1.7 million of expense in our condensed consolidated statement of operations for the nine months ended April 30, 2023.

Supplemental balance sheet information related to leases is as follows:

	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
Operating leases:		
Operating lease right-of-use assets, gross	$ 188,060	$ 187,835
Accumulated amortization	(69,320)	(90,031)
Operating lease right-of-use assets, net	$ 118,740	$ 97,804
Operating lease liabilities—current	$ 39,801	$ 31,481
Operating lease liabilities—non-current	89,782	73,036
Total operating lease liabilities	$ 129,583	$ 104,517
Weighted average remaining lease term (in years):	5.1	5.1
Weighted average discount rate:	5.7 %	5.8 %

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	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
Finance leases:		
Finance lease right-of-use assets, gross [1]	$ 13,501	$ 17,603
Accumulated amortization [1]	(3,053)	(4,644)
Finance lease right-of-use assets, net [1]	$ 10,448	$ 12,959
Finance lease liabilities—current [2]	$ 2,685	$ 3,345
Finance lease liabilities—non-current [3]	7,806	10,063
Total finance lease liabilities	$ 10,491	$ 13,408
Weighted average remaining lease term (in years):	3.9	3.9
Weighted average discount rate:	5.9 %	6.8 %

(1) Included in the condensed consolidated balance sheets within property and equipment, net.
(2) Included in the condensed consolidated balance sheets within accrued expenses and other current liabilities.
(3) Included in the condensed consolidated balance sheets within other liabilities—non-current.

Supplemental cash flow and other information related to leases is as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$ 11,353	$ 11,798	$ 36,910	$ 35,561
Financing cash flows from finance leases	$ 303	$ 1,367	$ 626	$ 3,711
Lease liabilities arising from obtaining right-of-use assets:				
Operating leases	$ 1,067	$ —	$ 5,017	$ 5,971
Finance leases	$ 656	$ 5,468	$ 4,529	$ 7,011

The undiscounted cash flows for our operating lease liabilities as of April 30, 2023 were as follows:

Fiscal Year Ending July 31:	Operating Leases	Finance Leases	Total
		(in thousands)	
2023	$ 8,453	$ 1,038	$ 9,491
2024	30,785	4,152	34,937
2025	18,152	4,152	22,304
2026	14,687	3,450	18,137
2027	13,461	1,740	15,201
Thereafter	38,715	795	39,510
Total lease payments	124,253	15,327	139,580
Less: imputed interest	(19,736)	(1,919)	(21,655)
Total lease obligation	104,517	13,408	117,925
Less: current lease obligations	(31,481)	(3,345)	(34,826)
Long-term lease obligations	$ 73,036	$ 10,063	$ 83,099

As of April 30, 2023, we did not have any additional operating lease commitments for office leases that have not yet commenced.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

In the normal course of business, we make commitments with our contract manufacturers to ensure them a minimum level of financial consideration for their investment in our joint solutions. These commitments are based on performance targets or on-hand inventory and non-cancelable purchase orders for non-standard components. We record a charge related to these items when we determine that it is probable a loss will be incurred and we are able to estimate the amount of the loss. Our historical charges have not been material. As of April 30, 2023, we had up to approximately $97.4 million of non-cancelable purchase obligations and other commitments pertaining to our daily business operations, and up to approximately $57.1 million in the form of guarantees to certain of our contract manufacturers.

Legal Proceedings

Securities Class Actions. Beginning on March 29, 2019, several purported securities class actions were filed in the United States District Court for the Northern District of California against us and two of our officers. The initial complaints generally alleged that the defendants made false and misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5. In July 2019, the court consolidated the actions into a single action, and appointed a lead plaintiff, who then filed a consolidated amended complaint (the "Original Complaint"). The action was brought on behalf of those who purchased or otherwise acquired our stock between November 30, 2017 and May 30, 2019, inclusive. The defendants subsequently filed a motion to dismiss the Original Complaint, which the court granted on March 9, 2020, while providing the lead plaintiff leave to amend. On April 17, 2020, the lead plaintiff filed a second amended complaint (the "Amended Complaint"), again naming us and two of our officers as defendants. The Amended Complaint alleges the same class period, includes many of the same factual allegations as the Original Complaint, and again alleges that the defendants violated Sections 10(b) and 20(a) of the Exchange Act, as well as SEC Rule 10b-5. The Amended Complaint sought monetary damages in an unspecified amount. On September 11, 2020, the court denied the defendants' motion to dismiss the Amended Complaint and held that the lead plaintiff adequately stated a claim with respect to certain statements regarding our new customer growth and sales productivity. On January 27, 2021, lead plaintiff, Shimon Hedvat, filed a motion to (i) withdraw as lead plaintiff and (ii) substitute proposed new lead plaintiffs and approve their appointment of a new co-lead counsel. On March 1, 2021, the court granted the lead plaintiff's motion to withdraw as lead plaintiff but denied without prejudice his motion to substitute proposed new lead plaintiffs. The court also reopened the lead plaintiff selection process, allowing any putative class member interested in serving as the new lead plaintiff to file a lead plaintiff application. Following the lead plaintiff selection hearing on April 28, 2021, on June 10, 2021 the court appointed California Ironworkers Field Pension Trust as lead plaintiff and approved its appointment of counsel. On May 28, 2021, one of the movants for lead plaintiff, John P. Norton on behalf of the Norton Family Living Trust UAD 11/15/2002, filed a separate class action complaint (the "Options Class Action Complaint") in the Northern District of California on behalf of a class of persons or entities who transacted in publicly traded call options and/or put options on Nutanix stock during the period from November 30, 2017 and May 30, 2019, containing allegations substantively the same as those alleged in the Amended Complaint (the "Options Class Action") and naming the same defendants. On September 8, 2021, the court appointed the John P. Norton on behalf of the Norton Family Living Trust UAD 11/15/2002 as the lead plaintiff in the Options Class Action. On April 26, 2022, the parties met for mediation, which did not result in a settlement. On September 1, 2022, California Ironworkers Field Pension Trust filed a third amended complaint (which amends the Amended Complaint, the "Third Amended Complaint") and John P. Norton on behalf of the Norton Family Living Trust UAD 11/15/2002 filed an amended complaint (which amends the Options Class Action Complaint, the "First Amended Complaint"). On November 14, 2022, the defendants filed a motion to dismiss the Third Amended Complaint and the First Amended Complaint. On February 9, 2023, the plaintiffs and the defendants agreed to a mediator's recommendation to settle these actions for a total of $71.0 million, which is accrued as of April 30, 2023 and included within accrued expenses and other current liabilities on our condensed consolidated balance sheet. On May 19, 2023, the court granted its preliminary approval of the settlement and the notice to class members, and a final settlement hearing is scheduled for October 4, 2023. The settlement accrual is partially offset by a receivable of $39.9 million for amounts recoverable under our applicable insurance policies, which is included within prepaid expenses and other current assets on our condensed consolidated balance sheet as of April 30, 2023. During the nine months ended April 30, 2023, we recorded charges of $38.5 million for the settlement and applicable legal fees, net of our insurance receivable.

On April 14, 2023, a purported federal securities class action complaint was filed in the United States District Court for the Northern District of California against us, two of our current officers, and a former officer. The complaint generally alleges that the defendants made false and misleading statements in violation of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5. This action is brought on behalf of those who purchased or otherwise acquired our securities between September 21, 2021 and March 6, 2023, inclusive. In addition, on May 5, 2023, a purported stockholder derivative complaint was filed in the United States District Court for the Northern District of California, naming our current directors as defendants and our company as a nominal defendant. The complaint generally alleges violations of Section 14(a) of the Exchange Act and breach of fiduciary duties, and aiding and abetting breach of fiduciary duties, based on similar underlying allegations contained in the purported federal securities class action complaint described above. These cases are in their very early stages, and we are not able to determine what, if any, liabilities will attach to these complaints.

We are not currently a party to any other legal proceedings that we believe to be material to our business or financial condition. From time to time, we may become party to various litigation matters and subject to claims that arise in the ordinary course of business.

NOTE 9. STOCKHOLDERS' EQUITY

Effective January 3, 2022, all of our then outstanding shares of Class B common stock, par value $0.000025 per share, were automatically converted into the same number of shares of the Company's Class A common stock, par value $0.000025 per share, pursuant to the terms of our Amended and Restated Certificate of Incorporation. No additional shares of Class B common stock will be issued following such conversion. As a result, as of April 30, 2023, we had one class of outstanding common stock consisting of Class A common stock. In December 2022, our stockholders approved an amendment and restatement of our Amended and Restated Certificate of Incorporation, which includes the removal of all provisions related to Class B common stock.

As of April 30, 2023, we had 1.0 billion shares of Class A common stock authorized, with a par value of $0.000025 per share. As of April 30, 2023, we had 235.7 million shares of Class A common stock issued and outstanding.

Holders of Class A common stock are entitled to one vote for each share of Class A common stock held on all matters submitted to a vote of stockholders.

In September 2021, we used approximately $58.5 million of the net cash proceeds from the issuance of $97.7 million in aggregate principal amount of 2027 Notes to repurchase 1.4 million shares of Class A common stock in open market transactions at an average price of $42.77 per share. For additional details on these transactions, refer to Note 6.

NOTE 10. EQUITY INCENTIVE PLANS

Stock Plans

We have three equity incentive plans, the 2010 Stock Plan ("2010 Plan"), 2011 Stock Plan ("2011 Plan") and 2016 Equity Incentive Plan ("2016 Plan"). Our stockholders approved the 2016 Plan in March 2016 and it became effective in connection with our initial public offering ("IPO"). As a result, at the time of the IPO, we ceased granting additional stock awards under the 2010 Plan and 2011 Plan and both plans were terminated. Any outstanding stock awards under the 2010 Plan and 2011 Plan remain outstanding, subject to the terms of the applicable plan and award agreements, until such shares are issued under those stock awards, by exercise of stock options or settlement of restricted stock units ("RSUs"), or until those stock awards become vested or expired by their terms.

Under the 2016 Plan, we may grant incentive stock options, non-statutory stock options, restricted stock, RSUs and stock appreciation rights to employees, directors and consultants. We initially reserved 22.4 million shares of our Class A common stock for issuance under the 2016 Plan. The number of shares of Class A common stock available for issuance under the 2016 Plan also includes an annual increase on the first day of each fiscal year, beginning in fiscal 2018, equal to the lesser of: 18.0 million shares, 5% of the outstanding shares of all classes of common stock as of the last day of our immediately preceding fiscal year, or such other amount as may be determined by the Board. Accordingly, on August 1, 2021 and 2022, the number of shares of Class A common stock available for issuance under the 2016 Plan increased by 10.7 million and 11.3 million shares, respectively, pursuant to these provisions. As of April 30, 2023, we had reserved a total of 42.5 million shares for the issuance of equity awards under the Stock Plans, of which 14.4 million shares were still available for grant.

Restricted Stock Units

Performance RSUs — We have granted RSUs that have both service and performance conditions to our executives and employees ("Performance RSUs"). Vesting of Performance RSUs is subject to continuous service and the satisfaction of certain performance targets. While we recognize cumulative stock-based compensation expense for the portion of the awards for which both the service condition has been satisfied and it is probable that the performance conditions will be met, the actual vesting and settlement of Performance RSUs are subject to the performance conditions actually being met.

Market Stock Units

In connection with his hiring, in December 2020, the Compensation Committee of our Board of Directors approved the grant of 0.7 million RSUs subject to certain market conditions ("MSUs") to our President and CEO. These MSUs have a weighted average grant date fair value per unit of $35.69 and will vest up to 133% based upon the achievement of certain stock price targets over a performance period of approximately 4.0 years, subject to his continuous service on each vesting date.

In October 2021 and August 2022, the Compensation Committee of our Board of Directors approved the grant of approximately 0.4 million and 1.3 million MSUs, respectively, to certain of our executives. These MSUs have a weighted average grant date fair value per unit of approximately $46.20 and $27.89, respectively, and will vest up to 200% of the target number of MSUs based upon our total shareholder return relative to the total shareholder return of companies in the Nasdaq Composite Index over a performance period of approximately 2.8 years and 2.9 years, respectively, subject to continuous service on each vesting date. Additional MSUs have been granted with similar terms, but were not material.

We used Monte Carlo simulations to calculate the fair value of these awards on the grant date, or modification date, as applicable. A Monte Carlo simulation requires the use of various assumptions, including the stock price volatility and risk-free interest rate as of the valuation date corresponding to the length of time remaining in the performance period and expected dividend yield. We recognize stock-based compensation expense related to these MSUs using the graded vesting attribution method over the respective performance periods. As of April 30, 2023, approximately 2.0 million MSUs remained outstanding.

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Below is a summary of RSU activity, including MSUs, under the Stock Plans:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
	(in thousands)	
Outstanding at July 31, 2022	22,136	$ 29.81
Granted	16,295	$ 18.66
Released	(7,720)	$ 28.59
Forfeited	(3,783)	$ 27.00
Outstanding at April 30, 2023	26,928	$ 23.82

Stock Options

We did not grant any stock options during the nine months ended April 30, 2023. A total of 0.5 million stock options were exercised during the nine months ended April 30, 2023, with a weighted average exercise price per share of $6.05. As of April 30, 2023, 1.2 million stock options, with a weighted average exercise price of $6.58 per share, a weighted average remaining contractual life of 1.3 years and an aggregate intrinsic value of $20.7 million, remained outstanding.

Employee Stock Purchase Plan

In December 2015, the Board adopted the 2016 Employee Stock Purchase Plan, which was subsequently amended in January 2016 and September 2016 and approved by our stockholders in March 2016 (the "Original 2016 ESPP"). The Original 2016 ESPP became effective in connection with our IPO. Our stockholders subsequently approved amendments to the Original 2016 ESPP in December 2019 and December 2022 (as amended, the "Amended 2016 ESPP"). Under the Amended 2016 ESPP, the maximum number of shares of Class A common stock available for sale is 13.8 million shares.

The 2016 ESPP allows eligible employees to purchase shares of our Class A common stock at a discount through payroll deductions of up to 15% of eligible compensation, subject to caps of $25,000 in any calendar year and 1,000 shares on any purchase date. The 2016 ESPP provides for 12-month offering periods, generally beginning in March and September of each year, and each offering period consists of two six-month purchase periods.

On each purchase date, participating employees will purchase Class A common stock at a price per share equal to 85% of the lesser of the fair market value of our Class A common stock on (i) the first trading day of the applicable offering period or (ii) the last trading day of each purchase period in the applicable offering period. If the stock price of our Class A common stock on any purchase date in an offering period is lower than the stock price on the enrollment date of that offering period, the offering period will immediately reset after the purchase of shares on such purchase date and automatically roll into a new offering period.

During the nine months ended April 30, 2023, 1.0 million shares of common stock were purchased under the 2016 ESPP for an aggregate amount of $18.9 million. As of April 30, 2023, 13.8 million shares were available for future issuance under the 2016 ESPP.

We use the Black-Scholes option pricing model to determine the fair value of shares purchased under the 2016 ESPP with the following weighted average assumptions on the date of grant:

	Nine Months Ended April 30,	
	2022	2023
Expected term (in years)	0.81	0.74
Risk-free interest rate	1.0 %	4.2 %
Volatility	43.4 %	60.5 %
Dividend yield	— %	— %

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Stock-Based Compensation

Total stock-based compensation expense recognized in the condensed consolidated statements of operations is as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Cost of revenue:				
Product	$ 1,830	$ 1,831	$ 5,529	$ 6,103
Support, entitlements and other services	7,307	6,565	23,564	20,083
Sales and marketing	25,463	19,383	80,975	63,425
Research and development	35,467	32,003	109,709	107,116
General and administrative	14,439	13,126	43,321	42,426
Total stock-based compensation expense	$ 84,506	$ 72,908	$ 263,098	$ 239,153

As of April 30, 2023, unrecognized stock-based compensation expense related to outstanding stock awards was approximately $573.0 million and is expected to be recognized over a weighted average period of approximately 2.6 years.

NOTE 11. INCOME TAXES

The income tax provisions of $3.6 million and $13.0 million for the three and nine months ended April 30, 2022, respectively, and $5.2 million and $14.8 million for the three and nine months ended April 30, 2023, respectively, primarily consisted of foreign taxes on our international operations and U.S. state income taxes. We continue to maintain a full valuation allowance for our U.S. Federal and state deferred tax assets and a partial valuation allowance related to our foreign net deferred tax assets.

The Internal Revenue Code Section 174, which requires the mandatory capitalization and amortization of research and development expense, became effective for us for our fiscal 2023. Although Congress has considered legislation that would defer, modify or repeal the capitalization and amortization requirement, there is no assurance that the provision will be deferred, repealed, or otherwise modified. If the requirement is not modified, we may be required to utilize some of our federal and state tax attributes and there may be increases to state cash taxes.

NOTE 12. RESTRUCTURING CHARGES

In August 2022, we announced a plan to reduce our global headcount by approximately 270 employees, which represents approximately 4% of our total employees, following a review of our business structure and after taking other cost-cutting measures to reduce expenses. The headcount reduction is part of our ongoing efforts to drive towards profitable growth.

As of April 30, 2023, we recognized total restructuring charges of approximately $16.5 million, which consisted primarily of one-time severance and other termination benefit costs directly related to this reduction in force. Of the $16.5 million recognized, $0.4 million is included within support, entitlements and other services cost of revenue, $13.6 million is included within sales and marketing expense, $2.3 million is included within research and development expense, and $0.2 million is included within general and administrative expense on our condensed consolidated statements of operations.

During the fiscal quarter ended April 30, 2023, we did not make any cash payments. As of April 30, 2023, we had a remaining restructuring liability of $0.6 million, included within accrued compensation and benefits in our condensed consolidated balance sheet. We do not expect to record any material future charges related to this reduction in force.

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NOTE 13. NET LOSS PER SHARE

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by giving effect to potentially dilutive common stock equivalents outstanding during the period, as their effect would be dilutive. Potentially dilutive common shares include participating securities and shares issuable upon the exercise of stock options, the exercise of common stock warrants, the exercise of convertible preferred stock warrants, the vesting of RSUs and each purchase under the 2016 ESPP, under the if-converted method.

In loss periods, basic net loss per share and diluted net loss per share are the same, as the effect of potential common shares is antidilutive and therefore excluded.

Effective January 3, 2022, all of our then outstanding shares of Class B common stock, par value $0.000025 per share, were automatically converted into the same number of shares of the Company's Class A common stock, par value $0.000025 per share, pursuant to the terms of our Amended and Restated Certificate of Incorporation. Prior to this conversion, the rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock were identical, except with respect to voting. As the liquidation and dividend rights were identical, our undistributed earnings or losses were allocated on a proportionate basis among the holders of both Class A and Class B common stock. As a result, the net income (loss) per share attributed to common stockholders was the same for both Class A and Class B common stock on an individual or combined basis.

The computation of basic and diluted net loss per share attributable to common stockholders is as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands, except per share data)			
Numerator:				
Net loss	$ (111,987)	$ (70,969)	$ (647,609)	$ (241,273)
Denominator:				
Weighted average shares—basic and diluted	222,473	234,735	218,888	231,702
Net loss per share attributable to common stockholders—basic and diluted	$ (0.50)	$ (0.30)	$ (2.96)	$ (1.04)

The potential shares of common stock that were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive are as follows:

	Nine Months Ended April 30,	
	2022	2023
	(in thousands)	
Outstanding stock options and RSUs	25,204	28,116
Employee stock purchase plan	2,654	2,032
Common stock issuable upon the conversion of the Notes	39,968	36,986
Total	67,826	67,134

Shares that will be issued in connection with our stock awards and shares that will be purchased under the employee stock purchase plan are generally automatically converted into shares of our Class A common stock. Common stock issuable upon the conversion of convertible debt represents the antidilutive impact of the 2023 Notes, 2026 Notes and 2027 Notes under the if-converted method.

NUTANIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 14. SEGMENT INFORMATION

Our chief operating decision maker is a group which is comprised of our Chief Executive Officer and Chief Financial Officer. This group reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, we have a single reportable segment.

The following table sets forth revenue by geographic location based on bill-to location:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
U.S.	$ 227,195	$ 233,835	$ 670,782	$ 764,972
Europe, the Middle East and Africa	96,551	124,248	278,129	346,065
Asia Pacific	67,991	77,742	208,518	226,047
Other Americas	11,921	12,756	37,827	31,601
Total revenue	$ 403,658	$ 448,581	$ 1,195,256	$ 1,368,685

The following table sets forth long-lived assets, which primarily include property and equipment, net, by geographic location:

	As of	
	July 31, 2022	April 30, 2023
	(in thousands)	
United States	$ 74,472	$ 79,077
International	38,968	36,388
Total long-lived assets	$ 113,440	$ 115,465

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

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with (1) the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (2) the audited consolidated financial statements and notes thereto and "Management’s Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 filed on September 21, 2022. The last day of our fiscal year is July 31. Our fiscal quarters end on October 31, January 31, April 30 and July 31. This discussion gives effect to the correction disclosed in Note 2 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 and in Part II, Item 1A of this Quarterly Report on Form 10-Q. See also "Special Note Regarding Forward-Looking Statements" above.

Overview

Nutanix, Inc. ("we," "us," "our" or "Nutanix") provides a leading enterprise cloud platform, which we call the Nutanix Cloud Platform, that consists of software solutions and cloud services that power our customers’ enterprise infrastructure. Our solutions deliver a consistent cloud operating model across edge, private-, hybrid- and multicloud environments for all applications and their data. Our solutions allow organizations to simply move their workloads, including enterprise applications, high-performance databases, end-user computing and virtual desktop infrastructure ("VDI") services, container-based modern applications, and analytics applications, between on-premises and public clouds. Our goal is to provide a single, simple, open software platform for all hybrid and multicloud applications and their data.

The Nutanix Cloud Platform can be deployed on-premises at the edge or in data centers, running on a variety of qualified hardware platforms, in popular public cloud environments such as AWS and Microsoft Azure through Nutanix Cloud Clusters, or, in the case of our cloud-based software and software-as-a-service ("SaaS") offerings, via hosted service. Non-portable software licenses for our platform are delivered or sold alongside configured-to-order appliances, with a license term equal to the life of the associated appliance. Our subscription term-based licenses are sold separately, or can also be sold alongside configured-to-order appliances. Our subscription term-based licenses typically have terms ranging from one to five years. Our cloud-based SaaS subscriptions have terms extending up to five years. Configured-to-order appliances, including our Nutanix-branded NX hardware line, can be purchased from one of our channel partners, original equipment manufacturers ("OEMs") or, in limited cases, directly from Nutanix.

Our enterprise cloud platform typically includes one or more years of support and entitlements, which provides customers with the right to software upgrades and enhancements as well as technical support. Purchases of term-based licenses and SaaS subscriptions have support and entitlements included within the subscription fees and are not sold separately. Purchases of non-portable software are typically accompanied by the purchase of separate support and entitlements.

Product revenue is generated primarily from the licensing of our solutions. Support, entitlements and other services revenue is primarily derived from the related support and maintenance contracts. Prior to fiscal 2019, we delivered most of our solutions on an appliance, thus our revenue included the revenue associated with the appliance and the included non-portable software, which lasts for the life of the associated appliance. However, starting in fiscal 2018, as a result of our business model transition toward software-only sales, more of our customers began buying appliances directly from our OEMs while separately buying licenses for our software solutions from us or one of our channel partners. In addition, starting in fiscal 2019, as a result of our transition towards a subscription-based business model, more of our customers began purchasing separately sold subscription term-based licenses that could be deployed on a variety of hardware platforms. As we continue our transition to a subscription-based business model, we expect a greater portion of our products to be delivered through subscription term-based licenses or cloud-based SaaS subscriptions.

We had a broad and diverse base of over 24,000 end customers as of April 30, 2023, including approximately 1,000 Global 2000 enterprises. We define the number of end customers as the number of end customers for which we have received an order by the last day of the period, excluding partners to which we have sold products for their own demonstration purposes. A single organization or customer may represent multiple end customers for separate divisions, segments or subsidiaries, and the total number of end customers may contract due to mergers, acquisitions, or other consolidation among existing end customers.

Our solutions are primarily sold through channel partners and OEMs, and delivered directly to our end customers. Our solutions serve a broad range of workloads, including enterprise applications, databases, virtual desktop infrastructure, unified communications and big data analytics, and we support both virtualized and container-based applications. We have end customers across a broad range of industries, such as automotive, consumer goods, education, energy, financial services, healthcare, manufacturing, media, public sector, retail, technology and telecommunications. We also sell to service providers, who utilize our enterprise cloud platform to provide a variety of cloud-based services to their customers.

We continue to invest in the growth of our business over the long-run, including the development of our solutions and investing in sales and marketing to capitalize on our market opportunities, while improving our operating cash flow performance by focusing on go-to-market efficiencies. By maintaining this balance, we believe we can drive toward profitable growth. As discussed further in the "Factors Affecting Our Performance" section below, as part of our overall efforts to improve our operating cash flow performance, we have proactively taken steps to manage our expenses. As a result, our overall spending on such efforts will fluctuate, and may decline, from quarter to quarter in the near-term.

Completion of Audit Committee Investigation

As previously reported, management discovered that certain evaluation software from one of our third-party providers was instead used for interoperability testing, validation and customer proofs of concept over a multi-year period. The Audit Committee of our Board of Directors, with the assistance of outside counsel and other advisors, conducted an investigation into this matter.

On May 24, 2023, we announced that the Audit Committee completed its investigation, which found no evidence of wrongdoing by current senior management or by any members of the finance, legal, or accounting departments. In conducting its investigation, the Audit Committee reviewed our usage of certain software from third-party providers. The Audit Committee found that individual departments within our company procured software licenses without appropriate coordination with other departments and without ensuring that such licenses were sufficient for or consistent with the intended uses of the software, and as a result, evaluation software from two of our third-party providers was used in a non-compliant manner for interoperability testing, validation, customer proofs of concept, training and customer support over a multi-year period. In addition, the Audit Committee concluded that certain employees engaged in intentional misconduct to conceal use of evaluation software with respect to one of our third-party providers in violation of our code of business conduct and ethics and other policies. The Audit Committee proposed certain recommendations that our Board of Directors has directed management to implement, including to (1) enhance policies and procedures to reinforce ethical conduct across our company, (2) improve training regarding appropriate third-party software procurement and usage practices, (3) enhance processes to identify, document and track third-party software license procurement, usage, and compliance, and (4) enhance risk assessment processes with respect to financial reporting related to software licensing acquisition and usage. Following completion of the Audit Committee’s investigation, we also terminated certain employees who were found to be primarily responsible for the intentional misconduct, and the Audit Committee identified actions of certain other employees that were inconsistent with our code of business conduct and ethics and other policies and referred these matters to management for appropriate action.

In connection with the investigation, we identified control deficiencies that, individually or in the aggregate, constitute a material weakness in our internal control over financial reporting. Management has implemented or plans to implement remedial measures to address the identified material weakness. This material weakness resulted in an error in the reporting of expenses for software licenses and support for each prior period beginning in August 2014, resulting in an immaterial understatement of operating expenses and accrued expenses and other current liabilities for these prior periods. We have evaluated the materiality of this error and determined that the impact is not material to our previously issued financial statements. We have determined to prospectively correct our previously issued financial statements to reflect the correction of this error rather than record a cumulative out-of-period adjustment for this error in the current period. As a result, we have prospectively corrected our financial statements for the affected periods to reflect the correction of this error.

Key Financial and Performance Metrics

We monitor the following key financial and performance metrics:

	As of and for the			
	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands, except percentages)			
Total revenue	$ 403,658	$ 448,581	$ 1,195,256	$ 1,368,685
Year-over-year percentage increase	17.2 %	11.1 %	19.1 %	14.5 %
Subscription revenue	$ 370,496	$ 417,516	$ 1,083,141	$ 1,271,388
Total billings	$ 447,955	$ 461,914	$ 1,310,521	$ 1,460,741
Subscription billings	$ 412,720	$ 428,959	$ 1,199,447	$ 1,364,752
Annual contract value ("ACV") billings	$ 204,724	$ 239,810	$ 577,519	$ 698,378
Annual recurring revenue ("ARR")	$ 1,114,420	$ 1,467,178	$ 1,114,420	$ 1,467,178
Gross profit	$ 323,809	$ 366,152	$ 953,992	$ 1,116,956
Non-GAAP gross profit	$ 336,314	$ 376,986	$ 993,297	$ 1,151,151
Gross margin	80.2 %	81.6 %	79.8 %	81.6 %
Non-GAAP gross margin	83.3 %	84.0 %	83.1 %	84.1 %
Operating expenses	$ 416,509	$ 424,792	$ 1,279,077	$ 1,312,759
Non-GAAP operating expenses	$ 342,067	$ 359,797	$ 1,042,687	$ 1,053,778
Operating loss	$ (92,700)	$ (58,640)	$ (325,085)	$ (195,803)
Non-GAAP operating (loss) income	$ (5,753)	$ 17,189	$ (49,390)	$ 97,373
Operating margin	(23.0)%	(13.1)%	(27.2)%	(14.3)%
Non-GAAP operating margin	(1.4)%	3.8 %	(4.1)%	7.1 %
Total deferred revenue	$ 1,431,980	$ 1,543,340	$ 1,431,980	$ 1,543,340
Net cash (used in) provided by operating activities	$ (3,167)	$ 74,497	$ 29,539	$ 214,094
Free cash flow	$ (20,056)	$ 52,666	$ (4,740)	$ 161,491
Total end customers [(1)]	21,980	24,050	21,980	24,050

(1) The total end customer count reflects standard adjustments/consolidation to certain customer accounts within our system of record and is rounded to the nearest 10.

Disaggregation of Revenue and Billings

The following table depicts the disaggregation of revenue and billings by type, consistent with how we evaluate our financial performance:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Disaggregation of revenue:				
Subscription revenue	$ 370,496	$ 417,516	$ 1,083,141	$ 1,271,388
Non-portable software revenue	9,368	8,345	38,247	27,003
Hardware revenue	1,329	619	5,245	2,473
Professional services revenue	22,465	22,101	68,623	67,821
Total revenue	$ 403,658	$ 448,581	$ 1,195,256	$ 1,368,685
Disaggregation of billings:				
Subscription billings	$ 412,720	$ 428,959	$ 1,199,447	$ 1,364,752
Non-portable software billings	9,368	8,345	38,247	27,003
Hardware billings	1,329	619	5,245	2,473
Professional services billings	24,538	23,991	67,582	66,513
Total billings	$ 447,955	$ 461,914	$ 1,310,521	$ 1,460,741

Subscription revenue — Subscription revenue includes any performance obligation which has a defined term and is generated from the sales of software entitlement and support subscriptions, subscription software licenses and cloud-based software as a service offerings.

- Ratable — We recognize revenue from software entitlement and support subscriptions and SaaS offerings ratably over the contractual service period, the substantial majority of which relate to software entitlement and support subscriptions. These offerings represented approximately $191.1 million and $565.5 million of our subscription revenue for the three and nine months ended April 30, 2022, respectively, and $226.1 million and $663.8 million of our subscription revenue for the three and nine months ended April 30, 2023, respectively.
- Upfront — Revenue from our subscription software licenses is generally recognized upfront upon transfer of control to the customer, which happens when we make the software available to the customer. These subscription software licenses represented approximately $179.4 million and $517.6 of our subscription revenue for the three and nine months ended April 30, 2022, respectively, and $191.4 million and $607.6 million of our subscription revenue for the three and nine months ended April 30, 2023, respectively.

Non-portable software revenue — Non-portable software revenue includes sales of our enterprise cloud platform when delivered on a configured-to-order appliance by us or one of our OEM partners. The software licenses associated with these sales are typically non-portable and can be used over the life of the appliance on which the software is delivered. Revenue from our non-portable software products is generally recognized upon transfer of control to the customer.

Hardware revenue — In transactions where the hardware appliance is purchased directly from Nutanix, we consider ourselves to be the principal in the transaction and we record revenue and costs of goods sold on a gross basis. We consider the amount allocated to hardware revenue to be equivalent to the cost of the hardware procured. Hardware revenue is generally recognized upon transfer of control to the customer.

Professional services revenue — We also sell professional services with our products. We recognize revenue related to professional services as they are performed.

Non-GAAP Financial Measures and Key Performance Measures

We regularly monitor total billings, subscription billings, ACV billings, ARR, non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income (loss), non-GAAP operating margin, free cash flow, and total end customers, which are non-GAAP financial measures and key performance measures, to help us evaluate our growth and operational efficiencies, measure our performance, identify trends in our sales activity and establish our budgets. We evaluate these measures because they:

- are used by management and the Board of Directors to understand and evaluate our performance and trends, as well as to provide a useful measure for period-to-period comparisons of our core business, particularly as we progress through our transition to a subscription-based business model;
- are widely used as a measure of financial performance to understand and evaluate companies in our industry; and
- are used by management to prepare and approve our annual budget and to develop short-term and long-term operational and compensation plans, as well as to assess our actual performance against our goals.

Total billings is a performance measure which we believe provides useful information to our management and investors, as it represents the dollar value under binding purchase orders received and billed during a given period. Subscription billings is a performance measure that we believe provides useful information to our management and investors as it allows us to better track the growth of the subscription-based portion of our business, which is a critical part of our business plan. ACV billings is a performance measure that we believe provides useful information to our management and investors as they allow us to better track the topline growth of our business during our transition to a subscription-based business model because it takes into account variability in term lengths. ARR is a performance measure that we believe provides useful information to our management and investors as it allows us to better track the topline growth of our subscription business because it only includes non-life-of-device contracts and takes into account variability in term lengths. Non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income (loss), and non-GAAP operating margin are performance measures which we believe provide useful information to investors, as they provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses and expenditures, such as stock-based compensation expense, that may not be indicative of our ongoing core business operating results. Free cash flow is a performance measure that we believe provides useful information to management and investors about the amount of cash used in or generated by the business after necessary capital expenditures. We use these non-GAAP financial and key performance measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons.

Total billings, subscription billings, ACV billings, ARR, non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income (loss), non-GAAP operating margin, and free cash flow have limitations as analytical tools and they should not be considered in isolation or as substitutes for analysis of our results as reported under generally accepted accounting principles in the United States. Total billings, subscription billings, non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income (loss), non-GAAP operating margin, and free cash flow are not substitutes for total revenue, subscription revenue, gross profit, gross margin, operating expenses, operating loss, operating margin, or net cash provided by (used in) operating activities, respectively. There is no GAAP measure that is comparable to ACV billings or ARR, so we have not reconciled either ACV billings or ARR numbers included in this Quarterly Report on Form 10-Q to any GAAP measure. In addition, other companies, including companies in our industry, may calculate non-GAAP financial measures and key performance measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures and key performance measures as tools for comparison. We urge you to review the reconciliation of our non-GAAP financial measures and key performance measures to the most directly comparable GAAP financial measures included below and not to rely on any single financial measure to evaluate our business.

We calculate our non-GAAP financial and key performance measures as follows:

Total billings — We calculate total billings by adding the change in deferred revenue and the change in unbilled accounts receivable between the start and end of the period to total revenue recognized in the same period.

Subscription billings — We calculate subscription billings by adding the change in subscription deferred revenue between the start and end of the period to subscription revenue recognized in the same period.

ACV billings — We calculate ACV billings as the sum of the ACV for all contracts billed during the period. ACV is defined as the total annualized value of a contract, excluding amounts related to professional services and hardware. We calculate the total annualized value for a contract by dividing the total value of the contract by the number of years in the term of such contract, using, where applicable, an assumed term of five years for contracts that do not have a specified term.

ARR — We calculate ARR as the sum of ACV for all non-life-of-device contracts in effect as of the end of a specific period. For the purposes of this calculation, we assume that the contract term begins on the date a contract is booked, unless the terms of such contract prevent us from fulfilling our obligations until a later period, and irrespective of the periods in which we would recognize revenue for such contract.

Non-GAAP gross profit and Non-GAAP gross margin — We calculate non-GAAP gross margin as non-GAAP gross profit divided by total revenue. We define non-GAAP gross profit as gross profit adjusted to exclude stock-based compensation expense, amortization of acquired intangible assets, restructuring charges, impairment of lease-related assets, and costs associated with other non-recurring transactions. Our presentation of non-GAAP gross profit and non-GAAP gross margin should not be construed as implying that our future results will not be affected by any recurring expenses or any unusual or non-recurring items that we exclude from our calculation of these non-GAAP financial measures.

Non-GAAP operating expenses — We define non-GAAP operating expenses as total operating expenses adjusted to exclude stock-based compensation expense, restructuring charges, impairment of lease-related assets, costs associated with business combinations, such as amortization of acquired intangible assets and other acquisition-related costs and costs associated with other non-recurring transactions. Our presentation of non-GAAP operating expenses should not be construed as implying that our future results will not be affected by any recurring expenses or any unusual or non-recurring items that we exclude from our calculation of this non-GAAP financial measure.

Non-GAAP operating income (loss) and Non-GAAP operating margin — We calculate non-GAAP operating margin as non-GAAP operating income (loss) divided by total revenue. We define non-GAAP operating income (loss) as operating loss adjusted to exclude stock-based compensation expense, amortization of acquired intangible assets, restructuring charges, impairment of lease-related assets, and costs associated with other non-recurring transactions. Our presentation of non-GAAP operating income (loss) and non-GAAP operating margin should not be construed as implying that our future results will not be affected by any recurring expenses or any unusual or non-recurring items that we exclude from our calculation of these non-GAAP financial measures.

Free cash flow — We calculate free cash flow as net cash provided by (used in) operating activities less purchases of property and equipment, which measures our ability to generate cash from our business operations after our capital expenditures.

Total end customers — We define the number of end customers as the number of end customers for which we have received an order by the last day of the period, excluding partners to which we have sold products for their own demonstration purposes. A single organization or customer may represent multiple end customers for separate divisions, segments, or subsidiaries, and the total number of end customers may contract due to mergers, acquisitions, or other consolidation among existing end customers.

NUTANIX, INC.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table presents a reconciliation of total billings, non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income (loss), non-GAAP operating margin, and free cash flow to the most directly comparable GAAP financial measures, for each of the periods indicated:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands, except percentages)			
Total revenue	$ 403,658	$ 448,581	$ 1,195,256	$ 1,368,685
Change in deferred revenue	44,297	13,333	115,265	92,056
Total billings (non-GAAP)	$ 447,955	$ 461,914	$ 1,310,521	$ 1,460,741
Gross profit	$ 323,809	$ 366,152	$ 953,992	$ 1,116,956
Stock-based compensation	9,137	8,396	29,093	26,186
Amortization of intangible assets	3,368	2,438	10,212	7,779
Restructuring charges	—	—	—	230
Non-GAAP gross profit	$ 336,314	$ 376,986	$ 993,297	$ 1,151,151
Gross margin	80.2 %	81.6 %	79.8 %	81.6 %
Stock-based compensation	2.3 %	1.9 %	2.4 %	1.9 %
Amortization of intangible assets	0.8 %	0.5 %	0.9 %	0.6 %
Restructuring charges	—	—	—	—
Non-GAAP gross margin	83.3 %	84.0 %	83.1 %	84.1 %
Operating expenses	$ 416,509	$ 424,792	$ 1,279,077	$ 1,312,759
Stock-based compensation	(75,369)	(64,512)	(234,005)	(212,967)
Amortization of intangible assets	(651)	(169)	(1,953)	(716)
Restructuring charges	—	—	—	(5,073)
Early exit of lease-related assets	—	—	—	(1,726)
Litigation settlement accrual and legal fees	1,578	(314)	(432)	(38,499)
Non-GAAP operating expenses	$ 342,067	$ 359,797	$ 1,042,687	$ 1,053,778
Loss from operations	$ (92,700)	$ (58,640)	$ (325,085)	$ (195,803)
Stock-based compensation	84,506	72,908	263,098	239,153
Amortization of intangible assets	4,019	2,607	12,165	8,495
Restructuring charges	—	—	—	5,303
Early exit of lease-related assets	—	—	—	1,726
Litigation settlement accrual and legal fees	(1,578)	314	432	38,499
Non-GAAP (loss) income from operations	$ (5,753)	$ 17,189	$ (49,390)	$ 97,373
Operating margin	(23.0)%	(13.1)%	(27.2)%	(14.3)%
Stock-based compensation	21.0 %	16.2 %	22.1 %	17.5 %
Amortization of intangible assets	1.0 %	0.6 %	1.0 %	0.6 %
Restructuring charges	—	—	—	0.4 %
Early exit of lease-related assets	—	—	—	0.1 %
Litigation settlement accrual and legal fees	(0.4)%	0.1 %	—	2.8 %
Non-GAAP operating margin	(1.4)%	3.8 %	(4.1)%	7.1 %
Net cash (used in) provided by operating activities	$ (3,167)	$ 74,497	$ 29,539	$ 214,094
Purchases of property and equipment	(16,889)	(21,831)	(34,279)	(52,603)
Free cash flow (non-GAAP)	$ (20,056)	$ 52,666	$ (4,740)	$ 161,491

The following table presents a reconciliation of subscription billings and professional services billings to the most directly comparable GAAP financial measures, for each of the periods indicated:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Subscription revenue	$ 370,496	$ 417,516	$ 1,083,141	$ 1,271,388
Change in subscription deferred revenue	42,224	11,443	116,306	93,364
Subscription billings	$ 412,720	$ 428,959	$ 1,199,447	$ 1,364,752
Professional services revenue	$ 22,465	$ 22,101	$ 68,623	$ 67,821
Change in professional services deferred revenue	2,073	1,890	(1,041)	(1,308)
Professional services billings	$ 24,538	$ 23,991	$ 67,582	$ 66,513

Factors Affecting Our Performance

We believe that our future success will depend on many factors, including those described below. While these areas present significant opportunity, they also present risks that we must manage to achieve successful results. See the section titled "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 and the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q for details. If we are unable to address these challenges, our business and operating results could be materially and adversely affected.

Investment in Profitable Growth

We continue to invest in our growth over the long-run, while improving our operating cash flow performance by focusing on go-to-market efficiencies. By maintaining this balance, we believe we can drive toward profitable growth.

Investment in Sales and Marketing – Our ability to achieve billings and revenue growth depends, in large part, on our ability to capitalize on our market opportunity, including our ability to recruit, train and retain sufficient numbers of ramped sales personnel to support our growth. As part of our investment in our growth over the long-run, we plan to invest in sales and marketing, including investing in our sales and marketing teams and continuing our focus on opportunities with major accounts, large deals, and commercial accounts, as well as other sales and marketing initiatives to increase our pipeline growth. We have also recently seen higher than normal attrition among our sales representatives, and while we are actively recruiting additional sales representatives, it will take time to replace, train, and ramp them to full productivity. As a result, our overall sales and marketing expense may fluctuate, and may decline, in the near term. We estimate, based on past experience, that our average sales team members typically become fully ramped up around the start of their fourth quarter of employment with us, and as our newer employees ramp up, we expect their increased productivity to contribute to our revenue growth. As of April 30, 2023, we considered approximately 75% of our global sales team members to be fully ramped, while the remaining approximately 25% of our global sales team members are in the process of ramping up. As we continue to focus some of our newer and existing sales team members on major accounts and large deals, and as we continue our transition toward a subscription-based business model, it may take longer, potentially significantly, for these sales team members to become fully productive, and there may also be an impact to the overall productivity of our sales team. As part of our overall efforts to improve our free cash flow performance, we have also proactively taken steps to increase our go-to-market productivity and over time, we intend to reduce our overall sales and marketing spend as a percentage of revenue. These measures include improving the efficiency of our demand generation spend, focusing on lower cost renewals, increasing leverage of our channel partners, and optimizing headcount in geographies based on market opportunities.

Investment in Research and Development and Engineering – We also intend, in the long term, to grow our global research and development and engineering teams to enhance our solutions, including our newer subscription-based products, improve integration with new and existing ecosystem partners and broaden the range of technologies and features available through our platform.

We believe that these investments will contribute to our long-term growth, although they may adversely affect our profitability in the near term.

Transition to Subscription

Starting in fiscal 2019, as a result of our transition towards a subscription-based business model, more of our customers began purchasing separately sold subscription term-based licenses that could be deployed on a variety of hardware platforms. As we continue our transition to a subscription-based business model, we expect a greater portion of our products to be delivered through subscription term-based licenses or cloud-based SaaS subscriptions. Shifts in the mix of whether our solutions are sold on a subscription basis have and could continue to result in fluctuations in our billings and revenue. Subscription sales consist of subscription term-based licenses and offerings with ongoing performance obligations, including software entitlement and support subscriptions and cloud-based SaaS offerings. Since revenue is recognized as performance obligations are delivered, sales with ongoing performance obligations may reflect lower revenue in a given period. In addition, other factors relating to our shift to selling more subscription term-based licenses may impact our billings, revenue and cash flow. For example, our term-based licenses generally have an average term of approximately three years and thus result in lower billings and revenue in a given period when compared to our historical life of device license sales, which have a duration equal to the life of the associated appliance, which we estimate to be approximately five years. In addition, starting in fiscal 2021, we began compensating our sales force based on ACV instead of total contract value, and while we expect that the shift to an ACV-based sales compensation plan will incentivize sales representatives to maximize ACV and minimize discounts, it could also further compress the average term of our subscription term-based licenses. Furthermore, our customers may decide to purchase our software solutions on shorter subscription terms than they have historically, and/or request to only pay for the initial year of a multi-year subscription term upfront, which could negatively impact our billings, revenue and cash flow in a given period when compared to historical life-of-device or multiple-year term-based license sales.

Revenue for our solutions, whether or not sold as a subscription term-based license, is generally recognized upon transfer of control to the customer. For additional information on revenue recognition, see Note 3 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Market Adoption of Our Products

The public cloud and, more recently, hybrid cloud paradigms, have changed IT buyer expectations about the simplicity, agility, scalability, portability and pay-as-you-grow economics of IT resources, which represent a major architectural shift and business model evolution. A key focus of our sales and marketing efforts is creating market awareness about the benefits of our enterprise cloud platform. This includes our newer products outside of our core hyperconverged infrastructure offering, both as compared to traditional datacenter architectures as well as the public cloud, particularly as we continue to pursue large enterprises and mission critical workloads and transition toward a subscription-based business model. The broad nature of the technology shift that our enterprise cloud platform represents, the relationships our end customers have with existing IT vendors, and our transition toward a subscription-based business model sometimes lead to unpredictable sales cycles. We hope to compress and stabilize these sales cycles as market adoption increases, as we gain leverage with our channel partners, as we continue to educate the market about our subscription-based business model and as our sales and marketing efforts evolve. Our business and operating results will be significantly affected by the degree to and speed with which organizations adopt our enterprise cloud platform.

Leveraging Partners

We plan to continue to leverage our relationships with our channel and OEM partners and expand our network of cloud and ecosystem partners, all of which help to drive the adoption and sale of our solutions with our end customers. We sell our solutions primarily through our partners, and our solutions primarily run on hardware appliances which are purchased from our channel or OEM partners. We believe that increasing channel leverage, particularly as we expand our focus on opportunities in commercial accounts, by investing in sales enablement and co-marketing with our channel and OEM partners in the long term will extend and improve our engagement with a broad set of end customers. Our reliance on manufacturers, including our channel and OEM partners, to produce the hardware appliances on which our software runs exposes us to supply chain delays, which impair our ability to provide services to end customers in a timely manner. Our business and results of operations will be significantly affected by our success in leveraging our relationships with our channel and OEM partners and expanding our network of cloud and ecosystem partners.

Customer Retention and Expansion

Our end customers typically deploy our technology for a specific workload initially. After a new end customer's initial order, which includes the product and associated software entitlement and support subscription and services, we focus on expanding our footprint by serving more workloads. We also generate recurring revenue from our software entitlement and support subscription renewals, and given our transition to a subscription-focused business model, software and support renewals will have an increasing significance for our future revenue streams as existing subscriptions come up for renewal. We view continued purchases and upgrades as critical drivers of our success, as the sales cycles are typically shorter as compared to new end customer deployments, and selling efforts are typically less. As of April 30, 2023, approximately 74% of our end customers who have been with us for 18 months or longer have made a repeat purchase, which is defined as any purchase activity, including renewals of term-based licenses or software entitlement and support subscription renewals, after the initial purchase. Additionally, end customers who have been with us for 18 months or longer have total lifetime orders, including the initial order, in an amount that is more than 7.5x greater, on average, than their initial order. This number increases to approximately 24.0x, on average, for Global 2000 end customers who have been with us for 18 months or longer as of April 30, 2023. These multiples exclude the effect of one end customer who had a very large and irregular purchase pattern that we believe is not representative of the purchase patterns of all of our other end customers.

Our business and operating results will depend on our ability to retain and sell additional solutions to our existing and future base of end customers. Our ability to obtain new and retain existing customers will in turn depend in part on a number of factors. These factors include our ability to effectively maintain existing and future customer relationships, continue to innovate by adding new functionality and improving usability of our solutions in a manner that addresses our end customers' needs and requirements, and optimally price our solutions in light of marketplace conditions, competition, our costs and customer demand. Furthermore, our ongoing transition to a subscription-based business model and ongoing product transitions, such as our updated pricing and packaging to simplify our product portfolio, may cause concerns among our customer base, including concerns regarding changes to pricing over time, and may also result in confusion among new and existing end customers, for example, regarding our pricing models. Such concerns and/or confusion can slow adoption and renewal rates among our current and future customer base.

Components of Our Results of Operations

Revenue

We generate revenue primarily from the sale of our enterprise cloud platform, which can be deployed on a variety of qualified hardware platforms or, in the case of our cloud-based SaaS offerings, via hosted service or delivered pre-installed on an appliance that is configured to order. Non-portable software licenses are delivered or sold alongside configured-to-order appliances and can be used over the life of the associated appliance.

Our subscription term-based licenses are sold separately, or can be sold alongside configured-to-order appliances. Our subscription term-based licenses typically have a term of one to five years. Our cloud-based SaaS subscriptions have terms extending up to five years.

Configured-to-order appliances, including our Nutanix-branded NX hardware line, can be purchased from one of our channel partners, OEMs or, in limited cases, directly from Nutanix. Our enterprise cloud platform typically includes one or more years of support and entitlements, which provides customers with the right to software upgrades and enhancements as well as technical support. Our platform is primarily sold through channel partners and OEMs. Revenue is recognized net of sales tax and withholding tax.

Product revenue — Product revenue consists of software and hardware revenue. A majority of our product revenue is generated from the sale of our enterprise cloud operating system. We also sell renewals of previously purchased software licenses and SaaS offerings. Revenue from our software products is generally recognized upon transfer of control to the customer, which is typically upon shipment for sales including a hardware appliance, upon making the software available to the customer when not sold with an appliance or as services are performed with SaaS offerings. In transactions where the hardware appliance is purchased directly from Nutanix, we consider ourselves to be the principal in the transaction and we record revenue and costs of goods sold on a gross basis. We consider the amount allocated to hardware revenue to be equivalent to the cost of the hardware procured. Hardware revenue is generally recognized upon transfer of control to the customer.

Support, entitlements and other services revenue — We generate our support, entitlements and other services revenue primarily from software entitlement and support subscriptions, which include the right to software upgrades and enhancements as well as technical support. The majority of our product sales are sold in conjunction with software entitlement and support subscriptions, with terms ranging from one to five years. Occasionally, we also sell professional services with our products. We recognize revenue from software entitlement and support contracts ratably over the contractual service period, which typically commences upon transfer of control of the corresponding products to the customer. We recognize revenue related to professional services as they are performed.

Cost of Revenue

Cost of product revenue — Cost of product revenue consists of costs paid to third-party OEM partners, hardware costs, personnel costs associated with our operations function, consisting of salaries, benefits, bonuses and stock-based compensation, cloud-based costs associated with our SaaS offerings, and allocated costs, consisting of certain facilities, depreciation and amortization, recruiting and information technology costs allocated based on headcount.

Cost of support, entitlements and other services revenue — Cost of support, entitlements and other services revenue includes personnel and operating costs associated with our global customer support organization, as well as allocated costs. We expect our cost of support, entitlements and other services revenue to increase in absolute dollars as our support, entitlements and other services revenue increases.

Operating Expenses

Our operating expenses consist of sales and marketing, research and development and general and administrative expenses. The largest component of our operating expenses is personnel costs. Personnel costs consist of wages, benefits, bonuses and, with respect to sales and marketing expenses, sales commissions.

Sales and marketing — Sales and marketing expense consists primarily of personnel costs. Sales and marketing expense also includes sales commissions, costs for promotional activities and other marketing costs, travel costs and costs associated with demonstration units, including depreciation and allocated costs. Commissions are deferred and recognized as we recognize the associated revenue. We expect sales and marketing expense to continue, in the long term, to increase in absolute dollars as part of our long-term plans to invest in our growth. However, as part of our overall efforts to improve our operating cash flow performance, we have also proactively taken steps to increase our go-to-market productivity and over time, we intend to reduce our overall sales and marketing spend as a percentage of revenue. For example, in August 2022, we announced that we will be decreasing our global headcount by approximately 4%, primarily in sales and marketing, as part of our continued effort to drive toward sustainable profitable growth. We have also recently seen higher-than-normal attrition among our sales representatives, and while we are actively recruiting additional sales representatives, it will take time to replace, train, and ramp them to full productivity. As a result, our sales and marketing expense will fluctuate, and may decline, in the near-term.

Research and development — Research and development ("R&D") expense consists primarily of personnel costs, as well as other direct and allocated costs. We have devoted our product development efforts primarily to enhancing the functionality and expanding the capabilities of our solutions. R&D costs are expensed as incurred, unless they meet the criteria for capitalization. We expect R&D expense, in the long term, to increase in absolute dollars as part of our long-term plans to invest in our future products and services, including our newer subscription-based products, although R&D expense may fluctuate as a percentage of total revenue and, on an absolute basis, from quarter to quarter.

General and administrative — General and administrative ("G&A") expense consists primarily of personnel costs, which include our executive, finance, human resources and legal organizations. G&A expense also includes outside professional services, which consists primarily of legal, accounting and other consulting costs, as well as insurance and other costs associated with being a public company and allocated costs. We expect G&A expense, in the long term, to increase in absolute dollars, particularly due to additional legal, accounting, insurance and other costs associated with our growth, although G&A expense may fluctuate as a percentage of total revenue and, on an absolute basis, from quarter to quarter.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest income and expense, which includes the amortization of the debt issuance costs associated with our 0% convertible senior notes due 2023 (the "2023 Notes"), our 2.50% convertible senior notes due 2026 (the "2026 Notes") and our 0.25% convertible senior notes due 2027 (the “2027 Notes”), changes in the fair value of the derivative liability associated with the 2026 Notes, non-cash interest expense on the 2026 Notes, the amortization of the debt discount on the 2026 Notes, interest expense on the 2027 Notes, debt extinguishment costs, interest income related to our short-term investments, and foreign currency exchange gains or losses.

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes for certain foreign jurisdictions in which we conduct business and state income taxes in the United States. We have recorded a full valuation allowance related to our federal and state net operating losses and other net deferred tax assets and a partial valuation allowance related to our foreign net deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets.

Results of Operations

The following tables set forth our condensed consolidated results of operations in dollars and as a percentage of total revenue for the periods presented. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(in thousands)			
Revenue:				
Product	$ 199,616	$ 212,507	$ 588,872	$ 671,619
Support, entitlements and other services	204,042	236,074	606,384	697,066
Total revenue	403,658	448,581	1,195,256	1,368,685
Cost of revenue:				
Product [1][2]	13,739	12,430	43,056	40,452
Support, entitlements and other services [1]	66,110	69,999	198,208	211,277
Total cost of revenue	79,849	82,429	241,264	251,729
Gross profit	323,809	366,152	953,992	1,116,956
Operating expenses:				
Sales and marketing [1][2]	234,623	229,261	726,475	695,271
Research and development [1]	142,334	143,016	428,731	434,760
General and administrative [1]	39,552	52,515	123,871	182,728
Total operating expenses	416,509	424,792	1,279,077	1,312,759
Loss from operations	(92,700)	(58,640)	(325,085)	(195,803)
Other expense, net	(15,676)	(7,168)	(309,557)	(30,696)
Loss before provision for income taxes	(108,376)	(65,808)	(634,642)	(226,499)
Provision for income taxes	3,611	5,161	12,967	14,774
Net loss	$ (111,987)	$ (70,969)	$ (647,609)	$ (241,273)

[1] Includes stock-based compensation expense as follows:				
Product cost of revenue	$ 1,830	$ 1,831	$ 5,529	$ 6,103
Support, entitlements and other services cost of revenue	7,307	6,565	23,564	20,083
Sales and marketing	25,463	19,383	80,975	63,425
Research and development	35,467	32,003	109,709	107,116
General and administrative	14,439	13,126	43,321	42,426
Total stock-based compensation expense	$ 84,506	$ 72,908	$ 263,098	$ 239,153

[2] Includes amortization of intangible assets as follows:				
Product cost of revenue	$ 3,368	$ 2,438	$ 10,212	$ 7,779
Sales and marketing	651	169	1,953	716
Total amortization of intangible assets	$ 4,019	$ 2,607	$ 12,165	$ 8,495

NUTANIX, INC.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2022	2023	2022	2023
	(as a percentage of total revenue)			
Revenue:				
Product	49.5 %	47.4 %	49.3 %	49.1 %
Support, entitlements and other services	50.5 %	52.6 %	50.7 %	50.9 %
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue:				
Product	3.4 %	2.8 %	3.6 %	3.0 %
Support, entitlements and other services	16.4 %	15.6 %	16.6 %	15.4 %
Total cost of revenue	19.8 %	18.4 %	20.2 %	18.4 %
Gross profit	80.2 %	81.6 %	79.8 %	81.6 %
Operating expenses:				
Sales and marketing	58.1 %	51.1 %	60.8 %	50.8 %
Research and development	35.3 %	31.9 %	35.9 %	31.8 %
General and administrative	9.8 %	11.7 %	10.4 %	13.4 %
Total operating expenses	103.2 %	94.7 %	107.1 %	96.0 %
Loss from operations	(23.0)%	(13.1)%	(27.3)%	(14.4)%
Other expense, net	(3.9)%	(1.6)%	(25.9)%	(2.2)%
Loss before provision for income taxes	(26.9)%	(14.7)%	(53.2)%	(16.6)%
Provision for income taxes	0.9 %	1.2 %	1.1 %	1.1 %
Net loss	(27.8)%	(15.9)%	(54.3)%	(17.7)%

NUTANIX, INC.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Comparison of the Three and Nine Months Ended April 30, 2022 and 2023

Revenue

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2022	2023	$	%	2022	2023	$	%
	(in thousands, except percentages)							
Product	$ 199,616	$ 212,507	$ 12,891	6 %	$ 588,872	$ 671,619	$ 82,747	14 %
Support, entitlements and other services	204,042	236,074	32,032	16 %	606,384	697,066	90,682	15 %
Total revenue	$ 403,658	$ 448,581	$ 44,923	11 %	$ 1,195,256	$ 1,368,685	$ 173,429	15 %

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2022	2023	$	%	2022	2023	$	%
	(in thousands, except percentages)							
U.S.	$ 227,195	$ 233,835	$ 6,640	3 %	$ 670,782	$ 764,972	$ 94,190	14 %
Europe, the Middle East and Africa	96,551	124,248	27,697	29 %	278,129	346,065	67,936	24 %
Asia Pacific	67,991	77,742	9,751	14 %	208,518	226,047	17,529	8 %
Other Americas	11,921	12,756	835	7 %	37,827	31,601	(6,226)	(16)%
Total revenue	$ 403,658	$ 448,581	$ 44,923	11 %	$ 1,195,256	$ 1,368,685	$ 173,429	15 %

The increases in product revenue for the three and nine months ended April 30, 2023, as compared to the prior year periods, were due primarily to increases in software revenue resulting from growth in software renewals due to our transition to selling subscription term-based licenses and an increased adoption of our products, partially offset by the impact of the shorter average contract terms resulting from this transition. For the three and nine months ended April 30, 2022, the total average contract term was approximately 3.2 years and 3.1 years, respectively. For both the three and nine months ended April 30, 2023, the total average contract term was approximately 3.0 years. Total average contract term represents the dollar-weighted term across all subscription and life-of-device contracts billed during the period, using an assumed term of five years for licenses without a specified term, such as life-of-device licenses.

Support, entitlements and other services revenue increased for the three and nine months ended April 30, 2023, as compared to the prior year periods, in conjunction with the growth of our end customer base and the related software entitlement and support subscription contracts and renewals.

Cost of Revenue and Gross Margin

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2022	2023	$	%	2022	2023	$	%
	(in thousands, except percentages)							
Cost of product revenue	$ 13,739	$ 12,430	$ (1,309)	(10)%	$ 43,056	$ 40,452	$ (2,604)	(6)%
Product gross margin	*93.1 %*	*94.2 %*			*92.7 %*	*94.0 %*		
Cost of support, entitlements and other services revenue	$ 66,110	$ 69,999	$ 3,889	6 %	$ 198,208	$ 211,277	$ 13,069	7 %
Support, entitlements and other services gross margin	*67.6 %*	*70.3 %*			*67.3 %*	*69.7 %*		
Total gross margin	*80.2 %*	*81.6 %*			*79.8 %*	*81.6 %*		

Cost of product revenue

Cost of product revenue decreased for the three and nine months ended April 30, 2023, as compared to the prior year periods, due primarily to corresponding decreases in hardware revenue. Slight fluctuations in hardware revenue and cost of product revenue are anticipated, as we expect to continue selling small amounts of hardware for the foreseeable future.

Product gross margin increased by 1.1 percentage points and 1.3 percentage points for the three and nine months ended April 30, 2023, respectively, as compared to the prior year periods, due primarily to increasing software revenue, as we continued to focus on more software-only transactions, which have a higher margin as compared to hardware sales.

Cost of support, entitlements and other services revenue

Cost of support, entitlements and other services revenue increased for the three and nine months ended April 30, 2023, as compared to the prior year periods, due primarily to higher personnel-related costs, resulting from growth in our global customer support organization.

Support, entitlements and other services gross margin increased by 2.7 percentage points and 2.4 percentage points for the three and nine months ended April 30, 2023, respectively, as compared to the prior year periods, due primarily to support, entitlements and other services revenue growing at a higher rate than personnel-related costs.

Operating Expenses

Sales and marketing

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2022	2023	$	%	2022	2023	$	%
	(in thousands, except percentages)							
Sales and marketing	$ 234,623	$ 229,261	$ (5,362)	(2)%	$ 726,475	$ 695,271	$ (31,204)	(4)%
Percent of total revenue	*58.1 %*	*51.1 %*			*60.8 %*	*50.8 %*		

Sales and marketing expense decreased for the three and nine months ended April 30, 2023, as compared to the prior year periods, due primarily to lower stock-based compensation expense and commissions expense, driven in part by the 7% decrease in sales and marketing headcount from April 30, 2022 to April 30, 2023. The decrease was partially offset by an increase in costs related to certain sales events that moved from virtual to in-person.

Research and development

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2022	2023	$	%	2022	2023	$	%
	(in thousands, except percentages)							
Research and development	$ 142,334	$ 143,016	$ 682	0 %	$ 428,731	$ 434,760	$ 6,029	1 %
Percent of total revenue	*35.3 %*	*31.9 %*			*35.9 %*	*31.8 %*		

Research and development expense increased for the three and nine months ended April 30, 2023, as compared to the prior year periods, due primarily to higher personnel-related costs resulting from growth in our R&D headcount, which grew 6% from April 30, 2022 to April 30, 2023.

General and administrative

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2022	2023	$	%	2022	2023	$	%
	(in thousands, except percentages)							
General and administrative	$ 39,552	$ 52,515	$ 12,963	33 %	$ 123,871	$ 182,728	$ 58,857	48 %
Percent of total revenue	*9.8 %*	*11.7 %*			*10.4 %*	*13.4 %*		

General and administrative expense increased for the three and nine months ended April 30, 2023, as compared to the prior year periods, due primarily to charges of $71.0 million for the proposed settlement of the securities class actions, partially offset by $39.9 million for amounts recoverable under our applicable insurance policies, as well as costs incurred related to the recently completed Audit Committee investigation. The increase in G&A expense was also due to an increase in personnel-related costs resulting from growth in our G&A headcount, which grew 15% from April 30, 2022 to April 30, 2023. For additional information regarding the securities class actions, refer to Note 8 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other Expense, Net

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2022	2023	$	%	2022	2023	$	%
	(in thousands, except percentages)							
Interest income, net	$ 1,123	$ 11,179	$ (10,056)	(895)%	$ 2,199	$ 25,637	$ (23,438)	(1066)%
Change in fair value of derivative liability	—	—	—	0 %	(198,038)	—	(198,038)	(100)%
Amortization of debt discount and issuance costs and interest expense	(15,325)	(16,189)	864	6 %	(45,209)	(47,806)	2,597	6 %
Debt extinguishment costs	—	—	—	0 %	(64,911)	—	(64,911)	(100)%
Other	(1,474)	(2,158)	684	46 %	(3,598)	(8,527)	4,929	137 %
Other expense, net	$ (15,676)	$ (7,168)	$ (8,508)	(54)%	$ (309,557)	$ (30,696)	$ (278,861)	(90)%

Other expense, net decreased for the three months ended April 30, 2023, as compared to the prior year period, due primarily to increases in interest income on our investments.

Other expense, net decreased for the nine months ended April 30, 2023, as compared to the prior year period, due primarily to the change in the fair value of the derivative liability related to the 2026 Notes and the debt extinguishment costs resulting from the exchange of $416.5 million in aggregate principal amount of the 2023 Notes for $477.3 million in aggregate principal amount of the 2027 Notes.

Provision for Income Taxes

	Three Months Ended April 30,		Change		Nine Months Ended April 30,		Change	
	2022	2023	$	%	2022	2023	$	%
	(in thousands, except percentages)							
Provision for income taxes	$ 3,611	$ 5,161	$ 1,550	43 %	$ 12,967	$ 14,774	$ 1,807	14 %

The increases in the income tax provision for the three and nine months ended April 30, 2023, as compared to the prior year periods, were due primarily to the lower income tax benefit from the reversal of uncertain tax positions associated with previous acquisitions, as well as higher foreign taxes as a result of higher taxable earnings in foreign jurisdictions, as we continued to grow our business internationally. We continue to maintain a full valuation allowance on our U.S. federal and state deferred tax assets and a partial valuation allowance related to our foreign net deferred tax assets.

Liquidity and Capital Resources

As of April 30, 2023, we had $439.9 million of cash and cash equivalents, $2.8 million of restricted cash and $918.6 million of short-term investments, which were held for general corporate purposes. Our cash, cash equivalents and short-term investments primarily consist of bank deposits, money market accounts and highly rated debt instruments of the U.S. government and its agencies and debt instruments of highly rated corporations.

In January 2018, we issued convertible senior notes with a 0% interest rate for an aggregate principal amount of $575.0 million. In September 2021, we entered into privately negotiated exchange and note repurchase transactions, after which $145.7 million in aggregate principal amount of 2023 Notes remained outstanding. In January 2023, we settled the 2023 Notes in full at maturity with a cash payment of $145.7 million. For additional information, see Note 6 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In September 2020, we issued $750.0 million in aggregate principal amount of 2.50% convertible senior notes due 2026 to BCPE Nucleon (DE) SPV, LP, an entity affiliated with Bain Capital, LP. For additional information, see Note 6 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In September 2021, we issued convertible senior notes with a 0.25% interest rate for an aggregate principal amount of $575.0 million due 2027, of which $477.3 million in principal amount was issued in exchange for approximately $416.5 million principal amount of the 2023 Notes and the remaining $97.7 million in principal amount was issued for cash. There are no required principal payments on the 2027 Notes prior to their maturity. For additional information, see Note 6 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Due to investments in our business as well as the potential cash flow impacts resulting from our continued transition to a subscription-based business model, we expect our operating and free cash flow to continue to fluctuate during the next 12 months. Notwithstanding that fact, we believe that our cash and cash equivalents and short-term investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced product and service offerings, the continuing market acceptance of our products, our end customers and partners, and the economy, and the timing of and extent to which our customers transition to shorter-term contracts or request to only pay for the initial term of multi-year contracts as a result of our transition to a subscription-based business model.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended April 30,	
	2022	2023
	(in thousands)	
Net cash provided by operating activities	$ 29,539	$ 214,094
Net cash used in investing activities	(31,546)	(40,873)
Net cash provided by (used in) financing activities	102,916	(136,361)
Net increase in cash, cash equivalents and restricted cash	$ 100,909	$ 36,860

Cash Flows from Operating Activities

Net cash provided by operating activities was $214.1 million for the nine months ended April 30, 2023, compared to $29.5 million for the nine months ended April 30, 2022. Better cash collections performance helped drive the increase in cash provided by operating activities for the nine months ended April 30, 2023.

Cash Flows from Investing Activities

Net cash used in investing activities of $31.5 million for the nine months ended April 30, 2022 included $794.2 million of short-term investment purchases and $34.3 million of purchases of property and equipment, partially offset by $778.9 million of maturities of short-term investments and $18.0 million of sales of short-term investments.

Net cash used in investing activities of $40.9 million for the nine months ended April 30, 2023 included $711.3 million of short-term investment purchases and $52.6 million of purchases of property and equipment, partially offset by $723.0 million of maturities of short-term investments.

Cash Flows from Financing Activities

Net cash provided by financing activities of $102.9 million for the nine months ended April 30, 2022 included $88.7 million of proceeds from the issuance of the 2027 Notes, net of issuance costs, $66.6 million of proceeds from the sale of shares through employee equity incentive plans, and $39.9 million of proceeds from the unwinding of convertible note hedges related to the 2023 Notes, partially offset by $58.6 million of repurchases of our Class A common stock, $18.4 million of payments for the unwinding of warrants related to the 2023 Notes, and $14.7 million of debt extinguishment costs.

Net cash used in financing activities of $136.4 million for the nine months ended April 30, 2023 included $145.7 million used to repay the 2023 Notes at maturity, $10.2 million of taxes paid related to the net share settlement of equity awards, and $3.7 million of payments for finance lease obligations, partially offset by $23.3 million of proceeds from the sale of shares through employee equity incentive plans.

Material Cash Requirements and Other Obligations

The following table summarizes our material cash requirements and other obligations as of April 30, 2023:

	Payments Due by Period				
	Total	Less than 1 Year	1 Year to 3 Years	3 to 5 Years	More than 5 Years
			(in thousands)		
Principal amount payable on convertible senior notes (1)	$ 1,372,569	$ —	$ —	$ 1,372,569	$ —
Interest on convertible senior notes (1)	2,853	305	—	2,548	—
Operating leases (undiscounted basis) (2)	124,253	33,853	34,565	27,320	28,515
Other commitments (3)	97,357	84,150	9,995	3,184	28
Guarantees with contract manufacturers	57,104	57,104	—	—	—
Total	$ 1,654,136	$ 175,412	$ 44,560	$ 1,405,621	$ 28,543

(1) Includes accrued paid-in-kind interest on the 2026 Notes and accrued interest on the 2027 Notes. For additional information regarding our convertible senior notes, refer to Note 6 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.
(2) For additional information regarding our operating leases, refer to Note 7 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.
(3) Purchase obligations and other commitments pertaining to our daily business operations.

From time to time, in the normal course of business, we make commitments with our contract manufacturers to ensure them a minimum level of financial consideration for their investment in our joint solutions. These commitments are based on revenue targets or on-hand inventory and non-cancelable purchase orders for non-standard components. We record a charge related to these items when we determine that it is probable a loss will be incurred and we are able to estimate the amount of the loss. Our historical charges have not been material.

As of April 30, 2023, we had accrued liabilities related to uncertain tax positions, which are reflected on our condensed consolidated balance sheet. These accrued liabilities are not reflected in the contractual obligations disclosed in the table above, as it is uncertain if or when such amounts will ultimately be settled.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the applicable periods. We evaluate our estimates, assumptions and judgments on an ongoing basis. Our estimates, assumptions and judgments are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Different assumptions and judgments would change the estimates used in the preparation of our condensed consolidated financial statements, which, in turn, could change the results from those reported.

There have been no material changes to our critical accounting policies and estimates as compared to those described in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022.

Recent Accounting Pronouncements

See Note 1 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a full description of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations both within the United States and internationally and we are exposed to market risk in the ordinary course of business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates.

Foreign Currency Risk

Our condensed consolidated results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. Historically, our revenue contracts have been denominated in U.S. dollars. Our expenses are generally denominated in the currencies where our operations are located. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative instruments. In the event our foreign sales and expenses increase, our operating results may be more significantly affected by foreign currency exchange rate fluctuations, which can affect our operating income or loss. The effect of a hypothetical 10% change in foreign currency exchange rates on our non-U.S. dollar monetary assets and liabilities would not have had a material impact on our historical condensed consolidated financial statements. Foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our condensed consolidated financial statements.

A hypothetical 10% decrease in the U.S. dollar against other currencies would result in an increase in our operating loss of approximately $43.8 million and $18.2 million for the nine months ended April 30, 2022 and 2023, respectively. The increase in this hypothetical change is due to an increase in our expenses denominated in foreign currencies due to the continued growth of our business internationally. This analysis disregards the possibilities that rates can move in opposite directions and that losses from one geographic area may be offset by gains from another geographic area.

Interest Rate Risk

Our investment objective is to conserve capital and maintain liquidity to support our operations; therefore, we generally invest in highly liquid securities, consisting primarily of bank deposits, money market funds, commercial paper, U.S. government securities and corporate bonds. Such fixed and floating interest-earning instruments carry a degree of interest rate risk. The fair market value of fixed income securities may be adversely impacted by a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase or decrease in interest rates would have a material effect on the fair market value of our portfolio. Therefore, we do not expect our operating results or cash flows to be materially affected by a sudden change in interest rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management’s evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of April 30, 2023 due to the existence of the identified material weakness described below. Notwithstanding the identified material weakness, management concluded that our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows as of and for the periods presented in conformity with U.S. GAAP.

Material Weakness in Internal Control Over Financial Reporting

Based on criteria set forth in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"), management identified control deficiencies that, individually or in the aggregate, constitute a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness identified by management primarily relates to design deficiencies in the information and communication component of the COSO Framework, that also impacted the design and operating effectiveness of elements of the risk assessment and other components.. In particular, we determined that our controls were not designed and operating effectively to provide the information necessary for our risk assessment process to identify non-compliant use of third-party software as a risk of material misstatement in our financial reporting and we did not effectively reinforce the importance of raising concerns about perceived unethical conduct in a timely manner.

This material weakness resulted in an immaterial error in the reporting of expenses for software licenses and support for each prior period beginning in August 2014, which we plan to correct prospectively as we issue future financial statements, as disclosed in Note 2 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q. These control deficiencies, individually or in the aggregate, create a reasonable possibility that a material misstatement of our consolidated financial statements would not be prevented or detected on a timely basis, and constitute a material weakness in our internal control over financial reporting.

Plan for Remediation of Material Weakness

Management has discussed the identified material weakness with the Audit Committee of our Board of Directors. To address the identified material weakness, management has implemented or plans to implement the following remedial measures:

- Enhancing management’s quarterly sub-certification process related to non-compliant use of third-party software and increasing the certifiers’ awareness of financial reporting implications of non-compliant use of third-party software.
- Enhancing management’s disclosure committee process related to non-compliant use of third-party software.
- Enhancing the finance department’s process for collecting information about unaccrued software expenditures and/or other potential unrecorded usage of third-party software.
- Educating business unit representatives on understanding potential items, activities or services that require accrual.
- Training relevant employees on appropriate software acquisition and usage practices and software licensing compliance.
- Designing and implementing additional systems, processes and controls over third-party software license procurement, usage, and compliance.
- Revising our code of business conduct and ethics to reinforce the importance of compliant use of third-party software.
- Additional training of, and communications to, employees to further promote ethical conduct and timely escalation of concerns.

Management believes that the remediation measures described above will remediate the identified material weakness and strengthen our overall internal control over financial reporting. As management continues to evaluate and work to enhance our internal control over financial reporting, management may take additional measures to address control deficiencies or we may modify some of the remediation measures described above. The identified material weakness will not be considered remediated until the applicable remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control over Financial Reporting

Except for the identified material weakness noted above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the fiscal quarter ended April 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the "Legal Proceedings" subheading in Note 8 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

You should carefully consider the risks and uncertainties described under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2022, which is incorporated herein by reference, together with the additional and/or updated risk factors set forth below and all of the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that affect our business.

We have identified a material weakness in our internal control over financial reporting. If we are unable to remediate the identified material weakness, or if we experience additional material weaknesses or deficiencies in the future or if we otherwise fail to maintain an effective system of internal controls, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") and the rules and regulations of the Nasdaq Stock Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on our personnel, systems and resources. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls, internal control over financial reporting and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers.

As described under the heading "Controls and Procedures" in Part I, Item 4 of this Quarterly Report on Form 10-Q, we identified control deficiencies that, individually or in the aggregate, constitute a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. In particular, we determined that our controls did not effectively provide the information necessary for our risk assessment process to identify non-compliant use of third-party software as a risk of material misstatement in our financial reporting and we did not effectively reinforce the importance of raising concerns about perceived unethical conduct in a timely manner.

In response to the identified material weakness, management has implemented or plans to implement the remedial measures described under the heading "Controls and Procedures" in Part I, Item 4 of this Quarterly Report on Form 10-Q. While management believes these remediation measures will remediate the identified material weakness and strengthen our overall internal control over financial reporting, the identified material weakness will not be considered remediated until the applicable remediated controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As management continues to evaluate and work to enhance our internal control over financial reporting, management may take additional measures to address control deficiencies or we may modify some of the remediation measures. Despite these efforts, we may nevertheless be unsuccessful in remediating the identified material weakness. Further, additional weaknesses in our internal controls may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal controls also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports we will file with the SEC under Section 404 of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the market price of our securities.

In order to restore, maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting to comply with the SEC rules that implement Sections 302 and 404 of the Sarbanes-Oxley Act, we have expended and anticipate that we will continue to expend significant resources and undertake various actions, including conducting the Audit Committee internal investigation, implementing a remediation plan, incurring accounting-related costs and implementing new internal controls and procedures, and providing significant management oversight. Any failure to maintain the adequacy of our internal controls, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business and could have a material and adverse effect on our operating results and could cause a decline in the price of our securities. In addition, if we are unable to continue to meet these requirements, we may not be able to maintain our listing on the Nasdaq Global Select Market.

Matters arising out of or relating to our Audit Committee's investigation, including risks associated with litigation and any regulatory investigations and proceedings, may adversely affect our business and results of operations.

As previously disclosed, the Audit Committee of our Board of Directors, with the assistance of outside counsel, undertook an investigation relating to certain evaluation software that was used for interoperability testing, validation, customer proofs of concept, training and customer support over a multi-year period. The matters which led to our Audit Committee's review and our internal accounting review have exposed us to greater risks associated with litigation, regulatory proceedings and government enforcement actions. To date, we have incurred significant expenses related to legal, accounting, and other professional services associated with the Audit Committee's investigation and related matters and may continue to incur significant additional expenses with regard to these matters and related remediation efforts. Management has implemented or plans to implement the remedial measures described under the heading "Controls and Procedures" in Part I, Item 4 of this Quarterly Report on Form 10-Q in response to the identified material weakness. To the extent that these remedial efforts are not successful, we could be forced to incur additional time and expense. Furthermore, if the SEC were to commence an investigation, we could incur significant additional time and expense, including expenses related to accounting, legal and other professional services, in connection with the investigation, the outcome of which would be difficult to predict. If the SEC were to commence legal action, we could be required to pay significant penalties and become subject to injunctions, a cease and desist order and other equitable remedies.

Following our announcement of the investigation, a putative federal securities class action was filed in the Northern District of California against us and certain of our current and former executive officers alleging violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated thereunder, alleging misstatements and/or omissions in certain of our financial statements, press releases, and SEC filings made during the putative class period of September 21, 2021 through March 6, 2023 and a putative stockholder derivative action was filed in the Northern District of California against us and our directors alleging violations of Section 14(a) of the Exchange Act, breach of fiduciary duties, and aiding and abetting breach of fiduciary duties. We could also become subject to additional future lawsuits or future regulatory investigations or proceedings relating to the subject matter of the investigation. We intend to vigorously defend against these lawsuits, but there can be no assurance that we will be successful in any defense. Any existing or future lawsuits and/or any future regulatory investigations or proceedings could be time-consuming, result in significant expense and divert the attention and resources of our management and other key employees, as well as harm our reputation, business, financial condition or results of operations. Any unfavorable outcome could have a material adverse effect on our business, financial condition, results of operations and cash flows. Further, we could be required to pay damages or additional penalties or have other remedies imposed against us, or our current or former directors or officers, which could harm our reputation, business, financial condition, results of operations or cash flows.

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

None.

Purchases of Equity Securities by the Issuer

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index below for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

EXHIBIT INDEX

		Incorporated by Reference				
					Filing	Filed
Number	Exhibit Title	Form	File No.	Exhibit	Date	Herewith
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XRBL tags are embedded within the Inline XBRL document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.	XBRL Taxonomy Extension Definition					X
101.	XBRL Taxonomy Extension Label Linkbase					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					X

* These exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of Nutanix, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filings.

SIGNATURES

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

	NUTANIX, INC.
Date: June 2, 2023	/s/ Rukmini Sivaraman
	Rukmini Sivaraman
	Chief Financial Officer
	(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rajiv Ramaswami, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nutanix, 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 2, 2023

/s/ Rajiv Ramaswami
Rajiv Ramaswami
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rukmini Sivaraman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nutanix, 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 2, 2023

/s/ Rukmini Sivaraman
Rukmini Sivaraman
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Rajiv Ramaswami, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Nutanix, Inc. for the fiscal quarter ended April 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Nutanix, Inc.

Date: June 2, 2023	/s/ Rajiv Ramaswami
	Rajiv Ramaswami
	President and Chief Executive Officer
	(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Rukmini Sivaraman, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Nutanix, Inc. for the fiscal quarter ended April 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Nutanix, Inc.

Date: June 2, 2023	/s/ Rukmini Sivaraman
	Rukmini Sivaraman
	Chief Financial Officer
	(Principal Financial Officer)