Zscaler Reports Third Quarter Fiscal 2021 Financial Results

May 25, 2021

Third Quarter Highlights

- *Revenue grows 60% year-over-year to $176.4 million*
- *Calculated billings grows 71% year-over-year to $225.0 million*
- *Deferred revenue grows 65% year-over-year to $495.4 million*
- *GAAP net loss of $58.5 million compared to GAAP net loss of $19.3 million on a year-over-year basis*
- *Non-GAAP net income of $21.4 million compared to non-GAAP net income of $10.3 million on a year-over-year basis*

SAN JOSE, Calif., May 25, 2021 (GLOBE NEWSWIRE) -- Zscaler, Inc. (Nasdaq: ZS), the leader in cloud security, today announced financial results for its third quarter of fiscal year 2021, ended April 30, 2021.

"We delivered outstanding results for the third quarter, with revenue growth accelerating to 60% year over year and free cash flow reaching a new record. Our Zero Trust Exchange platform is helping customers realize their digital transformation goals and architect for the new normal of the work-from-anywhere economy," said Jay Chaudhry, Chairman and CEO of Zscaler. "Our strategic position with customers continues to strengthen, and we are executing well on our go-to-market initiatives. With strong business momentum, we are pleased to again increase our fiscal year guidance."

Third Quarter Fiscal 2021 Financial Highlights

- **Revenue:** $176.4 million, an increase of 60% year-over-year.
- **Income (loss) from operations**: GAAP loss from operations was $43.9 million, or 25% of total revenue, compared to $20.5 million, or 19% of total revenue, in the third quarter of fiscal 2020. Non-GAAP income from operations was $22.9 million, or 13% of total revenue, compared to $9.7 million, or 9% of total revenue, in the third quarter of fiscal 2020.
- **Net income (loss):** GAAP net loss was $58.5 million, compared to $19.3 million in the third quarter of fiscal 2020. Non-GAAP net income was $21.4 million, compared to $10.3 million in the third quarter of fiscal 2020.
- **Net income (loss) per share:** GAAP net loss per share was $0.43, compared to $0.15 in the third quarter of fiscal 2020. Non-GAAP net income per share was $0.15, compared to $0.07 in the third quarter of fiscal 2020.
- **Cash flow:** Cash provided by operations was $73.4 million, or 42% of revenue, compared to $20.8 million, or 19% of revenue, in the third quarter of fiscal 2020. Free cash flow was $55.8 million, or 32% of revenue, compared to $9.1 million, or 8% of revenue, in the third quarter of fiscal 2020.
- **Deferred revenue:** $495.4 million as of April 30, 2021, an increase of 65% year-over-year.
- **Cash, cash equivalents and short-term investments:** $1,467.6 million as of April 30, 2021, an increase of $97.0 million from July 31, 2020.

Recent Business Highlights

- Acquired Trustdome, a leading innovator in Cloud Infrastructure Entitlement Management (CIEM), to be integrated with Zscaler’s existing Cloud Security Posture Management (CSPM) platform and provide a comprehensive solution for reducing public cloud attack surfaces and improving security posture. With this acquisition, Zscaler also expands its global footprint with its first development center in Israel, where the company plans to continue investment.

- Signed a definitive agreement to acquire Smokescreen Technologies, a leader in active defense and deception technology. Smokescreen's cutting-edge capabilities will be integrated into the Zscaler Zero Trust Exchange™ platform, further building upon Zscaler's ability to detect ransomware, lateral movement attempts, and other sophisticated, highly targeted attacks.

- Launched security innovations for the Zscaler Zero Trust Exchange platform and new programs designed to secure digital businesses, including new security solutions, resources for IT execs and practitioners, and deployment guides to expedite zero trust adoption which provide digital businesses a holistic approach to IT security and the pragmatic skills and blueprints needed to be competitive.

- Announced a series of integrations with CrowdStrike to deliver end-to-end security protection from the endpoint to the

application. These integrations for joint customers strengthen security by providing an identity-centric and data-centric zero trust approach that encompasses data, people, devices, workloads, and networks.

- Announced an alliance partnership with IBM Security to deliver new blueprints for common zero trust use cases. The partnership is critical in helping customers accelerate zero trust deployments and assist organizations with simplifying remote work and network security modernization.

Change in Non-GAAP Measures Presentation

Effective August 1, 2020, the beginning of our fiscal year ending July 31, 2021, we have presented employer payroll taxes related to employee equity award transactions, which is a cash expense, as part of stock-based compensation expense in our non-GAAP results. These payroll taxes have been excluded from our non-GAAP results because they are tied to the timing and size of the exercise or vesting of the underlying equity awards and the price of our common stock at the time of vesting or exercise may vary from period to period independent of the operating performance of our business. Prior periods amounts have been recasted to conform to this presentation.

Financial Outlook

For the fourth quarter of fiscal 2021, we expect:

- Total revenue of $185 million to $187 million
- Non-GAAP income from operations of $13.5 million to $14.5 million
- Non-GAAP net income per share of approximately $0.08 to $0.09, assuming approximately 146 million common shares outstanding

For the full year fiscal 2021, we expect:

- Total revenue of $660 million to $664 million
- Calculated billings of $878 million to $880 million
- Non-GAAP income from operations of $71 million to $72 million
- Non-GAAP net income per share of $0.47, assuming approximately 145 million common shares outstanding

These statements are forward-looking and actual results may differ materially. Refer to the Forward-Looking Statements safe harbor below for information on the factors that could cause our actual results to differ materially from these forward-looking statements.

Guidance for non-GAAP income from operations excludes stock-based compensation expense and related payroll taxes, amortization expense of acquired intangible assets, asset impairment related to facility exit, certain litigation-related expenses, amortization of debt discount and issuance costs and income tax effects generated by intangible assets acquired in business acquisitions. Guidance for non-GAAP net income per share includes the anti-dilutive impact of the capped call transactions entered into in connection with our convertible senior notes issued in June 2020. We have not reconciled our expectations to non-GAAP income from operations and non-GAAP net income per share to their most directly comparable GAAP measures because certain items are out of our control or cannot be reasonably predicted. Accordingly, a reconciliation for the guidance for non-GAAP income from operations and non-GAAP net income per share is not available without unreasonable effort.

Conference Call and Webcast Information

Zscaler will host a conference call for analysts and investors to discuss its third quarter fiscal 2021 earnings results and outlook for its fourth quarter of fiscal 2021 and full year fiscal 2021 today at 1:30 p.m. Pacific time (4:30 p.m. Eastern time).

Date:	Tuesday, May 25, 2021
Time:	1:30 p.m. PT
Webcast:	https://ir.zscaler.com
Dial-in number:	918-922-3018

Upcoming Conferences

Fourth quarter of fiscal 2021 virtual investor conference participation schedule:

- J.P. Morgan Technology, Media and Communication Conference
  Wednesday, May 26, 2021
- Bernstein's 37th Annual Strategic Decisions Conference
  Friday, June 4, 2021
- Bank of America Global Technology Conference
  Tuesday, June 8, 2021
- Baird's 2021 Global Consumer, Technology & Services Conference

Thursday, June 10, 2021

- Mizuho Cybersecurity Summit
  Tuesday, June 15, 2021

Sessions which offer a webcast will be available on the Investor Relations section of the Zscaler website at https://ir.zscaler.com.

Forward-Looking Statements

This press release contains forward-looking statements that involve risks and uncertainties, including statements regarding our future financial and operating performance, including our financial outlook for the fourth quarter of fiscal 2021 and full year fiscal 2021. There are a significant number of factors that could cause actual results to differ materially from statements made in this press release, including but not limited to: the duration and global impact of COVID-19 on our business, operations and financial results and the economy in general; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; our limited operating history; our ability to identify and effectively implement the necessary changes to address execution challenges; risks associated with managing our rapid growth, including fluctuations from period to period; our limited experience with new product and subscription and support introductions and the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support; rapidly evolving technological developments in the market for network security products and subscription and support offerings and our ability to remain competitive; length of sales cycles; and general market, political, economic and business conditions.

Additional risks and uncertainties that could affect our financial results are included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth from time to time in our filings and reports with the Security Exchange Commission (SEC), including our Annual Report on Form 10-K for the fiscal year ended July 31, 2020 filed on September 17, 2020, as well as future filings and reports by us, copies of which are available on our website at ir.zscaler.com and on the SEC’s website at www.sec.gov. You should not rely on these forward-looking statements, as actual outcomes and results may differ materially from those contemplated by these forward-looking statements as a result of such risks and uncertainties. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this press release are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

Use of Non-GAAP Financial Information

We believe that the presentation of non-GAAP financial information provides important supplemental information to management and investors regarding financial and business trends relating to our financial condition and results of operations. For further information regarding why we believe that these non-GAAP measures provide useful information to investors, the specific manner in which management uses these measures, and some of the limitations associated with the use of these measures, please refer to the “Explanation of Non-GAAP Financial Measures" section of this press release.

About Zscaler

Zscaler (Nasdaq: ZS) accelerates digital transformation so customers can be more agile, efficient, resilient, and secure. The Zscaler Zero Trust Exchange protects thousands of customers from cyberattacks and data loss by securely connecting users, devices, and applications in any location. Distributed across more than 150 data centers globally, the SASE-based Zero Trust Exchange is the world’s largest in-line cloud security platform.

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ZSCALER, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Revenue	$ 176,404	$ 110,524	$ 476,026	$ 305,382
Cost of revenue [1] [2]	38,977	24,579	104,839	64,375
Gross profit	137,427	85,945	371,187	241,007

Operating expenses:				
Sales and marketing [1] [2]	115,730	67,727	323,022	188,759
Research and development [1] [2]	40,952	24,117	118,473	65,094
General and administrative [1] [3] [4]	24,595	14,615	70,107	56,223
Total operating expenses	181,277	106,459	511,602	310,076
Loss from operations	(43,850)	(20,514)	(140,415)	(69,069)
Interest income	593	1,528	2,288	5,405
Interest expense [5]	(13,436)	—	(39,730)	—
Other income, net	71	70	857	28
Loss before income taxes	(56,622)	(18,916)	(177,000)	(63,636)
Provision for income taxes	1,837	421	4,006	1,931
Net loss	$ (58,459)	$ (19,337)	$ (181,006)	$ (65,567)
Net loss per share, basic and diluted	$ (0.43)	$ (0.15)	$ (1.34)	$ (0.51)
Weighted-average shares used in computing net loss per share, basic and diluted	136,385	129,682	134,938	128,538

[1] Includes stock-based compensation expense and related payroll taxes as follows:

Cost of revenue	$ 3,665	$ 1,672	$ 10,239	4,734
Sales and marketing	34,798	15,795	101,316	39,414
Research and development	15,033	7,145	47,680	18,479
General and administrative	11,681	4,470	33,384	11,029
Total	$ 65,177	$ 29,082	$ 192,619	$ 73,656

[2] Includes amortization expense of acquired intangible assets as follows:

Cost of revenue	$ 1,503	$ 348	$ 4,510	$ 758
Sales and marketing	73	8	219	24
Research and development	—	285	—	1,280
Total	$ 1,576	$ 641	$ 4,729	$ 2,062

[3] Includes asset impairment related to facility exit as follows:	$ —	$ 430	$ 416	$ 746
[4] Includes litigation-related expenses as follows:	$ —	$ 12	$ —	$ 18,353
[5] Includes amortization of debt discount and issuance costs as follows:	$ 13,077	$ —	$ 38,649	$ —

ZSCALER, INC.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	April 30, 2021	July 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 106,590	$ 141,851
Short-term investments	1,361,019	1,228,722
Accounts receivable, net	164,923	147,584
Deferred contract acquisition costs	44,541	32,240
Prepaid expenses and other current assets	28,428	31,396
Total current assets	1,705,501	1,581,793
Property and equipment, net	106,812	75,734
Operating lease right-of-use assets	49,727	36,119
Deferred contract acquisition costs, noncurrent	107,927	77,675
Acquired intangible assets, net	26,495	24,024
Goodwill	53,291	30,059

Other noncurrent assets	12,523	8,054
Total assets	$ 2,062,276	$ 1,833,458
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 20,172	$ 5,233
Accrued expenses and other current liabilities	16,622	16,361
Accrued compensation	61,276	49,444
Deferred revenue	445,835	337,263
Operating lease liabilities	20,974	15,600
Total current liabilities	564,879	423,901
Convertible senior notes, net	900,263	861,615
Deferred revenue, noncurrent	49,599	32,504
Operating lease liabilities, noncurrent	35,472	28,023
Other noncurrent liabilities	3,956	2,586
Total liabilities	1,554,169	1,348,629
Stockholders' Equity		
Common stock	137	133
Additional paid-in capital	1,027,888	823,804
Accumulated other comprehensive income	659	463
Accumulated deficit	(520,577)	(339,571)
Total stockholders' equity	508,107	484,829
Total liabilities and stockholders' equity	$ 2,062,276	$ 1,833,458

ZSCALER, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended April 30,	
	2021	**2020**
Cash Flows From Operating Activities		
Net loss	$ (181,006)	$ (65,567)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization expense	21,401	12,278
Amortization expense of acquired intangible assets	4,729	2,062
Amortization of deferred contract acquisition costs	28,577	17,673
Amortization of debt discount and issuance costs	38,648	—
Non-cash operating lease costs	15,156	9,649
Stock-based compensation expense	178,538	70,012
Amortization (accretion) of investments purchased at a premium (discount)	8,600	(463)
Deferred income taxes	(1,502)	(555)
Impairment of assets	416	746
Other	3	305
Changes in operating assets and liabilities, net of effects of business acquisitions		
Accounts receivable	(20,128)	(12,218)
Deferred contract acquisition costs	(71,130)	(32,228)
Prepaid expenses, other current and noncurrent assets	1,797	(13,365)
Accounts payable	6,421	1,923
Accrued expenses, other current and noncurrent liabilities	3,008	660
Accrued compensation	11,583	12,671
Deferred revenue	128,414	49,581
Operating lease liabilities	(16,221)	(5,482)
Net cash provided by operating activities	157,304	47,682
Cash Flows From Investing Activities		
Purchases of property, equipment and other assets	(34,215)	(24,793)
Capitalized internal-use software	(7,047)	(6,296)
Payments for business acquisitions, net of cash acquired	(29,420)	(8,918)
Investments in privately held companies	(2,877)	—

Purchases of short-term investments	(724,472)	(202,764)
Proceeds from maturities of short-term investments	562,744	209,225
Proceeds from sale of short-term investments	22,499	14,084
Net cash used in investing activities	(212,788)	(19,462)
Cash Flows From Financing Activities		
Proceeds from issuance of common stock upon exercise of stock options	13,910	12,554
Proceeds from issuance of common stock under the employee stock purchase plan	8,563	5,334
Payment of deferred consideration related to a business acquisition	(2,250)	—
Net cash provided by financing activities	20,223	17,888
Net increase (decrease) in cash, cash equivalents and restricted cash	(35,261)	46,108
Cash, cash equivalents and restricted cash at beginning of period	141,851	78,484
Cash, cash equivalents and restricted cash at end of period	$ 106,590	$ 124,592
Reconciliation of cash, cash equivalents and restricted cash to the condensed consolidated balance sheets:		
Cash and cash equivalents	$ 106,590	$ 124,592
Restricted cash, current and noncurrent	—	—
Total cash, cash equivalents and restricted cash	$ 106,590	$ 124,592

ZSCALER, INC.
Reconciliation of GAAP to Non-GAAP Financial Measures
(in thousands)
(unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	**2020**	**2021**	**2020**
Revenue	$ 176,404	$ 110,524	$ 476,026	$ 305,382
Non-GAAP Gross Profit and Non-GAAP Gross Margin				
GAAP gross profit	$ 137,427	$ 85,945	$ 371,187	$ 241,007
Add:				
Stock-based compensation expense and related payroll taxes	3,665	1,672	10,239	4,734
Amortization expense of acquired intangible assets	1,503	348	4,510	758
Non-GAAP gross profit	$ 142,595	$ 87,965	$ 385,936	$ 246,499
GAAP gross margin	78 %	78 %	78 %	79 %
Non-GAAP gross margin	81 %	80 %	81 %	81 %
Non-GAAP Income from Operations and Non-GAAP Operating Margin				
GAAP loss from operations	$ (43,850)	$ (20,514)	$ (140,415)	$ (69,069)
Add:				
Stock-based compensation expense and related payroll taxes	65,177	29,082	192,619	73,656
Litigation-related expenses	—	12	—	18,353
Amortization expense of acquired intangible assets	1,576	641	4,729	2,062
Asset impairment related to facility exit [1]	—	430	416	746
Non-GAAP income from operations	$ 22,903	$ 9,651	$ 57,349	$ 25,748
GAAP operating margin	(25) %	(19) %	(29) %	(23) %
Non-GAAP operating margin	13 %	9 %	12 %	8 %

[1] Consists of asset impairment charges related to the relocation of our corporate headquarters.

ZSCALER, INC.
Reconciliation of GAAP to Non-GAAP Financial Measures
(in thousands, except per share amounts)

(unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Non-GAAP Net Income per Share, Diluted				
GAAP net loss	$ (58,459)	$ (19,337)	$ (181,006)	$ (65,567)
Stock-based compensation expense and related payroll taxes	65,177	29,082	192,619	73,656
Litigation-related expenses	—	12	—	18,353
Amortization of debt discount and issuance costs	13,077	—	38,649	—
Amortization expense of acquired intangible assets	1,576	641	4,729	2,062
Asset impairment related to facility exit [1]	—	430	416	746
Provision for income taxes [2]	—	(490)	—	(490)
Non-GAAP net income	$ 21,371	$ 10,338	$ 55,407	$ 28,760
GAAP net loss per share, diluted	$ (0.43)	$ (0.15)	$ (1.34)	$ (0.51)
Stock-based compensation expense and related payroll taxes	0.45	0.21	1.33	0.54
Litigation-related expenses	—	—	—	0.13
Amortization of debt discount and issuance costs	0.09	—	0.27	—
Amortization expense of acquired intangible assets	0.01	—	0.03	0.02
Asset impairment related to facility exit [1]	—	—	—	0.01
Provision for income taxes [2]	—	—	—	—
Adjustment to total fully diluted earnings per share [3]	0.03	0.01	0.09	0.02
Non-GAAP net income per share, diluted	$ 0.15	$ 0.07	$ 0.38	$ 0.21
Denominator:				
Weighted-average shares used in computing GAAP net loss per share, diluted	136,385	129,682	134,938	128,538
Potentially diluted shares	10,220	8,191	10,389	8,680
Antidilutive impact of capped call transactions [4]	(1,692)	—	(844)	—
Weighted-average shares used in computing non-GAAP net income per share, diluted	144,913	137,873	144,483	137,218

[1] Consists of asset impairment charges related to the relocation of our corporate headquarters.

[2] We use our GAAP provision for income taxes for purposes of determining our non-GAAP income tax expense. The difference between our GAAP and non-GAAP income tax expense represents the effects of stock-based compensation expense recognized in foreign jurisdictions and any income tax benefits associated with business combinations. The income tax benefit related to stock-based compensation expense included in the GAAP provision for income taxes was not material for all periods presented. In the fiscal quarter ended April 30, 2020, we recorded a tax benefit of $0.5 million, associated with intangible assets recognized as a result of our acquisition of Cloudneeti Corporation.

[3] The sum of the fully diluted earnings per share impact of individual reconciling items may not total to fully diluted Non-GAAP net income per share due to the weighted-average shares used in computing the GAAP net loss per share differs from the weighted-average shares used in computing the Non-GAAP net income per share and due to rounding of the individual reconciling items. The GAAP net loss per share calculation uses a lower share count as it excludes potentially dilutive shares, which are included in calculating the non-GAAP net income per share.

[4] We exclude the in-the-money portion of our convertible senior notes for non-GAAP weighted-average diluted shares as they are covered by our capped call transactions. Our outstanding capped call transactions are antidilutive under GAAP but are expected to mitigate the dilutive effect of our convertible notes and therefore are included in the calculations of non-GAAP diluted shares outstanding.

ZSCALER, INC.

Reconciliation of GAAP to Non-GAAP Financial Measures

(in thousands)

(unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2021	2020	2021	2020
Calculated Billings				
Revenue	$ 176,404	$ 110,524	$ 476,026	$ 305,382

Add: Total deferred revenue, end of period	495,434	300,791	495,434	300,791
Less: Total deferred revenue, beginning of period	(446,817)	(280,022)	(369,767)	(251,202)
Calculated billings	$ 225,021	$ 131,293	$ 601,693	$ 354,971
Free Cash Flow				
Net cash provided by operating activities	$ 73,368	$ 20,822	$ 157,304	$ 47,682
Less: Purchases of property, equipment and other assets	(14,812)	(9,694)	(34,215)	(24,793)
Less: Capitalized internal-use software	(2,775)	(2,023)	(7,047)	(6,296)
Free cash flow	$ 55,781	$ 9,105	$ 116,042	$ 16,593
As a percentage of revenue:				
Net cash provided by operating activities	42 %	19 %	33 %	15 %
Less: Purchases of property, equipment and other assets	(8) %	(9) %	(7) %	(8) %
Less: Capitalized internal-use software	(2) %	(2) %	(2) %	(2) %
Free cash flow margin	32 %	8 %	24 %	5 %

ZSCALER, INC.
Explanation of Non-GAAP Financial Measures

In addition to our results determined in accordance with generally accepted accounting principles in the United States of America (GAAP), we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In particular, free cash flow is not a substitute for cash used in operating activities. Additionally, the utility of free cash flow as a measure of our liquidity is further limited as it does not represent the total increase or decrease in our cash balance for a given period. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. A reconciliation of our historical non-GAAP financial measures to their most directly comparable financial measures stated in accordance with GAAP has been included in this press release. Investors are cautioned that there are a number of limitations associated with the use of non-GAAP financial measures and key metrics as analytical tools. Investors are encouraged to review these reconciliations, and not to rely on any single financial measure to evaluate our business.

Expenses Excluded from Non-GAAP Measures

Stock-based compensation expense is excluded primarily because they are non-cash expenses that management believes are not reflective of our ongoing operational performance. Effective August 1, 2020, the beginning of our fiscal year ending July 31, 2021, we have presented employer payroll taxes related to employee equity award transactions, which is a cash expense, as part of stock-based compensation expense in our non-GAAP results. These payroll taxes have been excluded from our non-GAAP results as these are tied to the timing and size of the exercise or vesting of the underlying equity awards and the price of our common stock at the time of vesting or exercise, which may vary from period to period independent of the operating performance of our business. Prior period amounts have been recasted to conform to this presentation. Amortization expense of acquired intangible assets is excluded because these are considered by management to be outside of our core business operating performance. Asset impairments related to facility exit costs are excluded because such charges are not reflective of our ongoing operational performance. Amortization of debt discount and issuance costs from our convertible senior notes are excluded because they are non-cash expenses and are not reflective of our ongoing operational performance. We also exclude certain litigation-related expenses consisting of professional fees and related costs incurred by us in defending against significant claims that we deem not to be in the ordinary course of our business and, if applicable, actual losses and accruals related to estimated losses in connection with these claims. There are many uncertainties and potential outcomes associated with any litigation, including the expense of litigation, timing of such expenses, court rulings, unforeseen developments, complications and delays, each of which may affect our results of operations from period to period, as well as the unknown magnitude of the potential loss relating to any lawsuit, all of which are inherently subject to change, difficult to predict and could adversely affect our results of operations. We estimate the tax effect of these items on our non-GAAP results and may adjust our GAAP provision for income taxes, if such effects have a material impact to our non-GAAP results.

Non-GAAP Financial Measures

Non-GAAP Gross Profit and Non-GAAP Gross Margin. We define non-GAAP gross profit as GAAP gross profit excluding stock-based compensation expense and related payroll taxes and amortization expense of acquired intangible assets. We define non-GAAP gross margin as non-GAAP gross profit as a percentage of revenue.

Non-GAAP Income from Operations and Non-GAAP Operating Margin. We define non-GAAP income from operations as GAAP loss from operations excluding stock-based compensation expense and related payroll taxes, amortization expense of acquired intangible assets, asset impairment related to facility exit and certain litigation-related expenses. We define non-GAAP operating margin as non-GAAP income from operations as a percentage of revenue.

Non-GAAP Net Income per Share, Diluted. We define non-GAAP net income as GAAP net loss plus stock-based compensation expense and related payroll taxes, amortization expense of acquired intangible assets, asset impairment related to facility exit, amortization of debt discount and issuance costs, certain litigation-related expenses, income tax effects generated by the effects of stock-based compensation expense recognized in foreign jurisdictions and any income tax benefits associated with business combinations. We define non-GAAP net income per share, diluted, as non-GAAP net income divided by the weighted-average diluted shares outstanding, which includes the dilutive effect of potentially diluted common stock equivalents outstanding during the period and the antidilutive impact of the capped call transactions entered into in connection with our convertible senior notes issued in June 2020.

Free Cash Flow and Free Cash Flow Margin. We define free cash flow as net cash provided by operating activities less purchases of property, equipment and other assets and capitalized internal-use software. We define free cash flow margin as free cash flow divided by revenue. We believe that free cash flow and free cash flow margin are meaningful indicators of liquidity information to management and investors about the amount of cash generated from our operations that, after the investments in property, equipment and other assets and capitalized internal-use software, can be used for strategic initiatives.

Calculated Billings. We define calculated billings as total revenue plus the change in deferred revenue in a period. Calculated billings in any particular period aims to reflect amounts invoiced for subscriptions to access our cloud platform, together with related support services related to our new and existing customers. We typically invoice our customers annually in advance, and to a lesser extent quarterly in advance, monthly in advance or multi-year in advance.