

ZSCALER, INC.
Supplemental Financial Information
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 the Company's historical non-GAAP financial measures to their most directly comparable financial measure stated in accordance with GAAP has been included in this Supplemental Financial Information. 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. Amortization expense of acquired intangible assets is excluded because these are considered by management to be outside of the Company's core business operating performance. Asset impairments related to facility exit costs are excluded because such charges 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 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 (Loss) from Operations and Non-GAAP Operating Margin. We define non-GAAP income (loss) from operations as GAAP loss from operations excluding stock-based compensation expense, amortization expense of acquired intangible assets, asset impairment related to facility exit and certain litigation-related expenses. We defined non-GAAP operating margin as non-GAAP income from operations as a percentage of revenue.

Non-GAAP Net Income (Loss) and Non-GAAP Net Income (Loss) per Share Attributable to Common Stockholders, Diluted. We define non-GAAP net income (loss) as GAAP net loss plus stock-based compensation expense, amortization expense of acquired intangible assets, asset impairment related to facility exit, certain litigation-related expenses, accretion of Series C and Series D redeemable convertible preferred stock, income tax effects generated by the excess tax deduction of stock-based compensation expense recognized in foreign jurisdictions and any income tax benefits associated with business combinations. We define non-GAAP net income (loss) per share attributable to common stockholders, diluted, as non-GAAP net income (loss) divided by the weighted-average diluted shares outstanding, which includes the dilutive effect of potentially diluted common stock equivalents outstanding during the period.

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 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 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.

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

Fiscal Quarter	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	1/31/2020
Beginning of Fiscal Quarter	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019	11/1/2019
Revenue	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128	\$ 86,108	\$ 93,590	\$ 101,268
Cost of revenue ^{(1) (2)}	9,424	11,501	12,099	15,271	14,960	17,339	19,558	20,238
Gross profit	39,739	44,673	51,199	59,031	64,168	68,769	74,032	81,030
Operating expenses:								
Sales and marketing ⁽¹⁾⁽²⁾	29,892	32,479	36,545	38,756	45,295	49,317	59,411	61,621
Research and development ⁽¹⁾⁽²⁾	9,907	11,480	13,186	15,071	16,499	17,213	20,271	20,706
General and administrative ⁽¹⁾⁽³⁾⁽⁴⁾	8,964	8,638	10,131	10,386	15,911	10,170	12,625	28,983
Total operating expenses	48,763	52,597	59,862	64,213	77,705	76,700	92,307	111,310
Loss from operations	(9,024)	(7,924)	(8,663)	(5,182)	(13,537)	(7,931)	(18,275)	(30,280)
Interest income, net	596	1,232	1,590	1,924	2,081	2,135	2,022	1,855
Other income (expense), net	14	64	(188)	250	(144)	(247)	(29)	(13)
Loss before income taxes	(8,414)	(6,628)	(7,261)	(3,008)	(11,600)	(6,043)	(16,282)	(28,438)
Provision (benefit) for income taxes	357	334	327	547	636	(767)	794	716
Net loss	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)	\$ (29,154)
Accretion of Series C and D redeemable convertible preferred stock	(1,223)	—	—	—	—	—	—	—
Net loss attributable to common stockholders	\$ (9,994)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)	\$ (29,154)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.14)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ (0.10)	\$ (0.04)	\$ (0.13)	\$ (0.23)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted ⁽⁵⁾	73,818	119,204	120,587	122,741	124,672	126,302	127,548	128,408

⁽¹⁾ Includes stock-based compensation expense as follows:

Cost of revenue	\$ 199	\$ 323	\$ 503	\$ 619	\$ 686	\$ 1,118	\$ 1,381	\$ 1,580
Sales and marketing	1,493	1,781	2,801	5,517	6,459	8,341	10,039	11,943
Research and development	960	1,193	2,795	4,398	4,194	3,703	4,874	6,077
General and administrative	657	821	1,487	2,693	1,936	(827)	2,082	4,266
Total	\$ 3,309	\$ 4,118	\$ 7,586	\$ 13,227	\$ 13,275	\$ 12,335	\$ 18,376	\$ 23,866

⁽²⁾ Includes amortization expense of acquired intangible assets as follows:

Cost of revenue	\$ —	\$ —	\$ —	\$ 144	\$ 163	\$ 205	\$ 205	\$ 205
Sales and marketing	—	—	—	—	3	7	8	8
Research and development	—	—	95	—	—	291	566	429
Total	\$ —	\$ —	\$ 95	\$ 144	\$ 166	\$ 503	\$ 779	\$ 642

⁽³⁾ Includes asset impairment related to facility exit as follows:

	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 316
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⁽⁴⁾ Includes litigation-related expenses as follows:

	\$ 2,836	\$ 1,427	\$ 2,174	\$ 1,768	\$ 6,164	\$ 2,973	\$ 2,007	\$ 16,334
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⁽⁵⁾ Since we have reported GAAP net losses for all periods presented, we have excluded all potentially dilutive securities from the calculation of the diluted net loss per share attributable to common stockholders as their effect is antidilutive and accordingly, basic net loss per share equals diluted net loss per share for all periods presented.

ZSCALER, INC.**Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters***(in thousands, except per share amounts)**(unaudited)*

Fiscal Quarter	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	1/31/2020
Beginning of Fiscal Quarter	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019	11/1/2019
Revenue	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128	\$ 86,108	\$ 93,590	\$ 101,268
Cost of revenue	9,225	11,178	11,596	14,508	14,111	16,016	17,972	18,453
Gross profit	39,938	44,996	51,702	59,794	65,017	70,092	75,618	82,815
Operating expenses:								
Sales and marketing	28,399	30,698	33,744	33,239	38,833	40,969	49,364	49,670
Research and development	8,947	10,287	10,296	10,673	12,305	13,219	14,831	14,200
General and administrative	5,471	6,390	6,470	5,925	7,811	8,024	8,536	8,067
Total operating expenses	42,817	47,375	50,510	49,837	58,949	62,212	72,731	71,937
Income (loss) from operations	(2,879)	(2,379)	1,192	9,957	6,068	7,880	2,887	10,878
Interest income, net	596	1,232	1,590	1,924	2,081	2,135	2,022	1,855
Other income (expense), net	14	64	(188)	250	(144)	(247)	(29)	(13)
Income (loss) before income taxes	(2,269)	(1,083)	2,594	12,131	8,005	9,768	4,880	12,720
Provision for income taxes ⁽¹⁾	357	334	327	547	636	655	794	716
Non-GAAP net income (loss) attributable to common stockholders	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369	\$ 9,113	\$ 4,086	\$ 12,004
Non-GAAP net income (loss) per share attributable to common stockholders, diluted	\$ (0.04)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05	\$ 0.07	\$ 0.03	\$ 0.09
Weighted-average shares used in computing non-GAAP net income (loss) per share attributable to common stockholders, diluted	73,818	119,204	133,845	134,246	136,538	137,545	136,860	136,663
Pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽²⁾	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05	\$ 0.07	\$ 0.03	\$ 0.09
Weighted-average shares used in computing pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽²⁾	112,105	119,204	133,845	134,246	136,538	137,545	136,860	136,663

⁽¹⁾ 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 excess tax deduction of stock-based compensation recognized in foreign jurisdictions and any income tax benefits associated with business combinations. The income tax benefit related to stock-based compensation and included in the GAAP provision for income taxes was not material for all periods presented. In the fiscal quarter ended July 31, 2019, we recorded a non-recurring tax benefit of \$1.4 million associated with an intangible asset recognized as a result of our acquisition of Appslulate, Inc.

⁽²⁾ We define pro forma non-GAAP net income (loss) per share attributable to common stockholders as the weighted-average shares used in computing the non-GAAP net income (loss) per share attributable to common stockholders plus a pro forma adjustment to give effect to the automatic conversion of our redeemable convertible preferred stock into 72,500,750 shares of common stock as though the conversion had occurred as of the beginning of the periods presented. Upon the closing of our initial public offering on March 20, 2018, all our outstanding shares of redeemable convertible preferred stock automatically converted into 72,500,750 shares of common stock on a one-to-one basis.

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

Fiscal Quarter	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019 (*)	1/31/2020 (*)
Assets								
Current assets:								
Cash and cash equivalents	\$ 287,443	\$ 135,579	\$ 42,786	\$ 67,467	\$ 54,974	\$ 78,484	\$ 69,346	\$ 76,534
Short-term investments	—	162,960	271,254	272,476	297,762	286,162	308,285	308,380
Accounts receivable, net	40,215	61,611	49,228	75,470	71,151	93,341	70,482	94,784
Deferred contract acquisition costs	13,753	16,136	16,387	18,058	19,391	21,219	22,060	23,527
Prepaid expenses and other current assets	9,036	10,878	11,949	12,540	12,765	16,880	18,713	19,917
Total current assets	350,447	387,164	391,604	446,011	456,043	496,086	488,886	523,142
Property and equipment, net	20,441	19,765	24,132	25,762	31,976	41,046	48,361	52,355
Operating lease right-of-use assets	—	—	—	—	—	—	32,585	32,142
Deferred contract acquisition costs, noncurrent	32,755	39,774	39,591	42,543	44,714	48,566	48,366	50,523
Acquired intangible assets, net	—	—	1,621	1,477	2,211	8,708	7,929	7,287
Goodwill	—	—	—	—	198	7,479	7,479	7,479
Other noncurrent assets	1,895	1,078	1,146	2,320	2,394	2,277	2,622	3,497
Total assets	\$ 405,538	\$ 447,781	\$ 458,094	\$ 518,113	\$ 537,536	\$ 604,162	\$ 636,228	\$ 676,425
Liabilities and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 4,944	\$ 4,895	\$ 4,573	\$ 3,459	\$ 3,585	\$ 6,208	\$ 3,784	\$ 2,675
Accrued expenses and other current liabilities	16,392	13,874	16,174	14,906	12,510	12,810	12,003	13,606
Accrued compensation	14,820	23,393	18,686	15,541	21,845	21,544	22,926	25,019
Deferred revenue	111,035	140,670	144,472	176,326	183,622	221,387	218,191	251,221
Operating lease liabilities	—	—	—	—	—	—	9,413	11,142
Total current liabilities	147,191	182,832	183,905	210,232	221,562	261,949	266,317	303,663
Deferred revenue, noncurrent	13,771	23,353	20,807	29,694	27,920	29,815	27,678	28,801
Operating lease liabilities, noncurrent	—	—	—	—	—	—	24,825	23,300
Other noncurrent liabilities	1,384	1,360	1,204	1,114	1,475	3,840	3,356	1,497
Total liabilities	162,346	207,545	205,916	241,040	250,957	295,604	322,176	357,261
Stockholders' equity								
Common stock	119	119	122	124	126	127	128	129
Additional paid-in capital	434,250	438,392	455,761	483,951	505,531	532,618	555,019	589,229
Notes receivable from stockholders	(2,039)	(2,051)	—	—	—	—	—	—
Accumulated other comprehensive income (loss)	—	(124)	(317)	(59)	101	268	436	491
Accumulated deficit	(189,138)	(196,100)	(203,388)	(206,943)	(219,179)	(224,455)	(241,531)	(270,685)
Total stockholders' equity	243,192	240,236	252,178	277,073	286,579	308,558	314,052	319,164
Total liabilities and stockholders' equity	\$ 405,538	\$ 447,781	\$ 458,094	\$ 518,113	\$ 537,536	\$ 604,162	\$ 636,228	\$ 676,425

(*) On August 1, 2019, we adopted Topic 842 using the transition option that allows to be applied prospectively at the beginning of the fiscal year of adoption. As such, the condensed consolidated balance sheets for prior periods are not comparable to our fiscal 2020 periods. The adoption of this standard resulted in the recognition of the operating lease right-of-use assets and operating lease liabilities related to our real estate and co-location arrangements.

ZSCALER, INC.
Condensed Consolidated Cash flows - Fiscal Quarters (in thousands) (unaudited)

Fiscal Reporting Quarter	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	1/31/2020
Beginning of Fiscal Quarter	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019	1/1/2019
Cash flows from operating activities								
Net loss	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)	\$ (29,154)
Adjustments to reconcile net loss to cash provided by operating activities:								
Depreciation and amortization expense	1,932	2,146	2,170	2,492	2,669	3,067	3,582	3,926
Impairment of assets	—	—	—	—	—	—	—	316
Amortization of acquired intangible assets	—	—	95	144	166	503	779	642
Amortization of deferred contract acquisition costs	3,422	3,827	4,324	4,457	4,724	5,146	5,535	5,890
Noncash operating lease costs	—	—	—	—	—	—	2,951	3,264
Stock-based compensation expense	3,309	4,118	7,586	13,227	13,275	12,335	18,376	23,866
Deferred income taxes	—	—	—	—	—	(1,392)	(49)	49
Accretion of purchased discounts, net of amortization of investment premiums	—	—	(493)	(632)	(577)	(479)	(300)	(142)
Other	370	(148)	176	26	42	40	223	25
Changes in operating assets and liabilities, net of effects of business acquisitions:								
Accounts receivable	7,321	(21,398)	12,383	(26,242)	4,319	(22,190)	22,859	(24,291)
Deferred contract acquisition costs	(9,987)	(13,229)	(4,392)	(9,080)	(8,228)	(10,826)	(6,176)	(9,514)
Prepaid expenses, other current and noncurrent assets	(2,247)	(1,727)	(1,138)	(1,640)	(583)	(4,281)	(2,471)	(1,510)
Accounts payable	591	841	(768)	(18)	175	1,106	(38)	(565)
Accrued expenses, other current and noncurrent liabilities	2,231	(600)	2,110	(1,068)	(2,089)	711	(466)	(777)
Accrued compensation	4,397	8,573	(4,707)	(3,145)	6,304	(301)	1,382	2,093
Deferred revenue	5,549	39,217	1,256	40,741	5,522	39,660	(5,333)	34,153
Operating lease liabilities	—	—	—	—	—	—	(2,349)	(2,840)
Net cash provided by operating activities	8,117	14,658	11,014	15,707	13,483	17,823	21,429	5,431
Cash flows from investing activities:								
Purchases of property, equipment and other	(3,963)	(2,389)	(5,414)	(3,193)	(8,091)	(8,822)	(10,210)	(4,889)
Capitalized internal-use software	(474)	(349)	(356)	(547)	(810)	(1,449)	(1,802)	(2,471)
Acquired intangible assets	—	—	(1,480)	—	—	—	—	—
Payments for business acquisitions, net of cash acquired	—	—	—	—	(823)	(10,609)	—	—
Purchases of short-term investments	—	(163,366)	(137,429)	(42,467)	(92,428)	(62,862)	(88,410)	(59,133)
Proceeds from maturities of short-term investments	—	433	29,333	42,270	67,758	60,355	66,796	59,217
Proceeds from sale of short-term investments	—	—	—	—	—	14,990	—	—
Net cash used in investing activities	(4,437)	(165,671)	(115,346)	(3,937)	(34,394)	(8,397)	(33,626)	(7,276)
Cash flows from financing activities:								
Proceeds from initial public offering, net of underwriting discounts and commissions	205,344	—	—	—	—	—	—	—
Payments of offering costs related to initial public offering	(670)	(770)	(230)	(1,567)	—	—	—	—
Proceeds from issuance of common stock upon exercise of stock options	2,174	640	9,796	5,697	8,030	6,339	3,059	3,699
Proceeds from issuance of common stock under the employee stock purchase plan	—	—	—	8,691	—	7,745	—	5,334
Repurchase of unvested common stock	—	(721)	(22)	—	—	—	—	—
Repayment of notes receivable from stockholders	5,346	—	1,905	—	—	—	—	—
Net cash provided by (used in) financing activities	212,194	(851)	11,449	12,821	8,030	14,084	3,059	9,033
Net increase (decrease) in cash, cash equivalents and restricted cash	215,874	(151,864)	(92,883)	24,591	(12,881)	23,510	(9,138)	7,188
Cash, cash equivalents and restricted cash at beginning of period	72,137	288,011	136,147	43,264	67,855	54,974	78,484	69,346
Cash, cash equivalents and restricted cash at end of period	\$ 288,011	\$ 136,147	\$ 43,264	\$ 67,855	\$ 54,974	\$ 78,484	\$ 69,346	\$ 76,534
Reconciliation of cash, cash equivalents and restricted cash with condensed consolidated balance sheets:								
Cash and cash equivalents	\$ 287,443	\$ 135,579	\$ 42,786	\$ 67,467	\$ 54,974	\$ 78,484	\$ 69,346	\$ 76,534
Restricted cash, current	180	236	186	96	—	—	—	—
Restricted cash, non-current	388	332	292	292	—	—	—	—
Total cash, cash equivalents and restricted cash	\$ 288,011	\$ 136,147	\$ 43,264	\$ 67,855	\$ 54,974	\$ 78,484	\$ 69,346	\$ 76,534

ZSCALER, INC.
GAAP to Non-GAAP Reconciliations - Fiscal Quarters
(in thousands, except per share amounts)(unaudited)

Fiscal Quarter	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	1/31/2020
Beginning of Fiscal Quarter	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019	11/1/2019
GAAP gross profit	\$ 39,739	\$ 44,673	\$ 51,199	\$ 59,031	\$ 64,168	\$ 68,769	\$ 74,032	\$ 81,030
Stock-based compensation expense	199	323	503	619	686	1,118	1,381	1,580
Amortization expense of acquired intangible assets	—	—	—	144	163	205	205	205
Non-GAAP gross profit	\$ 39,938	\$ 44,996	\$ 51,702	\$ 59,794	\$ 65,017	\$ 70,092	\$ 75,618	\$ 82,815
Non-GAAP gross margin	81 %	80 %	82 %	80 %	82 %	81 %	81 %	82 %
GAAP sales and marketing expense	\$ 29,892	\$ 32,479	\$ 36,545	\$ 38,756	\$ 45,295	\$ 49,317	\$ 59,411	\$ 61,621
Stock-based compensation expense	1,493	1,781	2,801	5,517	6,459	8,341	10,039	11,943
Amortization expense of acquired intangible assets	—	—	—	—	3	7	8	8
Non-GAAP sales and marketing expense	\$ 28,399	\$ 30,698	\$ 33,744	\$ 33,239	\$ 38,833	\$ 40,969	\$ 49,364	\$ 49,670
Non-GAAP sales and marketing expense as a percentage of revenue	58 %	55 %	53 %	45 %	49 %	48 %	53 %	49 %
GAAP research and development expense	\$ 9,907	\$ 11,480	\$ 13,186	\$ 15,071	\$ 16,499	\$ 17,213	\$ 20,271	\$ 20,706
Stock-based compensation expense	960	1,193	2,795	4,398	4,194	3,703	4,874	6,077
Amortization expense of acquired intangible assets	—	—	95	—	—	291	566	429
Non-GAAP research and development expense	\$ 8,947	\$ 10,287	\$ 10,296	\$ 10,673	\$ 12,305	\$ 13,219	\$ 14,831	\$ 14,200
Non-GAAP research and development expense as a percentage of revenue	18 %	18 %	16 %	14 %	16 %	15 %	16 %	14 %
GAAP general and administrative expense	\$ 8,964	\$ 8,638	\$ 10,131	\$ 10,386	\$ 15,911	\$ 10,170	\$ 12,625	\$ 28,983
Stock-based compensation expense	657	821	1,487	2,693	1,936	(827)	2,082	4,266
Litigation-related expenses	2,836	1,427	2,174	1,768	6,164	2,973	2,007	16,334
Asset impairment related to facility exit ⁽¹⁾	—	—	—	—	—	—	—	316
Non-GAAP general and administrative expense	\$ 5,471	\$ 6,390	\$ 6,470	\$ 5,925	\$ 7,811	\$ 8,024	\$ 8,536	\$ 8,067
Non-GAAP general and administrative expense as a percentage of revenue	11 %	11 %	10 %	8 %	10 %	9 %	9 %	8 %
GAAP total operating expenses	\$ 48,763	\$ 52,597	\$ 59,862	\$ 64,213	\$ 77,705	\$ 76,700	\$ 92,307	\$ 111,310
Stock-based compensation expense	3,110	3,795	7,083	12,608	12,589	11,217	16,995	22,286
Litigation-related expenses	2,836	1,427	2,174	1,768	6,164	2,973	2,007	16,334
Amortization expense of acquired intangible assets	—	—	95	—	3	298	574	437
Asset impairment related to facility exit ⁽¹⁾	—	—	—	—	—	—	—	316
Non-GAAP total operating expenses	\$ 42,817	\$ 47,375	\$ 50,510	\$ 49,837	\$ 58,949	\$ 62,212	\$ 72,731	\$ 71,937
Non-GAAP total operating expenses as a percentage of revenue	87 %	84 %	80 %	67 %	74 %	72 %	78 %	71 %

Fiscal Quarter	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	1/31/2020
Beginning of Fiscal Quarter	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019	11/1/2019
GAAP loss from operations	\$ (9,024)	\$ (7,924)	\$ (8,663)	\$ (5,182)	\$ (13,537)	\$ (7,931)	\$ (18,275)	\$ (30,280)
Stock-based compensation expense	3,309	4,118	7,586	13,227	13,275	12,335	18,376	23,866
Litigation-related expenses	2,836	1,427	2,174	1,768	6,164	2,973	2,007	16,334
Amortization expense of acquired intangible assets	—	—	95	144	166	503	779	642
Asset impairment related to facility exit ⁽¹⁾	—	—	—	—	—	—	—	316
Non-GAAP income (loss) from operations	\$ (2,879)	\$ (2,379)	\$ 1,192	\$ 9,957	\$ 6,068	\$ 7,880	\$ 2,887	\$ 10,878
Non-GAAP operating margin	(6)%	(4)%	2 %	13 %	8 %	9 %	3 %	11 %
GAAP net loss	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)	\$ (29,154)
Stock-based compensation expense	3,309	4,118	7,586	13,227	13,275	12,335	18,376	23,866
Litigation-related expenses	2,836	1,427	2,174	1,768	6,164	2,973	2,007	16,334
Amortization expense of acquired intangible assets	—	—	95	144	166	503	779	642
Asset impairment related to facility exit ⁽¹⁾	—	—	—	—	—	—	—	316
Provision (benefit) for income taxes ⁽²⁾	—	—	—	—	—	(1,422)	—	—
Non-GAAP net income (loss)	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369	\$ 9,113	\$ 4,086	\$ 12,004
GAAP net loss attributable to common stockholders	\$ (9,994)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)	\$ (29,154)
Stock-based compensation expense	3,309	4,118	7,586	13,227	13,275	12,335	18,376	23,866
Litigation-related expenses	2,836	1,427	2,174	1,768	6,164	2,973	2,007	16,334
Amortization expense of acquired intangible assets	—	—	95	144	166	503	779	642
Accretion of Series C and D redeemable convertible preferred stock	1,223	—	—	—	—	—	—	—
Asset impairment related to facility exit ⁽¹⁾	—	—	—	—	—	—	—	316
Provision (benefit) for income taxes ⁽²⁾	—	—	—	—	—	(1,422)	—	—
Non-GAAP net income (loss) attributable to common stockholders	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369	\$ 9,113	\$ 4,086	\$ 12,004
GAAP net loss per share attributable to common stockholders, basic and diluted	\$ (0.14)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ (0.10)	\$ (0.04)	\$ (0.13)	\$ (0.23)
Stock-based compensation expense	0.04	0.03	0.06	0.10	0.10	0.09	0.13	0.17
Litigation-related expenses	0.04	0.01	0.02	0.01	0.05	0.02	0.01	0.12
Amortization expense of acquired intangible assets	—	—	—	—	—	—	0.01	—
Accretion of Series C and D redeemable convertible preferred stock	0.02	—	—	—	—	—	—	—
Asset impairment related to facility exit ⁽¹⁾	—	—	—	—	—	—	—	—
Provision (benefit) for income taxes ⁽²⁾	—	—	—	—	—	(0.01)	—	—
Adjustment to total fully diluted earnings per share ⁽³⁾	—	0.01	—	0.01	—	0.01	0.01	0.03
Non-GAAP net income (loss) per share attributable to common stockholders, diluted	\$ (0.04)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05	\$ 0.07	\$ 0.03	\$ 0.09
Weighted-average shares used in computing non-GAAP net income (loss) per share attributable to common stockholders, diluted	73,818	119,204	133,845	134,246	136,538	137,545	136,860	136,663

Fiscal Quarter	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	1/31/2020
Beginning of Fiscal Quarter	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019	11/1/2019
Numerator:								
Non-GAAP net income (loss) attributable to common stockholders (from above)	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369	\$ 9,113	\$ 4,086	\$ 12,004
Denominator:								
Weighted-average shares used in computing of GAAP net loss per share attributable to common stockholders, basic and diluted ⁽⁴⁾	73,818	119,204	120,587	122,741	124,672	126,302	127,548	128,408
Potentially diluted shares	—	—	13,258	11,505	11,866	11,243	9,312	8,255
Pro forma adjustment to reflect assumed conversion of our convertible preferred stock as of the beginning of the period ⁽⁵⁾	38,287	—	—	—	—	—	—	—
Weighted-average shares used in computing the pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽⁵⁾	112,105	119,204	133,845	134,246	136,538	137,545	136,860	136,663
Pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽⁵⁾	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05	\$ 0.07	\$ 0.03	\$ 0.09

⁽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 excess tax deduction of stock-based compensation 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 July 31, 2019, we recorded a non-recurring tax benefit of \$1.4 million associated with an intangible asset recognized as a result of our acquisition of Appulate, Inc.

⁽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 basic share counts used to calculate the GAAP net loss per share differ from the fully diluted share counts used to calculate 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 income per share.

⁽⁴⁾ Since we have reported GAAP net losses for all periods presented, we have excluded all potentially dilutive securities from the calculation of the diluted net loss per share attributable to common stockholders as their effect is antidilutive and accordingly, basic net loss per share equals diluted net loss per share for all periods presented.

⁽⁵⁾ We define pro forma non-GAAP net income (loss) per share attributable to common stockholders as the weighted-average shares used in computing the GAAP net loss per share attributable to common stockholders plus a pro forma adjustment to give effect to the automatic conversion of our redeemable convertible preferred stock into 72,500,750 shares of common stock as though the conversion had occurred as of the beginning of the periods presented. Upon the closing of our initial public offering on March 20, 2018, all our outstanding shares of redeemable convertible preferred stock automatically converted into 72,500,750 shares of common stock on a one-to-one basis.

ZSCALER, INC.**Non-GAAP Free Cash Flow and Free Cash Flow Margin - Fiscal Quarter***(in thousands)**(unaudited)*

Fiscal Quarter	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	1/31/2020
Beginning of Fiscal Quarter	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019	11/1/2019
Non-GAAP Free Cash Flows								
Net cash provided by operating activities	\$ 8,117	\$ 14,658	\$ 11,014	\$ 15,707	\$ 13,483	\$ 17,823	\$ 21,429	\$ 5,431
Less: Purchases of property, equipment and other	(3,963)	(2,389)	(5,414)	(3,193)	(8,091)	(8,822)	(10,210)	(4,889)
Less: Capitalized internal-use software costs	(474)	(349)	(356)	(547)	(810)	(1,449)	(1,802)	(2,471)
Free cash flow	<u>\$ 3,680</u>	<u>\$ 11,920</u>	<u>\$ 5,244</u>	<u>\$ 11,967</u>	<u>\$ 4,582</u>	<u>\$ 7,552</u>	<u>\$ 9,417</u>	<u>\$ (1,929)</u>
Free Cash Flow Margin								
Net cash provided by operating activities as a percentage of revenue	16 %	26 %	17 %	21 %	17 %	21 %	23 %	5 %
Less: Purchases of property, equipment and other as a percentage of revenue	(8)	(4)	(8)	(4)	(10)	(10)	(11)	(5)
Less: Capitalized internal-use software costs as a percentage of revenue	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)
Free cash flow margin	<u>7 %</u>	<u>21 %</u>	<u>8 %</u>	<u>16 %</u>	<u>6 %</u>	<u>9 %</u>	<u>10 %</u>	<u>(2)%</u>

ZSCALER, INC.**Non-GAAP Calculated Billings - Fiscal Quarters***(in thousands)**(unaudited)*

Fiscal Quarter	Q3 FY18	Q4 FY18 (*)	Q1 FY19	Q2 FY19 (*)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
End of Fiscal Quarter	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019	1/31/2020
Beginning of Fiscal Quarter	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019	11/1/2019
Calculated Billings								
Total revenue	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128	\$ 86,108	\$ 93,590	\$ 101,268
Add: Total deferred revenue, end of period	124,806	164,023	165,279	206,020	211,542	251,202	245,869	280,022
Less: Total deferred revenue, beginning of period	(119,257)	(124,806)	(164,023)	(165,279)	(206,020)	(211,542)	(251,202)	(245,869)
Calculated billings	<u>\$ 54,712</u>	<u>\$ 95,391</u>	<u>\$ 64,554</u>	<u>\$ 115,043</u>	<u>\$ 84,650</u>	<u>\$ 125,768</u>	<u>\$ 88,257</u>	<u>\$ 135,421</u>
Year-over-year growth - calculated billings	73 %	72 %	56 %	74 %	55 %	32 %	37 %	18 %

* Includes one large customer choosing to pay up-front for a multi-year, private cloud subscription: \$16.5 million in Q4 FY18 and \$11.0 million in Q2 FY19.