

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

**Date of Report (date of earliest event reported)
February 20, 2020**

Zscaler, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

001-38413
(Commission File Number)

26-1173892
(I.R.S. Employer Identification Number)

**120 Holger Way
San Jose, California 95134**
(Address of principal executive offices and zip code)

(408) 553-0288
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange of which registered
Common Stock, \$0.001 Par Value	ZS	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.02 Results of Operations and Financial Condition.

On February 20, 2020, Zscaler, Inc. issued a press release announcing its financial results for the second fiscal quarter ended January 31, 2020. A copy of the press release is furnished herewith as Exhibit 99.1 and incorporated herein by reference.

The information contained in this Item 2.02 and Item 9.01 in this Current Report on Form 8-K, including the accompanying Exhibit 99.1 hereto, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filings, unless expressly incorporated by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
99.1	Press release dated February 20, 2020.

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 hereunto duly authorized.

Zscaler, Inc.

February 20, 2020

/s/ Remo Canessa

Remo Canessa
Chief Financial Officer

Zscaler Reports Second Quarter Fiscal 2020 Financial Results

- Revenue grows 36% year-over-year to \$101.3 million
- Calculated billings grow 18% year-over-year to \$135.4 million
- Deferred revenue grows 36% year-over-year to \$280.0 million
- GAAP net loss of \$29.2 million compared to GAAP net loss of \$3.6 million on a year-over-year basis
- Non-GAAP net income of \$12.0 million compared to non-GAAP net income of \$11.6 million on a year-over-year basis

SAN JOSE, California. - February 20, 2020 - Zscaler, Inc. (Nasdaq: ZS), the leader in cloud security, today announced financial results for its second quarter of fiscal year 2020, ended January 31, 2020.

"In the quarter, we delivered strong earnings results while making tremendous progress on our go-to-market initiatives," said Jay Chaudhry, Chairman and CEO of Zscaler. "Momentum is continuing to build across our business as our customers embrace and accelerate their cloud transformation."

Second Quarter Fiscal 2020 Financial Highlights

- **Revenue:** \$101.3 million, an increase of 36% year-over-year.
- **Income (loss) from operations:** GAAP loss from operations was \$30.3 million, or 30% of total revenue, compared to \$5.2 million, or 7% of total revenue, in the second quarter of fiscal 2019. Non-GAAP income from operations was \$10.9 million, or 11% of total revenue, compared to \$10.0 million, or 13% of total revenue, in the second quarter of fiscal 2019.
- **Net income (loss):** GAAP net loss was \$29.2 million, compared to \$3.6 million in the second quarter of fiscal 2019. Non-GAAP net income was \$12.0 million, compared to \$11.6 million in the second quarter of fiscal 2019.
- **Net income (loss) per share:** GAAP net loss per share was \$0.23, compared to \$0.03 in the second quarter of fiscal 2019. Non-GAAP net income per share was \$0.09, compared to \$0.09 in the second quarter of fiscal 2019.
- **Cash flow:** Cash provided by operations was \$5.4 million, or 5% of revenue, compared to \$15.7 million, or 21% of revenue, in the second quarter of fiscal 2019. Free cash flow was negative \$1.9 million, or negative 2% of revenue, compared to free cash flow of \$12.0 million, or 16% of revenue, in the second quarter of fiscal 2019. Decrease in free cash flow was primarily due to a \$15.0 million cash payment as a result of a legal settlement agreement. Excluding this settlement, free cash flow would have been \$13.1 million, or 13% of revenue.
- **Deferred revenue:** \$280.0 million as of January 31, 2020, an increase of 36% year-over-year.
- **Cash, cash equivalents and short-term investments:** \$384.9 million as of January 31, 2020, an increase of \$20.3 million from July 31, 2019.

Financial Outlook

For the third quarter of fiscal 2020, we expect:

- Total revenue of \$105 million to \$107 million
- Non-GAAP income from operations of \$1 million to \$3 million
- Non-GAAP earnings per share of approximately \$0.01 to \$0.03, assuming approximately 139 million common shares outstanding

For the full year fiscal 2020, we expect:

- Total revenue of \$414 million to \$417 million
- Calculated billings of \$512 million to \$517 million
- Non-GAAP income from operations of \$16 million to \$18 million
- Non-GAAP earnings per share of \$0.14 to \$0.16, assuming approximately 139 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 financial measures excludes stock-based compensation expense, amortization expense of acquired intangible assets, asset impairment related to facility exit, certain litigation-related expenses and income tax effects generated by intangible assets acquired in business acquisitions. 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 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 second quarter fiscal 2020 earnings results and outlook for its third quarter of fiscal 2020 and full year fiscal 2020 today at 1:30 p.m. Pacific time (4:30 p.m. Eastern time).

Date: Tuesday, February 20, 2020
Time: 1:30 p.m. PT
Webcast: <https://ir.zscaler.com/>
Dial-in number: 334-777-6978

Upcoming Conferences

Third Quarter of Fiscal 2020 Investor Conference Participation Schedule:

- Morgan Stanley 2020 Media, Telecommunications & Technology Conference
March 4, 2020 – San Francisco, CA
- SunTrust Robinson Humphrey 2020 Technology, Internet & Services Conference
March 11, 2020 – New York, NY
- Credit Suisse Investor Relations 1x1 Conference
March 12, 2020 – New York, NY

Zscaler's conference presentations are expected to be available via webcast on the Investor Relations section of the company's website. To hear these presentations and to access the most updated information, please visit the Investor Relations section of Zscaler's 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 third quarter of fiscal 2020 and full year fiscal 2020. 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: 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, 2019 filed on September 18, 2019, 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 enables the world’s leading organizations to securely transform their networks and applications for a mobile and cloud-first world. Its flagship services, Zscaler Internet Access™ and Zscaler Private Access™, create fast, secure connections between users and applications, regardless of device, location, or network. Zscaler services are 100 percent cloud-delivered and offer the simplicity, enhanced security and improved user experience that traditional appliances are unable to match. Used in more than 185 countries, Zscaler operates a multi-tenant distributed cloud security platform, protecting thousands of customers from cyberattacks and data loss. Learn more at zscaler.com or follow us on Twitter @zscaler.

Zscaler™, Zscaler Internet Access™, and Zscaler Private Access™, ZIA™ and ZPA™ are either (i) registered trademarks or service marks or (ii) trademarks or service marks of Zscaler, Inc. in the United States and/or other countries. Any other trademarks are the properties of their respective owners.

Investor Relations Contact:

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

	Three Months Ended		Six months ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Revenue	\$ 101,268	\$ 74,302	\$ 194,858	\$ 137,600
Cost of revenue ⁽¹⁾⁽²⁾	20,238	15,271	39,796	27,370
Gross profit	81,030	59,031	155,062	110,230
Operating expenses:				
Sales and marketing ⁽¹⁾⁽²⁾	61,621	38,756	121,032	75,301
Research and development ⁽¹⁾⁽²⁾	20,706	15,071	40,977	28,257
General and administrative ⁽¹⁾⁽³⁾⁽⁴⁾	28,983	10,386	41,608	20,517
Total operating expenses	111,310	64,213	203,617	124,075
Loss from operations	(30,280)	(5,182)	(48,555)	(13,845)
Interest income, net	1,855	1,924	3,877	3,514
Other income (expense), net	(13)	250	(42)	62
Loss before income taxes	(28,438)	(3,008)	(44,720)	(10,269)
Provision for income taxes	716	547	1,510	874
Net loss	\$ (29,154)	\$ (3,555)	\$ (46,230)	\$ (11,143)
Net loss per share, basic and diluted	\$ (0.23)	\$ (0.03)	\$ (0.36)	\$ (0.09)
Weighted-average shares used in computing net loss per share, basic and diluted	128,408	122,741	127,978	121,664

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

Cost of revenue	\$ 1,580	\$ 619	\$ 2,961	\$ 1,122
Sales and marketing	11,943	5,517	21,982	8,318
Research and development	6,077	4,398	10,951	7,193
General and administrative	4,266	2,693	6,348	4,180
Total	\$ 23,866	\$ 13,227	\$ 42,242	\$ 20,813

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

Cost of revenue	\$ 205	\$ 144	\$ 410	\$ 144
Sales and marketing	8	—	16	—
Research and development	429	—	995	95
Total	\$ 642	\$ 144	\$ 1,421	\$ 239

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

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

	\$ 16,334	\$ 1,768	\$ 18,341	\$ 3,942
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ZSCALER, INC.**Condensed Consolidated Balance Sheets***(in thousands)**(unaudited)*

	January 31, 2020 (*)	July 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 76,534	\$ 78,484
Short-term investments	308,380	286,162
Accounts receivable, net	94,784	93,341
Deferred contract acquisition costs	23,527	21,219
Prepaid expenses and other current assets	19,917	16,880
Total current assets	523,142	496,086
Property and equipment, net	52,355	41,046
Operating lease right-of-use assets	32,142	—
Deferred contract acquisition costs, noncurrent	50,523	48,566
Acquired intangible assets, net	7,287	8,708
Goodwill	7,479	7,479
Other noncurrent assets	3,497	2,277
Total assets	\$ 676,425	\$ 604,162
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,675	\$ 6,208
Accrued expenses and other current liabilities	13,606	12,810
Accrued compensation	25,019	21,544
Deferred revenue	251,221	221,387
Operating lease liabilities	11,142	—
Total current liabilities	303,663	261,949
Deferred revenue, noncurrent	28,801	29,815
Operating lease liabilities, noncurrent	23,300	—
Other noncurrent liabilities	1,497	3,840
Total liabilities	357,261	295,604
Stockholders' Equity		
Common stock	129	127
Additional paid-in capital	589,229	532,618
Accumulated other comprehensive income	491	268
Accumulated deficit	(270,685)	(224,455)
Total stockholders' equity	319,164	308,558
Total liabilities and stockholders' equity	\$ 676,425	\$ 604,162

(*) 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 Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended	
	January 31,	
	2020	2019
Cash Flows From Operating Activities		
Net loss	\$ (46,230)	\$ (11,143)
Adjustments to reconcile net loss to cash provided by operating activities		
Depreciation and amortization expense	7,508	4,662
Impairment of assets	316	—
Amortization expense of acquired intangible assets	1,421	239
Amortization of deferred contract acquisition costs	11,425	8,781
Noncash operating lease costs	6,215	—
Stock-based compensation expense	42,242	20,813
Accretion of purchased discounts, net of amortization of investment premiums	(442)	(1,125)
Other	248	202
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable	(1,432)	(13,859)
Deferred contract acquisition costs	(15,690)	(13,472)
Prepaid expenses, other current and noncurrent assets	(3,981)	(2,778)
Accounts payable	(603)	(786)
Accrued expenses, other current and noncurrent liabilities	(1,243)	1,042
Accrued compensation	3,475	(7,852)
Deferred revenue	28,820	41,997
Operating lease liabilities	(5,189)	—
Net cash provided by operating activities	26,860	26,721
Cash Flows From Investing Activities		
Purchases of property, equipment and other	(15,099)	(8,607)
Capitalized internal-use software	(4,273)	(903)
Acquired intangible assets	—	(1,480)
Purchases of short-term investments	(147,543)	(179,896)
Proceeds from maturities of short-term investments	126,013	71,603
Net cash used in investing activities	(40,902)	(119,283)
Cash Flows From Financing Activities		
Payments of offering costs related to initial public offering	—	(1,797)
Proceeds from issuance of common stock upon exercise of stock options	6,758	15,493
Proceeds from issuance of common stock under the employee stock purchase plan	5,334	8,691
Repurchases of unvested common stock	—	(22)
Repayments of notes receivable from stockholders	—	1,905
Net cash provided by financing activities	12,092	24,270
Net decrease in cash, cash equivalents and restricted cash	(1,950)	(68,292)
Cash, cash equivalents and restricted cash at beginning of period	78,484	136,147
Cash, cash equivalents and restricted cash at end of period	<u>\$ 76,534</u>	<u>\$ 67,855</u>
Reconciliation of cash, cash equivalents and restricted cash to the condensed consolidated balance sheets:		
Cash and cash equivalents	\$ 76,534	\$ 67,467
Restricted cash, current	—	96
Restricted cash, non-current	—	292
Total cash, cash equivalents and restricted cash	\$ 76,534	\$ 67,855

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

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Revenue	\$ 101,268	\$ 74,302	\$ 194,858	\$ 137,600
Non-GAAP Gross Profit and Non-GAAP Gross Margin				
GAAP gross profit	\$ 81,030	\$ 59,031	\$ 155,062	\$ 110,230
Add:				
Stock-based compensation expense	1,580	619	2,961	1,122
Amortization expense of acquired intangible assets	205	144	410	144
Non-GAAP gross profit	\$ 82,815	\$ 59,794	\$ 158,433	\$ 111,496
GAAP gross margin	80 %	79 %	80 %	80 %
Non-GAAP gross margin	82 %	80 %	81 %	81 %
Non-GAAP Income from Operations and Non-GAAP Operating Margin				
GAAP loss from operations	\$ (30,280)	\$ (5,182)	\$ (48,555)	\$ (13,845)
Add:				
Stock-based compensation expense	23,866	13,227	42,242	20,813
Litigation-related expenses	16,334	1,768	18,341	3,942
Amortization expense of acquired intangible assets	642	144	1,421	239
Asset impairment related to facility exit ⁽¹⁾	316	—	316	—
Non-GAAP income from operations	\$ 10,878	\$ 9,957	\$ 13,765	\$ 11,149
GAAP operating margin	(30) %	(7) %	(25) %	(10) %
Non-GAAP operating margin	11 %	13 %	7 %	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		Six Months Ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Non-GAAP Net Income per Share, Diluted				
GAAP net loss	\$ (29,154)	\$ (3,555)	\$ (46,230)	\$ (11,143)
Stock-based compensation expense	23,866	13,227	42,242	20,813
Litigation-related expenses	16,334	1,768	18,341	3,942
Amortization expense of acquired intangible assets	642	144	1,421	239
Asset impairment related to facility exit ⁽¹⁾	316	—	316	—
Provision for income taxes ⁽²⁾	—	—	—	—
Non-GAAP net income	\$ 12,004	\$ 11,584	\$ 16,090	\$ 13,851
GAAP net loss per share, diluted				
GAAP net loss per share, diluted	\$ (0.23)	\$ (0.03)	\$ (0.36)	\$ (0.09)
Stock-based compensation expense	0.17	0.10	0.31	0.16
Litigation-related expenses	0.12	0.01	0.13	0.03
Amortization expense of acquired intangible assets	—	—	0.01	—
Asset impairment related to facility exit ⁽¹⁾	—	—	—	—
Provision for income taxes ⁽²⁾	—	—	—	—
Adjustment to total fully diluted earnings per share ⁽³⁾	0.03	0.01	0.03	—
Non-GAAP net income per share, diluted	\$ 0.09	\$ 0.09	\$ 0.12	\$ 0.10
Weighted-average shares used in computing non-GAAP net income per share, diluted	136,663	134,246	136,843	134,059

⁽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 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.

⁽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.

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

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Calculated Billings				
Revenue	\$ 101,268	\$ 74,302	\$ 194,858	\$ 137,600
Add: Total deferred revenue, end of period	280,022	206,020	280,022	206,020
Less: Total deferred revenue, beginning of period	(245,869)	(165,279)	(251,202)	(164,023)
Calculated billings	<u>\$ 135,421</u>	<u>\$ 115,043</u>	<u>\$ 223,678</u>	<u>\$ 179,597</u>
Free Cash Flow				
Net cash provided by operating activities	\$ 5,431	\$ 15,707	\$ 26,860	\$ 26,721
Less: Purchases of property, equipment and other	(4,889)	(3,193)	(15,099)	(8,607)
Less: Capitalized internal-use software	(2,471)	(547)	(4,273)	(903)
Free cash flow	<u>\$ (1,929)</u>	<u>\$ 11,967</u>	<u>\$ 7,488</u>	<u>\$ 17,211</u>
As a percentage of revenue:				
Net cash provided by operating activities	5 %	21 %	14 %	20 %
Less: Purchases of property, equipment and other	(5) %	(4) %	(8) %	(6) %
Less: Capitalized internal-use software	(2) %	(1) %	(2) %	(1) %
Free cash flow margin	<u>(2) %</u>	<u>16 %</u>	<u>4 %</u>	<u>13 %</u>

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 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 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. 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 from Operations and Non-GAAP Operating Margin. We define non-GAAP income 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 per Share, Diluted. We define non-GAAP net income 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, 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 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.

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.