proofpoint

Proofpoint Announces Second Quarter 2020 Financial Results

Second Quarter Highlights

- ***Total revenue of $258.4 million, up 21% year-over-year***
- ***Billings of $250.0 million, up 8% year-over-year***
- ***GAAP EPS of $(0.39) per share, Non-GAAP EPS of $0.51 per share***
- ***Operating cash flow of $30.6 million and free cash flow of $18.8 million***
- ***Increasing FY20 guidance for revenue, Non-GAAP net income and free cash flow***

SUNNYVALE, Calif., – July 30, 2020 – Proofpoint, Inc. (NASDAQ: PFPT), a leading next-generation security and compliance company, today announced financial results for the second quarter ended June 30, 2020.

"The second quarter was a compelling example of our team's disciplined execution in a very challenging operating environment," stated Gary Steele, chief executive officer of Proofpoint. "We were pleased to exceed guidance on all key metrics, which was driven by strong customer interest in our people-centric cybersecurity and compliance services, our world-class efficacy in identifying and blocking advanced threats and our strong focus in protecting our customers from an increasingly active threat landscape during current work-from-home requirements."

Second Quarter 2020 Financial Highlights

- **Revenue**: Total revenue for the second quarter of 2020 was $258.4 million, an increase of 21%, compared to $214.4 million for the second quarter of 2019.

- **Billings:** Total billings for the second quarter of 2020 were $250.0 million, an increase of 8%, compared to $232.1 million for the second quarter of 2019.

- **Gross Profit:** GAAP gross profit for the second quarter of 2020 was $190.9 million, compared to $156.6 million for the second quarter of 2019. Non-GAAP gross profit for the second quarter of 2020 was $207.5 million, compared to $169.4 million for the second quarter of 2019. GAAP gross margin for the second quarter of 2020 was 74%, compared to 73% for the second quarter of 2019. Non-GAAP gross margin for the second quarter of 2020 was 80%, compared to 79% for the second quarter of 2019.

- **Operating Income (Loss)**: GAAP operating loss for the second quarter of 2020 was $(10.8) million, compared to a loss of $(29.3) million for the second quarter of 2019. Non-GAAP operating income for the second quarter of 2020 was $41.2 million, compared to $28.4 million for the second quarter of 2019.

- **Net Income (Loss):** GAAP net loss for the second quarter of 2020 was $(22.6) million, or $(0.39) per share, based on 57.4 million weighted average shares outstanding. This compares to a GAAP net loss of $(28.9) million, or $(0.52) per share, based on 55.8 million weighted average shares outstanding for the second quarter of 2019. Non-GAAP net income for the second quarter of 2020 was $32.8 million, or $0.51 per share, based on 65.5 million weighted average diluted shares outstanding. This result included a $6.7 million income tax expense, calculated using an effective rate of 17%, by applying the SEC's Non-GAAP Financial Measures Compliance and Disclosure Interpretations (C&DI 102.11). Non-GAAP earnings per share for the second quarter of 2020 included the 6.0 million shares associated with the company's convertible notes, and cash interest expense (net of tax) of $0.5 million was added back to net income as the "If-Converted" threshold during this period was achieved.

- **Cash and Cash Flow:** As of June 30, 2020, Proofpoint had cash, cash equivalents, and short-term investments of $973.3 million. The company generated $30.6 million in net cash from operations for the second quarter of 2020, compared to $43.4 million during the second quarter of 2019. This result included $4.0 million received as leasehold improvement reimbursement related to the Company's new corporate headquarters. The company's free cash flow for the second quarter of 2020 was $18.8 million, compared to $35.0 million for the second quarter of 2019.

“Our solid second quarter results demonstrate our disciplined approach to managing the business to drive growth and profitability during the current COVID-19 crisis,” stated Paul Auvil, chief financial officer of Proofpoint. “The investments we’ve made in our broad product portfolio and team represent strong competitive differentiators and reinforce our ability to emerge from these uncertain times in an even stronger position when recovery takes place.”

Financial Outlook

This financial outlook is based on information known as of July 30, 2020, and on assumptions that we believe to be reasonable as of today. We undertake no obligation to update these forward-looking statements as a result of new information or future events. It is Proofpoint’s policy neither to reiterate nor adjust the financial guidance provided in this release unless it is also done through another public disclosure, such as a subsequent press release or filing on Form 8-K.

Proofpoint is providing its third quarter 2020 guidance as follows:

- Total revenue is expected to be in the range of $260.0 million to $262.0 million.
- GAAP gross margin is expected to be approximately 74%. Non-GAAP gross margin is expected to be approximately 80%.
- GAAP net loss is expected to be in the range of $(50.6) million to $(45.2) million, or $(0.88) to $(0.78) per share, based on approximately 57.6 million weighted average shares outstanding. Non-GAAP net income is expected to be in the range of $24.0 million to $26.0 million, or $0.37 to $0.40 per share, using 65.9 million weighted average diluted shares outstanding, and based on our reporting under C&DI 102.11.
- Free cash flow during the quarter is expected to be in the range of $16.0 to $21.0 million, and includes approximately $10.0 million of expected leasehold improvement reimbursement related to the Company’s new corporate headquarters. Capital expenditures are expected to be approximately $25.0 million, including $16.0 million associated with the Company’s new headquarters build-out. This guidance also assumes a cash tax payment associated with the transfer of certain intellectual property from Israel to the United States associated with the Company’s acquisition of ObserveIT, now estimated to be no more than $15.0 million as compared to the Company’s prior estimate of $20.0 million.

Proofpoint is providing its full year 2020 guidance as follows:

- Total revenue is expected to be in the range of $1,035.0 million to $1,037.0 million.
- GAAP gross margin is expected to be approximately 74%. Non-GAAP gross margin is expected to be 80%.
- GAAP net loss is expected to be in the range of $(198.8) million to $(189.0) million, or $(3.46) to $(3.29) per share, based on approximately 57.5 million weighted average shares outstanding. Non-GAAP net income is expected to be in the range of $106.0 million to $110.0 million, or $1.64 to $1.70 per share, using 65.9 million weighted average diluted shares outstanding, and based on our reporting in accordance with C&DI 102.11.
- Free cash flow is expected to be in the range of $130.0 million to $140.0 million. This includes the aforementioned cash tax payment associated with the transfer of certain intellectual property and $24.0 million in net cash used in the build-out of the Company’s new corporate headquarters. Capital expenditures are expected to be approximately $75.0 million.

Quarterly Conference Call

Proofpoint will host a conference call today at 1:30 p.m. Pacific Time (4:30 p.m. Eastern Time) to review the company’s financial results for the second quarter ended June 30, 2020. To access this call, dial (800) 458-4121 for the U.S. or Canada, or (929) 477-0324 for international callers, with conference ID #698797. A live webcast, and an archived recording of the conference call will be accessible from the Investors section of Proofpoint’s website at investors.proofpoint.com. An audio replay of this conference call will also be available through August 13, 2020, by dialing (844) 512-2921 for the U.S. or Canada or (412) 317-6671 for international callers, and entering passcode #698797.

About Proofpoint, Inc.

Proofpoint, Inc. (NASDAQ: PFPT) is a leading cybersecurity company that protects organizations' greatest assets and biggest risks: their people. With an integrated suite of cloud-based solutions, Proofpoint helps companies around the world stop targeted threats, safeguard their data, and make their users more resilient against cyber attacks. Leading organizations of all sizes, including more than half of the Fortune 1000, rely on Proofpoint for people-centric security and compliance solutions that mitigate their most critical risks across email, the cloud, social media, and the web. More information is available at www.proofpoint.com.

Proofpoint is a trademark or registered trademark of Proofpoint, Inc. in the U.S. and other countries. All other trademarks contained herein are the property of their respective owners.

Forward-Looking Statements

This press release contains forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements regarding momentum in the company's business, market position, win rates and renewal rates, future growth, and future financial results. It is possible that future circumstances might differ from the assumptions on which such statements are based. Important factors that could cause results to differ materially from the statements herein include: the potential direct and indirect impact of events beyond our control such as the current coronavirus (COVID-19) pandemic on our business, financial condition and operations, including on our customers' spending and on our expenses, supply chain, and employees; failure to maintain or increase renewals from existing customers and failure to generate increased business through existing or new channel partner relationships; uncertainties related to continued success in sales growth and market share gains; failure to convert sales opportunities into definitive customer agreements; risks associated with successful implementation of multiple integrated software products and other product functionality; competition, particularly from larger companies with more resources than Proofpoint; risks related to new target markets, new product introductions and innovation and market acceptance thereof; the ability to attract and retain key personnel; potential changes in strategy; risks associated with management of growth; lengthy sales and implementation cycles, particularly in larger organizations; the time it takes new sales personnel to become fully productive; unforeseen delays in developing new technologies and the uncertain market acceptance of new products or features; technological changes that make Proofpoint's products and services less competitive; security breaches, which could affect our brand; the costs of litigation; the impact of changes in foreign currency exchange rates; the effect of general economic conditions, including as a result of specific economic risks in different geographies and among different industries; risks related to integrating the employees, customers and technologies of acquired businesses; assumption of unknown liabilities from acquisitions; ability to retain customers of acquired entities; and the other risk factors set forth from time to time in our filings with the SEC, including our Quarterly Report on Form 10-Q for the three months ended March 31, 2020, and the other reports we file with the SEC, copies of which are available free of charge at the SEC's website at www.sec.gov or on our investor relations website at https://investors.proofpoint.com/investors/financials-and-filings/quarterly-and-annual-reports/default.aspx. All forward-looking statements herein reflect our opinions only as of the date of this release, and Proofpoint undertakes no obligation, and expressly disclaims any obligation, to update forward-looking statements herein in light of new information or future events.

Computational Guidance on Earnings Per Share Estimates

Accounting principles require that EPS be computed based on the weighted average shares outstanding ("basic"), and also assuming the issuance of potentially issuable shares (such as those subject to stock options, convertible notes, etc.) if those potentially issuable shares would reduce EPS ("diluted").

The number of shares related to options and similar instruments included in diluted EPS is based on the "Treasury Stock Method" prescribed in Financial Accounting Standards Board ("FASB") ASC Topic 260, Earnings Per Share ("FASB ASC Topic 260"). This method assumes a theoretical repurchase of shares using the proceeds of the respective stock option exercise at a price equal to the issuer's average stock price during the related earnings period. Accordingly, the number of shares includable in the calculation of diluted EPS in respect of stock options and similar instruments is dependent on this average stock price and will increase as the average stock price increases.

The number of shares includable in the calculation of diluted EPS in respect of convertible senior notes is based on the "If Converted" method prescribed in FASB ASC Topic 260. This method assumes the conversion or exchange of these securities for shares of common stock. In determining if convertible securities are dilutive, the interest savings (net of tax) subsequent to an assumed conversion are added back to net earnings. The shares related to a convertible security are included in diluted EPS only if EPS as otherwise calculated is greater than the interest savings, net of tax, divided by the shares issuable upon exercise or conversion of the instrument. Accordingly, the calculation of diluted EPS for these instruments is dependent on the level of net earnings.

Non-GAAP Financial Measures

We have provided in this release financial information that has not been prepared in accordance with GAAP. We use these non-GAAP financial measures internally in analyzing our financial results and believe they are useful to investors, as a supplement to GAAP measures, in evaluating our ongoing operational performance. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial results with other companies in our industry, many of which present similar non-GAAP financial measures to investors.

Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures below. As previously mentioned, a reconciliation of our non-GAAP financial measures to their most directly comparable GAAP measures has been provided in the financial statement tables included below in this press release.

Non-GAAP gross profit and gross margin. We define non-GAAP gross profit as GAAP gross profit, adjusted to exclude stock-based compensation expense and the amortization of intangibles associated with acquisitions. We define non-GAAP gross margin as non-GAAP gross profit divided by GAAP revenue. We consider these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of non-cash charges that can fluctuate for Proofpoint, based on timing of equity award grants and the size, timing and purchase price allocation of acquisitions so that our management and investors can compare our recurring core business operating results over multiple periods. There are a number of limitations related to the use of non-GAAP gross profit and non-GAAP gross margin versus gross profit and gross margin, in each case, calculated in accordance with GAAP. For example, stock-based compensation has been and will continue to be for the foreseeable future a significant recurring expense in our business. Stock-based compensation is an important part of our employees' compensation and impacts their performance. In addition, the components of the costs that we exclude in our calculation of non-GAAP gross profit and non-GAAP gross margin may differ from the components that our peer companies exclude when they report their non-GAAP results. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP gross profit and non-GAAP gross margin and evaluating non-GAAP gross profit and non-GAAP gross margin together with gross profit and gross margin calculated in accordance with GAAP.

Non-GAAP operating income. We define non-GAAP operating income as operating loss, adjusted to exclude stock-based compensation expense, the amortization of intangibles, costs associated with acquisitions, litigations and facility exit costs related to the relocation of our corporate headquarters. Costs associated with acquisitions include legal, accounting, and other professional fees, as well as changes in the fair value of contingent consideration obligations. We consider this non-GAAP financial measure to be a useful metric for management and investors because it excludes the effect of stock-based compensation expense and the amortization of intangibles and costs associated with acquisitions, litigations and facility exit costs so that our management and investors can compare our recurring core business operating results over multiple periods. There are a number of limitations related to the use of non-GAAP operating income versus operating loss calculated in accordance with GAAP. For example, as noted above, non-GAAP operating income excludes stock-based compensation expense. In addition, the components of the costs that we exclude in our calculation of non-GAAP operating income may differ from the components that our peer companies exclude when they report their non-GAAP results of operations, and some of these items are cash-based. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP operating income and evaluating non-GAAP operating income together with operating loss calculated in accordance with GAAP.

Non-GAAP net income. We define non-GAAP net income as net loss, adjusted to exclude stock-based compensation expense, amortization of intangibles, costs associated with acquisitions, litigations, facility exit costs related to the relocation of our corporate headquarters, non-cash interest expense related to the convertible debt discount and issuance costs for the convertible debt offering, and tax effects. We consider this non-GAAP financial measure to be a useful metric for management and investors for the same reasons that we use non-GAAP operating income.

Our current and deferred income tax expense is commensurate with the non-GAAP measure of profitability using a non-GAAP tax rate of 17% for the three and six months ended June 30, 2020 and 2019. We use an annual projected tax rate in a computation of the non-GAAP income tax provision, and exclude the impact of stock-based compensation, intangible amortization expenses, costs associated with acquisitions, litigations, facility exit costs related to the relocation of our corporate headquarters, and non-cash interest expense related to the debt discount and issuance costs for the convertible notes. The projected rate considers other factors such as our current operating structure, existing tax positions in various jurisdictions, and key legislation in major jurisdictions where we operate.

Billings. We define billings as revenue recognized plus the change in deferred revenue and customer prepayments less change in unbilled accounts receivable from the beginning to the end of the period, but excluding additions to deferred revenue and customer prepayments from acquisitions. Customer prepayments represent billed amounts for which the contract can be terminated and the customer has a right of refund. Unbilled accounts receivable represent amounts for which the company has recognized revenue, pursuant to its revenue recognition policy, for subscription software already delivered and professional services already performed, but billed in arrears and for which the company believes it has an unconditional right to payment. We consider billings to be a useful metric for management and investors because billings drive deferred revenue, which is an important indicator of the health and visibility of our business, and has historically represented a majority of the quarterly revenue that we recognize. There are a number of limitations related to the use of billings versus revenue calculated in accordance with GAAP. Billings include amounts that have not yet been recognized as revenue, but exclude additions to deferred revenue from acquisitions. We may also calculate billings in a manner that is different from other companies that report similar financial measures. Management compensates for these limitations by providing specific information regarding GAAP revenue and evaluating billings together with revenues calculated in accordance with GAAP.

Free cash flow. We define free cash flow as net cash provided by operating activities minus capital expenditures. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the acquisition of property and equipment, can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening the balance sheet. Analysis of free cash flow facilitates management's comparisons of our operating results to competitors' operating results. A limitation of using free cash flow versus the GAAP measure of net cash provided by operating activities as a means for evaluating our company is that free cash flow does not represent the total increase or decrease in the cash balance from operations for the period because it excludes cash used for capital expenditures during the period. Management compensates for this limitation by providing information about our capital expenditures on the face of the cash flow statement and in the "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" section of our quarterly and annual reports filed with the SEC.

Proofpoint, Inc.
Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenue:				
Subscription	$ 254,892	$ 210,780	$ 498,961	$ 410,364
Hardware and services	3,546	3,659	9,251	7,012
Total revenue	258,438	214,439	508,212	417,376
Cost of revenue:[1][2]				
Subscription	59,193	50,648	119,041	98,900
Hardware and services	8,382	7,180	17,465	14,171
Total cost of revenue	67,575	57,828	136,506	113,071
Gross profit	190,863	156,611	371,706	304,305
Operating expense:[1][2]				
Research and development	70,602	55,185	140,497	108,434
Sales and marketing	116,279	102,837	239,441	199,841
General and administrative	14,812	27,881	44,367	53,706
Total operating expense	201,693	185,903	424,305	361,981
Operating loss	(10,830)	(29,292)	(52,599)	(57,676)
Interest expense	(9,013)	—	(17,933)	—
Other (expense) income, net	(1,092)	659	3,529	1,385
Loss before income taxes	(20,935)	(28,633)	(67,003)	(56,291)
Provision for income taxes	(1,660)	(280)	(29,829)	(900)
Net loss	$ (22,595)	$ (28,913)	$ (96,832)	$ (57,191)
Net loss per share, basic and diluted	$ (0.39)	$ (0.52)	$ (1.69)	$ (1.03)
Weighted average shares outstanding, basic and diluted	57,369	55,768	57,168	55,553
(1) Includes stock-based compensation expense as follows:				
Cost of subscription revenue	$ 5,235	$ 4,269	$ 10,777	$ 8,144
Cost of hardware and services revenue	1,408	1,054	2,779	1,960
Research and development	16,431	12,522	32,036	24,021
Sales and marketing	17,047	15,799	35,566	29,553
General and administrative	(3,660)	12,006	6,868	22,993
Total stock-based compensation expense	$ 36,461	$ 45,650	$ 88,026	$ 86,671
(2) Includes intangible amortization expense as follows:				
Cost of subscription revenue	$ 9,992	$ 7,505	$ 19,930	$ 14,267
Sales and marketing	3,947	3,634	8,460	7,171
Total intangible amortization expense	$ 13,939	$ 11,139	$ 28,390	$ 21,438

Proofpoint, Inc.
Consolidated Balance Sheets
(In thousands, except per share amounts)
(Unaudited)

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 961,356	$ 847,555
Short-term investments	11,988	43,385
Accounts receivable, net	173,086	265,741
Inventory	367	1,249
Deferred product costs	2,846	2,723
Deferred commissions	49,818	47,250
Prepaid expenses and other current assets	27,835	22,081
Total current assets	1,227,296	1,229,984
Property and equipment, net	84,863	73,512
Operating lease right-of-use assets	67,128	51,852
Long-term deferred product costs	382	581
Goodwill	688,461	687,517
Intangible assets, net	159,507	186,023
Long-term deferred commissions	93,687	90,305
Other assets	15,808	17,737
Total assets	$ 2,337,132	$ 2,337,511
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,451	$ 16,311
Accrued liabilities	120,867	119,423
Operating lease liabilities	23,755	20,202
Deferred revenue	593,451	615,874
Total current liabilities	743,524	771,810
Convertible senior notes	766,403	749,620
Long-term operating lease liabilities	46,290	36,223
Other long-term liabilities	35,187	19,172
Long-term deferred revenue	169,360	168,189
Total liabilities	1,760,764	1,745,014
Stockholders' equity		
Common stock, $0.0001 par value; 200,000 shares authorized; 57,588 and 56,784 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	6	6
Additional paid-in capital	1,398,786	1,318,084
Accumulated other comprehensive income	2	1
Accumulated deficit	(822,426)	(725,594)
Total stockholders' equity	576,368	592,497
Total liabilities and stockholders' equity	$ 2,337,132	$ 2,337,511

Proofpoint, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash flows from operating activities				
Net loss	$ (22,595)	$ (28,913)	$ (96,832)	$ (57,191)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	22,990	19,577	46,460	38,237
Stock-based compensation	36,461	45,650	88,026	86,671
Amortization of debt issuance costs and accretion of debt discount	8,438	—	16,783	—
Amortization of deferred commissions	15,370	12,400	30,003	23,671
Noncash lease costs	6,492	5,713	12,918	11,347
Deferred income taxes	(367)	(550)	(692)	(610)
Other	1,449	233	268	967
Changes in assets and liabilities:				
Accounts receivable	(1,391)	(7,756)	92,062	27,860
Inventory	9	255	881	124
Deferred product costs	134	(195)	76	(95)
Deferred commissions	(20,783)	(18,063)	(35,953)	(30,978)
Prepaid expenses	(483)	(1,326)	(6,773)	(7,695)
Other current assets	102	237	(180)	459
Long-term assets	37	(154)	(59)	(623)
Accounts payable	(3,496)	1,139	(9,513)	(3,166)
Accrued liabilities	5,402	2,176	20,122	(10,371)
Operating lease liabilities	(6,402)	(5,260)	(13,561)	(11,448)
Deferred revenue	(10,757)	18,247	(21,252)	30,350
Net cash provided by operating activities	30,610	43,410	122,784	97,509
Cash flows from investing activities				
Proceeds from maturities of short-term investments	11,955	22,776	51,187	55,049
Purchase of short-term investments	—	(15,395)	(19,876)	(41,768)
Purchase of property and equipment	(11,790)	(8,373)	(24,149)	(13,850)
Receipts from escrow account	154	—	154	—
Acquisition of businesses, net of cash acquired	(2,720)	(104,503)	(2,720)	(104,503)
Net cash (used in) provided by investing activities	(2,401)	(105,495)	4,596	(105,072)
Cash flows from financing activities				
Proceeds from issuance of common stock	15,577	13,586	18,543	14,691
Withholding taxes related to restricted stock net share settlement	(7,545)	(10,382)	(35,145)	(35,005)
Net cash provided by (used in) financing activities	8,032	3,204	(16,602)	(20,314)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	733	(127)	(174)	79
Net increase (decrease) in cash, cash equivalents and restricted cash	36,974	(59,008)	110,604	(27,798)
Cash, cash equivalents and restricted cash				
Beginning of period	931,537	217,362	857,907	186,152
End of period	$ 968,511	$ 158,354	$ 968,511	$ 158,354

Reconciliation of Non-GAAP Measures
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
GAAP gross profit	$ 190,863	$ 156,611	$ 371,706	$ 304,305
GAAP gross margin	74%	73%	73%	73%
Plus:				
Stock-based compensation expense	6,643	5,323	13,556	10,104
Intangible amortization expense	9,992	7,505	19,930	14,267
Non-GAAP gross profit	207,498	169,439	405,192	328,676
Non-GAAP gross margin	80%	79%	80%	79%
GAAP operating loss	(10,830)	(29,292)	(52,599)	(57,676)
Plus:				
Stock-based compensation expense	36,461	45,650	88,026	86,671
Intangible amortization expense	13,939	11,139	28,390	21,438
Acquisition-related expenses	457	853	764	853
Litigation-related expenses	962	—	1,779	—
Facility exit costs	194	—	194	—
Non-GAAP operating income	41,183	28,350	66,554	51,286
GAAP net loss	(22,595)	(28,913)	(96,832)	(57,191)
Plus:				
Stock-based compensation expense	36,461	45,650	88,026	86,671
Intangible amortization expense	13,939	11,139	28,390	21,438
Acquisition-related expenses	457	853	764	853
Litigation-related expenses	962	—	1,779	—
Facility exit costs	194	—	194	—
Interest expense - debt discount and issuance costs	8,438	—	16,783	—
Income tax expense (1)	(5,058)	(4,652)	18,110	(8,054)
Non-GAAP net income	32,798	24,077	57,214	43,717
Add interest expense of convertible senior notes, net of tax (2)	477	—	954	-
Numerator for non-GAAP EPS calculation	$ 33,275	$ 24,077	$ 58,168	$ 43,717
Non-GAAP net income per share - diluted	$ 0.51	$ 0.41	$ 0.89	$ 0.75
GAAP weighted-average shares used to compute net loss per share, diluted	57,369	55,768	57,168	55,553
Dilutive effect of convertible senior notes (2)	5,975	—	5,975	—
Dilutive effect of employee equity incentive plan awards (3)	2,111	2,305	2,196	2,459
Non-GAAP weighted-average shares used to compute net income per share, diluted	65,455	58,073	65,339	58,012

(1) The Company's current and deferred income tax expense commensurate with the non-GAAP measure of profitability using non-GAAP tax rate of 17% for the three and six months ended June 30, 2020 and 2019. The Company uses annual projected tax rate in its computation of the non-GAAP income tax provision, and excludes the direct impact of stock-based compensation, intangible amortization expenses, costs associated with acquisitions, litigations, facility exit costs related to the relocation of our corporate headquarters, and non-cash interest expense related to the debt discount and issuance costs for the convertible notes.

(2) The Company uses the if-converted method to compute diluted earnings per share with respect to its convertible senior notes. There was no add-back of interest expense or additional dilutive shares related to the convertible senior notes where the effect was anti-dilutive.

(3) The Company uses the treasury method to compute the dilutive effect of employee equity incentive plan awards.

Reconciliation of Total Revenue to Billings
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Total revenue	$ 258,438	$ 214,439	$ 508,212	$ 417,376
Deferred revenue and customer prepayments				
Ending	776,255	635,450	776,255	635,450
Beginning	787,098	617,170	797,173	605,073
Net Change	(10,843)	18,280	(20,918)	30,377
Unbilled accounts receivable				
Ending	1,542	1,861	1,542	1,861
Beginning	3,965	1,261	2,255	1,276
Net Change	2,423	(600)	713	(585)
Less:				
Deferred revenue and customer prepayments contributed by acquisitions	—	—	—	—
Billings	$ 250,018	$ 232,119	$ 488,007	$ 447,168

Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
GAAP cash flows provided by operating activities	$ 30,610	$ 43,410	$ 122,784	$ 97,509
Less:				
Purchases of property and equipment	(11,790)	(8,373)	(24,149)	(13,850)
Non-GAAP free cash flows	$ 18,820	$ 35,037	$ 98,635	$ 83,659

Reconciliation of Non-GAAP Measures to Guidance
(In millions, except per share amount)
(Unaudited)

	Three Months Ending September 30, 2020	Year Ending December 31, 2020
Total revenue	$260.0 - $262.0	$1,035.0 - $1,037.0
GAAP gross profit	191.1 - 192.9	763.9 - 766.1
GAAP gross margin	74%	74%
Plus:		
Stock-based compensation expense	6.1 - 5.9	22.8 - 22.2
Intangible amortization expense	10.8	41.3
Non-GAAP gross profit	208.0 - 209.6	828.0 - 829.6
Non-GAAP gross margin	80%	80%
GAAP net loss	(50.6) - (45.2)	(198.8) - (189.0)
Plus:		
Stock-based compensation expense	53.0 - 50.0	195.0- 190.0
Intangible amortization expense	14.7	57.5
Acquisition-related expenses	-	0.8
Litigation-related expenses	1.0	4.4
Facility exit costs	0.6	1.6
Interest expense - debt discount and issuance costs	8.5	33.9
Income tax expense	(3.2) - (3.6)	11.6 - 10.8
Non-GAAP net income	24.0 - 26.0	106.0 - 110.0
Add interest expense of convertible senior notes, net of tax (if dilutive)	0.5	1.9
Numerator for non-GAAP EPS calculation	$24.5 - $26.5	$107.9 - $111.9
Non-GAAP net income per share - diluted	$0.37 - $0.40	$1.64 - $1.70
Non-GAAP weighted-average shares used to compute net income per share, diluted	65.9	65.9

	Three Months Ending September 30, 2020	Year Ending December 31, 2020
GAAP cash flows provided by operating activities	$41.0 - $46.0	$205.0 - $215.0
Less:		
Purchases of property and equipment	(25.0)	(75.0)
Non-GAAP free cash flows	$16.0 - $21.0	$130.0 - $140.0

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