

**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

February 21, 2019
Date of Report (date of earliest event reported)

DROPBOX, INC.

(Exact name of Registrant as specified in its charter)

Delaware
**(State or other jurisdiction of
incorporation)**

001-38434
(Commission File Number)

26-0138832
(I. R. S. Employer Identification No.)

333 Brannan St.
San Francisco, California 94107
(Address of principal executive offices)
(415) 857-6800

(Registrant's telephone number, including area code)

N/A

(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 (see General Instruction A.2. below):

- 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))

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 21, 2019, Dropbox, Inc. (“Dropbox”) issued a press release and will hold a conference call announcing its financial results for the quarter and fiscal year ended December 31, 2018. A copy of the press release is attached as Exhibit 99.1 to this current report on Form 8-K and is incorporated by reference herein.

Item 7.01 – Regulation FD Disclosure

On February 21, 2019, Dropbox posted supplemental investor materials on its investors.dropbox.com website. Dropbox intends to use its investors.dropbox.com website as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

The information in this current report on Form 8-K and the exhibit attached 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 filing.

Item 9.01 – Financial Statements and Exhibits

(d) Exhibits:

Exhibit No.	Exhibit Description
99.1	<u>Press Release entitled “Dropbox Announces Fourth Quarter and Fiscal 2018 Results” dated February 21, 2019</u>

SIGNATURES

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

Dated: February 21, 2019

Dropbox, Inc.

/s/ Ajay Vashee

Ajay Vashee

Chief Financial Officer

Dropbox Announces Fourth Quarter and Fiscal 2018 Results

Fourth Quarter Revenue of \$375.9 Million, Up 23% Year-over-year
Net Cash Provided by Operating Activities of \$123.7 Million and Free Cash Flow of \$88.3 Million

Fiscal 2018 Revenue of \$1,391.7 Million, Up 26% Year-over-year
Net Cash Provided by Operating Activities of \$425.4 Million and Free Cash Flow of \$362.4 Million

SAN FRANCISCO, Calif. - February 21, 2019 - Dropbox, Inc. (NASDAQ: DBX), a leading global collaboration platform, today announced financial results for its fourth quarter and fiscal year ended December 31, 2018.

“We ended our incredible first year as a public company with a great Q4,” said Dropbox Co-founder and Chief Executive Officer Drew Houston. “Our healthy top line growth and free cash flow generation reflect our strong business model, and our new product updates and integrations, like Dropbox Extensions, put Dropbox at the center of our users’ workflows and helped us close out the year with over 400,000 business teams. We kicked off 2019 with our acquisition of HelloSign, which extends the capabilities of our platform and solves even more problems for our users. I’m excited for the road ahead and looking forward to another great year.”

Fourth Quarter Fiscal 2018 Results

- Total revenue was \$375.9 million, an increase of 23% from the same period last year.
- Paying users totaled 12.7 million, as compared to 11.0 million for the same period last year. Average revenue per paying user was \$119.61, as compared to \$113.39 for the same period last year.
- GAAP gross margin was 74.9%, as compared to 70.0% in the same period last year. Non-GAAP gross margin was 75.7%, as compared to 70.9% in the same period last year.
- GAAP operating margin was (3.2%), as compared to (12.2%) in the same period last year. Non-GAAP operating margin was 11.0%, as compared to 3.3% in the same period last year.
- GAAP net loss was (\$9.5) million, as compared to (\$37.7) million in the same period last year. Non-GAAP net income was \$42.3 million, as compared to \$11.2 million in the same period last year.
- Net cash provided by operating activities was \$123.7 million, as compared to \$71.1 million in the same period last year. Free cash flow was \$88.3 million, as compared to \$57.8 million in the same period last year.
- GAAP basic and diluted net loss per share was (\$0.02), as compared to (\$0.19) in the same period last year. Non-GAAP diluted net income per share was \$0.10, as compared to \$0.03 in the same period last year. ⁽¹⁾
- Cash, cash equivalents and short-term investments were \$1,089.3 million at the end of the fourth quarter of 2018, as compared to \$430.0 million at the end of the fourth quarter of last year.

Full Year Fiscal 2018 Results

- Total revenue was \$1,391.7 million, an increase of 26% year over year.
- Average revenue per paying user was \$117.64, as compared to \$111.91 in the prior year.
- GAAP gross margin was 71.6%, as compared to 66.7% in the prior year. Non-GAAP gross margin was 75.1%, as compared to 67.8% in the prior year.
- GAAP operating margin was (35.5%), as compared to (10.3%) in the prior year. Non-GAAP operating margin was 12.2%, as compared to 5.5% in the prior year.
- GAAP net loss was (\$484.9) million, as compared to (\$111.7) million in the prior year. Non-GAAP net income was \$166.2 million, as compared to \$59.9 million in the prior year.

- Net cash provided by operating activities was \$425.4 million, as compared to \$330.3 million in the prior year. Free cash flow was \$362.4 million, as compared to \$305.0 million in the prior year.
- GAAP basic and diluted net loss per share was (\$1.35), as compared to (\$0.57) in the prior year. Non-GAAP diluted net income per share was \$0.41, as compared to \$0.17 in the prior year. ⁽²⁾

⁽¹⁾ Non-GAAP diluted net income per share is calculated based upon 416.3 million and 351.2 million diluted weighted-average shares of common stock for the three months ended December 31, 2018 and 2017, respectively.

⁽²⁾ Non-GAAP diluted net income per share is calculated based upon 409.8 million and 347.7 million diluted weighted-average shares of common stock for the fiscal year ended December 31, 2018 and 2017, respectively.

Financial Outlook

Dropbox will provide forward-looking guidance in connection with this quarterly earnings announcement on our conference call, webcast, and on our investor relations website at investors.dropbox.com.

Conference Call Information

Dropbox plans to host a conference call today to review its fourth quarter and fiscal 2018 financial results and to discuss its financial outlook. This call is scheduled to begin at 2:00 p.m. PT / 5:00 p.m. ET and can be accessed by dialing (877) 300-7844 from the United States or (786) 815-8440 internationally with reference to the company name and conference title, and a live webcast and replay of the conference call can be accessed from the Dropbox investor relations website at investors.dropbox.com. Following the completion of the call, a telephonic replay will be available through 11:59 PM Eastern Time on February 28, 2019 at (855) 859-2056 from the United States or (404) 537-3406 internationally with recording access code 7188984.

Other Upcoming Events

Ajay Vashee, Chief Financial Officer, will be presenting at the JMP Securities 2019 Technology Conference in San Francisco, CA, on Tuesday, February 26, 2019 at 3:30 p.m. PT. At that time, a live webcast will be accessible from the Dropbox investor relations website at <http://investors.dropbox.com>. Following the event, a replay will be made available at the same location.

About Dropbox

Dropbox is a leading global collaboration platform that's transforming the way people work together, from the smallest business to the largest enterprise. With more than 500 million registered users across more than 180 countries, our products are designed to establish a more enlightened way of working. Headquartered in San Francisco, CA, Dropbox has 12 offices around the world. For more information on our mission and products, visit dropbox.com.

Use of Non-GAAP Financial Measures

Reconciliations of non-GAAP financial measures to the most directly comparable financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. For a description of these non-GAAP financial measures, including the reasons management uses each measure, please see the section of the tables titled "About Non-GAAP Financial Measures."

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, among other things, statements regarding Dropbox's future operational performance, the demand for our platform and product features, and the benefits from new product experiences and acquisitions. Words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "plans," and similar expressions are intended to identify forward-looking statements. Dropbox has based these forward-looking statements largely on its current expectations and projections about future events and financial trends that the Company believes may affect its business, financial condition, and results of operations. These forward-looking statements speak only as of the date of this press release and are subject to risks, uncertainties, and assumptions including, but not limited to: (i) our ability to retain and upgrade paying users; (ii) our ability to attract new users or convert registered users to paying users; (iii) our revenue growth rate; (iv) our history of net losses; (v) our liability for any unauthorized access to our data or our users' content, including through privacy and data security breaches; (vi) significant disruption of service on our platform or loss of content; (vii) any decline in demand for our platform or for content collaboration solutions in general; (viii) changes in the interoperability of our platform across devices, operating systems, and third-party applications that we do not control; (ix) competition in our markets; (x) our ability to respond to rapid technological changes, extend our platform, or develop new features; (xi) our ability to manage our growth or plan for future growth; (xii)

our acquisition of other businesses and the potential of such acquisitions to require significant management attention, disrupt our business, or dilute stockholder value; and (xiii) the dual class structure of our common stock and its effect of concentrating voting control with certain stockholders who held our capital stock prior to the completion of our initial public offering. Further information on risks that could affect Dropbox's results is included in our filings with the Securities and Exchange Commission (SEC), including our Form 10-Q for the quarter ended September 30, 2018. Additional information will be made available in our annual report on Form 10-K and other future reports that we may file with the SEC from time to time, which could cause actual results to vary from expectations. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Dropbox assumes no obligation to, and does not

currently intend to, update any such forward-looking statements after the date of this release, except as required by applicable law.

Dropbox, Inc.
Consolidated Statements of Operations

(In millions, except per share data)
(Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Revenue	\$ 375.9	\$ 305.5	\$ 1,391.7	\$ 1,106.8
Cost of revenue ⁽¹⁾	94.4	91.7	394.7	368.9
Gross profit	281.5	213.8	997.0	737.9
Operating expenses ⁽¹⁾ :				
Research and development	136.8	104.0	768.2	380.3
Sales and marketing	100.2	102.9	439.6	314.0
General and administrative	56.5	44.2	283.2	157.3
Total operating expenses	293.5	251.1	1,491.0	851.6
Loss from operations	(12.0)	(37.3)	(494.0)	(113.7)
Interest income (expense), net	3.9	(1.6)	7.1	(11.0)
Other income, net	0.7	0.2	6.8	13.2
Loss before income taxes	(7.4)	(38.7)	(480.1)	(111.5)
Benefit from (provision for) income taxes	(2.1)	1.0	(4.8)	(0.2)
Net loss	\$ (9.5)	\$ (37.7)	\$ (484.9)	\$ (111.7)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.02)	\$ (0.19)	\$ (1.35)	\$ (0.57)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	408.0	196.9	358.6	195.9

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Cost of revenue	\$ 3.1	\$ 2.9	\$ 47.0	\$ 12.2
Research and development	29.2	26.7	368.2	93.1
Sales and marketing	5.9	10.8	94.3	33.7
General and administrative	15.3	7.0	140.6	25.6

Dropbox, Inc.
Consolidated Balance Sheets

(In millions)

(Unaudited)

	As of	
	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 519.3	\$ 430.0
Short-term investments	570.0	—
Trade and other receivables, net	28.6	29.3
Prepaid expenses and other current assets	92.3	58.8
Total current assets	1,210.2	518.1
Property and equipment, net	310.6	341.9
Intangible assets, net	14.7	17.0
Goodwill	96.5	98.9
Other assets	62.1	44.0
Total assets	\$ 1,694.1	\$ 1,019.9
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 33.3	\$ 31.9
Accrued and other current liabilities	164.5	129.8
Accrued compensation and benefits	80.9	56.1
Capital lease obligation	73.8	102.7
Deferred revenue	485.0	417.9
Total current liabilities	837.5	738.4
Capital lease obligation, non-current	89.9	71.6
Deferred rent, non-current	81.0	69.8
Other non-current liabilities	8.9	37.2
Total liabilities	1,017.3	917.0
Stockholders' equity:		
Convertible preferred stock	—	615.3
Preferred stock	—	—
Common stock	—	—
Additional paid-in capital	2,337.5	533.1
Accumulated deficit	(1,659.5)	(1,049.7)
Accumulated other comprehensive income (loss)	(1.2)	4.2
Total stockholders' equity	676.8	102.9
Total liabilities and stockholders' equity	\$ 1,694.1	\$ 1,019.9

Dropbox, Inc.
Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Cash flow from operating activities				
Net loss	\$ (9.5)	\$ (37.7)	\$ (484.9)	\$ (111.7)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	45.2	42.9	166.8	181.8
Stock-based compensation	53.5	47.4	650.1	164.6
Amortization of deferred commissions	3.6	2.0	12.1	6.6
Donation of common stock to charitable foundation	—	—	—	9.4
Other	(1.0)	0.1	(1.9)	(1.7)
Changes in operating assets and liabilities:				
Trade and other receivables, net	(0.3)	(2.8)	0.1	(14.4)
Prepaid expenses and other current assets	(0.6)	(19.7)	(47.9)	(18.2)
Other assets	(0.8)	(6.4)	(11.2)	(10.6)
Accounts payable	2.2	16.3	(1.7)	16.2
Accrued and other current liabilities	(0.3)	8.0	40.3	34.0
Accrued compensation and benefits	17.8	10.2	25.0	14.4
Deferred revenue	5.6	11.8	66.4	64.3
Non-current liabilities	8.3	(1.0)	12.2	(4.4)
Net cash provided by operating activities	123.7	71.1	425.4	330.3
Cash flow from investing activities				
Capital expenditures	(35.4)	(13.3)	(63.0)	(25.3)
Purchase of intangible assets	(0.1)	—	(3.0)	(0.8)
Purchases of short-term investments	(186.1)	—	(850.4)	—
Proceeds from maturities of short-term investments	110.5	—	212.4	—
Proceeds from sales of short-term investments	9.6	—	71.2	—
Other	(3.3)	0.3	(1.0)	2.2
Net cash used in investing activities	(104.8)	(13.0)	(633.8)	(23.9)
Cash flow from financing activities				
Proceeds from initial public offering and private placement, net of underwriters' discounts and commissions	—	—	746.6	—
Payments of deferred offering costs	—	(2.5)	(4.5)	(2.5)
Shares repurchased for tax withholdings on release of restricted stock	(25.2)	(15.7)	(351.9)	(87.9)
Proceeds from issuance of common stock, net of repurchases	16.4	—	26.2	0.5
Principal payments on capital lease obligations	(25.0)	(30.7)	(109.1)	(133.0)
Principal payments against note payable	(0.3)	(1.0)	(3.5)	(3.9)
Fees paid for revolving credit facility	—	—	(0.4)	(2.6)
Other	(0.1)	(0.7)	(2.6)	(2.3)
Net cash provided by (used in) financing activities	(34.2)	(50.6)	300.8	(231.7)
Effect of exchange rate changes on cash and cash equivalents	(1.6)	(0.2)	(3.1)	2.6
Change in cash and cash equivalents	(16.9)	7.3	89.3	77.3
Cash and cash equivalents—beginning of period	536.2	422.7	430.0	352.7
Cash and cash equivalents—end of period	\$ 519.3	\$ 430.0	\$ 519.3	\$ 430.0
Supplemental cash flow data:				
Property and equipment acquired under capital leases	\$ 25.8	\$ 26.5	\$ 98.5	\$ 44.9

Dropbox, Inc.
Three months ended December 31, 2018
Reconciliation of GAAP to Non-GAAP results
(In millions, except for percentages, which may not foot due to rounding)
(Unaudited)

	GAAP	Stock-based compensation	Non-GAAP
Cost of revenue	\$ 94.4	\$ (3.1)	\$ 91.3
<i>Cost of revenue margin</i>	25.1 %	(0.8)%	24.3%
Gross profit	281.5	3.1	284.6
<i>Gross margin</i>	74.9 %	0.8 %	75.7%
Research and development	136.8	(29.2)	107.6
<i>Research and development margin</i>	36.4 %	(7.8)%	28.6%
Sales and marketing	100.2	(5.9)	94.3
<i>Sales and marketing margin</i>	26.7 %	(1.6)%	25.1%
General and administrative	56.5	(15.3)	41.2
<i>General and administrative margin</i>	15.0 %	(4.0)%	11.0%
Income (loss) from operations	\$ (12.0)	\$ 53.5	\$ 41.5
<i>Operating margin</i>	(3.2)%	14.2 %	11.0%

Dropbox, Inc.
Three months ended December 31, 2017
Reconciliation of GAAP to Non-GAAP results
(In millions, except for percentages, which may not foot due to rounding)
(Unaudited)

	GAAP	Stock-based compensation	Non-GAAP
Cost of revenue	\$ 91.7	\$ (2.9)	\$ 88.8
<i>Cost of revenue margin</i>	30.0 %	(0.9)%	29.1%
Gross profit	213.8	2.9	216.7
<i>Gross margin</i>	70.0 %	0.9 %	70.9%
Research and development	104.0	(26.7)	77.3
<i>Research and development margin</i>	34.0 %	(8.7)%	25.3%
Sales and marketing	102.9	(10.8)	92.1
<i>Sales and marketing margin</i>	33.7 %	(3.6)%	30.1%
General and administrative	44.2	(7.0)	37.2
<i>General and administrative margin</i>	14.5 %	(2.3)%	12.2%
Income (loss) from operations	\$ (37.3)	\$ 47.4	\$ 10.1
<i>Operating margin</i>	(12.2)%	15.5 %	3.3%

Dropbox, Inc.
Twelve months ended December 31, 2018
Reconciliation of GAAP to Non-GAAP results
(In millions, except for percentages, which may not foot due to rounding)
(Unaudited)

	GAAP	Stock-based compensation	Employer payroll taxes related to the release of two-tier RSUs	Non-GAAP
Cost of revenue	\$ 394.7	\$ (47.0)	\$ (1.1)	\$ 346.6
<i>Cost of revenue margin</i>	28.4 %	(3.4)%	(0.1)%	24.9%
Gross profit	997.0	47.0	1.1	1,045.1
<i>Gross margin</i>	71.6 %	3.4 %	0.1 %	75.1%
Research and development	768.2	(368.2)	(8.3)	391.7
<i>Research and development margin</i>	55.2 %	(26.5)%	(0.6)%	28.1%
Sales and marketing	439.6	(94.3)	(2.2)	343.1
<i>Sales and marketing margin</i>	31.6 %	(6.7)%	(0.2)%	24.7%
General and administrative	283.2	(140.6)	(2.3)	140.3
<i>General and administrative margin</i>	20.3 %	(10.0)%	(0.2)%	10.1%
Income (loss) from operations	\$ (494.0)	\$ 650.1	\$ 13.9	\$ 170.0
<i>Operating margin</i>	(35.5)%	46.7 %	1.0 %	12.2%

Dropbox, Inc.
Twelve months ended December 31, 2017
Reconciliation of GAAP to Non-GAAP results
(In millions, except for percentages, which may not foot due to rounding)
(Unaudited)

	GAAP	Stock-based compensation	Donation of common stock to the Dropbox Foundation	Non-GAAP
Cost of revenue	\$ 368.9	\$ (12.2)	\$ —	\$ 356.7
<i>Cost of revenue margin</i>	33.3 %	(1.1)%	— %	32.2%
Gross profit	737.9	12.2	—	750.1
<i>Gross margin</i>	66.7 %	1.1 %	— %	67.8%
Research and development	380.3	(93.1)	—	287.2
<i>Research and development margin</i>	34.4 %	(8.5)%	— %	25.9%
Sales and marketing	314.0	(33.7)	—	280.3
<i>Sales and marketing margin</i>	28.4 %	(3.1)%	— %	25.3%
General and administrative	157.3	(25.6)	(9.4)	122.3
<i>General and administrative margin</i>	14.2 %	(2.4)%	(0.8)%	11.0%
Income (loss) from operations	\$ (113.7)	\$ 164.6	\$ 9.4	\$ 60.3
<i>Operating margin</i>	(10.3)%	15.0 %	0.8 %	5.5%

Dropbox, Inc.
Three and twelve months ended December 31, 2018 and 2017
Reconciliation of GAAP net loss to Non-GAAP net income and Non-GAAP diluted net income per share
(In millions, except per share data)
(Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
GAAP net loss	\$ (9.5)	\$ (37.7)	\$ (484.9)	\$ (111.7)
Stock-based compensation	53.5	47.4	650.1	164.6
Employer payroll taxes related to the release of two-tier RSUs	—	—	13.9	—
Donation of common stock to the Dropbox Foundation	—	—	—	9.4
Income tax effects of non-GAAP adjustments	(1.7)	1.5	(12.9)	(2.4)
Non-GAAP net income	\$ 42.3	\$ 11.2	\$ 166.2	\$ 59.9
Non-GAAP diluted net income per share	\$ 0.10	\$ 0.03	\$ 0.41	\$ 0.17
Weighted-average shares used to compute Non-GAAP diluted net income per share	416.3	351.2	409.8	347.7

Dropbox, Inc.
Three and twelve months ended December 31, 2018 and 2017
Reconciliation of free cash flow and supplemental cash flow disclosure
(In millions, except for percentages)
(Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2018	2017	2018	2017
Free cash flow reconciliation:				
Net cash provided by operating activities	\$ 123.7	\$ 71.1	\$ 425.4	\$ 330.3
Less:				
Capital expenditures	(35.4)	(13.3)	(63.0)	(25.3)
Free cash flow	\$ 88.3	\$ 57.8	\$ 362.4	\$ 305.0
Free cash flow margin	23.5%	18.9%	26.0%	27.6%
Supplemental disclosures:				
Capital expenditures related to our new corporate headquarters, net of tenant improvement allowances ⁽¹⁾	\$ 28.2	\$ —	\$ 32.9	\$ —

⁽¹⁾ Capital expenditures include cash outflows related to the build-out of our new corporate headquarters in San Francisco, CA. Net cash provided by operating activities include tenant improvement allowances related to our new corporate headquarters, and represents cash received from our landlord to partially offset this build-out. These amounts are presented net in the table above. There was no cash received from our landlord related to our new corporate headquarters in the periods presented.

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding Dropbox's results, we have disclosed the following non-GAAP financial measures: non-GAAP cost of revenue, non-GAAP gross profit, non-GAAP operating expenses (including research and development, sales and marketing and general and administrative), non-GAAP income from operations, non-GAAP net income, free cash flow ("FCF") and non-GAAP diluted net income per share. Dropbox has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. Non-GAAP cost of revenue, gross profit, operating expenses, income from operations, and net income differs from GAAP in that it excludes stock-based compensation expense and employer payroll tax expense relating to the release of two-tier RSUs with respect to the three months ended March 31, 2018. Non-GAAP general and administrative expense also excludes expense related to a donation of common stock to the Dropbox Foundation with respect to the three months ended June 30, 2017. Non-GAAP net income also includes the income tax effect of these adjustments. FCF differs from GAAP net cash provided by operating activities in that it treats capital expenditures as a reduction to net cash provided by operating activities. Free cash flow margin is calculated as FCF divided by revenue. Non-GAAP diluted net income per share differs from GAAP diluted net loss per share in that the numerator utilizes the non-GAAP net income as described above, and the weighted-average shares used in the computation include certain shares that are excluded from the GAAP diluted net loss per share calculation because their effect would have been anti-dilutive.

Dropbox's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short and long-term operating plans, and to evaluate Dropbox's financial performance and the ability to generate cash from operations. Management believes these non-GAAP financial measures reflect Dropbox's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Dropbox's business, as they exclude expenses that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful supplemental information to investors and others in understanding and evaluating Dropbox's operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

We believe that the non-GAAP financial measures, non-GAAP cost of revenue, gross profit, operating expenses, income from operations, net income, and diluted net income per share are meaningful to investors because they help identify underlying trends in our business that could otherwise be masked by the effect of the expenses that we exclude.

We believe that FCF is an indicator of our liquidity over the long term, and provides useful information regarding cash provided by operating activities and cash used for investments in property and equipment required to maintain and grow our business. FCF is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. FCF has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of FCF are that FCF does not reflect our future contractual commitments, excludes investments made to acquire assets under capital leases, includes capital expenditures related to our new corporate headquarters, and may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

The use of non-GAAP cost of revenue, gross profit, operating expenses, income from operations, net income, free cash flow, and diluted net income per share measures has certain limitations as they do not reflect all items of income, expense, and cash expenditures, as applicable, that affect Dropbox's operations. Dropbox compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. Additionally, we have provided supplemental disclosures in our reconciliation of net cash provided by operating activities to free cash flow to include capital expenditures related to our new corporate headquarters, net of tenant improvement allowances. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited. Management encourages investors and others to review Dropbox's financial information in its entirety and not rely on a single financial measure.

Contacts

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