

Akamai Technologies, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures

In addition to providing financial measurements based on generally accepted accounting principles in the United States of America (GAAP), Akamai provides additional financial metrics that are not prepared in accordance with GAAP (non-GAAP). Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes, to measure executive compensation and to evaluate Akamai's financial performance. These non-GAAP financial measures are non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per share, Adjusted EBITDA, Adjusted EBITDA margin, capital expenditures and impact of foreign currency exchange rates, as discussed below.

Management believes that these non-GAAP financial measures reflect Akamai's ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as they facilitate comparing financial results across accounting periods and to those of peer companies. Management also believes that these non-GAAP financial measures enable investors to evaluate Akamai's operating results and future prospects in the same manner as management. These non-GAAP financial measures may also exclude expenses and gains that may be unusual in nature, infrequent or not reflective of Akamai's ongoing operating results.

The non-GAAP financial measures do not replace the presentation of Akamai's GAAP financial results and should only be used as a supplement to, not as a substitute for, Akamai's financial results presented in accordance with GAAP. Akamai has provided a reconciliation of each non-GAAP financial measure used in its financial reporting and investor presentations to the most directly comparable GAAP financial measure. This reconciliation captioned "Reconciliation of GAAP to Non-GAAP Financial Measures" can be found on the Investor Relations section of Akamai's website.

Akamai provides forward-looking statements in the form of guidance during its quarterly earnings conference calls. This guidance is provided on a non-GAAP basis and cannot be reconciled to the closest GAAP measures without unreasonable effort because of the unpredictability of the amounts and timing of events affecting the items we exclude from non-GAAP measures. For example, stock-based compensation is unpredictable for Akamai's performance-based awards, which can fluctuate significantly based on current expectations of future achievement of performance-based targets. Amortization of intangible assets, acquisition-related costs and restructuring costs are all impacted by the timing and size of potential future actions, which are difficult to predict. In addition, from time to time, Akamai excludes certain items that occur infrequently, which are also inherently difficult to predict and estimate. It is also difficult to predict the tax effect of the items we exclude and to estimate certain discrete tax items, like the resolution of tax audits or changes to tax laws. As such, the costs that are being excluded from non-GAAP guidance are difficult to predict and a reconciliation or a range of results could lead to disclosure that would be imprecise or potentially misleading. Material changes to any one of the exclusions could have a significant effect on our guidance and future GAAP results.

Akamai's definitions of its non-GAAP financial measures are outlined below.

Non-GAAP income from operations – GAAP income from operations adjusted for the following items: amortization of acquired intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; amortization of capitalized interest expense; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred related to endowments to the Akamai Foundation; transformation costs; and other non-recurring or unusual items that may arise from time to time.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Income from operations	\$ 314,289	\$ 362,499	\$ 548,918	\$ 658,534	\$ 783,148
Amortization of acquired intangible assets	30,904	33,311	38,581	42,049	48,019
Stock-based compensation	164,308	183,813	187,140	197,411	202,759
Amortization of capitalized stock-based compensation and capitalized interest expense	19,953	28,603	34,438	33,202	35,894
Restructuring charge	54,884	27,594	17,153	37,286	10,737
Acquisition-related costs	23,374	2,868	1,920	5,579	13,317
Legal and stockholder matter costs	—	23,091	10,000	275	—
Endowment of Akamai Foundation	—	50,000	—	20,000	—
Transformation costs	—	7,730	5,527	—	—
Non-GAAP income from operations	<u>\$ 607,712</u>	<u>\$ 719,509</u>	<u>\$ 843,677</u>	<u>\$ 994,336</u>	<u>\$ 1,093,874</u>

Non-GAAP operating margin – Non-GAAP income from operations stated as a percentage of revenue.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Revenue	\$ 2,489,035	\$ 2,714,474	\$ 2,893,617	\$ 3,198,149	\$ 3,461,223
Non-GAAP income from operations	607,712	719,509	843,677	994,336	1,093,874
Non-GAAP operating margin	<u>24 %</u>	<u>27 %</u>	<u>29 %</u>	<u>31 %</u>	<u>32 %</u>

Non-GAAP net income – GAAP net income adjusted for the following tax-affected items: amortization of acquired intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred related to endowments to the Akamai Foundation; transformation costs; amortization of debt discount and issuance costs; amortization of capitalized interest expense; certain gains and losses on investments; income and losses from equity method investment; and other non-recurring or unusual items that may arise from time to time.

(in thousands)	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Net income	\$ 222,766	\$ 298,373	\$ 478,035	\$ 557,054	\$ 651,642
Amortization of acquired intangible assets	30,904	33,311	38,581	42,049	48,019
Stock-based compensation	164,308	183,813	187,140	197,411	202,759
Amortization of capitalized stock-based compensation and capitalized interest expense	19,953	28,603	34,438	33,202	35,894
Restructuring charge	54,884	27,594	17,153	37,286	10,737
Acquisition-related costs	23,374	2,868	1,920	5,579	13,317
Legal and stockholder matter costs	—	23,091	10,000	275	—
Endowment of Akamai Foundation	—	50,000	—	20,000	—
Transformation costs	—	7,730	5,527	—	—
Amortization of debt discount and issuance costs	18,839	41,958	45,857	62,823	66,025
(Gain) loss on investments	(450)	1,481	60	(7,228)	(3,680)
Loss from equity method investment	—	—	1,096	13,106	14,008
Income tax-effect of above non-GAAP adjustments and certain discrete tax items	(82,817)	(86,391)	(80,488)	(103,280)	(96,164)
Non-GAAP net income	<u>\$ 451,761</u>	<u>\$ 612,431</u>	<u>\$ 739,319</u>	<u>\$ 858,277</u>	<u>\$ 942,557</u>

Non-GAAP net income per diluted share – Non-GAAP net income divided by weighted average diluted common shares outstanding. Diluted weighted average shares outstanding are adjusted in non-GAAP per share calculations for the shares that would be delivered to Akamai pursuant to the note hedge transactions entered into in connection with the issuances of \$1,150 million of convertible senior notes due 2027 and 2025, respectively, and \$690 million of convertible senior notes due 2019. Under GAAP, shares delivered under hedge transactions are not considered offsetting shares in the fully-diluted share calculation until they are delivered. However, the Company would receive a benefit from the note hedge transactions and would not allow the dilution to occur, so management believes that adjusting for this benefit provides a meaningful view of operating performance. With respect to the convertible senior notes due in each of 2027, 2025 and 2019, unless Akamai's weighted average stock price is greater than \$116.18, \$95.10 and \$89.56, respectively, the initial conversion price, there will be no difference between GAAP and non-GAAP diluted weighted average common shares outstanding.

	Year Ended				
(in thousands, except per share data)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
GAAP net income per diluted share	\$ 1.29	\$ 1.76	\$ 2.90	\$ 3.37	\$ 3.93
Adjustments to net income:					
Amortization of acquired intangible assets	0.18	0.20	0.23	0.25	0.29
Stock-based compensation	0.95	1.09	1.14	1.19	1.22
Amortization of capitalized stock-based compensation and capitalized interest expense ..	0.12	0.17	0.21	0.20	0.22
Restructuring charge	0.32	0.16	0.10	0.23	0.06
Acquisition-related costs	0.14	0.02	0.01	0.03	0.08
Legal and stockholder matter costs	—	0.14	0.06	—	—
Endowment of Akamai Foundation	—	0.30	—	0.12	—
Transformation costs	—	0.05	0.03	—	—
Amortization of debt discount and issuance costs	0.11	0.25	0.28	0.38	0.40
(Gain) loss on investments	—	0.01	—	(0.04)	(0.02)
Loss from equity method investment	—	—	0.01	0.08	0.08
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(0.48)	(0.51)	(0.49)	(0.63)	(0.58)
Adjustment for shares	—	—	—	0.04	0.06
Non-GAAP net income per diluted share	<u>\$ 2.62</u>	<u>\$ 3.62</u>	<u>\$ 4.49</u>	<u>\$ 5.22</u>	<u>\$ 5.74</u>
Shares used in GAAP per diluted share calculations:					
Shares used in GAAP per diluted share calculations	172,711	169,188	164,573	165,213	165,804
Impact of benefit from note hedge transactions	—	—	—	(873)	(1,600)
Shares used in non-GAAP per diluted share calculations	<u>172,711</u>	<u>169,188</u>	<u>164,573</u>	<u>164,340</u>	<u>164,204</u>

Adjusted EBITDA – GAAP net income excluding the following items: interest income; income taxes; depreciation and amortization of tangible and intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred related to endowments to the Akamai Foundation; transformation costs; foreign exchange gains and losses; interest expense; amortization of capitalized interest expense; certain gains and losses on investments; income and losses on equity method investment; and other non-recurring or unusual items that may arise from time to time.

(in thousands)	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Net income	\$ 222,766	\$ 298,373	\$ 478,035	\$ 557,054	\$ 651,642
Interest income	(17,855)	(26,940)	(34,355)	(29,122)	(15,620)
Provision for income taxes	91,426	44,716	53,350	45,922	62,571
Depreciation and amortization	321,456	372,606	367,655	403,160	467,048
Amortization of capitalized stock-based compensation and capitalized interest expense	19,953	28,603	34,438	33,202	35,894
Amortization of acquired intangible assets	30,904	33,311	38,581	42,049	48,019
Stock-based compensation	164,308	183,813	187,140	197,411	202,759
Restructuring charge	54,884	27,594	17,153	37,286	10,737
Acquisition-related costs	23,374	2,868	1,920	5,579	13,317
Legal and stockholder matter costs	—	23,091	10,000	275	—
Endowment of Akamai Foundation	—	50,000	—	20,000	—
Transformation costs	—	7,730	5,527	—	—
Amortization of debt discount and issuance costs..	18,839	43,202	49,364	69,120	72,332
(Gain) loss on investments	(450)	1,481	60	(7,228)	(3,680)
Loss from equity method investment	—	—	1,096	13,106	14,008
Other (income) expense, net	(437)	1,667	1,368	9,682	1,895
Adjusted EBITDA	<u>\$ 929,168</u>	<u>\$ 1,092,115</u>	<u>\$ 1,211,332</u>	<u>\$ 1,397,496</u>	<u>\$ 1,560,922</u>

Adjusted EBITDA margin – Adjusted EBITDA stated as a percentage of revenue.

(in thousands)	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Revenue	\$2,489,035	\$2,714,474	\$2,893,617	\$3,198,149	\$3,461,223
Adjusted EBITDA	929,168	1,092,115	1,211,332	1,397,496	1,560,922
Adjusted EBITDA margin	<u>37 %</u>	<u>40 %</u>	<u>42 %</u>	<u>44 %</u>	<u>45 %</u>

Cash cost of revenue – GAAP cost of revenue, excluding stock-based compensation and depreciation and amortization.

(in thousands)	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
GAAP cost of revenue	\$ 875,837	\$ 953,485	\$ 987,624	\$ 1,132,672	\$ 1,268,956
Less:					
Stock-based compensation	20,314	21,892	22,479	24,829	27,143
Depreciation and amortization	265,281	321,195	323,506	353,478	420,679
Amortization of capitalized stock-based compensation and interest expense not included in depreciation and amortization	—	—	—	—	119
Cash cost of revenue	\$ 590,242	\$ 610,398	\$ 641,639	\$ 754,365	\$ 821,015

Cash gross profit – Revenue less cash cost of revenue.

(in thousands)	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Revenue	\$ 2,489,035	\$ 2,714,474	\$ 2,893,617	\$ 3,198,149	\$ 3,461,223
Cash cost of revenue	590,242	610,398	641,639	754,365	821,015
Cash gross profit	\$ 1,898,793	\$ 2,104,076	\$ 2,251,978	\$ 2,443,784	\$ 2,640,208

Cash gross margin – Revenue less GAAP cost of revenue, excluding stock-based compensation and depreciation and amortization, stated as a percentage of revenue.

(in thousands)	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Revenue	\$ 2,489,035	\$ 2,714,474	\$ 2,893,617	\$ 3,198,149	\$ 3,461,223
Cash gross profit	1,898,793	2,104,076	2,251,978	2,443,784	2,640,208
Cash gross margin	76 %	78 %	78 %	76 %	76 %

Non-GAAP R&D – GAAP research and development expenses, excluding stock-based compensation.

(in thousands)	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
GAAP R&D	\$ 222,434	\$ 246,165	\$ 261,365	\$ 269,315	\$ 335,372
Less:					
Stock-based compensation	38,864	44,034	49,685	48,855	65,950
Non-GAAP R&D	\$ 183,570	\$ 202,131	\$ 211,680	\$ 220,460	\$ 269,422

Non-GAAP S&M – GAAP sales and marketing expenses, excluding stock-based compensation and acquisition-related costs.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
GAAP S&M	\$ 481,522	\$ 517,353	\$ 523,883	\$ 510,405	\$ 461,967
Less:					
Stock-based compensation	60,246	64,373	62,150	65,257	46,342
Acquisition-related costs	1	—	—	—	—
Non-GAAP S&M	<u>\$ 421,275</u>	<u>\$ 452,980</u>	<u>\$ 461,733</u>	<u>\$ 445,148</u>	<u>\$ 415,625</u>

Non-GAAP G&A – GAAP general and administrative expenses, excluding stock-based compensation, depreciation and amortization, acquisition-related costs, gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; Endowment to the Akamai Foundation and transformation costs.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
GAAP G&A	\$ 509,165	\$ 574,067	\$ 516,093	\$ 547,888	\$ 553,024
Less:					
Stock-based compensation	44,884	53,514	52,826	58,470	63,324
Depreciation and amortization	76,128	80,014	78,587	82,862	81,934
Amortization of capitalized stock-based compensation and interest expense not included in depreciation and amortization	—	—	—	22	210
Acquisition-related costs	23,373	2,868	1,920	5,579	13,317
Legal and stockholder matter costs	—	23,091	10,000	275	—
Endowment of Akamai Foundation	—	50,000	—	20,000	—
Transformation costs	—	7,730	5,527	—	—
Non-GAAP G&A	<u>\$ 364,780</u>	<u>\$ 356,850</u>	<u>\$ 367,233</u>	<u>\$ 380,680</u>	<u>\$ 394,239</u>

Cash operating expenses (cash opex) – GAAP operating expenses (consisting of research and development, sales and marketing, general and administrative, amortization of acquired intangible assets and restructuring charges), excluding stock-based compensation; amortization of acquired intangible assets; depreciation and amortization; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred related to an endowment to the Akamai Foundation; transformation costs; and other non-recurring or unusual items that may arise from time to time.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
GAAP operating expenses	\$ 1,298,909	\$ 1,398,490	\$ 1,357,075	\$ 1,406,943	\$ 1,409,119
Less:					
Stock-based compensation	143,994	161,921	164,661	172,582	175,616
Amortization of acquired intangible assets	30,904	33,311	38,581	42,049	48,019
Depreciation and amortization	76,128	80,014	78,587	82,862	81,934
Amortization of capitalized stock-based compensation and interest expense not included in depreciation and amortization	—	—	—	22	210
Restructuring charges	54,884	27,594	17,153	37,286	10,737
Acquisition-related costs	23,374	2,868	1,920	5,579	13,317
Legal and stockholder matter costs	—	23,091	10,000	275	—
Endowment of Akamai Foundation	—	50,000	—	20,000	—
Transformation costs	—	7,730	5,527	—	—
Cash operating expenses	\$ 969,625	\$ 1,011,961	\$ 1,040,646	\$ 1,046,288	\$ 1,079,286

Free cash flow – Cash flows from operations less purchases of property and equipment and capitalization of internal-use software development costs included in the statements of cash flows.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Cash provided by operating activities	\$ 800,983	\$ 1,008,327	\$ 1,058,304	\$ 1,215,000	\$ 1,404,563
Less:					
Purchases of property and equipment	254,146	217,609	359,667	514,313	328,969
Capitalization of internal-use software development costs	160,632	188,132	202,410	217,559	216,261
Free cash flow	\$ 386,205	\$ 602,586	\$ 496,227	\$ 483,128	\$ 859,333

Free cash flow as a percentage of revenue – Cash flows from operations less purchases of property and equipment and capitalization of internal-use software development costs included in the statements of cash flows, stated as a percentage of revenue.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Revenue	\$2,489,035	\$2,714,474	\$2,893,617	\$3,198,149	\$3,461,223
Free cash flow	386,205	602,586	496,227	483,128	859,333
Free cash flow as a percentage of revenue	16 %	22 %	17 %	15 %	25 %

Capital expenditures, or capex, excluding stock-based compensation and interest expense – Purchases of property and equipment and capitalization of internal-use software development costs presented on an accrual basis, which differs from the cash-basis presentation included in the statements of cash flows. The primary difference between the two is the change in purchases of property and equipment and capitalization of internal-use software development costs accrued for, but not paid, at period end versus prior periods.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Purchases of property and equipment	\$ 234,493	\$ 229,744	\$ 406,854	\$ 509,404	\$ 313,830
Capitalization of internal-use software development costs	166,329	198,327	202,691	217,120	219,702
Capital expenditures, excluding stock-based compensation and interest expense	\$ 400,822	\$ 428,071	\$ 609,545	\$ 726,524	\$ 533,532

Capex as a percentage of revenue – Capital expenditures, or capex, excluding stock-based compensation and interest expense, stated as a percentage of revenue.

	Year Ended				
(in thousands)	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Revenue	\$2,489,035	\$2,714,474	\$2,893,617	\$3,198,149	\$3,461,223
Capital expenditures, excluding stock-based compensation and interest expense	400,822	428,071	609,545	726,524	533,532
Capex as a percentage of revenue	16 %	16 %	21 %	23 %	15 %

Non-GAAP depreciation – GAAP depreciation and amortization (which consists of depreciation and amortization of property and equipment, capitalized stock-based compensation, capitalized interest expense and acquired intangible assets), less depreciation and amortization excluded from non-GAAP results (which consists of depreciation and amortization of capitalized stock-based compensation, capitalized interest expense and acquired intangible assets).

(in thousands)	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
GAAP depreciation and amortization	\$ 372,313	\$ 434,520	\$ 440,674	\$ 478,389	\$ 550,632
Less:					
Capitalized stock-based compensation amortization	17,518	25,237	30,613	29,631	32,136
Capitalized interest amortization	2,435	3,366	3,825	3,549	3,429
Amortization of acquired intangible assets	30,904	33,311	38,581	42,049	48,019
Non-GAAP depreciation	<u>\$ 321,456</u>	<u>\$ 372,606</u>	<u>\$ 367,655</u>	<u>\$ 403,160</u>	<u>\$ 467,048</u>

Non-GAAP tax rate – GAAP tax rate excluding the tax effect of non-GAAP adjustments and certain discrete tax items.

	Year Ended				
	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
GAAP tax rate	29 %	13 %	10 %	7 %	9 %
Income tax-effect of non-GAAP adjustments and certain discrete tax items	(1)	5	5	8	5
Non-GAAP tax rate	<u>28 %</u>	<u>18 %</u>	<u>15 %</u>	<u>15 %</u>	<u>14 %</u>

Impact of Foreign Currency Exchange Rate – Revenue and earnings from international operations have historically been an important contributor to Akamai's financial results. Consequently, Akamai's financial results have been impacted, and management expects they will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, when the local currencies of our foreign subsidiaries weaken, our consolidated results stated in U.S. dollars are negatively impacted.

Because exchange rates are a meaningful factor in understanding period-to-period comparisons, management believes the presentation of the impact of foreign currency exchange rates on revenue and earnings enhances the understanding of our financial results and evaluation of performance in comparison to prior periods. The dollar impact of changes in foreign currency exchange rates presented is calculated by translating current period results using monthly average foreign currency exchange rates from the comparative period and comparing them to the reported amount. The percentage change at constant currency presented is calculated by comparing the prior period amounts as reported and the current period amounts translated using the same monthly average foreign currency exchange rates from the comparative period.

The non-GAAP adjustments, and Akamai's basis for excluding them from non-GAAP financial measures, are outlined below:

Amortization of acquired intangible assets – Akamai has incurred amortization of intangible assets, included in its GAAP financial statements, related to various acquisitions Akamai has made. The amount of an acquisition's purchase price allocated to intangible assets and term of its related amortization can vary significantly and is unique to each acquisition; therefore, Akamai excludes amortization of acquired intangible assets from its non-GAAP financial measures to provide investors with a consistent basis for comparing pre- and post-acquisition operating results.

Stock-based compensation and amortization of capitalized stock-based compensation – Although stock-based compensation is an important aspect of the compensation paid to Akamai's employees, the grant date fair value varies based on the stock price at the time of grant, varying valuation methodologies, subjective assumptions and the variety of award types. This makes the comparison of Akamai's current financial results to previous and future periods difficult to interpret; therefore, Akamai believes it is useful to exclude stock-based compensation and amortization of capitalized stock-based compensation from its non-GAAP financial measures in order to highlight the performance of Akamai's core business and to be consistent with the way many investors evaluate its performance and compare its operating results to peer companies.

Acquisition-related costs – Acquisition-related costs include transaction fees, advisory fees, due diligence costs and other direct costs associated with strategic activities, as well as certain additional compensation costs payable to employees acquired from the Linode acquisition if employed for a certain period of time. The additional compensation cost was initiated by and determined by the seller, and is in addition to normal levels of compensation, including retention programs, offered by Akamai. Acquisition-related costs are impacted by the timing and size of the acquisitions, and Akamai excludes acquisition-related costs from its non-GAAP financial measures to provide a useful comparison of operating results to prior periods and to peer companies because such amounts vary significantly based on the magnitude of the acquisition transactions and do not reflect Akamai's core operations.

Restructuring charges – Akamai has incurred restructuring charges from programs that have significantly changed either the scope of the business undertaken by the Company or the manner in which that business is conducted. These charges include severance and related expenses for workforce reductions, impairments of long-lived assets that will no longer be used in operations (including right-of-use assets, other facility-related property and equipment and internal-use software) and termination fees for any contracts cancelled as part of these programs. Akamai excludes these items from its non-GAAP financial measures when evaluating its continuing business performance as such items vary significantly based on the magnitude of the restructuring action and do not reflect expected future operating expenses. In addition, these charges do not necessarily provide meaningful insight into the fundamentals of current or past operations of its business.

Amortization of debt discount and issuance costs and amortization of capitalized interest expense – In August 2019, Akamai issued \$1,150 million of convertible senior notes due 2027 with a coupon interest rate of 0.375%. In May 2018, Akamai issued \$1,150 million of convertible senior notes due 2025 with a coupon interest rate of 0.125%. In February 2014, Akamai issued \$690 million of convertible senior notes due 2019 with a coupon interest rate of 0%. The imputed interest rates of these convertible senior notes were 3.10%, 4.26% and 3.20%, respectively. This is a result of the debt discounts recorded for the conversion features that, prior to January 1, 2022, were required to be separately accounted for as equity under GAAP, thereby reducing the carrying values of the convertible debt instruments. The debt discounts were amortized as interest expense. On January 1, 2022, Akamai adopted the new guidance for accounting for convertible senior instruments, which eliminated separate accounting for the equity portion, and thus the amortization of the debt discount that was recorded as interest expense. Prior to January 1, 2022, Akamai excluded this non-cash interest expense from its non-GAAP results because it was not representative of ongoing operating performance. After January 1, 2022, this interest expense is no longer included in or excluded from GAAP or non-GAAP results. Additionally, the issuance costs of the convertible senior notes are amortized to interest expense and are also excluded from Akamai's non-GAAP results because management believes the non-cash amortization expense is not representative of ongoing operating performance.

Gains and losses on investments – Akamai has recorded gains and losses from the disposition, changes to fair value and impairment of certain investments. Akamai believes excluding these amounts from its non-GAAP financial measures is useful to investors as the types of events giving rise to these gains and losses are not representative of Akamai's core business operations and ongoing operating performance.

Legal and stockholder matter costs – Akamai has incurred losses related to the settlement of legal matters and costs from professional service providers related to a non-routine stockholder matter. Akamai believes excluding these amounts from its non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of Akamai's core business operations.

Endowment of Akamai Foundation – Akamai has incurred expenses to endow the Akamai Foundation, a private corporate foundation dedicated to encouraging the next generation of technology innovators by supporting math and science education. Akamai's first endowment was in 2018 to enable a permanent endowment for the Akamai Foundation to allow it to expand its reach. In the fourth quarter of 2020, Akamai supplemented the endowment to enable specific initiatives to increase diversity in the technology industry. Akamai believes excluding these amounts from non-GAAP financial measures is useful to investors as these infrequent and nearly one-time expenses are not representative of its core business operations.

Transformation costs – Akamai has incurred professional services fees associated with internal changes that are designed to improve its operating margins and that are part of a discrete planned transformation program intended to significantly change the manner in which business is conducted. Akamai believes excluding these amounts from its non-GAAP financial measures is useful to investors as the types of events and activities giving rise to them occur infrequently and are not representative of Akamai's core business operations and ongoing operating performance.

Income and losses from equity method investment – Akamai records income or losses on its share of earnings and losses from its equity method investment. Akamai excludes such income and losses because it does not direct control over the operations of the investment and the related income and losses are not representative of its core business operations.

Income tax effect of non-GAAP adjustments and certain discrete tax items – The non-GAAP adjustments described above are reported on a pre-tax basis. The income tax effect of non-GAAP adjustments is the difference between GAAP and non-GAAP income tax expense. Non-GAAP income tax expense is computed on non-GAAP pre-tax income (GAAP pre-tax income adjusted for non-GAAP adjustments) and excludes certain discrete tax items (such as recording or releasing of valuation allowances), if any. Akamai believes that applying the non-GAAP adjustments and their related income tax effect allows Akamai to highlight income attributable to its core operations.