Proofpoint Announces Strong Second Quarter 2015 Financial Results

- **Total revenue of $63.5 million, up 37% year-over-year**
- **Billings of $75.5 million, up a record 51% year-over-year**
- **Generated positive adjusted EBITDA for the fifth consecutive quarter**
- **GAAP EPS loss of $0.63; Non-GAAP EPS loss of $0.09**
- **Increasing FY15 revenue and billings guidance**


“Our strong second quarter results highlight the ongoing global demand for our advanced threat solutions,” stated Gary Steele, chief executive officer of Proofpoint. “Our ability to meet or exceed expectations during the quarter resulted from the combination of strong competitive win rates, robust add-on activity, and consistently high renewal rates. Proofpoint remains well positioned to maintain momentum and grow market share globally as enterprises continue to select our cloud-based data protection solution given our proven capability in handling today’s advanced security threats.”

**Second Quarter 2015 Financial Highlights**

- **Revenue:** Total revenue for the second quarter of 2015 was $63.5 million, an increase of 37% compared to $46.4 million in the prior-year period.

- **Billings:** Total billings were $75.5 million for the second quarter of 2015, an increase of 51% compared to $50.1 million in the second quarter of 2014. The company defines billings, a non-GAAP financial measure, as revenue recognized during the period plus the change in deferred revenue from the beginning to the end of the period.

- **Gross Profit:** GAAP gross profit for the second quarter of 2015 was $43.7 million compared to $31.1 million for the second quarter of 2014. Non-GAAP gross profit for the quarter was $46.7 million compared to $32.8 million in the year ago period. GAAP gross margin for the second quarter of 2015 was 69% compared to 67% for the second quarter of 2014. Non-GAAP gross margin was 74% for the second quarter of 2015, compared to 71% for the same period last year.

- **Operating Loss:** GAAP operating loss for the second quarter of 2015 was $21.4 million compared to a loss of $12.2 million during the second quarter last year. Non-GAAP operating loss for the second quarter of 2015 was $2.6 million compared to a loss of $2.1 million for the same period last year.

- **Net Loss:** GAAP net loss for the second quarter of 2015 was $25.0 million or $0.63 per share based on 39.6 million weighted average shares outstanding. This compares to a GAAP net loss of $15.1 million or $0.41 per share based on 37.1 million weighted average shares outstanding in the prior-year period.

  Non-GAAP net loss for the second quarter of 2015 was $3.4 million or $0.09 per share based on 39.6 million weighted average shares outstanding. This compares to a non-GAAP net loss of $2.9 million or $0.08 per share based on 37.1 million weighted average shares outstanding during the same period last year.

- **Adjusted EBITDA:** Adjusted EBITDA for the second quarter of 2015 was a positive $0.5 million compared to positive $0.1 million for the second quarter of 2014.

- **Cash and Cash Flow:** As of June 30, 2015, Proofpoint had cash, cash equivalents and short term investments of $410.7 million, an increase of $217.1 million from the end of the prior quarter primarily due to the proceeds from the convertible notes offering which closed on June 17, 2015.

  The company generated $1.7 million in net cash from operations for the second quarter of 2015 compared to using $6.9 million during the second quarter of 2014. The company used $4.2 million in free cash flow for the quarter compared to using $10.7 million during the same period last year.

“We were very pleased with our strong second quarter results, which were highlighted by record year-over-year billings growth of 51%,” stated Paul Auvil, chief financial officer of Proofpoint. “With a significantly strengthened balance sheet, Proofpoint is well positioned to execute its growth strategy and increase market share globally.”
A reconciliation of GAAP to non-GAAP financial measures has been provided in the financial tables included in this press release. An explanation of these measures and how they are calculated are also included below under the heading "Non-GAAP Financial Measures."

Second Quarter and Recent Business Highlights:

- Positioned as a Leader in the 2015 Gartner Magic Quadrant for Secure Email Gateways for the seventh consecutive year.
- Closed an offering of $230 million aggregate principal amount of 0.75% convertible senior notes due in 2020.
- Launched Threat Response 3.0, the first integrated threat response and intelligence platform, including enhanced intelligence boosted by the Emerging Threats acquisition.
- Extended Targeted Attack Protection solution to enable organizations to safeguard social media accounts from advanced malware, social phishing, and compliance violations.
- Signed a U.S. distribution agreement with Ingram Micro.

Financial Outlook

As of July 23, 2015 Proofpoint is providing guidance for its third quarter and increasing full year 2015 guidance as follows:

- **Third Quarter 2015 Guidance**: Total revenue is expected to be in the range of $65.0 million to $66.0 million. Billings are expected to be in the range of $76.0 million to $78.0 million. Adjusted EBITDA is expected to be in the range of $0.1 million to $0.3 million. Non-GAAP EPS loss is expected to be in the range of $0.12 to $0.11 based on approximately 40.2 million weighted average shares outstanding.

- **Full Year 2015 Guidance**: Total revenue is expected to be in the range of $255.5 million to $257.5 million. Billings are expected to be in the range of $303.0 million to $307.0 million. Adjusted EBITDA is expected to be in the range of $2.0 million to $2.5 million. Non-GAAP EPS loss is expected to be in the range of $0.40 to $0.39 based on approximately 39.9 million weighted average shares outstanding. Free cash flow, defined as operating cash flow less capital expenditures, is expected to be in the range of positive $16.0 million to $21.0 million, which assumes capital expenditures of $22.0 million to $24.0 million for the full year.

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, 2015. To access this call, dial (800) 930-1344 for the U.S. or Canada and (913) 312-0718 for international callers with conference ID #8180207. A live webcast of the conference call will be accessible from the Investors section of Proofpoint's website at investors.proofpoint.com, and a recording will be archived and accessible at investors.proofpoint.com. An audio replay of this conference call will also be available through August 6, 2015, by dialing (877) 870-5176 for the U.S. or Canada or (858) 384-5517 for international callers, and entering passcode #8180207.

About Proofpoint, Inc.

Proofpoint, Inc. (NASDAQ:PFPT) is a leading next-generation security and compliance company that provides cloud-based solutions for comprehensive threat protection, incident response, secure communications, social media security, compliance, archiving and governance. Organizations around the world depend on Proofpoint's expertise, patented technologies and on-demand delivery system. Proofpoint protects against phishing, malware and spam, while safeguarding privacy, encrypting sensitive information, and archiving and governing messages and critical enterprise information. 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, future growth, benefits of
acquisitions, market share 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: failure to maintain or increase renewals and increased business 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; 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 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, 2015, 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 upon request from our investor relations department. 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.

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, less 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 stock-based compensation expense and the amortization of intangibles associated with 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 together with gross profit and gross margin calculated in accordance with GAAP.

Non-GAAP operating loss. We define non-GAAP operating loss as operating loss less stock-based compensation expense and the amortization of intangibles and costs associated with acquisitions and litigation. We consider this non-GAAP financial measure to be a useful metric for management and investors because they exclude the effect of stock-based compensation expense and the amortization of intangibles and costs associated with acquisitions and litigation 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 loss versus operating loss calculated in accordance with GAAP. For example, as noted above, non-GAAP operating loss excludes stock-based compensation expense. In addition, the components of the costs that we exclude in our calculation of non-GAAP operating loss may differ from the components that our peer companies exclude when they report their non-GAAP results of operations. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP operating loss and evaluating non-GAAP operating loss together with operating loss calculated in accordance with GAAP.
Non-GAAP net loss. We define non-GAAP net loss as net loss less stock-based compensation expense and the amortization of intangibles and costs associated with acquisitions and litigation, and non-cash interest expense related to the convertible debt discount and non-recurring issuance costs for the convertible debt offering. 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 loss. However, in order to provide a complete picture of our recurring core business operating results, we also exclude from non-GAAP net loss the tax effects associated with stock-based compensation and the amortization of intangibles and costs associated with acquisitions and litigation, and non-cash interest expense related to the convertible debt discount and non-recurring issuance costs for the convertible debt offering. We used a 4 percent effective tax rate to calculate non-GAAP net loss for the second quarter of 2015 and 9 percent for the second quarter of 2014. We believe that a 6-10% effective tax rate range is a reasonable estimate of the near-term normalized tax rate under our current global operating structure. The same limitations described above regarding our use of non-GAAP operating loss also apply to our use of non-GAAP net loss.

Billings. We define billings as revenue recognized plus the change in deferred revenue from the beginning to the end of the period, but excluding additions to deferred revenue from acquisitions. 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.

Adjusted EBITDA. We define adjusted EBITDA as net loss, adjusted to exclude: depreciation, amortization of intangibles, interest income (expense), net, provision for income taxes, stock-based compensation, acquisition- and litigation-related expense, other income, and other expense. We believe that the use of adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We use adjusted EBITDA in conjunction with traditional GAAP operating performance measures as part of our overall assessment of our performance, for planning purposes, including the preparation of our annual operating budget, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance. We do not place undue reliance on adjusted EBITDA as our only measure of operating performance. Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. There are limitations to using this non-GAAP financial measure, including that other companies may calculate this measure differently than we do, that it does not reflect our capital expenditures or future requirements for capital expenditures and that it does not reflect changes in, or cash requirements for, our working capital.

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)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended June 30</th>
<th>Six Months Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2014</td>
</tr>
<tr>
<td>Revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription</td>
<td>$ 61,778</td>
<td>$ 45,047</td>
</tr>
<tr>
<td>Hardware and services</td>
<td>1,768</td>
<td>1,351</td>
</tr>
<tr>
<td></td>
<td>$ 63,538</td>
<td>$ 46,398</td>
</tr>
</tbody>
</table>

Proofpoint, Inc.
### Proofpoint, Inc.

**Consolidated Balance Sheets**

(In thousands, except per share amounts)

(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$402,144</td>
<td>$180,337</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>8,510</td>
<td>34,649</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>44,298</td>
<td>40,912</td>
</tr>
<tr>
<td>Inventory</td>
<td>435</td>
<td>499</td>
</tr>
</tbody>
</table>

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

- Cost of subscription revenue: $1,148, $511, $2,263, $923
- Cost of hardware and services revenue: 250, 144, 504, 273
- Research and development: 5,762, 2,450, 9,700, 4,484
- Sales and marketing: 5,157, 2,408, 10,026, 4,505
- General and administrative: 2,918, 1,815, 5,168, 3,116

Total stock-based compensation expense: $15,235, $7,328, $27,661, $13,301

(2) Includes intangible amortization expense as follows:

- Cost of subscription revenue: $1,589, $974, $2,969, $1,803
- Research and development: 23, 24, 46, 47
- Sales and marketing: 1,304, 1,100, 2,597, 2,197
- General and administrative: 1, 11, 12, 22

Total intangible amortization expense: $2,917, $2,109, $5,624, $4,069
### Deferred product costs
- **2015**: 1,881
- **2014**: 1,847

### Prepaid expenses and other current assets
- **2015**: 8,175
- **2014**: 7,994

### Total current assets
- **2015**: 465,443
- **2014**: 266,238

### Property and equipment, net
- **2015**: 26,774
- **2014**: 18,718

### Deferred product costs
- **2015**: 614
- **2014**: 307

### Goodwill
- **2015**: 126,525
- **2014**: 107,504

### Intangible assets, net
- **2015**: 33,962
- **2014**: 27,086

### Other assets
- **2015**: 3,872
- **2014**: 4,163

### Total assets
- **2015**: $657,190
- **2014**: $424,016

### Liabilities and Stockholders' Equity

#### Current liabilities:
- Accounts payable
  - **2015**: $12,977
  - **2014**: $9,249
- Accrued liabilities
  - **2015**: 24,573
  - **2014**: 24,220
- Equipment loans and capital lease obligations
  - **2015**: 2
  - **2014**: 695
- Deferred rent
  - **2015**: 486
  - **2014**: 569
- Deferred revenue
  - **2015**: 142,087
  - **2014**: 123,550

### Total current liabilities
- **2015**: 180,125
- **2014**: 158,283

### Convertible senior notes
- **2015**: 335,728
- **2014**: 161,396

### Long-term deferred rent
- **2015**: 1,986
- **2014**: 2,099

### Other long term liabilities
- **2015**: 5,177
- **2014**: 6,640

### Long-term deferred revenue
- **2015**: 41,854
- **2014**: 39,125

### Total liabilities
- **2015**: 564,870
- **2014**: 367,543

### Stockholders' equity

#### Common stock, $0.0001 par value; 200,000 shares authorized at June 30, 2015 and December 31, 2014; 39,897 and 38,665 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively
- **2015**: 4
- **2014**: 4

#### Additional paid-in capital
- **2015**: 413,212
- **2014**: 330,744

#### Accumulated other comprehensive loss
- **2015**: (2)
- **2014**: (27)

#### Accumulated deficit
- **2015**: (320,894)
- **2014**: (274,248)

### Total stockholders' equity
- **2015**: 92,320
- **2014**: 56,473

### Total liabilities and stockholders' equity
- **2015**: $657,190
- **2014**: $424,016

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**Proofpoint, Inc.**

**Consolidated Statements of Cash Flows**

**(In thousands)**

**(Unaudited)**

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended June 30</th>
<th>Six Months Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>2015</strong></td>
<td><strong>2014</strong></td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (24,973)</td>
<td>$(15,125)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>5,963</td>
<td>4,303</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>112</td>
<td>--</td>
</tr>
<tr>
<td>Amortization of investment premiums, net of accretion of purchase discounts</td>
<td>78</td>
<td>--</td>
</tr>
<tr>
<td>Provision for allowance for doubtful accounts</td>
<td>22</td>
<td>2</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>15,235</td>
<td>7,328</td>
</tr>
</tbody>
</table>

---
Deferred income taxes  (137)  (187)  144  (70)
Change in fair value of contingent earn-outs  --  --  --  5
Amortization of debt issuance costs and accretion of debt discount  2,696  2,173  4,962  4,316

Changes in assets and liabilities:
Accounts receivable  (11,824)  (3,928)  (2,014)  (47)
Inventory  (9)  (48)  64  (483)
Deferred products costs  (544)  (852)  (341)  (995)
Prepaid expenses  17  (935)  (782)  (1,461)
Other current assets  (62)  (502)  585  (765)
Noncurrent assets  94  11  109  (78)
Accounts payable  578  (1,224)  825  (462)
Accrued liabilities  2,555  (2,763)  (2,855)  (3,376)
Earn-out payment  --  (5)  --  (5)
Deferred rent  (110)  1,141  (221)  1,123
Deferred revenue  11,975  3,670  20,566  7,580

Net cash provided by (used in) operating activities  1,666  (6,941)  13,553  (2,822)

Cash flows from investing activities
Proceeds from sales and maturities of short-term investments  14,947  --  25,959  8,000
Purchase of property and equipment  (5,843)  (3,732)  (10,427)  (6,023)
Acquisitions of business, net of cash acquired  (3,510)  (22,754)  (31,624)  (22,754)
Net cash provided by (used in) investing activities  5,594  (26,486)  (16,092)  (20,777)

Cash flows from financing activities
Proceeds from issuance of common stock  5,657  3,940  9,676  8,671
Withholding taxes related to restricted stock net share settlement  (4,290)  (176)  (8,427)  (752)
Payments of debt issuance costs  --  (80)  --  (191)
Proceeds from issuance of convertible senior notes, net of discount  223,790  --  223,790  --
Repayments of notes payable and loans  (278)  (414)  (693)  (825)
Earn-out payment  --  (245)  --  (245)
Net cash provided by financing activities  224,879  3,025  224,346  6,658
Net increase (decrease) in cash and cash equivalents  232,139  (30,402)  221,807  (16,941)

Cash and cash equivalents
Beginning of period  170,005  257,247  180,337  243,786
End of period  $ 402,144 $ 226,845 $ 402,144 $ 226,845

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30,</td>
<td>2015</td>
<td>June 30,</td>
<td>2015</td>
</tr>
<tr>
<td>GAAP gross profit</td>
<td>$43,722</td>
<td>$31,137</td>
<td>$82,197</td>
<td>$60,130</td>
</tr>
<tr>
<td>GAAP gross margin</td>
<td>69%</td>
<td>67%</td>
<td>68%</td>
<td>67%</td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>1,398</td>
<td>655</td>
<td>2,767</td>
<td>1,196</td>
</tr>
<tr>
<td>Intangible amortization expense</td>
<td>1,589</td>
<td>974</td>
<td>2,969</td>
<td>1,803</td>
</tr>
<tr>
<td>Non-GAAP gross profit</td>
<td>46,709</td>
<td>32,766</td>
<td>87,933</td>
<td>63,129</td>
</tr>
<tr>
<td>Non-GAAP gross margin</td>
<td>74%</td>
<td>71%</td>
<td>72%</td>
<td>71%</td>
</tr>
</tbody>
</table>
GAAP operating loss \( (21,449) \) \( (12,187) \) \( (38,927) \) \( (23,466) \)

Plus:
- Stock-based compensation expense \( 15,235 \) \( 7,328 \) \( 27,661 \) \( 13,301 \)
- Intangible amortization expense \( 2,917 \) \( 2,109 \) \( 5,624 \) \( 4,069 \)
- Acquisition-related expenses \( 114 \) \( 346 \) \( 361 \) \( 358 \)
- Litigation-related expenses \( 595 \) \( 330 \) \( 1,128 \) \( 452 \)

Non-GAAP operating loss \( (2,588) \) \( (2,074) \) \( (4,153) \) \( (5,286) \)

GAAP net loss \( (24,973) \) \( (15,125) \) \( (46,646) \) \( (29,520) \)

Plus:
- Stock-based compensation expense \( 15,235 \) \( 7,328 \) \( 27,661 \) \( 13,301 \)
- Intangible amortization expense \( 2,917 \) \( 2,109 \) \( 5,624 \) \( 4,069 \)
- Acquisition-related expenses \( 114 \) \( 346 \) \( 361 \) \( 358 \)
- Litigation-related expenses \( 595 \) \( 330 \) \( 1,128 \) \( 452 \)
- Interest expense - debt discount and issuance costs \( 2,696 \) \( 2,173 \) \( 4,962 \) \( 4,316 \)
- Income tax benefit \( (27) \) \( (88) \) \( (87) \) \( (145) \)

Non-GAAP net loss \( (3,443) \) \( (2,927) \) \( (6,997) \) \( (7,169) \)

Shares used in computing non-GAAP net loss per share, basic and diluted \( 39,567 \) \( 37,115 \) \( 39,264 \) \( 36,842 \)

Non-GAAP net loss, basic and diluted \( \$ (0.09) \) \( \$ (0.08) \) \( \$ (0.18) \) \( \$ (0.19) \)

Reconciliation of Net Loss to Adjusted EBITDA

(In thousands)

(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$ (24,973)</td>
<td>2015</td>
<td>$ (46,646)</td>
<td>2014</td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,046</td>
<td>2015</td>
<td>5,803</td>
<td>2014</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>2,917</td>
<td>2015</td>
<td>5,624</td>
<td>2014</td>
</tr>
<tr>
<td>Interest expense, net</td>
<td>3,332</td>
<td>2015</td>
<td>6,185</td>
<td>2014</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>112</td>
<td>2015</td>
<td>274</td>
<td>2014</td>
</tr>
<tr>
<td>EBITDA</td>
<td>$ (15,566)</td>
<td>2015</td>
<td>$ (28,760)</td>
<td>2014</td>
</tr>
</tbody>
</table>

- Stock-based compensation expense \( 15,235 \) \( 7,328 \) \( 27,661 \) \( 13,301 \)
- Acquisition-related expenses \( 114 \) \( 346 \) \( 361 \) \( 358 \)
- Litigation-related expenses \( 595 \) \( 330 \) \( 1,128 \) \( 452 \)
- Other expense, net \( 80 \) \( (7) \) \( 1,260 \) \( 192 \)

Adjusted EBITDA \( \$ 458 \) \( \$ 120 \) \( \$ 1,650 \) \( \$ (1,250) \)

Reconciliation of Total Revenue to Billings
## Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows

(In thousands)  
(Unaudited)  

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30, 2015</td>
<td>June 30, 2014</td>
</tr>
<tr>
<td></td>
<td>$1,666</td>
<td>$(6,941)</td>
</tr>
<tr>
<td>GAAP cash flows provided by (used in) operating activities</td>
<td>$13,553</td>
<td>$(2,822)</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>$(5,843)</td>
<td>$(3,732)</td>
</tr>
<tr>
<td>Non-GAAP free cash flows</td>
<td>$ (4,177)</td>
<td>$(10,673)</td>
</tr>
<tr>
<td></td>
<td>$3,126</td>
<td>$(8,845)</td>
</tr>
</tbody>
</table>

Source: Proofpoint, Inc.