



July 27, 2017

Proofpoint Announces Second Quarter 2017 Financial Results

- | **Total revenue of \$122.3 million, up 36% year-over-year**
- | **Billings of \$146.3 million, up 45% year-over-year**
- | **GAAP EPS of \$(0.59) per share, Non-GAAP EPS of \$0.17 per share**
- | **Generated operating cash flow of \$26.5 million and free cash flow of \$15.9 million**
- | **Increasing FY17 billings, revenue, profitability, and free cash flow guidance**

SUNNYVALE, Calif., July 27, 2017 (GLOBE NEWSWIRE) -- Proofpoint, Inc. (NASDAQ:PFPT), a leading next-generation security and compliance company, today announced financial results for the second quarter ended June 30, 2017.

"Our strong second quarter results were driven by the rapidly evolving threat landscape and the demand for Proofpoint's advanced threat solutions," stated Gary Steele, chief executive officer of Proofpoint. "During the quarter, the company also benefitted from the transition to the cloud, ongoing traction from new emerging products, robust new and add-on activity, and consistently high renewal rates. Looking forward, the broad demand drivers benefitting the company remain firmly in place which we believe position Proofpoint to maintain the momentum and gain share in the over \$10 billion total addressable market."

Second Quarter 2017 Financial Highlights

- | **Revenue:** Total revenue for the second quarter of 2017 was \$122.3 million, an increase of 36%, compared to \$89.9 million for the second quarter of 2016.
- | **Billings:** Total billings were \$146.3 million for the second quarter of 2017, an increase of 45%, compared to \$101.2 million for the second quarter of 2016.
- | **Gross Profit:** GAAP gross profit for the second quarter of 2017 was \$87.8 million compared to \$63.2 million for the second quarter of 2016. Non-GAAP gross profit for the second quarter of 2017 was \$94.4 million compared to \$67.5 million for the second quarter of 2016. GAAP gross margin for the second quarter of 2017 was 72% compared to 70% for the second quarter of 2016. Non-GAAP gross margin was 77% for the second quarter of 2017 compared to 75% for the second quarter of 2016.
- | **Operating Income (Loss):** GAAP operating loss for the second quarter of 2017 was \$(19.3) million compared to a loss of \$(32.0) million for the second quarter of 2016. Non-GAAP operating profit for the second quarter of 2017 was \$9.1 million compared to \$3.7 million for the second quarter of 2016.
- | **Net Income (Loss):** GAAP net loss for the second quarter of 2017 was \$(25.9) million, or \$(0.59) per share, based on 43.9 million weighted average shares outstanding. This compares to a GAAP net loss of \$(38.3) million, or \$(0.92) per share, based on 41.6 million weighted average shares outstanding for the second quarter of 2016.

Non-GAAP net profit for the second quarter of 2017 was \$8.0 million, or \$0.17 per share, based on 55.0 million weighted average diluted shares outstanding. This compares to a non-GAAP net profit of \$2.5 million, or \$0.06 per share, based on 45.1 million weighted average diluted shares outstanding for the second quarter of 2016. Non-GAAP earnings per share for the second quarter of 2017 included the shares associated with the company's convertible notes, and cash interest expense (net of tax) of \$1.1 million was added back to net income as the "If-Converted" threshold during the period was achieved.

- | **Cash and Cash Flow:** As of June 30, 2017, Proofpoint had cash, cash equivalents, and short term investments of \$429.5 million. The company generated \$26.5 million in net cash from operations for the second quarter of 2017 compared to \$8.3 million during the second quarter of 2016. The company's free cash flow for the quarter was \$15.9 million compared to approximately breakeven for the second quarter of 2016.

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."

"We were pleased with our ability to exceed expectations during the second quarter, evidenced by revenue and billings growth of 36% and 45%, respectively, as well as strong free cash flow generation," stated Paul Auvil, chief financial officer of

Proofpoint. "Our overall financial results highlight the ongoing leverage we are seeing in the business while at the same time driving top line growth."

Second Quarter and Recent Business Highlights:

- | Won Best Fraud Prevention with Email Fraud Defense and Best SME Solution for Proofpoint Essentials at SC Awards Europe 2017.
- | Announced its cloud Email Protection and Information Protection solutions have achieved in-process status for the Federal Risk and Authorization Management Program (FedRAMP), under the sponsorship of the Federal Communications Commission (FCC).
- | TAP SaaS Defense became generally available and is designed to give customers protection from malware when accessing cloud office collaboration solutions such as Box, OneDrive, Salesforce.com and SharePoint.

Financial Outlook

As of July 27, 2017, Proofpoint is providing guidance for its third quarter and increasing full year 2017 guidance as follows:

- | **Third Quarter 2017 Guidance:** Total revenue is expected to be in the range of \$130.0 million to \$132.0 million. Billings are expected to be in the range of \$162.0 million to \$164.0 million. GAAP gross margin is expected to be 72%. Non-GAAP gross margin is expected to be 77%. GAAP net loss is expected to be in the range of \$(28.2) million to \$(24.8) million, or \$(0.64) to \$(0.56) per share, based on approximately 44.4 million weighted average diluted shares outstanding. Non-GAAP net income is expected to be in the range of \$8.0 to \$9.0 million, or \$0.16 to \$0.18 per share, using 55.4 million weighted average diluted shares outstanding, and adding back the \$1.1 million in cash interest expense as prescribed under the "If-Converted" method. Free cash flow is expected to be in the range of \$26.0 million to \$28.0 million, which assumes capital expenditures of approximately \$12.0 million for the quarter.
- | **Full Year 2017 Guidance:** Total revenue is expected to be in the range of \$503.0 million to \$506.0 million. Billings are expected to be in the range of \$625.0 million to \$628.0 million. GAAP gross margin is expected to be 72%. Non-GAAP gross margin is expected to be 77%. GAAP net loss is expected to be in the range of \$(112.4) million to \$(104.1) million, or \$(2.55) to \$(2.36) per share, based on approximately 44.1 million weighted average diluted shares outstanding. Non-GAAP net income is expected to be in the range of \$30.0 million to \$31.5 million, or \$0.62 to \$0.64 per share, using 55.4 million weighted average diluted shares outstanding, and adding back the \$4.2 million in cash interest expense as prescribed under the "If-Converted" method. Free cash flow is expected to be in the range of \$100.0 million to \$107.0 million, which assumes capital expenditures of \$44.0 million to \$46.0 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, 2017. To access this call, dial (877) 852-6573 for the U.S. or Canada and (719) 325-2326 for international callers with conference ID #7942677. 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 10, 2017, by dialing (844) 512-2921 for the U.S. or Canada or (412) 317-6671 for international callers, and entering passcode #7942677.

About Proofpoint, Inc.

Proofpoint Inc. (NASDAQ:PFPT) is a leading next-generation security and compliance company that provides cloud-based solutions to protect the way people work today. Proofpoint solutions enable organizations to protect their users from advanced attacks delivered via email, social media and mobile apps, protect the information their users create from advanced attacks and compliance risks, and respond quickly when incidents occur. 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: 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; 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, 2017, 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.

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. Each series of convertible securities is considered individually and in sequence, starting with the series having the lowest incremental earnings per share, to determine if its effect is dilutive or anti-dilutive.

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 loss. We define non-GAAP operating loss as operating loss, adjusted to exclude stock-based compensation expense and the amortization of intangibles and costs associated with acquisitions and litigation. 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 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, 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 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, adjusted to exclude stock-based compensation expense, amortization of intangibles, costs associated with acquisitions and litigation, non-cash interest expense related to the convertible debt discount and issuance costs for the convertible debt offering, and tax effects associated with these items. 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 issuance costs for the convertible debt offering.

In order to provide a complete picture of our recurring core business operating results, we also compute the tax effect of the adjustments used in determining our non-GAAP results by calculating an adjusted tax provision which considers the current and deferred tax impact of the adjustments. The adjusted tax provision reflects all of the relevant impacts of the adjustments, inclusive of those items that have an impact to the effective tax rate, current provision and deferred provision. As a result of the varying impacts of each item, the effective tax rate for the adjusted tax provision will vary period over period as compared to the GAAP tax provision. The adjusted tax provision is then compared to the GAAP tax provision, and the difference is reflected as "income tax benefit (expense)" in the reconciliation between GAAP net loss/income and Non-GAAP net loss/income.

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.

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,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Subscription	\$118,928	\$ 87,318	\$229,853	\$164,715
Hardware and services	3,401	2,586	5,726	4,192
Total revenue	<u>122,329</u>	<u>89,904</u>	<u>235,579</u>	<u>168,907</u>
Cost of revenue: ⁽¹⁾⁽²⁾				
Subscription	30,363	23,198	58,684	44,880
Hardware and services	4,130	3,460	8,185	6,602
Total cost of revenue	<u>34,493</u>	<u>26,658</u>	<u>66,869</u>	<u>51,482</u>
Gross profit	87,836	63,246	168,710	117,425
Operating expense: ⁽¹⁾⁽²⁾				
Research and development	32,306	23,588	61,912	46,241
Sales and marketing	62,454	48,664	121,186	95,187
General and administrative	12,348	22,999	22,835	33,603
Total operating expense	<u>107,108</u>	<u>95,251</u>	<u>205,933</u>	<u>175,031</u>
Operating loss	(19,272)	(32,005)	(37,223)	(57,606)
Interest expense	(5,848)	(5,809)	(11,814)	(11,609)
Other income (expense), net	184	(302)	55	(300)
Loss before provision for income taxes	(24,936)	(38,116)	(48,982)	(69,515)
Provision for income taxes	(999)	(185)	(2,433)	(442)
Net loss	<u>\$ (25,935)</u>	<u>\$ (38,301)</u>	<u>\$ (51,415)</u>	<u>\$ (69,957)</u>
Net loss per share, basic and diluted	<u>\$ (0.59)</u>	<u>\$ (0.92)</u>	<u>\$ (1.18)</u>	<u>\$ (1.69)</u>
Weighted average shares outstanding, basic and diluted	43,890	41,605	43,562	41,349

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

Cost of subscription revenue	\$ 2,863	\$ 1,721	\$ 5,239	\$ 3,359
Cost of hardware and services revenue	469	392	908	745
Research and development	7,744	5,877	14,794	11,479
Sales and marketing	8,230	6,718	16,127	13,536
General and administrative	5,198	4,000	9,810	8,072
Total stock-based compensation expense	<u>\$ 24,504</u>	<u>\$ 18,708</u>	<u>\$ 46,878</u>	<u>\$ 37,191</u>

(2) Includes intangible amortization expense as follows:

Cost of subscription revenue	\$ 3,189	\$ 2,118	\$ 6,377	\$ 4,235
Research and development	15	15	30	30
Sales and marketing	949	1,236	1,916	2,509
Total intangible amortization expense	<u>\$ 4,153</u>	<u>\$ 3,369</u>	<u>\$ 8,323</u>	<u>\$ 6,774</u>

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

	<u>June 30,</u> <u>2017</u>	<u>31,</u> <u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 392,886	\$ 345,426
Short-term investments	36,599	51,325
Accounts receivable, net	75,568	72,951
Inventory	497	598
Deferred product costs	1,488	1,829
Deferred commissions	20,516	21,168
Prepaid expenses and other current assets	12,411	17,498
Total current assets	<u>539,965</u>	<u>510,795</u>
Property and equipment, net	64,712	52,523
Deferred product costs	292	310
Goodwill	167,270	167,270
Intangible assets, net	53,386	61,708
Long-term deferred commissions	4,356	4,496
Other assets	10,725	4,558
Total assets	<u>\$ 840,706</u>	<u>\$ 801,660</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 14,273	\$ 15,297
Accrued liabilities	40,267	50,765
Capital lease obligations	31	32
Deferred rent	460	409
Deferred revenue	297,446	259,109
Total current liabilities	<u>352,477</u>	<u>325,612</u>
Convertible senior notes	377,422	366,541
Long-term capital lease obligations	75	91
Long-term deferred rent	3,186	2,413
Other long-term liabilities	10,877	9,008
Long-term deferred revenue	62,903	53,072
Total liabilities	<u>806,940</u>	<u>756,737</u>
Stockholders' equity		
Common stock, \$0.0001 par value; 200,000 shares authorized; 44,337 and 43,015 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	4	4
Additional paid-in capital	555,287	514,034
Accumulated other comprehensive loss	(3)	(7)
Accumulated deficit	<u>(521,522)</u>	<u>(469,108)</u>
Total stockholders' equity	<u>33,766</u>	<u>44,923</u>
Total liabilities and stockholders' equity	<u>\$ 840,706</u>	<u>\$ 801,660</u>

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

	<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities				
Net loss	\$ (25,935)	\$ (38,301)	\$ (51,415)	\$ (69,957)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	9,848	7,385	19,147	14,621
Loss on disposal of property and equipment	346	99	357	288
Amortization of investment premiums, net of accretion of purchase discounts	(38)	(15)	10	35
Stock-based compensation	24,504	18,708	46,878	37,191

Change in fair value of contingent consideration	(284)	-	(1,730)	-
Amortization of debt issuance costs and accretion of debt discount	5,484	5,172	10,888	10,268
Foreign currency transaction (gain) loss	(228)	259	(86)	35
Changes in assets and liabilities:				
Accounts receivable	(13,166)	(2,403)	(2,725)	(3,299)
Inventory	(25)	279	101	183
Deferred products costs	268	271	359	435
Deferred commissions	(1,880)	(860)	791	621
Prepaid expenses	(838)	(276)	(1,686)	(533)
Other current assets	(84)	48	260	104
Deferred income taxes	239	(41)	(2,116)	(167)
Long-term assets	190	48	(3,710)	51
Accounts payable	211	4,487	(1,374)	5,959
Accrued liabilities	3,363	2,113	4,014	(755)
Deferred rent	532	(21)	824	(12)
Deferred revenue	23,979	11,341	48,168	30,643
Net cash provided by operating activities	26,486	8,293	66,955	25,711
Cash flows from investing activities				
Proceeds from sales and maturities of short-term investments	23,159	14,261	56,081	68,900
Purchase of short-term investments	(28,705)	(26,762)	(41,360)	(53,742)
Purchase of property and equipment	(10,616)	(8,356)	(22,867)	(16,194)
Receipts from escrow account	2,054	-	4,620	-
Net cash used in investing activities	(14,108)	(20,857)	(3,526)	(1,036)
Cash flows from financing activities				
Proceeds from issuance of common stock	10,893	8,463	13,218	10,335
Withholding taxes related to restricted stock net share settlement	(10,612)	(5,874)	(25,122)	(12,572)
Repayments of equipment loans and capital lease obligations	(8)	(8)	(16)	(16)
Holdback payments for prior acquisitions	-	-	-	(1,397)
Contingent consideration payment	(2,054)	-	(4,620)	-
Net cash (used in) provided by financing activities	(1,781)	2,581	(16,540)	(3,650)
Effect of exchange rate changes on cash and cash equivalents	427	(198)	571	30
Net increase (decrease) in cash and cash equivalents	11,024	(10,181)	47,460	21,055
Cash and cash equivalents				
Beginning of period	381,862	377,441	345,426	346,205
End of period	<u>\$392,886</u>	<u>\$367,260</u>	<u>\$392,886</u>	<u>\$367,260</u>

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
GAAP gross profit	\$ 87,836	\$ 63,246	\$ 168,710	\$ 117,425
GAAP gross margin	72%	70%	72%	70%
Plus:				
Stock-based compensation expense	3,332	2,113	6,147	4,104
Intangible amortization expense	3,189	2,118	6,377	4,235
Non-GAAP gross profit	<u>94,357</u>	<u>67,477</u>	<u>181,234</u>	<u>125,764</u>
Non-GAAP gross margin	77%	75%	77%	74%
GAAP operating loss	(19,272)	(32,005)	(37,223)	(57,606)
Plus:				
Stock-based compensation expense	24,504	18,708	46,878	37,191
Intangible amortization expense	4,153	3,369	8,323	6,774
Acquisition-related expenses	(284)	118	(1,754)	122

Litigation-related expenses	-	13,462	-	14,657
Non-GAAP operating income	9,101	3,652	16,224	1,138
GAAP net loss	(25,935)	(38,301)	(51,415)	(69,957)
Plus:				
Stock-based compensation expense	24,504	18,708	46,878	37,191
Intangible amortization expense	4,153	3,369	8,323	6,774
Acquisition-related expenses	(284)	118	(1,754)	122
Litigation-related expenses	-	13,462	-	14,657
Interest expense - debt discount and issuance costs	5,484	5,172	10,888	10,268
Income tax benefit (expense)	120	(23)	628	(45)
Non-GAAP net income (loss) (1)	\$ 8,042	\$ 2,505	\$ 13,548	\$ (990)
Add interest expense of convertible senior notes, net of tax (1)	1,060	-	1,258	-
Numerator for non-GAAP EPS calculation	\$ 9,102	\$ 2,505	\$ 14,806	\$ (990)
Non-GAAP net income (loss) per share - diluted	\$ 0.17	\$ 0.06	\$ 0.28	\$ (0.02)
GAAP weighted-average shares used to compute net loss per share, diluted	43,890	41,605	43,562	41,349
Dilutive effect of convertible senior notes (2)	7,989	-	5,157	-
Dilutive effect of employee equity incentive plan awards (3)	3,130	3,528	3,363	-
Non-GAAP weighted-average shares used to compute net income (loss) per share, diluted	55,009	45,133	52,082	41,349

(1) Due to the full valuation allowance on the Company's deferred tax assets, there were no tax effects associated with the non-GAAP adjustments for stock-based compensation, costs associated with acquisitions and litigations, and non-cash interest expense related to the debt discount and issuance costs for the convertible debt offering. Only GAAP deferred tax expenses or benefits related to the amortization of intangibles were excluded from the non-GAAP income tax expense.

(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,	
	2017	2016	2017	2016
Total revenue	\$ 122,329	\$ 89,904	\$ 235,579	\$ 168,907
Deferred revenue				
Ending	360,349	254,370	360,349	254,370
Beginning	336,369	243,028	312,181	223,726
Net Change	23,980	11,342	48,168	30,644
Less:				
Deferred revenue contributed by acquisitions	-	-	-	-
Billings	\$ 146,309	\$ 101,246	\$ 283,747	\$ 199,551

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

Three Months Ended June 30,		Six Months Ended June 30,	
2017	2016	2017	2016

GAAP cash flows provided by operating activities	\$ 26,486	\$ 8,293	\$ 66,955	\$ 25,711
Less:				
Purchases of property and equipment	(10,616)	(8,356)	(22,867)	(16,194)
Non-GAAP free cash flows	<u>\$ 15,870</u>	<u>\$ (63)</u>	<u>\$ 44,088</u>	<u>\$ 9,517</u>

Revenue by Solution
(In thousands)
(Unaudited)

	Three Months Ended					
			December 31,	September 30,		
	June 30, 2017	March 31, 2017	2016	2016	June 30, 2016	March 31, 2016
Protection and Advanced Threat	\$ 90,376	\$ 84,480	\$ 78,698	\$ 72,664	\$ 64,797	\$ 56,462
Archiving, Privacy and Governance	31,953	28,770	28,107	27,120	25,107	22,541
Total revenue	<u>\$ 122,329</u>	<u>\$ 113,250</u>	<u>\$ 106,805</u>	<u>\$ 99,784</u>	<u>\$ 89,904</u>	<u>\$ 79,003</u>

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

	Three Months Ending September 30, 2017	Year Ending December 31, 2017
Total revenue	\$130 - \$132	\$503 - \$506
GAAP gross profit	93.0 - 94.9	359.7 - 362.9
GAAP gross margin	72%	72%
Plus:		
Stock-based compensation expense	3.9 - 3.6	14.8 - 14.0
Intangible amortization expense	3.2 - 3.1	12.8 - 12.7
Non-GAAP gross profit	<u>100.1 - 101.6</u>	<u>387.3 - 389.6</u>
Non-GAAP gross margin	77%	77%
GAAP net loss	\$(28.2) - \$(24.8)	\$(112.4) - \$(104.1)
Plus:		
Stock-based compensation expense	27.5 - 25.5	106.0 - 100.0
Intangible amortization expense	3.1 - 2.9	16.5 - 16.0
Acquisition-related expenses	-	(1.7) - (1.8)
Interest expense - debt discount and issuance costs	5.6 - 5.5	22.2 - 22.1
Income tax expense	(0.0) - (0.1)	(0.6) - (0.7)
Non-GAAP net income	<u>\$8.0 - \$9.0</u>	<u>\$30.0 - \$31.5</u>
Add interest expense of convertible senior notes, net of tax (if dilutive)	<u>1.1</u>	<u>4.2</u>
Numerator for non-GAAP EPS calculation	<u>\$9.1 - \$10.1</u>	<u>\$34.2 - \$35.7</u>
Non-GAAP net income per share - diluted	<u>\$0.16 - \$0.18</u>	<u>\$0.62 - \$0.64</u>
Non-GAAP weighted-average shares used to compute net income per share, diluted	<u>55.4</u>	<u>55.4</u>
	Three Months Ending September 30, 2017	Year Ending December 31, 2017
GAAP cash flows provided by operating activities	\$38.0 - \$40.0	\$144.0 - \$153.0

Less:

Purchases of property and equipment

(12.0)

(44.0 - 46.0)

Non-GAAP free cash flows

\$26.0 - \$28.0

\$100.0 - \$107.0

Media Contact

Kristy Campbell

Proofpoint, Inc.

408-517-4710

kcampbell@proofpoint.com

Investor Contacts

Jason Starr

Proofpoint, Inc.

408-585-4351

jstarr@proofpoint.com

Seth Potter

ICR for Proofpoint, Inc.

646-277-1230

seth.potter@icrinc.com

 Primary Logo

Source: Proofpoint, Inc.

News Provided by Acquire Media