

## Pure Storage Announces Third Quarter Fiscal 2016 Results

- Record Revenue of \$131.4 million, up 167% Y-Y
- Record Gross Margin: 61.1% GAAP; 61.7% non-GAAP, up 300bps Y-Y respectively
- Record Operating Margin: -42.3% GAAP, up 39pts Y-Y; -21.4% non-GAAP, up 46pts Y-Y

**Mountain View, Calif. - December 2, 2015** – Pure Storage (NYSE: PSTG) today announced financial results for the third fiscal quarter ended October 31, 2015.

Pure Storage posted revenue of \$131.4 million and GAAP net loss of \$56.5 million for the third quarter of fiscal 2016. These results compare to revenue of \$49.2 million and a GAAP net loss of \$40.4 million in the year-ago quarter. GAAP gross margin for the third quarter of fiscal 2016 was 61.1% and GAAP product gross margin was 63.0%, compared to 58.3% and 61.9%, respectively, in the year-ago quarter. Non-GAAP net loss was \$29.1 million for the third quarter of fiscal 2016, compared to \$33.7 million in the year-ago quarter. Non-GAAP gross margin for the third quarter of fiscal 2016 was 61.7% and non-GAAP product gross margin was 63.1%, compared to 58.7% and 62.0%, respectively, in the year-ago quarter.

“We had an outstanding third quarter including record revenue, gross margin and operating margin,” said Scott Dietzen, CEO of Pure Storage. “Pure delivers customers a storage platform that transforms their businesses and their IT environments through a dramatic increase in performance with flash, and a reduction in complexity and costs through a cloud-centric model. None of our primary competitors are properly enabling customers to reap the benefits of flash and cloud, the biggest changes to the storage market in decades, as we are. We believe this is why others in the storage space are stumbling while we are growing.”

“We achieved record revenue while improving operating leverage,” said Tim Riitters, CFO of Pure Storage. “We will continue to drive growth and market share gains with a close eye on profitability over time.”

Pure Storage also grew its customer base to more than 1,350 organizations, adding more than 250 new customers in the third quarter, including Domino’s Pizza and The Boston Globe. Existing customers ConocoPhillips, LinkedIn and ServiceNow also expanded the scope of their relationships with Pure Storage, lending to a strong and continually growing customer base.

### Third Quarter Fiscal 2016 Financial Highlights

The following table summarizes our consolidated financial results for the fiscal quarters ended October 31, 2014 and October 31, 2015 (in millions except per share amounts, unaudited):

| GAAP Quarterly Financial Information |   |   |                          |
|--------------------------------------|---|---|--------------------------|
|                                      | Three Months<br>Ended October 31,<br>2014 | Three Months<br>Ended October 31,<br>2015 | Year-Over-Year<br>Change |
| Revenue                              | \$49.2                                    | \$131.4                                   | 167%                     |
| Gross Margin                         | 58.3%                                     | 61.1%                                     | 2.8ppts                  |
| Product Gross Margin                 | 61.9%                                     | 63.0%                                     | 1.1ppt                   |
| Support Gross Margin                 | 29.6%                                     | 49.1%                                     | 19.5ppts                 |
| Operating Loss                       | -\$39.8                                   | -\$55.6                                   | -\$15.8                  |
| Operating Margin                     | -80.9%                                    | -42.3%                                    | 39ppts                   |
| Net Loss                             | -\$40.4                                   | -\$56.5                                   | -\$16.1                  |
| Net Loss per Share                   | -\$1.43                                   | -\$0.76                                   | \$0.67                   |
| Weighted-Average Shares              | 28.3                                      | 74.6                                      | N/A                      |

| Non-GAAP Quarterly Financial Information |  |  |                       |
|--|--|--|-----------------------|
|  | Three Months Ended<br>October 31, 2014 | Three Months Ended<br>October 31, 2015 | Year-Over-Year Change |
| Gross Margin                             | 58.7%                                  | 61.7%                                  | 3.0ppts               |
| Product Gross Margin                     | 62.0%                                  | 63.1%                                  | 1.1ppt                |
| Support Gross Margin                     | 32.5%                                  | 52.8%                                  | 20.3ppts              |
| Operating Loss                           | -\$33.1                                | -\$28.1                                | \$5.0                 |
| Operating Margin                         | -67.3%                                 | -21.4%                                 | 46ppts                |
| Net Loss                                 | -\$33.7                                | -\$29.1                                | \$4.6                 |
| Net Loss per Share                       | -\$0.22                                | -\$0.18                                | \$0.04                |
| Weighted-Average Shares                  | 150.6                                  | 164.9                                  | N/A                   |
| Free Cash Flow                           | -\$38.4                                | -\$13.0                                | 66%                   |

A reconciliation between GAAP and non-GAAP information is provided at the end of this release.

## Financial Outlook

Fourth Quarter Fiscal 2016 Guidance:

- Revenue in the range of \$134 million to \$139 million
- Non-GAAP gross margin in the range of 62% to 65%
- Non-GAAP operating margin in the range of (24%) to (18%)

All forward-looking non-GAAP financial measures contained in this section titled “Financial Outlook” exclude stock-based compensation expense and, as applicable, other special items. We have not reconciled guidance for non-GAAP gross margin and non-GAAP operating margin to their most directly comparable GAAP measures because such items that impact these measures are not within our control and/or cannot be reasonably predicted. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measures is not available without unreasonable effort.

## Conference Call Information

Pure Storage will host a teleconference to discuss the third quarter of fiscal 2016 results at 5:30 a.m. Pacific Standard Time on December 3, 2015. Pure Storage will post its supplemental earnings presentation to our investor relations website at [investor.purestorage.com](http://investor.purestorage.com) following the conference call. Teleconference details are as follows:

- Phone: 1-866-807-9684; ask to be joined to the Pure Storage conference call
- Real-time Audio Access: (“Events and Presentations” at [investor.purestorage.com](http://investor.purestorage.com))

A replay of the webcast will be available for approximately 45 days.

## CEO Commentary

Pure Storage has posted a blog from its CEO discussing third quarter results at [investor.purestorage.com](http://investor.purestorage.com) and [blog.purestorage.com](http://blog.purestorage.com).

## Upcoming Investor Conference

Pure Storage will be speaking at the Raymond James Technology conference on December 7, 2015 in New York, NY with CEO Scott Dietzen keynoting at 12 p.m. Eastern Standard Time and Vice President of Products, Matthew Kixmoeller participating in a fireside chat on December 8, 2015, at 1:15 p.m. Eastern Standard Time. Live audio Webcasts of the presentations will be available on [investor.purestorage.com](http://investor.purestorage.com). An audio Webcast archive of the events will be available until noon Pacific Time on December 16, 2015.

## About Pure Storage

Pure Storage (NYSE: PSTG) accelerates possible, transforming businesses in ways previously unimagined. The company’s disruptive, software-driven storage technology combined with a customer-friendly business model drives business and IT transformation for customers through dramatic increases in performance and efficiency at lower costs. Pure Storage FlashArray//m is simpler, faster and more elegant than any other technology in the datacenter. FlashArray //m is ideal for the move toward big data and for performance-intensive workloads such as cloud computing, database systems, desktop virtualization, real-time analytics and server virtualization.

With Pure's industry leading NPS score of 79, Pure customers are some of the happiest in the world, and include large and mid-size organizations across a range of industries: cloud-based software and service providers, consumer web, education, energy, financial services, governments, healthcare, manufacturing, media, retail and telecommunications. With Pure Storage, companies push the boundaries of what's possible to become faster, smarter and more innovative.

### **Forward Looking Statements**

This press release contains forward-looking statements regarding our products, business and operations, including our ability to maximize growth and market share in the short term and profitability over time and our financial outlook for the fourth quarter of fiscal 2016 and statements regarding our products, business and operations. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance. The potential risks and uncertainties that could cause actual results to differ from the results predicted include, among others, those risks and uncertainties included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the final Prospectus related to our initial public offering of Class A common stock filed pursuant to Rule 424(b) under the Securities Act of 1933 (Registration No. 333-206312), and other reports on file with the U.S. Securities and Exchange Commission, which are available on our investor relations website at [investor.purestorage.com](http://investor.purestorage.com) and on the SEC website at [www.sec.gov](http://www.sec.gov). Additional information will also be set forth in our Quarterly Report on Form 10-Q for the quarter ended October 31, 2015. All information provided in this release and in the attachments is as of December 2, 2015, and we undertake no duty to update this information unless required by law.

### **Non-GAAP Financial Measures**

To supplement our condensed consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: non-GAAP gross profit, non-GAAP gross margin, non-GAAP loss from operations, non-GAAP operating margin, non-GAAP net loss, non-GAAP net loss per share, free cash flow, and free cash flow as a percentage of revenue. In computing these non-GAAP financial measures, we exclude the effects of stock-based compensation expense, assumed preferred stock conversion, and a one-time charge for an equity grant to the Pure Good Foundation in the third quarter of fiscal 2016. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use these non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses and expenditures such as stock-based compensation expense that may not be indicative of our ongoing core business operating results. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when analyzing historical performance and liquidity and planning, forecasting, and analyzing future periods. The presentation of these non-GAAP financial measures is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP, and our non-GAAP measures may be different from non-GAAP measures used by other companies.

For a reconciliation of these non-GAAP financial measures to GAAP measures, please see the tables captioned "Reconciliations of non-GAAP results of operations to the nearest comparable GAAP measures" and "Reconciliation from net cash used in operating activities to free cash flow," included at the end of this release.

**PURE STORAGE, INC.**  
**Condensed Consolidated Balance Sheets**  
(in thousands)

|   | As of<br>January 31, 2015 | As of<br>October 31, 2015<br>(unaudited) |
|---|---------------------------|--|
| <b>Assets</b>   |                           |  |
| <b>Current assets:</b>  |                           |  |
| Cash and cash equivalents   | \$ 192,707                | \$ 573,307                               |
| Accounts receivable, net of allowance of \$210 and \$566                                  | 59,032                    | 112,126                                  |
| Inventory   | 21,605                    | 25,549                                   |
| Deferred commissions, current   | 9,431                     | 13,612                                   |
| Prepaid expenses and other current assets   | 11,195                    | 14,028                                   |
| <b>Total current assets</b>   | <b>293,970</b>            | <b>738,622</b>                           |
| Property and equipment, net   | 39,859                    | 47,117                                   |
| Intangible assets, net  | 8,284                     | 7,306                                    |
| Deferred income taxes, non-current  | 5,529                     | 4,886                                    |
| Other long-term assets  | 14,177                    | 20,097                                   |
| <b>Total assets</b>   | <b>\$ 361,819</b>         | <b>\$ 818,028</b>                        |
| <b>Liabilities, convertible preferred stock, and stockholders' (deficit) equity</b>       |                           |  |
| <b>Current liabilities:</b>   |                           |  |
| Accounts payable  | \$ 11,007                 | \$ 21,684                                |
| Accrued compensation and benefits   | 13,811                    | 25,030                                   |
| Accrued expenses and other liabilities  | 6,106                     | 14,440                                   |
| Deferred revenue, current   | 32,199                    | 71,481                                   |
| Liability related to early exercised stock options  | 6,485                     | 4,942                                    |
| Deferred income taxes, current  | 5,829                     | 5,186                                    |
| <b>Total current liabilities</b>  | <b>75,437</b>             | <b>142,763</b>                           |
| Deferred revenue, non-current   | 41,470                    | 90,175                                   |
| Other long-term liabilities   | 802                       | 1,136                                    |
| <b>Total liabilities</b>  | <b>117,709</b>            | <b>234,074</b>                           |
| Convertible preferred stock   | 543,940                   | -  |
| <b>Stockholders' (deficit) equity:</b>  |                           |  |
| Common stock and additional paid-in capital   | 41,753                    | 1,094,995                                |
| Accumulated deficit   | (341,583)                 | (511,041)                                |
| <b>Total stockholders' (deficit) equity</b>   | <b>(299,830)</b>          | <b>583,954</b>                           |
| <b>Total liabilities, convertible preferred stock, and stockholders' (deficit) equity</b> | <b>\$ 361,819</b>         | <b>\$ 818,028</b>                        |

**PURE STORAGE, INC.**  
**Condensed Consolidated Statements of Operations**  
(in thousands, except per share data)

|   | <u>Three Months Ended October 31,</u> |                    | <u>Nine Months Ended October 31,</u> |                     |
|---|---------------------------------------|--------------------|--------------------------------------|---------------------|
|   | 2014                                  | 2015               | 2014                                 | 2015                |
|   | (unaudited)                           |                    |                                      |                     |
| <b>Revenue:</b>   |                                       |                    |                                      |                     |
| Product   | \$ 43,753                             | \$ 113,573         | \$ 97,006                            | \$ 248,383          |
| Support   | 5,436                                 | 17,791             | 11,595                               | 41,719              |
| Total revenue   | <u>49,189</u>                         | <u>131,364</u>     | <u>108,601</u>                       | <u>290,102</u>      |
| <b>Cost of revenue:</b>   |                                       |                    |                                      |                     |
| Product (1)   | 16,676                                | 41,995             | 39,284                               | 92,348              |
| Support (1)   | 3,827                                 | 9,058              | 8,751                                | 23,479              |
| Total cost of revenue   | <u>20,503</u>                         | <u>51,053</u>      | <u>48,035</u>                        | <u>115,827</u>      |
| Gross profit  | <u>28,686</u>                         | <u>80,311</u>      | <u>60,566</u>                        | <u>174,275</u>      |
| <b>Operating expenses:</b>  |                                       |                    |                                      |                     |
| Research and development (1)  | 22,863                                | 43,065             | 63,396                               | 112,935             |
| Sales and marketing (1)   | 38,224                                | 63,803             | 109,787                              | 171,647             |
| General and administrative (1) (2)  | 7,415                                 | 29,022             | 21,834                               | 56,941              |
| Total operating expenses  | <u>68,502</u>                         | <u>135,890</u>     | <u>195,017</u>                       | <u>341,523</u>      |
| Loss from operations  | (39,816)                              | (55,579)           | (134,451)                            | (167,248)           |
| Other income (expense), net   | (410)                                 | (171)              | (717)                                | (1,245)             |
| Loss before provision for income taxes  | (40,226)                              | (55,750)           | (135,168)                            | (168,493)           |
| Provision for income taxes  | 171                                   | 751                | 428                                  | 965                 |
| Net loss  | <u>\$ (40,397)</u>                    | <u>\$ (56,501)</u> | <u>\$ (135,596)</u>                  | <u>\$ (169,458)</u> |
| Net loss per share attributable to common stockholders, basic and diluted   | <u>\$ (1.43)</u>                      | <u>\$ (0.76)</u>   | <u>\$ (5.07)</u>                     | <u>\$ (3.60)</u>    |
| Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted | <u>28,280</u>                         | <u>74,565</u>      | <u>26,769</u>                        | <u>47,109</u>       |

(1) Includes stock based compensation expense as follows:

|  |                 |                  |                  |                  |
|--|-----------------|------------------|------------------|------------------|
| Cost of revenue -- product             | \$ 35           | \$ 43            | \$ 264           | \$ 139           |
| Cost of revenue -- support             | 159             | 657              | 1,057            | 1,511            |
| Research and development               | 3,399           | 8,195            | 18,546           | 18,624           |
| Sales and marketing                    | 2,315           | 4,559            | 19,676           | 10,539           |
| General and administrative             | 823             | 2,085            | 5,331            | 5,385            |
| Total stock-based compensation expense | <u>\$ 6,731</u> | <u>\$ 15,539</u> | <u>\$ 44,874</u> | <u>\$ 36,198</u> |

(2) Includes a one-time charge of \$11.9 million for an equity grant to the Pure Good Foundation.

**PURE STORAGE, INC.**  
**Condensed Consolidated Statements of Cash Flows**  
**(in thousands)**

|   | <u>Three Months Ended October 31,</u> |                   | <u>Nine Months Ended October 31,</u> |                   |
|---|---------------------------------------|-------------------|--------------------------------------|-------------------|
|   | 2014                                  | 2015              | 2014                                 | 2015              |
|   | (unaudited)                           |                   |                                      |                   |
| <b>Cash flows from operating activities</b>                                 |                                       |                   |                                      |                   |
| Net loss  | \$ (40,397)                           | \$ (56,501)       | \$ (135,596)                         | \$ (169,458)      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                       |                   |                                      |                   |
| Depreciation and amortization   | 4,368                                 | 8,850             | 9,751                                | 23,118            |
| Stock-based compensation expense  | 6,731                                 | 15,539            | 17,241                               | 36,198            |
| Contribution of common stock to Pure Good Foundation                        | -                                     | 11,900            | -                                    | 11,900            |
| Other   | -                                     | -                 | 3                                    | -                 |
| Changes in operating assets and liabilities:                                |                                       |                   |                                      |                   |
| Accounts receivable, net  | (11,265)                              | (32,077)          | (30,735)                             | (53,094)          |
| Inventory   | (3,745)                               | (1,767)           | (13,072)                             | (3,420)           |
| Deferred commissions  | (2,008)                               | (3,607)           | (4,063)                              | (8,472)           |
| Prepaid expenses and other assets   | (978)                                 | 569               | (2,368)                              | (2,065)           |
| Accounts payable  | 3,350                                 | 7,807             | 4,575                                | 10,224            |
| Accrued compensation and other liabilities                                  | 1,514                                 | 5,737             | 7,670                                | 17,216            |
| Deferred revenue  | 15,713                                | 38,174            | 36,918                               | 87,987            |
| Net cash used in operating activities                                       | <u>(26,717)</u>                       | <u>(5,376)</u>    | <u>(109,676)</u>                     | <u>(49,866)</u>   |
| <b>Cash flows from investing activities</b>                                 |                                       |                   |                                      |                   |
| Purchases and property and equipment  | (11,667)                              | (7,672)           | (30,902)                             | (29,495)          |
| Purchases of intangible assets  | (1,100)                               | -                 | (9,125)                              | -                 |
| Increase in restricted cash   | -                                     | (2,484)           | (1,613)                              | (2,484)           |
| Net cash used in investing activities                                       | <u>(12,767)</u>                       | <u>(10,156)</u>   | <u>(41,640)</u>                      | <u>(31,979)</u>   |
| <b>Cash flows from financing activities</b>                                 |                                       |                   |                                      |                   |
| Proceeds from initial public offering, net                                  | -                                     | 459,425           | -                                    | 459,425           |
| Proceeds from issuance of convertible preferred, stock                      | 150                                   | -                 | 280,820                              | -                 |
| Net proceeds from exercise of stock options                                 | 2,217                                 | 1,706             | 7,167                                | 4,710             |
| Repurchase of common stock in connection with tender offers                 | -                                     | -                 | (30,120)                             | -                 |
| Payments of deferred offering costs   | -                                     | (574)             | -                                    | (1,690)           |
| Net cash provided by financing activities                                   | <u>2,367</u>                          | <u>460,557</u>    | <u>257,867</u>                       | <u>462,445</u>    |
| Net increase (decrease) in cash and cash equivalents                        | (37,117)                              | 445,025           | 106,551                              | 380,600           |
| Cash and cash equivalents, beginning of period                              | 274,553                               | 128,282           | 130,885                              | 192,707           |
| Cash and cash equivalents, end of period                                    | <u>\$ 237,436</u>                     | <u>\$ 573,307</u> | <u>\$ 237,436</u>                    | <u>\$ 573,307</u> |

## Reconciliations of non-GAAP gross margins to the nearest comparable GAAP measures

The following table presents non-GAAP gross margins by revenue source before certain items (in thousands, unaudited):

|                                | Three Months Ended October 31, 2014 |                       |               |                  |                           | Three Months Ended October 31, 2015 |                       |               |                  |                           |
|--------------------------------|-------------------------------------|-----------------------|---------------|------------------|---------------------------|-------------------------------------|-----------------------|---------------|------------------|---------------------------|
|                                | GAAP results                        | GAAP gross margin (a) | Adjustment    | Non-GAAP results | Non-GAAP gross margin (b) | GAAP results                        | GAAP gross margin (a) | Adjustment    | Non-GAAP results | Non-GAAP gross margin (b) |
|                                |                                     |                       | \$ 35 (c)     |                  |                           |                                     |                       | \$ 43 (c)     |                  |                           |
| <b>Gross profit -- product</b> | <u>\$27,077</u>                     | 61.9%                 | \$ 35         | <u>\$27,112</u>  | 62.0%                     | <u>\$71,578</u>                     | 63.0%                 | \$ 43         | <u>\$71,621</u>  | 63.1%                     |
|                                |                                     |                       | \$ 159 (c)    |                  |                           |                                     |                       | \$ 657 (c)    |                  |                           |
| <b>Gross profit -- support</b> | <u>\$ 1,609</u>                     | 29.6%                 | \$ 159        | <u>\$ 1,768</u>  | 32.5%                     | <u>\$ 8,733</u>                     | 49.1%                 | \$ 657        | <u>\$ 9,390</u>  | 52.8%                     |
|                                |                                     |                       | \$ 194 (c)    |                  |                           |                                     |                       | \$ 700 (c)    |                  |                           |
| <b>Total gross profit</b>      | <u>\$28,686</u>                     | 58.3%                 | <u>\$ 194</u> | <u>\$28,880</u>  | 58.7%                     | <u>\$80,311</u>                     | 61.1%                 | <u>\$ 700</u> | <u>\$81,011</u>  | 61.7%                     |

(a) GAAP gross margin is defined as gross profit divided by revenue.

(b) Non-GAAP gross margin is defined as non-GAAP gross profit divided by revenue.

(c) To eliminate stock-based compensation expense.

## Reconciliations of non-GAAP results of operations to the nearest comparable GAAP measures

The following table presents certain non-GAAP consolidated results before certain items (in thousands, except per share amounts, unaudited):

|  | Three Months Ended October 31, 2014 |                           |              |                   |                               | Three Months Ended October 31, 2015 |                           |               |                   |                               |
|--|-------------------------------------|---------------------------|--------------|-------------------|-------------------------------|-------------------------------------|---------------------------|---------------|-------------------|-------------------------------|
|  | GAAP results                        | GAAP operating margin (a) | Adjustment   | Non-GAAP results  | Non-GAAP operating margin (b) | GAAP results                        | GAAP operating margin (a) | Adjustment    | Non-GAAP results  | Non-GAAP operating margin (b) |
|  |                                     |                           | \$ 6,731 (c) |                   |                               |                                     |                           | \$ 15,539 (c) |                   |                               |
| <b>Loss from operations</b>                                      | <u>\$(39,816)</u>                   | -80.9%                    | \$ 6,731     | <u>\$(33,085)</u> | -67.3%                        | <u>\$(55,579)</u>                   | -42.3%                    | \$ 27,439     | <u>\$(28,140)</u> | -21.4%                        |
|  |                                     |                           | \$ 6,731 (c) |                   |                               |                                     |                           | \$ 15,539 (c) |                   |                               |
|  |                                     |                           |              |                   |                               |                                     |                           | \$ 11,900 (d) |                   |                               |
| <b>Net loss</b>  | <u>\$(40,397)</u>                   |                           | \$ 6,731     | <u>\$(33,666)</u> |                               | <u>\$(56,501)</u>                   |                           | \$ 27,439     | <u>\$(29,062)</u> |                               |
| <b>Net loss per share -- basic and diluted</b>                   | <u>\$ (1.43)</u>                    |                           |              | <u>\$ (0.22)</u>  |                               | <u>\$ (0.76)</u>                    |                           |               | <u>\$ (0.18)</u>  |                               |
| <b>Shared used in per share calculation -- basic and diluted</b> | 28,280                              |                           | 122,281 (e)  | 150,561           |                               | 74,565                              |                           | 90,381 (e)    | 164,946           |                               |

(a) GAAP operating margin is defined as loss from operations divided by revenue.

(b) Non-GAAP operating margin is defined as non-GAAP loss from operations divided by revenue.

(c) To eliminate stock-based compensation expense.

(d) To eliminate one-time charge \$11.9 million for an equity grant to the Pure Good Foundation.

(e) To assume preferred stock conversion as of the beginning of the period.

**Reconciliation from net cash used in operating activities to free cash flow (in thousands, unaudited):**

|   | <b>Three Months Ended<br/>October 31, 2014</b> | <b>Three Months Ended<br/>October 31, 2015</b> |
|---|--|--|
| Net cash used in operating activities     | \$ (26,717)                                    | \$ (5,376)                                     |
| Less: purchases of property and equipment | (11,667)                                       | (7,672)  |
| Free cash flow                            | <u>\$ (38,384)</u>                             | <u>\$ (13,048)</u>                             |
| Free cash flow as % of revenue            | -78%   | -10%   |