

Shutterfly, Inc.
Consolidated GAAP Statements of Operations
(\$ in thousands, except EPS)
(Unaudited)
September 30, 2018

	Year ended Dec. 31, 2014	Year ended Dec. 31, 2015	Year ended Dec. 31, 2016	Quarter ended			Year ended Dec. 31, 2017	Quarter ended			
				Mar. 31, 2017	Jun. 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sept. 30, 2018	
Net revenue	\$921,580	\$1,059,429	\$1,134,224	\$191,972	\$209,032	\$195,443	\$593,755	\$1,190,202	\$199,725	\$443,372	\$368,757
Shutterfly Consumer	870,959	961,418	997,556	160,645	179,090	135,418	521,809	996,963	152,059	165,003	126,888
Lifetouch	-	-	-	-	-	-	-	-	-	228,560	183,113
SBS	50,621	98,011	136,668	31,327	29,942	60,025	71,946	193,239	47,666	49,809	58,756
Cost of Net revenue	452,720	528,078	566,117	116,119	118,205	131,108	254,218	619,650	126,046	233,228	224,738
Restructuring	-	-	-	1,240	196	39	-	1,475	-	-	-
Gross Profit	\$468,860	\$531,351	\$568,107	\$74,613	\$90,631	\$64,296	\$339,537	\$569,077	\$73,679	\$210,144	\$144,019
Operating Expenses											
Technology and Development	133,623	155,318	166,909	45,955	39,398	39,614	43,415	168,383	38,504	44,420	44,735
Sales and Marketing	216,035	236,749	233,585	42,887	42,987	33,331	78,503	197,708	37,720	130,643	135,375
General and Administrative	112,957	121,019	118,503	27,795	27,511	23,894	38,597	117,797	31,565	55,040	50,445
Capital Lease Termination	-	-	-	-	8,098	-	-	8,098	-	-	-
Restructuring	-	-	-	7,736	4,477	3,278	-	15,491	-	2,952	-
Total Operating Expenses	462,615	513,086	518,997	124,373	122,471	100,117	160,515	\$507,477	107,789	233,055	230,555
Income/(Loss) from Operations	\$6,245	\$18,265	\$49,110	(\$49,760)	(\$31,840)	(\$35,821)	\$179,022	\$61,600	(\$34,110)	(\$22,911)	(\$86,536)
Interest Expense	(16,732)	(20,998)	(23,023)	(5,964)	(5,955)	(6,699)	(9,219)	(27,836)	(9,633)	(17,769)	(16,660)
Interest and Other Income, net	508	744	501	189	244	253	794	1,481	1,749	1,561	856
Income/(Loss) before Income Taxes	(\$9,979)	(\$1,989)	\$26,588	(\$55,535)	(\$37,551)	(\$42,267)	\$170,597	\$35,245	(\$41,994)	(\$39,119)	(\$102,340)
Provision for Income Benefit / (Taxes)	2,119	1,146	(10,682)	22,341	14,713	16,660	(58,873)	(5,160)	14,829	12,607	28,797
Net Income / (Loss)	(\$7,860)	(\$843)	\$15,906	(\$33,194)	(\$22,838)	(\$25,607)	\$111,724	\$30,085	(\$27,165)	(\$26,512)	(\$73,543)
Net income (loss) per share:											
Basic	(\$0.20)	(\$0.02)	\$0.47	(\$0.98)	(\$0.68)	(\$0.78)	\$3.45	\$0.91	(\$0.83)	(\$0.80)	(\$2.20)
Diluted	(\$0.20)	(\$0.02)	\$0.45	(\$0.98)	(\$0.68)	(\$0.78)	\$3.37	\$0.88	(\$0.83)	(\$0.80)	(\$2.20)
Weighted average shares outstanding:											
Basic	38,452	36,761	34,097	33,712	33,579	32,878	32,372	33,113	32,702	33,234	33,470
Diluted	38,452	36,761	35,190	33,712	33,579	32,878	33,114	34,106	32,702	33,234	33,470
Stock-based compensation is allocated as follows:											
Cost of Net revenue	\$3,657	\$4,134	\$4,579	\$1,169	\$1,074	\$1,041	\$1,055	\$4,339	\$999	\$943	\$909
Technology and Development	9,236	10,840	8,550	2,696	2,179	2,512	2,391	9,778	2,429	2,571	2,545
Sales and Marketing	22,670	21,512	15,445	3,173	2,980	2,864	3,211	12,229	3,504	2,941	3,057
General and Administrative	26,199	23,972	17,118	4,467	4,236	4,319	4,206	17,227	4,760	5,242	5,420
Restructuring	-	-	-	814	-	-	-	814	-	-	-
	\$61,762	\$60,458	\$45,692	\$12,319	\$10,469	\$10,736	\$10,863	\$44,387	\$11,692	\$11,697	\$11,931

Shutterfly, Inc.
Consolidated Balance Sheets
(\$ in thousands)
(Unaudited)
September 30, 2018

	2014	2015	2016	2017				2018		
	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Mar. 31, 2017	Jun. 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sept. 30, 2018
Assets										
Current Assets										
Cash and cash equivalents	\$380,543	\$288,863	\$289,224	\$161,515	\$126,081	\$55,959	\$489,894	\$419,371	\$146,701	\$165,929
Short-term investments	64,866	22,918	26,352	45,005	44,550	44,977	178,021	120,107	53,890	38,915
Accounts receivable, net	31,105	55,222	57,365	33,243	30,079	61,468	82,317	54,142	58,578	75,224
Inventories	13,016	13,466	11,751	9,664	8,900	12,057	11,019	10,150	15,269	18,081
Deferred tax asset, current portion	34,645	-	-	-	-	-	-	-	-	-
Prepaid expenses and other current assets	23,736	31,828	48,084	59,941	76,370	81,322	41,383	56,351	112,196	144,853
Total current assets	547,911	412,297	432,776	309,368	285,980	255,783	802,634	660,121	386,634	443,002
Long-term investments	29,928	29,005	14,479	15,903	17,015	11,739	9,242	4,941	24,974	18,626
Property and equipment, net	241,742	281,779	284,110	266,844	252,485	269,145	266,860	259,951	392,662	388,862
Intangible assets, net	87,950	62,323	43,420	39,378	35,816	32,544	29,671	27,618	341,769	328,756
Goodwill	408,975	408,975	408,975	408,975	408,975	408,975	408,975	408,975	841,374	842,917
Deferred tax asset, net of current portion	549	1,710	780	1,139	10,606	11,559	3,647	527	2,358	2,390
Other assets	10,719	9,238	11,036	10,458	11,190	17,192	13,771	17,095	21,265	21,863
Total Assets	1,327,774	\$1,205,327	\$1,195,576	\$1,052,065	\$1,022,067	\$1,006,937	\$1,534,800	\$1,379,228	\$2,011,036	\$2,046,416
Liabilities and Stockholders' Equity										
Current Liabilities										
Current portion of long-term debt	-	-	-	-	\$286,316	\$290,157	297,054	\$301,004	\$15,249	\$14,407
Accounts payable	\$30,086	\$35,329	\$58,790	\$14,067	20,270	25,098	91,473	17,210	33,178	33,271
Accrued liabilities	126,580	135,044	122,777	63,049	63,015	73,872	142,389	59,862	129,507	143,102
Deferred revenue	31,415	27,329	22,929	22,225	22,747	22,794	24,649	22,049	29,448	110,736
Current portion of capital lease obligations	8,905	14,090	16,092	16,168	14,512	16,724	16,859	17,019	16,865	16,681
Total current liabilities	196,986	211,792	220,588	115,509	406,860	428,645	572,424	417,144	224,247	318,197
Long-term debt	250,714	264,361	278,792	282,527	-	-	292,457	291,879	1,094,347	1,092,084
Deferred tax liability	48,090	12,447	20,446	-	-	-	-	-	-	-
Other liabilities	41,881	66,237	66,376	66,053	74,191	69,883	70,575	67,433	104,866	107,234
Capital lease obligations, less current portion	32,297	44,428	50,213	46,164	40,679	51,639	48,620	47,174	43,280	41,698
Total Liabilities	569,968	599,265	636,415	510,253	521,730	550,167	984,076	823,630	1,466,740	1,559,213
Total Stockholders' Equity	757,806	606,062	559,161	541,812	500,337	456,770	550,724	555,598	544,296	487,203
Total Liabilities & Stockholders' Equity	\$1,327,774	\$1,205,327	\$1,195,576	\$1,052,065	\$1,022,067	\$1,006,937	\$1,534,800	\$1,379,228	\$2,011,036	\$2,046,416

Shutterfly, Inc.
Consolidated Statements of Cash Flows
(\$ in thousands)
(Unaudited)
September 30, 2018

	Year ended	Year ended	Year ended	Quarter Ended				Year ended	Quarter Ended		
	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Mar. 31, 2017	Jun. 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sept. 30, 2018
Net Income/(Loss)	(\$7,860)	(\$843)	\$15,906	(\$33,194)	(\$22,838)	(\$25,607)	\$111,724	\$30,085	(\$27,165)	(\$26,512)	(\$73,543)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities											
Depreciation and amortization	64,885	86,290	93,531	23,024	22,097	21,246	22,579	88,946	22,564	27,547	29,411
Amortization of intangible assets	33,867	26,987	20,120	4,340	3,860	3,570	3,146	14,916	2,334	12,830	12,559
Amortization of debt discount and issuance costs	12,905	13,647	14,432	3,735	3,789	3,841	4,143	15,508	4,122	2,887	892
Repayment of convertible senior notes attributable to debt discount	-	-	-	-	-	-	-	-	-	(63,510)	-
Stock-based compensation	61,762	60,458	45,692	11,505	10,469	10,736	10,863	43,573	11,692	11,697	11,932
(Gain)/Loss on disposal of property and equipment	361	1,755	738	172	295	238	436	1,141	225	(71)	(329)
Deferred income taxes	(2,604)	(2,149)	8,899	2,358	(9,461)	(1,504)	8,446	(161)	4,264	13,307	85
Tax benefit (shortfall) from stock-based compensation	(163)	98	290	-	-	-	-	-	-	-	-
Excess tax benefit from stock options	(1,025)	(1,813)	(2,413)	-	-	-	-	-	-	-	-
Restructuring	-	-	-	7,868	2,896	872	(754)	10,882	-	752	-
Other	-	-	-	-	-	-	-	-	-	(272)	480
Changes in operating assets and liabilities, net of acquisition:											
Accounts receivable	(9,464)	(24,117)	(2,142)	24,122	3,164	(31,389)	(20,849)	(24,952)	28,174	2,593	(16,646)
Inventories	(3,388)	(450)	1,715	847	568	(3,197)	1,039	(743)	869	14,738	(2,812)
Prepaid expenses and other current assets	(3,958)	(8,163)	(16,259)	(11,857)	(7,178)	(14,201)	39,937	6,701	(15,557)	(27,238)	(31,272)
Other assets	(1,442)	727	(2,881)	280	(1,021)	(87)	(270)	(1,098)	(85)	85	605
Accounts payable	(1,275)	3,139	27,128	(44,655)	4,706	4,130	68,008	32,189	(73,773)	4,065	1,648
Accrued and other liabilities	16,586	13,556	(6,933)	(60,227)	1,804	9,360	69,880	20,817	(85,638)	(44,489)	13,618
Deferred revenue	7,301	(4,085)	(4,400)	(704)	522	47	1,855	1,720	3,642	(3,642)	80,413
Net cash provided by (used in) operating activities	166,488	165,037	193,423	(72,386)	13,672	(21,945)	320,183	239,524	(124,332)	(75,233)	27,041
Cash Flows from Investment Activities											
Acquisition of business and intangible assets, net of cash acquired	(12,000)	(127)	-	-	-	-	-	-	-	(890,052)	465
Purchases of property and equipment	(71,169)	(55,448)	(56,264)	(3,517)	(4,659)	(14,784)	(13,785)	(36,745)	(8,075)	(9,617)	(11,292)
Capitalization of software and website development costs	(21,032)	(21,221)	(33,423)	(7,602)	(9,456)	(8,919)	(8,029)	(34,006)	(8,584)	(12,808)	(13,210)
Purchases of investments	(124,111)	(31,073)	(29,422)	(26,304)	(13,501)	(4,576)	(161,085)	(205,466)	(9,523)	-	-
Proceeds from the maturities of investments	29,980	73,454	40,447	6,214	12,819	9,423	30,675	59,131	72,068	102,261	19,070
Proceeds from sales of investments	-	-	-	-	-	-	-	-	-	45,106	1,773
Proceeds from sale of equipment and rental assets	904	1,298	14,261	70	11,608	9,554	492	21,724	649	483	956
Net cash provided by (used in) investing activities	(197,428)	(33,117)	(64,401)	(31,139)	(3,189)	(9,302)	(151,732)	(195,362)	46,535	(764,627)	(2,238)
Cash Flows from Financing Activities											
Proceeds from issuance of common stock upon exercise of stock options	3,243	3,221	2,104	117	403	106	51	677	13,775	2,802	3,121
Repurchases of common stock	(88,815)	(179,090)	(112,488)	(20,000)	(30,000)	(30,000)	(30,000)	(110,000)	-	-	-
Refund of accelerated share repurchase	-	38,179	-	-	-	-	-	-	-	-	-
Prepayment of accelerated share repurchase	-	(75,000)	-	-	-	-	-	-	-	-	-
Excess tax benefit of stock based compensation	1,025	1,813	2,413	-	-	-	-	-	-	-	-
Principal payments of capital lease and financing obligations	(3,054)	(12,723)	(19,377)	(4,301)	(16,320)	(4,192)	(4,567)	(29,380)	(4,643)	(4,753)	(4,826)
Principal payments of borrowings	-	-	-	-	-	-	-	-	(750)	(301,858)	59,590
Proceedings from borrowing, net of issuance costs	-	-	-	-	-	(4,789)	300,000	295,211	-	806,652	-
Payment for contingent consideration liabilities ⁽¹⁾	-	-	(1,313)	-	-	-	-	-	-	-	-
Payment of debt issuance costs	-	-	-	-	-	-	-	-	(1,108)	1,108	-
Net cash provided by (used in) financing activities	(87,601)	(223,600)	(128,661)	(24,184)	(45,917)	(38,875)	265,484	156,508	7,274	503,951	57,885
Effect of exchange rate changes on cash and cash equivalents	-	-	-	-	-	-	-	-	-	(271)	50
Net increase (decrease) in cash and cash equivalents	(118,541)	(91,680)	361	(127,709)	(35,434)	(70,122)	433,935	200,670	(70,523)	(336,180)	82,738
Cash and cash equivalents, beginning of period	500,385	380,543	288,863	289,224	161,515	126,081	55,959	289,224	489,894	419,371	83,191
Cash and cash equivalents, end of period	\$381,844	\$288,863	\$289,224	\$161,515	\$126,081	\$55,959	\$489,894	\$489,894	\$419,371	\$83,191	\$165,929
Supplemental disclosures of cash flow information											
Net change in accrued purchases of property & equipment	(2,674)	3,818	(4,013)	(1,848)	2,593	3,518	(1,570)	2,693	(3,780)	2,580	(250)
Net change in accrued capitalized software and website development costs	716	892	(319)	124	146	(431)	(235)	(396)	357	762	(878)
Amount due from adjustment of net working capital from acquired business	253	-	-	-	-	-	-	-	-	-	-
Stock-based compensation capitalized with software and website development costs	1,597	1,248	1,560	258	500	326	289	1,373	323	374	368
Estimated fair market value of building under build-to suit lease	22,855	17,161	-	-	-	-	-	-	-	-	-
Property and equipment acquired under capital leases	37,728	29,097	23,946	-	6,228	11,996	921	19,145	2,969	-	2,642
Increase to amount due for acquisition of business	1,673	-	-	-	-	-	-	-	-	-	-
Net increase in receivable proceeds from the sale of property and equipment	-	-	3,765	-	9,250	(9,250)	-	-	-	-	-

Shutterfly, Inc.
Reconciliation of GAAP to Non-GAAP Balances
(In thousands)
(Unaudited)
September 30, 2018

	Year ended	Year ended	Year ended	Quarter Ended				Year ended	Quarter Ended		
	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2016	Mar. 31, 2017	Jun. 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sept. 30, 2018
Reconciliation of Net Income (Loss) to Non-GAAP Adjusted EBITDA											
GAAP net income (loss)	(\$7,860)	(\$843)	\$15,906	(\$33,194)	(\$22,838)	(\$25,607)	\$111,724	\$30,085	(\$27,165)	(\$26,512)	(73,543)
Add back:											
Interest expense	16,732	20,998	23,023	5,964	5,955	6,699	9,219	\$27,836	9,633	17,769	16,660
Interest and other income, net	(508)	(744)	(501)	(189)	(244)	(253)	(794)	(1,481)	(1,749)	(1,561)	(856)
Tax (benefit) provision	(2,119)	(1,146)	10,682	(22,341)	(14,713)	(16,660)	58,873	\$5,160	(14,829)	(12,607)	(28,797)
Depreciation and amortization	64,885	86,290	93,531	23,024	22,097	21,246	22,579	\$88,946	22,564	27,547	29,411
Amortization of intangible assets	33,867	26,987	20,120	4,340	3,860	3,569	3,145	\$14,916	2,334	12,830	12,559
Stock-based compensation expense	61,762	60,458	45,692	11,505	10,469	10,736	10,863	\$43,573	11,692	11,697	11,931
Capital lease termination	-	-	-	-	8,098	-	-	\$8,098	-	-	-
Restructuring	-	-	-	8,976	4,673	3,317	-	\$16,966	-	2,952	-
Acquisition-related costs	-	-	-	-	-	-	-	-	4,585	8,000	2,392
Purchase accounting adjustments	-	-	-	-	-	-	-	-	-	44,282	3,958
Non-GAAP Adjusted EBITDA	\$166,759	\$192,000	\$208,453	(\$1,915)	\$17,357	\$3,047	\$215,609	\$234,099	\$7,065	\$84,397	(\$26,285)
Reconciliation of Cash Flow from Operating Activities to Non-GAAP Adjusted EBITDA and Adjusted EBITDA minus Capital Expenditures											
Net cash provided by (used in) operating activities	\$166,488	\$165,037	\$193,423	(\$72,386)	\$13,672	(\$21,945)	\$320,183	\$239,524	(\$124,332)	(\$75,233)	\$27,041
Interest expense	16,732	20,998	23,023	5,964	5,955	6,699	9,219	27,836	9,633	17,769	16,660
Interest and other income, net	(508)	(744)	(501)	(189)	(244)	(253)	(794)	(1,481)	(1,749)	(1,561)	(856)
Tax (benefit) provision	(2,119)	(1,146)	10,682	(22,341)	(14,713)	(16,660)	58,873	5,160	(14,829)	(12,607)	(28,797)
Changes in operating assets and liabilities	(4,360)	19,393	3,772	92,194	(2,565)	35,336	(159,600)	(34,634)	142,368	53,888	(45,554)
Other adjustments	(9,474)	(11,538)	(21,946)	(6,265)	5,377	(2,575)	(13,026)	(16,488)	(8,611)	(15,851)	(1,129)
Capital lease termination	-	-	-	-	8,098	-	-	8,098	-	-	-
Restructuring	-	-	-	1,108	1,777	2,445	754	6,084	-	2,200	-
Acquisition-related costs	-	-	-	-	-	-	-	-	4,585	8,000	2,392
Purchase accounting adjustments	-	-	-	-	-	-	-	-	-	44,282	3,958
Non-GAAP Adjusted EBITDA	\$166,759	\$192,000	\$208,453	(\$1,915)	\$17,357	\$3,047	\$215,609	\$234,099	\$7,065	\$20,887	(\$26,285)

Shutterfly, Inc.
Key Metrics and Income Statement Analysis
(Unaudited)
September 30, 2018

	Year ended Dec. 31, 2014	Year ended Dec. 31, 2015	Year ended Dec. 31, 2016	Quarter Ended				Year ended Dec. 31, 2017	Quarter Ended		
				Mar. 31, 2017	Jun. 30, 2017	Sept. 30, 2017	Dec. 31, 2017		Mar. 31, 2018	Jun. 30, 2018	Sept. 30, 2018
Shutterfly Consumer Key Metrics^[1]											
Customers				3,364,799	3,350,434	2,969,451	6,110,833		3,220,881	3,140,246	2,776,523
Orders				5,535,344	5,467,763	4,861,262	10,463,752		5,076,150	4,788,564	4,274,418
Average order value				\$ 29.02	\$ 32.75	\$ 27.86	\$ 49.87		\$ 29.96	\$ 34.46	\$ 29.69
Margin Analysis											
Gross Profit margin	50.9%	50.2%	50.1%	38.9%	43.4%	32.9%	57.2%	47.8%	36.9%	47.4%	39.1%
Adjusted EBITDA margin	18.1%	18.1%	18.4%	(1.0%)	8.3%	1.6%	36.3%	19.7%	3.5%	17.7%	(7.1%)
Operating margin	0.7%	1.7%	4.3%	(25.9%)	(15.2%)	(18.3%)	30.2%	5.2%	(17.1%)	(5.2%)	(23.5%)
Pre-tax margin	(1.1%)	(0.2%)	2.3%	(28.9%)	(18.0%)	(21.6%)	28.7%	3.0%	(21.0%)	(8.8%)	(27.8%)
Net margin	(0.9%)	(0.1%)	1.4%	(17.3%)	(10.9%)	(13.1%)	18.8%	2.5%	(13.6%)	(6.0%)	(19.9%)
Effective Tax Rate	21.2%	57.6%	40.2%	40.2%	39.2%	39.4%	34.5%	14.6%	35.3%	32.2%	28.1%
Y/Y Revenue Growth Rates											
Net revenue	18%	15%	7%	6%	2%	4%	6%	5%	4%	112%	89%
Shutterfly Consumer	17%	10%	4%	3%	1%	(6%)	0%	(0%)	(5%)	(8%)	(6%)
Lifetouch										n/a	n/a
SBS	34%	94%	39%	19%	10%	39%	81%	41%	52%	66%	(2%)
Y/Y Shutterfly Consumer Key Metrics Growth Rates											
Customers				1%	3%	(6%)	(2%)		(4%)	(6%)	(6%)
Orders				(0%)	3%	(10%)	(4%)		(8%)	(12%)	(12%)
Average order value				3%	(2%)	4%	4%		3%	5%	7%
Revenue Mix											
Shutterfly Consumer	95%	91%	88%	84%	86%	69%	88%	84%	76%	37%	34%
Lifetouch	0%	0%	0%	0%	0%	0%	0%	0%	0%	52%	50%
SBS	5%	9%	12%	16%	14%	31%	12%	16%	24%	11%	16%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

^[1] Historical metrics aggregated across Shutterfly's lifestyle brands

Shutterfly, Inc.
Segment Disclosure
(Unaudited)
September 30, 2018

	Year ended Dec. 31, 2014	Year ended Dec. 31, 2015	Year ended Dec. 31, 2016	Quarter Ended			Year ended Dec. 31, 2017	Quarter Ended Mar. 31, 2018	
				Mar. 31, 2017	Jun. 30, 2017	Sep. 30, 2017	Dec. 31, 2017		
Shutterfly Consumer									
Net revenue	\$870,959	\$961,418	\$997,556	\$160,645	\$179,090	135,418	521,809	996,963	152,059
Cost of net revenue	394,265	436,050	455,387	89,854	92,049	81,439	193,320	456,665	84,845
Restructuring	-	-	-	1,240	196	39	-	1,475	-
Gross margin	476,694	525,368	542,169	69,551	86,845	53,940	328,489	538,823	67,214
	54.7%	54.6%	54.3%	43.3%	48.5%	39.8%	63.0%	54.0%	44.2%
Lifetouch									
Net revenue	-	-	-	-	-	-	-	-	-
Cost of net revenue	-	-	-	-	-	-	-	-	-
Restructuring	-	-	-	-	-	-	-	-	-
Gross margin	-	-	-	-	-	-	-	-	-
Shutterfly Business Solutions									
Net revenue	50,621	98,011	136,668	31,327	29,942	60,025	71,946	193,239	47,666
Cost of net revenue	43,456	79,789	100,582	23,838	23,900	47,520	58,812	154,068	39,910
Gross margin	7,165	18,222	36,086	7,489	6,042	12,505	13,134	39,171	7,756
	14.2%	18.6%	26.4%	23.9%	20.2%	20.8%	18.3%	20.3%	16.3%
Corporate^[1]									
Net revenue	-	-	-	-	-	-	-	-	-
Cost of net revenue	14,999	12,239	10,148	2,427	2,256	2,149	2,086	8,917	1,291
Gross margin	(14,999)	(12,239)	(10,148)	(2,427)	(2,256)	(2,149)	(2,086)	(8,917)	(1,291)
Consolidated									
Net revenue	921,580	1,059,429	1,134,224	191,972	209,032	195,443	593,755	1,190,202	199,725
Cost of net revenue	452,720	528,078	566,117	116,119	118,205	131,108	254,218	619,650	126,046
Restructuring	-	-	-	1,240	196	39	-	1,475	-
Gross margin	\$468,860	\$531,351	\$568,107	74,613	90,631	64,296	339,537	569,077	73,679
GAAP Gross Margin	50.9%	50.2%	50.1%	38.9%	43.4%	32.9%	57.2%	47.8%	36.9%

[1] Corporate category includes activities that are not directly attributable or allocable to a specific segment. This category consists of stock-based compensation and amortization of intangible assets.

Shutterfly, Inc.
Segment Disclosure
(Unaudited)
September 30, 2018

	Quarter Ended			
	Jun. 30, 2017	Sept. 30, 2017	Jun. 30, 2018	Sept. 30, 2018
Shutterfly Consumer:				
Net revenue	\$179,090	\$135,418	\$165,003	\$126,888
Cost of net revenue	92,049	81,439	86,065	81,031
Technology and development	33,037	32,712	29,830	29,971
Sales and marketing	36,406	26,811	29,956	28,819
Credit card fees	4,654	3,766	4,349	3,527
Margin ^[1]	<u>12,944</u>	<u>(9,310)</u>	<u>14,803</u>	<u>(16,460)</u>
Margin %	7.2%	-6.9%	9.0%	-13.0%
Lifetouch:				
Net revenue	\$ -	\$ -	\$261,911	\$187,071
Cost of net revenue	-	-	91,148	94,188
Technology and development	-	-	7,109	7,142
Sales and marketing	-	-	86,960	92,693
Credit card fees	-	-	1,165	3,316
Margin ^[1]	<u>-</u>	<u>-</u>	<u>75,529</u>	<u>(10,268)</u>
Margin %	0.0%	0.0%	28.8%	-5.5%
Shutterfly Business Solutions:				
Net revenue	\$29,942	\$60,025	\$49,809	\$58,756
Cost of net revenue	23,900	47,520	41,610	45,973
Technology and development	4,182	4,390	3,049	3,190
Sales and marketing	931	1,193	1,619	1,473
Margin ^[1]	<u>929</u>	<u>6,922</u>	<u>3,531</u>	<u>8,120</u>
Margin %	3.1%	11.5%	7.1%	13.8%
Consolidated Segments:				
Net revenue	\$209,032	\$195,443	\$476,723	\$372,715
Cost of net revenue	115,949	128,959	218,823	221,192
Technology and development	37,219	37,102	39,988	40,303
Sales and marketing	37,337	28,004	118,535	122,985
Credit card fees	4,654	3,766	5,514	6,843
Margin ^[1]	<u>13,873</u>	<u>(2,388)</u>	<u>93,863</u>	<u>(18,608)</u>
Margin %	6.6%	(1.2%)	19.7%	(5.0%)
Reconciliation of Segment Reporting Operating Profit to Operating Loss:				
Total operating profit for operating segments	\$13,873	(\$2,388)	\$93,863	(\$18,608)
Purchase accounting deferred revenue adjustment	-	-	(33,351)	(3,958)
Purchase account inventory adjustment	-	-	(10,931)	-
Corporate expenses	(18,613)	(15,810)	(37,012)	(37,088)
Amortization of intangible assets	(3,860)	(3,570)	(12,831)	(12,559)
Stock-based compensation for operating segments	(10,469)	(10,736)	(11,697)	(11,931)
Restructuring	(4,673)	(3,317)	(2,952)	-
Acquisition-related costs	-	-	(8,000)	(2,392)
Capital lease termination	(8,098)	-	-	-
Operating loss	<u>(31,840)</u>	<u>(35,821)</u>	<u>(22,911)</u>	<u>(86,536)</u>
Operating margin	(15.2%)	(18.3%)	(4.8%)	(23.2%)

^[1] The margins reported reflect only costs that are directly attributable or allocable to a specific segment and exclude corporate expenses, amortization of intangible assets, stock-based compensation and other one-time charges.

Note: Starting Q2'18, the Company expanded segment reporting, which now includes segment margin. Segment reporting will continue to report net revenue and cost of net revenue, consistent with previous reporting, but now will also include technology and development, sales and marketing, and credit card fees, arriving at a margin for the segment. The margin of the Company's three segments compares to non-GAAP operating income by adding corporate expenses, amortization of intangible assets, stock-based compensation, and other non-recurring items including restructuring and acquisition-related charges.