

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 31, 2019

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-35594

**PALO ALTO NETWORKS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-2530195**

(I.R.S. Employer Identification No.)

**3000 Tannery Way**

**Santa Clara, California 95054**

(Address of principal executive office, including zip code)

**(408) 753-4000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's common stock as of February 14, 2019 was 93,732,953.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## PALO ALTO NETWORKS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited, in millions, except per share data)

	January 31, 2019	July 31, 2018 (As Adjusted)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,127.8	\$ 2,506.9
Short-term investments	1,702.2	896.5
Accounts receivable, net of allowance for doubtful accounts of \$1.2 at January 31, 2019 and July 31, 2018	415.0	467.0
Prepaid expenses and other current assets	242.5	268.1
Total current assets	3,487.5	4,138.5
Property and equipment, net	273.2	273.1
Long-term investments	808.6	547.5
Goodwill	636.4	522.8
Intangible assets, net	171.8	140.8
Other assets	330.0	326.2
Total assets	\$ 5,707.5	\$ 5,948.9
<b>Liabilities, temporary equity, and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 27.9	\$ 49.4
Accrued compensation	143.4	163.7
Accrued and other liabilities	171.4	124.6
Deferred revenue	1,369.2	1,213.6
Convertible senior notes, net	156.3	550.4
Total current liabilities	1,868.2	2,101.7
Convertible senior notes, net	1,399.5	1,369.7
Long-term deferred revenue	1,156.5	1,065.7
Other long-term liabilities	208.7	229.6
Commitments and contingencies (Note 10)		
Temporary equity	2.8	21.9
Stockholders' equity:		
Preferred stock; \$0.0001 par value; 100.0 shares authorized; none issued and outstanding at January 31, 2019 and July 31, 2018	—	—
Common stock and additional paid-in capital; \$0.0001 par value; 1,000.0 shares authorized; 93.7 and 93.6 shares issued and outstanding at January 31, 2019 and July 31, 2018, respectively	1,941.5	1,967.4
Accumulated other comprehensive loss	(9.8)	(16.4)
Accumulated deficit	(859.9)	(790.7)
Total stockholders' equity	1,071.8	1,160.3
Total liabilities, temporary equity, and stockholders' equity	\$ 5,707.5	\$ 5,948.9

See notes to condensed consolidated financial statements.

**PALO ALTO NETWORKS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited, in millions, except per share data)

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2019	2018	2019	2018
	(As Adjusted)		(As Adjusted)	
<b>Revenue:</b>				
Product	\$ 271.6	\$ 204.8	\$ 512.1	\$ 389.6
Subscription and support	439.6	340.8	855.1	657.8
<b>Total revenue</b>	<b>711.2</b>	<b>545.6</b>	<b>1,367.2</b>	<b>1,047.4</b>
<b>Cost of revenue:</b>				
Product	82.5	63.9	155.7	121.5
Subscription and support	120.1	95.5	230.4	179.2
<b>Total cost of revenue</b>	<b>202.6</b>	<b>159.4</b>	<b>386.1</b>	<b>300.7</b>
<b>Total gross profit</b>	<b>508.6</b>	<b>386.2</b>	<b>981.1</b>	<b>746.7</b>
<b>Operating expenses:</b>				
Research and development	128.3	96.6	241.7	190.8
Sales and marketing	320.0	258.8	634.6	512.9
General and administrative	53.7	53.3	130.3	119.0
<b>Total operating expenses</b>	<b>502.0</b>	<b>408.7</b>	<b>1,006.6</b>	<b>822.7</b>
<b>Operating income (loss)</b>	<b>6.6</b>	<b>(22.5)</b>	<b>(25.5)</b>	<b>(76.0)</b>
Interest expense	(20.6)	(6.4)	(43.3)	(12.7)
Other income, net	16.0	4.9	29.0	9.7
<b>Income (loss) before income taxes</b>	<b>2.0</b>	<b>(24.0)</b>	<b>(39.8)</b>	<b>(79.0)</b>
Provision for income taxes	4.6	1.6	1.1	9.8
<b>Net loss</b>	<b>\$ (2.6)</b>	<b>\$ (25.6)</b>	<b>\$ (40.9)</b>	<b>\$ (88.8)</b>
<b>Net loss per share, basic and diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.28)</b>	<b>\$ (0.44)</b>	<b>\$ (0.98)</b>
Weighted-average shares used to compute net loss per share, basic and diluted	94.0	91.1	93.9	91.0

*See notes to condensed consolidated financial statements.*

## PALO ALTO NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited, in millions)

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2019	2018	2019	2018
		(As Adjusted)		(As Adjusted)
Net loss	\$ (2.6)	\$ (25.6)	\$ (40.9)	\$ (88.8)
Other comprehensive income (loss), net of tax:				
Change in unrealized gains (losses) on investments	4.8	(5.3)	5.7	(7.2)
Change in unrealized gains (losses) on cash flow hedges	4.4	5.1	0.9	3.4
Other comprehensive income (loss)	9.2	(0.2)	6.6	(3.8)
Comprehensive income (loss)	\$ 6.6	\$ (25.8)	\$ (34.3)	\$ (92.6)

See notes to condensed consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited, in millions)

	Three Months Ended January 31, 2019				
	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of October 31, 2018	94.7	\$ 2,129.3	\$ (19.0)	\$ (857.3)	\$ 1,253.0
Net loss	—	—	—	(2.6)	(2.6)
Other comprehensive income	—	—	9.2	—	9.2
Issuance of common stock in connection with employee equity incentive plans	0.9	3.1	—	—	3.1
Taxes paid related to net share settlement of equity awards	—	(7.1)	—	—	(7.1)
Share-based compensation for equity-based awards	—	144.1	—	—	144.1
Repurchase and retirement of common stock	(1.9)	(330.0)	—	—	(330.0)
Settlement of convertible notes	0.3	(2.0)	—	—	(2.0)
Common stock received from exercise of note hedges	(0.3)	—	—	—	—
Temporary equity reclassification	—	4.1	—	—	4.1
Balance as of January 31, 2019	93.7	\$ 1,941.5	\$ (9.8)	\$ (859.9)	\$ 1,071.8

	Three Months Ended January 31, 2018				
	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of October 31, 2017	91.9	\$ 1,573.2	\$ (7.0)	\$ (731.7)	\$ 834.5
Net loss	—	—	—	(25.6)	(25.6)
Other comprehensive loss	—	—	(0.2)	—	(0.2)
Issuance of common stock in connection with employee equity incentive plans	0.8	1.3	—	—	1.3
Taxes paid related to net share settlement of equity awards	—	(11.5)	—	—	(11.5)
Share-based compensation for equity-based awards	—	132.2	—	—	132.2
Repurchase and retirement of common stock	(0.9)	(125.0)	—	—	(125.0)
Temporary equity reclassification	—	5.7	—	—	5.7
Balance as of January 31, 2018	91.8	\$ 1,575.9	\$ (7.2)	\$ (757.3)	\$ 811.4

	Six Months Ended January 31, 2019				
	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of July 31, 2018 (as adjusted)	93.6	\$ 1,967.4	\$ (16.4)	\$ (790.7)	\$ 1,160.3
Cumulative-effect adjustment from adoption of new accounting pronouncement	—	—	—	(28.3)	(28.3)
Net loss	—	—	—	(40.9)	(40.9)
Other comprehensive income	—	—	6.6	—	6.6
Issuance of common stock in connection with employee equity incentive plans	2.0	33.9	—	—	33.9
Taxes paid related to net share settlement of equity awards	—	(21.0)	—	—	(21.0)
Share-based compensation for equity-based awards	—	284.3	—	—	284.3
Repurchase and retirement of common stock	(1.9)	(330.0)	—	—	(330.0)
Settlement of convertible notes	1.7	(12.2)	—	—	(12.2)
Common stock received from exercise of note hedges	(1.7)	—	—	—	—
Temporary equity reclassification	—	19.1	—	—	19.1
Balance as of January 31, 2019	93.7	\$ 1,941.5	\$ (9.8)	\$ (859.9)	\$ 1,071.8

	Six Months Ended January 31, 2018				
	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of July 31, 2017	91.5	\$ 1,599.7	\$ (3.4)	\$ (668.5)	\$ 927.8
Net loss	—	—	—	(88.8)	(88.8)
Other comprehensive loss	—	—	(3.8)	—	(3.8)
Issuance of common stock in connection with employee equity incentive plans	2.0	23.6	—	—	23.6
Taxes paid related to net share settlement of equity awards	—	(22.9)	—	—	(22.9)
Share-based compensation for equity-based awards	—	259.0	—	—	259.0
Repurchase and retirement of common stock	(1.7)	(250.0)	—	—	(250.0)
Temporary equity reclassification	—	(33.5)	—	—	(33.5)
Balance as of January 31, 2018	91.8	\$ 1,575.9	\$ (7.2)	\$ (757.3)	\$ 811.4

See notes to condensed consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited, in millions)

	Six Months Ended	
	January 31,	
	2019	2018
	(As Adjusted)	
<b>Cash flows from operating activities</b>		
Net loss	\$ (40.9)	\$ (88.8)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation for equity-based awards	279.3	256.5
Depreciation and amortization	71.3	43.4
Cease-use loss related to facility exit	—	16.7
Amortization of deferred contract costs	83.0	57.3
Amortization of debt discount and debt issuance costs	36.5	12.7
Amortization of investment premiums, net of accretion of purchase discounts	(7.7)	0.6
Loss on conversions of convertible senior notes	2.6	—
Repayments of convertible senior notes attributable to debt discount	(67.1)	—
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	53.9	68.0
Prepaid expenses and other assets	(83.2)	(105.8)
Accounts payable	(11.2)	(6.4)
Accrued compensation	(21.0)	(4.3)
Accrued and other liabilities	(11.6)	47.5
Deferred revenue	243.8	221.2
Net cash provided by operating activities	527.7	518.6
<b>Cash flows from investing activities</b>		
Purchases of investments	(2,031.9)	(372.5)
Proceeds from sales of investments	3.5	—
Proceeds from maturities of investments	1,004.2	341.8
Business acquisitions, net of cash acquired	(154.9)	—
Purchases of property, equipment, and other assets	(57.8)	(57.8)
Net cash used in investing activities	(1,236.9)	(88.5)
<b>Cash flows from financing activities</b>		
Repayments of convertible senior notes attributable to principal and equity component	(348.5)	—
Payments for debt issuance costs	(3.7)	—
Repurchases of common stock	(330.0)	(259.1)
Proceeds from sales of shares through employee equity incentive plans	33.6	23.4
Payments for taxes related to net share settlement of equity awards	(21.0)	(22.9)
Net cash used in financing activities	(669.6)	(258.6)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(1,378.8)	171.5
Cash, cash equivalents, and restricted cash—beginning of period	2,509.2	745.5
Cash, cash equivalents, and restricted cash—end of period	\$ 1,130.4	\$ 917.0
<b>Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets</b>		
Cash and cash equivalents	\$ 1,127.8	\$ 915.0
Restricted cash included in prepaid expenses and other current assets	1.3	0.7
Restricted cash included in other assets	1.3	1.3
Total cash, cash equivalents, and restricted cash	\$ 1,130.4	\$ 917.0
<b>Non-cash investing and financing activities</b>		
Property and equipment acquired through lease incentives	\$ —	\$ 37.8

See notes to condensed consolidated financial statements.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Description of Business and Summary of Significant Accounting Policies**

***Description of Business***

Palo Alto Networks, Inc. (the “Company,” “we,” “us,” or “our”), located in Santa Clara, California, was incorporated in March 2005 under the laws of the State of Delaware and commenced operations in April 2005. We offer a security operating platform that empowers enterprises, service providers, and government entities to secure their organizations by safely enabling applications and data running in their networks, on their endpoints, and in the cloud, and by preventing breaches that stem from targeted cyberattacks.

***Basis of Presentation and Principles of Consolidation***

The accompanying condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”), consistent in all material respects with those applied in our Annual Report on Form 10-K for the fiscal year ended July 31, 2018, filed with the Securities and Exchange Commission (“SEC”) on September 13, 2018. Our condensed consolidated financial statements include our accounts and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Our condensed consolidated financial statements are unaudited, but include all adjustments of a normal recurring nature necessary for a fair presentation of our quarterly results. We have made estimates and judgments affecting the amounts reported in our condensed consolidated financial statements and the accompanying notes. The actual results that we experience may differ materially from our estimates.

Certain prior period amounts have been adjusted due to our retrospective adoption of new accounting guidance related to revenue from contracts with customers and new accounting guidance related to the presentation of restricted cash and cash equivalents in the statement of cash flows. Refer to “Recently Adopted Accounting Pronouncements” below for more information.

Our condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the fiscal year ended July 31, 2018.

***Summary of Significant Accounting Policies***

There have been no material changes to our significant accounting policies as of and for the six months ended January 31, 2019, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended July 31, 2018, except for the change in our accounting policies for revenue recognition and deferred contract costs due to our adoption of new accounting guidance related to revenue from contracts with customers. Refer to “Recently Adopted Accounting Pronouncements” below, Note 2. Revenue, and Note 8. Deferred Contract Costs for more information.

***Recently Adopted Accounting Pronouncements***

***Implementation Costs Incurred in a Cloud Computing Arrangement***

In August 2018, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance on customers’ accounting for implementation costs incurred in a cloud computing arrangement that is a service contract, which requires customers to apply internal-use software guidance to determine the implementation costs that are able to be capitalized. Under the new standard, capitalized implementation costs are generally amortized over the term of the arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. We early adopted this standard in our second quarter of fiscal 2019 on a prospective basis. The adoption of the standard did not have a material impact on our condensed consolidated financial statements.

***Business Combinations - Definition of a Business***

In January 2017, the FASB issued authoritative guidance clarifying the definition of a business to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We adopted this standard in our first quarter of fiscal 2019 on a prospective basis. The adoption of the standard did not have an impact on our condensed consolidated financial statements.

***Statement of Cash Flows - Restricted Cash***

In November 2016, the FASB issued authoritative guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. Under the new standard, restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We

adopted this standard in our first quarter of fiscal 2019 on a retrospective basis. The adoption of the standard did not have a material impact on our condensed consolidated financial statements because our restricted cash balance has not been material.

#### *Income Taxes - Intra-Entity Asset Transfers*

In October 2016, the FASB issued authoritative guidance requiring the recognition of income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. We adopted the standard in our first quarter of fiscal 2019 on a modified retrospective basis. As a result, we recorded the cumulative effect of the change as an increase to accumulated deficit of \$28.3 million, with a corresponding decrease to prepaid expenses and other current assets and other assets in our condensed consolidated balance sheets as of August 1, 2018, the date of adoption. The cumulative effect adjustment represents the reclassification of unrecognized income tax effects from intra-entity transfers of assets other than inventory that occurred prior to the date of adoption.

#### *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*

In August 2016, the FASB issued new authoritative guidance addressing eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain transactions are presented and classified in the statement of cash flows. We adopted this standard in our first quarter of fiscal 2019 on a retrospective basis. The adoption of the standard did not have an impact on our condensed consolidated financial statements.

#### *Financial Instruments - Recognition and Measurement*

In January 2016, the FASB issued authoritative guidance requiring equity instruments to be measured at fair value with changes in fair value recognized through net income. We adopted this standard in our first quarter of fiscal 2019 on a prospective basis for non-marketable equity securities and a modified retrospective basis for marketable equity investments. The adoption of the standard did not have an impact on our condensed consolidated financial statements.

#### *Revenue Recognition*

In May 2014, the FASB issued new authoritative guidance on revenue from contracts with customers. The new standard provides principles for recognizing revenue when control of promised goods or services is transferred to customers with the expected consideration in exchange for those goods or services, as well as guidance on the recognition of costs related to obtaining and fulfilling customer contracts. The standard also requires expanded disclosures about the nature, amount, timing, and uncertainty of revenues and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. We adopted the standard in our first quarter of fiscal 2019 using the full retrospective method.

The adoption of the new standard did not have a material impact on our condensed consolidated financial statements for the fiscal years ended July 31, 2018 and 2017, with the exception of the accounting for incremental costs to obtain customer contracts, which primarily consist of sales commissions, due to the longer period of amortization. Under the previous accounting guidance, we deferred and amortized these costs over the term of the related contract. Under the new standard, we defer and amortize these costs for initial contracts that are not commensurate with renewal commissions over a benefit period of five years, which is typically longer than the initial contract term.

The adoption of the standard using the full retrospective method required us to restate the prior periods presented in this Quarterly Report on Form 10-Q, with the cumulative effect of the change of \$168.2 million reflected in accumulated deficit as of July 31, 2017. In adopting the new standard, we have also applied a transition practical expedient and have not disclosed revenue expected to be recognized from remaining performance obligations for periods prior to August 1, 2018.

The following tables present the impact of the adoption of the standard on our previously reported results (in millions, except per share data):

	Three Months Ended January 31, 2018			Six Months Ended January 31, 2018		
	As Previously Reported	Impact of Adoption	As Adjusted	As Previously Reported	Impact of Adoption	As Adjusted
<b>Condensed Consolidated Statements of Operations</b>						
Product revenue	\$ 202.2	\$ 2.6	\$ 204.8	\$ 388.7	\$ 0.9	\$ 389.6
Subscription and support revenue	340.2	0.6	340.8	659.2	(1.4)	657.8
Total revenue	542.4	3.2	545.6	1,047.9	(0.5)	1,047.4
Total cost of revenue	159.3	0.1	159.4	300.7	—	300.7
Total operating expenses	414.9	(6.2)	408.7	833.3	(10.6)	822.7
Operating loss	(31.8)	9.3	(22.5)	(86.1)	10.1	(76.0)
Net loss	(34.9)	9.3	(25.6)	(98.9)	10.1	(88.8)
Net loss per share, basic and diluted	\$ (0.38)	\$ 0.10	\$ (0.28)	\$ (1.09)	\$ 0.11	\$ (0.98)

	July 31, 2018		
	As Previously Reported	Impact of Adoption	As Adjusted
<b>Condensed Consolidated Balance Sheet</b>			
Accounts receivable, net	\$ 467.3	\$ (0.3)	\$ 467.0
Prepaid expenses and other current assets	261.3	6.8	268.1
Other assets	206.8	119.4	326.2
Accrued and other liabilities	107.0	17.6	124.6
Deferred revenue	1,268.9	(55.3)	1,213.6
Long-term deferred revenue	1,096.0	(30.3)	1,065.7
Accumulated deficit	\$ (984.6)	\$ 193.9	\$ (790.7)

The adoption of the standard did not impact net cash flows from operating, investing, or financing activities in our condensed consolidated statements of cash flows.

### **Recently Issued Accounting Pronouncements**

#### *Financial Instruments - Credit Losses*

In June 2016, the FASB issued new authoritative guidance on the accounting for credit losses on most financial assets and certain financial instruments. The standard replaces the existing incurred loss model with an expected credit loss model for financial assets measured at amortized cost, including trade receivables, and requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down. The standard is effective for us in our first quarter of fiscal 2021 and will be applied on a modified retrospective basis. Early adoption is permitted beginning our first quarter of fiscal 2020. We are currently evaluating adoption timing and whether this standard will have a material impact on our condensed consolidated financial statements.

#### *Leases*

In February 2016, the FASB issued new authoritative guidance on lease accounting. Among its provisions, the standard requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet for operating leases and also requires additional qualitative and quantitative disclosures about lease arrangements. The standard is effective for us in our first quarter of fiscal 2020 and will be applied on a modified retrospective basis, with the option to elect certain practical expedients. Early adoption is permitted; however, we plan to adopt the new standard in our first quarter of fiscal 2020. Upon adoption, we will recognize right-of-use assets and operating lease liabilities on our condensed consolidated balance sheets, which will increase our total assets and total liabilities. We expect our operating leases, as disclosed in Note 10. Commitments and Contingencies, will be subject to the new standard. We continue to evaluate the accounting, transition, and disclosure requirements of this standard, including its impact on our systems, accounting policies, and processes.

## 2. Revenue

### ***Revenue Recognition***

Our revenue consists of product revenue and subscription and support revenue. Revenue is recognized when control of promised products, subscriptions and support services are transferred to customers with the expected consideration in exchange for those products and services. Depending on who the contract is with, our customers are either our channel partners or our end-customers.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer.
- Identification of the performance obligations in the contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligations in the contract.
- Recognition of revenue when, or as, we satisfy a performance obligation.

Revenues are reported net of sales taxes. Shipping charges billed to channel partners are included in revenues and related costs are included in cost of revenue.

### ***Product Revenue***

Product revenue is derived primarily from sales of our appliances. Product revenue also includes revenue derived from software licenses of Panorama and the VM-Series. We recognize product revenue at the time of hardware shipment or delivery of software license.

### ***Subscription and Support Revenue***

Subscription and support revenue is derived primarily from sales of our subscription and support offerings. We recognize subscription and support revenue over time as the services are performed. Our contractual subscription and support contracts are typically one to five years.

### ***Contracts with Multiple Performance Obligations***

The majority of our contracts with our customers include various combinations of our products and subscriptions and support which are distinct and accounted for as separate performance obligations. We account for multiple agreements with a single customer as a single contract if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single contract. The amount of consideration we expect to receive in exchange for delivering on the contract is allocated to each performance obligation based on its relative standalone selling price. If a contract contains a single performance obligation, no allocation is required.

We establish standalone selling price using the prices charged for a deliverable when sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price based on our pricing model and our go-to-market strategy, which include factors such as type of sales channel (reseller, distributor, or end-customer), the geographies in which our offerings were sold (domestic or international), and offering type (products, subscriptions, or support).

### ***Deferred Revenue***

We record deferred revenue when cash payments are received or due in advance of our performance. Our payment terms typically require payment within 30 to 45 days of the date we issue an invoice. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the condensed consolidated balance sheet date. During the six months ended January 31, 2019, we recognized approximately \$695.0 million of revenue pertaining to amounts that were deferred as of July 31, 2018.

### ***Remaining Performance Obligations***

Revenue expected to be recognized from remaining performance obligations was \$2.6 billion as of January 31, 2019, of which we expect to recognize approximately \$1.4 billion over the next 12 months and the remainder thereafter.

### Disaggregation of Revenue

The following table presents revenue by geographic theater (in millions):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
	(As Adjusted)		(As Adjusted)	
Revenue:				
Americas				
United States	\$ 434.6	\$ 346.0	\$ 850.5	\$ 672.0
Other Americas	40.4	27.3	74.7	50.6
Total Americas	475.0	373.3	925.2	722.6
Europe, the Middle East, and Africa (“EMEA”)	148.3	107.2	276.0	201.9
Asia Pacific and Japan (“APAC”)	87.9	65.1	166.0	122.9
Total revenue	\$ 711.2	\$ 545.6	\$ 1,367.2	\$ 1,047.4

The following table presents revenue for groups of similar products and services (in millions):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
	(As Adjusted)		(As Adjusted)	
Revenue:				
Product	\$ 271.6	\$ 204.8	\$ 512.1	\$ 389.6
Subscription and support				
Subscription	249.7	183.3	481.0	352.3
Support	189.9	157.5	374.1	305.5
Total subscription and support	439.6	340.8	855.1	657.8
Total revenue	\$ 711.2	\$ 545.6	\$ 1,367.2	\$ 1,047.4

### 3. Fair Value Measurements

We categorize assets and liabilities recorded or disclosed at fair value on our condensed consolidated balance sheets based upon the level of judgment associated with inputs used to measure their fair value. The categories are as follows:

- Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.
- Level 3—Inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. The inputs require significant management judgment or estimation.

The following table presents the fair value of our financial assets and liabilities measured at fair value on a recurring basis using the above input categories as of January 31, 2019 and July 31, 2018 (in millions):

	January 31, 2019				July 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Cash equivalents:</b>								
Money market funds	\$ 430.6	\$ —	\$ —	\$ 430.6	\$ 1,512.3	\$ —	\$ —	\$ 1,512.3
Commercial paper	—	39.4	—	39.4	—	52.0	—	52.0
U.S. government and agency securities	—	279.4	—	279.4	—	397.3	—	397.3
<b>Total cash equivalents</b>	<b>430.6</b>	<b>318.8</b>	<b>—</b>	<b>749.4</b>	<b>1,512.3</b>	<b>449.3</b>	<b>—</b>	<b>1,961.6</b>
<b>Short-term investments:</b>								
Certificates of deposit	—	—	—	—	—	5.4	—	5.4
Non-U.S. government securities	—	—	—	—	—	20.0	—	20.0
Commercial paper	—	50.2	—	50.2	—	22.3	—	22.3
Corporate debt securities	—	216.3	—	216.3	—	139.8	—	139.8
U.S. government and agency securities	—	1,435.7	—	1,435.7	—	709.0	—	709.0
<b>Total short-term investments</b>	<b>—</b>	<b>1,702.2</b>	<b>—</b>	<b>1,702.2</b>	<b>—</b>	<b>896.5</b>	<b>—</b>	<b>896.5</b>
<b>Long-term investments:</b>								
Corporate debt securities	—	279.1	—	279.1	—	153.6	—	153.6
U.S. government and agency securities	—	529.5	—	529.5	—	393.9	—	393.9
<b>Total long-term investments</b>	<b>—</b>	<b>808.6</b>	<b>—</b>	<b>808.6</b>	<b>—</b>	<b>547.5</b>	<b>—</b>	<b>547.5</b>
<b>Prepaid expenses and other current assets:</b>								
Foreign currency forward contracts	—	0.3	—	0.3	—	—	—	—
<b>Total prepaid expenses and other current assets</b>	<b>—</b>	<b>0.3</b>	<b>—</b>	<b>0.3</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total assets measured at fair value</b>	<b>\$ 430.6</b>	<b>\$ 2,829.9</b>	<b>\$ —</b>	<b>\$ 3,260.5</b>	<b>\$ 1,512.3</b>	<b>\$ 1,893.3</b>	<b>\$ —</b>	<b>\$ 3,405.6</b>
<b>Accrued and other liabilities:</b>								
Foreign currency forward contracts	\$ —	\$ 5.6	\$ —	\$ 5.6	\$ —	\$ 6.9	\$ —	\$ 6.9
<b>Total accrued and other liabilities</b>	<b>—</b>	<b>5.6</b>	<b>—</b>	<b>5.6</b>	<b>—</b>	<b>6.9</b>	<b>—</b>	<b>6.9</b>
<b>Total liabilities measured at fair value</b>	<b>\$ —</b>	<b>\$ 5.6</b>	<b>\$ —</b>	<b>\$ 5.6</b>	<b>\$ —</b>	<b>\$ 6.9</b>	<b>\$ —</b>	<b>\$ 6.9</b>

Refer to Note 9. Debt for the carrying amount and estimated fair value of our convertible senior notes as of January 31, 2019 and July 31, 2018.

#### 4. Cash Equivalents and Investments

##### *Available-for-sale Securities*

The following tables summarize the amortized cost, unrealized gains and losses, and fair value of our available-for-sale securities as of January 31, 2019 and July 31, 2018 (in millions):

	January 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Cash equivalents:</b>				
Commercial paper	\$ 39.4	\$ —	\$ —	\$ 39.4
U.S. government and agency securities	279.4	—	—	279.4
Total available-for-sale cash equivalents	<u>\$ 318.8</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 318.8</u>
<b>Investments:</b>				
Commercial paper	\$ 50.2	\$ —	\$ —	\$ 50.2
Corporate debt securities	495.9	0.9	(1.4)	495.4
U.S. government and agency securities	1,968.0	1.1	(3.9)	1,965.2
Total available-for-sale investments	<u>\$ 2,514.1</u>	<u>\$ 2.0</u>	<u>\$ (5.3)</u>	<u>\$ 2,510.8</u>

	July 31, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Cash equivalents:</b>				
Commercial paper	\$ 52.0	\$ —	\$ —	\$ 52.0
U.S. government and agency securities	397.3	—	—	397.3
Total available-for-sale cash equivalents	<u>\$ 449.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 449.3</u>
<b>Investments:</b>				
Certificates of deposit	\$ 5.4	\$ —	\$ —	\$ 5.4
Non-U.S. government securities	20.0	—	—	20.0
Commercial paper	22.3	—	—	22.3
Corporate debt securities	295.9	—	(2.5)	293.4
U.S. government and agency securities	1,110.6	—	(7.7)	1,102.9
Total available-for-sale investments	<u>\$ 1,454.2</u>	<u>\$ —</u>	<u>\$ (10.2)</u>	<u>\$ 1,444.0</u>

Unrealized losses related to these securities are due to interest rate fluctuations as opposed to credit quality. In addition, we do not intend to sell and it is not likely that we would be required to sell these securities before recovery of their amortized cost basis, which may be at maturity. As a result, there were no other-than-temporary impairments for these securities at January 31, 2019 and July 31, 2018.

The following table summarizes the amortized cost and fair value of our available-for-sale securities as of January 31, 2019, by contractual years-to-maturity (in millions):

	Amortized Cost	Fair Value
Due within one year	\$ 2,023.2	\$ 2,021.0
Due between one and three years	809.7	808.6
Total	<u>\$ 2,832.9</u>	<u>\$ 2,829.6</u>

##### *Marketable Equity Securities*

Marketable equity securities consist of money market funds and are included in cash and cash equivalents in our condensed consolidated balance sheets. As of January 31, 2019 and July 31, 2018, the carrying value of our marketable equity securities were \$430.6 million and \$1.5 billion, respectively. During the three and six months ended January 31, 2019 and 2018, there were no unrealized gains or losses recognized for these securities.

## 5. Derivative Instruments

As a global business, we are exposed to currency exchange rate risk. Substantially all of our revenue is transacted in U.S. dollars, however, a portion of our operating expenditures are incurred outside of the United States and are denominated in foreign currencies, making them subject to fluctuations in foreign currency exchange rates. We enter into foreign currency derivative contracts with maturities of 12 months or less which we designate as cash flow hedges to manage the foreign currency exchange rate risk associated with these expenditures.

These derivative contracts expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the arrangement. We mitigate this credit risk by transacting with major financial institutions with high credit ratings and also enter into master netting arrangements, which permit net settlement of transactions with the same counterparty. We are not required to pledge, and are not entitled to receive, cash collateral related to these derivative instruments. We do not enter into derivative contracts for trading or speculative purposes.

Our derivative financial instruments are recorded at fair value, on a gross basis, as either assets or liabilities in our condensed consolidated balance sheets. Gains or losses related to our cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) ("AOCI") in our condensed consolidated balance sheets and are reclassified into the financial statement line item associated with the underlying hedged transaction in our condensed consolidated statements of operations when the underlying hedged transaction is recognized in earnings. If it becomes probable that the hedged transaction will not occur, the cumulative unrealized gain or loss is reclassified immediately from AOCI into the financial statement line item associated with the underlying hedged transaction in our condensed consolidated statements of operations. Gains or losses related to non-designated derivative instruments are recognized in other income (expense), net in our condensed consolidated statements of operations for each period until the instrument matures, is terminated, is re-designated as a qualified cash flow hedge, or is sold. Derivatives designated as cash flow hedges are classified in our condensed consolidated statements of cash flows in the same manner as the underlying hedged transaction, primarily within cash flows from operating activities.

As of January 31, 2019 and July 31, 2018, the total notional amount of our outstanding foreign currency forward contracts was \$205.1 million and \$288.5 million, respectively. Refer to Note 3. Fair Value Measurements for the fair value of our derivative instruments as reported in our condensed consolidated balance sheets as of January 31, 2019.

During the three and six months ended January 31, 2019 and 2018, both unrealized gains and losses recognized in AOCI related to our cash flow hedges and amounts reclassified into earnings were not material. Unrealized losses in AOCI related to our cash flow hedges as of January 31, 2019 and 2018 were not material.

## 6. Acquisitions

### *RedLock Inc.*

On October 12, 2018, we completed our acquisition of 100% of the voting equity interest of RedLock Inc. ("RedLock"), a privately-held cloud security company. The acquisition expands our security capabilities for the public cloud with the addition of RedLock's cloud security analytics technology. Total purchase consideration for the acquisition of RedLock was \$158.2 million, which consisted of \$155.0 million in cash paid upon closing and \$3.2 million in fair value of unvested equity awards attributable to services performed prior to the acquisition date.

As part of the acquisition, we assumed RedLock equity awards with a total fair value of \$57.4 million. Of the total fair value, a portion was allocated to the purchase consideration and the remainder was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on preliminary estimated fair values, as presented in the following table (in millions):

	<b>Amount</b>
Goodwill	\$ 113.6
Identified intangible assets	54.8
Net liabilities assumed	(10.2)
Total	<u>\$ 158.2</u>

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating RedLock's technology into our platform. The goodwill is not deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 48.6	4 years
Customer relationships	5.3	8 years
Trade name and trademarks	0.9	6 months
Total	<u>\$ 54.8</u>	

RedLock's operating results are included in our condensed consolidated statements of operations from the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material to our condensed consolidated statements of operations.

Additional information, such as that related to income tax and other contingencies, existing as of the acquisition date but unknown to us may become known during the remainder of the measurement period, not to exceed 12 months from the acquisition date, which may result in changes to the amounts and allocations recorded.

## 7. Goodwill and Intangible Assets

### Goodwill

The following table presents details of our goodwill during the six months ended January 31, 2019 (in millions):

	Amount
Balance as of July 31, 2018	\$ 522.8
Goodwill acquired	113.6
Balance as of January 31, 2019	<u>\$ 636.4</u>

### Purchased Intangible Assets

The following table presents details of our purchased intangible assets as of January 31, 2019 and July 31, 2018 (in millions):

	January 31, 2019			July 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Developed technology	\$ 203.3	\$ (54.5)	\$ 148.8	\$ 154.7	\$ (38.2)	\$ 116.5
Customer relationships	17.5	(2.3)	15.2	12.2	(1.2)	11.0
Acquired intellectual property	8.9	(4.9)	4.0	8.9	(4.5)	4.4
Trade name and trademarks	9.4	(6.4)	3.0	8.5	(0.4)	8.1
Other	2.2	(2.2)	—	2.2	(2.2)	—
Total intangible assets subject to amortization	<u>241.3</u>	<u>(70.3)</u>	<u>171.0</u>	<u>186.5</u>	<u>(46.5)</u>	<u>140.0</u>
Intangible assets not subject to amortization:						
In-process research and development	0.8	—	0.8	0.8	—	0.8
Total purchased intangible assets	<u>\$ 242.1</u>	<u>\$ (70.3)</u>	<u>\$ 171.8</u>	<u>\$ 187.3</u>	<u>\$ (46.5)</u>	<u>\$ 140.8</u>

We recognized amortization expense of \$14.4 million and \$23.8 million for the three and six months ended January 31, 2019, respectively, and \$2.7 million and \$5.4 million for the three and six months ended January 31, 2018, respectively.

The following table summarizes estimated future amortization expense of our intangible assets as of January 31, 2019 (in millions):

	<b>Amount</b>
<b>Fiscal years ending July 31:</b>	
Remaining 2019	\$ 22.7
2020	39.4
2021	37.4
2022	32.9
2023	20.4
2024 and thereafter	18.2
Total future amortization expense	<u>\$ 171.0</u>

## 8. Deferred Contract Costs

We defer contract costs that are recoverable and incremental to obtaining customer sales contracts. Contract costs, which primarily consist of sales commissions, are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Sales commissions paid for initial contracts are generally not commensurate with the commissions paid for renewal contracts, given the substantive difference in commission rates in proportion to their respective contract values. Sales commissions for initial contracts that are not commensurate are amortized over a benefit period of five years, consistent with the revenue recognition pattern of the performance obligations in the related contracts including expected renewals. The benefit period is determined by taking into consideration contract length, technology life, and other quantitative and qualitative factors. The expected renewals are estimated based on historical renewal trends. Sales commissions for initial contracts that are commensurate and sales commissions for renewal contracts are amortized over the related contractual period in proportion to the revenue recognized.

We classify deferred contract costs as short-term or long-term based on when we expect to recognize the expense. Short-term deferred contract costs are included in prepaid expenses and other current assets and long-term deferred contract costs are included in other assets in our condensed consolidated balance sheets. Deferred contract costs are periodically reviewed for impairment. The amortization of deferred contract costs is included in sales and marketing expense in our condensed consolidated statements of operations.

The following table presents details of our short-term and long-term deferred contract costs as of January 31, 2019 and July 31, 2018 (in millions):

	<b>January 31, 2019</b>	<b>July 31, 2018</b>
Short-term deferred contract costs	\$ 117.6	\$ 113.2
Long-term deferred contract costs	230.7	224.8
Total deferred contract costs	<u>\$ 348.3</u>	<u>\$ 338.0</u>

We recognized amortization expense for our deferred contract costs of \$41.9 million and \$83.0 million during the three and six months ended January 31, 2019, respectively, and \$29.2 million and \$57.3 million during the three and six months ended January 31, 2018, respectively. We did not recognize any impairment losses on our deferred contract costs during the three and six months ended January 31, 2019 or 2018.

## 9. Debt

### *Convertible Senior Notes*

In June 2014, we issued \$575.0 million aggregate principal amount of 0.0% Convertible Senior Notes due 2019 (the "2019 Notes") and in July 2018, we issued \$1.7 billion aggregate principal amount of 0.75% Convertible Senior Notes due 2023 (the "2023 Notes" and, together with the 2019 Notes, the "Notes"). The 2023 Notes bear interest at a fixed rate of 0.75% per year, payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2019. Each series of Notes is governed by an indenture between us, as the issuer, and U.S. Bank National Association, as Trustee (individually, each an "Indenture," and together, the "Indentures"). The Notes of each series are unsecured, unsubordinated obligations and the applicable Indenture governing each series of Notes does not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness, or the issuance or repurchase of securities by us or any of our subsidiaries. The 2019 Notes and 2023 Notes mature on July 1, 2019 and July 1, 2023, respectively. We cannot redeem either series of Notes prior to the applicable maturity date.

The following table presents details of the Notes (number of shares in millions):

	Conversion Rate per \$1,000 Principal	Initial Conversion Price	Convertible Date	Initial Number of Shares
2019 Notes	9.0680	\$ 110.28	January 1, 2019	5.2
2023 Notes	3.7545	\$ 266.35	April 1, 2023	6.4

Holders of the Notes may surrender their Notes for conversion at their option at any time prior to the close of business on the business day immediately preceding their respective convertible dates only under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarters ending on October 31, 2014 and October 31, 2018, for the 2019 Notes and 2023 Notes, respectively (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price for the respective Notes on each applicable trading day (the “sale price condition”);
- during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of the applicable series of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate for the respective Notes on each such trading day; or
- upon the occurrence of specified corporate events.

On or after the respective convertible date, holders may surrender all or any portion of their Notes for conversion at any time prior to the close of business on the second scheduled trading day immediately preceding the applicable maturity date regardless of the foregoing conditions, and such conversions will be settled upon the applicable maturity date. Upon conversion, holders of the Notes of a series will receive cash equal to the aggregate principal amount of the Notes of such series to be converted, and, at our election, cash and/or shares of our common stock for any amounts in excess of the aggregate principal amount of the Notes of such series being converted.

The conversion price will be subject to adjustment in some events. Holders of the Notes of a series who convert their Notes of such series in connection with certain corporate events that constitute a “make-whole fundamental change” under the applicable Indenture are, under certain circumstances, entitled to an increase in the conversion rate for such series of Notes. Additionally, upon the occurrence of a corporate event that constitutes a “fundamental change” under the applicable Indenture, holders of the Notes of such series may require us to repurchase for cash all or a portion of the Notes of such series at a repurchase price equal to 100% of the principal amount of the Notes of such series plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The sale price condition was met for the 2019 Notes during the fiscal quarters ended July 31, 2018 and October 31, 2018. As a result, holders were able to convert their 2019 Notes at any time during the fiscal quarter ended October 31, 2018 and up to January 1, 2019. On or after January 1, 2019, holders may surrender their 2019 Notes for conversion at any time prior to maturity, in accordance with the terms described above. Such conversion requests will settle upon maturity of the 2019 Notes. Accordingly, the net carrying amount of the 2019 Notes was classified as a current liability and the portion of the equity component representing the conversion option was classified as temporary equity in our condensed consolidated balance sheets as of January 31, 2019. As of January 31, 2019, \$159.4 million in aggregate principal amount of the 2019 Notes remained outstanding.

The following table presents details of conversions of the 2019 Notes during the reporting period (in millions):

	Three Months Ended January 31, 2019	Six Months Ended January 31, 2019
<b>2019 Notes principal converted and repaid in cash:</b>		
Allocated to liability component <sup>(1)</sup>	\$ 86.3	\$ 403.4
Allocated to equity component <sup>(2)</sup>	2.0	12.2
Total principal converted and repaid in cash	\$ 88.3	\$ 415.6
Loss on conversions of convertible senior notes <sup>(3)</sup>	\$ 0.4	\$ 2.6
Shares of common stock issued in connection with conversion of convertible senior notes <sup>(4)</sup>	0.3	1.7

- (1) Recorded as a reduction to convertible senior notes, net in our condensed consolidated balance sheets and calculated by measuring the fair value of a similar liability that did not have an associated convertible feature.
- (2) Recorded as a reduction to additional paid-in capital in our condensed consolidated balance sheets.
- (3) Represents the difference between the cash consideration allocated to the liability component and the net carrying amount of the liability component on the respective settlement dates. The amount is included in other income, net in our condensed consolidated statement of operations.
- (4) Shares of common stock issued to the holders for the conversion value in excess of the principal amount. These shares were fully offset by shares received from the corresponding exercise of the associated note hedges.

The sale price condition was not met for the 2023 Notes during the fiscal quarters ended January 31, 2019 or July 31, 2018. Since the 2023 Notes were not convertible, the net carrying amount of the 2023 Notes was classified as a long-term liability and the equity component was included in additional paid-in capital in our condensed consolidated balance sheets as of January 31, 2019 and July 31, 2018. As of January 31, 2019, all of the 2023 Notes remained outstanding.

The following table sets forth the components of the Notes as of January 31, 2019 and July 31, 2018 (in millions):

	January 31, 2019			July 31, 2018		
	2019 Notes	2023 Notes	Total	2019 Notes	2023 Notes	Total
<b>Liability component:</b>						
Principal	\$ 159.4	\$ 1,693.0	\$ 1,852.4	\$ 575.0	\$ 1,693.0	\$ 2,268.0
Less: debt discount and debt issuance costs, net of amortization	3.1	293.5	296.6	24.6	323.3	347.9
Net carrying amount	\$ 156.3	\$ 1,399.5	\$ 1,555.8	\$ 550.4	\$ 1,369.7	\$ 1,920.1
Equity component (including amounts classified as temporary equity)	\$ 30.4	\$ 315.0	\$ 345.4	\$ 109.8	\$ 315.0	\$ 424.8

The total estimated fair value of the Notes was \$2.1 billion and \$2.7 billion at January 31, 2019 and July 31, 2018, respectively. The fair value was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the period. We consider the fair value of the Notes at January 31, 2019 and July 31, 2018 to be a Level 2 measurement. The fair value of the Notes is primarily affected by the trading price of our common stock and market interest rates. As of January 31, 2019, the if-converted value of the 2019 Notes exceeded its principal amount by \$119.1 million. Based on the closing price of our common stock on January 31, 2019, the if-converted value of the 2023 Notes was less than its principal amount.

The following table sets forth interest expense recognized related to the Notes (dollars in millions):

	Three Months Ended January 31,						Six Months Ended January 31,					
	2019			2018			2019			2018		
	2019 Notes	2023 Notes	Total	2019 Notes	2023 Notes	Total	2019 Notes	2023 Notes	Total	2019 Notes	2023 Notes	Total
Contractual interest expense	\$ —	\$ 3.1	\$ 3.1	\$ —	\$ —	\$ —	\$ —	\$ 6.3	\$ 6.3	\$ —	\$ —	\$ —
Amortization of debt discount	2.0	14.5	16.5	5.8	—	5.8	6.0	28.9	34.9	11.4	—	11.4
Amortization of debt issuance costs	0.2	0.4	0.6	0.6	—	0.6	0.7	0.9	1.6	1.3	—	1.3
Total interest expense recognized	\$ 2.2	\$ 18.0	\$ 20.2	\$ 6.4	\$ —	\$ 6.4	\$ 6.7	\$ 36.1	\$ 42.8	\$ 12.7	\$ —	\$ 12.7
Effective interest rate of the liability component	<u>4.8%</u>	<u>5.2%</u>		<u>4.8%</u>	<u>—%</u>		<u>4.8%</u>	<u>5.2%</u>		<u>4.8%</u>	<u>—%</u>	

### Note Hedges

To minimize the impact of potential economic dilution upon conversion of the Notes, we entered into separate convertible note hedge transactions (the “2019 Note Hedges,” with respect to the 2019 Notes, and the “2023 Note Hedges,” with respect to the 2023 Notes, and collectively, the “Note Hedges”) with respect to our common stock concurrent with the issuance of each series of Notes.

The following table presents details of the Note Hedges (in millions):

	Initial Number of Shares	Aggregate Purchase
2019 Note Hedges	5.2	\$ 111.0
2023 Note Hedges	6.4	\$ 332.0

The Note Hedges cover shares of our common stock at a strike price per share that corresponds to the initial applicable conversion price of the applicable series of Notes, which are also subject to adjustment, and are exercisable upon conversion of the applicable series of Notes. The Note Hedges will expire upon maturity of the applicable series of Notes. The Note Hedges are separate transactions and are not part of the terms of the applicable series of the Notes. Holders of the Notes of either series will not have any rights with respect to the Note Hedges. Any shares of our common stock receivable by us under the Note Hedges are excluded from the calculation of diluted earnings per share as they are antidilutive. The aggregate amounts paid for the Note Hedges are included in additional paid-in capital in our consolidated balance sheets.

As a result of the conversions of the 2019 Notes settled during the three and six months ended January 31, 2019, we exercised the corresponding portion of our 2019 Note Hedges and received 0.3 million and 1.7 million shares of common stock during the respective periods.

### Warrants

Separately, but concurrently with the issuance of each series of Notes, we entered into transactions whereby we sold warrants (the “2019 Warrants,” with respect to the 2019 Notes, and the “2023 Warrants,” with respect to the 2023 Notes, and collectively, the “Warrants”) to acquire shares of our common stock, subject to anti-dilution adjustments. The 2019 Warrants and 2023 Warrants are exercisable beginning October 2019 and October 2023, respectively.

The following table presents details of the Warrants (in millions, except per share data):

	Initial Number of Shares	Strike Price per Share	Aggregate Proceeds
2019 Warrants	5.2	\$ 137.85	\$ 78.3
2023 Warrants	6.4	\$ 417.80	\$ 145.4

The shares issuable under the Warrants will be included in the calculation of diluted earnings per share when the average market value per share of our common stock for the reporting period exceeds the applicable strike price for such series of Warrants. The Warrants are separate transactions and are not part of either series of Notes or Note Hedges and are not remeasured through

earnings each reporting period. Holders of the Notes of either series will not have any rights with respect to the Warrants. The aggregate proceeds received from the sale of the Warrants are included in additional paid-in capital in our consolidated balance sheets.

### ***Revolving Credit Facility***

On September 4, 2018, we entered into a credit agreement (the “Credit Agreement”) with certain institutional lenders that provides for a \$400.0 million unsecured revolving credit facility (the “Credit Facility”), with an option to increase the amount of the Credit Facility by up to an additional \$350.0 million, subject to certain conditions. The Credit Facility matures on the earlier of (i) September 4, 2023 and (ii) the date that is 91 days prior to the stated maturity of our 2023 Notes if (a) any of the 2023 Notes are still outstanding and (b) our unrestricted cash and cash equivalents are less than the then outstanding principal amount of our 2023 Notes plus \$400.0 million.

The borrowings under the Credit Facility bear interest, at our option, at a base rate plus a spread of 0.00% to 0.75%, or an adjusted LIBO rate plus a spread of 1.00% to 1.75%, in each case with such spread being determined based on our leverage ratio. We are obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.125% to 0.250%, depending on our leverage ratio. As of January 31, 2019, there were no amounts outstanding and we were in compliance with all covenants under the Credit Agreement.

## **10. Commitments and Contingencies**

### ***Leases***

We lease our facilities under various non-cancelable operating leases, which expire through the year ending July 31, 2028.

In May 2015 and October 2015, we entered into a total of three lease agreements for approximately 941,000 square feet of corporate office space in Santa Clara, California, which serves as our new corporate headquarters. The leases contain rent holiday periods, scheduled rent increases, lease incentives, and renewal options which allow the lease terms to be extended beyond their expiration dates of July 2028 through July 2046. In September 2017, per the terms of the lease agreements, the landlords exercised their option to amend our lease payment schedules and eliminate our rent holiday periods, which increased our rental payments by \$24.4 million, \$11.8 million, and \$2.0 million for fiscal 2018, 2019, and 2020, respectively. In exchange, we received an upfront cash reimbursement of \$38.2 million during the three months ended October 31, 2017, which we have applied and will apply against the future additional rental payments when due. As amended, rental payments under the three lease agreements are approximately \$412.0 million over the lease term.

In May 2015, we also entered into a lease agreement for approximately 122,000 square feet of space in Santa Clara, California, to serve as an extension of our previous corporate headquarters. The lease contains scheduled rent increases, lease incentives, and renewal options which allow the lease term to be extended beyond the expiration date of April 2021 through July 2046. Rental payments under the lease agreement are approximately \$23.1 million over the lease term. In December 2017, we entered into an agreement to sublease this office space for the remaining lease term. Proceeds from this sublease will be approximately \$16.3 million over the sublease term.

In September 2012, we entered into two lease agreements for a total of approximately 300,000 square feet of space in Santa Clara, California, which served as our previous corporate headquarters through August 2017, when we relocated to our new corporate campus. The leases contain rent holiday periods and two separate five-year options to extend the lease term beyond their expiration dates of July 2023. Rental payments under these lease agreements are approximately \$94.3 million over the lease term. In August 2017, we exited our previous headquarter facilities and relocated to our new corporate campus, which resulted in the recognition of a cease-use loss of \$39.2 million as general and administrative expense in our consolidated statements of operations during the year ended July 31, 2018, and a corresponding liability in our consolidated balance sheets. During the three and six months ended January 31, 2019, we released \$2.5 million and \$5.0 million, respectively, of the cease-use liability through rental payments. As of January 31, 2019, the remaining balance of the cease-use liability was \$24.1 million, which is expected to be paid through the end of the lease term in July 2023.

The following table presents details of the aggregate future non-cancelable minimum rental payments under our operating leases as of January 31, 2019 (in millions):

	<b>Amount</b>
<b>Fiscal years ending July 31:</b>	
Remaining 2019	\$ 33.6
2020	69.0
2021	64.1
2022	59.9

2023	58.6
2024 and thereafter	223.8
Committed gross lease payments	509.0
Less: proceeds from sublease rentals	12.3
Net operating lease obligation	\$ 496.7

### **Purchase Commitments**

#### *Manufacturing Purchase Commitments*

Our electronics manufacturing service provider (“EMS provider”) procures components and assembles our products based on our forecasts. These forecasts are based on estimates of demand for our products primarily for the next 12 months, which are in turn based on historical trends and an analysis from our sales and product management organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate supply, we may issue non-cancelable orders for products and components to our manufacturing partners or component suppliers. As of January 31, 2019, our purchase commitments under such orders were \$136.8 million, excluding obligations under contracts that we can cancel without a significant penalty.

#### *Other Purchase Commitments*

We have entered into various non-cancelable agreements with third-party providers for our use of certain cloud services, under which we are committed to minimum purchases through the year ending July 31, 2026. The following table presents details of the aggregate future non-cancelable purchase commitments under these agreements as of January 31, 2019 (in millions):

	<b>Amount</b>
Fiscal years ending July 31:	
Remaining 2019	\$ —
2020	8.0
2021	30.0
2022	47.5
2023	57.5
2024 and thereafter	165.0
Total other purchase commitments	\$ 308.0

### **Litigation**

We are subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. We accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss.

To the extent there is a reasonable possibility that a loss exceeding amounts already recognized may be incurred and the amount of such additional loss would be material, we will either disclose the estimated additional loss or state that such an estimate cannot be made. As of January 31, 2019, we have not recorded any significant accruals for loss contingencies associated with such legal proceedings, determined that an unfavorable outcome is probable or reasonably possible, or determined that the amount or range of any possible loss is reasonably estimable.

## **11. Stockholders' Equity**

### **Share Repurchase Program**

In August 2016, our board of directors authorized a \$500.0 million share repurchase program to be funded from available working capital. In February 2017, our board of directors authorized a \$500.0 million increase to our repurchase program, bringing the total authorization to \$1.0 billion. Repurchases could be made at management’s discretion from time to time on the open market, through privately negotiated transactions, transactions structured through investment banking institutions, block purchase techniques, 10b5-1 trading plans, or a combination of the foregoing. During the three and six months ended January 31, 2019, we repurchased and retired 1.9 million shares of our common stock under the authorization for an aggregate purchase price of \$330.0 million, including transaction costs. The total price of the shares repurchased and related transaction costs are reflected as a reduction to common stock and additional paid-in capital on our condensed consolidated balance sheets. The repurchase program expired on December 31, 2018.

On February 22, 2019, our board of directors authorized a new \$1.0 billion share repurchase program which will be funded from available working capital and will expire on December 31, 2020. Refer to Note 16. Subsequent Events for more information.

## 12. Equity Award Plans

### Share-Based Compensation Plans

#### RedLock Inc. 2015 Stock Plan

In connection with our acquisition of RedLock on October 12, 2018, we assumed RedLock’s 2015 Stock Plan, as amended (the “RedLock Plan”), under which the assumed RedLock equity awards were granted. The assumed equity awards will be settled in shares of our common stock and will retain the terms and conditions under which they were originally granted; forfeited awards will not be returned to the RedLock Plan. No additional equity awards will be granted under the RedLock Plan. Refer to Note 6. Acquisitions for more information on the RedLock acquisition and the related equity awards assumed.

#### Stock Option Activities

The following table summarizes the stock option and performance stock option (“PSO”) activity under our stock plans during the reporting period (in millions, except per share amounts):

	Stock Options Outstanding				PSOs Outstanding			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance—July 31, 2018	1.0	\$ 13.29	3.1	\$ 199.8	1.2	\$ 198.50	7.0	\$ —
Granted	—	\$ —			2.6	\$ 191.97		
Exercised	(0.4)	\$ 13.88			—	\$ —		
Forfeited	—	\$ —			—	\$ —		
Balance—January 31, 2019	0.6	\$ 12.92	2.7	\$ 136.2	3.8	\$ 193.98	6.7	\$ 78.6
Exercisable—January 31, 2019	0.6	\$ 12.92	2.7	\$ 136.2	3.8	\$ 193.98	6.7	\$ 78.6

During the six months ended January 31, 2019, we granted 2.6 million PSOs with both a market condition and a service condition to certain executives. The market condition requires the price of our common stock to equal or exceed \$297.75, \$397.00, \$496.25, and \$595.50 (the “stock price targets”) during the four-, five-, six-, and seven-year periods following the date of grant, respectively. To the extent that the stock price targets have been met, one-fourth of the PSOs will vest on the anniversary date of the grant date for such PSOs, subject to continued service. All outstanding PSOs may be exercised prior to vesting (“early exercised”). Shares of common stock issued upon early exercise of the PSOs will be restricted and, at our option, subject to repurchase if the option holder ceases to be a service provider.

The aggregate fair value of the PSOs granted during the six months ended January 31, 2019 was \$154.5 million, which was estimated on the grant date using a Monte Carlo simulation model. The following table summarizes the assumptions used and the resulting grant-date fair values of our PSOs:

	Six Months Ended January 31, 2019
Volatility	35.6% - 36.5%
Dividend yield	— %
Risk-free interest rate	3.1% - 3.2%
Weighted-average grant-date fair value per share	\$56.44 - \$59.64

The expected volatility is based on a combination of implied volatility from traded options on our common stock and the historical volatility of our common stock. The dividend yield assumption is based on our current expectations about our anticipated dividend policy. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with terms equal to the contractual terms of each tranche. The expected term assumption takes into consideration the vesting term and the contractual term of the PSOs. We recognize share-based compensation expense for our PSOs on a straight-line basis over the requisite service period for each separately vesting portion of the award.

**Restricted Stock Award (“RSA”), Performance-Based Stock Award (“PSA”), Restricted Stock Unit (“RSU”), and Performance-Based Stock Unit (“PSU”) Activities**

The following table summarizes the RSA, PSA, RSU, and PSU activity under our stock plans during the reporting period (in millions, except per share amounts):

	RSAs and PSAs Outstanding		RSUs and PSUs Outstanding			
	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance—July 31, 2018	0.3	\$ 160.85	6.7	\$ 160.20	1.6	\$ 1,335.2
Granted <sup>(1)(2)</sup>	—	\$ —	2.2	\$ 195.59		
Vested	(0.2)	\$ 167.32	(1.4)	\$ 154.31		
Forfeited	—	\$ —	(0.4)	\$ 160.81		
Balance—January 31, 2019	0.1	\$ 148.54	7.1	\$ 172.30	1.5	\$ 1,515.1

- (1) For PSAs and PSUs, shares granted represents the aggregate maximum number of shares that may be earned and issued with respect to these awards over their full terms.
- (2) Includes 0.2 million RSUs granted under the assumed RedLock Plan with a weighted-average grant-date fair value of \$211.95 per share.

Our PSAs and PSUs vest over a period of four years from the date of grant. The actual number of PSAs and PSUs earned and eligible to vest are determined based on level of achievement against a pre-established billings target for the fiscal year in which the awards are granted. We recognize share-based compensation expense for our PSAs and PSUs on a straight-line basis over the requisite service period for each separately vesting portion of the award when it is probable that the performance condition will be achieved.

**Share-Based Compensation**

The following table summarizes share-based compensation included in costs and expenses (in millions):

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2019	2018	2019	2018
Cost of product revenue	\$ 1.4	\$ 1.9	\$ 3.0	\$ 3.8
Cost of subscription and support revenue	18.2	19.9	35.7	35.8
Research and development	44.0	35.5	84.5	73.0
Sales and marketing	58.7	53.3	114.7	104.5
General and administrative	20.1	20.2	55.6	39.4
Total share-based compensation	\$ 142.4	\$ 130.8	\$ 293.5	\$ 256.5

In connection with our acquisition of RedLock, we accelerated the vesting of certain equity awards and as a result, we recorded \$14.2 million of share-based compensation within general and administrative expense during the three months ended October 31, 2018.

As of January 31, 2019, total compensation cost related to unvested share-based awards not yet recognized was \$1.4 billion. This cost is expected to be amortized over a weighted-average period of approximately 2.8 years. Future grants will increase the amount of compensation expense to be recorded in these periods.

**13. Income Taxes**

Our provision for income taxes for the three and six months ended January 31, 2019 reflects an effective tax rate of 230.0% and (2.8)%, respectively. Our effective tax rate for the six months ended January 31, 2019 was negative as we recorded a provision for income taxes on year to date losses. The key components of our income tax provision, excluding one-time items, primarily consist of foreign income taxes and withholding taxes. During the six months ended January 31, 2019, the effect of these key components was primarily offset by a one-time tax benefit of \$9.4 million from a partial release of our valuation allowance related to the acquisition of RedLock Inc. recorded during the three months ended October 31, 2018. Our effective tax rates differ from the U.S. statutory tax rate

primarily due to deductibility of our share-based compensation, foreign income at other than U.S. tax rates, and changes in our valuation allowance.

Our provision for income taxes for the three and six months ended January 31, 2018 reflects an effective tax rate of (6.7)% and (12.4)%. Our effective tax rates for these periods were negative as we recorded a provision for income taxes on year to date losses. The key components of our income tax provision primarily consisted of foreign income taxes, withholding taxes, amortization of our deferred tax charges, and a one-time tax benefit during the three months ended January 31, 2018, resulting from new tax legislation enacted during the period. Our effective tax rates differed from the U.S. statutory tax rate primarily due to changes in non-deductible share-based compensation, foreign income at other than U.S. tax rates, and charges in our valuation allowance.

In December 2017, the Tax Cuts and Jobs Act (“TCJA”) was enacted into law. The SEC staff and FASB previously issued guidance that allowed companies to record provisional amounts for the effects of the TCJA during a measurement period not to extend beyond one year from the enactment date. The measurement period ended in December 2018 and we completed our accounting for the income tax effects of the TCJA during the three months ended January 31, 2019. During the three and six months ended January 31, 2019, we did not have any significant adjustments to provisional estimates recorded in previous periods. The recorded impact for the effects of the TCJA is based on our current knowledge, assumptions, and interpretations of available guidance. We will continue to monitor the issuance of further guidance and record the necessary adjustments in the period additional guidance is issued.

#### 14. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by basic weighted-average shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by diluted weighted-average shares outstanding, including potentially dilutive securities.

The following table presents the computation of basic and diluted net loss per share of common stock (in millions, except per share data):

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2019	2018	2019	2018
		(As Adjusted)		(As Adjusted)
Net loss	\$ (2.6)	\$ (25.6)	\$ (40.9)	\$ (88.8)
Weighted-average shares used to compute net loss per share, basic and diluted	94.0	91.1	93.9	91.0
Net loss per share, basic and diluted	\$ (0.03)	\$ (0.28)	\$ (0.44)	\$ (0.98)

The following securities were excluded from the computation of diluted net loss per share of common stock for the periods presented as their effect would have been antidilutive (in millions):

	Three and Six Months Ended	
	January 31,	
	2019	2018
Convertible senior notes	7.8	5.2
Warrants related to the issuance of convertible senior notes	11.6	5.2
RSUs and PSUs	7.1	6.6
Options to purchase common stock, including PSOs	4.4	1.4
RSAs and PSAs	0.1	0.6
ESPP shares	0.2	0.2
Total	31.2	19.2

**15. Other Income, Net**

The following table sets forth the components of other income, net (in millions):

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2019	2018	2019	2018
Interest income	\$ 18.0	\$ 5.9	\$ 33.4	\$ 11.0
Foreign currency exchange gains (losses), net	(1.2)	(1.2)	(1.2)	(1.8)
Other	(0.8)	0.2	(3.2)	0.5
Total other income, net	\$ 16.0	\$ 4.9	\$ 29.0	\$ 9.7

**16. Subsequent Events*****Business Combination***

In February 2019, we entered into a definitive agreement to acquire Demisto, Inc. (“Demisto”), a privately-held security company, in exchange for total consideration of approximately \$560.0 million in cash and common stock, subject to adjustments. The number of shares of common stock to be issued in connection with the transaction will be finalized upon closing. The acquisition expands the functionality of our platform with the addition of Demisto’s security, orchestration, automation, and response product. The acquisition is expected to close during our third quarter of fiscal 2019.

***Share Repurchase***

On February 22, 2019, our board of directors authorized a \$1.0 billion share repurchase program which will be funded from available working capital. Repurchases may be made at management’s discretion from time to time on the open market, through privately negotiated transactions, transactions structured through investment banking institutions, block purchase techniques, 10b5-1 trading plans, or a combination of the foregoing. The repurchase authorization will expire on December 31, 2020, and may be suspended or discontinued at any time.

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things: expectations regarding drivers of and factors affecting growth in our business; the performance advantages of our products and subscription and support offerings and the potential benefits to our customers; statements regarding trends in billings, our mix of product and subscription and support revenue, cost of revenue, gross margin, cash flows, operating expenses, including future share-based compensation expense, income taxes, investment plans and liquidity; expectations regarding the seasonality and cyclicity of our revenues from quarter to quarter; expectations and intentions with respect to the products and technologies that we acquire and introduce, including through deployment of new capabilities via security applications developed by third parties; expected impact of the adoption of certain recent accounting pronouncements and the anticipated timing of adopting such standards; expected recurring revenues resulting from expected growth in our installed base and increased adoption of our products and cloud-based subscription services; the sufficiency of our existing cash and investments to meet our cash needs for the foreseeable future; our plans to use the upfront cash reimbursement received from our landlords against future rental payments; the timing and amount of capital expenditures and share repurchases; our plans to acquire Demisto, Inc. (“Demisto”), the timing of when the Demisto acquisition will be completed, the dilutive impact of the number of shares issued in connection with acquiring Demisto, and the finalization of the accounting for the Demisto acquisition; and other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “predicts,” “projects,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those anticipated or implied by any forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed under the caption “Risk Factors” in Part II, Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission (“SEC”). We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Our Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is organized as follows:

- **Overview.** A discussion of our business and overall analysis of financial and other highlights in order to provide context for the remainder of MD&A.
- **Key Financial Metrics.** A summary of our generally accepted accounting principles (“GAAP”) and non-GAAP key financial metrics, which management monitors to evaluate our performance.
- **Results of Operations.** A discussion of the nature and trends in our financial results and an analysis of our financial results comparing the three and six months ended January 31, 2019 to the three and six months ended January 31, 2018.
- **Liquidity and Capital Resources.** An analysis of changes in our balance sheets and cash flows, and a discussion of our financial condition and our ability to meet cash needs.
- **Contractual Obligations and Commitments.** An overview of our contractual obligations, contingent liabilities, commitments, and off-balance sheet arrangements outstanding as of January 31, 2019, including expected payment schedules.
- **Critical Accounting Estimates.** A discussion of our accounting policies that require critical estimates, assumptions, and judgments.
- **Recent Accounting Pronouncements.** A discussion of expected impacts of impending accounting changes on financial information to be reported in the future.

**Overview**

We have pioneered the next generation of security through our innovative Security Operating Platform that empowers enterprises, service providers, and government entities to secure their organizations by safely enabling applications and data running in their networks, on their endpoints, and in the cloud, and by preventing breaches that stem from targeted cyberattacks. Our platform uses an innovative traffic classification engine that identifies network traffic by application, user, and content and provides consistent security across the network, endpoint, and cloud. Accordingly, our platform enables our end-customers to pursue transformative digital initiatives, like public cloud and mobility, that grow their business, while maintaining the visibility and control needed to protect their

valued data and critical control systems. We believe the architecture of our platform offers superior performance compared to legacy approaches and reduces the total cost of ownership for organizations by simplifying their security operations and infrastructure and eliminating the need for multiple, stand-alone hardware and software security products, and consists of four primary security capabilities.

- Security for networks through our Next-Generation Firewalls, available as physical appliances, virtual appliances (called VM-Series), or a cloud-delivered service (called GlobalProtect cloud service) and Panorama management delivered as an appliance or as a virtual machine for the public or private cloud.
- Security for endpoints through our Traps advanced endpoint protection software, delivered as a light-weight software agent with cloud or on-premise management capabilities.
- Security for the cloud through our VM-Series for in-line protection of workloads in public and private clouds, Traps for host-based public cloud infrastructure protection, Evident for infrastructure monitoring and compliance in public clouds, and Aperture for protecting SaaS applications. These products are delivered as software or SaaS applications.
- Other security services, such as WildFire, Threat Prevention, URL Filtering, and GlobalProtect subscriptions that are delivered as attached software services to our appliances, as well as applications delivered in connection with our Application Framework, such as AutoFocus, Magnifier, and Logging Service that are delivered as SaaS applications.

For the second quarter of fiscal 2019 and 2018, total revenue was \$711.2 million and \$545.6 million, respectively, representing year-over-year growth of 30.4%. Our growth reflects the increased adoption of our hybrid SaaS revenue model, which consists of product, subscriptions, and support. We believe this model will enable us to benefit from recurring revenues as we continue to grow our installed end-customer base. As of January 31, 2019, we had end-customers in over 150 countries. Our end-customers represent a broad range of industries, including education, energy, financial services, government entities, healthcare, Internet and media, manufacturing, public sector, and telecommunications, and include some of the largest Fortune 100 and Global 2000 companies in the world. We maintain a field sales force that works closely with our channel partners in developing sales opportunities. We use a two-tiered, indirect fulfillment model whereby we sell our products, subscriptions, and support to our distributors, which, in turn, sell to our resellers, which then sell to our end-customers.

Our product revenue was \$271.6 million, or 38.2% of total revenue, for the second quarter of fiscal 2019, representing year-over-year growth of 32.6%. Product revenue is generated from sales of our appliances, primarily our Next-Generation Firewall, which is available in physical and virtualized form. Our Next-Generation Firewall incorporates our proprietary PAN-OS operating system, which provides a consistent set of capabilities across our entire product line. Our products are designed for different performance requirements throughout an organization, ranging from our PA-220, which is designed for small organizations and remote or branch offices, to our top-of-the-line PA-7080, which is especially suited for very large enterprise deployments and service provider customers. The same firewall functionality that is delivered in our physical appliances is also available in our VM-Series virtual firewalls, which secure virtualized and cloud-based computing environments.

Our subscription and support revenue was \$439.6 million, or 61.8% of total revenue, for the second quarter of fiscal 2019, representing year-over-year growth of 29.0%. Our subscriptions provide our end-customers with real-time access to the latest antivirus, intrusion prevention, web filtering, and modern malware prevention capabilities across the network, endpoints, and the cloud. When end-customers purchase our physical or virtual firewall appliances, they typically purchase support in order to receive ongoing security updates, upgrades, bug fixes, and repairs. In addition to the subscriptions purchased with these appliances, end-customers may also purchase other subscriptions on a per-user, per-endpoint, or capacity-based basis.

We continue to invest in innovation as we evolve and further extend the capabilities of our platform, as we believe that innovation and timely development of new features and products is essential to meeting the needs of our end-customers and improving our competitive position. For example, in October 2018, we acquired RedLock Inc. (“RedLock”), which expanded our security capabilities for the public cloud with the addition of RedLock’s cloud security analytics technology. In addition, in February 2019, we introduced PAN-OS 9.0, with over 60 new features, and our new DNS Security Service subscription, which uses machine learning to proactively block malicious domains and stop attacks in progress.

We believe that the growth of our business and our short-term and long-term success are dependent upon many factors, including our ability to extend our technology leadership, grow our base of end-customers, expand deployment of our platform and support offerings within existing end-customers, and focus on end-customer satisfaction. To manage any future growth effectively, we must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems and controls, and our ability to manage headcount, capital, and processes in an efficient manner. While these areas present significant opportunities for us, they also pose challenges and risks that we must successfully address in order to sustain the growth of our business and improve our operating results. For additional information regarding the challenges and risks we face, see the “Risk Factors” section in Part II, Item 1A of this Quarterly Report on Form 10-Q.

## Key Financial Metrics

We monitor the key financial metrics set forth in the tables below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies. We discuss revenue, gross margin, and the components of operating loss and margin below under “—Results of Operations.”

	January 31, 2019	July 31, 2018
	(in millions)	
Total deferred revenue <sup>(1)</sup>	\$ 2,525.7	\$ 2,279.3
Cash, cash equivalents, and investments	\$ 3,638.6	\$ 3,950.9

(1) The amount for fiscal 2018 has been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018 <sup>(1)</sup>	2019	2018 <sup>(1)</sup>
	(dollars in millions)			
Total revenue	\$ 711.2	\$ 545.6	\$ 1,367.2	\$ 1,047.4
Total revenue year-over-year percentage increase	30.4%	29.8 %	30.5 %	28.0 %
Gross margin	71.5%	70.8 %	71.8 %	71.3 %
Operating income (loss)	\$ 6.6	\$ (22.5)	\$ (25.5)	\$ (76.0)
Operating margin	0.9%	(4.1)%	(1.9)%	(7.3)%
Billings	\$ 852.5	\$ 673.2	\$ 1,611.0	\$ 1,268.6
Billings year-over-year percentage increase	26.6%	20.8 %	27.0 %	22.6 %
Cash flow provided by operating activities			\$ 527.7	\$ 518.6
Free cash flow (non-GAAP)			\$ 469.9	\$ 460.8

(1) These amounts have been adjusted due to our adoption of the new revenue recognition standard and new guidance related to the presentation of restricted cash and cash equivalents in the statement of cash flows. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

- **Deferred Revenue.** Our deferred revenue primarily consists of amounts that have been invoiced but have not been recognized as revenue as of the period end. The majority of our deferred revenue balance consists of subscription and support revenue that is recognized ratably over the contractual service period. We monitor our deferred revenue balance because it represents a significant portion of revenue to be recognized in future periods.
- **Billings.** We define billings as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. We consider billings to be a key metric used by management to manage our business given our hybrid SaaS revenue model, and believe billings provides investors with an important indicator of the health and visibility of our business because it includes subscription and support revenue, which is recognized ratably over the contractual service period, and product revenue, which is recognized at the time of shipment, provided that all other conditions for revenue recognition have been met. We consider billings to be a useful metric for management and investors, particularly if we continue to experience increased sales of subscriptions and strong renewal rates for subscription and support offerings, and as we monitor our near-term cash flows. While we believe that billings provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management, it is important to note that other companies, including companies in our industry, may not use billings, may calculate billings differently, may have different billing frequencies, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of billings as a comparative measure. We calculate billings in the following manner:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018 <sup>(1)</sup>	2019	2018 <sup>(1)</sup>
(in millions)				
<b>Billings:</b>				
Total revenue	\$ 711.2	\$ 545.6	\$ 1,367.2	\$ 1,047.4
Add: change in total deferred revenue, net of acquired deferred revenue	141.3	127.6	243.8	221.2
Billings	<u>\$ 852.5</u>	<u>\$ 673.2</u>	<u>\$ 1,611.0</u>	<u>\$ 1,268.6</u>

(1) These amounts have been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

- Cash Flow Provided by Operating Activities.** We monitor cash flow provided by operating activities as a measure of our overall business performance. Our cash flow provided by operating activities is driven in large part by sales of our products and from up-front payments for subscription and support offerings. Monitoring cash flow provided by operating activities enables us to analyze our financial performance without the non-cash effects of certain items such as depreciation, amortization, and share-based compensation costs, thereby allowing us to better understand and manage the cash needs of our business.
- Free Cash Flow (non-GAAP).** We define free cash flow, a non-GAAP financial measure, as cash provided by operating activities less purchases of property, equipment, and other assets. We consider free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after necessary capital expenditures. A limitation of the utility of free cash flow as a measure of our financial performance and liquidity is that it does not represent the total increase or decrease in our cash balance for the period. In addition, it is important to note that other companies, including companies in our industry, may not use free cash flow, may calculate free cash flow in a different manner than we do, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of free cash flow as a comparative measure. A reconciliation of free cash flow to cash flow provided by operating activities, the most directly comparable financial measure calculated and presented in accordance with GAAP, is provided below:

	Six Months Ended January 31,	
	2019	2018
(in millions)		
<b>Free cash flow (non-GAAP):</b>		
Net cash provided by operating activities <sup>(1)</sup>	\$ 527.7	\$ 518.6
Less: purchases of property, equipment, and other assets	57.8	57.8
Free cash flow (non-GAAP) <sup>(1)</sup>	<u>\$ 469.9</u>	<u>\$ 460.8</u>
Net cash used in investing activities	<u>\$ (1,236.9)</u>	<u>\$ (88.5)</u>
Net cash used in financing activities	<u>\$ (669.6)</u>	<u>\$ (258.6)</u>

(1) The amount for fiscal 2018 has been adjusted due to our adoption of new guidance related to the presentation of restricted cash and cash equivalents in the statement of cash flows. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

## Results of Operations

The following table summarizes our results of operations for the periods presented and as a percentage of our total revenue for those periods based on our condensed consolidated statements of operations data. The period to period comparison of results is not necessarily indicative of results for future periods.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019		2018 <sup>(1)</sup>		2019		2018 <sup>(1)</sup>	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(dollars in millions)								
<b>Revenue:</b>								
Product	\$ 271.6	38.2 %	\$ 204.8	37.5 %	\$ 512.1	37.5 %	\$ 389.6	37.2 %
Subscription and support	439.6	61.8 %	340.8	62.5 %	855.1	62.5 %	657.8	62.8 %
Total revenue	711.2	100.0 %	545.6	100.0 %	1,367.2	100.0 %	1,047.4	100.0 %
<b>Cost of revenue:</b>								
Product	82.5	11.6 %	63.9	11.7 %	155.7	11.4 %	121.5	11.6 %
Subscription and support	120.1	16.9 %	95.5	17.5 %	230.4	16.8 %	179.2	17.1 %
Total cost of revenue <sup>(2)</sup>	202.6	28.5 %	159.4	29.2 %	386.1	28.2 %	300.7	28.7 %
Total gross profit	508.6	71.5 %	386.2	70.8 %	981.1	71.8 %	746.7	71.3 %
<b>Operating expenses:</b>								
Research and development	128.3	18.0 %	96.6	17.7 %	241.7	17.7 %	190.8	18.2 %
Sales and marketing	320.0	45.0 %	258.8	47.4 %	634.6	46.5 %	512.9	49.0 %
General and administrative	53.7	7.6 %	53.3	9.8 %	130.3	9.5 %	119.0	11.4 %
Total operating expenses <sup>(2)</sup>	502.0	70.6 %	408.7	74.9 %	1,006.6	73.7 %	822.7	78.6 %
Operating income (loss)	6.6	0.9 %	(22.5)	(4.1)%	(25.5)	(1.9)%	(76.0)	(7.3)%
Interest expense	(20.6)	(2.9)%	(6.4)	(1.2)%	(43.3)	(3.2)%	(12.7)	(1.2)%
Other income, net	16.0	2.3 %	4.9	0.9 %	29.0	2.2 %	9.7	1.0 %
Income (loss) before income taxes	2.0	0.3 %	(24.0)	(4.4)%	(39.8)	(2.9)%	(79.0)	(7.5)%
Provision for income taxes	4.6	0.7 %	1.6	0.3 %	1.1	0.1 %	9.8	1.0 %
Net loss	\$ (2.6)	(0.4)%	\$ (25.6)	(4.7)%	\$ (40.9)	(3.0)%	\$ (88.8)	(8.5)%

(1) Certain amounts have been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

(2) Includes share-based compensation as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
(in millions)				
Cost of product revenue	\$ 1.4	\$ 1.9	\$ 3.0	\$ 3.8
Cost of subscription and support revenue	18.2	19.9	35.7	35.8
Research and development	44.0	35.5	84.5	73.0
Sales and marketing	58.7	53.3	114.7	104.5
General and administrative	20.1	20.2	55.6	39.4
Total share-based compensation	\$ 142.4	\$ 130.8	\$ 293.5	\$ 256.5

## Revenue

Our revenue consists of product revenue and subscription and support revenue. Revenue is recognized upon transfer of control of the corresponding promised products and subscriptions and support to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those products and subscriptions and support. We expect our revenue to vary from quarter to quarter based on seasonal and cyclical factors.

### Product Revenue

Product revenue is derived primarily from sales of our appliances. Product revenue also includes revenue derived from software licenses of Panorama and the VM-Series. We recognize product revenue at the time of hardware shipment or delivery of software license.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018 <sup>(1)</sup>	Change		2019	2018 <sup>(1)</sup>	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Product	\$ 271.6	\$ 204.8	\$ 66.8	32.6%	\$ 512.1	\$ 389.6	\$ 122.5	31.4%

(1) This amount has been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

Product revenue increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in both periods was primarily due to increased demand for our appliances. The change in product revenue due to pricing was not significant for either period.

### Subscription and Support Revenue

Subscription and support revenue is derived primarily from sales of our subscription and support offerings. Our contractual subscription and support contracts are typically one to five years. We recognize revenue from subscriptions and support over time as the services are performed. As a percentage of total revenue, we expect our subscription and support revenue to vary from quarter to quarter and increase over the long term as we introduce new subscriptions, renew existing subscription and support contracts, and expand our installed end-customer base.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018 <sup>(1)</sup>	Change		2019	2018 <sup>(1)</sup>	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Subscription	\$ 249.7	\$ 183.3	\$ 66.4	36.2%	\$ 481.0	\$ 352.3	\$ 128.7	36.5%
Support	189.9	157.5	32.4	20.6%	374.1	305.5	68.6	22.5%
Total subscription and support	\$ 439.6	\$ 340.8	\$ 98.8	29.0%	\$ 855.1	\$ 657.8	\$ 197.3	30.0%

(1) These amounts have been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

Subscription and support revenue increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in both periods was due to increased demand for our subscription and support offerings from both new and existing end-customers. The mix between subscription revenue and support revenue will fluctuate over time, depending on the introduction of new subscription offerings, renewals of support services, and our ability to increase sales to new and existing customers. The change in subscription and support revenue due to changes in pricing was not significant for either period.

### Revenue by Geographic Theater

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018 <sup>(1)</sup>	Change		2019	2018 <sup>(1)</sup>	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Americas	\$ 475.0	\$ 373.3	\$ 101.7	27.2%	\$ 925.2	\$ 722.6	\$ 202.6	28.0%
EMEA	148.3	107.2	41.1	38.3%	276.0	201.9	74.1	36.7%
APAC	87.9	65.1	22.8	35.0%	166.0	122.9	43.1	35.1%
Total revenue	\$ 711.2	\$ 545.6	\$ 165.6	30.4%	\$ 1,367.2	\$ 1,047.4	\$ 319.8	30.5%

(1) These amounts have been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

With respect to geographic theaters, the Americas contributed the largest portion of the increase in revenue for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018, due to its larger and more established sales force compared to our other theaters. Revenue from both Europe, the Middle East, and Africa (“EMEA”) and Asia Pacific and Japan (“APAC”) increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018, due to our investment in increasing the size of our sales force and number of channel partners in these theaters.

#### Cost of Revenue

Our cost of revenue consists of cost of product revenue and cost of subscription and support revenue.

#### Cost of Product Revenue

Cost of product revenue primarily includes costs paid to our manufacturing partners. Our cost of product revenue also includes personnel costs, which consist of salaries, benefits, bonuses, share-based compensation, and travel and entertainment associated with our operations organization, amortization of intellectual property licenses, product testing costs, shipping costs, and allocated costs. Allocated costs consist of certain facilities, depreciation, benefits, recruiting, and information technology costs that we allocate based on headcount. We expect our cost of product revenue to increase as our product revenue increases.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018	Change		2019	2018	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Cost of product revenue	\$ 82.5	\$ 63.9	\$ 18.6	29.1%	\$ 155.7	\$ 121.5	\$ 34.2	28.1%
Number of employees at period end	98	91	7	7.7%	98	91	7	7.7%

Cost of product revenue increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in both periods was primarily due to an increase in product unit volume.

### Cost of Subscription and Support Revenue

Cost of subscription and support revenue includes personnel costs for our global customer support and technical operations organizations, customer support and repair costs, third-party professional services costs, data center and cloud hosting costs, amortization of acquired intangible assets, and allocated costs. We expect our cost of subscription and support revenue to increase as our installed end-customer base grows and adoption of our cloud-based subscription offerings increases.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019		2018		2019		2018	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Cost of subscription and support revenue <sup>(1)</sup>	\$ 120.1	\$ 95.5	\$ 24.6	25.8%	\$ 230.4	\$ 179.2	\$ 51.2	28.6%
Number of employees at period end	1,030	813	217	26.7%	1,030	813	217	26.7%

(1) The amounts for fiscal 2018 have been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

Cost of subscription and support revenue increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in both periods was primarily due to increased costs to support the growth of our subscription and support business. Personnel costs grew \$8.7 million to \$63.0 million for the three months ended January 31, 2019 compared to the three months ended January 31, 2018, and grew \$20.2 million to \$121.6 million for the six months ended January 31, 2019 compared to the six months ended January 31, 2018, primarily due to headcount growth. Amortization of purchased intangible assets increased \$6.7 million for the three months ended January 31, 2019 compared to the three months ended January 31, 2018, and increased \$11.4 million for the six months ended January 31, 2019 compared to the six months ended January 31, 2018, as a result of our recent acquisitions. The remaining increase in both periods was primarily due to an increase in data center and cloud hosting costs to support the adoption of our cloud-based subscription offerings and costs to expand our customer service capabilities.

### Gross Margin

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the introduction of new products, manufacturing costs, the average sales price of our products, the mix of products sold, and the mix of revenue between product and subscription and support offerings. For sales of our products, our higher-end firewall products generally have higher gross margins than our lower-end firewall products within each product series. For sales of our subscription and support offerings, our subscription offerings typically have higher gross margins than our support offerings. We expect our gross margins to fluctuate over time depending on the factors described above.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019		2018 <sup>(1)</sup>		2019		2018 <sup>(1)</sup>	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
	(dollars in millions)							
Product	\$ 189.1	69.6%	\$ 140.9	68.8%	\$ 356.4	69.6%	\$ 268.1	68.8%
Subscription and support	319.5	72.7%	245.3	72.0%	624.7	73.1%	478.6	72.8%
Total gross profit	<u>\$ 508.6</u>	<u>71.5%</u>	<u>\$ 386.2</u>	<u>70.8%</u>	<u>\$ 981.1</u>	<u>71.8%</u>	<u>\$ 746.7</u>	<u>71.3%</u>

(1) These amounts have been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

Product gross margin increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018, primarily due to increased leverage of our operations organization and improved operations in our supply chain management, partially offset by higher product costs related to our newly introduced appliances, which have lower product margins.

Subscription and support gross margin increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018 primarily due to increased leverage of our global customer support organization and a decrease in product support and repair costs, partially offset by higher costs to support the adoption of our cloud-based subscription offerings.

### Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expense. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, share-based compensation, travel and entertainment, and with regard to sales and marketing expense, sales commissions. Our operating expenses also include allocated costs, which consist of certain facilities, depreciation, benefits, recruiting, and information technology costs that we allocate based on headcount. We expect operating expenses to increase in absolute dollars and decrease over the long term as a percentage of revenue as we continue to scale our business. As of January 31, 2019, we expect to recognize approximately \$1.4 billion of share-based compensation expense over a weighted-average period of approximately 2.8 years, excluding additional share-based compensation expense related to any future grants of share-based awards. Share-based compensation expense is generally recognized on a straight-line basis over the requisite service periods of the awards.

#### Research and Development

Research and development expense consists primarily of personnel costs. Research and development expense also includes prototype related expenses and allocated costs. We expect research and development expense to increase in absolute dollars as we continue to invest in our future products and services, although our research and development expense may fluctuate as a percentage of total revenue.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018	Change		2019	2018	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Research and development	\$ 128.3	\$ 96.6	\$ 31.7	32.8%	\$ 241.7	\$ 190.8	\$ 50.9	26.7%
Number of employees at period end	1,098	814	284	34.9%	1,098	814	284	34.9%

Research and development expense increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in both periods was primarily due to an increase in personnel costs, which grew \$22.7 million to \$103.5 million for the three months ended January 31, 2019 compared to the three months ended January 31, 2018, and grew \$38.4 million to \$196.8 million for the six months ended January 31, 2019 compared to the six months ended January 31, 2018. The increase in personnel costs in both periods was largely due to headcount growth. The remaining increase in both periods was primarily driven by an increase in allocated costs.

#### Sales and Marketing

Sales and marketing expense consists primarily of personnel costs, including commission expense. Sales and marketing expense also includes costs for market development programs, promotional and other marketing costs, professional services, and allocated costs. We continue to thoughtfully invest in headcount and have substantially grown our sales presence internationally. We expect sales and marketing expense to continue to increase in absolute dollars as we increase the size of our sales and marketing organizations to increase touch points with end-customers and to expand our international presence, although our sales and marketing expense may fluctuate as a percentage of total revenue.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018	Change		2019	2018	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Sales and marketing <sup>(1)</sup>	\$ 320.0	\$ 258.8	\$ 61.2	23.6%	\$ 634.6	\$ 512.9	\$ 121.7	23.7%
Number of employees at period end	2,919	2,511	408	16.2%	2,919	2,511	408	16.2%

(1) The amounts for fiscal 2018 have been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

Sales and marketing expense increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in both periods was primarily due to an increase in personnel costs, which grew \$39.4 million to \$244.0 million for the three months ended January 31, 2019 compared to the three months ended January 31, 2018, and grew \$74.2 million to \$471.3 million for the six months ended January 31, 2019 compared to the six months ended January 31, 2018. The increase in personnel costs in both periods was largely due to headcount growth. The remaining increase in both periods was primarily driven by an increase in allocated costs and an increase in costs associated with marketing-related activities.

#### General and Administrative

General and administrative expense consists primarily of personnel costs for our executive, finance, human resources, legal, and information technology organizations, and professional services costs, which consist primarily of legal, auditing, accounting, and other consulting costs. General and administrative expense also includes certain non-recurring general expenses and impairment losses. Certain facilities, depreciation, benefits, recruiting, and information technology costs are allocated to other organizations based on headcount. We expect general and administrative expense to increase in absolute dollars due to additional costs associated with accounting, compliance, and insurance, although our general and administrative expense may fluctuate as a percentage of total revenue.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018	Change		2019	2018	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
General and administrative	\$ 53.7	\$ 53.3	\$ 0.4	0.8%	\$ 130.3	\$ 119.0	\$ 11.3	9.5%
Number of employees at period end	711	604	107	17.7%	711	604	107	17.7%

General and administrative expense was relatively flat for the three months ended January 31, 2019 compared to the three months ended January 31, 2018. General and administrative expense increased for the six months ended January 31, 2019 compared to the six months ended January 31, 2018. The increase was driven by an increase in personnel costs, which grew \$16.2 million to \$89.8 million for the six months ended January 31, 2019 compared to the six months ended January 31, 2018, primarily due to expense related to the accelerated vesting of certain equity awards in connection with the RedLock acquisition of \$14.2 million recognized during the three months ended October 31, 2018. This increase was partially offset by a decrease due to the cease-use loss of \$15.4 million recognized on the lease of our previous headquarter facilities during the three months ended October 31, 2017. The remaining increase was primarily due to an increase in legal expenses during the three months ended October 31, 2018.

### Interest Expense

Interest expense primarily consists of non-cash interest expense from the amortization of the debt discount and debt issuance costs related to our 0.0% Convertible Senior Notes due 2019 (the “2019 Notes”) and 0.75% Convertible Senior Notes due 2023 (the “2023 Notes” and, together with the 2019 Notes, the “Notes”), and also includes the contractual interest expense related to our 2023 Notes.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018	Change		2019	2018	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Interest expense	\$ 20.6	\$ 6.4	\$ 14.2	221.9%	\$ 43.3	\$ 12.7	\$ 30.6	240.9%

Interest expense increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in both periods was primarily due to interest expense recognized on the 2023 Notes issued in July 2018, partially offset by a reduction in interest expense recognized on the 2019 Notes due early conversions. We expect interest expense to increase in fiscal 2019 due to interest expense to be incurred on the 2023 Notes. Refer to Note 9. Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information on the Notes.

### Other Income, Net

Other income, net includes interest income earned on our cash, cash equivalents, and investments, foreign currency remeasurement gains and losses, and foreign currency transaction gains and losses.

	Three Months Ended January 31,				Six Months Ended January 31,			
	2019	2018	Change		2019	2018	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Other income, net	\$ 16.0	\$ 4.9	\$ 11.1	226.5%	\$ 29.0	\$ 9.7	\$ 19.3	199.0%

Other income, net increased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in both periods was primarily driven by an increase in interest income, which grew \$12.1 million for the three months ended January 31, 2019 compared to the three months ended January 31, 2018, and grew \$22.4 million for the six months ended January 31, 2019 compared to the six months ended January 31, 2018. The increase in interest income was largely due to higher cash, cash equivalents, and investments balances and higher yields on these balances during the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018. The increase in interest income for the three and six months ended January 31, 2019 was partially offset by losses of \$0.4 million and \$2.6 million, respectively, recognized related to the settlement of the 2019 Notes. Refer to Note 9. Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information on the Notes.

### Provision for Income Taxes

Provision for income taxes consists primarily of income taxes in foreign jurisdictions in which we conduct business, withholding taxes, and U.S. state income taxes. We maintain a full valuation allowance for domestic and certain foreign deferred tax assets, including net operating loss carryforwards and certain domestic tax credits. In recent years, we reorganized our corporate structure and intercompany relationships to more closely align with the international nature of our business activities. Our corporate structure has caused, and may continue to cause, disproportionate relationships between our overall effective tax rate and other jurisdictional measures. To the extent we revisit our corporate structure, it may have an impact on our tax provision.

	Three Months Ended January 31,		Change		Six Months Ended January 31,		Change	
	2019	2018	Amount	%	2019	2018	Amount	%
(dollars in millions)								
Provision for income taxes	\$ 4.6	\$ 1.6	\$ 3.0	187.5%	\$ 1.1	\$ 9.8	\$ (8.7)	(88.8)%
Effective tax rate	230.0%	(6.7)%			(2.8)%	(12.4)%		

We recorded an income tax provision for the three and six months ended January 31, 2019. Key components of our provision for income taxes, excluding one-time items, include foreign income taxes and withholding taxes. Our provision for income taxes increased for the three months ended January 31, 2019 compared to the three months ended January 31, 2018, primarily due to a one-time tax benefit of \$6.2 million recognized during the three months ended January 31, 2018 related to the Tax Cuts and Jobs Act (“TCJA”), which was enacted into law in December 2017. Our provision for income taxes decreased for the six months ended January 31, 2019 compared to the six months ended January 31, 2018, primarily due to a one-time tax benefit of \$9.4 million recognized during the three months ended October 31, 2018 related to a partial release of our valuation allowance related to the acquisition of RedLock. Excluding the aforementioned one-time items, our provision for income taxes decreased for the three and six months ended January 31, 2019 compared to the three and six months ended January 31, 2018, due to guidance for intra-entity asset transfers, other than inventory, adopted in the first quarter of fiscal 2019. Refer to Note 13. Income Taxes in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

### Liquidity and Capital Resources

	January 31, 2019	July 31, 2018
	(in millions)	
Working capital <sup>(1)(2)</sup>	\$ 1,619.3	\$ 2,036.8
<b>Cash, cash equivalents, and investments:</b>		
Cash and cash equivalents	\$ 1,127.8	\$ 2,506.9
Investments	2,510.8	1,444.0
Total cash, cash equivalents, and investments	<u>\$ 3,638.6</u>	<u>\$ 3,950.9</u>

- (1) The amount for fiscal 2018 has been adjusted due to our adoption of the new revenue recognition standard. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.
- (2) The net carrying amount of the 0.0% Convertible Senior Notes due 2019 (the “2019 Notes”) was classified in current liabilities in our condensed consolidated balance sheets as of January 31, 2019 and July 31, 2018, respectively. Refer to Note 9. Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

As of January 31, 2019, our total cash, cash equivalents, and investments of \$3.6 billion were held for general corporate purposes, of which approximately \$253.8 million was held outside of the United States. As of January 31, 2019, we had no unremitted earnings when evaluating our outside basis difference relating to our U.S. investment in foreign subsidiaries. However, there could be local withholding taxes payable due to various foreign countries if certain lower tier earnings are distributed. Withholding taxes that would be payable upon remittance of these lower tier earnings were not material as of January 31, 2019.

In June 2014, we issued the 2019 Notes with an aggregate principal amount of \$575.0 million and in July 2018, we issued the 2023 Notes with an aggregate principal amount of \$1.7 billion. As of January 31, 2019, \$159.4 million of the 2019 Notes remained outstanding and all of the 2023 Notes remained outstanding. The 2019 Notes and the 2023 Notes mature on July 1, 2019 and July 1, 2023, respectively; however, under certain circumstances, holders may surrender their Notes of a series for conversion prior to the applicable maturity dates. Upon conversion of the Notes of a series, we will pay cash equal to the aggregate principal amount of the

Notes of such series to be converted, and, at our election, will pay or deliver cash and/or shares of our common stock for the amount of our conversion obligation in excess of the aggregate principal amount of the Notes of such series being converted. During the three and six months ended January 31, 2019, holders converted \$88.3 million and \$415.6 million, respectively, in aggregate principal amount of the 2019 Notes, which we repaid in cash. We also issued 0.3 million and 1.7 million shares of common stock to the holders during the three and six months ended January 31, 2019, respectively, for the conversion value in excess of the principal amount of the 2019 Notes converted, which were fully offset by shares received from our exercise of the associated note hedges. Refer to Note 9. Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q for information on the Notes.

In September 2018, we entered into a credit agreement (the “Credit Agreement”) that provides for a \$400.0 million unsecured revolving credit facility (the “Credit Facility”), with an option to increase the amount of the credit facility up to an additional \$350.0 million, subject to certain conditions. As of January 31, 2019, there were no amounts outstanding, and we were in compliance with all covenants under the Credit Agreement. Refer to Note 9. Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information on the Credit Agreement.

In August 2016, our board of directors authorized a \$500.0 million share repurchase program and, in February 2017, authorized a \$500.0 million increase to the repurchase program, bringing the total authorization to \$1.0 billion. Repurchases were to be funded from available working capital and could be made at management’s discretion from time to time. The repurchase program expired on December 31, 2018. On February 22, 2019, our board of directors authorized a new \$1.0 billion share repurchase program which will be funded from available working capital and will expire on December 31, 2020. Refer to Note 11. Stockholders’ Equity and Note 16. Subsequent Events in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information on the repurchase program and the new repurchase authorization, respectively.

The following table summarizes our cash flows for the six months ended January 31, 2019 and 2018:

	Six Months Ended January 31,	
	2019	2018
	(in millions)	
Net cash provided by operating activities <sup>(1)</sup>	\$ 527.7	\$ 518.6
Net cash used in investing activities	(1,236.9)	(88.5)
Net cash used in financing activities	(669.6)	(258.6)
Net increase (decrease) in cash, cash equivalents, and restricted cash <sup>(1)</sup>	\$ (1,378.8)	\$ 171.5

(1) The amount for fiscal 2018 has been adjusted due to our adoption of new guidance related to the presentation of restricted cash and cash equivalents in the statement of cash flows. Refer to Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

We believe that our cash flow from operations with existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for the foreseeable future. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced products and subscription and support offerings, the costs to acquire or invest in complementary businesses and technologies, the costs to ensure access to adequate manufacturing capacity, the investments in our infrastructure to support the adoption of our cloud-based subscription offerings, the investments in our new corporate headquarters, and the continuing market acceptance of our products and subscription and support offerings. In addition, from time to time we may incur additional tax liability in connection with certain corporate structuring decisions.

We may also choose to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition may be adversely affected.

### ***Operating Activities***

Our operating activities have consisted of net losses adjusted for certain non-cash items and changes in assets and liabilities.

Cash provided by operating activities during the six months ended January 31, 2019 was \$527.7 million, an increase of \$9.1 million compared to the six months ended January 31, 2018. The increase was due to growth of our business, as reflected by an increase in billings, and an increase in collections during the six months ended January 31, 2019. This was partially offset by a decrease due to repayments of the 2019 Notes attributable to the debt discount of \$67.1 million during the six months ended January 31, 2019, and the receipt of an upfront cash reimbursement of \$38.2 million related to certain of our lease agreements during the six months ended January 31, 2018.

### Investing Activities

Our investing activities have consisted of capital expenditures, net investment purchases, sales, and maturities, and business acquisitions. We expect to continue such activities as our business grows.

Cash used in investing activities during the six months ended January 31, 2019 was \$1.2 billion, an increase of \$1.1 billion compared to the six months ended January 31, 2018, due to higher net purchases of investments and cash paid for our acquisition of RedLock during the six months ended January 31, 2019.

### Financing Activities

Our financing activities have consisted of net proceeds from the issuance of the Notes and related transactions, repayments of the 2019 Notes, proceeds from sales of shares through employee equity incentive plans, cash used to repurchase shares of our common stock, and payments for tax withholding obligations of certain employees related to the net share settlement of equity awards.

Cash used in financing activities during the six months ended January 31, 2019 was \$669.6 million, an increase of \$411.0 million compared to the six months ended January 31, 2018, primarily due to repayments of our 2019 Notes and an increase in repurchases of our common stock during the six months ended January 31, 2019.

### Contractual Obligations and Commitments

The following summarizes our contractual obligations and commitments as of January 31, 2019:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in millions)				
0.0% Convertible Senior Notes due 2019 <sup>(1)</sup>	\$ 159.4	\$ 159.4	\$ —	\$ —	\$ —
0.75% Convertible Senior Notes due 2023	1,693.0	—	—	1,693.0	—
Operating lease obligations <sup>(2)</sup>	509.0	68.4	128.2	110.8	201.6
Purchase obligations <sup>(3)</sup>	444.8	136.8	38.0	105.0	165.0
Total <sup>(4)</sup>	<u>\$ 2,806.2</u>	<u>\$ 364.6</u>	<u>\$ 166.2</u>	<u>\$ 1,908.8</u>	<u>\$ 366.6</u>

- (1) The 2019 Notes mature on July 1, 2019. Refer to Note 9. Debt in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.
- (2) Consists of contractual obligations from our non-cancelable operating leases. Excludes contractual sublease proceeds of \$12.3 million, which consists of \$5.4 million to be received in less than one year and \$6.9 million to be received in one to three years. Refer to Note 10. Commitments and Contingencies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information on our operating leases.
- (3) Consists of minimum purchase commitments of products and components with our manufacturing partners and component suppliers, as well as minimum purchase commitments for our use of certain cloud services with third-party providers. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.
- (4) No amounts related to income taxes are included. As of January 31, 2019, we had approximately \$69.9 million of tax liabilities recorded related to uncertainty in income tax positions.

### Off-Balance Sheet Arrangements

As of January 31, 2019, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### Critical Accounting Estimates

Our condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results

may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

We believe the critical accounting estimates discussed under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended July 31, 2018, reflect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. There have been no significant changes to our critical accounting estimates as filed in such report, except for revenue recognition and deferred contract costs, due to our adoption of new accounting guidance, as described below. Refer to “Recently Adopted Accounting Pronouncements” in Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information on our adoption of the new accounting guidance.

### ***Revenue Recognition***

The majority of our contracts with our customers include various combinations of our products and subscriptions and support which are distinct and accounted for as separate performance obligations. We account for multiple agreements with a single customer as a single contract if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single contract. The amount we are due in exchange for delivering on the contract is allocated to each performance obligation based on its relative standalone selling price.

We establish standalone selling price using the prices charged for a deliverable when sold separately. If not observable through past transactions, we estimate the standalone selling price based on our pricing model and our go-to-market strategy, which include factors such as type of sales channel (reseller, distributor, or end-customer), the geographies in which our offerings were sold (domestic or international) and offering type (products, subscriptions, or support). As our business offerings evolve over time, we may be required to modify our estimated standalone selling prices, and as a result the timing and classification of our revenue could be affected.

### ***Deferred Contract Costs***

We defer contract costs that are recoverable and incremental to obtaining customer sales contracts. Contract costs, which primarily consist of sales commissions, are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Sales commissions for initial contracts that are not commensurate with renewal commissions are amortized over a benefit period of five years, consistent with the revenue recognition pattern of the performance obligations in the related contracts including expected renewals. The benefit period is determined by taking into consideration of contract length, technology life, and other quantitative and qualitative factors. The expected renewals are estimated based on historical renewal trends. Sales commissions for initial contracts that are commensurate and sales commissions for renewal contracts are amortized over the related contractual period in proportion to the revenue recognized.

### **Recent Accounting Pronouncements**

Refer to “Recently Issued Accounting Pronouncements” in Note 1. Description of Business and Summary of Significant Accounting Policies in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our assessment of our exposures to market risk have not changed materially since the presentation set forth in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended July 31, 2018.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of January 31, 2019, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the fiscal quarter ended January 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Limitations on Controls**

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

The information set forth under the “Litigation” subheading in Note 10. Commitments and Contingencies in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

*Our operations and financial results are subject to various risks and uncertainties including those described below. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks or others not specified below materialize, our business, financial condition, and operating results could be materially adversely affected and the market price of our common stock could decline.*

#### **Risks Related to Our Business and Our Industry**

***Our business and operations have experienced rapid growth in recent periods, and if we do not effectively manage any future growth or are unable to improve our systems, processes, and controls, our operating results could be adversely affected.***

We have experienced rapid growth and increased demand for our products and subscriptions over the last few years. As a result, our employee headcount has increased significantly, and we expect it to continue to grow over the next year. For example, from the end of fiscal 2018 to the end of the second quarter of fiscal 2019, our headcount increased from 5,348 to 5,856 employees. In addition, as we have grown, our number of end-customers has also increased significantly, and we have increasingly managed more complex deployments of our products and subscriptions with larger end-customers. The growth and expansion of our business and product, subscription, and support offerings places a significant strain on our management, operational, and financial resources. To manage any future growth effectively, we must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems and controls, and our ability to manage headcount, capital, and processes in an efficient manner.

We may not be able to successfully implement or scale improvements to our systems, processes, and controls in an efficient or timely manner. In addition, our existing systems, processes, and controls may not prevent or detect all errors, omissions, or fraud. We may also experience difficulties in managing improvements to our systems, processes, and controls or in connection with third-party software licensed to help us with such improvements. Any future growth would add complexity to our organization and require effective coordination throughout our organization. Failure to manage any future growth effectively could result in increased costs, disrupt our existing end-customer relationships, reduce demand for or limit us to smaller deployments of our platform, or harm our business performance and operating results.

***Our operating results may vary significantly from period to period and be unpredictable, which could cause the market price of our common stock to decline.***

Our operating results, in particular, our revenues, gross margins, operating margins, and operating expenses, have historically varied from period to period, and even though we have experienced growth, we expect variation to continue as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to attract and retain new end-customers or sell additional products and subscriptions to our existing end-customers;
- the budgeting cycles, seasonal buying patterns, and purchasing practices of our end-customers;
- changes in end-customer, distributor or reseller requirements, or market needs;
- price competition;
- the timing and success of new product and service introductions by us or our competitors or any other change in the competitive landscape of our industry, including consolidation among our competitors or end-customers and strategic partnerships entered into by and between our competitors;
- changes in the mix of our products, subscriptions, and support, including changes in multi-year subscriptions and support;
- our ability to successfully and continuously expand our business domestically and internationally;
- changes in the growth rate of the enterprise security market;
- deferral of orders from end-customers in anticipation of new products or product enhancements announced by us or our competitors;

- the timing and costs related to the development or acquisition of technologies or businesses or strategic partnerships;
- lack of synergy or the inability to realize expected synergies, resulting from acquisitions or strategic partnerships;
- our inability to execute, complete or integrate efficiently any acquisitions that we may undertake;
- increased expenses, unforeseen liabilities, or write-downs and any impact on our operating results from any acquisitions we consummate;
- our ability to increase the size and productivity of our distribution channel;
- decisions by potential end-customers to purchase security solutions from larger, more established security vendors or from their primary network equipment vendors;
- changes in end-customer penetration or attach and renewal rates for our subscriptions;
- timing of revenue recognition and revenue deferrals;
- our ability to manage production and manufacturing related costs, global customer service organization costs, inventory excess and obsolescence costs, and warranty costs;
- insolvency or credit difficulties confronting our end-customers, which could adversely affect their ability to purchase or pay for our products and subscription and support offerings, or confronting our key suppliers, including our sole source suppliers, which could disrupt our supply chain;
- any disruption in our channel or termination of our relationships with important channel partners, including as a result of consolidation among distributors and resellers of security solutions;
- our inability to fulfill our end-customers' orders due to supply chain delays or events that impact our manufacturers or their suppliers;
- the cost and potential outcomes of litigation, which could have a material adverse effect on our business;
- seasonality or cyclical fluctuations in our markets;
- future accounting pronouncements or changes in our accounting policies, including the impact of the adoption and implementation of the Financial Accounting Standards Board's new standard regarding revenue recognition;
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates, as an increasing amount of our expenses is incurred and paid in currencies other than the U.S. dollar;
- political, economic and social instability caused by the referendum in June 2016, in which voters in the United Kingdom (the "U.K.") approved an exit from the European Union (the "E.U.") and the U.K. government subsequently notified the E.U. of its withdrawal, which is commonly referred to as "Brexit," continued hostilities in the Middle East, terrorist activities, and any disruption these events may cause to the broader global industrial economy; and
- general macroeconomic conditions, both domestically and in our foreign markets that could impact some or all regions where we operate.

Any one of the factors above, or the cumulative effect of some of the factors referred to above, may result in significant fluctuations in our financial and other operating results. This variability and unpredictability could result in our failure to meet our revenue, margin, or other operating result expectations or those of securities analysts or investors for a particular period. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our common stock could fall substantially, and we could face costly lawsuits, including securities class action suits.

***Uncertain or weakened global economic conditions could have an adverse effect on our business and operating results.***

We operate globally and as a result our business and revenues are impacted by global macroeconomic conditions. The global macroeconomic environment has been and may continue to be inconsistent and challenging due to instability in the global credit markets, the current economic challenges in China, falling demand for oil and other commodities, uncertainties regarding the effects of "Brexit," uncertainties related to elections and changes in public policies such as domestic and international regulations, taxes, or international trade agreements, government shutdowns, geopolitical turmoil and other disruptions to global and regional economies and markets. As a result, any continued or further uncertainty, weakness or deterioration in global macroeconomic and market conditions may cause our end-customers to modify spending priorities or delay purchasing decisions, and result in lengthened sales cycles, any of which could harm our business and operating results.

***Our revenue growth rate in recent periods may not be indicative of our future performance.***

We have experienced revenue growth rates of 30.5% and 28.0% in the six months ended January 31, 2019 and the six months ended January 31, 2018, respectively. Our revenue for any prior quarterly or annual period should not be relied upon as an indication of our future revenue or revenue growth for any future period. If we are unable to maintain consistent or increasing revenue or revenue growth, the market price of our common stock could be volatile, and it may be difficult for us to achieve and maintain profitability or maintain or increase cash flow on a consistent basis.

***We have a history of losses, anticipate increasing our operating expenses in the future, and may not be able to achieve or maintain profitability or maintain or increase cash flow on a consistent basis, which could cause our business, financial condition, and operating results to suffer.***

Other than fiscal 2012, we have incurred losses in all fiscal years since our inception. As a result, we had an accumulated deficit of \$859.9 million as of January 31, 2019. We anticipate that our operating expenses will continue to increase in the foreseeable future as we continue to grow our business. Our growth efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenues sufficiently, or at all, to offset increasing expenses. Revenue growth may slow or revenue may decline for a number of possible reasons, including slowing demand for our products or subscriptions, increasing competition, a decrease in the growth of our overall market, or a failure to capitalize on growth opportunities. Any failure to increase our revenue as we grow our business could prevent us from achieving or maintaining profitability or maintaining or increasing cash flow on a consistent basis. In addition, we may have difficulty achieving profitability under U.S. GAAP due to share-based compensation expense and other non-cash charges. If we are unable to navigate these challenges as we encounter them, our business, financial condition, and operating results may suffer.

***If we are unable to sell additional product, subscription, and support offerings to our end-customers, our future revenue and operating results will be harmed.***

Our future success depends, in part, on our ability to expand the deployment of our platform with existing end-customers. This may require increasingly sophisticated and costly sales efforts that may not result in additional sales. The rate at which our end-customers purchase additional products, subscriptions, and support depends on a number of factors, including the perceived need for additional security products, including subscription and support offerings, as well as general economic conditions. Further, existing end-customers have no contractual obligation to and may not renew their subscription and support contracts after the completion of their initial contract period. Our end-customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our subscriptions and our support offerings, the frequency and severity of subscription outages, our product uptime or latency, and the pricing of our, or competing, subscriptions. Additionally, our end-customers may renew their subscription and support agreements for shorter contract lengths or on other terms that are less economically beneficial to us. We also cannot be certain that our end-customers will renew their subscription and support agreements. If our efforts to sell additional products and subscriptions to our end-customers are not successful or our end-customers do not renew their subscription and support agreements or renew them on less favorable terms, our revenues may grow more slowly than expected or decline.

***We face intense competition in our market, especially from larger, well-established companies, and we may lack sufficient financial or other resources to maintain or improve our competitive position.***

The market for enterprise security products is intensely competitive, and we expect competition to increase in the future from established competitors and new market entrants. Our main competitors fall into three categories:

- large companies that incorporate security features in their products, such as Cisco Systems, Inc. ("Cisco") and Juniper Networks, Inc. ("Juniper"), or those that have acquired, or may acquire, large network and endpoint security vendors and have the technical and financial resources to bring competitive solutions to the market;
- independent security vendors, such as Symantec Corporation, Check Point Software Technologies Ltd. ("Check Point"), Fortinet, Inc., and FireEye, Inc., that offer a mix of network and endpoint security products; and
- small and large companies that offer point solutions and/or cloud security services that compete with some of the features present in our platform.

Many of our existing competitors have, and some of our potential competitors could have, substantial competitive advantages such as:

- greater name recognition and longer operating histories;
- larger sales and marketing budgets and resources;
- broader distribution and established relationships with distribution partners and end-customers;
- greater customer support resources;

- greater resources to make strategic acquisitions or enter into strategic partnerships;
- lower labor and development costs;
- larger and more mature intellectual property portfolios; and
- substantially greater financial, technical, and other resources.

In addition, some of our larger competitors have substantially broader and more diverse product and services offerings, which may make them less susceptible to downturns in a particular market and allow them to leverage their relationships based on other products or incorporate functionality into existing products to gain business in a manner that discourages users from purchasing our products and subscriptions, including through selling at zero or negative margins, offering concessions, product bundling, or closed technology platforms. Many of our smaller competitors that specialize in providing protection from a single type of security threat are often able to deliver these specialized security products to the market more quickly than we can.

Organizations that use legacy products and services may believe that these products and services are sufficient to meet their security needs or that our platform only serves the needs of a portion of the enterprise security market. Accordingly, these organizations may continue allocating their information technology budgets for legacy products and services and may not adopt our security platform. Further, many organizations have invested substantial personnel and financial resources to design and operate their networks and have established deep relationships with other providers of networking and security products. As a result, these organizations may prefer to purchase from their existing suppliers rather than add or switch to a new supplier such as us regardless of product performance, features, or greater services offerings or may be more willing to incrementally add solutions to their existing security infrastructure from existing suppliers than to replace it wholesale with our solutions.

Conditions in our market could change rapidly and significantly as a result of technological advancements, partnering or acquisitions by our competitors, or continuing market consolidation. New start-up companies that innovate and large competitors that are making significant investments in research and development may invent similar or superior products and technologies that compete with our products and subscriptions. Some of our competitors have made or could make acquisitions of businesses that may allow them to offer more directly competitive and comprehensive solutions than they had previously offered and adapt more quickly to new technologies and end-customer needs. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources.

These competitive pressures in our market or our failure to compete effectively may result in price reductions, fewer orders, reduced revenue and gross margins, and loss of market share. Any failure to meet and address these factors could seriously harm our business and operating results.

***A network or data security incident may allow unauthorized access to our network or data, harm our reputation, create additional liability and adversely impact our financial results.***

Increasingly, companies are subject to a wide variety of attacks on their networks on an ongoing basis. In addition to traditional computer “hackers,” malicious code (such as viruses and worms), phishing attempts, employee theft or misuse, and denial of service attacks, sophisticated nation-state and nation-state supported actors engage in intrusions and attacks (including advanced persistent threat intrusions) and add to the risks to our internal networks, cloud deployed enterprise and customer facing environments and the information they store and process. Despite significant efforts to create security barriers to such threats, it is virtually impossible for us to entirely mitigate these risks. We and our third-party service providers may face security threats and attacks from a variety of sources. Our data, corporate systems, third-party systems and security measures may be breached due to the actions of outside parties, employee error, malfeasance, a combination of these, or otherwise, and, as a result, an unauthorized party may obtain access to our data. Furthermore, as a well-known provider of security solutions, we may be a more attractive target for such attacks. A breach in our data security or an attack against our service availability, or that of our third-party service providers, could impact our networks or networks secured by our products and subscriptions, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks or those of our third-party service providers could be accessed, publicly disclosed, altered, lost, or stolen, which could subject us to liability and cause us financial harm. Although we have not yet experienced significant damages from unauthorized access by a third party of our internal network, any actual or perceived breach of network security in our systems or networks, or any other actual or perceived data security incident we or our third-party service providers suffer, could result in damage to our reputation, negative publicity, loss of channel partners, end-customers and sales, loss of competitive advantages over our competitors, increased costs to remedy any problems and otherwise respond to any incident, regulatory investigations and enforcement actions, costly litigation, and other liability. In addition, we may incur significant costs and operational consequences of investigating, remediating, eliminating and putting in place additional tools and devices designed to prevent actual or perceived security incidents, as well as the costs to comply with any notification obligations resulting from any security incidents. While we maintain cybersecurity insurance, our insurance may be insufficient to cover all liabilities incurred by these incidents, and any incidents may result in loss of, or increased costs of, our cybersecurity insurance. Any of these negative outcomes could adversely impact the market perception of our products and subscriptions and end-customer and investor confidence in our company and could seriously harm our business or operating results.

***Reliance on shipments at the end of the quarter could cause our revenue for the applicable period to fall below expected levels.***

As a result of end-customer buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of sales orders and generated a substantial portion of revenue during the last few weeks of each fiscal quarter. If expected revenue at the end of any fiscal quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize (particularly for large enterprise end-customers with lengthy sales cycles), our logistics partners' inability to ship products prior to fiscal quarter-end to fulfill purchase orders received near the end of the fiscal quarter, our failure to manage inventory to meet demand, any failure of our systems related to order review and processing, or any delays in shipments based on trade compliance requirements (including new compliance requirements imposed by new or renegotiated trade agreements), revenue could fall below our expectations and the estimates of analysts for that quarter, which could adversely impact our business and operating results and cause a decline in the market price of our common stock.

***Seasonality may cause fluctuations in our revenue.***

We believe there are significant seasonal factors that may cause our second and fourth fiscal quarters to record greater revenue sequentially than our first and third fiscal quarters. We believe that this seasonality results from a number of factors, including:

- end-customers with a December 31 fiscal year-end choosing to spend remaining unused portions of their discretionary budgets before their fiscal year-end, which potentially results in a positive impact on our revenue in our second fiscal quarter;
- our sales compensation plans, which are typically structured around annual quotas and commission rate accelerators, which potentially results in a positive impact on our revenue in our fourth fiscal quarter;
- seasonal reductions in business activity during August in the United States, Europe and certain other regions, which potentially results in a negative impact on our first fiscal quarter revenue; and
- the timing of end-customer budget planning at the beginning of the calendar year, which can result in a delay in spending at the beginning of the calendar year potentially resulting in a negative impact on our revenue in our third fiscal quarter.

As we continue to grow, seasonal or cyclical variations in our operations may become more pronounced, and our business, operating results and financial position may be adversely affected.

***If we are unable to hire, integrate, train, retain, and motivate qualified personnel and senior management, our business could suffer.***

Our future success depends, in part, on our ability to continue to hire, integrate, train, and retain qualified and highly skilled personnel. We are substantially dependent on the continued service of our existing engineering personnel because of the complexity of our platform. Additionally, any failure to hire, integrate, train, and adequately incentivize our sales personnel or the inability of our recently hired sales personnel to effectively ramp to target productivity levels could negatively impact our growth and operating margins. Competition for highly skilled personnel, particularly in engineering, is often intense, especially in the San Francisco Bay Area, where we have a substantial presence and need for such personnel. Additionally, potential changes in U.S. immigration and work authorization laws and regulations may make it difficult to renew or obtain visas for any highly skilled personnel that we have hired or are actively recruiting.

In addition, the industry in which we operate generally experiences high employee attrition. Although we have entered into employment offer letters with our key personnel, these agreements have no specific duration and constitute at-will employment. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees, and any failure to have in place and execute an effective succession plan for key executives, could seriously harm our business. If we are unable to hire, integrate, train, or retain the qualified and highly skilled personnel required to fulfill our current or future needs, our business, financial condition, and operating results could be harmed.

Our future performance also depends on the continued services and continuing contributions of our senior management to execute on our business plan and to identify and pursue new opportunities and product innovations. The loss of services of senior management or the ineffective management of any leadership transitions, especially within our sales organization, could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, and operating results.

Further, we believe that a critical contributor to our success and our ability to retain highly skilled personnel has been our corporate culture, which we believe fosters innovation, teamwork, passion for end-customers, focus on execution, and the facilitation of critical knowledge transfer and knowledge sharing. As we grow and change, we may find it difficult to maintain these important aspects of our corporate culture. Any failure to preserve our culture as we grow could limit our ability to innovate and could negatively affect our ability to retain and recruit personnel, continue to perform at current levels or execute on our business strategy.

***If we are not successful in executing our strategy to increase sales of our products and subscriptions to new and existing medium and large enterprise end-customers, our operating results may suffer.***

Our growth strategy is dependent, in part, upon increasing sales of our products to new and existing medium and large enterprise end-customers. Sales to these end-customers involve risks that may not be present, or that are present to a lesser extent, with sales to smaller entities. These risks include:

- competition from larger competitors, such as Cisco, Check Point, and Juniper, that traditionally target larger enterprises, service providers, and government entities and that may have pre-existing relationships or purchase commitments from those end-customers;
- increased purchasing power and leverage held by large end-customers in negotiating contractual arrangements with us;
- more stringent requirements in our worldwide support contracts, including stricter support response times and penalties for any failure to meet support requirements; and
- longer sales cycles, in some cases over 12 months, and the associated risk that substantial time and resources may be spent on a potential end-customer that elects not to purchase our products and subscriptions.

In addition, product purchases by large enterprises are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing, and other delays. Finally, large enterprises typically have longer implementation cycles, require greater product functionality and scalability and a broader range of services, demand that vendors take on a larger share of risks, sometimes require acceptance provisions that can lead to a delay in revenue recognition, and expect greater payment flexibility from vendors. All of these factors can add further risk to business conducted with these end-customers. If we fail to realize an expected sale from a large end-customer in a particular quarter or at all, our business, operating results, and financial condition could be materially and adversely affected.

***We rely on revenue from subscription and support offerings, and because we recognize revenue from subscription and support over the term of the relevant service period, downturns or upturns in sales of these subscription and support offerings are not immediately reflected in full in our operating results.***

Subscription and support revenue accounts for a significant portion of our revenue, comprising 62.5% of total revenue in the six months ended January 31, 2019 and 62.8% of total revenue in the six months ended January 31, 2018. Sales of new or renewal subscription and support contracts may decline and fluctuate as a result of a number of factors, including end-customers' level of satisfaction with our products and subscriptions (including newly integrated products and services), the prices of our products and subscriptions, the prices of products and services offered by our competitors, and reductions in our end-customers' spending levels. If our sales of new or renewal subscription and support contracts decline, our total revenue and revenue growth rate may decline and our business will suffer. In addition, we recognize subscription and support revenue monthly over the term of the relevant service period, which is typically one to five years. As a result, much of the subscription and support revenue we report each fiscal quarter is the recognition of deferred revenue from subscription and support contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed subscription or support contracts in any one fiscal quarter will not be fully or immediately reflected in revenue in that fiscal quarter but will negatively affect our revenue in future fiscal quarters. Also, it is difficult for us to rapidly increase our subscription and support revenue through additional subscription and support sales in any period, as revenue from new and renewal subscription and support contracts must be recognized over the applicable service period.

***Defects, errors, or vulnerabilities in our products, subscriptions, or support offerings, the failure of our products or subscriptions to block a virus or prevent a security breach, misuse of our products, or risks of product liability claims could harm our reputation and adversely impact our operating results.***

Because our products and subscriptions are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by our end-customers. For example, from time to time, certain of our end-customers have reported defects in our products related to performance, scalability, and compatibility. Additionally, defects may cause our products or subscriptions to be vulnerable to security attacks, cause them to fail to help secure networks, or temporarily interrupt end-customers' networking traffic. Because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques and provide a solution in time to protect our end-customers' networks. Furthermore, as a well-known provider of security solutions, our networks, products, including cloud-based technology, and subscriptions could be targeted by attacks specifically designed to disrupt our business and harm our reputation. In addition, defects or errors in our subscription updates or our products could result in a failure of our subscriptions to effectively update end-customers' hardware and cloud-based products. Our data centers and networks may experience technical failures and downtime, may fail to distribute appropriate updates, or may fail to meet the increased requirements of a growing installed end-customer base, any of which could temporarily or permanently expose our end-customers' networks, leaving their networks unprotected against the latest security threats. Moreover, our products must interoperate with our end-customers' existing infrastructure, which often have different specifications, utilize multiple protocol standards, deploy

products from multiple vendors, and contain multiple generations of products that have been added over time. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems.

The occurrence of any such problem in our products and subscriptions, whether real or perceived, could result in:

- expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate, or work-around errors or defects or to address and eliminate vulnerabilities;
- loss of existing or potential end-customers or channel partners;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- an increase in warranty claims compared with our historical experience, or an increased cost of servicing warranty claims, either of which would adversely affect our gross margins; and
- litigation, regulatory inquiries, or investigations, each of which may be costly and harm our reputation.

Further, our products and subscriptions may be misused by end-customers or third parties that obtain access to our products and subscriptions. For example, our products and subscriptions could be used to censor private access to certain information on the Internet. Such use of our products and subscriptions for censorship could result in negative press coverage and negatively affect our reputation.

The limitation of liability provisions in our standard terms and conditions of sale may not fully or effectively protect us from claims as a result of federal, state, or local laws or ordinances, or unfavorable judicial decisions in the United States or other countries. The sale and support of our products and subscriptions also entails the risk of product liability claims. Although we may be indemnified by our third-party manufacturers for product liability claims arising out of manufacturing defects, because we control the design of our products and subscriptions, we may not be indemnified for product liability claims arising out of design defects. We maintain insurance to protect against certain claims associated with the use of our products and subscriptions, but our insurance coverage may not adequately cover any claim asserted against us. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation, divert management's time and other resources, and harm our reputation.

***False detection of applications, viruses, spyware, vulnerability exploits, data patterns, or URL categories could adversely affect our business.***

Our classifications of application type, virus, spyware, vulnerability exploits, data, or uniform resource locator ("URL") categories may falsely detect, report and act on applications, content, or threats that do not actually exist. This risk is heightened by the inclusion of a "heuristics" feature in our products and subscriptions, which attempts to identify applications and other threats not based on any known signatures but based on characteristics or anomalies which indicate that a particular item may be a threat. These false positives may impair the perceived reliability of our products and subscriptions and may therefore adversely impact market acceptance of our products and subscriptions. If our products and subscriptions restrict important files or applications based on falsely identifying them as malware or some other item that should be restricted, this could adversely affect end-customers' systems and cause material system failures. Any such false identification of important files or applications could result in damage to our reputation, negative publicity, loss of channel partners, end-customers and sales, increased costs to remedy any problem, and costly litigation.

***We rely on our channel partners to sell substantially all of our products, including subscriptions and support, and if these channel partners fail to perform, our ability to sell and distribute our products and subscriptions will be limited, and our operating results will be harmed.***

Substantially all of our revenue is generated by sales through our channel partners, including distributors and resellers. We provide our channel partners with specific training and programs to assist them in selling our products, including subscriptions and support offerings, but there can be no assurance that these steps will be utilized or effective. In addition, our channel partners may be unsuccessful in marketing, selling, and supporting our products and subscriptions. We may not be able to incentivize these channel partners to sell our products and subscriptions to end-customers and, in particular, to large enterprises. These channel partners may also have incentives to promote our competitors' products and may devote more resources to the marketing, sales, and support of competitive products. Our agreements with our channel partners may generally be terminated for any reason by either party with advance notice prior to each annual renewal date. We cannot be certain that we will retain these channel partners or that we will be able to secure additional or replacement channel partners. In addition, any new channel partner requires extensive training and may take several months or more to achieve productivity. Our channel partner sales structure could subject us to lawsuits, potential liability, and reputational harm if, for example, any of our channel partners misrepresent the functionality of our products or subscriptions to end-customers or violate laws or our corporate policies. If we fail to effectively manage our sales channels or channel partners, our ability to sell our products and subscriptions and operating results will be harmed.

***If we do not accurately predict, prepare for, and respond promptly to rapidly evolving technological and market developments and successfully manage product and subscription introductions and transitions to meet changing end-customer needs in the enterprise security market, our competitive position and prospects will be harmed.***

The enterprise security market has grown quickly and is expected to continue to evolve rapidly. Moreover, many of our end-customers operate in markets characterized by rapidly changing technologies and business plans, which require them to add numerous network access points and adapt increasingly complex enterprise networks, incorporating a variety of hardware, software applications, operating systems, and networking protocols. If we fail to accurately predict end-customers' changing needs and emerging technological trends in the enterprise security industry, including in the areas of mobility, virtualization, cloud computing, and software defined networks ("SDN"), our business could be harmed. The technology in our platform is especially complex because it needs to effectively identify and respond to new and increasingly sophisticated methods of attack, while minimizing the impact on network performance. Additionally, some of our new platform features and related platform enhancements may require us to develop new hardware architectures that involve complex, expensive, and time-consuming research and development processes. The development of our platform is difficult and the timetable for commercial release and availability is uncertain as there can be long time periods between releases and availability of new platform features. If we experience unanticipated delays in the availability of new products, platform features, and subscriptions, and fail to meet customer expectations for such availability, our competitive position and business prospects will be harmed.

Additionally, we must commit significant resources to developing new platform features before knowing whether our investments will result in products, subscriptions, and platform features the market will accept. The success of new platform features depends on several factors, including appropriate new product definition, differentiation of new products, subscriptions, and platform features from those of our competitors, and market acceptance of these products, services and platform features. Moreover, successful new product introduction and transition depends on a number of factors including, our ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products may have quality or other defects or deficiencies, especially in the early stages of introduction. There can be no assurance that we will successfully identify opportunities for new products and subscriptions, develop and bring new products and subscriptions to market in a timely manner, or achieve market acceptance of our products and subscriptions, or that products, subscriptions, and technologies developed by others will not render our products, subscriptions, or technologies obsolete or noncompetitive.

***Our current research and development efforts may not produce successful products, subscriptions, or platform features that result in significant revenue, cost savings or other benefits in the near future, if at all.***

Developing our products, subscriptions, platform features, and related enhancements is expensive. Our investments in research and development may not result in significant design improvements, marketable products, subscriptions, or platform features, or may result in products, subscriptions, or platform features that are more expensive than anticipated. Additionally, we may not achieve the cost savings or the anticipated performance improvements we expect, and we may take longer to generate revenue, or generate less revenue, than we anticipate. Our future plans include significant investments in research and development and related product and subscription opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, we may not receive significant revenue from these investments in the near future, if at all, or these investments may not yield the expected benefits, either of which could adversely affect our business and operating results.

***Because we depend on manufacturing partners to build and ship our products, we are susceptible to manufacturing and logistics delays and pricing fluctuations that could prevent us from shipping customer orders on time, if at all, or on a cost-effective basis, which may result in the loss of sales and end-customers.***

We depend on manufacturing partners, primarily Flextronics International, Ltd. ("Flex"), our electronics manufacturing service provider ("EMS provider"), as sole source manufacturers for our product lines. Our reliance on these manufacturing partners reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, product supply, timing and transportation risk. Our products are manufactured by our manufacturing partners at facilities located in the United States. Some of the components in our products are sourced either through Flex or directly by us from component suppliers outside the United States. The portion of our products that are sourced outside the United States may subject us to additional logistical risks or risks associated with complying with local rules and regulations in foreign countries. Significant changes to existing international trade agreements could lead to sourcing or logistics disruption resulting from import delays or the imposition of increased tariffs on our sourcing partners. For example, the United States and Chinese governments have each enacted, and discussed potential, import tariffs. These tariffs, depending on their ultimate scope and how they are implemented, could negatively impact our business by increasing our costs. Each of these factors could severely impair our ability to fulfill orders.

In addition, we are subject to requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") to diligence, disclose, and report whether or not our products contain minerals originating from the Democratic

Republic of the Congo and adjoining countries, or conflict minerals. Although the SEC has provided guidance with respect to a portion of the conflict minerals filing requirements that may somewhat reduce our reporting practices, we have incurred and expect to incur additional costs to comply with these disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. These requirements could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of semiconductor devices or other components used in our products. We may also encounter end-customers who require that all of the components of our products be certified as conflict free. If we are not able to meet this requirement, such end-customers may choose not to purchase our products.

Our manufacturing partners typically fulfill our supply requirements on the basis of individual purchase orders. We do not have long-term contracts with these manufacturers that guarantee capacity, the continuation of particular pricing terms, or the extension of credit limits. Accordingly, they are not obligated to continue to fulfill our supply requirements and the prices we pay for manufacturing services could be increased on short notice. Our contract with Flex permits them to terminate the agreement for their convenience, subject to prior notice requirements. If we are required to change manufacturing partners, our ability to meet our scheduled product deliveries to our end-customers could be adversely affected, which could cause the loss of sales to existing or potential end-customers, delayed revenue or an increase in our costs which could adversely affect our gross margins. Any production interruptions for any reason, such as a natural disaster, epidemic, capacity shortages, or quality problems, at one of our manufacturing partners would negatively affect sales of our product lines manufactured by that manufacturing partner and adversely affect our business and operating results.

***Managing the supply of our products and product components is complex. Insufficient supply and inventory may result in lost sales opportunities or delayed revenue, while excess inventory may harm our gross margins.***

Our manufacturing partners procure components and build our products based on our forecasts, and we generally do not hold inventory for a prolonged period of time. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and analyses from our sales and product management organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate component supply, from time to time we may issue forecasts for components and products that are non-cancelable and non-returnable.

Our inventory management systems and related supply chain visibility tools may be inadequate to enable us to forecast accurately and effectively manage supply of our products and product components. If we ultimately determine that we have excess supply, we may have to reduce our prices and write-down inventory, which in turn could result in lower gross margins. If our actual component usage and product demand are lower than the forecast we provide to our manufacturing partners, we accrue for losses on manufacturing commitments in excess of forecasted demand. Alternatively, insufficient supply levels may lead to shortages that result in delayed product revenue or loss of sales opportunities altogether as potential end-customers turn to competitors' products that are readily available. If we are unable to effectively manage our supply and inventory, our operating results could be adversely affected.

***Because some of the key components in our products come from limited sources of supply, we are susceptible to supply shortages or supply changes, which could disrupt or delay our scheduled product deliveries to our end-customers and may result in the loss of sales and end-customers.***

Our products rely on key components, including integrated circuit components, which our manufacturing partners purchase on our behalf from a limited number of component suppliers, including sole source providers. The manufacturing operations of some of our component suppliers are geographically concentrated in Asia and elsewhere, which makes our supply chain vulnerable to regional disruptions, such as natural disasters, fire, political instability, civil unrest, a power outage, or a localized health risk, and as a result could impair the volume of components that we are able to obtain.

Further, we do not have volume purchase contracts with any of our component suppliers, and they could cease selling to us at any time. If we are unable to obtain a sufficient quantity of these components in a timely manner for any reason, sales of our products could be delayed or halted or we could be forced to expedite shipment of such components or our products at dramatically increased costs. Our component suppliers also change their selling prices frequently in response to market trends, including industry-wide increases in demand, and because we do not have volume purchase contracts with these component suppliers, we are susceptible to price fluctuations related to raw materials and components and may not be able to adjust our prices accordingly. Additionally, poor quality in any of the sole-sourced components in our products could result in lost sales or sales opportunities.

If we are unable to obtain a sufficient volume of the necessary components for our products on commercially reasonable terms or the quality of the components do not meet our requirements, we could also be forced to redesign our products and qualify new components from alternate component suppliers. The resulting stoppage or delay in selling our products and the expense of redesigning our products could result in lost sales opportunities and damage to customer relationships, which would adversely affect our business and operating results.

***The sales prices of our products and subscriptions may decrease, which may reduce our gross profits and adversely impact our financial results.***

The sales prices for our products and subscriptions may decline for a variety of reasons, including competitive pricing pressures, discounts, a change in our mix of products and subscriptions, anticipation of the introduction of new products or subscriptions, or promotional programs. Competition continues to increase in the market segments in which we participate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors with more diverse product and service offerings may reduce the price of products or subscriptions that compete with ours or may bundle them with other products and subscriptions. Additionally, although we price our products and subscriptions worldwide in U.S. dollars, currency fluctuations in certain countries and regions may negatively impact actual prices that channel partners and end-customers are willing to pay in those countries and regions. Furthermore, we anticipate that the sales prices and gross profits for our products will decrease over product life cycles. We cannot guarantee that we will be successful in developing and introducing new offerings with enhanced functionality on a timely basis, or that our product and subscription offerings, if introduced, will enable us to maintain our prices and gross profits at levels that will allow us to achieve and maintain profitability.

***We generate a significant amount of revenue from sales to distributors, resellers, and end-customers outside of the United States, and we are therefore subject to a number of risks associated with international sales and operations.***

We have a limited history of marketing, selling, and supporting our products and subscriptions internationally. We may experience difficulties in recruiting, training, managing, and retaining an international staff, and specifically staff related to sales management and sales personnel. We also may not be able to maintain successful strategic distributor relationships internationally or recruit additional companies to enter into strategic distributor relationships. Business practices in the international markets that we serve may differ from those in the United States and may require us in the future to include terms other than our standard terms related to payment, warranties, or performance obligations in end-customer contracts.

Additionally, our international sales and operations are subject to a number of risks, including the following:

- political, economic and social uncertainty around the world, macroeconomic challenges in Europe, terrorist activities, and continued hostilities in the Middle East;
- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of unexpected changes in foreign and domestic regulatory practices, tariffs, and tax laws and treaties, including regulatory and trade policy changes adopted by the current administration or foreign countries in response to regulatory changes adopted by the current administration;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our products required in foreign countries;
- greater risk of a failure of foreign employees, channel partners, distributors, and resellers to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, U.S. or foreign sanctions regimes and export or import control laws, and any trade regulations ensuring fair trade practices, which non-compliance could include increased costs;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- management communication and integration problems resulting from cultural and geographic dispersion; and
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business and related impact on sales cycles.

These and other factors could harm our future international revenues and, consequently, materially impact our business, operating results, and financial condition. The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks effectively could limit the future growth of our business.

Further, we are subject to risks associated with changes in economic and political conditions in countries in which we operate or sell our products and subscriptions. For instance, the U.K.'s notification of its intention to leave the E.U. creates an uncertain political and economic environment in the U.K. and potentially across other E.U. member states for the foreseeable future, including during any period while the terms of any U.K. exit from the E.U. are being negotiated and/or during any transitional period connected to the U.K.'s eventual withdrawal from the E.U. Any agreements arising out of negotiations which the U.K. government makes to retain access to E.U. markets either during a transitional period or more permanently may lead to greater restrictions on the free movement

of goods, services, people and capital between the U.K. and the remaining E.U. member states. Our financial condition and operating results in the U.K. and the E.U. may be impacted by such uncertainty with potential disruptions to our relationships with existing and future customers, suppliers and employees all possibly having a material adverse impact on our business, prospects, financial condition and/or operating results.

***We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and operating results.***

Our sales contracts are primarily denominated in U.S. dollars, and therefore, substantially all of our revenue is not subject to foreign currency risk. However, including as a result of concerns regarding the impact of Brexit, there has been, and may continue to be, significant volatility in global stock markets and foreign currency exchange rates that result in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The strengthening of the U.S. dollar increases the real cost of our platform to our end-customers outside of the United States and may lead to delays in the purchase of our products, subscriptions, and support, and the lengthening of our sales cycle. If the U.S. dollar continues to strengthen, this could adversely affect our financial condition and operating results. In addition, increased international sales in the future, including through our channel partners and other partnerships, may result in greater foreign currency denominated sales, increasing our foreign currency risk.

Our operating expenses incurred outside the United States and denominated in foreign currencies are increasing and are subject to fluctuations due to changes in foreign currency exchange rates. If we are not able to successfully hedge against the risks associated with foreign currency fluctuations, our financial condition and operating results could be adversely affected. We have entered into forward contracts in an effort to reduce our foreign currency exchange exposure related to our foreign currency denominated expenditures. As of January 31, 2019, the total notional amount of our outstanding foreign currency forward contracts was \$205.1 million. For more information on our hedging transactions, refer to Note 5. Derivative Instruments in Part I, Item 1 of this Quarterly Report on Form 10-Q. The effectiveness of our existing hedging transactions and the availability and effectiveness of any hedging transactions we may decide to enter into in the future may be limited and we may not be able to successfully hedge our exposure, which could adversely affect our financial condition and operating results.

***A small number of channel partners represent a large percentage of our revenue and gross accounts receivable. We are exposed to the credit and liquidity risk of some of our channel partners and to credit exposure in weakened markets, which could result in material losses.***

For the six months ended January 31, 2019, three distributors represented 66.2% of our total revenue, and as of January 31, 2019, four distributors represented 75.2% of our gross accounts receivable. Most of our sales to our channel partners are made on an open credit basis. Although we have programs in place that are designed to monitor and mitigate these risks, we cannot guarantee these programs will be effective in reducing our credit risks, especially as we expand our business internationally. If we are unable to adequately control these risks, our business, operating results, and financial condition could be harmed.

***A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks.***

Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. The substantial majority of our sales to date to government entities have been made indirectly through our channel partners. Government certification requirements for products and subscriptions like ours may change, thereby restricting our ability to sell into the federal government sector until we have attained the revised certification. If our products and subscriptions are late in achieving or fail to achieve compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products and subscriptions to such governmental entity, or be at a competitive disadvantage, which would harm our business, operating results, and financial condition. Government demand and payment for our products and subscriptions may be impacted by government shutdowns, public sector budgetary cycles, contracting requirements, and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and subscriptions. Government entities may have statutory, contractual, or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future operating results. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our products and subscriptions, a reduction of revenue, or fines or civil or criminal liability if the audit uncovers improper or illegal activities, which could adversely impact our operating results in a material way. Additionally, the U.S. government may require certain of the products that it purchases to be manufactured in the United States and other relatively high cost manufacturing locations, and we may not manufacture all products in locations that meet such requirements, affecting our ability to sell these products and subscriptions to the U.S. government.

***Our ability to sell our products and subscriptions is dependent on the quality of our technical support services and those of our channel partners, and the failure to offer high-quality technical support services could have a material adverse effect on our end-customers' satisfaction with our products and subscriptions, our sales, and our operating results.***

After our products and subscriptions are deployed within our end-customers' networks, our end-customers depend on our technical support services, as well as the support of our channel partners, to resolve any issues relating to our products. Our channel partners often provide similar technical support for third parties' products and may therefore have fewer resources to dedicate to the support of our products and subscriptions. If we or our channel partners do not effectively assist our end-customers in deploying our products and subscriptions, succeed in helping our end-customers quickly resolve post-deployment issues, or provide effective ongoing support, our ability to sell additional products and subscriptions to existing end-customers would be adversely affected and our reputation with potential end-customers could be damaged. Many larger enterprise, service provider, and government entity end-customers have more complex networks and require higher levels of support than smaller end-customers. If we or our channel partners fail to meet the requirements of these larger end-customers, it may be more difficult to execute on our strategy to increase our coverage with larger end-customers. Additionally, if our channel partners do not effectively provide support to the satisfaction of our end-customers, we may be required to provide direct support to such end-customers, which would require us to hire additional personnel and to invest in additional resources. It can take several months to recruit, hire, and train qualified technical support employees. We may not be able to hire such resources fast enough to keep up with unexpected demand, particularly if the sales of our products exceed our internal forecasts. As a result, our ability, and the ability of our channel partners to provide adequate and timely support to our end-customers will be negatively impacted, and our end-customers' satisfaction with our products and subscriptions will be adversely affected. Additionally, to the extent that we may need to rely on our sales engineers to provide post-sales support while we are ramping our support resources, our sales productivity will be negatively impacted, which would harm our revenues. Our failure or our channel partners' failure to provide and maintain high-quality support services could have a material adverse effect on our business, financial condition, and operating results.

***We may acquire other businesses, which could require significant management attention, disrupt our business, dilute stockholder value, and adversely affect our operating results.***

As part of our business strategy, we may acquire or make investments in complementary companies, products, or technologies. For example, in April 2014, we acquired Cyvera Ltd. ("Cyvera"), in May 2015, we acquired CirroSecure, Inc., in February 2017, we acquired LightCyber Ltd. ("LightCyber"), in March 2018, we acquired Evident.io, in April 2018, we acquired Secdo, and in October 2018 we acquired RedLock Inc. The identification of suitable acquisition candidates is difficult, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete future acquisitions, we may not ultimately strengthen our competitive position or achieve our goals and business strategy; we may be subject to claims or liabilities assumed from an acquired company, product, or technology; acquisitions we complete could be viewed negatively by our end-customers, investors, and securities analysts; and we may incur costs and expenses necessary to address an acquired company's failure to comply with laws and governmental rules and regulations. Additionally, we may be subject to litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties, which may differ from or be more significant than the risks our business faces. If we are unsuccessful at integrating past or future acquisitions in a timely manner, or the technologies and operations associated with such acquisitions, into our company, the revenue and operating results of the combined company could be adversely affected. Any integration process may require significant time and resources, which may disrupt our ongoing business and divert management's attention, and we may not be able to manage the integration process successfully or in a timely manner. We may not successfully evaluate or utilize the acquired technology or personnel, realize anticipated synergies from the acquisition, or accurately forecast the financial impact of an acquisition transaction and integration of such acquisition, including accounting charges and any potential impairment of goodwill and intangible assets recognized in connection with such acquisitions. We may have to pay cash, incur debt, or issue equity or equity-linked securities to pay for any future acquisitions, each of which could adversely affect our financial condition or the market price of our common stock. Furthermore, the sale of equity or issuance of equity-linked debt to finance any future acquisitions could result in dilution to our stockholders. See the risk factors entitled "Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products and subscriptions could reduce our ability to compete and could harm our business" and "The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans, the conversion of our Notes or exercise of the related Warrants, or otherwise will dilute all other stockholders." The occurrence of any of these risks could harm our business, operating results, and financial condition.

***Claims by others that we infringe their proprietary technology or other rights could harm our business.***

Companies in the enterprise security industry own large numbers of patents, copyrights, trademarks, domain names, and trade secrets and frequently enter into litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. Third parties have asserted and may in the future assert claims of infringement of intellectual property rights against us. For example, in December 2011, Juniper, one of our competitors, filed a lawsuit against us alleging patent infringement. In September 2013, we filed a lawsuit against Juniper alleging patent infringement. In May 2014, we entered into a Settlement, Release

and Cross-License Agreement with Juniper to resolve all pending disputes between Juniper and us, including dismissal of all pending litigation.

Third parties may also assert such claims against our end-customers or channel partners, whom our standard license and other agreements obligate us to indemnify against claims that our products and subscriptions infringe the intellectual property rights of third parties. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited, that they have divulged proprietary or other confidential information, or that their former employers own their inventions or other work product. Furthermore, we may be unaware of the intellectual property rights of others that may cover some or all of our technology or products and subscriptions. As the number of products and competitors in our market increases and overlaps occur, infringement claims may increase. While we intend to increase the size of our patent portfolio, our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. In addition, litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may therefore provide little or no deterrence or protection. In addition, we have not registered our trademarks in all of our geographic markets and failure to secure those registrations could adversely affect our ability to enforce and defend our trademark rights. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim, could distract our management from our business, and could require us to cease use of such intellectual property. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. A successful claimant could secure a judgment or we may agree to a settlement that prevents us from distributing certain products or performing certain services or that requires us to pay substantial damages, royalties, or other fees. Any of these events could seriously harm our business, financial condition, and operating results.

***Our proprietary rights may be difficult to enforce or protect, which could enable others to copy or use aspects of our products or subscriptions without compensating us.***

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants, and third parties with whom we have relationships, as well as trademark, copyright, patent, and trade secret protection laws, to protect our proprietary rights. We have filed various applications for certain aspects of our intellectual property. Valid patents may not issue from our pending applications, and the claims eventually allowed on any patents may not be sufficiently broad to protect our technology or products and subscriptions. We cannot be certain that we were the first to make the inventions claimed in our pending patent applications or that we were the first to file for patent protection, which could prevent our patent applications from issuing as patents or invalidate our patents following issuance. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Any issued patents may be challenged, invalidated or circumvented, and any rights granted under these patents may not actually provide adequate defensive protection or competitive advantages to us. Additional uncertainty may result from changes to patent-related laws and court rulings in the United States and other jurisdictions. As a result, we may not be able to obtain adequate patent protection or effectively enforce any issued patents.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or subscriptions or obtain and use information that we regard as proprietary. We generally enter into confidentiality or license agreements with our employees, consultants, vendors, and end-customers, and generally limit access to and distribution of our proprietary information. However, we cannot be certain that we have entered into such agreements with all parties who may have or have had access to our confidential information or that the agreements we have entered into will not be breached. We cannot guarantee that any of the measures we have taken will prevent misappropriation of our technology. Because we may be an attractive target for computer hackers, we may have a greater risk of unauthorized access to, and misappropriation of, our proprietary information. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as government agencies and private parties in the United States. From time to time, we may need to take legal action to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could negatively affect our business, operating results, and financial condition. Attempts to enforce our rights against third parties could also provoke these third parties to assert their own intellectual property or other rights against us, or result in a holding that invalidates or narrows the scope of our rights, in whole or in part. If we are unable to protect our proprietary rights (including aspects of our software and products protected other than by patent rights), we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time, and effort required to create the innovative products that have enabled us to be successful to date. Any of these events would have a material adverse effect on our business, financial condition, and operating results.

***Our use of open source software in our products and subscriptions could negatively affect our ability to sell our products and subscriptions and subject us to possible litigation.***

Our products and subscriptions contain software modules licensed to us by third-party authors under “open source” licenses. Some open source licenses contain requirements that we make available applicable source code for modifications or derivative works

we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar products or subscriptions with lower development effort and time and ultimately could result in a loss of product sales for us.

Although we monitor our use of open source software to avoid subjecting our products and subscriptions to conditions we do not intend, the terms of many open source licenses have not been interpreted by United States courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our products and subscriptions. From time to time, there have been claims against companies that distribute or use open source software in their products and subscriptions, asserting that open source software infringes the claimants' intellectual property rights. We could be subject to suits by parties claiming infringement of intellectual property rights in what we believe to be licensed open source software. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue offering our products and subscriptions on terms that are not economically feasible, to reengineer our products and subscriptions, to discontinue the sale of our products and subscriptions if reengineering could not be accomplished on a timely basis, or to make generally available, in source code form, our proprietary code, any of which could adversely affect our business, operating results, and financial condition.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or assurance of title or controls on origin of the software. In addition, many of the risks associated with usage of open source software, such as the lack of warranties or assurances of title, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source software, but we cannot be sure that our processes for controlling our use of open source software in our products and subscriptions will be effective.

***We license technology from third parties, and our inability to maintain those licenses could harm our business.***

We incorporate technology that we license from third parties, including software, into our products and subscriptions. We cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products and subscriptions. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Some of our agreements with our licensors may be terminated for convenience by them. We may also be subject to additional fees or be required to obtain new licenses if any of our licensors allege that we have not properly paid for such licenses or that we have improperly used the technologies under such licenses, and such licenses may not be available on terms acceptable to us or at all. If we are unable to continue to license any of this technology because of intellectual property infringement claims brought by third parties against our licensors or against us, or claims against us by our licensors, or if we are unable to continue our license agreements or enter into new licenses on commercially reasonable terms, our ability to develop and sell products and subscriptions containing such technology would be severely limited, and our business could be harmed. Additionally, if we are unable to license necessary technology from third parties, we may be forced to acquire or develop alternative technology, which we may be unable to do in a commercially feasible manner or at all, and we may be required to use alternative technology of lower quality or performance standards. This would limit and delay our ability to offer new or competitive products and subscriptions and increase our costs of production. As a result, our margins, market share, and operating results could be significantly harmed.

***We face risks associated with having operations and employees located in Israel.***

As a result of our acquisitions of Cyvera, LightCyber, and Secdo, we have an office and employees located in Israel. Accordingly, political, economic, and military conditions in Israel directly affect our operations. The future of peace efforts between Israel and its Arab neighbors remains uncertain. There has been a significant increase in hostilities and political unrest between Hamas and Israel in the past few years. The effects of these hostilities and violence on the Israeli economy and our operations in Israel are unclear, and we cannot predict the effect on us of further increases in these hostilities or future armed conflict, political instability or violence in the region. Current or future tensions and conflicts in the Middle East could adversely affect our business, operating results, financial condition and cash flows.

In addition, many of our employees in Israel are obligated to perform annual reserve duty in the Israeli military and are subject to being called for active duty under emergency circumstances. We cannot predict the full impact of these conditions on us in the future, particularly if emergency circumstances or an escalation in the political situation occurs. If many of our employees in Israel are called for active duty for a significant period of time, our operations and our business could be disrupted and may not be able to function at full capacity. Any disruption in our operations in Israel could adversely affect our business.

***Our failure to adequately protect personal information could have a material adverse effect on our business.***

A wide variety of provincial, state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These data protection and privacy-related laws and regulations

are evolving and being tested in courts and may result in ever-increasing regulatory and public scrutiny as well as escalating levels of enforcement and sanctions. Further, the interpretation and application of foreign laws and regulations in many cases is uncertain, and our legal and regulatory obligations in foreign jurisdictions are subject to frequent and unexpected changes, including the potential for various regulatory or other governmental bodies to enact new or additional laws or regulations, to issue rulings that invalidate prior laws or regulations, or to increase penalties significantly.

For example, the E.U. General Data Protection Regulation (“GDPR”), which became effective in May 2018, imposes more stringent data protection requirements, and provides for greater penalties for noncompliance, than E.U. laws that previously applied. In the U.K., a Data Protection Bill that substantially implements the GDPR also became law in May 2018. Additionally, California recently enacted legislation, the California Consumer Privacy Act (“CCPA”), that will, among other things, require covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt-out of certain sales of personal information, when it goes into effect on January 1, 2020. Legislators have stated that they intend to propose amendments to the CCPA before it goes into effect, and it remains unclear what, if any, modifications will be made to this legislation or how it will be interpreted. The effects of the CCPA potentially are significant, however, and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. We may also from time to time be subject to, or face assertions that we are subject to, additional obligations relating to personal data by contract or due to assertions that self-regulatory obligations or industry standards apply to our practices.

Our actual or perceived failure to comply with applicable laws and regulations or other obligations to which we may be subject relating to personal data, or to protect personal data from unauthorized acquisition, use or other processing, could result in consequences such as enforcement actions and regulatory investigations against us, fines, public censure, claims for damages by end-customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing end-customers and prospective end-customers), any of which could have a material adverse effect on our operations, financial performance, and business. Evolving and changing definitions of personal data and personal information, within the E.U., the United States, and elsewhere, especially relating to classification of Internet Protocol (“IP”) addresses, machine identification, location data, and other information, may limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the sharing or uses of data, and may require significant expenditures and efforts in order to comply. Even the perception of privacy, data protection or information security concerns, whether or not valid, may harm our reputation and inhibit adoption of our products and subscriptions by current and future end-customers.

***We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.***

Because we incorporate encryption technology into our products, certain of our products are subject to U.S. export controls and may be exported outside the United States only with the required export license or through an export license exception. If we were to fail to comply with U.S. export licensing requirements, U.S. customs regulations, U.S. economic sanctions, or other laws, we could be subject to substantial civil and criminal penalties, including fines, incarceration for responsible employees and managers, and the possible loss of export or import privileges. Obtaining the necessary export license for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain products to U.S. embargoed or sanctioned countries, governments, and persons. Even though we take precautions to ensure that our channel partners comply with all relevant regulations, any failure by our channel partners to comply with such regulations could have negative consequences for us, including reputational harm, government investigations, and penalties.

In addition, various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our end-customers’ ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products into international markets, prevent our end-customers with international operations from deploying our products globally or, in some cases, prevent or delay the export or import of our products to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential end-customers with international operations. Any decreased use of our products or limitation on our ability to export to or sell our products in international markets would likely adversely affect our business, financial condition, and operating results.

***Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products and subscriptions could reduce our ability to compete and could harm our business.***

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features to enhance our platform, improve our operating infrastructure, or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional equity or equity-linked financing, our stockholders may experience significant dilution of their ownership interests and the market price of our common stock could decline. For example, in June 2014, we issued 0.0% Convertible

Senior Notes due 2019 (the “2019 Notes”) and in July 2018, we issued 0.75% Convertible Senior Notes due 2023 (the “2023 Notes” and, together with the 2019 Notes, the “Notes”); any conversion of some or all of either series of Notes into common stock will dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of such Notes. See the risk factor entitled “The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans, the conversion of our Notes, or otherwise will dilute all other stockholders.” The holders of the Notes have priority over holders of our common stock, and if we engage in future debt financings, the holders of such additional debt would also have priority over the holders of our common stock. Current and future indebtedness may also contain terms that, among other things, restrict our ability to incur additional indebtedness. We may also be required to take other actions that would otherwise be in the interests of the debt holders and would require us to maintain specified liquidity or other ratios, any of which could harm our business, operating results, and financial condition. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely affected.

***We have a corporate structure aligned with the international nature of our business activities, and if we do not achieve increased tax benefits as a result of our corporate structure, our financial condition and operating results could be adversely affected.***

We have reorganized our corporate structure and intercompany relationships to more closely align with the international nature of our business activities. This corporate structure may allow us to reduce our overall effective tax rate through changes in how we use our intellectual property, international procurement, and sales operations. This corporate structure may also allow us to obtain financial and operational efficiencies. These efforts require us to incur expenses in the near term for which we may not realize related benefits. If the structure is not accepted by the applicable tax authorities, if there are any changes in, or interpretations of, domestic and international tax laws that negatively impact the structure, including, but not limited to, the TCJA and guidance regarding base erosion and profit shifting (“BEPS”) provided by the Organisation for Economic Co-operation and Development, or if we do not operate our business consistent with the structure and applicable tax provisions, we may fail to achieve the reduction in our overall effective tax rate and the other financial and operational efficiencies that we anticipate as a result of the structure and our future financial condition and operating results may be negatively impacted. In addition, we continue to evaluate our corporate structure in light of current and pending tax legislation, and any changes to our corporate structure may require us to incur additional expenses and may impact our overall effective tax rate.

***We may have exposure to greater than anticipated tax liabilities.***

Our income tax obligations are based in part on our corporate structure and intercompany arrangements, including the manner in which we develop, value, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our business, including the laws of the United States and other jurisdictions, are subject to interpretation and certain jurisdictions may aggressively interpret their laws in an effort to raise additional tax revenue. The tax authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position and operating results. It is possible that tax authorities may disagree with certain positions we have taken and any adverse outcome of such a review or audit could have a negative effect on our financial position and operating results. Further, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our condensed consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made.

In addition, our future income tax obligations could be adversely affected by changes in, or interpretations of, tax laws in the United States or in other jurisdictions in which we operate. In the United States, the TCJA contains many significant changes to the U.S. federal income tax laws, the consequences of which, to us, could have a material impact on the value of our deferred tax assets and could increase our future U.S. income tax expense. Furthermore, changes to the taxation of undistributed foreign earnings, if any, could change our future intentions regarding reinvestment of such earnings. The foregoing items could have a material adverse effect on our business, cash flows, operating results, or financial condition.

***If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our operating results could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue, and expenses that are not readily apparent from other sources. For more information, refer to the section entitled “Critical Accounting Estimates” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part I, Item 2 of this Quarterly Report on Form 10-Q. Additionally, as we have worked toward adopting and implementing the new revenue accounting standard, management has made

judgments and assumptions based on our interpretation of the new standard. The new revenue standard is principle based and interpretation of those principles may vary from company to company based on their unique circumstances. In general, if our estimates, judgments or assumptions relating to our critical accounting policies change or if actual circumstances differ from our estimates, judgments or assumptions, our operating results may be adversely affected and could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

***Failure to comply with governmental laws and regulations could harm our business.***

Our business is subject to regulation by various federal, state, local, and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws (including the U.S. Foreign Corrupt Practices Act and the U.K. Anti-Bribery Act), import/export controls, federal securities laws, and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation resulting from any alleged noncompliance, our business, operating results, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions, litigation, and sanctions could harm our business, operating results, and financial condition.

***If we fail to comply with environmental requirements, our business, financial condition, operating results, and reputation could be adversely affected.***

We are subject to various environmental laws and regulations including laws governing the hazardous material content of our products and laws relating to the collection of and recycling of electrical and electronic equipment. Examples of these laws and regulations include the E.U. Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive ("RoHS") and the E.U. Waste Electrical and Electronic Equipment Directive ("WEEE Directive"), as well as the implementing legislation of the E.U. member states. Similar laws and regulations have been passed or are pending in China, South Korea, Norway, and Japan and may be enacted in other regions, including in the United States, and we are, or may in the future be, subject to these laws and regulations.

The E.U. RoHS and the similar laws of other jurisdictions limit the content of certain hazardous materials such as lead, mercury, and cadmium in the manufacture of electrical equipment, including our products. Our current products comply with the E.U. RoHS requirements. However, if there are changes to this or other laws (or their interpretation) or if new similar laws are passed in other jurisdictions, we may be required to reengineer our products to use components compatible with these regulations. This reengineering and component substitution could result in additional costs to us or disrupt our operations or logistics.

The WEEE Directive requires electronic goods producers to be responsible for the collection, recycling, and treatment of such products. Changes in interpretation of the directive may cause us to incur costs or have additional regulatory requirements to meet in the future in order to comply with this directive, or with any similar laws adopted in other jurisdictions.

We are also subject to environmental laws and regulations governing the management of hazardous materials, which we use in small quantities in our engineering labs. Our failure to comply with past, present, and future similar laws could result in reduced sales of our products, substantial product inventory write-offs, reputational damage, penalties, and other sanctions, any of which could harm our business and financial condition. We also expect that our products will be affected by new environmental laws and regulations on an ongoing basis. To date, our expenditures for environmental compliance have not had a material impact on our operating results or cash flows, and although we cannot predict the future impact of such laws or regulations, they will likely result in additional costs and may increase penalties associated with violations or require us to change the content of our products or how they are manufactured, which could have a material adverse effect on our business, operating results, and financial condition.

***Our business is subject to the risks of earthquakes, fire, power outages, floods, and other catastrophic events, and to interruption by man-made problems such as terrorism.***

Both our corporate headquarters and the location where our products are manufactured are located in the San Francisco Bay Area, a region known for seismic activity. In addition, other natural disasters, such as fire or floods, a significant power outage, telecommunications failure, terrorism, an armed conflict, cyberattacks, or other geo-political unrest could affect our supply chain, manufacturers, logistics providers, channel partners, or end-customers or the economy as a whole and such disruption could impact our shipments and sales. These risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, the loss of customers, or the delay in the manufacture, deployment, or shipment of our products, our business, financial condition, and operating results would be adversely affected.

## Risks Related to Our Notes

***We may not have the ability to raise the funds necessary to settle conversions of the Notes, repurchase the Notes upon a fundamental change or repay the Notes in cash at their maturity, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.***

Holders of the Notes of either series will have the right under the applicable indenture governing the Notes to require us to repurchase all or a portion of their Notes of such series upon the occurrence of a fundamental change before the applicable maturity date at a repurchase price equal to 100% of the principal amount of such Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the applicable fundamental change repurchase date. In addition, upon conversion of the Notes of either series, we will be required to make cash payments for each \$1,000 in principal amount of such Notes converted of at least the lesser of \$1,000 and the sum of the daily conversion values for such series of Notes. Moreover, we will be required to repay the Notes in cash at their respective maturity, unless earlier converted or repurchased. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of such Notes surrendered or pay cash with respect to such Notes being converted.

In addition, our ability to repurchase or to pay cash upon conversion of either series of Notes may be limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the relevant indenture governing such Notes or to pay cash upon conversion of such Notes as required by the relevant indenture would constitute a default under such indenture. A default under the relevant indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or to pay cash upon conversion of the Notes.

***We may still incur substantially more debt or take other actions that would diminish our ability to make payments on the Notes when due.***

We and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We are not restricted under the terms of the applicable indenture governing such series of Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of such indenture governing such Notes that could have the effect of diminishing our ability to make payments on such Notes when due. While the terms of any future indebtedness we may incur could restrict our ability to incur additional indebtedness, any such restrictions will indirectly benefit holders of the applicable series of Notes only to the extent any such indebtedness or credit facility is not repaid or does not mature while such Notes are outstanding.

## Risks Related to Our Common Stock

***Our actual operating results may differ significantly from our guidance.***

From time to time, we have released, and may continue to release, guidance in our quarterly earnings releases, quarterly earnings conference calls, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which includes forward-looking statements, has been and will be based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person expresses any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. The rapidly evolving market in which we operate may make it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We intend to state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed. However, actual results will vary from our guidance and the variations may be material. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook as of the date of release with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons. Investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this "Risk Factors" section in this Quarterly Report on Form 10-Q could result in our actual operating results being different from our guidance, and the differences may be adverse and material.

***The market price of our common stock historically has been volatile and the value of your investment could decline.***

The market price of our common stock has been volatile since our initial public offering (“IPO”) in July 2012. The reported high and low sales prices of our common stock during the last 12 months have ranged from \$158.77 to \$239.50, as measured through February 14, 2019. The market price of our common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include:

- announcements of new products, subscriptions or technologies, commercial relationships, strategic partnerships, acquisitions or other events by us or our competitors;
- price and volume fluctuations in the overall stock market from time to time;
- news announcements that affect investor perception of our industry, including reports related to the discovery of significant cyberattacks;
- significant volatility in the market price and trading volume of technology companies in general and of companies in our industry;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- whether our operating results meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of securities analysts or investors, whether as a result of our forward- looking statements, our failure to meet such expectations or otherwise;
- inaccurate or unfavorable research reports about our business and industry published by securities analysts or reduced coverage of our company by securities analysts;
- litigation involving us, our industry, or both;
- actions instituted by activist shareholders or others;
- regulatory developments in the United States, foreign countries or both;
- major catastrophic events;
- sales or repurchases of large blocks of our common stock or substantial future sales by our directors, executive officers, employees and significant stockholders;
- sales of our common stock by investors who view the Notes as a more attractive means of equity participation in us;
- hedging or arbitrage trading activity involving our common stock as a result of the existence of the Notes;
- departures of key personnel; or
- economic uncertainty around the world, in particular, macroeconomic challenges in Europe.

The market price of our common stock could decline for reasons unrelated to our business, operating results, or financial condition and as a result of events that do not directly affect us. In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been brought against that company. Securities litigation could result in substantial costs and divert our management’s attention and resources from our business. This could have a material adverse effect on our business, operating results, and financial condition.

***The convertible note hedge and warrant transactions may affect the value of our common stock.***

In connection with the sale of each series of Notes, we entered into convertible note hedge transactions (the “Note Hedges”) with certain counterparties. In connection with each such sale of the Notes, we also entered into warrant transactions with the counterparties pursuant to which we sold warrants (the “Warrants”) for the purchase of our common stock. The Note Hedges are expected generally to reduce the potential dilution to our common stock upon any conversion of either series of Notes and/or offset any cash payments we are required to make in excess of the principal amount of any such converted Notes of the applicable series. The Warrants could separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the applicable strike price of the Warrants unless, subject to certain conditions, we elect to cash settle such Warrants.

The applicable counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the applicable series of Notes (and are likely to do so during any applicable observation period related to a conversion of such Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Notes of a series, which could affect a Note holder’s ability to convert its Notes of such

series and, to the extent the activity occurs during any observation period related to a conversion of such Notes, it could affect the amount and value of the consideration that such Note holder will receive upon conversion of such Notes of such series.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of either series of Notes or our common stock. In addition, we do not make any representation that the counterparties or their respective affiliates will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

***The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans, the conversion of our Notes or exercise of the related Warrants, or otherwise will dilute all other stockholders.***

Our amended and restated certificate of incorporation authorizes us to issue up to 1.0 billion shares of common stock and up to 100.0 million shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue shares of common stock or securities convertible into shares of our common stock from time to time in connection with a financing, acquisition, investment, our stock incentive plans, the conversion of our Notes, the settlement of our Warrants, or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the market price of our common stock to decline.

***We cannot guarantee that our recently announced share repurchase program will be fully consummated or that it will enhance shareholder value, and share repurchases could affect the price of our common stock.***

In February 2019, our board of directors authorized a \$1.0 billion share repurchase program which will be funded from available working capital. The repurchase authorization will expire on December 31, 2020. Although our board of directors has authorized a share repurchase program, the share repurchase program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The share repurchase program could affect the price of our common stock, increase volatility and diminish our cash reserves. In addition, it may be suspended or terminated at any time, which may result in a decrease in the price of our common stock.

***We are subject to risks associated with our strategic investments. Impairments in the value of our investments could negatively impact our financial results.***

In June 2017, we announced our plans to form the \$20.0 million Palo Alto Networks Venture Fund. The fund is aimed at seed-, early-, and growth-stage security companies with a cloud-based application approach. We may not realize a return on our capital investments. Many such private companies generate net losses and the market for their products, services or technologies may be slow to develop, and, therefore, are dependent on the availability of later rounds of financing from banks or investors on favorable terms to continue their operations. The financial success of our investment in any company is typically dependent on a liquidity event, such as a public offering, acquisition or other favorable market event reflecting appreciation to the cost of our initial investment. The capital markets for public offerings and acquisitions are dynamic and the likelihood of liquidity events for the companies we have and intend to invest in could significantly change. Further, valuations of privately-held companies are inherently complex due to the lack of readily available market data and as such, the basis for these valuations is subject to the timing and accuracy of the data received from these companies. If we determine that any of our investments in such companies have experienced a decline in value, we may be required to record an impairment, which could be material and negatively impact our financial results. All of our investments are subject to a risk of a partial or total loss of investment capital.

***We do not intend to pay dividends for the foreseeable future.***

We have never declared or paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

***The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain qualified board members.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the New York Stock Exchange ("NYSE"), and other applicable securities rules and regulations. Compliance with these rules and regulations have increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly, and increased demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly, and current reports with respect to our business and operating results. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to meet the requirements of this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations, and standards related to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time-consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

***We are obligated to maintain proper and effective internal control over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or this internal control may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.***

While we were able to determine in our management's report for fiscal 2018 that our internal control over financial reporting is effective, as well as provide an unqualified attestation report from our independent registered public accounting firm to that effect, we may not be able to complete our evaluation, testing, and any required remediation in a timely fashion, may be unable to assert that our internal controls are effective, or our independent registered public accounting firm may not be able to formally attest to the effectiveness of our internal control over financial reporting in the future. In the event that our chief executive officer, chief financial officer, or independent registered public accounting firm determines in the future that our internal control over financial reporting is not effective as defined under Section 404, we could be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments and causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our stock.

***Our charter documents and Delaware law, as well as certain provisions contained in the indentures governing the Notes, could discourage takeover attempts and lead to management entrenchment, which could also reduce the market price of our common stock.***

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change in control of our company or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with three-year staggered terms;
- authorize our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval;
- provide our board of directors with the exclusive right to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director;
- prohibit our stockholders from taking action by written consent;
- specify that special meetings of our stockholders may be called only by the chairman of our board of directors, our president, our secretary, or a majority vote of our board of directors;
- require the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the issuance of preferred stock and management of our business or our amended and restated bylaws;
- authorize our board of directors to amend our bylaws by majority vote; and
- establish advance notice procedures with which our stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for our stockholders to replace members of our board of directors, which is responsible for appointing the members of management. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time. Additionally, certain provisions contained in the applicable indenture governing each series of Notes could make it more difficult or more expensive for a third party to acquire us. The application of Section 203 or certain provisions contained in the applicable indenture governing each series of Notes also could have the effect of delaying or preventing a change in control of us. Any of these provisions could, under certain circumstances, depress the market price of our common stock.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Unregistered Sales of Equity Securities**

During the three months ended January 31, 2019, holders converted \$88.3 million in aggregate principal amount of the 2019 Notes, which we repaid in cash. We also issued 0.3 million shares of our unregistered common stock to the holders for the conversion value in excess of the principal amount. These shares of our common stock were issued in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table summarizes stock repurchases during the three months ended January 31, 2019 (in millions, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
November 1, 2018 to November 30, 2018 <sup>(2)</sup>	—	\$ 165.75	—	\$ 330.0
December 1, 2018 to December 31, 2018 <sup>(2)(3)</sup>	1.9	\$ 177.62	1.9	\$ —
January 1, 2019 to January 31, 2019 <sup>(2)</sup>	—	\$ 203.30	—	\$ —
Total	1.9	\$ 177.63	1.9	

- (1) On August 30, 2016, we announced that our board of directors authorized a \$500.0 million share repurchase to be funded from available working capital. On February 28, 2017, we announced that our board of directors authorized a \$500.0 million increase to the repurchase program, bringing the total authorization to \$1.0 billion. Repurchases could be made at management's discretion from time to time on the open market, through privately negotiated transactions, transactions structured through investment banking institutions, block purchase techniques, 10b5-1 trading plans, or a combination of the foregoing. The repurchase program expired on December 31, 2018. On February 26, 2019, we announced that our board of directors authorized a new \$1.0 billion share repurchase program which will be funded from available working capital. Repurchases may be made at management's discretion from time to time on the open market, through privately negotiated transactions, transactions structured through investment banking institutions, block purchase techniques, 10b5-1 trading plans, or a combination of the foregoing. The repurchase authorization will expire on December 31, 2020, and may be suspended or discontinued at any time.
- (2) Includes shares of restricted common stock delivered by certain employees upon vesting of equity awards to satisfy tax withholding requirements. The number of shares delivered by these employees to satisfy tax withholding requirements during the period was not significant.
- (3) Includes repurchases under our share repurchase program, for which the average price paid per share excludes costs associated with the repurchases.

**ITEM 6. EXHIBITS**

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
<a href="#">10.1</a> *	2012 Equity Incentive Plan and related form agreements under 2012 Equity Incentive Plan, as amended.				
<a href="#">31.1</a>	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.				
<a href="#">31.2</a>	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.				
<a href="#">32.1</a> †	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
<a href="#">32.2</a> †	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Schema Linkbase Document.				
101.CAL	XBRL Taxonomy Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Labels Linkbase Document.				
101.PRE	XBRL Taxonomy Presentation Linkbase Document.				

\* Indicates a management contract or compensatory plan or arrangement.

† The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Palo Alto Networks, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 26, 2019

**PALO ALTO NETWORKS, INC.**

By: /s/ KATHLEEN BONANNO  
Kathleen Bonanno  
Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)

Date: February 26, 2019

**PALO ALTO NETWORKS, INC.**

By: /s/ JEAN COMPEAU  
Jean Compeau  
Chief Accounting Officer  
(Duly Authorized Officer and Principal Accounting Officer)

## PALO ALTO NETWORKS, INC.

## 2012 EQUITY INCENTIVE PLAN

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty

percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole

purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board, or a duly authorized committee of the Board, in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company," means Palo Alto Networks, Inc., a Delaware corporation, or any successor thereto.

(k) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(l) "Director" means a member of the Board.

(m) "Disability," means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(n) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(p) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is increased or reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(q) “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or, if no bids and asks were reported on that date, as applicable, on the last trading date such bids and asks were reported), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) For purposes of any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company’s Common Stock; or

(iv) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(r) “Fiscal Year” means the fiscal year of the Company.

(s) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(t) “Inside Director” means a Director who is an Employee.

(u) “Nonstatutory Stock Option” means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(v) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(w) “Option” means a stock option granted pursuant to the Plan.

(x) “Outside Director” means a Director who is not an Employee.

(y) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(z) “Participant” means the holder of an outstanding Award.

(aa) “Performance Share” means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(bb) “Performance Unit” means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(cc) “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(dd) “Plan” means this 2012 Equity Incentive Plan.

(ee) “Registration Date” means the effective date of the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company’s securities.

(ff) “Restricted Stock” means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(gg) “Restricted Stock Unit” means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(hh) “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ii) “Section 16(b)” means Section 16(b) of the Exchange Act.

(jj) “Service Provider” means an Employee, Director or Consultant.

(kk) “Share” means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ll) “Stock Appreciation Right” means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.

(mm) “Subsidiary” means a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is 10,000,000 Shares, plus (i) any Shares that, as of the Registration Date, have been reserved but not issued pursuant to any awards granted under the Company's 2005 Equity Incentive Plan, as amended (the "2005 Plan") and are not subject to any awards granted thereunder, and (ii) any Shares subject to stock options or similar awards granted under the 2005 Plan that, after the Registration Date, expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the 2005 Plan that, after the Registration Date, are forfeited to or repurchased by the Company, with the maximum number of Shares to be added to the Plan pursuant to clauses (i) and (ii) equal to 9,000,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Automatic Share Reserve Increase. The number of Shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the 2014 Fiscal Year, in an amount equal to the least of (i) 8,000,000 Shares, (ii) 4.5% of the outstanding Shares on the last day of the immediately preceding Fiscal Year or (iii) such number of Shares determined by the Board.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, is surrendered pursuant to an Exchange Program, or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares), which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, only Shares actually issued (i.e., the net Shares issued) pursuant to a Stock Appreciation Right will cease to be available under the Plan; all remaining Shares under Stock Appreciation Rights will remain available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 13, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Sections 3(b) and 3(c).

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

- (vi) to determine the terms and conditions of any, and to institute any Exchange Program;
- (vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;
- (viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;
- (ix) to modify or amend each Award (subject to Section 18 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to Section 6(b) of the Plan regarding Incentive Stock Options);
- (x) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 14 of the Plan;
- (xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;
- (xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and
- (xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Stock Options.

(a) Limitations. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted.

The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(b) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration

at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by

the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

## 7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

## 8. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws or any other basis determined by the Administrator in its discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator.

Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may only settle earned Restricted Stock Units in cash, Shares, or a combination of both.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

9. Stock Appreciation Rights.

(a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.

(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(b) relating to the maximum term and Section 6(d) relating to exercise also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

- (ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the

earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

11. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1st) day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits in Section 3 of the Plan.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger of the Company with or into another corporation or other entity or a Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent

option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

(d) Outside Director Awards. With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant (unless such resignation is at the request of the acquirer), then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares which would

not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Performance Units and Performance Shares, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

14. Tax.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof) or such earlier time as any tax withholding obligations are due, the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, or (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

(c) Compliance With Code Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A.

15. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

16. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined

by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

17. Term of Plan. Subject to Section 21 of the Plan, the Plan will become effective upon the later to occur of (i) its adoption by the Board or (ii) the business day immediately prior to the Registration Date. It will continue in effect for a term of ten (10) years from the date adopted by the Board, unless terminated earlier under Section 18 of the Plan.

18. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

19. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any registration or other qualification of the Shares under any state, federal or foreign law or under the rules and regulations of the Securities and Exchange Commission, the stock exchange on which Shares of the same class are then listed, or any other governmental or regulatory body, which authority, registration, qualification or rule compliance is deemed by the Company's counsel to be necessary or advisable for the issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue

or sell such Shares as to which such requisite authority, registration, qualification or rule compliance will not have been obtained.

21. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

**PALO ALTO NETWORKS, INC.**

**2012 EQUITY INCENTIVE PLAN**

**STOCK OPTION AWARD AGREEMENT**

Unless otherwise defined herein, the terms defined in the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Notice of Grant of Stock Option (the "Notice of Grant") and Terms and Conditions of Stock Option Grant, attached hereto as Exhibit A (together, the "Agreement").

**NOTICE OF STOCK OPTION GRANT**

**Participant:**

**Address:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Participant has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Agreement, as follows:

Grant Number

Date of Grant

Vesting Commencement Date

Number of Shares Granted

Exercise Price per Share

Total Exercise Price

Type of Option

Term/Expiration Date

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\$ \_\_\_\_\_  
\$ \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ Incentive Stock Option  
\_\_\_\_\_ Nonstatutory Stock Option  
\_\_\_\_\_

**Vesting Schedule:**

Subject to accelerated vesting as set forth below or in the Plan, this Option will be exercisable, in whole or in part, in accordance with the following schedule:

Twenty-five percent (25%) of the Shares subject to the Option shall vest on the one (1) year anniversary of the Vesting Commencement Date, and one forty-eighth (1/48<sup>th</sup>) of the Shares subject to the Option shall vest each month thereafter on the same day of the month as the Vesting Commencement

Date (and if there is no corresponding day, on the last day of the month), subject to Participant continuing to be a Service Provider through each such date.

Termination Period:

This Option will be exercisable for three (3) months after Participant ceases to be a Service Provider, unless such termination is due to Participant's death or Disability, in which case this Option will be exercisable for twelve (12) months after Participant ceases to be a Service Provider. Notwithstanding the foregoing sentence, in no event may this Option be exercised after the Term/Expiration Date as provided above and may be subject to earlier termination as provided in Section 13(c) of the Plan.

By Participant's signature and the signature of the Company's representative below, Participant and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Agreement. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

PALO ALTO NETWORKS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

Address:

\_\_\_\_\_  
\_\_\_\_\_

## EXHIBIT A

### TERMS AND CONDITIONS OF STOCK OPTION GRANT

1. Grant of Option. The Company hereby grants to the Participant named in the Notice of Grant (“Participant”) an option (the “Option”) to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the “Exercise Price”), subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail.

If designated in the Notice of Grant as an Incentive Stock Option (“ISO”), this Option is intended to qualify as an ISO under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”). However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the \$100,000 rule of Code Section 422(d) it will be treated as a Nonstatutory Stock Option (“NSO”). Further, if for any reason this Option (or portion thereof) will not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a NSO granted under the Plan. In no event will the Administrator, the Company or any Parent or Subsidiary or any of their respective employees or directors have any liability to Participant (or any other person) due to the failure of the Option to qualify for any reason as an ISO.

2. Vesting Schedule. Except as provided in Section 3, the Option awarded by this Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

3. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time, subject to the terms of the Plan. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

4. Exercise of Option.

(a) Right to Exercise. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit B (the “Exercise Notice”) or in a manner and pursuant to such procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the “Exercised Shares”), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together with any applicable tax withholding. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

5. Method of Payment. Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant:

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company.

6. Tax Obligations.

(a) Withholding of Taxes. Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time of the Option exercise, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver the Shares if such withholding amounts are not delivered at the time of exercise.

(b) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Participant herein is an ISO, and if Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (i) the date two (2) years after the Grant Date, or (ii) the date one (1) year after the date of exercise, Participant will immediately notify the Company in writing of such disposition. Participant agrees that Participant may be subject to income tax withholding by the Company on the compensation income recognized by Participant.

(c) Code Section 409A. Under Code Section 409A, an option that vests after December 31, 2004 (or that vested on or prior to such date but which was materially modified after October 3, 2004) that was granted with a per Share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the Fair Market Value of a Share on the date of grant (a "Discount Option") may be considered "deferred compensation." A Discount Option may result in (i) income recognition by Participant prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The Discount Option may also result in additional state income, penalty and interest charges to the Participant. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share exercise price of this Option equals or exceeds the Fair Market Value of a Share on the Date of Grant in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the Fair Market Value of a Share on the date of grant, Participant will be solely responsible for Participant's costs related to such a determination.

7. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

8. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT

AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

9. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at Palo Alto Networks, Inc. 3300 Olocott Street, Santa Clara, CA 95054, or at such other address as the Company may hereafter designate in writing.

10. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

11. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

12. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the purchase by, or issuance of Shares to, Participant (or his or her estate) hereunder, such purchase or issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange. Assuming such compliance, for income tax purposes the Exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

13. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

14. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan

as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Options awarded under the Plan or future options that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

16. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

17. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

18. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Code Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Option.

19. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Option under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

20. Governing Law. This Agreement will be governed by the laws of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under

this Option or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the Northern District of California, and no other courts, where this Option is made and/or to be performed.

**EXHIBIT B**

**PALO ALTO NETWORKS, INC.**

**2012 EQUITY INCENTIVE PLAN**

**EXERCISE NOTICE**

Palo Alto Networks, Inc.  
3300 Olcott St.  
Santa Clara, CA 95054

Attention: \_\_\_\_\_

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned (“Purchaser”) hereby elects to purchase \_\_\_\_\_ shares (the “Shares”) of the Common Stock of Palo Alto Networks, Inc. (the “Company”) under and pursuant to the 2012 Equity Incentive Plan (the “Plan”) and the Stock Option Agreement dated \_\_\_\_\_ (the “Agreement”). The purchase price for the Shares will be \$\_\_\_\_\_, as required by the Agreement.

2. **Delivery of Payment.** Purchaser herewith delivers to the Company the full purchase price of the Shares and any required tax withholding to be paid in connection with the exercise of the Option.

3. **Representations of Purchaser.** Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Agreement and agrees to abide by and be bound by their terms and conditions.

4. **Rights as Stockholder.** Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired will be issued to Purchaser as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 13 of the Plan.

5. **Tax Consultation.** Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser’s purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with

the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

Submitted by:

Accepted by:

PURCHASER

PALO ALTO NETWORKS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Its

Address:  
  
\_\_\_\_\_  
  
\_\_\_\_\_

\_\_\_\_\_  
Date Received

**PALO ALTO NETWORKS, INC.**

**AMENDMENT TO STOCK OPTION AWARD AGREEMENT**

This Amendment to Stock Option Award Agreement (the “**Amendment**”) is made between [\_\_\_\_\_] (“**Participant**”) and Palo Alto Networks, Inc. (the “**Company**”) as of the date the last party signs the Amendment.

**WHEREAS**, pursuant to a Stock Option Award Agreement, including all ancillary documents (the “**Agreement**”), on [\_\_\_\_\_] the Company granted Participant a performance-based stock option under the Company’s 2012 Equity Incentive Plan (the “**Plan**”) to purchase up to [\_\_\_\_\_] shares of the Company’s common stock (the “**Option**”); and

**WHEREAS**, the Company and Participant desire to amend the Agreement to provide the Participant with the opportunity to exercise the Option with respect to unvested shares.

**NOW, THEREFORE**, Participant and the Company agree that the Agreement shall be amended as follows:

1. Early Exercise of Option. Exhibit A, Section 4(a) of the Agreement is amended to read in its entirety as follows:

“(a) Right to Exercise. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Agreement as follows:

(i) Subject to subsections 4(a)(ii) below, this Option may be exercisable during its term to the extent vested in accordance with the Vesting Schedule set out in the Notice of Grant and with the applicable provisions of the Plan and this Agreement. This Option may not be exercised for a fraction of a Share.

(ii) Alternatively, at the election of Participant, this Option may be exercised in whole or in part at any time as to Shares that have not yet vested (“Unvested Shares”) as described in this Section 4(a)(ii). If the Option is exercised with respect to vested Shares and Unvested Shares, then vested Shares will not be subject to the Company’s repurchase right (as set forth in the Restricted Stock Purchase Agreement, attached hereto as Exhibit B -1). Further, Unvested Shares exercised that become vested Shares will not be subject to the Company’s repurchase right.

(1) Each of the First Tranche, Second Tranche, Third Tranche and Fourth Tranche (each a “Performance Tranche”) may be exercised prior to achievement of the applicable Stock Price Achievement target and the time-based vesting schedule set forth in the Notice of Grant. Each Performance Tranche has 4 sub-tranches that correspond to each time-based vesting date (each of the 16 applicable sub-tranches, an “Early-Exercise Tranche”). If a Participant decides to exercise the Option with respect to Unvested Shares within an Early-Exercise Tranche, then the Participant must early-exercise as to 100% of the Shares within that Early-Exercise Tranche.

(2) As a condition to exercising this Option for Unvested Shares, Participant must execute the Restricted Stock Purchase Agreement.”

2. Incorporation of Documents. The Restricted Stock Purchase Agreement attached to this Amendment as Exhibit B-1 is hereby incorporated into the Agreement.

3. Section 83(b) Election. Participant hereby acknowledges that he or she has been informed that an election (the "Election") may be filed by the Participant with the Internal Revenue Service, within thirty (30) days of the purchase of the exercised Unvested Shares, electing pursuant to Section 83(b) of the Code to be taxed currently on any difference between the purchase price of the exercised Shares and their Fair Market Value on the date of purchase. This will result in the recognition of taxable income to the Participant on the date of exercise, measured by the excess, if any, of the Fair Market Value of the exercised Shares, at the time the Option is exercised over the purchase price for the exercised Shares. Absent such an Election, taxable income will be measured and recognized by Participant at the time or times on which the Company's Repurchase Option (as defined in the Restricted Stock Purchase Agreement) lapses.

This discussion is intended only as a summary of the general United States income tax laws that apply to exercising Options as to Shares that have not yet vested and is accurate only as of the date of this Amendment. The federal, state and local tax consequences to any particular taxpayer will depend upon his or her individual circumstances. Participant is strongly encouraged to seek the advice of his or her own tax consultants in connection with the purchase of the Shares and the advisability of filing of the Election under Section 83(b) of the Code. A form of Election under Section 83(b) is attached hereto as Exhibit B-2 for reference.

PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO MAKE THIS FILING ON PARTICIPANT BEHALF.

4. Full Force and Effect. To the extent not expressly amended hereby, the Agreement remains in full force and effect.

5. Entire Agreement. This Amendment, including all exhibits hereto, together with the Agreement (to the extent not amended hereby), and the Plan, represent the entire agreement of the parties and shall supersede any and all previous contracts, arrangements or understandings between the parties with respect to the Option.

**IN WITNESS WHEREOF**, this Amendment has been entered into as of the date last set forth below.

PALO ALTO NETWORKS, INC.

PARTICIPANT

By: \_\_\_\_\_

\_\_\_\_\_

Its: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

## **EXHIBIT B-1**

### **RESTRICTED STOCK PURCHASE AGREEMENT**

1. Sale of Restricted Stock. The Company sold to the Participant named in the Notice of Grant (the “Participant”) Shares of Restricted Stock as a result of the exercise of Shares subject to the Option that have not vested (“Unvested Shares”), subject to all of the terms and conditions in this Restricted Stock Purchase Agreement (the “RSPA”), the Agreement (as amended) and the Plan, which are incorporated herein by reference.

2. Vesting Schedule. Except as provided in Section 5, and subject to Section 3, the Shares of Restricted Stock will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares of Restricted Stock scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this RSPA, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

3. Repurchase Option.

(a) If Participant’s status as a Service Provider is terminated for any reason, including for death and Disability, the Company shall have the right and option for 90 days from such date to purchase from Participant, or Participant’s personal representative, as the case may be, all of the Participant’s Unvested Shares as of the date of such termination at a price per share equal to the lesser of (x) the Fair Market Value of a Share at the time this repurchase is exercised; and (y) the price per price paid by the Participant for such Shares (the “Repurchase Option”); *provided, however*, that without requirement of further action on the party of either party hereto, this Repurchase Option shall be deemed to have been automatically exercised as to all Unvested Shares 5:00 p.m. (Pacific Time) as of the date that is 90 days following the date the Participant ceases to be a Service Provider, unless the Company declines in writing to exercise its Repurchase Option prior to such time.

(b) If the Company decides not to exercise the Repurchase Option, it shall notify Participant in writing within 90 days of the date Participant ceases to be a Service Provider. If the Repurchase Option is exercised or deemed exercised, the Company shall deliver payment to the Participant, with a copy to the Escrow Holder (as defined in Section 4), by delivering to the Participant (or the Participant’s transferee or legal representative) a check in the amount of the aggregate repurchase price. Upon delivery of such notice and payment of the aggregate repurchase price in any of the ways described above, the Company shall become the legal and beneficial owner of the Unvested Shares being repurchased and the rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Unvested Shares being repurchased by the Company.

(c) As Unvested Shares vest, the Repurchase Option will terminate with respect to those Shares in accordance with the vesting schedule contained in Participant’s Option Agreement.

4. Escrow of Shares.

(a) All Shares of Restricted Stock will, upon execution of this RSPA, be delivered and deposited with an escrow holder designated by the Company (the "Escrow Holder"). The Shares of Restricted Stock will be held by the Escrow Holder until such time as the Shares of Restricted Stock vest, are repurchased or the Repurchase Option expires.

(b) The Escrow Holder will not be liable for any act it may do or omit to do with respect to holding the Shares of Restricted Stock in escrow while acting in good faith and in the exercise of its judgment.

(c) Upon Participant's termination as a Service Provider for any reason, the Escrow Holder, upon receipt of written notice of such termination, will take all steps necessary to accomplish the transfer of the Unvested Shares of Restricted Stock to the Company. Participant hereby appoints the Escrow Holder with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such Unvested Shares of Restricted Stock to the Company upon such termination.

(d) The Escrow Holder will take all steps necessary to accomplish the transfer of Shares of Restricted Stock to Participant after they vest.

(e) Subject to the terms hereof, Participant will have all the rights of a stockholder with respect to the Shares while they are held in escrow, including without limitation, the right to vote the Shares and to receive any cash dividends declared thereon.

(f) In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares, the Unvested Shares of Restricted Stock will be increased, reduced or otherwise changed, and by virtue of any such change Participant will in his or her capacity as owner of Unvested Shares of Restricted Stock be entitled to new or additional or different shares of stock, cash or securities (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities will thereupon be considered to be Unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the Unvested Shares of Restricted Stock pursuant to this RSPA. If Participant receives rights or warrants with respect to any Unvested Shares of Restricted Stock, such rights or warrants may be held or exercised by Participant, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be Unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the Unvested Shares of Restricted Stock pursuant to this RSPA. The Administrator in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

(g) The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Stock or otherwise note its records as to the restrictions on transfer set forth in this RSPA.

5. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the Unvested Shares at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock will be considered as having vested as of the date specified by the Administrator.

6. Death of Participant. Any distribution or delivery to be made to Participant under this RSPA will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Section 83(b) Election. Participant hereby acknowledges that he or she has been informed that an election (the "Election") may be filed by the Participant with the Internal Revenue Service, within thirty (30) days of the purchase of the exercised Unvested Shares, electing pursuant to Section 83(b) of the Code to be taxed currently on any difference between the purchase price of the exercised Shares and their Fair Market Value on the date of purchase. This will result in the recognition of taxable income to the Participant on the date of exercise, measured by the excess, if any, of the Fair Market Value of the exercised Shares, at the time the Option is exercised over the purchase price for the exercised Shares. Absent such an Election, taxable income will be measured and recognized by Participant at the time or times on which the Company's Repurchase Option lapses.

This discussion is intended only as a summary of the general United States income tax laws that apply to exercising Options as to Shares that have not yet vested and is accurate only as of the date of this RSPA. The federal, state and local tax consequences to any particular taxpayer will depend upon his or her individual circumstances. Participant is strongly encouraged to seek the advice of his or her own tax consultants in connection with the purchase of the Shares and the advisability of filing of the Election under Section 83(b) of the Code. A form of Election under Section 83(b) is attached hereto as Exhibit B-2 for reference.

PARTICIPANT ACKNOWLEDGES THAT IT IS PARTICIPANT'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF PARTICIPANT REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO MAKE THIS FILING ON PARTICIPANT BEHALF.

8. Withholding of Taxes. Notwithstanding any contrary provision of this RSPA or the Option Agreement, no certificate representing the Shares of Restricted Stock may be released from the escrow established pursuant to Section 4, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the

Company withhold otherwise deliverable Shares having a fair market value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a fair market value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Shares otherwise are scheduled to vest pursuant to Sections 2 or 5 or tax withholding obligations related to the applicable Shares otherwise are due, Participant will permanently forfeit such Shares and the Shares will be returned to the Company at no cost to the Company.

**Notwithstanding anything herein to the contrary, if Participant timely files the Election described in Section 7, then tax withholding obligation must be satisfied by the Participant paying cash.**

9. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant or the Escrow Agent. Except as provided in Section 4(f), after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

10. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE SHARES OF RESTRICTED STOCK PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND ACHIEVEMENT OF THE APPLICABLE VESTING PERFORMANCE VESTING CRITERIA AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS RESTRICTED STOCK OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS RSPA, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

11. Address for Notices. Any notice to be given to the Company under the terms of this RSPA will be addressed to the Company at Palo Alto Networks, Inc., 3000 Tannery Way, Santa Clara, CA, 95054, or at such other address as the Company may hereafter designate in writing.

12. Grant is Not Transferable. Except to the limited extent provided in Section 6, the Unvested Shares subject to this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any Unvested Shares of Restricted Stock subject to this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

13. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this RSPA will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

14. Additional Conditions to Release from Escrow. The Company will not be required to issue any certificate or certificates for Shares hereunder or release such Shares from the escrow established pursuant to Section 4 prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body or the securities exchange on which the Shares are then registered, which the Administrator will, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state or federal governmental agency, which the Administrator will, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of grant of the Restricted Stock as the Administrator may establish from time to time for reasons of administrative convenience.

15. Plan Governs; Definitions. This RSPA is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this RSPA and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this RSPA will have the meaning set forth in the Plan and the Agreement.

16. Administrator Authority. The Administrator will have the power to interpret the Plan and this RSPA and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares of Restricted Stock have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this RSPA.

17. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Shares of Restricted Stock sold under the Plan or future Restricted Stock that may be sold under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

18. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this RSPA.

19. Agreement Severable. In the event that any provision in this RSPA will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this RSPA.

20. Modifications to the Agreement. This RSPA constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this RSPA in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this RSPA or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this RSPA, the Company reserves the right to revise this RSPA as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection with this RSPA.

21. Amendment, Suspension or Termination of the Plan. By entering into this RSPA, Participant expressly warrants that he or she has purchased Restricted Stock under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

22. Forfeiture or Clawback. The Restricted Stock (including any proceeds, gains or other economic benefit received by the Participant from a subsequent sale of Shares issued upon vesting) will be subject to the Company's compensation recovery or clawback policy currently in effect and any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other Applicable Laws.

23. Governing Law. This RSPA will be governed by the laws of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this RSPA, the parties hereby submit to and consent to the jurisdiction of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this RSPA is made and/or to be performed.

**EXHIBIT B-2**

**ELECTION UNDER SECTION 83(b)**

**OF THE INTERNAL REVENUE CODE OF 1986**

The undersigned taxpayer hereby elects, pursuant to Sections 55 and 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income or alternative minimum taxable income, as the case may be, for the current taxable year the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below.

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

	TAXPAYER	SPOUSE
NAME:	_____	_____
ADDRESS:	_____	_____
	_____	_____
TAX ID NO.:	_____	_____
TAXABLE YEAR:	_____	_____

2. The property with respect to which the election is made is described as follows: \_\_\_\_\_ shares (the "Shares") of the Common Stock of Palo Alto Networks, Inc. (the "Company").

3. The date on which the property was transferred is: \_\_\_\_\_, \_\_\_\_\_.

4. The property is subject to the following restrictions:

The Shares may not be transferred and are subject to forfeiture under the terms of an agreement between the taxpayer and the Company. These restrictions lapse upon the satisfaction of certain performance and time-based conditions contained in such agreement.

5. The Fair Market Value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms shall never lapse, of such property is: \$\_\_\_\_\_.

6. The amount (if any) paid for such property is: \$\_\_\_\_\_.

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: \_\_\_\_\_, \_\_\_\_\_  
Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: \_\_\_\_\_, \_\_\_\_\_  
Spouse of Taxpayer

**PALO ALTO NETWORKS, INC.**  
**2012 EQUITY INCENTIVE PLAN**  
**RESTRICTED STOCK UNIT AWARD AGREEMENT**

Unless otherwise defined herein, the terms defined in the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the “Plan”) will have the same defined meanings in this Restricted Stock Unit Award Agreement (the “Award Agreement”).

**NOTICE OF RESTRICTED STOCK UNIT GRANT**

**Participant:**

**Address:**

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You have been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number

Date of Grant

Vesting Commencement Date

Number of Restricted Stock Units

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**Vesting Schedule:**

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Unit will vest in accordance with the following schedule:

Twenty-five percent (25%) of the Restricted Stock Units will vest on the one (1) year anniversary of the Vesting Commencement Date, and twenty-five percent (25%) of the Restricted Stock Units will vest each year thereafter on the same day as the Vesting Commencement Date, subject to Participant continuing to be a Service Provider through each such date.

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Unit, the Restricted Stock Unit and Participant’s right to acquire any Shares hereunder will immediately terminate.

By Participant’s signature and the signature of the representative of Palo Alto Networks, Inc. (the “Company”) below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and this Award

Agreement, including the Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

PALO ALTO NETWORKS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

Residence Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## EXHIBIT A

### TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT

1. Grant. The Company hereby grants to the individual named in the Notice of Grant attached as Part I of this Award Agreement (the “Participant”) under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Company’s Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Unit will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant’s death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7. Subject to the provisions of Section 4, such vested Restricted Stock Units shall be paid in whole Shares as soon as practicable after vesting, but in each such case within the period sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any Restricted Stock Units payable under this Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. The payment of Shares vesting pursuant to this Section 4 shall in all cases be paid at a time or in a manner that is exempt from, or complies with, Section 409A.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death, and if (x) Participant is a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless the Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to the Participant's estate as soon as practicable following his or her death. It is the intent of this Award Agreement that it and all payments and benefits hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Award Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Award Agreement, "Section 409A" means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines

must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such tax withholding obligations are satisfied. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations through the use of the method described in (d) above. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4 or tax withholding obligations related to Restricted Stock Units otherwise are due, Participant will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR

IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at Palo Alto Networks, Inc., 3300 Olcott Street, Santa Clara, CA, 95404, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange.

14. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more

provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Governing Law. This Award Agreement will be governed by the laws of California without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

**PALO ALTO NETWORKS, INC.**

**2012 EQUITY INCENTIVE PLAN**

**RESTRICTED STOCK AWARD AGREEMENT**

Unless otherwise defined herein, the terms defined in the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the “Plan”) will have the same defined meanings in this Notice of Grant of Restricted Stock (the “Notice of Grant”) and Terms and Conditions of Restricted Stock Grant, attached hereto as Exhibit A (together, the “Agreement”).

**NOTICE OF RESTRICTED STOCK GRANT**

**Participant:**

**Address:**

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Participant has been granted the right to receive an Award of Restricted Stock, subject to the terms and conditions of the Plan and this Agreement, as follows:

Grant Number

Date of Grant

Vesting Commencement Date

Total Number of Shares Granted

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Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock will vest and the Company’s right to reacquire the Restricted Stock will lapse in accordance with the following schedule:

Twenty-five percent (25%) of the Shares of Restricted Stock will vest on the one (1) year anniversary of the Vesting Commencement Date, and twenty-five percent (25%) of the Shares of Restricted Stock will vest each year thereafter on the same day as the Vesting Commencement Date, subject to Participant continuing to be a Service Provider through each such date.

By Participant's signature and the signature of the representative of Palo Alto Networks, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock is granted under and governed by the terms and conditions of the Plan and this Agreement. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

PALO ALTO NETWORKS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## EXHIBIT A

### TERMS AND CONDITIONS OF RESTRICTED STOCK GRANT

1. Grant of Restricted Stock. The Company hereby grants to the Participant named in the Notice of Grant (the “Participant”) under the Plan for past services and as a separate incentive in connection with his or her services and not in lieu of any salary or other compensation for his or her services, an Award of Shares of Restricted Stock, subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail.

2. Escrow of Shares.

(a) All Shares of Restricted Stock will, upon execution of this Agreement, be delivered and deposited with an escrow holder designated by the Company (the “Escrow Holder”). The Shares of Restricted Stock will be held by the Escrow Holder until such time as the Shares of Restricted Stock vest or the date Participant ceases to be a Service Provider.

(b) The Escrow Holder will not be liable for any act it may do or omit to do with respect to holding the Shares of Restricted Stock in escrow while acting in good faith and in the exercise of its judgment.

(c) Upon Participant’s termination as a Service Provider for any reason, the Escrow Holder, upon receipt of written notice of such termination, will take all steps necessary to accomplish the transfer of the unvested Shares of Restricted Stock to the Company. Participant hereby appoints the Escrow Holder with full power of substitution, as Participant’s true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares of Restricted Stock to the Company upon such termination.

(d) The Escrow Holder will take all steps necessary to accomplish the transfer of Shares of Restricted Stock to Participant after they vest following Participant’s request that the Escrow Holder do so.

(e) Subject to the terms hereof, Participant will have all the rights of a stockholder with respect to the Shares while they are held in escrow, including without limitation, the right to vote the Shares and to receive any cash dividends declared thereon.

(f) In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting

the Shares, the Shares of Restricted Stock will be increased, reduced or otherwise changed, and by virtue of any such change Participant will in his or her capacity as owner of unvested Shares of Restricted Stock be entitled to new or additional or different shares of stock, cash or securities (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities will thereupon be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Agreement. If Participant receives rights or warrants with respect to any unvested Shares of Restricted Stock, such rights or warrants may be held or exercised by Participant, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Agreement. The Administrator in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

(g) The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Stock or otherwise note its records as to the restrictions on transfer set forth in this Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Shares of Restricted Stock awarded by this Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares of Restricted Stock scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock will be considered as having vested as of the date specified by the Administrator.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Agreement, the balance of the Shares of Restricted Stock that have not vested at the time of Participant's termination as a Service Provider for any reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company upon the date of such termination and Participant will have no further rights thereunder. Participant will not be entitled to a refund of the price paid for the Shares of Restricted Stock, if any, returned to the Company pursuant to this Section 5. Participant hereby appoints the Escrow Agent with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers

which may be necessary to transfer the certificate or certificates evidencing such unvested Shares to the Company upon such termination of service.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares of Restricted Stock may be released from the escrow established pursuant to Section 2, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such tax withholding obligations are satisfied. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations through the use of the method described in (d) above. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Shares otherwise are scheduled to vest pursuant to Sections 3 or 4 or tax withholding obligations related to the applicable Shares otherwise are due, Participant will permanently forfeit such Shares and the Shares will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant or the Escrow Agent. Except as provided in Section 2(f), after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE SHARES OF RESTRICTED STOCK PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS RESTRICTED STOCK OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at Palo Alto Networks, Inc., 3300 Olcott Street, Santa Clara, CA, 95054, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, the unvested Shares subject to this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any unvested Shares of Restricted Stock subject to this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Release from Escrow. The Company will not be required to issue any certificate or certificates for Shares hereunder or release such Shares from the escrow established pursuant to Section 2 prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body or the securities exchange on which the Shares are then registered, which the Administrator will, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state or federal governmental agency, which the Administrator will, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the

date of grant of the Restricted Stock as the Administrator may establish from time to time for reasons of administrative convenience.

14. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares of Restricted Stock have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Shares of Restricted Stock awarded under the Plan or future Restricted Stock that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

18. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

19. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Award of Restricted Stock.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Governing Law. This Agreement will be governed by the laws of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock or this Agreement, the parties hereby submit to and consent to the jurisdiction of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock is made and/or to be performed.

**PALO ALTO NETWORKS, INC.**

**2012 EQUITY INCENTIVE PLAN**

**RESTRICTED STOCK AWARD AGREEMENT**

Unless otherwise defined herein, the terms defined in the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the “Plan”) will have the same defined meanings in this Notice of Grant of Restricted Stock, including the attached Vesting Appendix (the “Notice of Grant”), and Terms and Conditions of Restricted Stock Grant, attached hereto as Exhibit A (together, the “Agreement”).

**NOTICE OF RESTRICTED STOCK GRANT**

**Participant:**

**Address:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Participant has been granted the right to receive an Award of Restricted Stock, subject to the terms and conditions of the Plan and this Agreement, as follows:

Date of Grant

Vesting Commencement Date

Target Shares of Restricted Stock

Maximum Shares of Restricted Stock

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Vesting Schedule:

The Restricted Stock will vest and the Company’s right to reacquire the Restricted Stock will lapse in accordance with the attached Vesting Appendix.

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock, the Restricted Stock will immediately be forfeited.

By Participant's signature and the signature of the representative of Palo Alto Networks, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock is granted under and governed by the terms and conditions of the Plan and this Agreement. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

PALO ALTO NETWORKS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_

\_\_\_\_\_  
Print Name

\_\_\_\_\_

Address:

\_\_\_\_\_  
\_\_\_\_\_

## **EXHIBIT A**

### **TERMS AND CONDITIONS OF RESTRICTED STOCK GRANT**

1. **Grant of Restricted Stock.** The Company hereby grants to the Participant named in the Notice of Grant (the “Participant”) under the Plan for past services and as a separate incentive in connection with his or her services and not in lieu of any salary or other compensation for his or her services, an Award of Shares of Restricted Stock, subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail.

2. **Escrow of Shares.**

(a) All Shares of Restricted Stock will, upon execution of this Agreement, be delivered and deposited with an escrow holder designated by the Company (the “Escrow Holder”). The Shares of Restricted Stock will be held by the Escrow Holder until such time as the Shares of Restricted Stock vest or the date Participant ceases to be a Service Provider.

(b) The Escrow Holder will not be liable for any act it may do or omit to do with respect to holding the Shares of Restricted Stock in escrow while acting in good faith and in the exercise of its judgment.

(c) Upon Participant’s termination as a Service Provider for any reason, the Escrow Holder, upon receipt of written notice of such termination, will take all steps necessary to accomplish the transfer of the unvested Shares of Restricted Stock to the Company. Participant hereby appoints the Escrow Holder with full power of substitution, as Participant’s true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares of Restricted Stock to the Company upon such termination.

(d) The Escrow Holder will take all steps necessary to accomplish the transfer of Shares of Restricted Stock to Participant after they vest following Participant’s request that the Escrow Holder do so.

(e) Subject to the terms hereof, Participant will have all the rights of a stockholder with respect to the Shares while they are held in escrow, including without limitation, the right to vote the Shares and to receive any cash dividends declared thereon.

(f) In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares, the Shares of Restricted Stock will be increased, reduced or otherwise changed, and by virtue of any such change Participant will in his or her capacity as owner of unvested Shares of Restricted Stock be entitled to new or additional or different shares of stock, cash or securities (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities will thereupon be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Agreement. If Participant receives rights or warrants with respect to any unvested Shares of Restricted Stock, such rights or warrants may be held or exercised by Participant, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Agreement. The Administrator in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

(g) The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Stock or otherwise note its records as to the restrictions on transfer set forth in this Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Shares of Restricted Stock awarded by this Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares of Restricted Stock scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock will be considered as having vested as of the date specified by the Administrator.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Agreement, the balance of the Shares of Restricted Stock that have not vested at the time of Participant's termination as a Service Provider for any reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company upon the date of such termination and Participant will have no further rights thereunder. Participant will not be entitled to a refund of the price paid for the Shares of Restricted Stock, if any, returned to the Company pursuant to this Section 5. Participant hereby appoints the Escrow Agent with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares to the Company upon such termination of service.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares of Restricted Stock may be released from the escrow established pursuant to Section 2, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such tax withholding obligations are satisfied. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax

withholding obligations through the use of the method described in (d) above. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Shares otherwise are scheduled to vest pursuant to Sections 3 or 4 or tax withholding obligations related to the applicable Shares otherwise are due, Participant will permanently forfeit such Shares and the Shares will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant or the Escrow Agent. Except as provided in Section 2(f), after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE SHARES OF RESTRICTED STOCK PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS RESTRICTED STOCK OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at Palo Alto Networks, Inc., 3300 Olcott Street, Santa Clara, CA, 95054, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, the unvested Shares subject to this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon

any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any unvested Shares of Restricted Stock subject to this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Release from Escrow. The Company will not be required to issue any certificate or certificates for Shares hereunder or release such Shares from the escrow established pursuant to Section 2 prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body or the securities exchange on which the Shares are then registered, which the Administrator will, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state or federal governmental agency, which the Administrator will, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of grant of the Restricted Stock as the Administrator may establish from time to time for reasons of administrative convenience.

14. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares of Restricted Stock have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Shares of Restricted Stock awarded under the Plan or future Restricted Stock that may be awarded under the Plan by electronic means or request Participant's consent to

participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

18. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

19. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Award of Restricted Stock.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Forfeiture or Clawback. The Restricted Stock (including any proceeds, gains or other economic benefit received by the Participant from a subsequent sale of Shares issued upon vesting) will be subject to the Company's compensation recovery or clawback policy currently in effect and any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other Applicable Laws.

22. Governing Law. This Agreement will be governed by the laws of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that

arises under this Award of Restricted Stock or this Agreement, the parties hereby submit to and consent to the jurisdiction of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock is made and/or to be performed.

**PALO ALTO NETWORKS, INC.**

**2012 EQUITY INCENTIVE PLAN**

**RESTRICTED STOCK AWARD AGREEMENT**

Unless otherwise defined herein, the terms defined in the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the “Plan”) will have the same defined meanings in this Notice of Grant of Restricted Stock (the “Notice of Grant”) and Terms and Conditions of Restricted Stock Grant, attached hereto as Exhibit A (together, the “Agreement”).

**NOTICE OF RESTRICTED STOCK GRANT**

<b>Participant Name</b>	First Last
<b>Address:</b>	Address 1
	Address 2

Participant has been granted the right to receive an Award of Restricted Stock, subject to the terms and conditions of the Plan and this Agreement, as follows:

Grant Number

Date of Grant

Vesting Commencement Date

Total Number of Shares Granted

Vesting Schedule:

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock will vest and the Company’s right to reacquire the Restricted Stock will lapse in accordance with the following schedule:

25% of the Eligible Restricted Stock will vest on the one year anniversary of the Vesting Commencement Date and one-sixteenth (1/16) of the Eligible Restricted Stock will vest quarterly thereafter, in each case, subject to the Participant continuing to be a Service Provider through each vesting date.

By Participant's signature and the signature of the representative of Palo Alto Networks, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock is granted under and governed by the terms and conditions of the Plan and this Agreement. Participant has reviewed the Plan and this Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of the Plan and Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

PALO ALTO NETWORKS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Senior Vice President & General Counsel

\_\_\_\_\_  
Title

Address:

Address 1

Address 2

## **EXHIBIT A**

### **TERMS AND CONDITIONS OF RESTRICTED STOCK GRANT**

1. Grant of Restricted Stock. The Company hereby grants to the Participant named in the Notice of Grant (the “Participant”) under the Plan for past services and as a separate incentive in connection with his or her services and not in lieu of any salary or other compensation for his or her services, an Award of Shares of Restricted Stock, subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Agreement, the terms and conditions of the Plan will prevail.

2. Escrow of Shares.

(a) All Shares of Restricted Stock will, upon execution of this Agreement, be delivered and deposited with an escrow holder designated by the Company (the “Escrow Holder”). The Shares of Restricted Stock will be held by the Escrow Holder until such time as the Shares of Restricted Stock vest or the date Participant ceases to be a Service Provider.

(b) The Escrow Holder will not be liable for any act it may do or omit to do with respect to holding the Shares of Restricted Stock in escrow while acting in good faith and in the exercise of its judgment.

(c) Upon Participant’s termination as a Service Provider for any reason, the Escrow Holder, upon receipt of written notice of such termination, will take all steps necessary to accomplish the transfer of the unvested Shares of Restricted Stock to the Company. Participant hereby appoints the Escrow Holder with full power of substitution, as Participant’s true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares of Restricted Stock to the Company upon such termination.

(d) The Escrow Holder will take all steps necessary to accomplish the transfer of Shares of Restricted Stock to Participant after they vest following Participant’s request that the Escrow Holder do so.

(e) Subject to the terms hereof, Participant will have all the rights of a stockholder with respect to the Shares while they are held in escrow, including without limitation, the right to vote the Shares and to receive any cash dividends declared thereon.

(f) In the event of any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares, the Shares of Restricted Stock will be increased, reduced or otherwise changed, and by virtue of any such change Participant will in his or her capacity as owner of unvested Shares of Restricted Stock be entitled to new or additional or different shares of stock, cash or securities (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities will thereupon be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Agreement. If Participant receives rights or warrants with respect to any unvested Shares of Restricted Stock, such rights or warrants may be held or exercised by Participant, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Shares of Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the unvested Shares of Restricted Stock pursuant to this Agreement. The Administrator in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

(g) The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Stock or otherwise note its records as to the restrictions on transfer set forth in this Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Shares of Restricted Stock awarded by this Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares of Restricted Stock scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock will be considered as having vested as of the date specified by the Administrator.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Agreement, the balance of the Shares of Restricted Stock that have not vested at the time of Participant's termination as a Service Provider for any reason will be forfeited

and automatically transferred to and reacquired by the Company at no cost to the Company upon the date of such termination and Participant will have no further rights thereunder. Participant will not be entitled to a refund of the price paid for the Shares of Restricted Stock, if any, returned to the Company pursuant to this Section 5. Participant hereby appoints the Escrow Agent with full power of substitution, as Participant's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares to the Company upon such termination of service.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares of Restricted Stock may be released from the escrow established pursuant to Section 2, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such tax withholding obligations are satisfied. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations through the use of the method described in (d) above. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Shares otherwise are scheduled to vest pursuant to Sections 3

or 4 or tax withholding obligations related to the applicable Shares otherwise are due, Participant will permanently forfeit such Shares and the Shares will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant or the Escrow Agent. Except as provided in Section 2(f), after such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE SHARES OF RESTRICTED STOCK PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS RESTRICTED STOCK OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company at Palo Alto Networks, Inc., 3300 Olcott Street, Santa Clara, CA, 95054, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, the unvested Shares subject to this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any unvested Shares of Restricted Stock subject to this grant, or any right or privilege conferred hereby, or upon any

attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Release from Escrow. The Company will not be required to issue any certificate or certificates for Shares hereunder or release such Shares from the escrow established pursuant to Section 2 prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body or the securities exchange on which the Shares are then registered, which the Administrator will, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state or federal governmental agency, which the Administrator will, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of grant of the Restricted Stock as the Administrator may establish from time to time for reasons of administrative convenience.

14. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares of Restricted Stock have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Shares of Restricted Stock awarded under the Plan or future Restricted Stock that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents

by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

18. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

19. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Award of Restricted Stock.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Forfeiture or Clawback. The Restricted Stock (including any proceeds, gains or other economic benefit received by the Participant from a subsequent sale of Shares issued upon vesting) will be subject to the Company's compensation recovery or clawback policy currently in effect and any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other Applicable Laws.

22. Governing Law. This Agreement will be governed by the laws of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock or this Agreement, the parties hereby submit to and

consent to the jurisdiction of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock is made and/or to be performed.

**PALO ALTO NETWORKS, INC.**

**2012 EQUITY INCENTIVE PLAN**

**RESTRICTED STOCK UNIT AWARD AGREEMENT**

Unless otherwise defined herein, the terms defined in the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the “Plan”) will have the same defined meanings in this Restricted Stock Unit Award Agreement (the “Award Agreement”).

**NOTICE OF RESTRICTED STOCK UNIT GRANT**

**Participant Name:**

**Address:**

You have been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number	_____
Date of Grant	_____
Vesting Commencement Date	_____
Number of Restricted Stock Units	_____

**Vesting Schedule:**

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Unit will vest in accordance with the following schedule:

Twenty-five percent (25%) of the Restricted Stock Units will vest on the one (1) year anniversary of the Vesting Commencement Date, and twenty-five percent (25%) of the Restricted Stock Units will vest each year thereafter on the same day as the Vesting Commencement Date, subject to Participant continuing to be a Service Provider through each such date.

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Unit, the Restricted Stock Unit and Participant’s right to acquire any Shares hereunder will immediately terminate.

By Participant’s signature and the signature of the representative of Palo Alto Networks, Inc. (the “Company”) below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT:

PALO ALTO NETWORKS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

Residence Address:

\_\_\_\_\_  
\_\_\_\_\_

## EXHIBIT A

### TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT

1. Grant. The Company hereby grants to the individual named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 18(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Unit will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7. Subject to the provisions of Section 4, such vested Restricted Stock Units shall be paid in whole Shares as soon as practicable after vesting, but in each such case within the period sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any Restricted Stock Units payable under this Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. The payment of Shares vesting pursuant to this Section 4 shall in all cases be paid at a time or in a manner that is exempt from, or complies with, Section 409A.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death, and if (x) Participant is a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless the Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to the Participant's estate as soon as practicable following his or her death. It is the intent of this Award Agreement that it and all payments and benefits hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Award Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Award Agreement, "Section 409A" means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines

must be withheld with respect to such Shares. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such tax withholding obligations are satisfied. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations through the use of the method described in (d) above. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4 or tax withholding obligations related to Restricted Stock Units otherwise are due, Participant will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR

IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at Palo Alto Networks, Inc., 3300 Olcott Street, Santa Clara, CA, 95404, or at such other address as the Company may hereafter designate in writing.

11. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

13. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange.

14. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more

provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

20. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. Forfeiture or Clawback. This Award of Restricted Stock Units (including any proceeds, gains or other economic benefit received by the Participant from a subsequent sale of Shares issued upon vesting) will be subject to the Company's compensation recovery or clawback policy currently in effect and any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other Applicable Laws.

22. Governing Law. This Award Agreement will be governed by the laws of California without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

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**PALO ALTO NETWORKS, INC.**

**APPENDIX- ISRAELI TAXPAYERS**

**2012 EQUITY INCENTIVE PLAN**

**ADOPTED**

**ON MAY 30, 2014**

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**PALO ALTO NETWORKS, INC.**

**(THE “COMPANY”)**

**APPENDIX – ISRAELI TAXPAYERS**

**2012 EQUITY INCENTIVE PLAN**

**1. Special Provisions for Persons who are Israeli Taxpayers**

1.1 This Appendix (the “**Appendix**”) to the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the “**Plan**”) is effective as of May 30, 2014 (the “**Effective Date**”).

1.2 The provisions specified hereunder apply only to persons who are subject to taxation by the State of Israel with respect to the Awards (as defined below).

1.3 This Appendix applies with respect to the Awards under the Plan. The purpose of this Appendix is to establish certain rules and limitations applicable to Awards that may be granted under the Plan to Eligible Employees (as defined below) from time to time, in compliance with the securities and other applicable laws currently in force in the State of Israel. Except as otherwise provided by this Appendix, all grants made pursuant to this Appendix shall be governed by the terms of the Plan. This Appendix is applicable only to grants made after the Effective Date. This Appendix complies with, and is subject to the ITO (as defined below) and Section 102 (as defined below). For the avoidance of doubt, the provisions of this Appendix shall not alter the vesting terms of any Award as may be specified by the Administrator, and such vesting terms of the Award may be different and include other limitations and restrictions.

1.4 The Plan and this Appendix shall be read together. In any case of contradiction, whether explicit or implied, between the provisions of this Appendix and the Plan, the provisions of this Appendix shall govern.

**2. Definitions.**

Capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Plan. The following additional definitions will apply to grants made pursuant to this Appendix:

“**3(i) Award**” means an Award that is subject to taxation pursuant to Section 3(i) of the ITO which has been granted to any person who is NOT an Eligible 102 Participant.

“**102 Capital Gains Track**” means the tax track set forth in Section 102(b)(2) or Section 102(b)(3) of the ITO, as the case may be.

“**102 Capital Gains Track Grant**” means a 102 Trustee Grant qualifying for the special tax treatment under the 102 Capital Gains Track.

“**102 Earned Income Track**” means the tax track set forth in Section 102(b)(1) of the ITO.

**“102 Earned Income Track Grant”** means a 102 Trustee Grant qualifying for the ordinary income tax treatment under the 102 Earned Income Track.

**“102 Trustee Grant”** means an Award granted pursuant to Section 102(b) of the ITO and held in trust by a Trustee for the benefit of the Eligible 102 Participant, or being supervised by the Trustee, and includes 102 Capital Gains Track Grants or 102 Earned Income Track Grants.

**“Affiliate”** means any Parent or Subsidiary that is an “employing company” within the meaning of Section 102(a) of the ITO.

**“Controlling Shareholder”** as defined under Section 32(9) of the ITO, means an individual who prior to the grant or as a result of the exercise of any Award, holds or would hold, directly or indirectly, in his name or with a relative (as defined in the ITO) (i) 10% or more of the outstanding shares of the Company, (ii) 10% or more of the voting power of the Company, (iii) the right to hold or purchase 10% or more of the outstanding equity or voting power, (iv) the right to obtain 10% or more of the “profit” of the Company (as defined in the ITO), or (v) the right to appoint a Director.

**“Election”** means the Company’s election of the type (i.e., between 102 Capital Gains Track or 102 Earned Income Track) of 102 Trustee Grants that it will make under the Plan, as filed with the ITA.

**“Eligible Employee”** means (i) selected employees and officers of the Company or an Affiliate or Directors and (ii) selected Consultants, to whom Awards shall be made, under the Plan, by the Administrator.

**“Eligible 102 Participant”** means an individual employed by the Company or by an Affiliate or a Director, who is not a Controlling Shareholder.

**“ITA”** means the Israeli Tax Authority.

**“ITO”** means the Israeli Income Tax Ordinance (New Version) 1961, and the rules, regulations, orders or procedures promulgated thereunder and any amendments thereto, including specifically the ITO Rules, all as may be amended from time to time.

**“ITO Rules”** means the Income Tax Rules (Tax Benefits in Share Issuance to Employees) 5763-2003.

**“Non-Trustee Grant”** means an Award granted to an Eligible 102 Participant pursuant to Section 102(c) of the ITO and not held in trust or being supervised by a Trustee.

**“Required Holding Period”** means the requisite period prescribed by the Section 102 and the ITO Rules, or such other period as may be required by the ITA, with respect to 102 Trustee Grants, during which Awards granted by the Company and the Shares issued upon the exercise of Awards must be held or supervised by the Trustee for the benefit of the person to whom it or they were granted or issued, as the case may be. As of the Effective Date, the Required Holding Period for 102 Capital Gains Track Grants is twenty four (24) months from the date the Awards are deposited with or under the supervision of the Trustee.

**“Section 102”** means the provisions of Section 102 of the ITO, as amended from time to time.

**“Trustee”** means a person or entity designated by the Board to serve as a trustee and/or supervising trustee and approved by the ITA in accordance with the provisions of Section 102(a) of the ITO.

“**Trust Agreement**” means the agreement(s) between the Company and the Trustee regarding Awards granted under this Appendix, as in effect from time to time.

### **3. Types of Grants and Section 102 Election.**

3.1 Grant of Awards made pursuant to Section 102, shall be made pursuant to either (a) Section 102(b)(2) or Section 102(b)(3) of the ITO as the case may be, as 102 Capital Gains Track Grants, or (b) Section 102(b)(1) of the ITO as 102 Earned Income Track Grants. The Company’s Election regarding the type of 102 Trustee Grant it elects to make shall be filed with the ITA. Once the Company has filed such Election, it may change the type of 102 Trustee Grant that it elects to make only after the lapse of at least twelve (12) months from the end of the calendar year in which the first grant was made pursuant to the previous Election, in accordance with Section 102. For the avoidance of doubt, such Election shall not prevent the Company from granting Non-Trustee Grants to Eligible 102 Participants at any time.

3.2 Eligible 102 Participants may receive only 102 Trustee Grants or Non-Trustee Grants under this Appendix. Eligible Employees who are not Eligible 102 Participants may be granted only 3(i) Awards under this Appendix.

3.3 No 102 Trustee Grants may be made effective pursuant to this Appendix until thirty (30) days after the requisite filings required by the ITO (including specific tax rulings, where applicable) and the ITO Rules have been filed with the ITA.

3.4 The Award agreement or documents evidencing the Awards granted or Shares issued pursuant to the Plan and this Appendix shall indicate whether the grant is a 102 Trustee Grant, a Non-Trustee Grant or a 3(i) Grant; and, if the grant is a 102 Trustee Grant, whether it is a 102 Capital Gains Track Grant or a 102 Earned Income Track Grant.

### **4. Terms And Conditions of 102 Trustee Grants.**

4.1 Each 102 Trustee Grant will be deemed granted on the date of grant, in accordance with the provisions of Section 102 and the Trust Agreement.

4.2 Each 102 Trustee Grant granted to an Eligible 102 Participant shall be held by, or supervised by, the Trustee and each certificate for Shares acquired pursuant to a 102 Trustee Grant shall be issued to and registered in the name of a Trustee and shall be held in trust for the benefit of the Eligible Employee, or in the case of supervised trustee in the name of the Eligible Employee under the supervision of the Trustee, for the Required Holding Period. After termination of the Required Holding Period, the Trustee may release such Awards and any such Shares or in the case of supervisor trustee end its supervision regarding such 102 Trustee Awards or Shares and release any consideration received in connection with such Awards or Shares, provided that: (i) the Trustee has received an acknowledgment from the ITA that the Eligible Employee has paid any applicable tax due pursuant to the ITO; or (ii) the Trustee and/or the Company withholds any applicable tax due pursuant to the ITO. The Trustee shall not release any 102 Trustee Awards

or Shares issued thereunder or end its supervision regarding such 102 Trustee Awards or Shares prior to the full payment of the Eligible Employee's tax liabilities.

4.3 Each 102 Trustee Grant (whether a 102 Capital Gains Track Grant or a 102 Earned Income Track Grant, as applicable) shall be subject to the relevant terms of Section 102 and the ITO, which shall be deemed an integral part of the 102 Trustee Grant and shall prevail over any term contained in the Plan, this Appendix or any Award agreement that is not consistent therewith. Any provision of the ITO and any approvals by the ITA not expressly specified in this Appendix or any document evidencing a grant that are necessary to receive or maintain any tax benefit pursuant to Section 102 shall be binding on the Eligible 102 Participant. The Trustee and the Eligible 102 Participant granted a 102 Trustee Grant shall comply with the ITO, and the terms and conditions of the Trust Agreement entered into between the Company and the Trustee. For the avoidance of doubt, it is reiterated that compliance with the ITO specifically includes compliance with the ITO Rules. Further, the Eligible 102 Participant agrees to execute any and all documents which the Company or the Trustee may reasonably determine to be necessary in order to comply with the provision of any applicable law, and, particularly, Section 102.

4.4 During the Required Holding Period, the Eligible 102 Participant shall not release or sell or require the Trustee to release or sell the Awards or Shares and other shares received subsequently following any realization of rights derived from Awards or Shares (including stock dividends) to a third party to the Eligible 102 Participant, as the case may be, unless permitted to do so by applicable law. Notwithstanding the foregoing, the Trustee may, pursuant to a written request and subject to applicable law, release and transfer such Shares to a designated third party (or in connection with a supervisor trustee, the release of consideration received in connection with the Awards and Shares), provided that both of the following conditions have been fulfilled prior to such transfer: (i) all taxes required to be paid upon the release and transfer of the Shares have been withheld for transfer to the ITA; and (ii) the Trustee has received written confirmation from the Company that all requirements for such release and transfer have been fulfilled according to the terms of the Company's corporate documents, the Plan, any applicable agreement and any applicable law. To avoid doubt, such sale or release during the Required Holding Period will result in different tax ramifications to the Eligible 102 Participant under Section 102 of the ITO and the ITO Rules and/or any other regulations or orders or procedures promulgated thereunder, which shall apply to and shall be borne solely by such Eligible 102 Participant.

4.5 In the event a stock dividend is declared and/or additional rights are granted with respect to Shares which were issued upon an exercise of Awards granted as 102 Trustee Grants, such dividend and/or rights shall also be subject to the provisions of this Section 4 and the Required Holding Period for such dividend shares and/or rights shall be measured from the commencement of the Required Holding Period for the Awards with respect to which the dividend was declared and/or rights granted. In the event of a cash dividend on Shares, the Trustee shall transfer the dividend proceeds to the Eligible 102 Participant after deduction of taxes and mandatory payments in compliance with applicable withholding requirements.

4.6 If an Award which is granted as a 102 Trustee Grant is exercised or vests during the Required Holding Period, the Shares issued upon such exercise or vesting shall be issued in the name of the

Trustee for the benefit of the Eligible 102 Participant or in the case of supervisor trustee under the supervision of the Trustee. If such Shares are issued after the Required Holding Period has lapsed, the Shares issued upon such exercise or vesting shall, at the election of the Eligible 102 Participant, either (i) be issued in the name of the Trustee or in the case of supervisor trustee in the name of the Eligible 102 Participant under the Supervision of the Trustee, or (ii) be transferred to the Eligible 102 Participant directly, provided that the Eligible 102 Participant first complies with all applicable provisions of the Plan and pays all taxes which apply on the Shares or to such transfer of Shares.

4.7 To avoid doubt, notwithstanding anything to the contrary in the Plan, no grant qualifying as a 102 Trustee Grant shall be substituted for payment in cash or any other form of consideration, including Awards or Shares, in the absence of an express approval of the ITA in advance for such substitution

## 5 Assignability.

As long as Awards or Shares are held by the Trustee on behalf of the Eligible 102 Participant, or supervised by the Trustee, all rights of the Eligible 102 Participant over the Awards or Shares are personal, cannot be transferred, assigned, pledged or mortgaged, other than by will or laws of descent and distribution.

## 6 Tax Consequences.

6.1 Any tax consequences arising from the grant, exercise or vesting of any Award, from the payment for Shares covered thereby, or from any other event or act (of the Company, and/or its Affiliates, and the Trustee or the Eligible Employee), hereunder, shall be borne solely by the Eligible Employee. The Company and/or its Affiliates, and/or the Trustee shall be entitled to withhold taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the Eligible Employee shall agree to indemnify the Company and/or its Affiliates and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Eligible Employee. The Company or any of its Affiliates and the Trustee may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of all taxes required by law to be withheld with respect to Awards granted under the Plan and the exercise or vesting or sale thereof, including, but not limited, to (i) deducting the amount so required to be withheld from any other amount then or thereafter payable to an Eligible Employee, and/or (ii) requiring an Eligible Employee to pay to the Company or any of its Affiliates the amount so required to be withheld as a condition of the issuance, delivery, distribution or release of any Shares, and/or (iii) by causing the exercise of Awards and/or the sale of Shares held by or on behalf of an Eligible Employee, or supervised by the Trustee, to cover such liability, up to the amount required to satisfy minimum statutory withholding requirements. In addition, the Eligible Employee will be required to pay any amounts which exceed the tax to be withheld and remitted to the tax authorities, pursuant to applicable tax laws, regulations and rules.

6.2 With respect to Non-Trustee Grants, if the Eligible Employee ceases to be employed by the Company or any Affiliate, the Eligible 102 Participant shall extend to the Company and/or its Affiliate

a security or guarantee for the payment of tax due at the time of sale of Shares to the satisfaction of the Company, all in accordance with the provisions of Section 102 of the ITO and the ITO Rules.

**7. Governing Law and Jurisdiction.**

Notwithstanding any other provision of the Plan, with respect to Eligible Employees subject to this Appendix, the Plan and all instruments issued thereunder or in connection therewith shall be governed by, and interpreted in accordance with, the laws of the State of Israel applicable to contracts made and to be performed therein.

**8. Securities Laws.**

Without derogation from any provisions of the Plan, all grants pursuant to this Appendix shall be subject to compliance with the Israeli Securities Law, 1968, and the rules and regulations promulgated thereunder.

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**PALO ALTO NETWORKS, INC.**  
**2012 EQUITY INCENTIVE PLAN**  
**RESTRICTED STOCK UNIT AWARD AGREEMENT**  
**FOR NON-U.S. PARTICIPANTS**

Unless otherwise defined herein, the terms defined in the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Unit Award Agreement for Non-U.S. Participants and the Addendum to the Restricted Stock Unit Award Agreement for Non-U.S. Participants (the "Addendum") (together, the "Award Agreement") and the Israeli Appendix to the Palo Alto Networks, Inc. 2012 Equity Incentive Plan (the "Israeli Appendix").

**NOTICE OF RESTRICTED STOCK UNIT GRANT**

**Participant:**

**Address:**

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The Trustee (as defined in the Restricted Stock Unit Award Agreement for Non-U.S. Participants) has been granted for your benefit the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan, this Award Agreement, and the Trust Agreement between the Company and/or its Affiliate and the trustee elected by the Company and/or its Affiliate (the "Trust Agreement") as follows:

Grant Number

Date of Grant

Required Holding Period

(If Under the 102 Capital Gains Track)

Vesting Commencement Date

Number of Restricted Stock Units

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**Vesting Schedule:**

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Unit will vest in accordance with the following schedule:

Twenty-five percent (25%) of the Restricted Stock Units will vest on the one (1) year anniversary of the Vesting Commencement Date, and twenty-five percent (25%) of the Restricted Stock Units will vest each year thereafter on the same day as the Vesting Commencement Date, subject to Participant continuing to be a Service Provider through each such date, as further described in Section 10(j) of the Award Agreement.

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Unit, the Restricted Stock Unit and Participant's right to acquire any Shares hereunder will immediately terminate.

By Participant's signature and the signature of the representative of Palo Alto Networks, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan, this Award Agreement, the Israeli Appendix and the Trust Agreement, including the Terms and Conditions of Restricted Stock Unit Grant for Non-U.S. Participants, attached hereto as Exhibit A, and the Addendum, attached hereto as Exhibit B, all of which are made a part of this document. Participant has reviewed the Plan, this Award Agreement, the Israeli Appendix and the Trust Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan, the Award Agreement, the Israeli Appendix and the Trust Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan, the Award Agreement, the Israeli Appendix and the Trust Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

PALO ALTO NETWORKS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

Residence Address:

\_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT A**

**TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT**

**FOR NON-U.S. PARTICIPANTS**

1. Grant. The Company hereby grants to the Trustee elected by the Company and/or its Affiliate (the "Trustee") for the benefit of the individual named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement, the Plan, which is incorporated herein by reference, the Israeli Appendix and the Trust Agreement. Subject to Section 18(c) of the Plan, in the event of a conflict among the terms and conditions of the Plan, the terms and conditions of this Award Agreement and the Israeli Appendix, the terms and conditions of the Plan will prevail. This Award Agreement shall be governed by and shall conform with and be interpreted so as to comply with the requirements of Section 102.

Capital Gains Award

The Restricted Stock Units shall be granted to Eligible 102 Participants as 102 Capital Gains Track Grants under the 102 Capital Gains Track. The Restricted Stock Units together with any additional rights that may be granted to Eligible 102 Participants in connection with such Awards (the "Additional Rights"), shall be allocated to the Trustee on the Eligible 102 Participants' behalf in accordance with the provisions of Section 102, under the Capital Gains Track.

By executing this Award Agreement, the Eligible 102 Participant confirms and acknowledges that the Eligible 102 Participant: (i) read the Plan, the Award Agreement, the Israeli Appendix and the Trust Agreement, and understands and accepts their terms and conditions; (ii) understands the provisions of Section 102 and the Capital Gains Track; and (iii) he/she is aware of the fact that the Company agreed to grant the Restricted Stock Units to the Eligible 102 Participant based on the foregoing confirmation and acknowledgement of the Eligible 102 Participant.

the Eligible 102 Participant confirms as follows:

- i. With respect to any 102 Award, unless permitted and to the extent allowable by the provisions of Section 102 and any rules or regulation or orders or procedures promulgated thereunder and under the Plan and/or the Israeli Appendix, an Eligible 102 Participant shall not sell or release from trust any Share received upon the vesting of any 102 Award and/or any share received subsequently following any realization of rights, including without limitation, bonus shares, until the lapse of the Required Holding Period. Notwithstanding the above, if any such sale or release occurs during the Required Holding

Period, the sanctions under Section 102 and under any rules or regulation or orders or procedures promulgated thereunder shall apply to and shall be borne by such Eligible 102 Participant.

- ii. Notwithstanding anything to the contrary, the Trustee shall not release any Shares allocated or issued upon vesting of 102 Awards prior to the full payment of the Eligible 102 Participant's tax liabilities arising from 102 Awards or until the Trustee has ensured the payment of the tax liabilities arising from 102 Awards which were granted to him and/or any Shares allocated or issued upon vesting of such Awards.
- iii. The Eligible 102 Participant hereby undertakes to release the Trustee from any liability in respect of any action or decision taken and executed in good faith in relation with the Plan, or any 102 Awards or Share granted to the Eligible 102 Participant thereunder.
- iv. All benefits arising from the 102 Awards, including share dividends (bonus shares) shall be deposited with the Trustee for the duration of the Required Holding Period, and the provisions of Section 102 shall apply to such benefits.

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Section 3, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Unit will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable Tax-Related Items as defined and set forth in Section 7. Subject to the provisions of Section 4, such vested Restricted Stock Units shall be paid in whole Shares as soon as practicable after vesting, but in each such case within the period sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any Restricted Stock Units payable under this Agreement.

3. Vesting Schedule. Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs, as further described in Section 10(j).

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time,

subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. The payment of Shares vesting pursuant to this Section 4 shall in all cases be paid at a time or in a manner than is exempt from, or complies with, Section 409A.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death, and if (x) Participant is a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless the Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to the Participant's estate as soon as practicable following his or her death. It is the intent of this Award Agreement that it and all payments and benefits hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Award Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Award Agreement, "Section 409A" means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.<sup>1</sup>

5. Forfeiture upon Termination of Status as a Service Provider. Notwithstanding any contrary provision of this Award Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate.

6. Death of Participant. Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Withholding of Taxes. Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income tax, social insurance and health tax, payroll tax, fringe benefits tax, payment on account or other tax-related items related to Participant's participation in the Plan

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<sup>1</sup> Section 409A applies to and is relevant only for Participants who are U.S. taxpayers.

and legally applicable to Participant (“Tax-Related Items”). Participant acknowledges that, regardless of any action taken by the Trustee, the Company or, if different, the Parent or Subsidiary employing or retaining Participant (the “Employer”), the ultimate liability for all Tax-Related Items is and remains Participant’s responsibility and may exceed the amount actually withheld by the Trustee, the Company or the Employer. Participant further acknowledges that the Trustee, the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends or dividend equivalents; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant’s liability for Tax-Related Items or achieve any particular tax result. Further, if Participant is subject to Tax-Related Items in more than one jurisdiction between the Date of Grant and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges that the Trustee, the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such Tax-Related Items, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares, or (c) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise). To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any Tax-Related Items by reducing the number of Shares otherwise deliverable to Participant and, until determined otherwise by the Company, this will be the method by which such tax withholding obligations are satisfied.

Depending on the withholding method, the Company, the Employer and/or the Trustee may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the equivalent in Shares. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, Participant is deemed to have been issued the full number of Shares subject to the vested Restricted Stock Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.

If Participant fails to make satisfactory arrangements for the payment of any Tax-Related Items hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4 or Tax-Related Items related to Restricted Stock Units otherwise are due, Participant

will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE EMPLOYER) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Nature of Grant. In accepting the Award, Participant acknowledges, understands and agrees that:

- (a) the Plan is established voluntarily by the Company and it is discretionary in nature;
- (b) the grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;
- (c) all decisions with respect to future Restricted Stock Units or other grants, if any, will be at the sole discretion of the Company;
- (d) the Restricted Stock Unit grant and Participant's participation in the Plan shall not be interpreted as forming an employment or service contract with the Company, the Employer, or any Parent or Subsidiary;
- (e) Participant is voluntarily participating in the Plan;
- (f) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation;

- (g) the Restricted Stock Units and the Shares subject to the Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation for any purposes, including, without limitation, calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;
- (h) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- (i) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from the termination of Participant as a Service Provider (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or rendering services or the terms of Participant's employment or service agreement, if any), and in consideration of the grant of the Restricted Stock Units to which Participant is otherwise not entitled, Participant irrevocably agrees never to institute any claim against the Company, any Parent or Subsidiary or the Employer, waives Participant's ability, if any, to bring any such claim, and releases the Company, any Parent or Subsidiary and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim;
- (j) for purposes of the Restricted Stock Units, Participant's status as a Service Provider will be considered terminated as of the date Participant is no longer actively providing services to the Company or any Parent or Subsidiary (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or rendering services or the terms of Participant's employment or service agreement, if any) and Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period (*e.g.*, Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or rendering services or the terms of Participant's employment or service agreement, if any); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively providing services for purposes of Participant's Restricted Stock Unit grant (including whether Participant may still be considered to be providing services while on a leave of absence);

- (k) the Restricted Stock Units and the benefits evidenced by this Award Agreement do not create any entitlement to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and
- (l) Participant acknowledges and agrees that neither the Company, the Employer nor any Parent or Subsidiary shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the Restricted Stock Units or of any amounts due to Participant pursuant to the settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement.

11. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

12. Data Privacy. *Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Award Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company and any Parent or Subsidiary for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

*Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.*

*Participant understands that Data may be transferred to a third-party stock plan service provider as may be selected by the Company, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country (e.g., the United*

*States) may have different data privacy laws and protections than Participant's country. Participant understands that Participant may request a list with the names and addresses of any potential recipients of the Data by contacting Participant's local human resources representative. Participant authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing Participant's participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that Participant may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing Participant's local human resources representative. Further, Participant understands that Participant is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke Participant's consent, Participant's status as a Service Provider and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing Participant's consent is that the Company would not be able to grant Participant Restricted Stock Units or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing Participant's consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that Participant may contact Participant's local human resources representative.*

13. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at Palo Alto Networks, Inc., 3300 Olcott Street, Santa Clara, CA, 95404, or at such other address as the Company may hereafter designate in writing.

14. Grant is Not Transferable. Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any local, state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a

condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other Applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such local, state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange.

17. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

19. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or a third party designated by the Company.

20. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

21. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

22. Modifications to the Agreement. This Award Agreement and the Trust Agreement constitute the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement, the Trust Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the

Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

23. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

24. Governing Law. This Award Agreement will be governed by the laws of California without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, U.S.A., or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

25. Language. If Participant has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

26. Imposition of Other Requirements. The Company reserves the right to impose other requirements on Participant's participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

27. Addendum. Notwithstanding any provisions in this Award Agreement, the Restricted Stock Unit Award shall be subject to any special terms and conditions set forth in the Addendum for Participant's country. Moreover, if Participant relocates to one of the countries included in the Addendum, the special terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Addendum constitutes part of this Award Agreement.

28. Waiver. Participant acknowledges that a waiver by the Company of breach of any provision of this Award Agreement shall not operate or be construed as a waiver of any other provision of this Award Agreement, or of any subsequent breach by Participant or any other Participant.

**EXHIBIT B**

**ADDENDUM**

**TO THE RESTRICTED STOCK UNIT AWARD AGREEMENT**

**FOR ELIGIBLE 102 PARTICIPANTS**

**Confirmation Letter – Trustee 102 Awards**

I hereby confirm the following in relation to all awards granted to me under employee equity benefit plans implemented by the Company and/or the Employer in Israel (the "**Awards**"), until I am notified otherwise by the Company and/or the Employer:

1. The Awards shall be granted to me under the provisions of the 102 Capital Gains Track according to Section 102(b)(2) and 102(b)(3) of the Israeli Income Tax Ordinance and shall be held by the Trustee.
2. I am familiar with and understand the provisions of Section 102 in general, and the tax arrangement under the Capital Gains Track in particular, and agree to comply with such provisions, as amended from time to time. Therefore, I agree that Awards granted to me, and the ordinary shares that may be derived from such Awards, will be held or controlled by the Trustee for at least the duration of the Required Holding Period, as determined in Section 102.
3. I agree to the trust deed signed between the Company and the Trustee.
4. I understand that any release of such Awards or ordinary shares from trust (including any sale) prior to the lapse of the Required Holding Period, will result in taxation at my marginal tax rate, including social security and health tax contributions.
5. I authorize the Company, the Employer, or their agents, to provide the Trustee with any information required for the purpose of administering the grant of the Awards.
6. I declare that I am a resident of the state of Israel for tax purposes and agree to notify the Company and/or the Employer upon any change in the residence address and acknowledges that if I cease to be an Israeli resident or if my engagement with the Company or the Employer is terminated, the

Awards and underlying ordinary shares shall remain subject to Section 102, the Trust Agreement and the applicable equity plan and grant document.

7. I understand that the beneficial tax treatment under the Capital Gains Track is subject to compliance with certain terms and conditions. If such terms and conditions are not complied with I understand that my Awards may be subject to a different tax arrangement and may be subject to taxation at my marginal tax rate, in addition to deductions of appropriate social security and health tax contributions.
8. I have had the opportunity to obtain the advice of counsel prior to accepting this letter.

Confirmation:

Name of Employee: \_\_\_\_\_

Signature: \_\_\_\_\_

**EXHIBIT C**

**ADDENDUM**

**TO THE RESTRICTED STOCK UNIT AWARD AGREEMENT**

**FOR NON-U.S. PARTICIPANTS**

***TERMS AND CONDITIONS***

This Addendum contains additional terms and conditions that govern the Restricted Stock Units granted under the Plan to a Participant who resides and/or works in one of the countries listed below.

If Participant is a citizen or resident of a country other than the one in which Participant is currently residing and/or working, transfers employment after the Restricted Stock Units are granted, or is considered a resident of another country for local law purposes, the terms and conditions of the Restricted Stock Units contained herein may not be applicable to Participant, and the Company shall, in its discretion, determine to what extent the terms and conditions contained herein shall apply to Participant.

***NOTIFICATIONS***

This Addendum contains information regarding exchange controls and certain other issues of which Participant should be aware with respect to participation in the Plan. The information is based on the securities, exchange control, and other laws in effect in the respective countries as of August 2013. Such laws are often complex and change frequently. As a result, the Company strongly recommends that Participant not rely on the information in this Addendum as the only source of information relating to the consequences of his or her participation in the Plan because the information may be out of date at the time Participant vests in the Restricted Stock Units or sells Shares acquired pursuant thereto.

The information contained herein is general in nature and may not apply to the Participant's particular situation, and the Company is not in a position to assure the Participant of a particular result. Accordingly, Participant is advised to seek appropriate professional advice as to how the relevant laws in his or her country may apply to his or her situation.

If Participant is a citizen or resident of a country other than the one in which Participant is currently residing and/or working, transfers employment after the Restricted Stock Units are granted, or is considered a resident of another country for local law purposes, the information contained herein may not be applicable to Participant in the same manner. Certain capitalized terms used but not defined in this Addendum have the meanings set forth in the Plan and/or the Award Agreement.

**ARGENTINA**

***NOTIFICATIONS***

**Securities Law Information.** Shares of the Company are not publicly offered or listed on any stock exchange in Argentina. The offer is private and not subject to the supervision of any Argentine governmental authority.

**Exchange Control Information.** Provided proceeds from the sale of Shares acquired under the Plan are held in a U.S. bank or brokerage account for at least 10 days prior to transfer into Argentina, Participant should be able to freely transfer such proceeds into Argentina, although Participant should confirm this with his or her local bank. The Argentine bank handling the transaction may request certain documentation in connection with the request to transfer proceeds into Argentina, including evidence of the sale of Shares. If the bank determines that the 10-day rule or any other rule or regulation promulgated by the Argentina Central Bank has not been satisfied, it may require that 30% of the proceeds be placed in a non-interest bearing dollar deposit account for a holding period of 365 days.

Please note that exchange control regulations in Argentina are subject to frequent change. Participant is solely responsible for complying with any applicable exchange control rules and should consult with his or her personal legal advisor prior to remitting proceeds from the sale of Shares.

**Foreign Asset/Account Reporting Information.** If Participant holds Shares (acquired upon vesting of the Restricted Stock Units or otherwise) as of December 31, Participant is required to report certain information regarding the Shares on his or her annual tax return.

## **AUSTRALIA**

### ***NOTIFICATIONS***

**Securities Law Information.** If Participant acquires Shares under the Plan and offers the Shares for sale to a person or entity resident in Australia, the offer may be subject to disclosure requirements under Australian law. Participant should consult with his or her own legal advisor before making any such offer in Australia.

## **AUSTRIA**

### ***NOTIFICATIONS***

**Consumer Protection Information.** Participant may be entitled to revoke acceptance of the Award Agreement on the basis of the Austrian Consumer Protection Act (the "Act") under the conditions listed below, if the Act is considered to be applicable to the Award Agreement and the Plan:

(i) The revocation must be made within one (1) week after acceptance of the Award Agreement.

(ii) The revocation must be in written form to be valid. It is sufficient if Participant returns the Award Agreement to the Company or the Company's representative with language which can be understood as a refusal to conclude or honor the Award Agreement, provided the revocation is sent within the period discussed above.

**Exchange Control Information.** If Participant holds Shares acquired under the Plan outside of Austria, Participant must submit a report to the Austrian National Bank. An exemption applies if the value of the Shares as of any given quarter does not exceed €30,000,000 or if the value of the Shares in any given year as of December 31 does not exceed €5,000,000. If the former threshold is exceeded, quarterly obligations are imposed, whereas if the latter threshold is exceeded, annual reports must be given. The deadline for filing the annual report is January 31 of the following year.

A separate reporting requirement applies when Participant sells Shares acquired under the Plan or receives a dividend. In that case, there may be exchange control obligations if the cash proceeds are held outside of Austria. If the transaction volume of all accounts abroad exceeds €3,000,000, the movements and balances of all accounts must be reported monthly, as of the last day of the month, on or before the 15th day of the following month, on the prescribed form (*Meldungen SI-Forderungen und/oder SI-Verpflichtungen*).

## **BELGIUM**

### ***NOTIFICATIONS***

**Foreign Asset/Account Reporting Information.** Participant is required to report any bank accounts opened and maintained outside of Belgium on his or her annual tax return.

## **BRAZIL**

### ***TERMS AND CONDITIONS***

**Compliance with Law.** By accepting the Restricted Stock Units, Participant acknowledges that he or she agrees to comply with applicable Brazilian laws and to pay any and all applicable taxes associated with the vesting of the Restricted Stock Units and the sale of the Shares acquired pursuant thereto.

### ***NOTIFICATIONS***

**Exchange Control Information.** If Participant is resident or domiciled in Brazil, he or she will be required to report the vesting of the Restricted Stock Units in the month following the vesting, and will be required to submit an annual declaration of assets and rights held outside of Brazil to the Central Bank of Brazil if the aggregate value of such assets and rights equals or exceeds US\$100,000. Assets and rights that must be reported include the Shares.

## **CANADA**

### ***TERMS AND CONDITIONS***

**Form of Payment.** Notwithstanding any discretion contained in the Plan, the grant of Restricted Stock Units does not provide any right for Participant to receive a cash payment; the Restricted Stock Units are payable in Shares only.

**Termination of Service.** The following provision replaces Section 10(j) of the Award Agreement:

For purposes of the Restricted Stock Units, Participant's status as a Service Provider will be considered terminated (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is employed or rendering services or the terms of Participant's employment or service agreement, if any) as of the date that is the earlier of (i) the date of Participant's termination, (ii) the date Participant receives notice of termination as a Service Provider, or (iii) the date Participant is no longer actively providing service, and will not be extended by any notice period (*e.g.*, active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is employed or rendering services or the terms of Participant's employment or service agreement, if any); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively providing services for purposes of the Restricted Stock Units (including whether Participant may still be considered to be providing services while on a leave of absence).

*The following provisions apply if Participant resides in Quebec:*

**Consent to Receive Information in English.** The parties acknowledge that it is their express wish that the Award Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

**Consentement Pour Recevoir Des Informations en Anglais.** *Les parties reconnaissent avoir exigé la rédaction en anglais de la convention, ainsi que de tous documents, avis et procédures judiciaires, exécutés, donnés ou intentés en vertu de, ou liés directement ou indirectement, à la présente convention.*

**Data Privacy.** The following provision supplements Section 12 of the Award Agreement:

Participant hereby authorizes the Company and the Company's representatives to discuss and obtain all relevant information from all personnel, professional or non-professional, involved in the administration of the Plan. Participant further authorizes the Company, the Employer and/or any Parent or Subsidiary to disclose and discuss such information with their advisors. Participant also authorizes the Company, the Employer and/or any Parent or Subsidiary to record such information and to keep such information in Participant's employment file.

## **NOTIFICATIONS**

**Securities Law Information.** Participant is permitted to sell Shares acquired under the Plan through the designated broker appointed under the Plan, if any, provided the sale of the Shares takes place outside of Canada through the facilities of a stock exchange on which the Shares are listed (*i.e.*, the New York Stock Exchange).

**Foreign Asset/Account Reporting Information.** Participant is required to report any foreign property (including Restricted Stock Units and Shares) on form T1135 (Foreign Income Verification Statement) if the total value of the foreign property exceeds C\$100,000 at any time in the year. The form must be

filed by April 30 of the following year. Participant is advised to consult with his or her personal legal advisor to ensure compliance with applicable reporting obligations.

## **CHILE**

### ***NOTIFICATIONS***

**Securities Law Information.** Neither the Company nor the Shares subject to the Restricted Stock Units are registered with the Chilean Registry of Securities or under the control of the Chilean Superintendence of Securities.

**Exchange Control Information.** Participant is not required to repatriate funds obtained from the sale of Shares to Chile. However, if Participant decides to repatriate such funds, Participant must do so through the Formal Exchange Market if the amount of the funds exceeds US\$10,000. In such case, Participant must report the payment to a commercial bank or registered foreign exchange office receiving the funds.

If Participant's aggregate investments held outside of Chile exceed US\$5,000,000 (including the value of Shares received under the Plan), Participant must report the investments annually to the Central Bank. Annex 3.1 of Chapter XII of the Foreign Exchange Regulations must be used to file this report.

Please note that exchange control regulations in Chile are subject to change. Participant should consult with his or her personal legal advisor regarding any exchange control obligations that Participant may have in connection with the vesting of the Restricted Stock Units or the sale of Shares acquired at vesting.

**Foreign Asset/Account Reporting Information.** The Chilean Internal Revenue Service ("CIRS") requires all taxpayers to provide information annually regarding foreign investments held abroad (including Shares). These annual reporting obligations must be complied with by submitting a sworn statement setting forth this information before March 15 of each year. The form to be used to submit the sworn statement is Tax Form 1851 "Annual Sworn Statement Regarding Investments Held Abroad.". The statement must be submitted electronically through the CIRS website: [www.sii.cl](http://www.sii.cl).

## **COLOMBIA**

### ***NOTIFICATIONS***

**Exchange Control Information.** Investment in assets located abroad (such as Shares acquired under the Plan) does not require prior approval. However, if the value of Participant's aggregate investments held abroad, including Shares as of December 31 of the applicable calendar year equals or exceeds US\$500,000, these investments must be registered with the Central Bank (Banco de la Republica). Upon sale or other disposition of investments (including Shares) which have been registered with the Central Bank, the registration with the Central Bank must be cancelled no later than March 31 of the year following the sale or disposition (or a fine of up to 200% of the value of the infringing payment will apply).

## FINLAND

There are no country-specific provisions.

## FRANCE

### *TERMS AND CONDITIONS*

**Language Consent.** By accepting the grant, Participant confirms having read and understood the Plan and Award Agreement which were provided in the English language. Participant accepts the terms of those documents accordingly.

*Consentement Relatif à la Langue Utilisée.* En acceptant l'attribution, le Participant confirme avoir lu et compris le Plan et le Contrat, qui ont été communiqués en langue anglaise. Le Participant accepte les termes de ces documents en connaissance de cause.

### *NOTIFICATIONS*

**Foreign Asset/Account Reporting Information.** If Participant holds Shares outside of France or maintains a foreign bank account, Participant is required to report such to the French tax authorities when filing his or her annual tax return.

## GERMANY

### *NOTIFICATIONS*

**Exchange Control Information.** Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank. (*Bundesbank*). In case of payments in connection with securities (including proceeds realized upon the sale of Shares), the report must be made by the 5th day of the month following the month in which the payment was received. Effective from September 2013, the report must be filed electronically. The form of report ("*Allgemeine Meldeportal Statistik*") can be accessed via the *Bundesbank's* website ([www.bundesbank.de](http://www.bundesbank.de)) and is available in both German and English. Participant is responsible for complying with applicable reporting requirements.

## HONG KONG

### *TERMS AND CONDITIONS*

**Form of Payment.** Notwithstanding any discretion contained in the Plan, the grant of Restricted Stock Units does not provide any right for Participant to receive a cash payment; the Restricted Stock Units are payable in Shares only.

**Sale of Shares.** In the event the Restricted Stock Units vest within six months of the Date of Grant, Participant agrees that he or she will not dispose of the Shares acquired prior to the six-month anniversary of the Date of Grant.

## **NOTIFICATIONS**

**Securities Law Notice.** *WARNING: The Restricted Stock Units and the Shares issued upon vesting do not constitute a public offering of securities under Hong Kong law and are available only to certain Service Providers. The Award Agreement, including this Addendum, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a “prospectus” for a public offering of securities under the applicable securities legislation in Hong Kong. In addition, the documents have not been reviewed by any regulatory authority in Hong Kong. The Restricted Stock Units are intended only for the personal use of each Participant, and may not be distributed to any other person. If Participant is in any doubt about any of the contents of the Award Agreement, including this Addendum, or the Plan, Participant should obtain independent professional advice.*

## **INDIA**

### **NOTIFICATIONS**

**Exchange Control Information.** Participant must repatriate any proceeds from the sale of Shares acquired under the Plan or the receipt of any dividends paid on such Shares to India and convert the proceeds into local currency within 90 days of receipt. Participant will receive a foreign inward remittance certificate (“FIRC”) from the bank where Participant deposits the foreign currency. Participant should maintain the FIRC as evidence of the repatriation of funds in the event the Reserve Bank of India or the Employer requests proof of repatriation. Participant acknowledges that it is Participant’s responsibility to comply with applicable exchange control laws in India.

**Foreign Asset/Account Reporting Information.** Participant is required to declare any foreign bank accounts and any foreign financial assets (including Shares held outside India) in Participant’s annual tax return. Participant is responsible for complying with this reporting obligation and is advised to confer with his or her personal tax advisor in this regard.

## **INDONESIA**

### **NOTIFICATIONS**

**Exchange Control Information.** If Participant remits proceeds from the sale of Shares or the receipt of any dividends paid on such Shares into Indonesia, the Indonesian Bank through which the transaction is made will submit a report on the transaction to the Bank of Indonesia for statistical reporting purposes. For transactions of US\$10,000 or more, a description of the transaction must be included in the report. Although the bank through which the transaction is made is required to make the report, Participant must complete a “Transfer Report Form.” The Transfer Report Form will be provided to Participant by the bank through which the transaction is made.

## **ITALY**

## TERMS AND CONDITIONS

**Data Privacy Notification.** The following provision replaces Section 12 of the Award Agreement:

*Participant understands that the Employer, the Company and any Parent or Subsidiary may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance (to the extent permitted under Italian law) or other identification number, salary, nationality, job title, Shares or directorships held in the Company or any Parent or Subsidiary, details of all Restricted Stock Units granted, or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, managing and administering the Plan.*

*Participant also understands that providing the Company with Data is necessary for the performance of the Plan and that Participant's refusal to provide such Data would make it impossible for the Company to perform its contractual obligations and may affect Participant's ability to participate in the Plan. The Controller of personal data processing is Palo Alto Networks, Inc., with registered offices at 3300 Olcott Street, Santa Clara, CA 95054, U.S.A., and, pursuant to Legislative Decree no. 196/2003, its Representative in Italy for privacy purposes is Palo Alto Networks (UK) Limited, with registered offices at Via Bianca Maria n. 21, 20122 Milano, Italy. Participant understands that Data will not be publicized, but it may be transferred to banks, other financial institutions, or brokers involved in the management and administration of the Plan. Participant understands that Data may also be transferred to the independent registered public accounting firm engaged by the Company. Participant further understands that the Employer, the Company and/or any Parent or Subsidiary will transfer Data among themselves as necessary for the purpose of implementing, administering and managing Participant's participation in the Plan, and that the Company and/or any Parent or Subsidiary may each further transfer Data to third parties assisting the Company in the implementation, administration, and management of the Plan, including any requisite transfer of Data to a broker or other third party with whom Participant may elect to deposit any Shares acquired under the Plan. Such recipients may receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing Participant's participation in the Plan. Participant understands that these recipients may be located in the European Economic Area or elsewhere, such as the United States. Should the Company exercise its discretion in suspending all necessary legal obligations connected with the management and administration of the Plan, it will delete Data as soon as it has completed all the necessary legal obligations connected with the management and administration of the Plan.*

*Participant understands that Data processing related to the purposes specified above shall take place under automated or non-automated conditions, anonymously when possible, that comply with the purposes for which Data is collected and with confidentiality and security provisions, as set forth by applicable laws and regulations, with specific reference to Legislative Decree no. 196/2003.*

*The processing activity, including communication, the transfer of Data abroad, including outside of the European Economic Area, as herein specified and pursuant to applicable laws and regulations, does not require Participant's consent thereto, as the processing is necessary to performance of contractual obligations related to implementation, administration, and management of the Plan. Participant understands that, pursuant to Section 7 of the Legislative Decree no. 196/2003, Participant has the right to, including but not limited to, access, delete, update, correct, or terminate, for legitimate reason, the Data processing.*

*Furthermore, Participant is aware that Data will not be used for direct-marketing purposes. In addition, Data provided can be reviewed and questions or complaints can be addressed by contacting Participant's local human resources representative.*

**Acknowledgement.** Participant acknowledges that he or she has read and specifically and expressly approves the following sections of the Agreement: Section 7 - Withholding of Taxes, Section 10 - Nature of Grant, Section 24 - Governing Law, Section 25 - Language, Section 19 - Electronic Delivery, Section 21 - Agreement Severable, and Section 26 - Imposition of Other Requirements. In addition, Participant acknowledges that he or she has read and specifically and expressly approves the Data Privacy Notification above.

#### **NOTIFICATIONS**

**Exchange Control Information.** Participant is required to report the following on his or her annual tax return (Form UNICO, Schedule RW) or on a special form if no tax return is required: (1) any transfers of cash or Shares to or from Italy exceeding €10,000, (2) any foreign investments or investments held outside of Italy at the end of the calendar year exceeding €10,000 if such investments (cash or Shares) may result in income taxable in Italy, and (3) the amount of the transfers to and from abroad which have had an impact during the calendar year on Participant's foreign investments or investments held outside of Italy, to the extent that the overall amount of the transfers exceed €10,000. Under certain circumstances, Participant may be exempt from the requirement under (1) above if the transfer or investment is made through an authorized broker resident in Italy.

**Tax on Foreign Financial Assets.** Effective from 2011, a tax on the value of the financial assets held outside of Italy by individuals resident of Italy has been introduced. Such tax is levied at an annual rate of 1.5 per thousand (0.15%) starting from 2013. The taxable amount will be the fair market value of the financial assets (including Shares) assessed at the end of the calendar year.

#### **JAPAN**

#### **NOTIFICATIONS**

**Foreign Asset/Account Reporting Information.** Participant is required to report details of any assets held outside of Japan (including Shares acquired under the Plan as of December 31), to the extent such assets have a total net fair market value exceeding ¥50 million. Such report will be due by March 15

of the following year. Participant should consult with his or her personal tax advisor to determine if the reporting obligation applies to his or her personal situation.

## **KOREA**

### ***NOTIFICATIONS***

**Exchange Control Information.** Exchange control laws require Korean residents who realize US\$500,000 or more from the sale of Shares or the receipt of dividends in a single transaction to repatriate the sale proceeds back to Korea within eighteen months of the sale/receipt.

## **MALAYSIA**

### ***NOTIFICATIONS***

**Insider Trading Information.** Participant should be aware of the Malaysian insider-trading rules, which may impact the acquisition or disposal of Shares under the Plan. Under Malaysian insider-trading rules, Participant is prohibited from acquiring or selling Shares when in possession of information that is not generally available and that Participant knows or should know will have a material effect on the price of Shares once such information is generally available.

**Director Notification Obligation.** If Participant is a director of a Malaysian Parent or Subsidiary, Participant is subject to certain notification requirements under the Malaysian Companies Act. Among these requirements is an obligation to notify the Malaysian Parent or Subsidiary in writing when Participant receives or disposes of an interest (e.g., Shares) in the Company or any related company. Such notifications must be made within 14 days of receiving or disposing of any interest in the Company or any related company.

## **MEXICO**

### ***TERMS AND CONDITIONS***

**Acknowledgement of the Award Agreement.** By accepting the Restricted Stock Units, Participant acknowledges that he or she has received a copy of the Plan and the Award Agreement, including this Addendum, which he or she has reviewed. Participant further acknowledges that he or she accepts all the provisions of the Plan and the Award Agreement, including this Addendum. Participant also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in the “Nature of Grant” section of the Award Agreement, which clearly provide as follows:

- (1) Participant’s participation in the Plan does not constitute an acquired right;
- (2) The Plan and Participant’s participation in it are offered by the Company on a wholly discretionary basis;
- (3) Participant’s participation in the Plan is voluntary; and

- (4) The Company and any of its Parent and Subsidiaries are not responsible for any decrease in the value of any Shares acquired under the Plan.

**Labor Law Acknowledgement and Policy Statement.** By accepting the Restricted Stock Units, Participant acknowledges that the Company, with registered offices at 3300 Olcott Street, Santa Clara, CA 95054, U.S.A., is solely responsible for the administration of the Plan. Participant further acknowledges that his or her participation in the Plan, the grant of Restricted Stock Units and any acquisition of Shares under the Plan do not constitute an employment relationship between Participant and the Company because Participant is participating in the Plan on a wholly commercial basis. Based on the foregoing, Participant expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between Participant and the Employer and do not form part of the employment conditions and/or benefits provided by the Employer, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of Participant's employment.

Participant further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of the Company and, therefore, the Company reserves the absolute right to amend and/or discontinue the Participant's participation in the Plan at any time, without any liability to Participant.

Finally, Participant hereby declares that he or she does not reserve to him- or herself any action or right to bring any claim against the Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to the Company, its Parent, Subsidiaries, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

#### **Spanish Translation**

*Reconocimiento del Convenio de Concesión. Al aceptar las Unidades de Acciones Restringidas ("Unidades"), el Beneficiario reconoce que ha recibido y revisado una copia del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario reconoce y acepta todas las disposiciones del Plan y del Convenio de Concesión, incluyendo el apéndice. El Beneficiario también reconoce que ha leído y aprobado de forma expresa los términos y condiciones establecidos en la sección: "Nature of Grant" del Convenio de Concesión, que claramente establece lo siguiente:*

- (1) *La participación del Beneficiario en el Plan no constituye un derecho adquirido;*
- (2) *El Plan y la participación del Beneficiario en él es ofrecido por la Compañía de manera completamente discrecional;*
- (3) *La participación del Beneficiario en el Plan es voluntaria; y*
- (4) *La Compañía y su Padre y sus Subsidiarias no son responsables por ninguna disminución en el valor de las Acciones adquiridas en virtud del Plan.*

*Reconocimiento del Derecho Laboral y Declaración de la Política. Al aceptar el otorgamiento de las Unidades, el Beneficiario reconoce que la Compañía, con domicilio social en 3300 Olcott Street, Santa Clara, CA 95054, E.U.A., es la única responsable de la administración del Plan. Además, el Beneficiario reconoce que su participación en el Plan, la concesión de las Unidades y cualquier adquisición de Acciones en virtud del Plan no constituyen una relación laboral entre el Beneficiario y la Compañía, en virtud de que el Beneficiario está participando en el Plan sobre una base totalmente comercial. Por lo anterior, el Beneficiario expresamente reconoce que el Plan y los beneficios que puedan derivarse de su participación no establecen ningún derecho entre el Beneficiario y el Empleador y que no forman parte de las condiciones de trabajo y/o beneficios otorgados por el Empleador, y cualquier modificación del Plan o la terminación no constituirá un cambio o modificación de los términos y condiciones en el empleo del Beneficiario.*

*Además, el Beneficiario comprende que su participación en el Plan es el resultado de una decisión discrecional y unilateral de la Compañía, por lo que la misma se reserva el derecho absoluto de modificar y/o suspender la participación del Beneficiario en el Plan en cualquier momento, sin responsabilidad alguna del Beneficiario.*

*Finalmente, el Beneficiario manifiesta que no se reserva acción o derecho alguno que origine una demanda en contra de la Compañía, por cualquier indemnización o daño relacionado con las disposiciones del Plan o de los beneficios otorgados en el mismo, y en consecuencia el Beneficiario libera de la manera más amplia y total de responsabilidad a la Compañía, sus padre, subsidiarias, sucursales, oficinas de representación, sus accionistas, directores, agentes y representantes legales con respecto a cualquier demanda que pudiera surgir.*

## **NETHERLANDS**

### **NOTIFICATIONS**

**Insider Trading Information.** Participant should be aware of Dutch insider trading rules that may impact the sale of Shares acquired under the Plan. In particular, Participant may be prohibited from effecting certain transactions if he or she has insider information regarding the Company.

By accepting the grant of the Restricted Stock Units and participating in the Plan, Participant acknowledges having read and understood this Insider Trading Information and further acknowledges that it is Participant's responsibility to comply with the following Dutch insider trading rules.

Under Article 5:56 of the Dutch Financial Supervision Act, anyone who has "insider information" related to an issuing company is prohibited from effectuating a transaction in securities in or from the Netherlands. "Inside information" is defined as knowledge of details concerning the issuing company to which the securities relate that is not public and which, if published, would reasonably be expected to affect the stock price, regardless of the development of the price. The insider could be any Service Provider in the Netherlands who has inside information as described herein.

Given the broad scope of the definition of inside information, certain Service Providers working in the Netherlands (including a Participant in the Plan) may have inside information and, thus, would be prohibited from effectuating a transaction in securities in the Netherlands at a time when the Participant had such inside information. If Participant is uncertain whether the insider trading rules apply to him or her, Participant should consult with his or her personal legal advisor.

#### **NEW ZEALAND**

There are no country-specific provisions.

#### **NORWAY**

There are no country-specific provisions.

#### **POLAND**

**Exchange Control Information.** If Participant holds foreign securities (including Shares) and maintains accounts abroad, Participant may be required to file certain reports with the National Bank of Poland. Specifically, if the value of securities and cash held in such foreign accounts exceeds PLN 7 million, Participant must file reports on the transactions and balances of the accounts on a quarterly basis. Further, any fund transfers into or out of Poland in excess of €15,000 must be effected through a bank in Poland. Polish residents are required to store all documents related to foreign exchange transactions for a period of five years.

#### **QATAR**

There are no country-specific provisions.

#### **SINGAPORE**

#### **NOTIFICATIONS**

**Securities Law Information.** The grant of the Restricted Stock Units under the Plan is being made pursuant to the “Qualifying Person” exemption under section 273(1)(f) of the Securities and Futures Act (Chapter 289, 2006 Ed.) (“SFA”). The Plan has not been lodged or registered as a prospectus with the Monetary Authority of Singapore. Participant should note that the Restricted Stock Units are subject to section 257 of the SFA and that Participant will not be able to make (i) any subsequent sale of the Shares in Singapore or (ii) any offer of such subsequent sale of the Shares subject to the Restricted Stock Units in Singapore, unless such sale or offer is made pursuant to the exemptions under Part XIII Division (1) Subdivision (4) (other than section 280) of the SFA.

**Director Notification Obligation.** If Participant is a director, associate director or shadow director of a Singaporean Parent or Subsidiary, Participant is subject to certain notification requirements under the Singapore Companies Act. Among these requirements is an obligation to notify the Singaporean Parent or Subsidiary in writing when (i) Participant receives an interest (e.g., Shares) in the Company or any related companies or (ii) Participant sells or receives Shares of the Company or any related company (including when Participant sells or receives Shares acquired under the Plan). These notifications must be made within two business days of acquiring or disposing of any interest in the Company or any related company. In addition, a notification must be made of the Participant's interests in the Company or any related company within two business days of becoming a director.

**Insider Trading Information.** Participant should be aware of the Singaporean insider trading rules, which may impact Participant's acquisition or disposal of Shares or rights to Shares under the Plan. Under the Singaporean insider trading rules, Participant is prohibited from acquiring or selling Shares or rights to Shares when in possession of information which is not generally available and which Participant knows or should know will have a material effect on the price of the Shares once such information is generally available.

## **SOUTH AFRICA**

### ***TERMS AND CONDITIONS***

**Withholding of Taxes.** The following provision supplements Section 7 of the Award Agreement:

By accepting the Restricted Stock Units, Participant agrees to immediately notify the Employer of the amount of any gain realized upon vesting of the Restricted Stock Units. If Participant fails to advise the Employer of the gain realized upon vesting of the Units, then he or she may be liable for a fine. Participant will be responsible for paying the difference between the actual tax liability and the amount withheld by the Company or the Employer.

### ***NOTIFICATIONS***

**Exchange Control Information.** By accepting the Restricted Stock Units, Participant acknowledges that Participant is solely responsible for complying with applicable South African exchange control regulations. Since the exchange control regulations change frequently and without notice, Participant should consult Participant's legal advisor prior to the acquisition or sale of Shares acquired under the Plan to ensure compliance with current regulations. As noted, it is Participant's responsibility to comply with South African exchange control laws, and neither the Company nor any Parent or Subsidiary will be liable for any fines or penalties resulting from Participant's failure to comply with applicable laws.

## **SPAIN**

### ***TERMS AND CONDITIONS***

**Labor Law Acknowledgment.** This section supplements Section 10 of the Award Agreement:

In accepting the Restricted Stock Units, Participant acknowledges that he or she consents to participation in the Plan and has received a copy of the Plan.

Participant understands that the Company has unilaterally, gratuitously, and discretionally decided to grant Restricted Stock Units under the Plan to individuals who may be Service Providers throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any Parent or Subsidiary on an ongoing basis. Consequently, Participant understands that the Restricted Stock Units are granted on the assumption and condition that the Restricted Stock Units or the Shares acquired upon vesting shall not become a part of any employment or service contract (either with the Company or any Parent or Subsidiary) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation), or any other right whatsoever. In addition, Participant understands that this grant would not be made to Participant but for the assumptions and conditions referred to above; thus, Participant acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of Restricted Stock Units shall be null and void.

Further, the vesting of the Restricted Stock Units is expressly conditioned on Participant's continued and active rendering of service, such that if Participant's status as a Service Provider terminates for any reason whatsoever, the Restricted Stock Units cease vesting immediately effective on the date of Participant's termination of status as a Service Provider. This will be the case, for example, even if (1) Participant is considered to be unfairly dismissed without good cause; (2) Participant is dismissed for disciplinary or objective reasons or due to a collective dismissal; (3) Participant terminates service due to a change of work location, duties or any other employment or contractual condition; (4) Participant terminates service due to a unilateral breach of contract by the Company or any Parent or Subsidiary; or (5) Participant's status as a Service Provider terminates for any other reason whatsoever.

## **NOTIFICATIONS**

**Securities Law Information.** The Restricted Stock Units described in the Plan and the Award Agreement, including this Addendum, do not qualify under Spanish regulations as a security. No "offer of securities to the public," as defined under Spanish law, has taken place or will take place in the Spanish territory. The Plan and the Award Agreement, including this Addendum, have not been nor will they be registered with the Comisión Nacional del Mercado de Valores (*Spanish Securities Exchange Commission*), and they do not constitute a public offering prospectus.

**Exchange Control Information.** It is Participant's responsibility to comply with exchange control regulations in Spain. Participant must declare the acquisition of Shares for statistical purposes to the Spanish *Dirección General de Comercio e Inversiones* (the "DGCI") of the Ministry of Economy and Competitiveness. Generally, the declaration must be filed in January for Shares owned as of December 31 of each year; however, if the value of the Shares or the sale proceeds exceed €1,502,530, a declaration must be filed within one month of the acquisition or sale, as applicable.

When receiving foreign currency payments in excess of €50,000 derived from the ownership of Shares (*e.g.*, as a result of the sale of the Shares), Participant must inform the financial institution receiving the payment of the basis upon which such payment is made. Participant will likely need to provide the institution with the following information: (i) Participant's name, address, and fiscal identification number; (ii) the name and corporate domicile of the Company; (iii) the amount of the payment; (iv) the currency used; (v) the country of origin; (vi) the reasons for the payment; and (vii) any additional information that may be required.

**Foreign Asset/Account Reporting Information.** Effective January 1, 2013, Participant is required to declare electronically to the Bank of Spain any securities accounts (including brokerage accounts held abroad), as well as the Shares held in such accounts if the value of the transactions during the prior tax year or the balances in such accounts as of December 31 of the prior tax year exceed €1,000,000.

Further, effective January 1, 2013, to the extent that Participant holds Shares and/or has bank accounts outside Spain with a value in excess of €50,000 (for each type of asset) as of December 31, Participant will be required to report information on such assets on his or her tax return (tax form 720) for such year. After such Shares and/or accounts are initially reported, the reporting obligation will apply for subsequent years only if the value of any previously-reported Shares or accounts increases by more than €20,000. Participant is strongly advised to consult with his or her personal advisor in this regard.

## **SWEDEN**

There are no country-specific provisions.

## **SWITZERLAND**

### ***NOTIFICATIONS***

**Securities Law Information.** The grant of the Restricted Stock Units is considered a private offering in Switzerland and is therefore not subject to securities registration in Switzerland.

## **TAIWAN**

### ***NOTIFICATIONS***

**Securities Law Information.** The grant of the Restricted Stock Units and the Shares to be issued pursuant to the Plan are available only for certain Service Providers. It is not a public offer of securities by a Taiwanese company; therefore, it is exempt from registration in Taiwan.

**Exchange Control Information.** Participant may acquire and remit foreign currency (including proceeds from the Shares) into and out of Taiwan up to US\$5,000,000 per year. If the transaction amount is TWD\$500,000 or more in a single transaction, Participant must submit a Foreign Exchange Transaction Form and also provide supporting documentation to the satisfaction of the remitting bank.

## THAILAND

### NOTIFICATIONS

**Exchange Control Information.** It is Participant's responsibility to comply with all exchange control regulations in Thailand. Participant is required to immediately repatriate the proceeds from the sale of Shares or the receipt of dividends to Thailand if the proceeds realized in a single transaction exceed US\$50,000. Within the next 360 days after the repatriation date, Participant must deposit the proceeds into a foreign currency deposit account or convert them to local currency. If the amount of such proceeds is equal to or greater than US\$50,000, Participant must specifically report the inward remittance to the Bank of Thailand on a Foreign Exchange Transaction Form through the bank at which Participant deposits or converts the proceeds.

## TURKEY

### NOTIFICATIONS

**Securities Law Information.** By accepting the Restricted Stock Units and participating in the Plan, Participant acknowledges that Participant understands that the Shares acquired under the Plan cannot be sold in Turkey. The Shares are currently traded on the New York Stock Exchange, which is located outside of Turkey, under the ticker symbol "PANW" and the Shares may be sold through this exchange.

**Financial Intermediary Information.** Pursuant to Decree No. 32 on the Protection of the Value of the Turkish Currency ("Decree 32") and Communiqué No. 2008-32/34 on Decree No. 32, any activity related to investments in foreign securities (*e.g.*, the sale of Shares acquired under the Plan) must be conducted through a bank or financial intermediary institution licensed by the Turkish Capital Markets Board and should be reported to the Turkish Capital Markets Board. Participant understands that Participant is solely responsible for complying with this requirement and is strongly advised to contact his or her personal legal advisor for further information regarding his or her obligations in this respect.

## UNITED ARAB EMIRATES

### NOTIFICATIONS

**Securities Law Information.** Participation in the Plan is being offered only to selected Service Providers and is in the nature of providing equity incentives to Service Providers in the United Arab Emirates. The Plan and the Award Agreement are intended for distribution only to such Service Providers and must not be delivered to, or relied on by, any other person. Participant should conduct his or her own due diligence on the Shares. If Participant does not understand the contents of the Plan and the Award Agreement, Participant should consult an authorized financial adviser. The Emirates Securities and Commodities Authority has no responsibility for reviewing or verifying any documents in connection with the Plan. Neither the Ministry of Economy nor the Dubai Department of Economic Development have approved the Plan or the Award Agreement nor taken steps to verify the information set out therein, and have no responsibility for such documents.

## UNITED KINGDOM

### *TERMS AND CONDITIONS*

**Form of Payment.** Notwithstanding any discretion contained in the Plan, the grant of Restricted Stock Units does not provide any right for Participant to receive a cash payment; the Restricted Stock Units are payable in Shares only.

**Joint Election for Transfer of Liability for Employer National Insurance Contributions.** As a condition of participation in the Plan and the vesting of the Restricted Stock Units, Participant agrees to accept any liability for secondary Class 1 National Insurance contributions that may be payable by the Company, the Employer, any Parent or Subsidiary in connection with the Restricted Stock Units and any event giving rise to Tax-Related Items (the “Employer NICs”). Without prejudice to the foregoing, Participant agrees to execute a joint election with the Company or the Employer, the form of such joint election (the “Joint Election”) having been approved formally by Her Majesty’s Revenue and Customs (“HMRC”), and any other required consent or election prior to vesting of the Restricted Stock Units. Participant further agrees to execute such other joint elections as may be required between Participant and any successor to the Company, the Employer, any Parent or Subsidiary. Participant further agrees that the Company, the Employer, any Parent or Subsidiary may collect the Employer NICs from Participant by any of the means set forth in Section 7 of the Award Agreement.

If Participant does not enter into a Joint Election prior to the vesting of the Restricted Stock Units, he or she will not be entitled to vest in the Restricted Stock Units unless and until he or she enters into a Joint Election, and no Shares will be issued to Participant under the Plan, without any liability to the Company, the Employer, or any Parent or Subsidiary.

**Withholding of Taxes.** This provision supplements Section 7 of the Award Agreement.

If payment or withholding of the income tax due is not made within 90 days of the event giving rise to the liability or such other period specified in Section 222(1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003 (the “Due Date”), the amount of any uncollected tax will constitute a loan owed by Participant to the Employer, effective on the Due Date. Participant agrees that the loan will bear interest at the then-current HMRC Official Rate, it will be immediately due and repayable, and the Company or the Employer may recover it at any time thereafter by any of the means referred to in Section 7 of the Award Agreement. Notwithstanding the foregoing, if Participant is a director or executive officer of the Company (within the meaning of Section 13(k) of the U.S. Securities Exchange Act of 1934, as amended), Participant will not be eligible for such a loan to cover the tax liability. In the event that Participant is a director or executive officer and the income tax due is not collected from or paid by Participant by the Due Date, the amount of any uncollected income tax may constitute a benefit to Participant on which additional income tax and national insurance contributions (“NICs”) will be payable. Participant will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for reimbursing the Company or the Employer for the value of any employee NICs due on this additional benefit. Participant acknowledges

that the Company or the Employer may recover such additional NICs at any time thereafter by any of the means set forth in Section 7 of the Award Agreement.

**CERTIFICATION PURSUANT TO SECTION 302(a)  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Nikesh Arora, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Palo Alto Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ NIKESH ARORA

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Nikesh Arora

Chief Executive Officer and Director

Date: February 26, 2019

**CERTIFICATION PURSUANT TO SECTION 302(a)  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Kathleen Bonanno, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Palo Alto Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ KATHLEEN BONANNO

Kathleen Bonanno  
Chief Financial Officer

Date: February 26, 2019

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nikesh Arora, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Palo Alto Networks, Inc. for the quarterly period ended January 31, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Palo Alto Networks, Inc.

/s/ NIKESH ARORA

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Nikesh Arora

Chief Executive Officer and Director

Date: February 26, 2019

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kathleen Bonanno, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Palo Alto Networks, Inc. for the quarterly period ended January 31, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Palo Alto Networks, Inc.

/s/ KATHLEEN BONANNO

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Kathleen Bonanno

Chief Financial Officer

Date: February 26, 2019