

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

**AMENDMENT NO. 3
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

PALO ALTO NETWORKS, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

3577
(Primary Standard Industrial
Classification Code Number)

20-2530195
(I.R.S. Employer
Identification Number)

3300 Olcott Street
Santa Clara, California 95054
(408) 753-4000

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common Stock, \$0.0001 par value per share	7,130,000	\$37.00	\$263,810,000	\$30,233

- (1) Estimated pursuant to Rule 457(a) under the Securities Act of 1933, as amended. Includes the aggregate offering price of additional shares that the underwriters have the option to purchase.
 (2) Estimated solely for the purpose of calculating the registration fee.
 (3) The Registrant previously paid \$20,055 of the registration fee with the initial filing of this Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We and the selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we and the selling stockholders are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued July 9, 2012

6,200,000 Shares



Palo Alto Networks, Inc. is offering 4,687,259 shares of its common stock and the selling stockholders are offering 1,512,741 shares. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market currently exists for our shares. We anticipate that the initial public offering price will be between \$34.00 and \$37.00 per share.

We have applied to list our common stock on the New York Stock Exchange under the symbol "PANW."

We are an "emerging growth company" under the federal securities laws. Investing in our common stock involves risks. See "[Risk Factors](#)" beginning on page 13.

	PRICE \$	A SHARE		
	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Palo Alto Networks</u>	<u>Proceeds to Selling Stockholders</u>
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

We have granted the underwriters the right to purchase up to an additional 930,000 shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on _____, 2012.

MORGAN STANLEY

GOLDMAN, SACHS & CO.

CITIGROUP


CREDIT SUISSE

BARCLAYS



UBS INVESTMENT BANK

RAYMOND JAMES

, 2012



Representative applications.




Application Enablement

The Palo Alto Networks platform safely enables applications, ensuring full business benefits while minimizing the security risks.

Application Prevention

Legacy network security approaches force organizations to either completely block or unsafely allow modern applications.

VS.

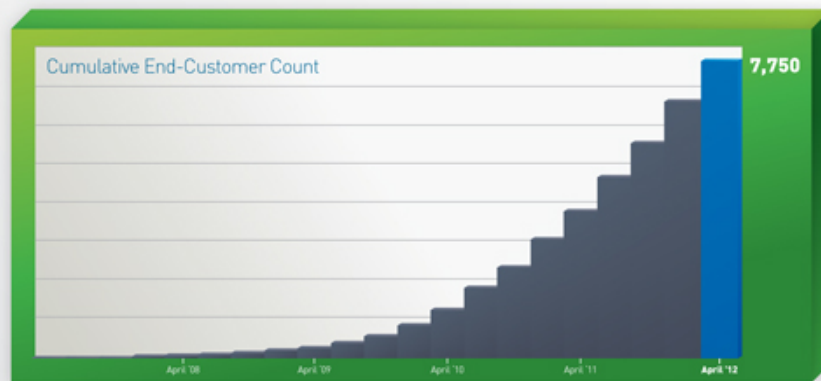


paloalto
NETWORKS
the network security company™

The **only** network security vendor **recognized** as a **leader** by both Gartner and NSS Labs

Gartner
Placed in 2011 Enterprise Firewall Magic Quadrant as "Leader"

NSS Labs
"Recommended"
Status in 2012 NGFW Group Test



Securing the world's enterprises,
service providers, and government entities.

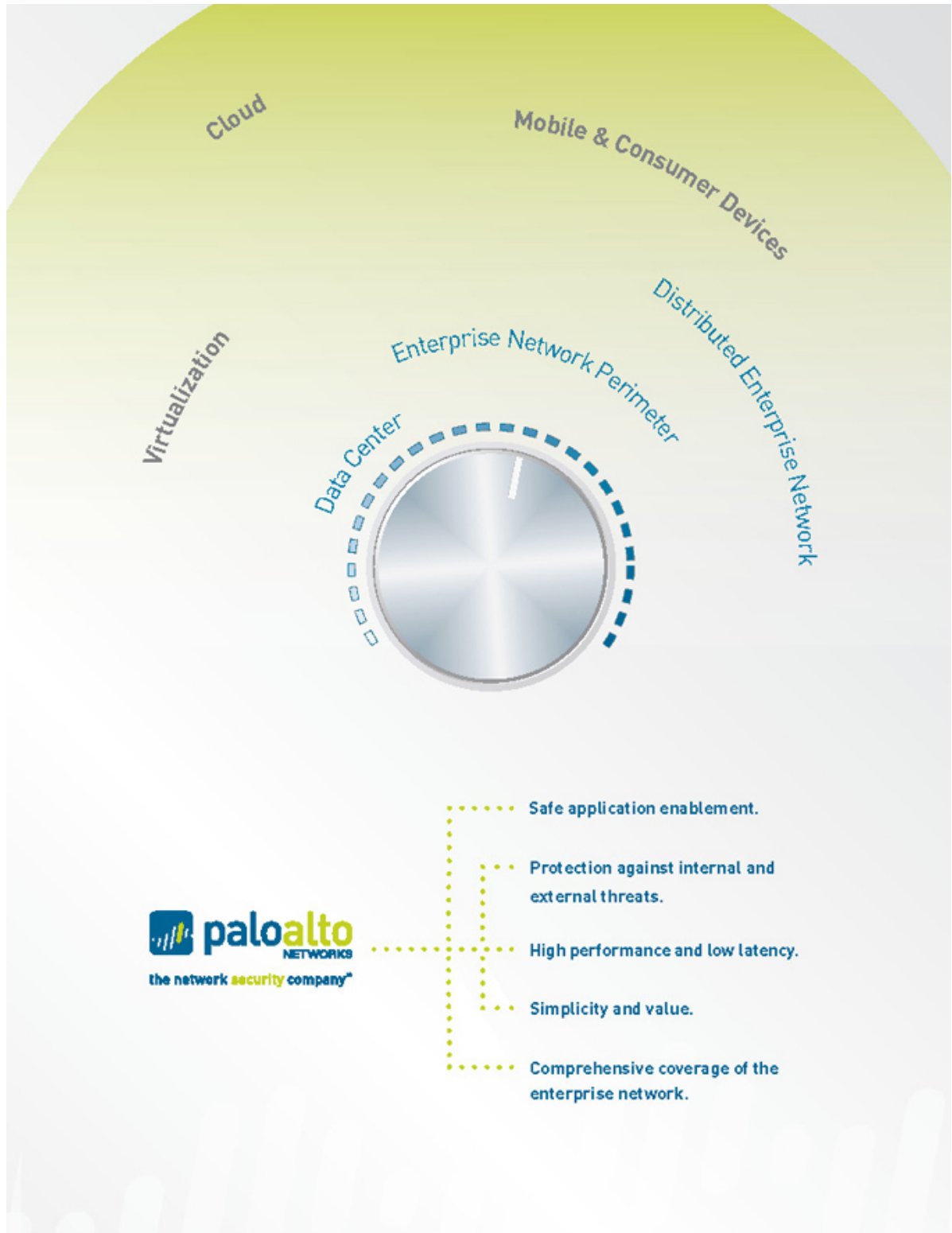


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We and the selling stockholders have not authorized anyone to provide any information or make any representations other than those contained in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

Through and including _____, 2012 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

For investors outside of the United States: Neither we, the selling stockholders, nor the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus outside of the United States.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the following summary together with the more detailed information appearing in this prospectus, including “Risk Factors,” “Selected Consolidated Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” and our consolidated financial statements and related notes before deciding whether to purchase shares of our common stock. Unless the context otherwise requires, the terms “Palo Alto Networks,” “the company,” “we,” “us,” and “our” in this prospectus refer to Palo Alto Networks, Inc. and its subsidiaries. Our fiscal year end is July 31, and our fiscal quarters end on October 31, January 31, April 30, and July 31. Our fiscal years ended July 31, 2009, 2010, and 2011 and our fiscal year ending July 31, 2012 are referred to herein as fiscal 2009, 2010, 2011, and 2012, respectively.

PALO ALTO NETWORKS, INC.

Overview

We have pioneered the next generation of network security with our innovative platform that allows enterprises, service providers, and government entities to secure their networks and safely enable the increasingly complex and rapidly growing number of applications running on their networks. The core of our platform is our Next-Generation Firewall, which delivers application, user, and content visibility and control integrated within the firewall through our proprietary hardware and software architecture. Our platform offers a number of compelling benefits for our end-customers, including the ability to identify, control, and safely enable applications while inspecting all content for all threats in real time. We believe our platform also offers superior performance compared to legacy approaches and reduces the total cost of ownership for organizations by simplifying their network security infrastructure and eliminating the need for multiple, stand-alone security appliances. Our products and services can address a broad range of our end-customers’ network security requirements, from the data center to the network perimeter, as well as the distributed enterprise, which includes branch offices and a growing number of mobile devices.

Our platform is based on an innovative traffic classification engine that identifies network traffic by application, user, and content. As a result, it provides in-depth visibility into all traffic and all applications, at the user level, at all times, and at the full speed of the network in order to control usage, content, risks, and threats. This enables our end-customers to transform their organizations by safely enabling applications through a positive security model with fine-grained policy implementation capabilities.

Our platform is delivered in the form of a hardware appliance and includes a suite of subscription services as well as support and maintenance. Our subscription services can be easily activated on any of our appliances without requiring additional hardware or processing resources, thereby providing a seamless implementation path for our end-customers. All of our appliances incorporate our PAN-OS operating system and are based on our proprietary identification technologies, App-ID, User-ID, and Content-ID, which allow security policies to be defined within the context of applications, users, and content. We deliver these capabilities through an innovative, single-pass parallel processing architecture that simultaneously performs multiple identification, security, and networking functions. As a result, our end-customers achieve safe application enablement and advanced levels of security, while maintaining high network performance.

Our team has substantial experience in network security. As a result, we understand the architectural limitations of legacy network security approaches and have designed our platform to avoid these limitations in order to address current network security requirements. We released our Next-Generation Firewall in 2007, and since then, we have grown significantly faster than industry growth rates. We have been recognized as a technology and market leader. Gartner categorized us as a market leader in its “2011 Magic Quadrant for Enterprise Network Firewalls” based on our ability to execute and completeness of vision. As of April 30, 2012, we had more than 7,750 end-customers in more than 100 countries.

We serve the enterprise network security market, which consists of Firewall, Unified Threat Management (UTM), Web Gateway, Intrusion Detection and Prevention (IDS/IPS), and Virtual Private Network (VPN) technologies. According to IDC, the worldwide enterprise network security market, defined as IDC's Network Security market and Web Security market, is estimated to be \$10.0 billion in 2012 and is projected to grow to \$12.5 billion by 2015.

We sell our platform through a high touch, channel fulfilled sales model. Our business is geographically diversified, with 62% of our total revenue from the Americas, 26% from Europe, the Middle East, and Africa (EMEA), and 12% from Asia Pacific and Japan (APAC) for the nine month period ended April 30, 2012.

We have experienced rapid growth in recent periods. For fiscal 2009, 2010, and 2011, our revenues were \$13.4 million, \$48.8 million, and \$118.6 million, respectively, representing year-over-year growth of 265% for fiscal 2010 and 143% for fiscal 2011, and our net losses were \$19.0 million, \$21.1 million, and \$12.5 million, respectively. For the nine month periods ended April 30, 2011 and 2012, our revenues were \$78.4 million and \$179.5 million, respectively, representing year-over-year growth of 129%. For the nine month period ended April 30, 2011, we recorded a net loss of \$6.5 million, and for the nine month period ended April 30, 2012, we recorded net income of \$5.3 million. For the nine month period ended April 30, 2011 and 2012, we generated \$22.0 million and \$58.5 million, respectively, of cash flow provided by operating activities, and we have generated positive cash flow provided by operating activities for each of our last eight fiscal quarters.

Our Industry

Fundamental Shifts in the Application Landscape, User Behavior, and IT Infrastructure Have Led to Increased Network Vulnerability

Organizations are transforming the way they do business as a result of IT innovation. New technology trends, such as the adoption of web-based applications, including Software-as-a-Service (SaaS), the consumerization of IT, the proliferation of mobile devices, virtualization, and cloud computing, are changing the way employees consume and organizations manage IT. By embracing these new technology trends, organizations have become more susceptible to security breaches and compromised data.

Legacy approaches to network security have significantly limited the ability of organizations to adopt many of the new applications that leverage new technology trends. Organizations can have thousands of enterprise and consumer applications running on their networks that can be either safe or unsafe depending on the user and usage. In today's complex application landscape, organizations need the ability to selectively enable certain applications for certain users, while protecting against a wide array of security threats.

The Legacy Network Security Model Prevents Organizations from Safely Enabling Modern Web Applications

Despite the rapidly changing application and threat landscape, the firewall, the mainstay of network security that serves as the barrier between an organization's trusted, internal network and the Internet, has remained largely unchanged for decades. These legacy firewalls examine the network port and protocol of the data packets through a classification approach known as stateful inspection, which was designed to decide whether or not to let traffic associated with the inspected packets pass into the network. This approach worked well for basic email and web browsing applications, which behaved in a predictable fashion and adhered to standard network ports and protocols. However, a growing number of applications, such as Web 2.0, social media, and SaaS, are allowing users to collaborate and share information on the Internet in ways that previously were not possible. These applications are becoming increasingly and often deliberately more complex and unpredictable and are therefore challenging to the legacy firewall.

Because the relationship between applications and network ports and protocols is becoming less standardized and less predictable, legacy stateful inspection firewall technology can no longer provide the level of security, control, and intelligence required by organizations to safely enable and control today's applications. In an attempt to compensate for the limitations of the stateful inspection firewall, three approaches have evolved, including stateful inspection "helpers" (such as web filters and intrusion detection and prevention systems), UTM appliances, and application control blades that supplement legacy firewalls. However, these approaches still fundamentally rely on stateful inspection technology at their core and are unable to truly identify and safely enable applications. As a result, by using legacy approaches, organizations have to either unsafely allow or completely block many of today's applications, such as Web 2.0, social media, SaaS, and other productivity enhancing applications.

Organizations Need a Fundamentally New Approach to Network Security

We believe organizations require a next-generation network security platform that can safely enable applications for certain users while protecting against a wide array of security threats. Such a platform must incorporate the following key elements:

- improved application visibility and control;
- protection against threats, vulnerabilities, data leakage, abusive use, and targeted malware;
- high performance and low latency;
- simplified security infrastructure and lower total cost of ownership; and
- deployment flexibility for any point in the network.

Our Solution

Our platform offers a fundamentally new approach to network security and allows organizations to secure their networks and safely enable the increasingly complex and rapidly growing number of applications running on their networks. The core of our platform is our Next-Generation Firewall, which delivers application, user, and content visibility and control integrated within the firewall through our proprietary hardware and software architecture.

The key benefits of our next-generation network security platform include its ability to:

- ***Identify, Control, and Safely Enable Applications.*** Our platform provides visibility and control over applications, users, and content, regardless of network port, protocol, evasive tactics, or encryption. This allows our end-customers to safely enable almost any application.
- ***Inspect All Content for All Threats in Real Time.*** Our platform allows end-customers to limit traffic to approved applications and scan it in real time and in context for threats, including exploits, viruses, spyware, confidential data leaks, and other targeted malware.
- ***Deliver High Throughput and Performance.*** Our platform examines all network traffic only once, using hardware with dedicated processing resources for security, networking, content scanning, and management to provide real-time performance at the full speed of the network with very low latency.
- ***Simplify Network Security Infrastructure and Reduce Total Cost of Ownership.*** Our platform provides our end-customers a broad range of network security functionality delivered through a single platform, allowing them to simplify their network security infrastructure and achieve a substantially lower total cost of ownership, eliminating the need for multiple, stand-alone security appliances.
- ***Enable Diverse Deployment Scenarios.*** Our platform can be broadly deployed in the enterprise network environment, including in the data center, at the network perimeter, through the distributed enterprise, and in the evolving environments of cloud computing, virtualization, and mobility.

Our Strategy

Our goal is to be the global leader of network security solutions for enterprises, service providers, and government entities. The key elements of our growth strategy are:

- **Extend Our Network Security Technology Leadership through Continued Innovation.** We intend to extend our technology leadership in network security by continuing to innovate and invest in research and development to enhance our products and services.
- **Promote Our Disruptive Platform to Grow Our End-Customer Base.** We intend to grow our base of end-customers by promoting our disruptive platform, increasing our investment in direct sales and marketing, leveraging our network of motivated channel partners, and furthering our international expansion.
- **Increase Sales to Existing End-Customers.** We intend to expand deployment of our platform within existing end-customers by expanding our product footprint to other areas of our end-customers' networks and by selling additional subscription services to provide increasing levels of network security.
- **Focus on Customer Satisfaction.** We intend to continue to prioritize end-customer satisfaction. This typically results in new sales opportunities as well as receiving valuable feedback from our end-customers on the direction of our customer support and development roadmap.

Competitive Strengths

We believe we have a number of competitive advantages that will enable us to maintain and expand our leadership position in next-generation network security. Our competitive strengths include:

- **Next-Generation Network Security Platform Built from the Ground Up.** Our approach to network security focuses on integrating application visibility and control within the firewall. We integrate our application, user, and content classifications in our single-pass software with purpose-built hardware to deliver a comprehensive security platform while also maximizing performance.
- **Industry Leading Application and Threat Expertise.** Our internal application and threat research capabilities position us as an IT security thought leader and differentiate us from other network security companies that cannot identify applications and simply repackage threat technologies from one or more security vendors.
- **Experienced Technology Team.** We have assembled a team of leading technology experts from well-established network and security companies who are focused on developing our proprietary technologies.
- **Large and Growing End-Customer Base.** We focus on serving enterprises, service providers, and government entities, and we have seen significant momentum in the adoption of our platform as our end-customer base has increased from approximately 1,800 as of July 31, 2010 to more than 7,750 as of April 30, 2012.
- **Clear Leadership Position.** We were the first company to define and lead the industry's transition from the legacy stateful inspection approach to the next-generation firewall paradigm, and we believe that our position as a technology and market leader contributes to our ability to maintain and grow our leadership position in the network security market.

Our Go-to-Market Strategy

In addition to redesigning the fundamental architecture of the firewall, we have also redesigned the traditional go-to-market approach in the network security industry. Key elements of our go-to-market strategy include:

- **Targeting New End-Customers through Multiple Initial Insertion Points.** We can target initial sales opportunities as either a firewall replacement or as a replacement of any of the firewall helper technologies. As our end-customers realize the benefits of our platform, we believe that we can accelerate refresh cycles for the existing firewall and its helpers and can replace the core firewall over time.
- **Promoting Our Platform's Capabilities to Upsell to Existing End-Customers.** Our architecture enables our end-customers to easily activate additional subscription services without requiring additional hardware, software, or processing resources. This seamless upsell capability offers us significant recurring revenue opportunities from subscription services over time.
- **Leveraging Our Highly Incentivized Channel Model.** We incentivize our accredited channel partners on both the initial products and services sale, as well as on subsequent product and subscription sales, by allowing them to purchase our products and services at a discount to our list prices and then reselling them to our end-customers. This motivates our channel partners to maintain high levels of end-customer satisfaction and to promote products and services upsell.

Risks Affecting Us

Our business is subject to numerous risks and uncertainties, including those highlighted in the section entitled "Risk Factors" immediately following this prospectus summary. These risks include, but are not limited to, the following:

- our limited operating history makes it difficult to evaluate our current business and future prospects;
- 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 and processes, our operating results will be adversely affected;
- our operating results are likely to vary significantly from period to period and be unpredictable;
- we are involved in the early stages of litigation in which Juniper Networks, Inc. alleges that our appliances infringe six of its patents; this litigation may be costly and time-consuming to defend and, if we are unable to prevail, it could result in a material adverse effect on our business;
- our revenue growth rate in recent periods may not be indicative of our future performance;
- we have a history of losses, anticipate increasing our operating expenses in the future, and may not be able to achieve or maintain profitability on a consistent basis;
- if we are unable to sell additional products and services to our end-customers, our future revenue and operating results will be harmed;
- 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;
- if functionality similar to that offered by our products is incorporated into existing infrastructure products, organizations may decide against adding our appliances to their network;
- if we are unable to hire, retain, train, and motivate qualified personnel and senior management, our business could suffer; and

- our directors, executive officers, and each of our stockholders who own greater than 5% of our outstanding common stock and their affiliates, in the aggregate, will beneficially own approximately 62% of the outstanding shares of our common stock after this offering, which could limit your ability to influence the outcome of key transactions, including a change of control.

Corporate Information

Our principal executive offices are located at 3300 Olcott Street, Santa Clara, California 95054, and our telephone number is (408) 753-4000. Our website is www.paloaltonetworks.com. Information contained on, or that can be accessed through, our website is not incorporated by reference into this prospectus, and you should not consider information on our website to be part of this prospectus. We were incorporated in 2005 as Palo Alto Networks, Inc., a Delaware corporation.

The Palo Alto Networks design logo and the marks “Palo Alto Networks,” “PAN-OS,” “App-ID,” “User-ID,” “Content-ID,” “GlobalProtect,” and “WildFire” are the property of Palo Alto Networks, Inc. This prospectus contains additional trade names, trademarks, and service marks of other companies. We do not intend our use or display of other companies’ trade names, trademarks, or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

THE OFFERING

Common stock offered by us	4,687,259 shares
Common stock offered by the selling stockholders	1,512,741 shares
Total common stock offered	6,200,000 shares
Over-allotment option being offered by us	930,000 shares
Common stock to be outstanding after this offering	66,601,444 shares (67,531,444 shares, if the underwriters exercise their over-allotment option in full)
Use of proceeds	<p>The principal purposes of this offering are to increase our capitalization and financial flexibility, create a public market for our stock and thereby enable access to the public equity markets by our employees and stockholders, obtain additional capital, facilitate an orderly distribution of shares for the selling stockholders, and increase our visibility in the marketplace.</p> <p>We intend to use the net proceeds we receive from this offering for general corporate purposes, including working capital, sales and marketing activities, product development, general and administrative matters, and capital expenditures. We also may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. However, we do not have agreements or commitments for any specific acquisitions at this time. We will not receive any of the proceeds from the sale of shares to be offered by the selling stockholders. See “Use of Proceeds.”</p>
Proposed NYSE symbol	“PANW”

The number of shares of our common stock to be outstanding after this offering is based on 61,914,185 shares of our common stock outstanding as of April 30, 2012, and excludes:

- 12,900,814 shares of common stock issuable upon the exercise of options outstanding as of April 30, 2012, with a weighted-average exercise price of \$7.16 per share;
- 1,559,000 shares of common stock issuable upon the exercise of options granted after April 30, 2012, with a weighted-average exercise price of \$20.19 per share;
- 30,000 shares of common stock to be issued to a charitable foundation prior to the completion of this offering; and
- 13,185,001 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 2,185,001 shares of common stock reserved for future issuance under our 2005 Equity Incentive Plan (including options to purchase 1,559,000 shares of common stock granted after April 30, 2012), which shares will be added to the shares to be reserved under our 2012 Equity Incentive Plan, which will become effective in connection with this offering, 10,000,000 shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, 1,000,000 shares of common stock reserved for future issuance under our 2012 Employee Stock Purchase Plan, which will become effective

in connection with this offering, and shares that become available under our 2012 Equity Incentive Plan and 2012 Employee Stock Purchase Plan, pursuant to provisions thereof that automatically increase the share reserves under the plans each year, as more fully described in “Executive Compensation—Employee Benefit and Stock Plans.”

Except as otherwise indicated, all information in this prospectus assumes:

- the automatic conversion of all shares of our convertible preferred stock outstanding as of April 30, 2012 into an aggregate of 41,304,600 shares of common stock immediately prior to the completion of this offering;
- the effectiveness of our amended and restated certificate of incorporation in connection with the completion of this offering;
- no exercise of outstanding options; and
- no exercise of the underwriters’ over-allotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated statements of operations data presented below for fiscal 2009, 2010, and 2011 are derived from audited consolidated financial statements that are included in this prospectus. The summary consolidated statements of operations data for the nine month periods ended April 30, 2011 and 2012 and the consolidated balance sheet data as of April 30, 2012 are derived from unaudited consolidated financial statements that are included in this prospectus. The unaudited consolidated financial statements were prepared on a basis consistent with our audited financial statements and include all adjustments, consisting of normal and recurring adjustments that we consider necessary for a fair presentation of the financial position and results of operations as of and for such periods. Operating results for the nine month period ended April 30, 2012 are not necessarily indicative of the results that may be expected for fiscal 2012. The following summary consolidated financial data should be read with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
(in thousands, except per share data)					
Consolidated Statements of Operations Data:					
Revenue:					
Product	\$ 10,110	\$ 36,789	\$ 84,800	\$55,716	\$ 125,023
Services	3,242	11,993	33,797	22,655	54,473
Total revenue	13,352	48,782	118,597	78,371	179,496
Cost of revenue:					
Product ⁽¹⁾	3,952	10,822	21,766	14,003	32,082
Services ⁽¹⁾	2,324	4,812	10,507	6,917	16,904
Total cost of revenue	6,276	15,634	32,273	20,920	48,986
Total gross profit	7,076	33,148	86,324	57,451	130,510
Operating expenses:					
Research and development ⁽¹⁾	8,208	12,788	21,366	14,437	26,824
Sales and marketing ⁽¹⁾	15,372	29,726	62,254	38,747	78,196
General and administrative ⁽¹⁾	2,536	11,291	13,108	9,290	17,355
Total operating expenses	26,116	53,805	96,728	62,474	122,375
Operating income (loss)	(19,040)	(20,657)	(10,404)	(5,023)	8,135
Interest income	52	4	3	3	7
Other expense, net	(5)	(424)	(1,651)	(1,195)	(1,033)
Income (loss) before income taxes	(18,993)	(21,077)	(12,052)	(6,215)	7,109
Provision for income taxes	12	56	476	333	1,773
Net income (loss)	<u>\$ (19,005)</u>	<u>\$ (21,133)</u>	<u>\$ (12,528)</u>	<u>\$ (6,548)</u>	<u>\$ 5,336</u>

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

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
(in thousands)					
Cost of product revenue	\$ 6	\$ 9	\$ 27	\$ 16	\$ 68
Cost of services revenue	9	46	179	108	365
Research and development	126	318	1,020	703	2,217
Sales and marketing	186	364	1,133	739	2,049
General and administrative	47	132	2,374	2,244	2,674
Total share-based compensation	<u>\$374</u>	<u>\$869</u>	<u>\$4,733</u>	<u>\$3,810</u>	<u>\$7,373</u>

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	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
	(in thousands, except per share data)				
Net income (loss) attributable to common stockholders:					
Basic	<u>\$ (19,005)</u>	<u>\$ (21,133)</u>	<u>\$ (12,528)</u>	<u>\$ (6,548)</u>	<u>\$ 40</u>
Diluted	<u>\$ (19,005)</u>	<u>\$ (21,133)</u>	<u>\$ (12,528)</u>	<u>\$ (6,548)</u>	<u>\$ 49</u>
Net income (loss) per share attributable to common stockholders:					
Basic	<u>\$ (2.01)</u>	<u>\$ (1.78)</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>	<u>\$ 0.00</u>
Diluted	<u>\$ (2.01)</u>	<u>\$ (1.78)</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>	<u>\$ 0.00</u>
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic	<u>9,435</u>	<u>11,901</u>	<u>14,201</u>	<u>13,559</u>	<u>17,238</u>
Diluted	<u>9,435</u>	<u>11,901</u>	<u>14,201</u>	<u>13,559</u>	<u>23,020</u>
Pro forma net income (loss) per share attributable to common stockholders:					
Basic			<u>\$ (0.20)</u>		<u>\$ 0.10</u>
Diluted			<u>\$ (0.20)</u>		<u>\$ 0.09</u>
Pro forma weighted-average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic			<u>55,285</u>		<u>58,421</u>
Diluted			<u>55,285</u>		<u>64,328</u>

Our consolidated balance sheet as of April 30, 2012 is presented on:

- an actual basis;
- a pro forma basis, giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into 41,304,600 shares of common stock and the effectiveness of our amended and restated certificate of incorporation as of immediately prior to the completion of this offering, as if such conversion had occurred and our amended and restated certificate of incorporation had become effective on April 30, 2012; and
- a pro forma as adjusted basis, giving effect to the pro forma adjustments and the sale of shares of common stock by us in this offering, based on an assumed initial public offering price of \$35.50 per share, the midpoint of the range reflected on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The pro forma as adjusted information set forth in the table below is illustrative only and will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing.

	April 30, 2012		
	Actual	Pro Forma	Pro Forma As Adjusted ⁽¹⁾
(in thousands)			
Consolidated Balance Sheet Data:			
Cash and cash equivalents	\$ 90,283	\$ 90,283	\$ 241,836
Working capital	36,047	36,047	187,600
Total assets	166,489	166,489	316,987
Current and long-term deferred revenue	116,652	116,652	116,652
Current and long-term notes payable	—	—	—
Total liabilities	155,586	155,586	155,234
Total stockholders' equity (deficit)	(56,614)	10,903	161,753

- (1) Each \$1.00 increase (decrease) in the assumed initial public offering price of \$35.50 per share, the midpoint of the price range reflected on the cover page of this prospectus, would increase (decrease) our cash and cash equivalents, working capital, total assets, and total stockholders' equity (deficit) by approximately \$4.4 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	Year Ended July 31,			Nine Months Ended	
	2009	2010	2011	April 30,	2012
	(dollars in thousands)				
Key Financial Metrics:					
Total revenue	\$ 13,352	\$ 48,782	\$ 118,597	\$ 78,371	\$ 179,496
Year-over-year percentage increase	327.7%	265.4%	143.1%	153.0%	129.0%
Gross margin percentage	53.0%	68.0%	72.8%	73.3%	72.7%
Operating income (loss)	\$(19,040)	\$(20,657)	\$(10,404)	\$(5,023)	\$ 8,135
Operating margin percentage	(142.6)%	(42.3)%	(8.8)%	(6.4)%	4.5%
Total deferred revenue at period end ⁽¹⁾	\$ 5,593	\$ 24,121	\$ 67,255	\$ 47,125	\$ 116,652
Cash flow provided by (used in) operating activities ⁽²⁾	\$(13,523)	\$ (2,683)	\$ 32,102	\$ 21,961	\$ 58,478
Free cash flow (non-GAAP) ⁽³⁾	\$(14,568)	\$ (4,368)	\$ 19,102	\$ 11,059	\$ 47,197

- (1) Our deferred revenue consists of amounts that have been invoiced but that have not yet been recognized as revenue as of the period end. The majority of our deferred revenue balance consists of subscription and support and maintenance 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.
- (2) We monitor cash flow provided by (used in) operating activities as a measure of our overall business performance. Our cash flow provided by (used in) operating activities is driven in large part by sales of our products and from up-front payments for both new and renewal contracts for subscription and support and maintenance. Monitoring cash flow provided by (used in) 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.
- (3) We define free cash flow as cash provided by (used in) operating activities less purchase of property, equipment, and other assets. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the purchase of property, equipment, and other assets, can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening the balance sheet. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Metrics” for more information and a reconciliation of free cash flow to cash flow provided by (used in) operating activities, the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this prospectus, including our consolidated financial statements and related notes, before investing in our common stock. The risks and uncertainties described below are not the only ones we face. If any of the following risks occur, our business, financial condition, operating results, and prospects could be materially harmed. In that event, the price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Our Industry

Our limited operating history makes it difficult to evaluate our current business and future prospects, and may increase the risk of your investment.

We were founded in 2005 and shipped our first products in 2007. The majority of our revenue growth has occurred since 2009. In addition, our management team has only been working together for a relatively short period of time. Our limited operating history makes it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and difficulties frequently experienced by rapidly growing companies in constantly evolving industries, including the risks described in this prospectus. If we do not address these risks successfully, our business and operating results will be adversely affected, and our stock price could decline. Further, we have limited historic financial data, and we operate in a rapidly evolving market. As such, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market.

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 and processes, our operating results will be adversely affected.

We have experienced rapid growth and increased demand for our products over the last few years. Our employee headcount and number of end-customers have increased significantly, and we expect to continue to grow our headcount significantly over the next 12 months. For example, from the end of fiscal 2010 to the end of fiscal 2011, our headcount increased from more than 200 to more than 400 employees, and our number of end-customers increased from approximately 1,800 to approximately 4,700 over the same period. The growth and expansion of our business and product and service offerings places a continuous significant strain on our management, operational, and financial resources. As we have grown, we have increasingly managed more complex deployments of our products and services with larger end-customers. 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 our ability to manage headcount, capital, and processes in an efficient manner.

We may not be able to successfully implement improvements to our systems and processes in an efficient or timely manner, and we may discover deficiencies in our existing systems and processes. We have licensed technology from third parties, which we are in the process of implementing, to help us accomplish this objective. We also intend to launch a new enterprise resource planning system in the first six months of fiscal 2013. We may experience difficulties in managing improvements to our systems and processes or in connection with third-party software, which could disrupt existing customer relationships, causing us to lose customers, limit us to smaller deployments of our products or increase our technical support costs. Our failure to improve our systems and processes, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to accurately forecast our revenue, expenses, and earnings, or to prevent certain losses. In addition, our systems and processes may not prevent or detect all errors, omissions, or fraud. Our productivity and the quality of our products and services may be adversely affected if we do not integrate and train our new

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employees quickly and effectively. Any future growth would add complexity to our organization and require effective coordination throughout our organization. For example, we anticipate that additional growth in our employee headcount in Santa Clara, California may require us to seek additional office space for our corporate headquarters. As a result, we expect to incur additional expense and any expansion may also disrupt our operations and distract our management team. Failure to manage any future growth effectively could result in increased costs, negatively impact our end-customers' satisfaction with our products and services, and harm our operating results.

Our operating results are likely to vary significantly from period to period and be unpredictable, which could cause the trading price of our common stock to decline.

Our operating results have historically varied from period to period, and we expect that this trend will 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;
- the budgeting cycles and purchasing practices of end-customers;
- changes in end-customer, distributor or reseller requirements, or market needs;
- changes in the growth rate of the enterprise network security market;
- 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;
- deferral of orders from end-customers in anticipation of new products or product enhancements announced by us or our competitors;
- our ability to successfully expand our business domestically and internationally;
- decisions by potential end-customers to purchase enterprise network security solutions from larger, more established security vendors or from their primary network equipment vendors;
- price competition;
- changes in end-customer renewal rates for our services;
- insolvency or credit difficulties confronting our customers, which could adversely affect their ability to purchase or pay for our products and services, 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 relationship with important channel partners;
- our inability to fulfill our customers' orders due to supply chain delays or events that impact our manufacturers or their suppliers;
- the cost and potential outcomes of existing and future 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;
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates, as an increasing portion of our expenses are incurred and paid in currencies other than the U.S. dollar; and
- general economic conditions, both domestically and in our foreign markets.

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

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result in our failure to meet our revenue 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.

We are involved in the early stages of litigation in which Juniper alleges that our appliances infringe six of its patents. If Juniper prevails in the litigation, we could be required to pay substantial damages for past sales of any infringing appliances, enjoined from manufacturing, using, selling, and importing such appliances if a license or other right to continue selling our appliances is not made available to us, and required to pay substantial ongoing royalties and comply with unfavorable terms if such a license is made available to us.

In December 2011, Juniper Networks, Inc. filed a lawsuit against us in the United States District Court for the District of Delaware, alleging that our appliances infringe six of its U.S. patents. One or both of Nir Zuk and Yuming Mao are named inventors on each of the patents being asserted against us. Both Mr. Zuk and Mr. Mao were employed by NetScreen Technologies, Inc., which was acquired by Juniper in April 2004. Mr. Zuk left Juniper in 2005 and founded Palo Alto Networks in that same year. Mr. Mao joined Palo Alto Networks in 2006. Juniper seeks preliminary and permanent injunctions against infringement, treble damages, and attorney's fees. On February 9, 2012, we filed an answer to Juniper's complaint, which denied that we infringed Juniper's patents and asserted that Juniper's patents were invalid.

On February 28, 2012, Juniper filed a motion to strike our defense of invalidity based on the legal doctrine of "assignor estoppel." Under the doctrine of assignor estoppel, an inventor of a patented invention who assigns the patent to another for value cannot later challenge the validity of the patent. Under some circumstances, courts have held that the doctrine of assignor estoppel applies not only to the assigning inventor but also to a company in privity with the inventor. On March 23, 2012, we filed a brief in opposition to that motion. Juniper filed a brief in response on April 2, 2012. We filed a motion for leave to file an additional response on April 25, 2012, and Juniper filed a brief in opposition to that motion in response on May 4, 2012. If Juniper's motion to strike is granted with respect to some or all of the patents at issue, we would not be able to argue in the District Court that the patents as to which the motion to strike is granted are invalid.

The judge has issued a scheduling order which sets forth the current expectation for important events in the lawsuit, although no assurances can be given that the schedule will not change. The scheduling order does not set a date for the court to rule on Juniper's motion to strike. On June 18, 2012, Juniper served its infringement contentions, which, among other things, assert that each of our products that run our PAN-OS operating system infringes each of the Juniper patents-in-suit. According to an agreement between the parties, on July 18, 2012, we must provide our invalidity contentions. A claims construction hearing, also known as a Markman hearing, as well as motions for summary judgment, are scheduled to be heard on November 11, 2013, and a trial date has been scheduled for February 24, 2014. Pursuant to the court's general standing order, the February 2014 trial will be limited to determining whether the patents are valid and whether we infringe some or all of those patents. Thereafter, the Court will rule on any post-trial motions and enter a judgment on validity and infringement. According to the Court's general standing order, if Juniper were to prevail on one or more of its patents, a subsequent trial on damages would be scheduled following an appeal on the liability issues to the appellate court.

Should Juniper prevail on its claims that one or more of our appliances infringe one or more of its valid patents, we could be required to pay substantial damages for past sales of such appliances, enjoined from manufacturing, using, selling, and importing such appliances if a license or other right to continue selling our appliances is not made available to us, and required to pay substantial ongoing royalties and comply with unfavorable terms if such a license is made available to us. Any of these outcomes could result in a material adverse effect on our business. Even if we were to prevail, this litigation could be costly and time-consuming, divert the attention of our management and key personnel from our business operations, deter distributors from selling our appliances, and dissuade potential end-customers from purchasing our appliances, which would also materially harm our business. During the course of litigation, we anticipate announcements of the results of

hearings and motions, and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the market price of our common stock may decline.

We intend to defend the lawsuit vigorously. Given the early stage in the litigation, we are unable to predict the likelihood of success of Juniper's infringement claims. Refer to the discussion under "Business—Legal Proceedings" for more information related to this litigation.

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

You should not consider our revenue growth rate in recent periods as indicative of our future performance. We have recently experienced revenue growth rates of 265% and 143% in fiscal 2010 and 2011, respectively. We do not expect to achieve similar revenue growth rates in future periods. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth. If we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability.

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

We have incurred net losses in all fiscal years since our inception, including net losses of approximately \$12.5 million in fiscal 2011, \$21.1 million in fiscal 2010, and \$19.0 million in fiscal 2009. As a result, we had an accumulated deficit of \$80.8 million at July 31, 2011. We anticipate that our operating expenses will increase substantially in the foreseeable future as we continue to enhance our product and service offerings, broaden our end-customer base, expand our sales channels, expand our operations, hire additional employees, and continue to develop our technology. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenues sufficiently, or at all, to offset these higher expenses. Revenue growth may slow or revenue may decline for a number of possible reasons, including slowing demand for our products or services, increasing competition, a decrease in the growth of our overall market, or a failure to capitalize on growth opportunities. Any failure to increase our revenues as we grow our business could prevent us from maintaining or increasing profitability or cash flow on a consistent basis. If we are unable to meet these risks and challenges as we encounter them, our business, financial condition, and operating results may suffer.

If we are unable to sell additional products and services to our end-customers, our future revenue and operating results will be harmed.

Our future success depends on our ability to expand the deployment of our platform with existing end-customers by selling additional products to secure other areas of our end-customers' network and by upselling additional subscription services to provide increasing levels of network security. This may require increasingly sophisticated and costly sales efforts and may not result in additional sales. In addition, the rate at which our end-customers purchase additional products and services depends on a number of factors, including the perceived need for additional network security products and services as well as general economic conditions. If our efforts to sell additional products and services to our end-customers are not successful, our business may suffer.

Further, existing end-customers that purchase our subscriptions have no contractual obligation to renew their contracts after the initial contract period, which is typically one year, and we cannot accurately predict renewal rates. Our end-customers' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction with our services and our end-customer support, the frequency and severity of subscription outages, our product uptime or latency, and the pricing of our, or competing, services. If our end-customers renew their subscriptions, they may renew for shorter contract lengths or on other terms that are less economically beneficial to us. We have limited historical data with respect to rates of end-customer renewals, so

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we may not accurately predict future renewal trends. We cannot assure you that our end-customers will renew their subscriptions, and if our end-customers do not renew their agreements or renew on less favorable terms, our revenues may grow more slowly than expected or decline.

We also depend on our installed end-customer base for future support and maintenance revenues. Our support and maintenance agreements are typically one year. If end-customers choose not to continue renewing their support and maintenance or seek to renegotiate the terms of support and maintenance agreements prior to renewing such agreements, our revenue may 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 network security products is intensely competitive, and we expect competition to increase in the future from established competitors and new market entrants. Our current competitors include networking companies such as Cisco Systems, Inc. and Juniper, large companies, such as Intel Corporation, International Business Machines (IBM), and Hewlett-Packard Company (HP) that have acquired large network security vendors in recent years, security vendors such as Check Point Software Technologies Ltd., Fortinet, Inc., and Sourcefire, Inc., and other point solution security vendors. New, privately held companies, as well as established public companies, are currently attempting to enter this market, some of which may become significant competitors in the future. 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 acquisitions;
- 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 product offerings and 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, including through selling at zero or negative margins, product bundling, or closed technology platforms. Potential end-customers may also prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. These larger competitors often have broader product lines and market focus and will therefore not be as susceptible to downturns in a particular market. Many of our smaller competitors that specialize in providing protection from a single type of network security threat are often able to deliver these specialized network security products to the market more quickly than we can. Conditions in our market could change rapidly and significantly as a result of technological advancements, partnering 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 technology. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources.

Some of our competitors have made acquisitions of businesses that may allow them to offer more directly competitive and comprehensive solutions than they had previously offered, such as Intel's acquisition of McAfee and Check Point's acquisition of Nokia's security appliance business. As a result of such acquisitions, our current

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or potential competitors might be able to adapt more quickly to new technologies and end-customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of acquisition or other opportunities more readily, or develop and expand their product and service offerings more quickly than we do. Due to various reasons, organizations may be more willing to incrementally add solutions to their existing network security infrastructure from competitors than to replace it with our solutions. 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.

If functionality similar to that offered by our products is incorporated into existing network infrastructure products, organizations may decide against adding our appliances to their network, which would have an adverse effect on our business.

Large, well-established providers of networking equipment such as Cisco and Juniper offer, and may continue to introduce, network security features that compete with our products, either in stand-alone security products or as additional features in their network infrastructure products. The inclusion of, or the announcement of an intent to include, functionality perceived to be similar to that offered by our security solutions in networking products that are already generally accepted as necessary components of network architecture may have an adverse effect on our ability to market and sell our products. Furthermore, even if the functionality offered by network infrastructure providers is more limited than our products, a significant number of end-customers may elect to accept such limited functionality in lieu of adding appliances from an additional vendor such as us. 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 products, which may make them reluctant to add new components to their networks, particularly from other vendors such as us. In addition, an organization's existing vendors or new vendors with a broad product offering may be able to offer concessions that we are not able to match because we currently offer only network security products and have fewer resources than many of our competitors. If organizations are reluctant to add additional network infrastructure from new vendors or otherwise decide to work with their existing vendors, our ability to increase our market share and improve our financial condition and operating results will be adversely affected.

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

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel, or delays in hiring required personnel, particularly in engineering and sales, may seriously harm our business, financial condition, and operating results. Although we have entered into employment offer letters with our key personnel, these agreements have no specific duration and constitute at-will employment. We are also substantially dependent on the continued service of our existing development personnel because of the complexity of our platform. Additionally, any failure to hire, train, and adequately incentivize our sales personnel could negatively impact our growth. Further, the inability of our recently hired sales personnel to effectively ramp to target productivity levels could negatively impact our operating margins. In addition, we recently hired a new Senior Vice President, Worldwide Field Operations, and it will take time for this executive officer to become fully integrated into his new role. If we are not effective in managing the leadership transition in our sales organization, our business could be adversely impacted and our operating results and financial condition could be harmed.

Competition for highly skilled personnel is often intense, especially in the San Francisco Bay Area where we have a substantial presence and need for highly skilled personnel. We may not be successful in attracting, integrating, or retaining qualified personnel to fulfill our current or future needs. Also, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited, or that they have divulged proprietary or other confidential information, or that their former employers own their inventions or other work product.

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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 could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, and operating results.

Our employees do not have employment arrangements that require them to continue to work for us for any specified period, and therefore, they could terminate their employment with us at any time. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees or groups could seriously harm our business.

We rely on third-party channel partners to sell substantially all of our products, and if our partners fail to perform, our ability to sell and distribute our products and services will be limited, and our operating results will be harmed.

Substantially all of our revenue is generated through sales by our channel partners, including distributors and resellers. We provide our sales channel partners with specific training and programs to assist them in selling our products, but there can be no assurance that these steps will be effective. In addition, our channel partners may be unsuccessful in marketing, selling, and supporting our products and services. If we are unable to develop and maintain effective sales incentive programs for our third-party channel partners, we may not be able to incentivize these partners to sell our products to end-customers and, in particular, to large enterprises. These partners may also market, sell, and support products and services that are competitive with ours and may devote more resources to the marketing, sales, and support of such competitive products. These partners may have incentives to promote our competitors' products to the detriment of our own or may cease selling our products altogether. 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 assure you that we will retain these channel partners or that we will be able to secure additional or replacement channel partners. The loss of one or more of our significant channel partners or a decline in the number or size of orders from them could harm our operating results. In addition, any new sales 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 services to end-customers or violate laws or our corporate policies. If we fail to effectively manage our existing sales channels, or if our channel partners are unsuccessful in fulfilling the orders for our products, or if we are unable to enter into arrangements with, and retain a sufficient number of, high quality channel partners in each of the regions in which we sell products and keep them motivated to sell our products, our ability to sell our products and operating results will be harmed. The termination of our relationship with any significant channel partner may also adversely impact our sales and operating results.

If we are not successful in executing our strategy to increase sales of our products 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 medium and large enterprises. Sales to these types of 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;

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- more stringent requirements in our worldwide support service contracts, including stricter support response times and penalties for any failure to meet support requirements; and
- longer sales cycles 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 services.

Large enterprises often undertake a significant evaluation process that results in a lengthy sales cycle, in some cases over 12 months. Although we have a channel sales model, our sales representatives typically engage in direct interaction with our distributors and resellers in connection with sales to larger end-customers. Because these evaluations are often lengthy, with significant size and scope and stringent requirements, we typically provide evaluation products to these end-customers. We may spend substantial time, effort, and money in our sales efforts without being successful in generating any sales. 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.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity, and teamwork fostered by our culture, and our business may be harmed.

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters innovation, teamwork, passion for customers, and focus on execution, as well as facilitating 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, which could limit our ability to innovate and operate effectively. Any failure to preserve our culture could also negatively affect our ability to retain and recruit personnel, continue to perform at current levels or execute on our business strategy.

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. In addition, a significant interruption in our information technology systems, which manage critical functions such as order processing, revenue recognition, financial forecasts, inventory and supply chain management, and trade compliance reviews, could result in delayed order fulfillment and decreased revenue for that 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, 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, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in shipments based on trade compliance requirements, our revenue for that quarter could fall below our expectations, resulting in a decline in the trading price of our common stock.

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

Services revenue accounts for a significant portion of our revenue, comprising 29% of total revenue in fiscal 2011, 25% of total revenue for fiscal 2010, and 24% of total revenue for fiscal 2009. Sales of new or renewal

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subscription and support and maintenance contracts may decline and fluctuate as a result of a number of factors, including end-customers' level of satisfaction with our products and services, the prices of our products and services, 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 and maintenance contracts decline, our revenue and revenue growth may decline and our business will suffer. In addition, we recognize subscription and support and maintenance revenue monthly over the term of the relevant service period, which is typically one year and can be up to three years. As a result, much of the subscription and support and maintenance revenue we report each fiscal quarter is the recognition of deferred revenue from subscription and support and maintenance contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed subscription or support and maintenance contracts in any one fiscal quarter will not be fully reflected in revenue in that fiscal quarter but will negatively affect our revenue in future fiscal quarters. Accordingly, the effect of significant downturns in new or renewed sales of our subscriptions or support and maintenance is not reflected in full in our operating results until future periods. Also, it is difficult for us to rapidly increase our services revenue through additional service sales in any period, as revenue from new and renewal service contracts must be recognized over the applicable service period. Furthermore, any increase in the average term of services contracts would result in revenue for services contracts being recognized over longer periods of time.

If the network security market does not continue to adopt our network security platform, our sales will not grow as quickly as anticipated, and our stock price could decline.

We are seeking to disrupt the network security market with our network security platform. However, organizations that use legacy products and services for their network security needs may believe that these products and services sufficiently achieve their purpose. Organizations may also believe that our products and services only serve the needs of a portion of the network security market. Accordingly, organizations may continue allocating their IT budgets for legacy products and services and may not adopt our network security platform. If the market for network security solutions does not continue to adopt our network security platform, if end-customers do not recognize the value of our platform compared to legacy products and services, or if we are otherwise unable to sell our products and services to organizations, then our revenue may not grow or may decline, which would have a material adverse effect on our operating results and financial condition.

If we do not accurately predict, prepare for, and respond promptly to the rapidly evolving technological and market developments and changing end-customer needs in the network security market, our competitive position and prospects will be harmed.

The network security market 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. The technology in our products 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 products and enhancements may require us to develop new hardware architectures that involve complex, expensive, and time consuming research and development processes. Although the market expects rapid introduction of new products or product enhancements to respond to new threats, the development of these products 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 products. We may experience unanticipated delays in the availability of new products and services and fail to meet customer expectations for such availability. If we do not quickly respond to the rapidly changing and rigorous needs of our end-customers by developing, releasing, and making available on a timely basis new products and services or enhancements that can respond adequately to new security threats, our competitive position and business prospects will be harmed.

Additionally, the process of developing new technology is complex and uncertain, and if we fail to accurately predict end-customers' changing needs and emerging technological trends, our business could be

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harm. We must commit significant resources to developing new products before knowing whether our investments will result in products the market will accept. The success of new products depends on several factors, including appropriate new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products, or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive.

Defects, errors, or vulnerabilities in our products or services or the failure of our products or services to block a virus or prevent a security breach could harm our reputation and adversely impact our results of operations.

Because our products and services 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 that were not detected before shipping the product. Additionally, defects may cause our products or services 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 network security solutions, our networks, products, and services 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 services to effectively update end-customers' hardware products and thereby leave our end-customers vulnerable to attacks. 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 end-customer base, any of which could temporarily or permanently expose our end-customers' networks, leaving their networks unprotected against the latest security threats.

Any defects, errors or vulnerabilities in our products 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 that may be costly and harm our reputation.

Our business is subject to the risks of warranty claims, product returns, product liability and product defects.

Our products are very complex and, despite testing prior to their release, have contained and may contain undetected defects or errors, especially when first introduced or when new versions are released. Product defects or errors could affect the performance of our products and could delay the development or release of new products or new versions of products, adversely affect our reputation and our end-customers' willingness to buy products from us, and adversely affect market acceptance or perception of our products. Any such errors or delays in releasing new products or new versions of products or allegations of unsatisfactory performance could cause us to lose revenue or market share, increase our service costs, cause us to incur substantial costs in redesigning the products, cause us to lose significant end-customers, subject us to liability for damages and divert

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our resources from other tasks, any one of which could materially and adversely affect our business, results of operations and financial condition. Our products must successfully interoperate with products from other vendors. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. For example, from time to time certain of our end-customers have experienced temporary delays or interoperability issues when implementing our products in large complex global deployments where our products are required to interoperate with a complex environment of third party products. The occurrence of hardware or software errors, whether or not caused by our products, could delay or reduce market acceptance of our products, and have an adverse effect on our business and financial performance, and any necessary revisions may cause us to incur significant expenses. The occurrence of any such problems could harm our business, financial condition and results of operations.

Although we have limitation of liability provisions in our standard terms and conditions of sale, they 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 also entail the risk of product liability claims. Although we may be indemnified by our contract manufacturers for product liability claims arising out of manufacturing defects, because we control the design of our products, 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, 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.

Because we depend on third-party manufacturers to build our products, we are susceptible to manufacturing 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 customers.

We depend on third-party manufacturers, primarily Flextronics International Ltd., our contract manufacturer, as sole source manufacturers for our product lines. Our reliance on these third-party manufacturers reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, and product supply and timing. Any manufacturing disruption by these third-party manufacturers could severely impair our ability to fulfill orders. Our reliance on outsourced manufacturers also yields the potential for infringement or misappropriation of our intellectual property. If we are unable to manage our relationships with these third-party manufacturers effectively, or if these third-party manufacturers suffer delays or disruptions for any reason, experience increased manufacturing lead-times, capacity constraints or quality control problems in their manufacturing operations, or fail to meet our future requirements for timely delivery, our ability to ship products to our customers would be severely impaired, and our business and operating results would be seriously harmed.

These manufacturers typically fulfill our supply requirements on the basis of individual orders. We do not have long term contracts with our third-party 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, which could result in supply shortages, and the prices we are charged for manufacturing services could be increased on short notice. Our contract with one of our contract manufacturers permits them to terminate the agreement for their convenience, subject to prior notice requirements. If we are required to change contract manufacturers, our ability to meet our scheduled product deliveries to our customers could be adversely affected, which could cause the loss of sales to existing or potential 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 third-party manufacturers 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 marketing 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. Supply management remains an increased area of focus as we balance the need to maintain supply levels that are sufficient to ensure competitive lead times against the risk of obsolescence because of rapidly changing technology and end-customer requirements. 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. Alternatively, insufficient supply levels may lead to shortages that result in delayed revenue or loss of sales opportunities altogether as potential end-customers turn to competitors' products that are readily available. Additionally, any increases in the time required to manufacture our products or ship products could result in supply shortfalls. 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 customers and may result in the loss of sales and customers.

Our products rely on key components, including integrated circuit components, which our contract manufacturers purchase on our behalf from a limited number of suppliers, including sole source providers. We do not have volume purchase contracts with any of our component suppliers, and they could cease selling to us at any time. In addition, our component suppliers change their selling prices frequently in response to market trends, including industry-wide increases in demand, and because we do not have contracts with these suppliers, we are susceptible to price fluctuations related to raw materials and components. If we are unable to pass component price increases along to our customers or maintain stable pricing, our gross margins and operating results could be negatively impacted. 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, which would negatively impact our revenue and gross margins. Additionally, poor quality in any of the sole-sourced components in our products could result in lost sales or lost sales opportunities. If the quality of the components does not meet our or our end-customers' requirements, if we are unable to obtain components from our existing suppliers on commercially reasonable terms, or if any of our sole source providers cease to remain in business or continue to manufacture such components, we could be forced to redesign our products and qualify new components from alternate 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.

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

Developing our products and related enhancements is expensive. Our investments in research and development may not result in significant design improvements, marketable products or features or may result in products 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

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related product 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.

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

The sales prices for our products and services may decline for a variety of reasons, including competitive pricing pressures, discounts, a change in our mix of products and services, anticipation of the introduction of new products or services, 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 services that compete with ours or may bundle them with other products and services. Additionally, although we price our products and services worldwide in U.S. dollars, currency fluctuations in certain countries and regions may negatively impact actual prices that 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 assure you that we will be successful in developing and introducing new offerings with enhanced functionality on a timely basis, or that our product and service offerings, if introduced, will enable us to maintain our prices and gross profits at levels that will allow us to 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 services internationally. As a result, we must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing, and retaining an international staff, and specifically staff related to sales management and sales personnel, we may experience difficulties in sales productivity in foreign markets. We also enter into strategic distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor relationships internationally or recruit additional companies to enter into strategic distributor relationships, our future success in these international markets could be limited. 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 in customer contracts, although to date we generally have not done so. To the extent that we may enter into customer contracts in the future that include non-standard terms related to payment, warranties, or performance obligations, our operating results may be adversely impacted.

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

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- general economic and political conditions in these foreign markets;

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- economic uncertainty around the world, including continued economic uncertainty as a result of sovereign debt issues in Europe;
- management communication and integration problems resulting from cultural and geographic dispersion;
- 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 unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of a failure of foreign employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, and any trade regulations ensuring fair trade practices; and
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

These factors and other factors could harm our ability to gain 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.

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

Sales to U.S. and foreign, federal, state, and local governmental agency end-customers have accounted for an increasingly significant amount of our revenue, and we may in the future increase sales to government entities. 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 like ours may change and in doing so restrict our ability to sell into the federal government sector until we have attained the revised certification. Government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services. 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 services, 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. Finally, for purchases by the U.S. government, the government may require certain products 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 the requirements of the U.S. government, affecting our ability to sell these products to the U.S. government.

If our products do not interoperate with our end-customers' infrastructure, sales of our products and services could be negatively affected, which would harm our business.

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. If we find defects in the hardware, we replace the hardware as part of our normal warranty process. If we find errors in the existing software that create problematic network configurations or settings, as we have in the past, we may have to issue software updates as part of our normal maintenance process. Any delays in identifying the sources of problems or in providing necessary modifications to our software or hardware could have a negative impact on our reputation and our end-customers' satisfaction with our products and services, and our ability to sell products and services could be adversely affected. In addition, government and other end-customers may require our products to comply with certain security or other certifications and standards. If our products 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 to such end-customers, or at a competitive disadvantage, which would harm our business, operating results, and financial condition.

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

Once our products 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 distribution partners often provide similar technical support for third parties' products, and may therefore have fewer resources to dedicate to the support of our products. If we or our channel partners do not effectively assist our end-customers in deploying our products, succeed in helping our end-customers quickly resolve post-deployment issues, or provide effective ongoing support, our ability to sell additional products and services 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 fail to meet the requirements of the 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 when the sales of our products exceed our internal forecasts. To the extent that we or our partners are unsuccessful in hiring, training, and retaining adequate support resources, our and our distribution partners' ability to provide adequate and timely support to our end-customers will be negatively impacted, and our end-customers' satisfaction with our products and services 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 to maintain high quality support services would have a material adverse effect on our business, financial condition, and operating results.

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 URL categories may falsely detect applications, content or threats that do not actually exist. This risk is heightened by the inclusion of a "heuristics" feature in our products, 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, while typical in our industry, may impair the perceived reliability of our products and may therefore adversely impact market acceptance of our products. If our products 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 end-customers and sales, increased costs to remedy any problem, and costly litigation.

Our brand name and our business may be harmed by aggressive marketing strategies of our competitors.

Because of the early stage of development of our markets, we believe that building and maintaining brand recognition and customer goodwill is critical to our success. Our efforts in this area have, on occasion, been complicated by the marketing efforts of our competitors, which may include incomplete, inaccurate, and false statements about our company and our products that could harm our business. Our ability to respond to our competitors' misleading marketing efforts may be limited by legal prohibitions on permissible public communications by us during our initial public offering process. If we are unable to effectively respond to our competitors' misleading marketing efforts and protect our brand and customer goodwill now or in the future, our business, financial condition, and operating results will be adversely affected, and we will not be able to achieve sustained growth.

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

Companies in the enterprise network 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. As we face increasing competition and gain an increasingly high profile, the possibility of intellectual property rights claims against us grows. Third parties have asserted and may in the future assert claims of infringement of intellectual property rights against us. They 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 infringe the intellectual property rights of third parties. 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, future 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, including our "Palo Alto Networks" name, in all of our geographic markets and failure to secure those registrations could adversely affect our ability to enforce and defend our trademark rights. In 2007, our application to register our "Palo Alto Networks" trademark in the United States was refused, in part on the grounds that consumers may confuse it with a registered trademark owned by a third party. 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. Refer to the discussion under "Business—Legal Proceedings" for information related to pending litigation.

Although third parties may offer a license to their technology or other intellectual property, the terms of any offered license may not be acceptable and the failure to obtain a license or the costs associated with any license could cause our business, financial condition, and operating results to be materially and adversely affected. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. If a third party does not offer us a license to its technology or other intellectual property on reasonable terms, or at all, we could be enjoined from continued use of such intellectual property. As a result, we may be required to develop alternative, non-infringing technology, which could require significant time (during which we would be unable to continue to offer our affected products or services), effort, and expense and may ultimately not be successful. Furthermore, 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 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. 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. Patent applications in the United States are typically not published until 18 months after filing, or, in some cases, not at all, and publications of discoveries in industry-related literature lag behind actual discoveries. 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. In addition, recent changes to the patent laws in the United States may bring into question the validity of certain categories of software patents. 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 obtain and use information that we regard as proprietary. We generally enter into confidentiality or license agreements with our employees, consultants, vendors, and customers, and generally limit access to and distribution of our proprietary information. However, we cannot assure you 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 products contain third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products.

Our products contain software modules licensed to us by third-party authors under “open source” licenses. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available 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 with lower development effort and time and ultimately could result in a loss of product sales for us.

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Although we monitor our use of open source software to avoid subjecting our products 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. Moreover, we cannot assure you that our processes for controlling our use of open source software in our products will be effective. 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 on terms that are not economically feasible, to re-engineer our products, to discontinue the sale of our products if re-engineering 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.

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 may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. Our failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against us, including fines, imprisonment of company officials and 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 European Union, the United States, and elsewhere, especially relating to classification of 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 of data. Even the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit adoption of our products by current and future end-customers.

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. 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. Some of our agreements with our licensors may be terminated for convenience by them. 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 the Company, 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 containing that 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 of lower quality or performance standards. This would limit and delay our ability to offer new or competitive products and increase our costs of production. As a result, our margins, market share, and operating results could be significantly harmed.

Misuse of our products could harm our reputation and divert resources.

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

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 U.S. 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, 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 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 or sell our products would likely adversely affect 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 make investments in complementary companies, products or technologies. However, we have not made any significant acquisitions to date, and as a result, our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner is unproven. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by our end-customers, investors, and securities analysts. In addition, if we are unsuccessful at integrating such acquisitions, or the technologies 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, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition or the value of our common stock. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

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

We expect that our existing cash and cash equivalents, together with our net proceeds from this offering, will be sufficient to meet our anticipated cash needs for the foreseeable future. After that, we may need to raise

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additional funds, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests and the per share value of our common stock could decline. Furthermore, if we engage in debt financing, the holders of debt would have priority over the holders of common stock, and we may be required to accept terms that 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 force us to maintain specified liquidity or other ratios, any of which could harm our business, operating results, and financial condition. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our products and services;
- continue to expand our sales and marketing and research and development organizations;
- acquire complementary technologies, products or businesses;
- expand operations, in the United States or internationally;
- hire, train, and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our failure to do any of these things could seriously harm our business, financial condition, and operating results.

We may not be able to successfully manage the growth of our business if we are unable to improve our internal systems, processes and controls.

We need to continue to improve our internal systems, processes and controls to effectively manage our operations and growth. We may not be able to successfully implement improvements to these systems, processes and controls in an efficient or timely manner. We are currently in the process of implementing a new enterprise resource planning system, and we may not be able to successfully implement and scale improvements to our enterprise resource planning system or other systems and processes in a timely or efficient manner or in a manner that does not negatively affect our operating results. In addition, our systems and processes may not prevent or detect all errors, omissions or fraud. We have licensed technology from third parties to help us improve our internal systems, processes and controls. The support services available for such third-party technology may be negatively affected by mergers and consolidation in the software industry, and support services for such technology may not be available to us in the future. We may experience difficulties in managing improvements to our systems, processes and controls or in connection with third-party software, which could impair our ability to provide products or services to our customers in a timely manner, causing us to lose customers, limit us to smaller deployments of our products or increase our technical support costs.

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, 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, 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 and sanctions could harm our business, operating results and financial condition.

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We intend to implement a corporate structure more closely aligned with the international nature of our business activities, and if we do not achieve increased tax benefits as a result of our proposed corporate structure, our financial condition and results of operations could be adversely affected.

We intend to reorganize our corporate structure and intercompany relationships to more closely align with the international nature of our business activities. This proposed 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 proposed corporate structure may also allow us to obtain financial and operational efficiencies. These efforts will require us to incur expenses in the near term for which we may not realize related benefits. If the intended structure is not accepted by the applicable taxing authorities, changes in domestic and international tax laws negatively impact the proposed structure, including proposed legislation to reform U.S. taxation of international business activities, or we do not operate our business consistent with the proposed structure and applicable tax provisions, we may fail to achieve the financial and operational efficiencies that we anticipate as a result of the proposed structure and our future financial condition and results of operations may be negatively impacted.

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 expectations of securities analysts and investors, resulting in a decline in our stock price.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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, as provided in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, share-based compensation, contract manufacturing liabilities, and income taxes.

We are exposed to the credit risk of some of our distributors and resellers and to credit exposure in weakened markets, which could result in material losses.

Most of our sales are on an open credit basis. Although we have programs in place that are designed to monitor and mitigate these risks, we cannot assure you 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.

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 European Union, or EU, Restrictions of Hazardous Substances Directive, or RoHS, and the EU Waste Electrical and Electronic Equipment Directive, or WEEE, as well as the implementing legislation of the EU 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 EU RoHS and the similar laws of other jurisdictions ban the use of certain hazardous materials such as lead, mercury and cadmium in the manufacture of electrical equipment, including our products. Currently, the

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manufacturer of our hardware appliances and major component part suppliers comply with the EU 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.

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 results of operations 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.

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, a strengthening of the U.S. dollar could increase the real cost of our products to our end-customers outside of the United States, which could adversely affect our financial condition and operating results. In addition, an increasing portion of our operating expenses is incurred outside the United States, is denominated in foreign currencies, and is subject to fluctuations due to changes in foreign currency exchange rates. If we are not able to successfully hedge against the risks associated with currency fluctuations, our financial condition and operating results could be adversely affected.

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.

A significant natural disaster, such as an earthquake, fire, a flood, or significant power outage could have a material adverse impact on our business, operating results, and financial condition. 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, natural disasters could affect our supply chain, manufacturing vendors, or logistics providers' ability to provide materials and perform services such as manufacturing products or assisting with shipments on a timely basis. In the event our or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, shipments could be delayed, resulting in missed financial targets, such as revenue and shipment targets, for a particular quarter. In addition, acts of terrorism and other geo-political unrest could cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or end-customers or the economy as a whole. Any disruption in the business of our supply chain, manufacturers, logistics providers, partners or end-customers that impacts sales at the end of a fiscal quarter could have a significant adverse impact on our quarterly results. All of the aforementioned 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, 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 this Offering, the Securities Markets and Ownership of Our Common Stock

The price of our common stock may be volatile and the value of your investment could decline.

Technology stocks have historically experienced high levels of volatility. The trading price of our common stock following this offering may fluctuate substantially. Following the completion of this offering, the market price of our common stock may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- price and volume fluctuations in the overall stock market from time to time;
- 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 investors or securities analysts;
- litigation involving us, our industry, or both, including any developments with respect to our pending litigation, see “Business—Legal Proceedings”;
- regulatory developments in the United States, foreign countries or both;
- general economic conditions and trends, including continued economic uncertainty as a result of sovereign debt issues in Europe;
- major catastrophic events;
- sales of large blocks of our stock; or
- departures of key personnel.

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events 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. If our stock price is volatile, we may become the target of securities litigation. 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.

Sales of substantial amounts of our common stock in the public markets, or the perception that they might occur, could reduce the price that our common stock might otherwise attain and may dilute your voting power and your ownership interest in us.

Sales of a substantial number of shares of our common stock in the public market after this offering, or the perception that these sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate. Based on the total number of outstanding shares of our common stock as of April 30, 2012, upon completion of this

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offering, we will have 66,601,444 shares of common stock outstanding, assuming no exercise of our outstanding options.

All of the shares of common stock sold in this offering will be freely tradable without restrictions or further registration under the Securities Act of 1933, as amended, or the Securities Act, except for any shares held by our affiliates as defined in Rule 144 under the Securities Act.

Subject to certain exceptions described under the caption “Underwriters,” we and all of our directors and officers and substantially all of our equity holders have agreed not to offer, sell or agree to sell, directly or indirectly, any shares of common stock without the permission of Morgan Stanley & Co. LLC and Goldman, Sachs & Co. for a period of 180 days from the date of this prospectus, subject to potential extension in the event we release earnings results or material news or a material event relating to us occurs near the end of the lock-up period. When the lock-up period expires, we and our locked-up security holders will be able to sell our shares in the public market. In addition, the underwriters may, in their sole discretion, release all or some portion of the shares subject to lock-up agreements prior to the expiration of the lock-up period. See “Shares Eligible for Future Sale” for more information. Sales of a substantial number of such shares upon expiration, or the perception that such sales may occur, or early release of the lock-up, could cause our share price to fall or make it more difficult for you to sell your common stock at a time and price that you deem appropriate.

Based on shares outstanding as of April 30, 2012, upon completion of this offering, holders of up to approximately 41,000,000 shares, or 62%, of our common stock will have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We also intend to register the offer and sale of all shares of common stock that we may issue under our equity compensation plans.

We may issue our shares of common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investments or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

Insiders will continue to have substantial control over us after this offering, which could limit your ability to influence the outcome of key transactions, including a change of control.

Our directors, executive officers and each of our stockholders who own greater than 5% of our outstanding common stock and their affiliates, in the aggregate, will beneficially own approximately 62% of the outstanding shares of our common stock after this offering, based on the number of shares outstanding as of June 30, 2012 and after giving effect to the exercise of options and the sale of shares by the selling stockholders in connection with this offering. As a result, these stockholders, if acting together, will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

We cannot assure you that a market will develop for our common stock or what the market price of our common stock will be.

We have applied to list our common stock on the New York Stock Exchange under the symbol “PANW.” However, we cannot assure you that an active trading market for our common stock will develop on that exchange or elsewhere or, if developed, that any market will be sustained. We cannot predict the prices at which our common stock will trade. The initial public offering price of our common stock was determined by

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negotiations with the underwriters and may not bear any relationship to the market price at which our common stock will trade after this offering or to any other established criteria of the value of our business.

We have broad discretion in the use of the net proceeds that we receive in this offering.

The principal purposes of this offering are to increase our capitalization and financial flexibility, create a public market for our stock and thereby enable access to the public equity markets by our employees and stockholders, obtain additional capital, facilitate an orderly distribution of shares for the selling stockholders, and increase our visibility in the marketplace. We have not yet determined the specific allocation of the net proceeds that we receive in this offering. Rather, we intend to use the net proceeds we receive from this offering for general corporate purposes, including working capital, sales and marketing activities, product development, general and administrative matters, and capital expenditures. We also may use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. Accordingly, our management will have broad discretion over the specific use of the net proceeds that we receive in this offering and might not be able to obtain a significant return, if any, on investment of these net proceeds. Investors in this offering will need to rely upon the judgment of our management with respect to the use of proceeds. If we do not use the net proceeds that we receive in this offering effectively, our business, operating results and financial condition could be harmed.

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 will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the listing requirements of the securities exchange on which our common stock will be traded and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly after we are no longer an "emerging growth company" as defined in the recently enacted Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet 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 relating 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,

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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.

However, for so long as we remain an “emerging growth company” as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements that are applicable to public companies that are not “emerging growth companies,” including not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these exemptions until we are no longer an “emerging growth company.”

We would cease to be an “emerging growth company” upon the earliest of: (i) the first fiscal year following the fifth anniversary of this offering, (ii) the first fiscal year after our annual gross revenues are \$1 billion or more, (iii) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt securities, or (iv) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded \$700 million as of the end of the second quarter of that fiscal year.

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our Audit Committee and Compensation Committee, and qualified executive officers.

As a result of becoming a public company, we will be obligated to maintain proper and effective internal controls over financial reporting. We may not complete our analysis of our internal controls over financial reporting in a timely manner, or these internal controls 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.

We will be required, pursuant to the Exchange Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the first fiscal year beginning after the effective date of this offering. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as a statement that our auditors have issued an attestation report on our management’s assessment of our internal controls.

We are currently evaluating our internal controls, identifying and remediating deficiencies in those internal controls and documenting the results of our evaluation, testing and remediation. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting that we are unable to remediate before the end of the same fiscal year in which the material weakness is identified, we will be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to attest to management’s report on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline.

We will be required to disclose material changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until the later of the year following our first annual report required to be filed with the SEC or the date we are no longer an “emerging growth company” as defined in the JOBS Act, if we take advantage of the exemptions contained in the JOBS Act. To comply with the requirements of being a public company, we may need to

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undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff.

We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.

In addition, Section 107 of the JOBS Act also provides that an “emerging growth company” can take advantage of an extended transition period for complying with new or revised accounting standards. However, we are choosing to “opt out” of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Because the initial public offering price of our common stock will be substantially higher than the pro forma net tangible book value per share of our outstanding common stock following this offering, new investors will experience immediate and substantial dilution.

The initial public offering price will be substantially higher than the pro forma net tangible book value per share of our common stock immediately following this offering based on the total value of our tangible assets less our total liabilities. Therefore, if you purchase shares of our common stock in this offering, you will experience immediate dilution of \$33.08 per share, the difference between the price per share you pay for our common stock and its pro forma net tangible book value per share as of April 30, 2012, after giving effect to the issuance of shares of our common stock in this offering. See “Dilution” for more information.

If securities or industry analysts do not publish research or reports about our business, or publish inaccurate or unfavorable research reports about our business, our share price and trading volume could decline.

The trading market for our common stock will, to some extent, depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts should cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment.

Our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect upon completion of this offering contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors that are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of 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, which could be used to significantly dilute the ownership of a hostile acquiror;
- the exclusive right of our board of directors 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, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of 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, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for 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, which may inhibit the ability of an acquiror to effect such amendments to facilitate an unsolicited takeover attempt;
- the ability of our board of directors, by majority vote, to amend the bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquiror to amend the bylaws to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled “Prospectus Summary,” “Risk Factors,” “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” and “Compensation Discussion and Analysis” contains forward-looking statements. The words “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan” “expect,” and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements.

These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to maintain an adequate rate of revenue growth;
- our business plan and our ability to effectively manage our growth;
- costs associated with defending intellectual property infringement and other claims, such as those claims discussed in “Business—Legal Proceedings”;
- our ability to attract and retain end-customers;
- our ability to increase sales to our existing customer base;
- our ability to displace existing products in established markets;
- our ability to extend our leadership position in next-generation network security;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to develop innovative products and bring them to market in a timely manner;
- our ability to expand internationally;
- the effects of increased competition in our market and our ability to compete effectively;
- the effects of seasonal trends on our results of operations;
- our expectations concerning relationships with third parties, including channel partners and logistics providers;
- the attraction and retention of qualified employees and key personnel;
- our ability to maintain, protect, and enhance our brand and intellectual property; and
- future acquisitions of, or investments in, complementary companies, products, services, or technologies.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in “Risk Factors” and elsewhere in this prospectus. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations, except as required by law.

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You should read this prospectus and the documents that we reference in this prospectus and have filed with the SEC as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity, and market size, is based on information from various sources, including Gartner, Inc. (Gartner), International Data Corporation (IDC), and NSS Labs, Inc. (NSS Labs), on assumptions that we have made that are based on those data and other similar sources and on our knowledge of the markets for our products and services. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate is necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Risk Factors” and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

The Gartner Reports described herein, represent data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Reports are subject to change without notice. Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings. Gartner research publications consist of the opinions of Gartner’s research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

In certain instances the sources of the market and industry data contained in this prospectus are identified by superscript notations. The sources of these data are provided below:

- (1) Gartner, *Magic Quadrant for Enterprise Network Firewalls*, December 14, 2011.
- (2) IDC, *Worldwide Network Security 2012–2016 Forecast and 2011 Vendor Shares*, #235631, June 2012, and IDC, *Worldwide Web Security 2011–2015 Forecast and 2010 Vendor Shares*, #229725, November 2011.
- (3) Gartner, *Re-Imagine IT Using Insights from Symposium’s Analyst Keynote*, December 2, 2011.
- (4) Gartner, *Top Security Trends and Takeaways for 2011-2012*, December 1, 2011.

USE OF PROCEEDS

We estimate that the net proceeds from our sale of 4,687,259 shares of common stock in this offering at an assumed initial public offering price of \$35.50 per share, the midpoint of the price range reflected on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately \$150.9 million, or \$181.6 million if the underwriters' over-allotment option is exercised in full. A \$1.00 increase (decrease) in the assumed initial public offering price would increase (decrease) the net proceeds to us from this offering by \$4.4 million, assuming the number of shares offered by us, as reflected on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of common stock by the selling stockholders.

The principal purposes of this offering are to increase our capitalization and financial flexibility, create a public market for our stock and thereby enable access to the public equity markets by our employees and stockholders, obtain additional capital, facilitate an orderly distribution of shares for the selling stockholders and increase our visibility in the marketplace. As of the date of this prospectus, we have no specific plans for the use of the net proceeds we receive from this offering. However, we currently intend to use the net proceeds we receive from this offering primarily for general corporate purposes, including working capital, sales and marketing activities, product development, general and administrative matters, and capital expenditures. We may also use a portion of the net proceeds for the acquisition of, or investment in, technologies, solutions or businesses that complement our business, although we have no present commitments or agreements to enter into any acquisitions or investments. We will have broad discretion over the uses of the net proceeds of this offering. Pending these uses, we intend to invest the net proceeds from this offering in short-term, investment-grade interest-bearing securities such as money market accounts, certificates of deposit, commercial paper, and guaranteed obligations of the U.S. government.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our common stock in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of April 30, 2012 on:

- an actual basis;
- a pro forma basis, giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into 41,304,600 shares of common stock and the effectiveness of our amended and restated certificate of incorporation as of immediately prior to the completion of this offering, as if such conversion had occurred and our amended and restated certificate of incorporation had become effective on April 30, 2012; and
- a pro forma as adjusted basis, giving effect to the pro forma adjustments and the sale of 4,687,259 shares of common stock by us in this offering, based on an assumed initial public offering price of \$35.50 per share, the midpoint of the price range reflected on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The pro forma as adjusted information set forth in the table below is illustrative only and will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing.

You should read this table together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited and unaudited consolidated financial statements and related notes included elsewhere in this prospectus.

	April 30, 2012		
	Actual	Pro Forma ⁽¹⁾	Pro Forma as Adjusted ⁽¹⁾⁽²⁾
	(in thousands, except share and per share data)		
Cash and cash equivalents	\$ 90,283	\$ 90,283	\$ 241,836
Current and long-term notes payable	—	—	—
Redeemable convertible preferred stock, \$0.0001 par value; 41,722,858 shares authorized, 41,304,600 issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	67,517	—	—
Stockholders’ equity (deficit):			
Preferred Stock, par value \$0.0001; no shares authorized, issued and outstanding, actual; 100,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted	—	—	—
Common stock, \$0.0001 par value; 75,000,000 authorized, 20,609,585 issued and outstanding, actual; 75,000,000 authorized, 61,914,185 issued and outstanding, pro forma; 1,000,000,000 shares authorized, 66,601,444 shares issued and outstanding, pro forma as adjusted	2	6	7
Additional paid-in capital	18,813	86,808	237,657
Accumulated deficit	(75,429)	(75,911)	(75,911)
Total stockholders’ equity (deficit)	(56,614)	10,903	161,753
Total capitalization	<u>\$ 10,903</u>	<u>\$ 10,903</u>	<u>\$ 161,753</u>

- (1) As described in Notes 1 and 10 to our Consolidated Financial Statements, in January 2012 we granted restricted stock awards that vest based on a service condition and a liquidity condition. As a result, capitalization includes a \$0.5 million increase to additional paid-in capital and an offsetting increase to accumulated deficit.
- (2) Each \$1.00 increase (decrease) in the assumed initial public offering price of \$35.50 per share, the midpoint of the price range reflected on the cover page of this prospectus, would increase (decrease) our pro forma as adjusted cash and cash equivalents, additional paid-in capital, total stockholders’ equity (deficit), and total capitalization by approximately \$4.4 million, assuming

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that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The number of shares of our common stock to be outstanding after this offering is based on 61,914,185 shares of our common stock outstanding as of April 30, 2012, and excludes:

- 12,900,814 shares of common stock issuable upon the exercise of options outstanding as of April 30, 2012, with a weighted-average exercise price of \$7.16 per share;
- 1,559,000 shares of common stock issuable upon the exercise of options granted after April 30, 2012 with a weighted-average exercise price of \$20.19 per share;
- 30,000 shares of common stock to be issued to a charitable foundation prior to the completion of this offering; and
- 13,185,001 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 2,185,001 shares of common stock reserved for future issuance under our 2005 Equity Incentive Plan (including options to purchase 1,559,000 shares of common stock granted after April 30, 2012), which shares will be added to the shares to be reserved under our 2012 Equity Incentive Plan, which will become effective in connection with this offering, 10,000,000 shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, 1,000,000 shares of common stock reserved for future issuance under our 2012 Employee Stock Purchase Plan, which will become effective in connection with this offering, and shares that become available under our 2012 Equity Incentive Plan and 2012 Employee Stock Purchase Plan, pursuant to provisions thereof that automatically increase the share reserves under the plans each year, as more fully described in “Executive Compensation—Employee Benefit and Stock Plans.”

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the amount per share paid by purchasers of shares of common stock in this initial public offering and the pro forma as adjusted net tangible book value per share of common stock immediately after this offering.

As of April 30, 2012, our pro forma net tangible book value was approximately \$10.4 million, or \$0.17 per share of common stock. Our pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of our common stock outstanding as of April 30, 2012, assuming the conversion of all outstanding shares of our convertible preferred stock.

After giving effect to our sale in this offering of 4,687,259 shares of our common stock, at an assumed initial public offering price of \$35.50 per share, the midpoint of the price range reflected on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of April 30, 2012 would have been approximately \$161.3 million, or \$2.42 per share of our common stock. This represents an immediate increase in pro forma net tangible book value of \$2.25 per share to our existing stockholders and an immediate dilution of \$33.08 per share to investors purchasing shares in this offering.

The following table illustrates this dilution:

Assumed initial public offering price per share		\$35.50
Pro forma net tangible book value per share as of April 30, 2012, before giving effect to this offering	\$0.17	
Increase per share attributable to this offering	<u>2.25</u>	
Pro forma net tangible book value, as adjusted to give effect to this offering		<u>2.42</u>
Dilution in pro forma net tangible book value per share to new investors in this offering		<u>\$33.08</u>

A \$1.00 increase (decrease) in the assumed initial public offering price of \$35.50 per share, the midpoint of the price range reflected on the cover page of this prospectus, would increase (decrease) our pro forma net tangible book value, as adjusted to give effect to this offering, by \$0.07 per share, the increase (decrease) attributable to this offering by \$0.07 per share, and the dilution in pro forma as adjusted net tangible book value per share to new investors in this offering by \$0.93 per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated expenses payable by us.

If the underwriters exercise their over-allotment option in full, the pro forma net tangible book value per share of our common stock after giving effect to this offering would be \$2.84 per share, and the dilution in net tangible book value per share to investors in this offering would be \$32.66 per share.

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The following table summarizes, on a pro forma as adjusted basis as of April 30, 2012 after giving effect to (i) the automatic conversion of all of our convertible preferred stock into common stock and the effectiveness of our amended and restated certificate of incorporation, and (ii) this offering on an assumed initial public offering price of \$35.50 per share, the midpoint of the price range reflected on the cover page of this prospectus, the difference between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us, and the average price per share paid, before deducting estimated underwriting discounts and commissions and estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	61,914,185	93.0%	\$ 72,139	30.2%	\$ 1.17
New public investors	4,687,259	7.0%	166,398	69.8%	35.50
Total	<u>66,601,444</u>	<u>100.0%</u>	<u>\$238,537</u>	<u>100.0%</u>	

A \$1.00 increase (decrease) in the assumed initial public offering price of \$35.50 per share, the midpoint of the price range reflected on the cover page of this prospectus, would increase (decrease) total consideration paid by new investors and total consideration paid by all stockholders by approximately \$4.4 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

To the extent that any outstanding options are exercised, investors will experience further dilution.

Except as otherwise indicated, the above discussion and tables assume no exercise of the underwriters' over-allotment option. If the underwriters exercise their over-allotment option in full, our existing stockholders would own 61,914,185 shares, or 91.7%, and our new investors would own 5,617,259 shares, or 8.3%, of the total number of shares of our common stock outstanding upon the completion of this offering.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended July 31, 2009, 2010, and 2011 and the consolidated balance sheet data as of July 31, 2010 and 2011 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for the nine month periods ended April 30, 2011 and 2012 and the consolidated balance sheet data as of April 30, 2012 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for fiscal 2008 and the consolidated balance sheet data as of July 31, 2008 and 2009 are derived from audited financial statements not included in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future, and the results for the nine month period ended April 30, 2012 are not necessarily indicative of operating results to be expected for the full year ending July 31, 2012 or any other period. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, which consist only of normal recurring adjustments, necessary for the fair presentation of those unaudited consolidated financial statements. The selected consolidated financial data below should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended July 31,				Nine Months Ended April 30,	
	2008	2009	2010	2011	2011	2012
(in thousands, except per share data)						
Consolidated Statements of Operations Data:						
Revenue:						
Product	\$ 2,605	\$ 10,110	\$ 36,789	\$ 84,800	\$ 55,716	\$ 125,023
Services	517	3,242	11,993	33,797	22,655	54,473
Total revenue	3,122	13,352	48,782	118,597	78,371	179,496
Cost of revenue:						
Product ⁽¹⁾	1,476	3,952	10,822	21,766	14,003	32,082
Services ⁽¹⁾	1,377	2,324	4,812	10,507	6,917	16,904
Total cost of revenue	2,853	6,276	15,634	32,273	20,920	48,986
Total gross profit	269	7,076	33,148	86,324	57,451	130,510
Operating expenses:						
Research and development ⁽¹⁾	7,460	8,208	12,788	21,366	14,437	26,824
Sales and marketing ⁽¹⁾	7,583	15,372	29,726	62,254	38,747	78,196
General and administrative ⁽¹⁾	1,725	2,536	11,291	13,108	9,290	17,355
Total operating expenses	16,768	26,116	53,805	96,728	62,474	122,375
Operating income (loss)	(16,499)	(19,040)	(20,657)	(10,404)	(5,023)	8,135
Interest income	358	52	4	3	3	7
Other income (expense), net	(42)	(5)	(424)	(1,651)	(1,195)	(1,033)
Income (loss) before income taxes	(16,183)	(18,993)	(21,077)	(12,052)	(6,215)	7,109
Provision for income taxes	4	12	56	476	333	1,773
Net income (loss)	<u>\$ (16,187)</u>	<u>\$ (19,005)</u>	<u>\$ (21,133)</u>	<u>\$ (12,528)</u>	<u>\$ (6,548)</u>	<u>\$ 5,336</u>

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

	Year Ended July 31,				Nine Months Ended April 30,	
	2008	2009	2010	2011	2011	2012
	(in thousands)					
Cost of product revenue	\$ 4	\$ 6	\$ 9	\$ 27	\$ 16	\$ 68
Cost of services revenue	4	9	46	179	108	365
Research and development	72	126	318	1,020	703	2,217
Sales and marketing	84	186	364	1,133	739	2,049
General and administrative	111	47	132	2,374	2,244	2,674
Total share-based compensation	<u>\$275</u>	<u>\$374</u>	<u>\$869</u>	<u>\$4,733</u>	<u>\$3,810</u>	<u>\$7,373</u>

	Year Ended July 31,				Nine Months Ended April 30,	
	2008	2009	2010	2011	2011	2012
	(in thousands, except per share data)					
Net income (loss) attributable to common stockholders :						
Basic	<u>\$ (16,187)</u>	<u>\$ (19,005)</u>	<u>\$ (21,133)</u>	<u>\$ (12,528)</u>	<u>\$ (6,548)</u>	<u>\$ 40</u>
Diluted		<u>\$ (19,005)</u>	<u>\$ (21,133)</u>	<u>\$ (12,528)</u>	<u>\$ (6,548)</u>	<u>\$ 49</u>
Net income (loss) per share attributable to common stockholders:						
Basic	<u>\$ (2.56)</u>	<u>\$ (2.01)</u>	<u>\$ (1.78)</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>	<u>\$ 0.00</u>
Diluted		<u>\$ (2.01)</u>	<u>\$ (1.78)</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>	<u>\$ 0.00</u>
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:						
Basic	<u>6,322</u>	<u>9,435</u>	<u>11,901</u>	<u>14,201</u>	<u>13,559</u>	<u>17,238</u>
Diluted		<u>9,435</u>	<u>11,901</u>	<u>14,201</u>	<u>13,559</u>	<u>23,020</u>
Pro forma net income (loss) per share attributable to common stockholders:						
Basic				<u>\$ (0.20)</u>		<u>\$ 0.10</u>
Diluted				<u>\$ (0.20)</u>		<u>\$ 0.09</u>
Pro forma weighted-average shares outstanding used to compute net income (loss) per share attributable to common stockholders:						
Basic				<u>55,285</u>		<u>58,421</u>
Diluted				<u>55,285</u>		<u>64,328</u>

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	July 31,				April 30,	
	2008	2009	2010	2011	2011	2012
	(in thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	\$ 1,290	\$ 21,366	\$ 18,835	\$ 40,517	\$ 31,358	\$ 90,283
Working capital (deficiency)	(1,470)	18,246	7,000	9,739	6,645	36,047
Total assets	6,170	28,213	38,119	91,172	70,291	166,489
Current and long-term notes payable	—	—	—	—	—	—
Preferred stock warrant liability	75	68	491	2,068	1,631	—
Redeemable convertible preferred stock	28,025	64,491	64,491	64,491	64,491	67,517
Common stock including additional paid-in capital	562	1,200	2,589	9,311	7,135	18,815
Total stockholders' deficit	(27,537)	(45,904)	(65,648)	(71,454)	(67,650)	(56,614)

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

You should read the following discussion and analysis of our financial condition and results of operations together with the consolidated financial statements and related notes that are included elsewhere in this prospectus. The last day of our fiscal year is July 31. Our fiscal quarters end on October 31, January 31, April 30, and July 31. Fiscal 2012, our current fiscal year, will end on July 31, 2012. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this prospectus.

Overview

We have pioneered the next generation of network security with our innovative platform that allows enterprises, service providers, and government entities to secure their networks and safely enable the increasingly complex and rapidly growing number of applications running on their networks. The core of our platform is our Next-Generation Firewall, which delivers application, user, and content visibility and control integrated within the firewall through our proprietary hardware and software architecture. Our products and services can address a broad range of our end-customers' network security requirements, from the data center to the network perimeter, as well as the distributed enterprise, which includes branch offices and a growing number of mobile devices.

We were founded in 2005 to address the limitations that exist in legacy approaches to network security and to restore the firewall as the most strategic point of network control. From 2005 to 2007, our activities were focused on research and development, which resulted in the commercial release of our first product, the PA-4000 Series, as well as our first subscription service, Threat Prevention, in 2007. Since then, we have continued to innovate and consistently introduce new products and services, including the PA-5000 Series and GlobalProtect subscription service in March 2011, and most recently the PA-200 and WildFire subscription service in November 2011.

We derive revenue from sales of our products and services, which together comprise our platform. Product revenue is primarily generated from sales of our Next-Generation Firewall. All of our products incorporate 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 across an organization, from branch offices to large data centers. Our platform can be centrally managed across an organization with our Panorama product. Services revenue includes sales from subscriptions and support and maintenance. Our Threat Prevention, URL Filtering, and GlobalProtect subscriptions provide our end-customers with real-time access to the latest antivirus, intrusion prevention, web filtering, and modern malware protection capabilities across fixed and mobile devices. When end-customers purchase a product, they typically purchase one or more of our subscriptions for additional functionality, as well as support and maintenance in order to receive ongoing security updates, upgrades, bug fixes, and repairs. Sales of services increase our deferred revenue balance and contribute significantly to our positive cash flow provided by operating activities.

We maintain a field sales force that works closely with our channel partners in developing sales opportunities. We use a two-tier, indirect fulfillment model whereby we sell our products and services to our global distributor channel partners, who, in turn, sell our products and services to our reseller network, who then sell to our end-customers. Our channel partners purchase our products and services at a discount to our list prices and then resell them to our end-customers. Our channel partners receive an order from an end-customer prior to placing an order with us and generally do not stock appliances.

We had more than 7,750 end-customers in over 100 countries as of April 30, 2012. Our end-customers represent a broad range of industries including education, energy, financial services, healthcare, Internet and media, manufacturing, public sector, and telecommunications. During the nine month period ended April 30,

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2012, 62% of our revenue was generated from the Americas, 26% from Europe, the Middle East, and Africa (EMEA), and 12% from Asia Pacific and Japan (APAC). As of April 30, 2012, we had 692 employees.

We have experienced rapid growth in recent periods. For fiscal 2009, 2010, and 2011, our revenues were \$13.4 million, \$48.8 million, and \$118.6 million, respectively, representing year-over-year growth of 265% for fiscal 2010 and 143% for fiscal 2011, and our net losses were \$19.0 million, \$21.1 million, and \$12.5 million, respectively. For the nine month periods ended April 30, 2011 and 2012, our revenues were \$78.4 million and \$179.5 million, respectively, representing year-over-year growth of 129%. For the nine month period ended April 30, 2011, we recorded net loss of \$6.5 million, and for the nine month period ended April 30, 2012, we recorded net income of \$5.3 million. For the nine month period ended April 30, 2011 and 2012, we generated \$22.0 million and \$58.5 million, respectively, of cash flow provided by operating activities, and we have generated positive cash flow provided by operating activities for each of our last eight fiscal quarters.

We believe that the growth of our business and our short 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 within existing end-customers, and focus on end-customer satisfaction. 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.

We have experienced rapid growth and increased demand for our products over the last few years. 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. Additionally, we face intense competition in our market, and to succeed, we need to innovate and offer products that are differentiated from existing infrastructure products, as well as effectively hire, retain, train, and motivate qualified personnel and senior management. If we are unable to successfully address these challenges, our business, operating results, and prospects could be adversely affected.

Key Financial Metrics

We monitor the key financial metrics set forth 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 income (loss) and margin below under “—Financial Overview” and “—Results of Operations.” Deferred revenue, cash flow provided by (used in) operating activities, and free cash flow are discussed immediately below the following table.

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
Total revenue	\$ 13,352	\$ 48,782	\$ 118,597	\$78,371	\$ 179,496
Year-over-year percentage increase	327.7%	265.4%	143.1%	153.0%	129.0%
Gross margin percentage	53.0%	68.0%	72.8%	73.3%	72.7%
Operating income (loss)	\$(19,040)	\$(20,657)	\$(10,404)	\$(5,023)	\$ 8,135
Operating margin percentage	(142.6)%	(42.3)%	(8.8)%	(6.4)%	4.5%
Total deferred revenue at period end	\$ 5,593	\$ 24,121	\$ 67,255	\$47,125	\$ 116,652
Cash flow provided by (used in) operating activities	\$(13,523)	\$ (2,683)	\$ 32,102	\$21,961	\$ 58,478
Free cash flow (non-GAAP)	\$(14,568)	\$ (4,368)	\$ 19,102	\$11,059	\$ 47,197

- **Deferred Revenue.** Our deferred revenue consists of amounts that have been invoiced but that have not yet been recognized as revenue as of the period end. The majority of our deferred revenue balance consists of subscription and support and maintenance 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.

- **Cash Flow Provided by (Used in) Operating Activities.** We monitor cash flow provided by (used in) operating activities as a measure of our overall business performance. Our cash flow provided by (used in) operating activities is driven in large part by sales of our products and from up-front payments for both subscription and support and maintenance. Monitoring cash flow provided by (used in) 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.** We define free cash flow as cash provided by (used in) operating activities less purchases of property, equipment, and other assets. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the purchases of property, equipment, and other assets, can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening the balance sheet. For fiscal 2011, our free cash flow was impacted by an increase in property, equipment, and other assets, of which \$7.3 million was due to leasehold improvements for our new headquarters.

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
	(in thousands)				
Cash Flow:					
Cash flow provided by (used in) operating activities	\$ (13,523)	\$ (2,683)	\$ 32,102	\$ 21,961	\$ 58,478
Less: purchase of property, equipment, and other assets	1,045	1,685	13,000	10,902	11,281
Free cash flow (non-GAAP)	<u>\$ (14,568)</u>	<u>\$ (4,368)</u>	<u>\$ 19,102</u>	<u>\$ 11,059</u>	<u>\$ 47,197</u>
Net cash used in investing activities	<u>\$ (1,045)</u>	<u>\$ (1,685)</u>	<u>\$ (13,000)</u>	<u>\$ (10,902)</u>	<u>\$ (11,281)</u>
Net cash provided by financing activities	<u>\$ 34,644</u>	<u>\$ 1,837</u>	<u>\$ 2,580</u>	<u>\$ 1,464</u>	<u>\$ 2,569</u>

Financial Overview

Revenue

We generate revenue from the sales of our products and services. As discussed further in “—Critical Accounting Policies and Estimates—Revenue Recognition” below, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

Our total revenue is comprised of the following:

- **Product Revenue.** The substantial majority of our product revenue is generated from sales of our appliances. Product revenue also includes revenue derived from software licenses of Panorama and Virtual Systems Upgrades. We recognize product revenue at the time of shipment, provided that all other revenue recognition criteria have been met. As a percentage of total revenue, we expect our product revenue to vary from quarter-to-quarter based on seasonal and cyclical factors discussed under “—Quarterly Results of Operations.”
- **Services Revenue.** Services revenue is generated primarily from Threat Prevention, URL Filtering, and GlobalProtect subscriptions and support and maintenance. Our subscriptions are priced as a percentage of the appliance’s list price. Our contractual subscription and support and maintenance terms are typically one year, and can be up to three years. We recognize revenue from subscriptions and support

and maintenance over the contractual service period. As a percentage of total revenue, we expect our services revenue to remain at consistent levels or increase as we introduce new subscriptions, renew existing services contracts, and expand our end-customer base.

Cost of Revenue

Our total cost of revenue consists of cost of product revenue and cost of services revenue. Personnel costs associated with our operations and global customer support organizations consist of salaries, benefits, bonuses, and share-based compensation. Allocated costs consist of certain facilities, depreciation, benefits, recruiting, and information technology costs allocated based on headcount.

- **Cost of Product Revenue.** Cost of product revenue primarily includes costs paid to our third-party contract manufacturer. Our cost of product revenue also includes product testing costs, allocated costs, warranty costs, shipping costs, and personnel costs associated with logistics and quality control. We expect our cost of product revenue to increase as our product revenue increases.
- **Cost of Services Revenue.** Cost of services revenue includes personnel costs for our global customer support organization, allocated costs, and URL filtering database service fees. We expect our cost of services revenue to increase as our end-customer base grows.

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 average sales price of our products, manufacturing costs, the mix of products sold, and the mix of revenue between products and services. For sales of our products, our higher throughput firewall products generally have higher gross margins than our lower throughput firewall products within each product series. For sales of our services, our subscriptions typically have higher gross margins than our support and maintenance. We expect our gross margins to fluctuate over time depending on the factors described above.

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, and with regard to sales and marketing expense, sales commissions. We expect operating expenses to increase in absolute dollars, although they may fluctuate as a percentage of revenue from period to period, as we continue to grow in response to demand for our products and services. As of April 30, 2012, we expect to recognize approximately \$34.2 million of share-based compensation expense over a weighted-average period of three years, excluding additional share-based compensation expense related to the grants of share-based awards that we made in May 2012 and June 2012 as described under “Critical Accounting Policies and Estimates – Share-Based Compensation” and any future grants of share-based awards. Share-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four years.

- **Research and Development.** Research and development expense consists primarily of personnel costs. Research and development expense also includes prototype related expenses and allocated facilities 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.
- **Sales and Marketing.** Sales and marketing expense consists primarily of personnel costs including commission costs. We expense commission costs as incurred. Sales and marketing expense also includes costs for market development programs, promotional and other marketing costs, travel costs, office equipment and software, depreciation of capital equipment, professional services, and allocated facilities costs. In the last 12 months, we have nearly doubled the size of our sales force and have also substantially grown our local sales presence internationally. We expect sales and marketing expense to

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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.

- **General and Administrative.** General and administrative expense consists of personnel costs as well as professional services. General and administrative personnel include our executive, finance, human resources, and legal organizations. Professional services consist primarily of legal, auditing, accounting, and other consulting costs. We expect general and administrative expense to increase in absolute dollars following the completion of this offering due to additional legal fees and costs associated with pending litigation, accounting, insurance, investor relations, and other costs associated with being a public company, although our general and administrative expense may fluctuate as a percentage of total revenue. Refer to the discussion under “Business—Legal Proceedings” for information related to pending litigation.

Interest Income

Interest income consists of income earned on our cash and cash equivalents. We have historically invested our cash in money-market funds. We expect interest income will vary each reporting period depending on our average investment balances during the period, types and mix of investments, and market interest rates.

Other Income (Expense), Net

Other income (expense), net consists primarily of the change in fair value of our preferred stock warrant liability. Convertible preferred stock warrants were classified as a liability on our consolidated balance sheets and remeasured to fair value at each balance sheet date with the corresponding change recorded as other expense. We expect other expense to decrease in the near term as a result of the exercise of the convertible preferred stock warrants during the three month period ended January 31, 2012 and to remain at a consistent level thereafter.

Provision for Income Taxes

Provision for income taxes consists primarily of federal and state income taxes in the United States and income taxes in foreign jurisdictions in which we conduct business. We have a full valuation allowance for domestic deferred tax assets including net operating loss carryforwards and research and development and other tax credits. We expect to maintain this full valuation allowance in the near-term. We also expect the provision for income taxes to increase in absolute dollars in future years.

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The following tables summarize our results of operations for the periods presented and as a percentage of our total revenue for those periods. The period-to-period comparison of results is not necessarily indicative of results for future periods.

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
(in thousands)					
Consolidated Statements of Operations Data:					
Revenue:					
Product	\$ 10,110	\$ 36,789	\$ 84,800	\$55,716	\$ 125,023
Services	3,242	11,993	33,797	22,655	54,473
Total revenue	13,352	48,782	118,597	78,371	179,496
Cost of revenue:					
Product	3,952	10,822	21,766	14,003	32,082
Services	2,324	4,812	10,507	6,917	16,904
Total cost of revenue	6,276	15,634	32,273	20,920	48,986
Total gross profit	7,076	33,148	86,324	57,451	130,510
Operating expenses:					
Research and development	8,208	12,788	21,366	14,437	26,824
Sales and marketing	15,372	29,726	62,254	38,747	78,196
General and administrative	2,536	11,291	13,108	9,290	17,355
Total operating expenses	26,116	53,805	96,728	62,474	122,375
Operating income (loss)	(19,040)	(20,657)	(10,404)	(5,023)	8,135
Interest income	52	4	3	3	7
Other income (expense), net	(5)	(424)	(1,651)	(1,195)	(1,033)
Income (loss) before income taxes	(18,993)	(21,077)	(12,052)	(6,215)	7,109
Provision for income taxes	12	56	476	333	1,773
Net income (loss)	<u>\$ (19,005)</u>	<u>\$ (21,133)</u>	<u>\$ (12,528)</u>	<u>\$ (6,548)</u>	<u>\$ 5,336</u>

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	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
(as a percentage of revenue)					
Consolidated Statements of Operations Data:					
Revenue:					
Product	75.7%	75.4%	71.5%	71.1%	69.7%
Services	24.3%	24.6%	28.5%	28.9%	30.3%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue:					
Product	29.6%	22.2%	18.4%	17.9%	17.9%
Services	17.4%	9.8%	8.8%	8.8%	9.4%
Total cost of revenue	47.0%	32.0%	27.2%	26.7%	27.3%
Total gross profit	53.0%	68.0%	72.8%	73.3%	72.7%
Operating expenses:					
Research and development	61.5%	26.2%	18.0%	18.4%	14.9%
Sales and marketing	115.1%	60.9%	52.5%	49.4%	43.6%
General and administrative	19.0%	23.2%	11.1%	11.9%	9.7%
Total operating expenses	195.6%	110.3%	81.6%	79.7%	68.2%
Operating income (loss)	(142.6)%	(42.3)%	(8.8)%	(6.4)%	4.5%
Interest income	0.4%	—%	—%	—%	—%
Other income (expense), net	—%	(0.9)%	(1.4)%	(1.5)%	(0.6)%
Income (loss) before income taxes	(142.2)%	(43.2)%	(10.2)%	(7.9)%	3.9%
Provision for income taxes	0.1%	0.1%	0.4%	0.4%	1.0%
Net income (loss)	(142.3)%	(43.3)%	(10.6)%	(8.3)%	2.9%

Comparison of the Nine Month Periods Ended April 30, 2011 and 2012

Revenue

	Nine Months Ended April 30,				Change	
	2011		2012			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
(dollars in thousands)						
Revenue:						
Product	\$55,716	71.1%	\$125,023	69.7%	\$ 69,307	124.4%
Services	22,655	28.9%	54,473	30.3%	31,818	140.4%
Total revenue	\$78,371	100.0%	\$179,496	100.0%	\$101,125	129.0%
Revenue by geographic theater:						
Americas	\$48,704	62.1%	\$111,883	62.3%	\$ 63,179	129.7%
EMEA	21,223	27.1%	46,014	25.6%	24,791	116.8%
APAC	8,444	10.8%	21,599	12.1%	13,155	155.8%
Total revenue	\$78,371	100.0%	\$179,496	100.0%	\$101,125	129.0%

Total revenue increased \$101.1 million, or 129.0%, for the nine month period ended April 30, 2012 compared to the nine month period ended April 30, 2011. The revenue growth reflects the increasing demand for our recently introduced and existing product and service offerings. The increase in product revenue was primarily

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the result of an aggregate increase of more than 80% in product unit volume largely driven by sales of our lower throughput firewall products. Average selling prices of hardware on a per unit basis also increased for most of our products, particularly our PA-5000 Series. Of the 129 percentage point increase in total revenue for the nine months ended April 30, 2012 over the prior period, approximately 25 percentage points were due to this increase in average selling prices. The increase in services revenue was primarily driven by new end-customers and, to a lesser extent, additional sales of subscription services to our existing end-customer base. Our total number of end-customers increased to approximately 7,750 at April 30, 2012 from approximately 3,800 at April 30, 2011.

With respect to geographic theaters, the Americas contributed the largest portion of this revenue increase because of its larger and more established sales force compared to our other theaters. We also experienced a significant increase in U.S. government sales in the three months ended October 31, 2011, as a result of both our continued investment in our expanded U.S. government sales force and cyclical U.S. government spending at the end of its September 30 fiscal year. Revenue from both EMEA and APAC also increased during this period primarily due to our investment in increasing the size of our international sales force and the number of partners in these theaters.

Cost of Revenue and Gross Margin

	Nine Months Ended April 30,				Change	
	2011		2012		Amount	Gross Margin
	Amount	Gross Margin	Amount	Gross Margin		
	(dollars in thousands)					
Cost of revenue:						
Product	\$14,003		\$ 32,082		\$18,079	
Services	6,917		16,904		9,987	
Total cost of revenue	<u>\$20,920</u>		<u>\$ 48,986</u>		<u>\$28,066</u>	
Gross profit:						
Product	\$41,713	74.9%	\$ 92,941	74.3%	\$51,228	(0.6)%
Services	15,738	69.5%	37,569	69.0%	21,831	(0.5)%
Total gross profit	<u>\$57,451</u>	73.3%	<u>\$130,510</u>	72.7%	<u>\$73,059</u>	(0.6)%

Gross margin decreased 0.6 percentage points for the nine month period ended April 30, 2012 compared to the nine month period ended April 30, 2011. The decrease of 0.6 percentage points in product margin was primarily due a decrease of 2.6 percentage points related to changes in our product mix, with sales of our lower throughput firewall products representing a larger proportion of the product volume sold during this period than our higher throughput firewall products. On average, margins for firewall products with higher throughput are greater than firewall products with lower throughput. The decrease related to product mix was partially offset by increases in our average selling prices of hardware on a per unit basis. The decrease of 0.5 percentage points in services margin was primarily due to a decrease in average margins on revenue from support and maintenance as a result of an increase in personnel and other costs to support our expanding end-customer base. This decrease was largely offset by higher margin subscription sales, while the mix in services revenue was largely unchanged on a period-over-period basis.

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Operating Expenses

	Nine Months Ended April 30,				Change	
	2011		2012			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
(dollars in thousands)						
Operating expenses:						
Research and development	\$14,437	18.4%	\$ 26,824	14.9%	\$12,387	85.8%
Sales and marketing	38,747	49.4%	78,196	43.6%	39,449	101.8%
General and administrative	9,290	11.9%	17,355	9.7%	8,065	86.8%
Total operating expenses	<u>\$62,474</u>	<u>79.7%</u>	<u>\$122,375</u>	<u>68.2%</u>	<u>\$59,901</u>	<u>95.9%</u>
Includes share-based compensation of:						
Research and development	\$ 703		\$ 2,217		\$ 1,514	215.4%
Sales and marketing	739		2,049		1,310	177.3%
General and administrative	2,244		2,674		430	19.2%
Total	<u>\$ 3,686</u>		<u>\$ 6,940</u>		<u>\$ 3,254</u>	<u>88.3%</u>

Research and development expense increased \$12.4 million, or 85.8%, for the nine month period ended April 30, 2012 compared to the nine month period ended April 30, 2011 primarily due to an increase in personnel costs of \$8.4 million due to an increase in headcount and headcount related costs to support continued investment in our future product and service offerings and a charge of \$0.9 million for share-based compensation due to the modification of the terms of certain share-based awards for a former employee. The remaining increase was due to an increase in allocated costs of \$2.2 million and an increase in development costs of \$1.4 million.

Sales and marketing expense increased \$39.4 million, or 101.8%, for the nine month period ended April 30, 2012 compared to the nine month period ended April 30, 2011 primarily due to an increase in personnel costs of \$22.6 million due to an increase in headcount and commissions. Ending headcount nearly doubled from April 30, 2011 to April 30, 2012. Additionally, marketing activity increased \$5.2 million primarily due to an increase in joint marketing development programs, travel costs increased \$3.8 million, and allocated costs increased \$3.2 million. The remaining increase was due to an increase in professional services costs, depreciation, and facilities costs.

General and administrative expense increased \$8.1 million, or 86.8%, for the nine month period ended April 30, 2012 compared to the nine month period ended April 30, 2011 primarily due to an increase in professional services costs of \$4.0 million and an increase in personnel costs of \$2.8 million related to overall growth to support the business. The remaining increase was due to an increase in allocated costs.

Other Expense, Net

	Nine Months Ended April 30,		Change	
	2011	2012		
	Amount	Amount	Amount	%
(dollars in thousands)				
Other expense, net	\$1,195	\$1,033	\$ (162)	(13.6)%

The change in other expense, net was due to the increase in fair value of preferred stock warrant liability during the nine month period ended April 30, 2012 compared to the nine month period ended April 30, 2011.

In December 2011 and January 2012, these preferred stock warrants were exercised by the holders. As a result, we issued 197,000 shares of Series A redeemable convertible preferred stock and 24,000 shares of

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Series B redeemable convertible preferred stock. The amount for the nine month period ended April 30, 2012 represents the change in fair value of the preferred stock warrant liability from the beginning of the period to the dates of exercise of the warrants. We do not expect to incur expenses related to these warrants in future periods.

Provision for Income Taxes

	Nine Months Ended April 30,		Change	
	2011 Amount	2012 Amount	Amount	%
Provision for income taxes	\$ 333	\$1,773	\$1,440	432.4%
Effective tax rate	(5.4)%	24.9%		

The provision for income taxes for the nine month period ended April 30, 2011 reflected a negative effective tax rate primarily due to foreign income taxes on profits realized by our foreign subsidiaries, despite a consolidated loss before income taxes. The provision for income taxes for the nine month period ended April 30, 2012 reflected an effective tax rate of 24.9% primarily due to U.S. federal alternative minimum tax, state taxes, and foreign taxes on our consolidated income before income taxes.

Comparison of Fiscal 2010 and 2011

Revenue

	Year Ended July 31,				Change	
	2010		2011		Amount	%
	Amount	% of Revenue	Amount	% of Revenue		
(dollars in thousands)						
Revenue:						
Product	\$36,789	75.4%	\$ 84,800	71.5%	\$48,011	130.5%
Services	11,993	24.6%	33,797	28.5%	21,804	181.8%
Total revenue	<u>\$48,782</u>	<u>100.0%</u>	<u>\$118,597</u>	<u>100.0%</u>	<u>\$69,815</u>	<u>143.1%</u>
Revenue by geographic theater:						
Americas	\$30,632	62.8%	\$ 73,145	61.7%	\$42,513	138.8%
EMEA	11,805	24.2%	32,504	27.4%	20,699	175.3%
APAC	6,345	13.0%	12,948	10.9%	6,603	104.1%
Total revenue	<u>\$48,782</u>	<u>100.0%</u>	<u>\$118,597</u>	<u>100.0%</u>	<u>\$69,815</u>	<u>143.1%</u>

Total revenue increased \$69.8 million, or 143.1%, for fiscal 2011 compared to fiscal 2010. The revenue growth reflects the increasing demand for our product and service offerings. The increase in product revenue was primarily driven by an aggregate increase of more than 90% in product unit volume and the introduction of our PA-5000 Series as opposed to increases in the average selling prices of our products. The increase in services revenue was primarily driven by new end-customers and, to a lesser extent, additional sales of subscription services from our existing end-customer base. Our total number of end-customers increased to approximately 4,700 at July 31, 2011 from approximately 1,800 at July 31, 2010.

With respect to geographic theaters, the Americas contributed the largest portion of this revenue increase because of its larger and more established sales force compared to our other theaters. Revenue from both EMEA and APAC increased during this period primarily due to our investment in increasing the size of our sales force and number of partners in these theaters. EMEA grew at the fastest rate due to our expanded sales force and number of partners in this theater relative to the other theaters.

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Cost of Revenue and Gross Margin

	Year Ended July 31,				Change	
	2010		2011		Amount	Gross Margin
	Amount	Gross Margin	Amount	Gross Margin		
	(dollars in thousands)					
Cost of revenue:						
Product	\$10,822		\$21,766		\$10,944	
Services	4,812		10,507		5,695	
Total cost of revenue	<u>\$15,634</u>		<u>\$32,273</u>		<u>\$16,639</u>	
Gross profit:						
Product	\$25,967	70.6%	\$63,034	74.3%	\$37,067	3.7%
Services	7,181	59.9%	23,290	68.9%	16,109	9.0%
Total gross profit	<u>\$33,148</u>	68.0%	<u>\$86,324</u>	72.8%	<u>\$53,176</u>	4.8%

Gross margin increased 4.8 percentage points for fiscal 2011 compared to fiscal 2010. The increase of 3.7 percentage points in product margin was primarily due to changes in our product mix, including the impact of introducing our PA-5000 Series, and lower manufacturing costs. The increase of 9.0 percentage points in services margin was primarily due to an increase in the volume of subscription sales, which have higher margins than our support and maintenance, partially offset by an increase in personnel and other costs to support our expanding end-customer base.

Operating Expenses

	Year Ended July 31,				Change	
	2010		2011		Amount	%
	Amount	% of Revenue	Amount	% of Revenue		
	(dollars in thousands)					
Operating expenses:						
Research and development	\$12,788	26.2%	\$21,366	18.0%	\$ 8,578	67.1%
Sales and marketing	29,726	60.9%	62,254	52.5%	32,528	109.4%
General and administrative	11,291	23.2%	13,108	11.1%	1,817	16.1%
Total operating expenses	<u>\$53,805</u>	<u>110.3%</u>	<u>\$96,728</u>	<u>81.6%</u>	<u>\$42,923</u>	79.8%
Includes share-based compensation of:						
Research and development	\$ 318		\$ 1,020		\$ 702	220.8%
Sales and marketing	364		1,133		769	211.3%
General and administrative	132		2,374		2,242	1,698.5%
Total	<u>\$ 814</u>		<u>\$ 4,527</u>		<u>\$ 3,713</u>	456.1%

Research and development expense increased \$8.6 million, or 67.1%, for fiscal 2011 compared to fiscal 2010 primarily due to an increase in personnel costs of \$6.2 million as we increased our headcount to support continued investment in our future product and service offerings and an increase in allocated costs of \$1.2 million.

Sales and marketing expense increased \$32.5 million, or 109.4%, for fiscal 2011 compared to fiscal 2010 primarily due to an increase in personnel costs of \$22.8 million due to an increase in headcount and commissions. Ending headcount more than doubled from July 31, 2010 to July 31, 2011. Additionally marketing

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activity increased \$3.4 million related to trade shows and conventions and marketing development programs, travel costs increased \$2.7 million, and allocated costs increased \$1.6 million. The remaining increase was due to an increase in facilities costs.

General and administrative expense increased \$1.8 million, or 16.1%, for fiscal 2011 compared to fiscal 2010 primarily due to an increase in personnel costs of \$4.5 million related to overall growth to support the business, of which \$1.6 million related to a charge for share-based compensation due to the modification of the terms of certain share-based awards for a former employee. There was an additional increase related to professional services of \$2.2 million related to legal services for litigation and other services to support increased business activity. The remaining increase was due to an increase in facilities costs. These increases were partially offset by a \$6.0 million reduction in legal settlement expenses related to a litigation settlement agreement recorded in fiscal 2010.

Other Expense, Net

	<u>Year Ended July 31,</u>		<u>Change</u>	
	<u>2010</u>	<u>2011</u>	<u>Amount</u>	<u>%</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	
			<u>(dollars in thousands)</u>	
Other expense net	\$ 424	\$ 1,651	\$ 1,227	289.4%

The change in other expense, net was due to the increase in fair value of preferred stock warrant liability during fiscal 2011 compared to fiscal 2010.

Provision for Income Taxes

	<u>Year Ended July 31,</u>		<u>Change</u>	
	<u>2010</u>	<u>2011</u>	<u>Amount</u>	<u>%</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	
			<u>(dollars in thousands)</u>	
Provision for income taxes	\$ 56	\$ 476	\$ 420	750.0%
Effective tax rate	(0.3)%	(3.9)%		

We incurred tax expense despite having a consolidated loss before income taxes for fiscal 2010 and 2011 primarily due to foreign taxes and state income taxes. We have a full valuation allowance for our domestic deferred tax assets. The increase in the provision for fiscal 2011 compared to fiscal 2010 was primarily due to an increase in foreign income taxes on profits realized by our foreign subsidiaries due to our international expansion.

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Comparison of Fiscal 2009 and 2010

Revenue

	Year Ended July 31,				Change	
	2009		2010			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
(dollars in thousands)						
Revenue:						
Product	\$10,110	75.7%	\$36,789	75.4%	\$26,679	263.9%
Services	3,242	24.3%	11,993	24.6%	8,751	269.9%
Total revenue	<u>\$13,352</u>	<u>100.0%</u>	<u>\$48,782</u>	<u>100.0%</u>	<u>\$35,430</u>	265.4%
Revenue by geographic theater:						
Americas	\$10,677	80.0%	\$30,632	62.8%	\$19,955	186.9%
EMEA	1,780	13.3%	11,805	24.2%	10,025	563.2%
APAC	895	6.7%	6,345	13.0%	5,450	608.9%
Total revenue	<u>\$13,352</u>	<u>100.0%</u>	<u>\$48,782</u>	<u>100.0%</u>	<u>\$35,430</u>	265.4%

Total revenue increased \$35.4 million, or 265.4%, for fiscal 2010 compared to fiscal 2009. The increase in product revenue was primarily driven by an aggregate increase of more than 400% in product unit volume driven largely by sales of our lower throughput firewall products. The increase in services revenue was primarily driven by new end-customers and expansion within our existing end-customer base. Our total number of end-customers increased to approximately 1,800 at July 31, 2010 from approximately 370 at July 31, 2009.

With respect to geographic theaters, the Americas contributed the largest portion of this revenue increase because of its larger and more established sales force compared to our other theaters. Revenue from both EMEA and APAC increased during this period primarily due to our investment in increasing the size of our sales force and number of partners in these theaters. EMEA and APAC grew at the fastest rates due to our expanded sales force and number of partners in these theaters relative to the Americas.

Cost of Revenue and Gross Margin

	Year Ended July 31,				Change	
	2009		2010			
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
(dollars in thousands)						
Cost of revenue:						
Product	\$3,952		\$10,822		\$ 6,870	
Services	2,324		4,812		2,488	
Total cost of revenue	<u>\$6,276</u>		<u>\$15,634</u>		<u>\$ 9,358</u>	
Gross profit:						
Product	\$6,158	60.9%	\$25,967	70.6%	\$19,809	9.7%
Services	918	28.3%	7,181	59.9%	6,263	31.6%
Total gross profit	<u>\$7,076</u>	<u>53.0%</u>	<u>\$33,148</u>	<u>68.0%</u>	<u>\$26,072</u>	15.0%

Gross margin increased 15.0 percentage points for fiscal 2010 compared to fiscal 2009 primarily due to an increase in margin for products of 9.7 percentage points as a result of reduced costs from changing our contract manufacturer, partially offset by product mix driven by a larger proportion of sales of lower throughput firewall

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products. The increase in services margin of 31.6 percentage points was due to an increase in support and maintenance margins as a result of growth in our end-customer base relative to cost and, to a lesser extent, an increase in subscription sales, which have higher margins than support and maintenance.

Operating Expenses

	Year Ended July 31,				Change	
	2009		2010		Amount	%
	Amount	% of Revenue	Amount	% of Revenue		
	(dollars in thousands)					
Operating expenses:						
Research and development	\$ 8,208	61.5%	\$12,788	26.2%	\$ 4,580	55.8%
Sales and marketing	15,372	115.1%	29,726	60.9%	14,354	93.4%
General and administrative	2,536	19.0%	11,291	23.2%	8,755	345.2%
Total operating expenses	<u>\$26,116</u>	<u>195.6%</u>	<u>\$53,805</u>	<u>110.3%</u>	<u>\$27,689</u>	<u>106.0%</u>
Includes share-based compensation of:						
Research and development	\$ 126		\$ 318		\$ 192	152.4%
Sales and marketing	186		364		178	95.7%
General and administrative	47		132		85	180.9%
Total	<u>\$ 359</u>		<u>\$ 814</u>		<u>\$ 455</u>	<u>126.7%</u>

Research and development expense increased \$4.6 million, or 55.8%, for fiscal 2010 compared to fiscal 2009 primarily due to an increase in personnel costs of \$3.1 million as we increased our headcount to support continued investment in our future product and service offerings. Additionally, allocated costs increased \$1.0 million. The remaining increase was primarily due to an increase in development costs.

Sales and marketing expense increased \$14.4 million, or 93.4%, for fiscal 2010 compared to fiscal 2009 primarily due to an increase in personnel costs of \$9.9 million due to increased headcount and commissions, an increase in marketing activity of \$2.2 million related to trade shows and conventions and marketing development programs and an increase in travel costs of \$1.2 million. The remaining increase was primarily due to an increase in allocated costs.

General and administrative expense increased \$8.8 million, or 345.2%, for fiscal 2010 compared to fiscal 2009 primarily due to \$6.0 million related to a litigation settlement included in fiscal 2010. The remaining increase was due to increases in personnel costs, professional services including legal services, and other services to support increased business activity and facilities costs.

Other Expense, Net

	Year Ended July 31,		Change	
	2009	2010	Amount	%
	Amount	Amount		
	(dollars in thousands)			
Other expense, net	\$ 5	\$ 424	\$ 419	8,380.0%

The change in other expense, net was due to the increase in fair value of preferred stock warrant liability during fiscal 2010 compared to fiscal 2009.

[Table of Contents](#)*Provision for Income Taxes*

	<u>Year Ended July 31,</u>		<u>Change</u>	
	<u>2009</u>	<u>2010</u>	<u>Amount</u>	<u>%</u>
	<u>Amount</u>	<u>Amount</u>	<u>Amount</u>	<u>%</u>
Provision for income taxes	\$ 12	\$ 56	\$ 44	366.7%
Effective tax rate	(0.1)%	(0.3)%		

We incurred tax expense despite a consolidated loss before income taxes for fiscal 2009 and 2010, respectively, primarily due to foreign income taxes. We have a full valuation allowance for our domestic deferred tax assets. The increase in the provision for fiscal 2010 compared to fiscal 2009 was primarily due to an increase in income taxes on profits realized by our foreign subsidiaries due to our international expansion.

[Table of Contents](#)**Quarterly Results of Operations**

The following tables set forth selected unaudited quarterly statements of operations data for each of the seven quarters ended April 30, 2012, as well as the percentage that each line item represents of total revenue. The information for each of these quarters has been prepared on the same basis as the audited annual financial statements included elsewhere in this prospectus and, in the opinion of management, includes all adjustments, which includes only normal recurring adjustments, necessary for the fair presentation of the results of operations for these periods in accordance with generally accepted accounting principles in the United States. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

	Three Months Ended						
	Oct. 31, 2010	Jan. 31, 2011	Apr. 30, 2011	Jul. 31, 2011	Oct. 31, 2011	Jan. 31, 2012	Apr. 30, 2012
(in thousands)							
Consolidated Statements of Operations Data:							
Revenue:							
Product	\$ 14,119	\$ 19,491	\$ 22,106	\$ 29,084	\$ 42,861	\$ 38,638	\$ 43,524
Services	6,043	7,559	9,053	11,142	14,252	18,045	22,176
Total revenue	20,162	27,050	31,159	40,226	57,113	56,683	65,700
Cost of revenue:							
Product	3,723	4,764	5,516	7,763	10,310	10,248	11,524
Services	1,790	2,373	2,754	3,590	4,530	5,265	7,109
Total cost of revenue	5,513	7,137	8,270	11,353	14,840	15,513	18,633
Total gross profit	14,649	19,913	22,889	28,873	42,273	41,170	47,067
Operating expenses:							
Research and development	4,288	4,748	5,401	6,929	7,848	8,514	10,462
Sales and marketing	10,359	13,370	15,018	23,507	22,368	25,612	30,216
General and administrative	2,191	2,600	4,499	3,818	5,157	5,768	6,430
Total operating expenses	16,838	20,718	24,918	34,254	35,373	39,894	47,108
Operating income (loss)	(2,189)	(805)	(2,029)	(5,381)	6,900	1,276	(41)
Interest income	1	1	1	—	2	2	3
Other income (expense), net	(207)	(396)	(592)	(456)	(464)	(566)	(3)
Income (loss) before income taxes	(2,395)	(1,200)	(2,620)	(5,837)	6,438	712	(41)
Provision (benefit) for income taxes	114	132	87	143	2,322	288	(837)
Net income (loss)	<u>\$ (2,509)</u>	<u>\$ (1,332)</u>	<u>\$ (2,707)</u>	<u>\$ (5,980)</u>	<u>\$ 4,116</u>	<u>\$ 424</u>	<u>\$ 796</u>

	Three Months Ended						
	Oct. 31, 2010	Jan. 31, 2011	Apr. 30, 2011	Jul. 31, 2011	Oct. 31, 2011	Jan. 31, 2012	
Consolidated Statements of Operations Data:							
(as a percentage of revenue)							
Revenue:							
Product	70.0%	72.1%	70.9%	72.3%	75.0%	68.2%	66.2%
Services	30.0%	27.9%	29.1%	27.7%	25.0%	31.8%	33.8%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue:							
Product ⁽¹⁾	18.5%	17.6%	17.7%	19.3%	18.1%	18.1%	17.5%
Services ⁽¹⁾	8.8%	8.8%	8.8%	8.9%	7.9%	9.3%	10.9%
Total cost of revenue	27.3%	26.4%	26.5%	28.2%	26.0%	27.4%	28.4%
Total gross profit	72.7%	73.6%	73.5%	71.8%	74.0%	72.6%	71.6%
Operating expenses:							
Research and development	21.3%	17.6%	17.3%	17.2%	13.7%	15.0%	15.9%
Sales and marketing	51.4%	49.4%	48.2%	58.4%	39.2%	45.2%	46.0%
General and administrative	10.9%	9.6%	14.5%	9.6%	9.0%	10.1%	9.8%
Total operating expenses	83.6%	76.6%	80.0%	85.2%	61.9%	70.3%	71.7%
Operating income (loss)	(10.9)%	(3.0)%	(6.5)%	(13.4)%	12.1%	2.3%	(0.1)%
Interest income	—%	—%	—%	—%	—%	—%	—%
Other income (expense) net	(1.0)%	(1.5)%	(1.9)%	(1.1)%	(0.8)%	(1.0)%	—%
Income (loss) before income taxes	(11.9)%	(4.5)%	(8.4)%	(14.5)%	11.3%	1.3%	(0.1)%
Provision (benefit) for income taxes	0.6%	0.5%	0.3%	0.4%	4.1%	0.5%	(1.3)%
Net income (loss)	(12.5)%	(5.0)%	(8.7)%	(14.9)%	7.2%	0.8%	1.2%

(1) The table below shows gross profit as a percentage of each component of revenue, referred to as gross margin:

	Three Months Ended						
	Oct. 31, 2010	Jan. 31, 2011	Apr. 30, 2011	Jul. 31, 2011	Oct. 31, 2011	Jan. 31, 2012	
Gross Margin by Component of Revenue:							
Product	73.6%	75.6%	75.0%	73.3%	75.9%	73.5%	73.5%
Services	70.4%	68.6%	69.6%	67.8%	68.2%	70.8%	67.9%
Total gross margin	72.7%	73.6%	73.5%	71.8%	74.0%	72.6%	71.6%

Quarterly Revenue Trends

Our quarterly revenue increased year-over-year for all periods presented. For the three month period ended October 31, 2011, the increase in product revenue was driven by strong performance in our sales to partners selling to U.S. government end-customers as a result of improved productivity from our expanded U.S. government sales force leading up to the three month period ended October 31, 2011 and cyclical U.S. government spending at the end of its September 30 fiscal year, which may not necessarily be indicative of future results. Our quarterly product revenue declined quarter-over-quarter from October 31, 2011 to January 31, 2012 primarily as a result of the increase in our sales to partners selling to U.S. government end-customers during the three month period ended October 31, 2011, which did not recur in the three month period ended January 31, 2012.

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Comparisons of our year-over-year total quarterly revenue are more meaningful than comparisons of our sequential results due to seasonality in the sale of our products and services to varying degrees. We generally expect an increase in business activity as we approach our fiscal year end in July, as a portion of our sales professionals' compensation is based on results through the end of our fiscal year. Similarly, we expect our gross margins and operating income to be affected by seasonality because expenses are relatively fixed in the near-term. While we believe that these seasonal trends have affected and will continue to affect our quarterly results, our rapid growth has largely masked seasonal trends to date. We believe that our business may become more seasonal in the future. Historical patterns in our business may not be a reliable indicator of our future sales activity or performance.

Quarterly Gross Margin Trends

Total gross profit increased year-over-year for all periods presented. Total gross margin has remained relatively consistent over all periods presented, and any fluctuation is primarily due to shifts in the mix of sales of between products and services, as well as the types and volumes of products and services sold.

Quarterly Expense Trends

Total operating expenses increased year-over-year for all periods presented primarily due to the addition of personnel in connection with the expansion of our business. The addition of headcount has generally contributed to sequential increases in operating expenses. Research and development expense increased significantly in the three month period ended April 30, 2012 compared to the three month period ended January 31, 2012, primarily due to an increase in share-based compensation expense. Sales and marketing expense increased significantly in the three month period ended July 31, 2011 compared to the three month period ended April 30, 2011, primarily due to higher sales and the resulting increase in commission expense. General and administrative expense increased significantly in the three month period ended July 31, 2010 compared to the three month period ended April 30, 2010, primarily due to litigation settlement costs. General and administrative expense increased in the three month period ended April 30, 2011 compared to the three month period ended January 31, 2011, primarily due to an increase in share-based compensation expense. For the three month period ended April 30, 2012, we recorded a benefit for income taxes due to a decrease in our estimated annual effective tax rate. The decrease in our estimated annual effective tax rate was the result of better than expected income before income taxes for the three month period ended April 30, 2012. Our domestic income before income taxes is subject to limited U.S. federal tax at the U.S. federal alternative minimum income tax rate and limited state tax due to our net operating loss carryforwards and other tax attributes. The net impact of an increase in forecasted annual profit before tax without a proportional increase in forecasted annual tax expense resulted in a reduced estimated annual effective tax rate. This reduced estimated annual tax rate applied to our results for the year to date period yielded an overall reduction in our year to date income tax expense. As such, an income tax benefit was recorded during the quarter ended April 30, 2012.

Liquidity and Capital Resources

	2009	July 31,		April 30,	
		2010	2011	2011	2012
		(in thousands)			
Cash and cash equivalents	\$21,366	\$18,835	\$40,517	\$31,358	\$90,283

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	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
	(in thousands)				
Cash provided by (used in) operating activities	\$ (13,523)	\$ (2,683)	\$ 32,102	\$ 21,961	\$ 58,478
Cash used in investing activities	(1,045)	(1,685)	(13,000)	(10,902)	(11,281)
Cash provided by financing activities	34,644	1,837	2,580	1,464	2,569
Net increase (decrease) in cash and cash equivalents	<u>\$ 20,076</u>	<u>\$ (2,531)</u>	<u>\$ 21,682</u>	<u>\$ 12,523</u>	<u>\$ 49,766</u>

At April 30, 2012, our cash and cash equivalents of \$90.3 million were held for working capital purposes, of which approximately \$3.4 million was held outside of the United States and not presently available to fund domestic operations and obligations. If we were to repatriate cash held outside of the United States, it could be subject to U.S. income taxes, less any previously paid foreign income taxes. We do not enter into investments for trading or speculative purposes.

Prior to fiscal 2010, we financed our operations primarily through private sales of equity securities and, more recently, cash generated from operations. In March 2012, we allowed our unused \$10 million line of credit to expire. We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months. 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 services offerings, the costs to ensure access to adequate manufacturing capacity, and the continuing market acceptance of our products. 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 would be adversely affected.

Operating Activities

Our primary source of cash from operating activities has been from cash collections from our customers. We expect cash inflows from operating activities to be affected by increases in sales and timing of collections. Our primary uses of cash from operating activities have been for personnel costs and purchases from our contract manufacturer. We expect cash outflows from operating activities to be affected by increases in sales and increases in personnel costs as we grow our business. Cash used in operating activities for fiscal 2009 and fiscal 2010 was \$13.5 million and \$2.7 million, respectively. Cash provided by operating activities for fiscal 2011 and the nine month periods ended April 30, 2011 and 2012 was \$32.1 million, \$22.0 million, and \$58.5 million, respectively.

For the nine month period ended April 30, 2012, operating activities provided \$58.5 million in cash as a result of net income of \$5.3 million, non-cash charges of \$12.5 million, and a net change of \$40.6 million in our net operating assets and liabilities. The net change in our net operating assets and liabilities was primarily due to a \$49.4 million increase in deferred revenue as a result of increases in sales of support and maintenance and subscriptions, partially offset by a \$9.3 million increase in prepaid expenses and other assets and a \$9.1 million increase in accounts receivable. Our day's sales outstanding, or DSO, defined as the number of days it takes to turn our average quarterly accounts receivable into cash based on a 90 day average, was 43 days as of April 30, 2012.

For the nine month period ended April 30, 2011, operating activities provided \$22.0 million in cash as a result of a net loss of \$6.5 million, offset by non-cash charges of \$6.1 million as well as a net change of \$22.4 million in our net operating assets and liabilities. The net change in our net operating assets and liabilities was primarily due to a \$23.0 million increase in deferred revenue as a result of increases in sales of support and maintenance and subscriptions. Our DSO was 56 days as of April 30, 2011.

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For fiscal 2011, operating activities provided \$32.1 million in cash, primarily as a result of a net loss of \$12.5 million, offset by non-cash charges of \$8.5 million as well as a net change of \$36.1 million in our net operating assets and liabilities. Non-cash charges included share-based compensation, depreciation and amortization, and the change in fair value of our preferred stock warrant liability. The net change in our operating assets and liabilities was primarily the result of a \$43.1 million increase in deferred revenue as a result of increases in sales of support and maintenance and subscriptions and a \$9.1 million increase in accrued compensation and other liabilities primarily due to deferred rent related to moving our headquarters from Sunnyvale, California to Santa Clara, California. These increases were partially offset by a \$15.4 million increase in accounts receivable due to an increase in sales and a \$5.1 million increase in prepaid expenses and other assets as a result of growth in our business. Our DSO was 57 days as of July 31, 2011.

For fiscal 2010, operating activities used \$2.7 million in cash as a result of a net loss of \$21.1 million, partially offset by non-cash charges of \$2.4 million as well as a net change of \$16.0 million in our net operating assets and liabilities. The net change in our operating assets and liabilities was primarily the result of a \$18.5 million increase in deferred revenue as a result of increases in sales of support and maintenance and subscriptions and a \$9.4 million increase in accrued and other liabilities as a result of growth in our business. These increases were partially offset by a \$10.7 million increase in accounts receivable due to an increase in sales and a \$1.2 million increase in prepaid expenses and other assets as a result of growth in our business. Our DSO was 65 days as of July 31, 2010.

For fiscal 2009, operating activities used \$13.5 million in cash as a result of net loss of \$19.0 million, partially offset by non-cash charges of \$1.5 million as well as a net change of \$3.9 million in our net operating assets and liabilities.

Investing Activities

Our investing activities have consisted of purchases of property, equipment, and other assets. We expect to continue to make such purchases to support continued growth of our business.

Cash used in investing activities for the nine month periods ended April 30, 2012 and 2011, and for fiscal 2011, 2010, and 2009 was \$11.3 million, \$10.9 million, \$13.0 million, \$1.7 million, and \$1.0 million, respectively, and was primarily the result of capital expenditures to purchase property and equipment, including \$7.3 million for fiscal 2011 related to moving our headquarters from Sunnyvale, California to Santa Clara, California.

Financing Activities

Our financing activities have primarily consisted of proceeds from the sale of our redeemable convertible preferred stock and proceeds from the exercises of stock options. We expect the completion of this offering to result in a material increase in our cash flows from financing activities.

For the nine month periods ended April 30, 2012 and 2011, financing activities provided \$2.6 million and \$1.5 million in cash, respectively, primarily as a result of proceeds from the exercises of stock options.

For fiscal 2011 and 2010, financing activities provided \$2.6 million and \$1.8 million in cash, respectively, primarily as a result of proceeds from the exercises of stock options.

For fiscal 2009, financing activities provided \$34.6 million in cash, primarily as a result of net proceeds of \$35.3 million from the issuance of preferred stock.

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Contractual Obligations and Commitments

The following summarizes our contractual obligations and commitments as of July 31, 2011:

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years (in thousands)	3 - 5 Years	More Than 5 Years
Operating leases ⁽¹⁾	\$13,405	\$ 607	\$ 4,222	\$ 4,755	\$ 3,821
Purchase commitments ⁽²⁾	13,632	13,632	—	—	—
Total	<u>\$27,037</u>	<u>\$ 14,239</u>	<u>\$ 4,222</u>	<u>\$ 4,755</u>	<u>\$ 3,821</u>

(1) Consists of contractual obligations from non-cancellable office space under operating lease.

(2) Consists of minimum purchase commitments of products and components with our independent contract manufacturer.

Off-Balance Sheet Arrangements

Through April 30, 2012, 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 Policies and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these 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.

The critical accounting policies requiring estimates, assumptions, and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

We generate revenue from the sales of hardware and software products, subscriptions, support and maintenance, and other services primarily through a direct sales force and indirect relationships with distributors, resellers and strategic partners, which we refer to collectively as partners, and, to a lesser extent, directly to end-customers.

Revenue is recognized when all of the following criteria are met:

- **Persuasive Evidence of an Arrangement Exists.** We rely upon non-cancelable sales agreements and purchase orders to determine the existence of an arrangement.
- **Delivery has Occurred.** We use shipping documents or transmissions of service contract registration codes to verify delivery.
- **The Fee is Fixed or Determinable.** We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction.
- **Collectability is Reasonably Assured.** We assess collectability based on credit analysis and payment history.

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We recognize product revenue at the time of shipment provided that all other revenue recognition criteria have been met. At the time of shipment, product revenue generally meets the criteria for fixed or determinable fees as our partners receive an order from an end-customer prior to placing an order with us. In addition, payment from our partners is not contingent on the partner's success in sales to end-customers. Our partners generally do not stock appliances and only have limited stock rotation rights and no price protection rights. When necessary, we make certain estimates and maintain allowances for sales returns, stock rotation, and other programs based on our historical experience. These estimates involve inherent uncertainties and management's judgment. If actual results deviate significantly from our estimates, our revenue could be adversely affected. We recognize services revenue from subscriptions and support and maintenance ratably over the contractual service period, which is typically one year, with some up to three years. Other services revenue is recognized as the services are rendered and has not been significant to date.

Most of our arrangements, other than renewals of subscriptions and support and maintenance, are multiple-element arrangements with a combination of hardware, software, subscriptions, support and maintenance, and other services. Products and services generally qualify as separate units of accounting. Our hardware deliverables typically include proprietary operating system software, which together deliver the essential functionality of our products. For multiple-element arrangements, we allocate revenue to each unit of accounting based on an estimated selling price at the arrangement inception. The estimated selling price for each element is based upon the following hierarchy: vendor-specific objective evidence (VSOE) of selling price, if available, third-party evidence (TPE) of selling price, if VSOE of selling price is not available, or best estimate of selling price (BESP), if neither VSOE of selling price nor TPE of selling price are available. The total arrangement consideration is allocated to each separate unit of accounting using the relative estimated selling prices of each unit based on the aforementioned selling price hierarchy. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional products or services or meeting any specified performance conditions.

To determine the estimated selling price in multiple-element arrangements, we establish VSOE of selling price using the prices charged for a deliverable when sold separately and, for subscriptions and support and maintenance, based on the renewal rates and discounts offered to partners. If VSOE of selling price cannot be established for a deliverable, we establish TPE of selling price by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated partners. However, as our products contain a significant element of proprietary technology and offer substantially different features and functionality from our competitors, we are unable to obtain comparable pricing of our competitors' products with similar functionality on a standalone basis. Therefore, we have not been able to obtain reliable evidence of TPE of selling price. If neither VSOE nor TPE of selling price can be established for a deliverable, we establish BESP primarily based on historical transaction pricing. Historical transactions are segregated 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 products and services were sold (domestic or international), offering type (products or services), and whether or not the opportunity was identified by our sales force or by our partners. In analyzing historical transaction pricing, we evaluate whether a majority of the prices charged for a product, as represented by a percentage of list price, fall within a reasonable range. To further support the best estimate of selling price as determined by the historical transaction pricing or when such information is unavailable, such as when there are limited sales of a new product, we consider the same factors we have established through our pricing model and go-to-market strategy. The determination of BESP is made through consultation with and approval by our management. In determining BESP, we rely on certain assumptions and apply significant judgment. As our business offerings evolve over time, we may be required to modify our estimated selling prices in subsequent periods, and our revenue could be adversely affected.

In multiple-element arrangements where software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative estimated selling prices of each of the deliverables in the arrangement based on the aforementioned estimated selling price hierarchy. The arrangement consideration allocated to the software

deliverables as a group is then allocated to each software deliverable using the residual method when the VSOE of fair value of the undelivered items exists. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. In determining VSOE of fair value, we evaluate whether a substantial majority of the historical prices charged for a product or service sold on a standalone basis, as represented by a percentage of list price, fall within a reasonably narrow range. If VSOE of fair value of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of: (i) delivery of those elements or (ii) when fair value can be established unless support and maintenance is the only undelivered element, in which case, the entire arrangement fee is recognized ratably over the contractual service period.

Share-Based Compensation

Compensation expense related to share-based transactions, including employee and non-employee director awards, is measured and recognized in the financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model and a single option award approach. The share-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four years. We estimate a forfeiture rate to calculate the share-based compensation for our awards. Our forfeiture rate is based on an analysis of our actual historical forfeitures.

Our option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our share-based compensation expense could be materially different in the future.

These assumptions are estimated as follows:

- **Fair Value of Common Stock.** Because our common stock is not publicly traded, we must estimate the fair value of common stock, as discussed in "Common Stock Valuations" below.
- **Risk-Free Interest Rate.** We base the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the options for each option group.
- **Expected Term.** The expected term represents the period that our share-based awards are expected to be outstanding. We determined the expected term assumption based on our historical exercise behavior combined with estimates of the post-vesting holding period.
- **Volatility.** We determine the price volatility factor based on the historical volatilities of our peer group as we did not have a sufficient trading history for our common stock. Industry peers consist of several public companies in the technology industry that are similar to us in size, stage of life cycle, and financial leverage. We did not rely on implied volatilities of traded options in our industry peers' common stock because the volume of activity was relatively low. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.
- **Dividend Yield.** The expected dividend assumption is based on our current expectations about our anticipated dividend policy.

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The following table summarizes the assumptions relating to our stock options as follows:

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
Fair value of common stock	\$0.63	\$0.64 – \$2.75	\$3.62 – \$9.80	\$3.62 – \$7.23	\$10.77 – \$18.59
Risk-free interest rate	1.5% – 2.9%	2.0% – 3.0%	0.8% – 1.8%	0.8% – 1.8%	0.7% – 1.1%
Expected term	6 – 7 years	6 years	4 years	4 years	4 – 6 years
Volatility	54% – 59%	51% – 53%	49%	49%	49% – 50%
Dividend yield	—	—	—	—	—

In addition to assumptions used in the Black-Scholes option-pricing model, we must also estimate a forfeiture rate to calculate the share-based compensation for our awards. Our forfeiture rate is based on an analysis of our actual forfeitures. We will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover, and other factors. Quarterly changes in the estimated forfeiture rate can have a significant impact on our share-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the share-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the share-based compensation expense recognized in the financial statements.

We will continue to use judgment in evaluating the assumptions related to our share-based compensation on a prospective basis. As we continue to accumulate additional data related to our common stock, we may have refinements to our estimates, which could materially impact our future share-based compensation expense.

Common Stock Valuations

We are required to estimate the fair value of the common stock underlying our share-based awards when performing the fair value calculations with the Black-Scholes option-pricing model. The fair values of the common stock underlying our share-based awards were estimated by our board of directors, with input from management and contemporaneous third-party valuations. We believe that our board of directors has the relevant experience and expertise to determine the fair value of our common stock. As described below, the exercise price of our share-based awards was determined by our board of directors based on the most recent contemporaneous third-party valuation as of the grant date. If awards were granted a short period of time preceding the date of a valuation report, we assessed the fair value used for financial reporting purposes after considering the fair value reflected in the subsequent valuation report and other facts and circumstances on the date of grant as discussed below. In such instances, the fair value that we used for financial reporting purposes generally exceeded the exercise price for those awards.

Given the absence of a public trading market of our common stock, and in accordance with the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, our board of directors exercised reasonable judgment and considered numerous objective and subjective factors to determine the best estimate of the fair value of our common stock including:

- contemporaneous valuations performed by unrelated third-party specialists;
- rights, preferences, and privileges of our convertible preferred stock relative to those of our common stock;
- lack of marketability of our common stock;
- actual operating and financial performance;
- current business conditions and projections;

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- hiring of key personnel and the experience of our management;
- the history of the company and the introduction of new products and services;
- secondary sales of shares of our capital stock in arm's length transactions;
- likelihood of achieving a liquidity event, such as an initial public offering or a merger or acquisition of our company given prevailing market conditions;
- illiquidity of share-based awards involving securities in a private company;
- the market performance of comparable publicly traded companies; and
- the U.S. and global capital market conditions.

In valuing our common stock prior to August 2011, our board of directors determined the equity value of our business using an income approach valuation methodology. The equity value determined by the income approach was discounted for lack of marketability.

The income approach estimates value based on the expectation of future cash flows that a company will generate – such as cash earnings, cost savings, tax deductions, and the proceeds from disposition. These future cash flows are discounted to their present values using a discount rate derived from an analysis of the cost of capital of comparable publicly traded companies in our industry or similar lines of business as of each valuation date and is adjusted to reflect the risks inherent in our cash flows. In addition, an appropriate discount adjustment was considered to recognize the lack of marketability due to being a closely held entity.

Once the equity value was determined, the option pricing method, or OPM, was utilized to allocate the equity value to each of our classes of stock. The OPM values each equity class by creating a series of call options on our equity value, with exercise prices based on the liquidation preferences, participation rights, and strike prices of derivatives. This method is generally preferred when future outcomes are difficult to predict and dissolution or liquidation is not imminent. Prior to August 2011, the OPM was utilized because we could not reasonably estimate the form and timing of potential liquidity events.

In August 2011, we began contemplating a potential liquidity event, and commencing with the September 2011 grants, our board of directors determined the equity value of our business using a combination of the income approach valuation methodology and the market approach valuation methodology. The equity values determined by the income approach and market approach were then weighted to determine the equity value of our business. As we moved closer to our proposed initial public offering the weighting towards the market approach increased, resulting in an increase in the fair value of our common stock.

The market approach uses the probability weighted expected return method, or PWERM, to derive a weighted equity value that was allocated to the common share equivalents outstanding, assuming conversion of preferred shares to common shares. PWERM involves a forward-looking analysis of possible future outcomes. This method is particularly useful when discrete future outcomes can be predicted at a high confidence level within a probability distribution. The market approach that was applied estimated value under an initial public offering scenario based on a range of revenue multiples derived from comparable companies, which included both comparable publicly-traded companies (which we refer to as public companies) and companies that had completed their initial public offerings since 2009 (which we refer to as IPO companies).

When considering which companies to include in our comparable company analysis, we focused on U.S. based companies in the information technology industry in which we operate. For comparable public companies, we focused on companies that address components of the network security market and networking companies with similar business models of generating revenue from the sale of both products and services, companies with a market capitalization greater than \$1 billion, companies with revenue growth rates generally greater than 10%, and companies with net income and positive cash flow from operating activities. In

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considering companies that have recently completed an initial public offering, we selected those companies with business models similar to ours. From time to time we updated the set of comparable companies as new or more relevant information became available. For example, over time we removed companies that had been acquired, added companies that had completed initial public offerings, and revised the list of comparable companies when we received new information related to which companies the market may consider most comparable to us. Except as described below under “—January and March 2012,” these changes in comparable companies did not result in a material change in fair value between valuations. At each valuation date we used the latest set of comparable companies for estimating market-based inputs to the valuation of our common stock including the determination of the discount rate used.

We granted awards with the following exercise prices between February 2011 and the date of this prospectus:

<u>Grant Date</u>	<u>Number of Awards Granted</u>	<u>Exercise Price</u>	<u>Fair Value Per Share of Common Stock</u>
February 22, 2011	506,200	\$ 5.39	\$ 6.62
February 28, 2011	1,000	5.39	6.62
March 31, 2011	797,575	5.39	7.23
May 26, 2011	245,000	7.84	7.84
May 31, 2011	2,000	7.84	7.84
June 11, 2011	65,000	7.84	8.82
July 8, 2011	358,250	7.84	9.80
September 30, 2011	2,855,734	10.77	10.77
December 20, 2011	1,343,500	12.45	12.45
March 6, 2012	1,471,800	15.50	15.50
April 18, 2012	267,500	18.59	18.59
May 18, 2012	743,500	20.19	20.19
June 5, 2012	815,500	20.19	33.02

The following discussion relates primarily to our determination of the fair value per share of our common stock for purposes of calculating share-based compensation costs. No single event caused the valuation of our common stock to increase or decrease through March 2012. Instead, a combination of the factors described below in each period led to the changes in the fair value of our common stock. Notwithstanding the fair value reassessments described below, we believe we applied a reasonable valuation methodology to determine the stock option exercise prices on the respective stock option grant dates.

February 2011

The U.S. economy and the financial markets were continuing to recover following a challenging sales environment in 2010, and consumer spending was slowly increasing. We experienced significant year-over-year revenue growth, generating \$27.1 million for the quarter ended January 31, 2011 compared to \$11.1 million for the quarter ended January 31, 2010. In light of our recent performance and market conditions, a contemporaneous third-party valuation of our common stock as of December 31, 2010 was prepared using an income approach. The income approach took into consideration the forecast of our expected future financial performance and discounted it to a present value using an appropriate discount rate that reflected our then current cost of capital. A marketability discount was applied to reflect the fact that our common stockholders were unable to liquidate their holdings at will, or possibly at all. The contemporaneous third-party valuations of our common stock determined the fair value of our common stock to be \$5.39 per share as of December 31, 2010. The discount rate applied to our cash flows was 35%, and our enterprise value reflected a non-marketability discount of 20%. In February 2011, we granted awards with an exercise price of \$5.39 per share.

Subsequently, through April 2011, the U.S. economy and the financial markets continued their recovery, and we experienced significant year-over-year revenue growth, generating \$31.2 million for the quarter ended April 30, 2011 compared to \$13.3 million for quarter ended April 30, 2010. In light of our recent performance and market conditions, a contemporaneous third-party valuation of our common stock as of April 30, 2011 was

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prepared using the same income approach as the valuation as of December 31, 2010, other than applying a discount rate to our cash flows of 30%. The decrease in the discount rate to our cash flows from 35% represents a reduction in our inherent risk in financial forecasting as a result of demonstrating our ability to meet or exceed our financial forecasts and resulted in an increase in the fair value of our common stock of approximately \$0.58. The contemporaneous third-party valuation determined the fair value of our common stock to be \$7.84 per share as of April 30, 2011.

For financial reporting purposes, we applied a straight-line calculation using the contemporaneous third-party valuations of \$5.39 per share as of December 31, 2010 and \$7.84 per share as of April 30, 2011 to determine the fair value of our common stock granted in February 2011. Using the benefit of hindsight, we determined that the straight-line calculation would provide the most reasonable conclusion for the valuation of our common stock on this interim date between valuations because we did not identify any single event or series of events that occurred during this interim period that would have caused a material change in fair value. Based on this calculation we assessed the fair value of our common stock for awards granted in February 2011 to be \$6.62 per share.

March 2011

In March 2011, we granted awards with an exercise price of \$5.39 per share.

For financial reporting purposes, we applied a straight-line calculation using the contemporaneous third-party valuations of \$5.39 per share as of December 31, 2010 and \$7.84 per share as of April 30, 2011 to determine the fair value of our common stock granted in March 2011. Using the benefit of hindsight, we determined that the straight-line calculation would provide the most reasonable conclusion for the valuation of our common stock on this interim date between valuations because we did not identify any single event or series of events that occurred during this interim period that would have caused a material change in fair value. Based on this calculation we assessed the fair value of our common stock for awards granted in March 2011 to be \$7.23 per share.

May 2011

In May 2011, we granted awards with an exercise price of \$7.84 per share.

Between April 2011 and May 2011, the U.S. economy and the financial markets continued their recovery. Throughout May 2011, there was no change to our financial forecast or any other significant events impacting the fair value of our common stock. Based on the factors discussed above and the prior valuation, for financial reporting purposes, we determined the fair value of our common stock for awards granted in May 2011 to be \$7.84 per share.

June 2011

In June 2011, we granted awards with an exercise price of \$7.84 per share.

Between May 2011 and August 2011, the U.S. economy and the financial markets began to experience volatility, which impacted the market value of our comparable companies, although we experienced significant revenue growth, generating \$40.2 million for the quarter ended July 31, 2011 compared to \$17.8 million for the quarter ended July 31, 2010. On August 1, 2011, we announced the hiring of a CEO along with the achievement of several key financial metrics for fiscal 2011. In addition, we increased our financial forecast for fiscal 2012 and 2013 due to the continued growth in our revenue. In light of our recent performance, market conditions, and recent changes in management, a contemporaneous third-party valuation determined the fair value of our common stock to be \$10.77 per share as of August 31, 2011. The valuation used a 50% weighting of the OPM under a merger and acquisition scenario and 50% weighting of the PWERM under an initial public offering scenario. The discount rate applied to our cash flows was 25%, and our enterprise value reflected a non-marketability discount of 10%. The decrease in the discount rate to our cash flows from 30% represents a reduction in our inherent risk in financial forecasting as a result of continuing to demonstrate our ability to meet

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or exceed our financial forecasts and resulted in an increase in the fair value of our common stock of approximately \$0.50. We decreased our non-marketability discount from 20% to 10% because during this time we began contemplating a potential liquidity event and we could more reasonably estimate the form and timing of a potential liquidity event. This decrease in non-marketability discount resulted in an increase in the fair value of our common stock of approximately \$0.51.

For financial reporting purposes, we applied a straight-line calculation using the contemporaneous third-party valuations of \$7.84 per share as of April 30, 2011 and \$10.77 per share as of August 31, 2011 to determine the fair value of our common stock granted in June 2011. Using the benefit of hindsight, we determined that the straight-line calculation would provide the most reasonable conclusion for the valuation of our common stock on this interim date between valuations because we did not identify any single event or series of events that occurred during this interim period that would have caused a material change in fair value. Based on this calculation we assessed the fair value of our common stock for awards granted in June 2011 to be \$8.82 per share.

July 2011

In July 2011, we granted awards with an exercise price of \$7.84 per share.

For financial reporting purposes, we applied a straight-line calculation using the contemporaneous third-party valuations of \$7.84 per share as of April 30, 2011 and \$10.77 per share as of August 31, 2011 to determine the fair value of our common stock granted in July 2011. Using the benefit of hindsight, we determined that the straight-line calculation would provide the most reasonable conclusion for the valuation of our common stock on this interim date between valuations because we did not identify any single event or series of events that occurred during this interim period that would have caused a material change in fair value. Based on this calculation we assessed the fair value of our common stock for awards granted in July 2011 to be \$9.80 per share.

September 2011

During September 2011, the U.S. economy and the financial markets continued to experience significant volatility. Throughout September 2011, there was no change to our financial forecast or any other significant events impacting the fair value of our common stock. Based on these factors and the prior valuation, we granted awards with an exercise price of \$10.77 per share and similarly, for financial reporting purposes, determined the fair value of our common stock for awards granted in September 2011 to be \$10.77 per share.

December 2011

Between September 2011 and December 2011, the U.S. economy and the financial markets began to recover and improve. We experienced significant revenue growth as our products gained more market awareness, generating \$57.1 million for the quarter ended October 31, 2011 compared to \$20.2 million for the quarter ended October 31, 2010. Our number of global end-customers also continued to grow. In light of our recent performance and market conditions, a contemporaneous third-party valuation determined the fair value of our common stock to be \$12.45 per share as of November 30, 2011. The valuation used a 50% weighting of the OPM under a merger and acquisition scenario and a 50% weighting of the PWERM under an initial public offering scenario. The discount rate applied to our cash flows was 22%, and our enterprise value reflected a non-marketability discount of 10%. The decrease in the discount rate to our cash flows from 25% represents a reduction in our inherent risk in financial forecasting as a result of continuing to demonstrate our ability to meet or exceed our financial forecasts and resulted in an increase in the fair value of our common stock of approximately \$0.30. Throughout December 2011, there was no change to our financial forecast or any other significant events impacting the fair value of our common stock. Based on the factors discussed above and the valuation, we granted awards with an exercise price of \$12.45 per share and similarly, for financial reporting purposes, determined the fair value of our common stock for awards granted in December 2011 to be \$12.45 per share.

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January and March 2012

Between December 2011 and January 2012, the U.S. economy and the financial markets continued to recover and improve. We experienced revenue growth as our products gained more market awareness, generating \$56.7 million for the quarter ended January 31, 2012 compared to \$27.1 million for the quarter ended January 31, 2011. Our number of global end-customers also continued to grow. In light of our recent performance and market conditions, a contemporaneous third-party valuation determined the fair value of our common stock to be \$15.50 per share as of January 31, 2012. The valuation used a 30% weighting of the OPM under a merger and acquisition scenario and a 70% weighting of the PWERM under an initial public offering scenario, as we began making significant progress in our preparation for a potential initial public offering, including the preparation of a registration statement for this offering to be filed with the Securities and Exchange Commission. The change in weighting of the OPM and PWERM scenarios resulted in an increase in the fair value of our common stock of approximately \$1.47. The discount rate applied to our cash flows was 22%, and our enterprise value reflected a non-marketability discount of 10%. We also added several networking companies with high growth rates to our set of comparable companies based upon new information regarding which companies the market may consider most comparable to us. As a result, the set of comparable companies utilized in the valuation had a slightly higher revenue multiple, and the remaining increase in the fair value of our common stock during this period was primarily related to this change in the set of comparable companies. Throughout February 2012 and the first week of March 2012, there was no change to our financial forecast or any other significant events impacting the fair value of our common stock. Based on the factors discussed above and the valuation, we granted awards in March 2012 with an exercise price of \$15.50 per share and similarly, for financial reporting purposes, determined the fair value of our common stock for awards granted in January 2012 and the first week of March 2012 to be \$15.50 per share.

April 2012

Between March 2012 and April 2012, the U.S. economy and the financial markets continued to recover and improve. During this time we continued to make progress toward an initial public offering, including the filing of our registration statement on April 6, 2012. In light of our recent progress toward a liquidity event, a contemporaneous third-party valuation determined the fair value of our common stock to be \$18.59 per share as of March 31, 2012. The valuation used a 25% weighting of the OPM under a merger and acquisition scenario and a 75% weighting of the PWERM under an initial public offering scenario. The change in weighting of the OPM and PWERM scenarios resulted in an increase in the fair value of our common stock of approximately \$0.39. The discount rate applied to our cash flows was 20%, and our enterprise value reflected a non-marketability discount of 10%. The decrease in the discount rate to our cash flows from 22% represents a reduction in our inherent risk in financial forecasting as a result of continuing to demonstrate our ability to meet or exceed our financial forecasts and resulted in an increase in the fair value of our common stock of approximately \$0.17. Throughout the first three weeks of April 2012, there was no change to our financial forecast or any other significant events impacting the fair value of our common stock. Based on the factors discussed above and the valuation, we granted awards in April 2012 with an exercise price of \$18.59 per share and similarly, for financial reporting purposes, determined the fair value of our common stock for awards granted in April 2012 to be \$18.59 per share.

May 2012

Between April 2012 and May 2012, the U.S. economy and the financial markets began to experience volatility, which affected the market value of our comparable companies, although we experienced revenue growth as our products continued to gain more market awareness, generating \$65.7 million in revenue for the quarter ended April 30, 2012, compared to \$31.2 million for the quarter ended April 30, 2011. During this period we also continued to make progress toward an initial public offering. In light of our recent performance, market conditions, and progress toward a liquidity event, a contemporaneous third party valuation determined the fair value of our common stock to be \$20.19 per share as of April 30, 2012, an increase of 8.6% from the fair value of our common stock as of March 31, 2012 despite volatility in the financial markets during this period. This third party valuation, which we refer to as the "April 30 Valuation Report," used a 20% weighting of the OPM under a

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merger and acquisition scenario and an 80% weighting of the PWERM under an initial public offering scenario, reflecting our continued progress toward an initial public offering. In applying the PWERM, we assigned an 80% probability to a July 2012 initial public offering and a 20% probability to a January 2013 initial public offering. The change in weighting of the OPM and PWERM scenarios resulted in an increase in the fair value of our common stock of approximately \$0.39 from the valuation that was used for purposes of establishing the fair value of options granted in April 2012. Based on the market valuations of companies that had recently completed an initial public offering and indications of forward-looking revenue multiples for the comparable companies included in the April 30 Valuation Report, we determined that a revenue multiple of 3.5x to 5.0x applied to the fiscal 2013 revenue forecast was a reasonable estimation for an initial public offering.

The discount rate applied to our cash flows was 18%, and our enterprise value reflected a non-marketability discount of 10%. The decrease in the discount rate to our cash flows from 20% represents a reduction in our inherent risk in financial forecasting as a result of continuing to demonstrate our ability to meet or exceed our financial forecasts and resulted in an additional increase in the fair value of our common stock of approximately \$0.15. Throughout May 2012, there was no significant change to our financial forecast or any other significant events impacting the fair value of our common stock. Based on the factors discussed above and the April 30 Valuation Report, we granted awards in May 2012 with an exercise price of \$20.19 per share and similarly, for financial reporting purposes, determined the fair value of our common stock for awards granted in May 2012 to be \$20.19 per share.

June 2012

In June 2012, even though the financial markets continued to experience volatility, we hired a new Senior Vice President, Worldwide Field Operations and we continued to perform well against our business plan. We determined, after consultation with the underwriters, that our anticipated initial offering price range as reflected in this prospectus is \$34.00 to \$37.00 per share. We believe the difference between the fair value of our common stock for awards granted in May 2012, and the anticipated initial offering price range is a result of the following factors:

First, the initial offering price range necessarily assumes that the initial public offering has occurred and a public market for our common stock has been created and, therefore, excludes the discounts associated with the timing or likelihood of an initial public offering, which were appropriately included in the April 30 Valuation Report. The assumptions included in the April 30 Valuation Report that changed in the determination of the initial offering price range include a decrease in the non-marketability discount from 10% to 0%, the elimination of any weighting of a merger or acquisition scenario under the OPM, a change in the probability of a July 2012 initial public offering from 80% to 100%, and a change in the discount rate from 18% to 0%.

Second, after discussions among the underwriters, management, and our board of directors, the initial offering price range was informed by the use of a broader group of comparable companies comprised of the comparable companies used in the April 30 Valuation Report and companies that have recently completed their initial public offerings, including software companies with higher growth rates than the comparable companies used in the April 30 Valuation Report. The additional companies have higher relative valuations than the comparable companies included in the April 30 Valuation Report. In addition, the offering price range considered the use of forward financial forecasts for future calendar years, rather than forward financial forecasts based on our fiscal year, which were used in the April 30 Valuation Report.

We estimate that these combined factors resulted in an increase in the fair value of our common stock from \$20.19 to \$35.50 per share, the midpoint of the anticipated initial public offering price range set forth on the cover page of this prospectus.

Based upon all the factors discussed above and due to the proximity of the grants in June 2012 to the date of the determination of the anticipated initial offering price range and the lack of marketability of the common stock in June 2012, for financial reporting purposes, we applied a non-marketability discount of 7% to \$35.50 per

share, to determine the fair value of our common stock granted in June 2012. Based on this calculation, we assessed the fair value of our common stock for awards granted in June 2012 to be \$33.02 per share.

Income Taxes

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses and research and development credit carryforwards. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized.

We apply the authoritative accounting guidance prescribing a threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax liability as the largest amount that is more likely than not to be realized upon ultimate settlement.

Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences may impact the provision for income taxes in the period in which such determination is made.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

Estimates of future taxable income are based on assumptions that are consistent with our plans. Assumptions represent management's best estimates and involve inherent uncertainties and the application of management's judgment. Should actual amounts differ from our estimates, the amount of our tax expense and liabilities could be materially impacted.

Contract Manufacturer Liabilities

We outsource most of our manufacturing, repair, and supply chain management operations to our independent contract manufacturer and payments to it are a significant portion of our product cost of revenues. We have employees in our manufacturing and operations organization who manage our relationship with our independent contract manufacturer, manage our supply chain, and monitor product testing and quality. Although we could be contractually obligated to purchase manufactured products, we generally do not own the manufactured products. Product title transfers from our independent contract manufacturer to us and immediately to our partner upon shipment. Our independent contract manufacturer assembles our products using design specifications, quality assurance programs, and standards that we establish, and it procures components and assembles our products based on our demand forecasts. These forecasts represent our estimates of future demand for our products based upon historical trends and analysis from our sales and product management functions as adjusted for overall market

conditions. If the actual component usage and product demand are significantly lower than forecast, which may be caused by factors outside of our control, we may accrue for costs for manufacturing commitments in excess of our forecasted demand including costs for excess components or for carrying costs incurred by our contract manufacturer, which could have an adverse impact on our gross margins and profitability. To date, we have not accrued any significant costs associated with this exposure. As of April 30, 2012, we had approximately \$23.0 million of open orders with our contract manufacturer that may not be cancelable.

Loss Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset, or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If we determine that a loss is possible and the range of the loss can be reasonably determined, then we disclose the range of the possible loss. We regularly evaluate current information available to us to determine whether an accrual is required, an accrual should be adjusted or a range of possible loss should be disclosed.

From time to time, we are involved in disputes, litigation, and other legal actions. We are aggressively defending our current litigation matters. However, there are many uncertainties associated with any litigation, and these actions or other third-party claims against us may cause us to incur substantial settlement charges, which are inherently difficult to estimate and could adversely affect our results of operations. The actual liability in any such matters may be materially different from our estimates, which could result in the need to adjust our liability and record additional expenses. Refer to the discussion under "Litigation" in note 5 to Consolidated Financial Statements for information related to pending litigation.

Warranties

We generally provide a one-year warranty on hardware and a three-month warranty on software. We accrue for potential warranty claims as a component of cost of product revenues based on historical experience and other data. Accrued warranty is recorded in accrued liabilities on the consolidated balance sheets and is reviewed periodically for adequacy. If we experience an increase in warranty claims compared with our historical experience, or if the cost of servicing warranty claims is greater than expected, our gross margin could be adversely affected. To date, we have not accrued any significant costs associated with our warranty.

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

Our sales contracts are primarily denominated in U.S. dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Singapore dollar and Euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, *Presentation of Comprehensive Income*. The standard requires entities to have more detailed reporting of comprehensive income. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2011. Early adoption is permitted. The guidance should be applied retrospectively. We believe that adoption of this guidance will not have a material impact on our consolidated financial position, results of operations, or cash flows.

BUSINESS

Overview

We have pioneered the next generation of network security with our innovative platform that allows enterprises, service providers, and government entities to secure their networks and safely enable the increasingly complex and rapidly growing number of applications running on their networks. The core of our platform is our Next-Generation Firewall, which delivers application, user, and content visibility and control integrated within the firewall through our proprietary hardware and software architecture. Our platform offers a number of compelling benefits for our end-customers, including the ability to identify, control, and safely enable applications while inspecting all content for all threats in real time. We believe our platform also offers superior performance compared to legacy approaches and reduces the total cost of ownership for organizations by simplifying their network security infrastructure and eliminating the need for multiple, stand-alone security appliances. Our products and services can address a broad range of our end-customers' network security requirements, from the data center to the network perimeter, as well as the distributed enterprise, which includes branch offices and a growing number of mobile devices.

Our platform is based on an innovative traffic classification engine that identifies network traffic by application, user, and content. As a result, it provides in-depth visibility into all traffic and all applications, at the user level, at all times, and at the full speed of the network in order to control usage, content, risks, and threats. This enables our end-customers to transform their organizations by safely enabling applications through a positive security model with fine-grained policy implementation capabilities.

Our platform is delivered in the form of a hardware appliance and includes a suite of subscription services as well as support and maintenance. Our subscription services can be easily activated on any of our appliances without requiring additional hardware or processing resources, thereby providing a seamless implementation path for our end-customers. All of our appliances incorporate our PAN-OS operating system and are based on our proprietary identification technologies, App-ID, User-ID, and Content-ID, which allow security policies to be defined within the context of applications, users, and content. We deliver these capabilities through an innovative, single-pass parallel processing architecture that simultaneously performs multiple identification, security, and networking functions. As a result, our end-customers achieve safe application enablement and advanced levels of security, while maintaining high network performance.

Our team has substantial experience in network security. As a result, we understand the architectural limitations of legacy network security approaches and have designed our platform to avoid these limitations in order to address current network security requirements. We released our Next-Generation Firewall in 2007, and since then, we have grown significantly faster than industry growth rates. We have been recognized as a technology and market leader. Gartner categorized us as a market leader in its "2011 Magic Quadrant for Enterprise Network Firewalls" based on our ability to execute and completeness of vision.⁽¹⁾ As of April 30, 2012, we had more than 7,750 end-customers in more than 100 countries.

We serve the enterprise network security market, which consists of Firewall, Unified Threat Management (UTM), Web Gateway, Intrusion Detection and Prevention (IDS/IPS), and Virtual Private Network (VPN) technologies. According to IDC, the worldwide enterprise network security market, defined as IDC's Network Security market and Web Security market, is estimated to be \$10.0 billion in 2012 and is projected to grow to \$12.5 billion by 2015.⁽²⁾

We sell our platform through a high touch, channel fulfilled sales model. Our business is geographically diversified, with 62% of our total revenue from the Americas, 26% from Europe, the Middle East, and Africa (EMEA), and 12% from Asia Pacific and Japan (APAC) for the nine month period ended April 30, 2012.

(1)(2) See notes 1 and 2 in "Market and Industry Data."

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We have experienced rapid growth in recent periods. For fiscal 2009, 2010, and 2011, our revenues were \$13.4 million, \$48.8 million, and \$118.6 million, respectively, representing year-over-year growth of 265% for fiscal 2010 and 143% for fiscal 2011, and our net losses were \$19.0 million, \$21.1 million, and \$12.5 million, respectively. For the nine month periods ended April 30, 2011 and 2012, our revenues were \$78.4 million and \$179.5 million, respectively, representing year-over-year growth of 129%. For the nine month period ended April 30, 2011, we recorded net loss of \$6.5 million, and for the nine month period ended April 30, 2012, we recorded net income of \$5.3 million. For the nine month periods ended April 30, 2011 and 2012, we generated \$22.0 million and \$58.5 million, respectively, of cash flow provided by operating activities, and we have generated positive cash flow provided by operating activities for each of our last eight fiscal quarters.

Industry Background

Organizations are transforming the way they do business as a result of IT innovation. New technology trends, such as the adoption of web-based applications, including SaaS, the consumerization of IT, the proliferation of mobile devices, virtualization, and cloud computing, are changing the way employees consume and organizations manage IT. By embracing these new technology trends, organizations have become more susceptible to security breaches and compromised data.

Legacy approaches to network security have significantly limited the ability of organizations to adopt many of the new applications that leverage new technology trends. Organizations can have thousands of enterprise and consumer applications running on their networks that can be either safe or unsafe depending on the user and usage. In today's complex application landscape, organizations need the ability to selectively enable certain applications for certain users, while protecting against a wide array of security threats.

Modern Web Applications are Becoming Increasingly Complex

In the early days of the Internet, email and web browsing were the two primary applications that were used. These applications used a set of network port and protocol guidelines to communicate with other network computers:

- **Port.** A port is a local address that an application uses to access the computer it is connecting to. Ports are numbered 0 to 65536. Certain application types are assigned to certain ports to provide a standard for application development. For example, reading websites (HTTP) is assigned to port 80 and receiving email (POP3) is assigned to port 110.
- **Protocol.** A protocol is a system of digital message formats and rules for exchanging those messages in or between computing systems. These are essentially a set of procedures that are agreed upon for communicating so that the computer understands the messages, knows how to handle them, and uses them for the right purpose. There are several common network and application protocols: TCP and UDP for network transport, SMTP for email, FTP for file transfers, and HTTP for web browsing.

Historically, developers of email and web browsing applications adhered to industry standards that produced a consistent and reliable framework for matching applications with their intended function. However, a growing number of applications, such as Web 2.0, social media, and SaaS, are allowing users to collaborate and share information on the Internet in ways that previously were not possible. These applications are becoming increasingly and often deliberately more complex and unpredictable and therefore challenging for the legacy firewall. The once rigid relationship between applications and network ports and protocols no longer holds. Web applications can evade legacy detection methods and, from a policy perspective, have now become difficult to classify as good or bad traffic that should or should not be allowed to traverse the network. Moreover, traditional client/server applications are also beginning to leverage the same web-based application protocols, such as HTTP and HTTPS, making them basically invisible to legacy network security approaches. Web applications now make up approximately two-thirds of all network traffic and are becoming more common and critical to core functional

areas of an organization, such that shutting them off is not an option. Three key capabilities differentiate modern application behavior from the behavior of traditional email and web browsing. These capabilities are the ability to:

- **Spawn New Applications.** A single application can start numerous other applications that exploit its trusted network port and protocol. For example, a Gmail session can spawn a Google Talk session from within the Gmail user interface.
- **Hop Ports.** Applications today can easily be programmed to dynamically switch ports. Popular port hopping applications include BitTorrent, Microsoft SharePoint, and Skype. We believe that approximately two-thirds of the applications used by our end-customers are able to hop ports.
- **Utilize Encrypted Connections.** Due to increased privacy concerns, encrypted traffic is being increasingly adopted by web applications. For example, consumer applications including Facebook, Twitter, and Gmail have converted to encrypted traffic, and enterprise SaaS applications including Microsoft Office 365, Google Apps, salesforce.com, and WebEx are also all encrypted. Traditionally, encrypted traffic utilized only one port, 443, and it was possible to easily block or allow access to this port. Now, a growing number of applications invoke encryption across multiple ports, and some applications that do not immediately use encryption will spawn additional applications that are encrypted.

Fundamental Shifts in the Application Landscape, User Behavior, and IT Infrastructure Have Led to Increased Network Vulnerability

In addition to modern web applications becoming more complex, organizations have become increasingly dependent on these applications to enable business processes, increase productivity, and decrease costs. We typically see over 1,000 different web applications in operation on our typical end-customer's network. The transformation of the application landscape and user behavior is being driven by several key themes, all of which are blurring the traditional rigid lines that defined what applications were used, who had the ability to use them, and from what devices they were accessed:

- **Rapid Adoption of SaaS.** An increasing number of organizations are replacing traditional on-premise software with SaaS applications in order to decrease the upfront cost and time associated with traditional software implementations. For these corporate-deployed SaaS applications, IT departments work to integrate internal databases into the cloud infrastructures of third-party providers. While these applications contribute substantially to employees' ability to get their jobs done more effectively, they pose increasing security risks as more corporate data is being managed by third parties. Although the IT department has sanctioned these applications, certain applications have features, such as powerful file sharing and collaboration, that can expose organizations to significant risks, such as inbound security attacks and outbound data leakage.
- **Consumerization of IT.** An increasing number of web applications are used by employees without the knowledge or support of their corporate IT department. The trend of employees adopting technology for consumer use and extending that use to the organization is often referred to as the "consumerization of IT." This trend is rapidly growing as many applications provide employees low-cost and easy to manage tools for increasing their productivity and efficiency. Some of these applications were designed specifically for enterprise use, while others were originally designed for personal use. Examples of enterprise-designed applications include Basecamp, Microsoft SharePoint, QlikView, salesforce.com, Tableau, and WebEx. Examples of applications that have evolved from personal use to important tools in enterprise contexts are Facebook, Gmail, and Twitter, while yet other applications without established enterprise uses are still traversing the network. Regardless of how an application was designed or originally adopted, all applications, if enabled without proper controls, present significant security vulnerabilities. For example, WebEx provides presentation-sharing functionality that is generally safe but it also provides the ability to share desktop control with another party, which can introduce a significant new vector of attack that cannot be properly controlled if the application is

enabled in a coarse way such as block-or-allow control. In addition to enabling applications with granular control, organizations need the ability to selectively enable certain applications for certain users, while protecting against both inbound security threats and outbound data leakage.

- **Device Proliferation.** Employees are increasingly accessing enterprise applications from mobile devices, such as laptops, tablets, and smart phones, from both within and outside the physical network perimeter. In many cases, these devices are not owned or managed by the organization but are instead personal devices used for enterprise applications. Gartner predicts that, by 2014, 90% of organizations will support corporate applications on personal devices.⁽³⁾ As a result, just as the diversity of applications and their use cases have continued to rise, the way in which these applications are accessed and the number of devices an employee has at his or her disposal to use enterprise applications have increased substantially. Mobile device proliferation has led to a new set of hardware and software platforms that can now be exploited, creating a major new entry point for hackers.
- **Increased Network Traffic.** The requirements for low latency are rising as increasingly rich and dynamic web applications are accessed from progressively more powerful devices using high-speed data networks. As network traffic volumes have continued to rise, networking speeds have evolved such that 1Gbps is now pervasive, 10Gbps is being broadly adopted, and the deployment of 40Gbps and 100Gbps networks is on the horizon. Network security must operate at line rate so as to not constrain network performance. As speeds increase, IT departments must move to technologies that keep up with the increased throughput requirements while maintaining the ability to apply security policies. The increased use of robust and latency sensitive applications, including video, VoIP, and social media, and the fact that malicious content is increasingly and deliberately hidden in such applications, has made it even more important for security devices to perform more advanced processing on network traffic without degrading performance.
- **Virtualization.** The rising cost of IT resources has led to an increasing focus on virtualization. Classic on-premise infrastructures are moving to virtualized and cloud-based infrastructures. This shift, combined with increasing mobile device proliferation and the evolution to high-speed mobile networks, has led to networks and applications becoming more dynamic and complex while increasing their overall sensitivity to risk and latency. In addition, because virtualized environments are not necessarily linked to a physical location, security policies cannot rely solely on network ports and protocols, and IP addresses but must also incorporate application, user, and content identification into its policies.

While these new technologies are enabling organizations to leverage IT innovation to improve productivity and cost effectiveness, they also create a significantly higher state of network vulnerability. Increasingly complex web applications, new device platforms, and increasing use of third-party providers to host corporate data all lead to a much larger “attack surface” for hackers. As a result, at the same time organizations are implementing these changes in IT infrastructure, the IT security threat environment continues to escalate.

Organizations today are more focused than ever on IT security threats as the frequency and severity of attacks continue to rise. According to Gartner’s “*Top Security Trends and Takeaways for 2011-2012*” report, by 2014, 70% of IT risk and security officers in the Global 2000 organizations will be required to report at least annually to their board of directors on the state of IT security.⁽⁴⁾ Hackers and malicious insiders have become more organized and motivated for financial gain, leading to the use of new advanced attack techniques and customized zero-day malware in the application layer for the theft of valuable data. For example, many large organizations have recently been the victims of highly publicized, sophisticated attacks that have resulted in costly data breaches and reputational harm. Traditional network-based attacks are relatively easy to detect and remediate as many occurrences can be observed and used to provide threat prevention signatures. However, organizations remain vulnerable to highly targeted attacks aimed at exploiting network-specific applications or weaknesses. Hackers are increasingly leveraging powerful new tactics including evasive applications, proxies,

(3)(4) See notes 3 and 4 in “Market and Industry Data.”

tunneling, encryption techniques, vulnerability exploits, buffer overflows, DoS/DDoS attacks, botnets, and port scans. Organizations are also more vulnerable to targeted attacks against individuals within the organization such as through social engineering. As a result, organizations are being forced to increase their investment in network security infrastructure to prevent unauthorized access to valuable and sensitive data and the potential financial loss and reputational harm that could result.

The Legacy Network Security Model Prevents Organizations from Safely Enabling Modern Web Applications

Despite the rapidly changing application and threat landscape, the firewall, the mainstay of network security that serves as the barrier between an organization's trusted, internal network and the Internet, has remained largely unchanged for decades. These legacy firewalls operate at the perimeter of the network: controlling traffic that moves between a trusted network, such as an internal corporate network, and un-trusted networks, such as the Internet. The firewall creates a barrier and controls access by either allowing or blocking traffic. Legacy firewalls examine the network port and protocol of the data packets through a classification approach known as stateful inspection which was designed to decide whether or not to let traffic associated with the inspected packets pass. If the initial packets are allowed to pass, subsequent associated packets are not inspected because they are assumed to be safe. Network port and protocol combinations that do not fit into the rules are blocked. This binary negative security model works well when applications adhere to standardized port numbers and protocols and network traffic behaves in a predictable fashion, such as basic email and web browsing applications. However, because the relationship between applications and network ports and protocols is becoming less standardized and less predictable, legacy stateful inspection firewall technology can no longer provide the level of security, control, and intelligence required by organizations to safely enable and control today's applications. As a result, by using legacy approaches, organizations have faced the dilemma of either unsafely allowing or completely blocking Web 2.0, social media, SaaS, and other productivity enhancing applications.

In an attempt to compensate for the limitations of the stateful inspection firewall technology with respect to this new application and threat landscape, three approaches have evolved:

- ***Stateful Inspection Helpers.*** As applications became more complex and threats became more pervasive, a variety of additional, standalone network security appliances were introduced to attempt to supplement the capabilities of the legacy stateful inspection firewall to compensate for its limitations. This created several large and distinct markets for web proxies, web filters, SSL-VPN, intrusion detection and prevention systems, DLP, IPsec, and Hybrid VPN Gateways, which, according to IDC, collectively represents an estimated \$5.1 billion market in 2012.⁽⁵⁾ These devices lack integration, often rely on disparate malware signature libraries and policies, and often introduce significant network latency given the multiple scans that they must conduct. While this approach provides additional security, it offers only partial visibility and control, introduces additional complexity and cost, and decreases reliability and throughput while increasing latency in the network.
- ***Unified Threat Management (UTM).*** To address the complexity and cost issues of operating distinct helper technologies, hardware and software-based UTMs were introduced. While this approach has been successful in reducing network security complexity and cost by consolidating security functions into one product, it continues to rely on stateful inspection technology preventing it from scanning all traffic and providing native application and user visibility. This results in a simple block-or-allow control model over applications, users, and content. Moreover, as additional security functions are activated in this approach, performance can decline dramatically.
- ***Application Control Blades.*** In an attempt to overcome the fundamental application visibility limitations of stateful inspection, application control blades have recently been introduced to augment legacy firewalls and UTMs. These application control blades are designed to identify applications only after the traffic is passed through the firewall, resulting in all the limitations associated with stateful

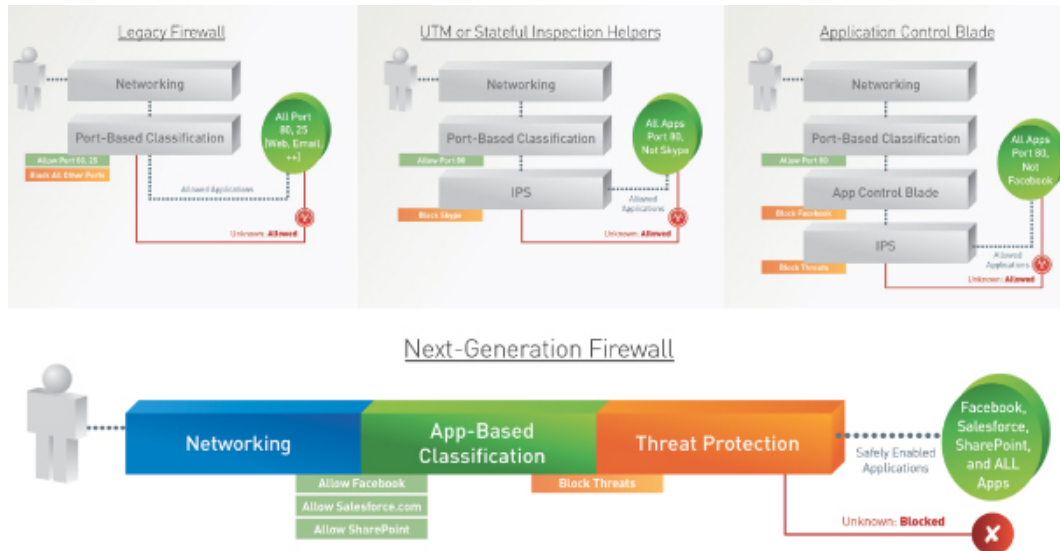
(5) See note 2 in "Market and Industry Data."

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inspection, including the fact that once the application control blade properly identifies an application, the only two control options are to either block or allow all traffic associated with that application. Furthermore, after an initial decision is made to allow the traffic to pass, the traffic will no longer be identified, even though the application can alter its behavior and spawn new applications. This inherent limitation thus prevents the system from being truly secure. As with all helper and UTM approaches, the processing power required to run all traffic through this sequential traffic scan results in significant performance degradation. As a result, application control blades cannot look for applications on non-standard ports and do not scan all traffic for applications. These factors prevent this approach from being able to provide safe application enablement at low latency and high throughput.

Consequently, we believe any approach based on stateful inspection is fundamentally limited, including those consolidating multiple technologies into one appliance or software blades or those which add application control blades. We believe these approaches cannot safely enable any applications, other than web browsing and email, for which stateful inspection was designed.

Approaches to Address the Evolving Application and Threat Landscape



Organizations Need a Fundamentally New Approach to Network Security

Changing application dynamics, mobile device proliferation, increasing network speeds, and the disappearing perimeter are all trends that have moved at a faster pace than the traditional network security infrastructure. As a result, it has become increasingly critical for organizations to find a new approach to their network security infrastructure in order to keep up with the pace of IT change. Most central to this new approach is the need for a comprehensive understanding of application, user, and content of network traffic. This understanding allows organizations to gain complete visibility and control of their network security and risk posture and go beyond a classic block-or-allow approach of a negative security model to a policy-based approach that safely enables applications yet stops the threats that exploit them. To accomplish this, we believe organizations require a next-generation network security platform that incorporates the following key elements:

- **Improved Application Visibility and Control.** Identifying applications, not ports or protocols, is now the key to managing security risks. The next-generation network security platform needs to be built

around identifying applications regardless of their port or protocol. In addition to identifying applications, next-generation network security platforms need to give administrators superior policy control by providing the ability to enable access to all, none, or certain features of any particular application, for any particular user, in any particular business context. For example, organizations may want to safely enable users in human resources to access communication functionality on LinkedIn for recruitment purposes but disable the same functionality for other users.

- **Protection Against Threats, Vulnerabilities, Data Leakage, Abusive Use, and Targeted Malware.** Organizations must protect their network in real time against vulnerability exploits and malware embedded in all incoming network traffic. For traffic leaving the network, organizations need to prevent sensitive data such as credit card and social security numbers from being accidentally or intentionally leaked. Organizations also need to be able to inspect encrypted and compressed traffic in real time.
- **High Performance and Low Latency.** As network traffic continues to increase dramatically and as the adoption of latency sensitive applications increases, organizations cannot compromise the performance of their networks to solve for security. The next-generation network security platform needs to operate and apply security policy at extremely high rates of data transmission without introducing significant latency.
- **Simplified Security Infrastructure and Lower Total Cost of Ownership.** The next-generation network security platform should solve the current security, performance, and application enablement challenges of organizations while also integrating and simplifying the IT security infrastructure, application, and enforcement of security policy and reducing the total cost of ownership.
- **Deployment Flexibility for Any Point in the Network.** The next-generation network security platform should provide a single platform that is uniformly optimized for any point within the network, from the branch office to the data center, as well as across physical and virtualized and cloud-based infrastructures and across all types of computing and mobile devices.

Our Solution

Our platform offers a fundamentally new approach to network security and allows organizations to secure their networks and safely enable the increasingly complex and rapidly growing number of applications running on their networks. The core of our platform is our Next-Generation Firewall, which delivers application, user, and content visibility and control integrated within the firewall through our proprietary hardware and software architecture.

Our platform includes a Next-Generation Firewall available in a broad range of appliances that are designed to serve the needs of our end-customers across their network, including at the network perimeter, the data center, and the distributed enterprise. In conjunction with our appliances, our platform includes a suite of best of breed security subscription services, which can be easily implemented on any of our appliances without requiring additional hardware or processing resources, and therefore provide a seamless implementation path for additional network security capabilities. All of our appliances incorporate our PAN-OS operating system and are based on our proprietary identification technologies, including App-ID, User-ID, and Content-ID, which allow security policies to be defined within the context of applications, users, and content. This approach allows network security to be managed with a positive security model, enabling controlled access instead of solely preventing access like legacy firewalls. Organizations can significantly improve their security and risk posture by flexibly enabling a custom set of trusted applications as opposed to developing individual rules and signature sets to block a near infinite number of potentially threatening traffic streams. We believe our ability to apply this positive security model as soon as each packet enters the network to safely enable applications and protect against attacks that exploit these applications is distinct from the stateful inspection approach used by legacy firewall technologies.

The key benefits of our next-generation network security platform include its ability to:

- **Identify, Control, and Safely Enable Applications.** Our platform provides visibility and control over applications, users, and content, regardless of port, protocol, evasive tactics, or encryption. This allows

our end-customers to safely enable almost any application. Our platform can identify more than 1,400 applications, which we believe substantially covers the universe of known applications, and we add an average of five new applications each week. By delivering application and user intelligence in the firewall, we enable organizations to make policy decisions and enforce those policies with fine-grained controls, all within our unique and flexible, policy-based software architecture.

- **Inspect All Content for All Threats in Real Time.** Our platform allows end-customers to limit traffic to approved applications and scan it in real time and in context for threats, including exploits, viruses, spyware, confidential data leaks, and targeted malware. Our platform brings best of breed security disciplines into a single context that enables organizations to see beyond individual security events and recognize the interconnection of exploits, malware, URLs, anomalous network behaviors, and targeted malware across their entire application spectrum. We also recently introduced WildFire, our cloud-based, advanced malware analysis service that automatically examines suspicious executable files in a virtualized environment and automatically generates signatures to block malicious traffic and commands.
- **Deliver High Throughput and Performance.** Our platform examines all network traffic only once, using hardware with dedicated processing resources for security, networking, content scanning, and management to provide real-time performance at the full speed of the network with very low latency. Additionally, our appliances are designed to always run all our technologies as well as all our add-on software subscription services, so when end-customers deploy one or more of our services, they experience no significant degradation of network performance.
- **Simplify Network Security Infrastructure and Reduce Total Cost of Ownership.** Our platform provides our end-customers a broad range of network security functionality delivered through a single platform, allowing them to simplify their network security infrastructure and achieve a substantially lower total cost of ownership, eliminating the need for multiple, stand-alone security appliances. Our platform is priced based on throughput as opposed to traditional approaches that rely on per seat or user based pricing. As a result, we believe our platform allows our end-customers to greatly simplify their network security infrastructure and to substantially reduce their network security capital expenditures and operating expenses associated with network security related support contracts, subscriptions, management systems and overhead, power and HVAC consumption, as well as costs associated with headcount, deployment, integration, and training their own employees to maintain their network security systems.
- **Enable Diverse Deployment Scenarios.** Our platform can be broadly deployed in the enterprise network environment, including in the data center, at the network perimeter, through the distributed enterprise, and in the evolving environments of cloud computing, virtualization, and mobility. In all of these scenarios, our platform can be deployed as the main firewall replacement, as a secondary in-line device adjacent to an existing firewall for additional security functionality, or as a platform for application visibility.

Our Strategy

Our goal is to be the global leader of network security solutions for enterprises, service providers, and government entities. The key elements of our growth strategy are:

- **Extend Our Network Security Technology Leadership through Continued Innovation.** We believe we are disrupting the network security market with our next-generation network security platform. We intend to extend our technology leadership in network security by continuing to innovate and invest in research and development to enhance our products and services, such as WildFire, our cloud-based advanced malware analysis service, that we introduced in November 2011. We also intend to develop new security subscription services, new physical and virtual appliances, and additional management capabilities.
- **Promote Our Disruptive Platform to Grow Our End-Customer Base.** We intend to grow our base of end-customers by promoting our disruptive platform, increasing our investment in direct sales and marketing, leveraging our network of motivated channel partners, and furthering our international

expansion. We currently have end-customers in more than 80 countries and generate a significant amount of our revenues from international end-customers. We recently commenced sales operations in Brazil, China, Mexico, India, and Russia, and plan to continue growing our presence across geographies where we can continue to capitalize on the significant network security opportunity.

- **Increase Sales to Existing End-Customers.** We believe the strong relationships and high customer satisfaction we maintain with our more than 7,750 end-customers provide us with the opportunity to drive incremental demand for our products. We have successfully expanded, and intend to continue expanding, end-customers from a single deployment of our products to broader deployments across the organization. Our end-customers typically refresh key components of their network security infrastructure every three to five years, which provides an attractive recurring opportunity for us to sell additional products and services once we have made an initial sale. We also intend to sell additional subscription services to existing end-customers, which provides us with incremental recurring revenue opportunities on each platform we sell. With our most significant end-customers, revenue from follow-on sales of our products and services has been multiples of the revenue we realized from those end-customers' initial purchases.
- **Focus on Customer Satisfaction.** We intend to continue to prioritize end-customer satisfaction. This typically results in new sales opportunities within existing end-customers, which typically have shorter sales cycles than new sales opportunities. We also gain valuable feedback from our existing end-customers, which helps enhance our customer support and development roadmap. Finally, references are critical in the security industry, as end-customers routinely rely on feedback from their peers, even if they are direct competitors. Our end-customers routinely serve as references for us with new prospective customers. We intend to continue to be highly focused on exceeding the expectations of our end-customers.

Competitive Strengths

We believe we have a number of competitive advantages that will enable us to maintain and extend our leadership position in next-generation network security. Our competitive strengths include:

- **Next-Generation Network Security Platform Built from the Ground Up.** We were founded with a vision to fix the limitations of legacy approaches to network security and to redesign the firewall so it can once again be the most strategically important point of network control. Our approach to network security focuses on integrating application visibility and control within the firewall. We integrate our application, user, and content classifications in our single-pass software with purpose-built hardware to deliver a comprehensive security platform while also maximizing performance. We have spent more than six years developing our platform and have recently released the ninth version of our PAN-OS operating system.
- **Industry Leading Application and Threat Expertise.** Our proprietary application and threat research team provides research on emerging threats and the rapidly evolving application landscape. We leverage our expertise on new and emerging applications and threats to provide updates to our platform multiple times per week. Our team is also actively engaged in the research and development of protection against all other forms of malware. Our internal application and threat research capabilities position us as an IT security thought leader and differentiate us from other network security companies that repackage threat technologies from one or more security vendors.
- **Experienced Technology Team.** We have assembled a team of leading technology experts from well-established network and security companies who are focused on developing our proprietary technologies. Our engineering team includes technology experts with proven track records of developing the fundamental technologies underlying legacy approaches to network security, including the invention of stateful inspection, delivery of network security technologies through a hardware platform, and intrusion detection and prevention. As a result, we believe we are uniquely positioned to address the limitations associated with legacy approaches and execute on our core mission of reinventing the network security industry.

- **Large and Growing End-Customer Base.** We focus on serving enterprises, service providers, and government entities, and we have seen significant momentum in the adoption of our platform as our end-customer base has increased from approximately 1,800 as of July 31, 2010 to more than 7,750 as of April 30, 2012. We work closely with our end-customers to ensure that they have a positive experience with our platform and are given the support and service they need to successfully implement our products. Our close relationships with our end-customers allow us to develop insights and knowledge into how they use our products. This has allowed us to rapidly improve our products to meet the needs of our end-customers and stay ahead of our competitors.
- **Clear Leadership Position.** We were the first company to define and lead the industry's transition from the legacy stateful inspection approach to the next-generation firewall paradigm, and we believe that our position as a technology and market leader contributes to our ability to maintain and grow our leadership position in the network security market. In February 2012, our Next-Generation Firewall was awarded a "Recommended" rating in the NSS Labs inaugural "Next-Generation Firewall Group Test" for its superior threat prevention, performance and value. Gartner categorized us as a market leader in its "2011 Magic Quadrant for Enterprise Network Firewalls" based on our ability to execute and completeness of vision.⁽⁶⁾

Our Go-to-Market Strategy

In addition to redesigning the fundamental architecture of the firewall, we have also grown our business by redesigning the traditional go-to-market approach in the network security industry. Despite the fact that firewall purchase represents a highly rigorous, methodical, and strategic, network infrastructure purchase decision, our go-to-market strategy has allowed us to rapidly increase our end-customer base. In addition, the significant majority of our end-customers have made repeat purchases of our products and subscribe to one or more of our subscription services. Key elements of our go-to-market strategy include:

- **Targeting New End-Customers through Multiple Initial Insertion Points.** We leverage all capabilities of our platform to target new sales opportunities through multiple initial insertion points at each end-customer. While we typically seek to deploy our platform as a firewall replacement in an end-customer, our platform can also be deployed for other network security functions behind an existing firewall. Examples of such sales opportunities include IPS, web filtering, and network anti-virus replacements. In deployment scenarios where we do not initially replace the firewall, our end-customers frequently realize the enhanced visibility and control benefits of our architecture, which oftentimes enables us to replace the end-customer's existing firewall. Regardless of the initial deployment, we believe that we can accelerate refresh cycles for the existing firewall and its helpers because end-customers realize they can increase security, improve performance, and simplify their network architecture by eliminating unnecessary devices.
- **Promoting Our Platform's Capabilities to Upsell to Existing End-Customers.** Our architecture enables our end-customers to easily activate additional subscription services with minimal implementation effort. Since no additional hardware, software, or processing resources are needed to implement our subscription services, the process of adding new services is trivial to our end-customers. They simply need to purchase an annual subscription service and activate the service on our platform with a license key. This seamless upsell capability offers us significant recurring revenue opportunities from subscription services over time. As we further expand our coverage with existing end-customers and continue to augment our platform by introducing new subscription services, our approach could significantly increase our subscription revenues.
- **Leveraging Our Highly Incentivized Channel Model.** We have carefully developed our channel partner network by fostering in-depth relationships with solutions-oriented partners, versus trying to just sign as many partners as possible. We incentivize our accredited channel partners on both the

(6) See note 1 in "Market and Industry Data."

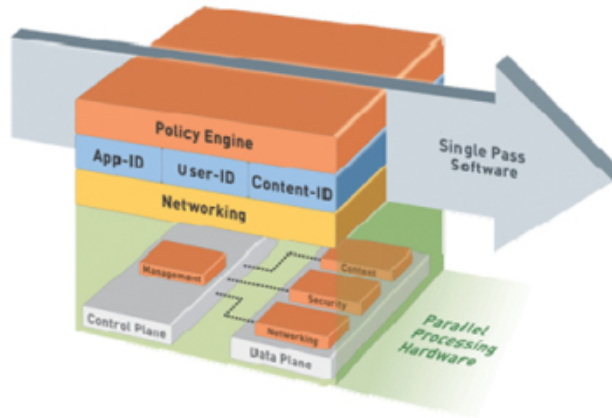
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initial products and services sale as well as on subsequent product and subscription sales, by allowing them to purchase our products and services at a discount to our list prices and then reselling them to our end-customers. This motivates our channel partners to maintain high levels of end-customer satisfaction and to promote products and services upsell. We operate a two-tier channel model, while other companies will oftentimes look for opportunities to initiate direct sales and service relationships with their end-customer when the economics seem attractive.

Technology

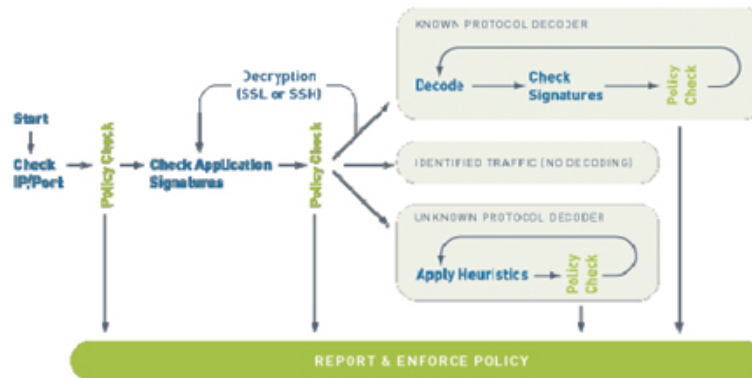
We combine our proprietary Single Pass Parallel Processing (SP3) hardware and software architecture and PAN-OS operating system to provide a comprehensive network security platform. The core of our platform is our Next-Generation Firewall, which integrates application visibility and control and is comprised of three identification technologies, App-ID, User-ID, and Content-ID. These technologies allow organizations to enable the secure use of applications while managing the inherent risks. These fine-grained policy management and enforcement capabilities are delivered at low latency, multi-gigabit performance with our innovative SP3 architecture.

Our Platform Technology: PAN-OS and SP3



App-ID. Our application classification engine, called App-ID, uses multiple identification techniques to determine the exact identity of applications traversing the network. App-ID is the foundational classification engine that provides the core traffic classification to all other functions in our platform. The App-ID classification is used to invoke other security functions.

App-ID Architecture



App-ID uses a series of classification techniques to accurately identify an application. When traffic first enters the network, App-ID applies an initial policy check based on IP protocol and port. Signatures are then applied to the traffic to identify the application based on application properties and related transaction characteristics. If the traffic is encrypted and a decryption policy is in place, the application is first decrypted, then application signatures are applied. Additional context-based signature analysis is then performed to identify known protocols that may be hiding other applications. For evasive applications that cannot be identified through advanced signature and protocol analysis, heuristics or behavioral analysis are used to determine the identity of the application. When an application is accurately identified during this series of successive techniques, the policy check determines how to treat the application and associated functions. The policy check can block the application, allow it and scan for threats, inspect it for unauthorized file transfer and data patterns, or shape using its use of network resources by applying a quality-of-service policy.

App-ID consistently classifies all network traffic, including business applications, consumer applications, and network protocols, across all ports. Consequently, there is no need to perform a series of signature checks to look for an application that is thought to be on the network. App-ID continually monitors the state of the application to determine if the application changes. Our platform only allows applications within the policy to enter the network, while all other applications are blocked.

Internally developed or custom applications can be managed using either an application override or custom App-IDs. End-customers can use either of these mechanisms to exert the same level of control over their internal or custom applications that they apply to common applications. Because the application landscape is constantly changing, our research teams are constantly updating our App-ID classification engine. We deliver updated App-IDs weekly to our end-customers through our update service.

User-ID. User-ID integrates our platform with a wide range of enterprise user directories and technologies, including Active Directory, eDirectory, Open LDAP, Citrix Terminal Server, Microsoft Exchange, Microsoft Terminal Server, and ZENworks. A network-based, User-ID agent communicates with the domain controllers, directories, or supported enterprise applications, mapping information such as user, role, and current IP address to the firewall, making the policy integration transparent. In cases where user repository information does not include the current IP address of the user, a transparent, captive portal authentication or challenge/response

mechanism can be used to tie users into the security policy. In cases where a user repository or application is in place that already has knowledge of users and their current IP address, a standards-based API can be used to tie the repository to our platform.

Content-ID. Content-ID is a collection of technologies that enables many of our subscription services. Content-ID combines a real-time threat prevention engine, cloud-based analysis service, and a comprehensive URL categorization database to limit unauthorized data and file transfers, detect and block a wide range of threats, and control non-work related web surfing.

The threat prevention engine blocks several common types of attacks, including vulnerability exploits, buffer overflows, and port scans from compromising and damaging enterprise information resources. It includes mechanisms such as protocol decoder-based analysis, protocol anomaly-based protection, stateful pattern matching, statistical anomaly detection, heuristic-based analysis, custom vulnerability, and spyware “phone home” signatures.

Our WildFire, cloud-based analysis service provides a near real-time analysis engine for detecting previously unseen modern malware. The core component of WildFire is a sandbox environment where files can be run and monitored for more than 70 behavioral characteristics that identify the file as malware. Once identified, signatures are automatically generated and delivered to all devices that subscribe to the WildFire service. By providing WildFire as a cloud-based service, all of our end-customers benefit from malware found on a single network.

Our URL filtering database consists of millions of URLs across many categories and is designed to monitor and control employee web surfing activities. The on-appliance URL database can be augmented to suit the traffic patterns of the local user community with a custom URL database. URLs that are not categorized by the local URL database can be pulled into cache from a very extensive, hosted URL database. The data filtering features in our platform enable policies that reduce the risks associated with the transfer of unauthorized files and data. This can be achieved by blocking files by type, through control of sensitive data, such as credit card and social security numbers in application content or attachments, and through control of file transfers within applications.

Single-Pass Parallel Processing Architecture (SP3). SP3 has two elements: single-pass software and parallel processing hardware.

Our single-pass software accomplishes two key functions in our platform. First, it performs operations once per packet. As a packet is processed, the networking functions, the policy lookup, the application identification and decoding, and the signature matching for any and all threats and content are all performed just once. This significantly reduces the amount of processing required to perform multiple functions in one security device. Second, the content scanning step is stream-based and uses uniform signature matching to detect and block threats. Instead of using multiple scanning passes and file proxies, which require download prior to scanning, our single-pass software scans content once in a stream-based fashion to avoid latency. This results in very high throughput and low latency, even with all security functions active. It also offers a single, fully integrated policy, thus enabling easier management of enterprise network security.

Our parallel processing hardware is designed to optimize single-pass software performance through the use of separate data and control planes, which means that heavy utilization of one does not negatively impact the performance of the other. Our hardware also uses discrete, specialized processing groups to perform critical functions. On the data plane, this includes functions such as networking, policy enforcement, encryption and decryption, decompression, and content scanning. On the control plane, this includes configuration management, logging, and reporting.

We believe that the combination of single-pass software and parallel processing hardware is unique in the network security industry and allows our platform to safely enable applications at very high levels of performance and throughput.

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PAN-OS Operating System. The PAN-OS operating system provides the foundation for our network security platform and contains App-ID, User-ID, and Content-ID. PAN-OS performs the core functions of our platform while also providing the networking, security, and management functions needed for implementation. The PAN-OS networking functions include dynamic routing, switching, high availability, and VPN support, which enables deployment into a broad range of networking environments.

Our platform has the ability to enable a series of virtual firewall instances or virtual systems. Each virtual system is an independent (virtual) firewall within the device that is managed separately and cannot be accessed or viewed by any other administrator of any other virtual system. This capability allows enterprises and service providers to separate firewall instances in departmental and multi-tenant managed services scenarios.

The security functions in PAN-OS are implemented in a single security policy and include application, application function, user, group, port, and service-based elements. Policy responses can range from open (allow but monitor for activity), to moderate (enabling certain applications or functions), to closed (deny). The tight integration of application control, users, and groups, and the ability to scan the allowed traffic for a wide range of threats minimizes the number of policies.

PAN-OS also includes attack protection capabilities, such as blocking invalid or malformed packets, IP defragmentation, TCP reassembly, and network traffic normalization. PAN-OS eliminates invalid and malformed packets, while TCP reassembly and IP de-fragmentation is performed to ensure the utmost accuracy and protection despite any attack evasion techniques.

Certifications. We have been awarded FIPS 140-2 Level 2 and Common Criteria/NiAP EAL 2 and are being evaluated for Common Criteria/NiAP EAL4+, ICSC Firewall, and NEBS certifications.

Products

Model:		Products and Services									
		PA-200 Series		PA-400 Series			PA-500 Series				
		PA-200	PA-500	PA-2020	PA-2050	PA-4020	PA-4050	PA-4060	PA-5020	PA-5050	PA-5060
Deployment Environments	Data Center					✓	✓	✓	✓	✓	✓
	Perimeter			✓	✓	✓	✓	✓	✓	✓	✓
	Distributed Enterprise	✓	✓			✓	✓	✓	✓	✓	✓
Firewall Throughput ⁽¹⁾		100Mbps	250Mbps	500Mbps	1Gbps	20Gbps	100Gbps	100Gbps	50Gbps	100Gbps	200Gbps
Complete Protection Throughput ⁽²⁾		50Mbps	100Mbps	200Mbps	500Mbps	20Gbps	50Gbps	50Gbps	20Gbps	50Gbps	100Gbps
Support and Maintenance	Standard Support	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Premium Support	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	4-Hour Premium Support	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Maintenance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Optional Subscriptions	Threat Prevention Subscription	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	URL Filtering Subscription	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	GlobalProtect Subscription	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	WildFire Subscription ⁽³⁾	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Virtual Systems Upgrade				✓	✓	✓	✓	✓	✓	✓	✓

- (1) Firewall Throughput corresponds to the throughput of the appliance with the firewall capabilities and App-ID enabled.
- (2) Complete Protection Throughput corresponds to the throughput of the appliance after activating the Threat Prevention, URL Filtering, and WildFire subscription services.
- (3) Limited functionality is currently provided without a subscription fee.

Appliances. All appliances come with the same rich set of features ensuring consistent operation across the entire product line. These features include: application visibility and control (App-ID), user identification (User-ID), site-to-site VPN, remote access SSL VPN, and Quality-of-Service (QoS). We classify our appliances based on throughput.

Panorama. Panorama is our centralized security management solution for global control of all of our appliances deployed on an end-customer’s network. Panorama is used for centralized policy management, device management, software licensing and updates, centralized logging and reporting, and log storage. Panorama controls the security, NAT, QoS, policy based forwarding, decryption, application override, captive portal, and DDoS/DoS protection aspects of the appliances and virtual systems under management. Panorama centrally manages device software and associated updates, including SSL-VPN clients, GlobalProtect clients, dynamic content updates, and software licenses. Panorama offers the ability to view logs and run reports from all managed appliances without the need to forward the logs and to report on aggregate user activity for all users, including mobile users. Panorama reliably expands the log storage for long-term event investigation and analysis through high-availability features for central management.

Virtual System Upgrades. Virtual System Upgrades are available as extensions to the Virtual System capacity that ships with the appliance. Virtual Systems provide a virtualization solution to our large enterprise and service provider end-customers who implement large data centers, private cloud, and public cloud security infrastructures and need to support a multi-tenant firewall environment.

Services

Subscription Services. We offer a number of subscription services as part of our platform. These services include:

- **Threat Prevention Subscription.** This service provides the intrusion detection and prevention capabilities of our platform. Our threat prevention engine blocks vulnerability exploits, viruses, spyware, buffer overflows, denial-of-service attacks, and port scans from compromising and damaging enterprise information resources. It includes mechanisms such as protocol decoder-based analysis, protocol anomaly-based protection, stateful pattern matching, statistical anomaly detection, heuristic-based analysis, custom vulnerability, and spyware phone home signatures.
- **URL Filtering Subscription.** This service provides the URL filtering capabilities of our platform. The URL filtering database consists of millions of URLs across many categories and is designed to monitor and control employee web surfing activities. The on-box URL database can be augmented to suit the traffic patterns of the local user community with a custom URL database. URLs that are not categorized by the local URL database can be pulled into a separate, cache-based URL database from a very extensive, hosted URL database.
- **GlobalProtect Subscription.** This service provides protection for mobile users. It expands the boundaries of the physical network, effectively establishing a logical perimeter that encompasses remote laptop and mobile device users irrespective of their location. When a remote user logs into the device, GlobalProtect automatically determines the closest gateway available to the roaming device and establishes a secure connection. Windows and Apple laptops as well as mobile devices, such as Apple iPhones and iPads, will stay connected to the corporate network whenever they are on a network of any kind, and as a result they are protected as if they never left the corporate campus. GlobalProtect ensures that the same secure application enablement policies that protect users at the corporate site are enforced for all users, independent of their location.
- **WildFire Subscription.** This service provides protection against modern targeted malware. Its cloud-based analysis service provides a near real-time analysis engine for detecting previously unseen modern malware. The core component of this service is a sandbox environment where files can be run and monitored for more than 70 behavioral characteristics that identify the file as malware. Once identified, signatures are automatically generated and delivered to all devices that subscribe to the service. By providing this as a cloud-based service, all of our end-customers benefit from malware found on any network. WildFire is currently available with limited functionality for which we do not charge a subscription fee. We intend to charge a subscription fee in the future for advanced functionality.

Support and Maintenance. We offer technical support on our products and subscriptions to our end-customers and channel partners. We offer Standard Support, Premium Support, and 4-hour Premium Support. Our channel partners who operate a Palo Alto Networks Authorized Support Center (ASC) typically deliver level-one and level-two support. We provide level-three support 24 hours a day, seven days a week through regional support centers that are located worldwide. We also offer an annual subscription-based Technical Account Management (TAM) service that provides dedicated support for end-customers with unique or complex support requirements. We offer our end-customers ongoing maintenance services for both hardware and software in order to receive ongoing security updates, PAN-OS upgrades, bug fixes, and repair. These services are typically sold to end-customers for a one-year term at the time of the initial product sale and typically renew for successive one-year periods. Additionally, we provide expedited replacement for any defective hardware. We use a third-party logistics provider to manage our worldwide deployment of spare appliances and other accessories.

Professional Services. Professional services include on-location, hands-on experts that plan, design, and deploy effective security solutions tailored to our end-customers' specific requirements. We generally do not directly provide such professional services to our end-customers. Instead, we primarily deliver these resources by enabling our authorized partners, who provide substantially all such services to our end-customers. These services include application traffic management, solution design and planning, configuration, and firewall migration. Our Education Services provide classroom-style training and are primarily delivered through our authorized partners.

Customers

We sell our platform through our channel partners to end-customers globally. Our end-customers are predominantly medium to large enterprises, service providers, and government entities. Our end-customers operate in a variety of industries, including education, energy, financial services, healthcare, Internet and media, manufacturing, public sector, and telecommunications. Our end-customer deployments typically involve at least one pair of our products along with one or more of our subscription services, depending on size, security needs and requirements, and network complexity. As of April 30, 2012, we had shipped our products to more than 7,750 end-customers worldwide. No single end-customer accounted for more than 10% of our total revenue in fiscal 2011.

Our end-customers deploy our platform for a variety of security functions across a variety of deployment scenarios. Typical deployment scenarios include the enterprise perimeter, the enterprise data center, and the distributed enterprise perimeter.

Customer Case Studies

The following are examples of successful deployments of our platform to safely enable applications, prevent threats, and simplify infrastructure and operations:

Global Financial Services Organization

Problem: A multi-billion dollar, North America-based, global financial services organization was unable to use its existing firewall for its changing business needs and heightened demand for throughput. The organization's primary focus was a high performance platform that could enable business adoption of modern Web 2.0 and SaaS applications and keep up with their increasing business and throughput needs.

Solution and Benefits: In June 2011, after an extensive evaluation process, this organization chose our platform to replace their legacy perimeter firewall and IPS. This allowed them to safely enable applications, meet their high throughput needs, and improve the central management of their network security components. Subsequently this organization has deployed our platform throughout the data center and perimeter.

Large US Federal Agency

Problem: A large US federal agency with more than a million users and several access points around the world needed to refresh their content filtering platform to allow their constituents to safely use the Internet and participate responsibly in social media applications, such as Facebook and Twitter.

Solution and Benefits: In October 2009, we started our relationship with this agency by replacing their existing URL filtering products with our platform in the perimeter as a content filter. Subsequently, based on the superior control, performance, and management capabilities of our platform, this agency selected us to replace their existing perimeter and data center firewalls, IPS, and anti-malware products.

Global High-Tech Manufacturer

Problem: A large, global high-tech manufacturer had a highly fragmented network security approach resulting in multiple network security devices in addition to multiple firewalls. Despite these investments, the

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organization was unable to prevent many threats from entering its network or to safely enable modern applications such as instant messaging.

Solution and Benefits: In June 2008, we were initially selected to provide threat prevention and application enablement functions in parts of the perimeter of this organization. After a successful rollout of this project we were selected to replace the existing firewalls and IPS products in both the company-wide perimeter as well as the data center. Our platform helped this organization improve its security, enable the safe adoption of SaaS and social media applications, and reduce a number of products and technologies into a tightly integrated network security platform, resulting in significant savings in operational and capital expense.

Global Professional Services Organization

Problem: A global professional services organization with well over 10,000 professionals needed to protect the highly confidential corporate information of its clients. This problem was complicated by the mobility of its workforce. Oftentimes, highly confidential customer data on mobile devices such as laptops would be carried out of the corporate network by associates working at the customers' premises. A multitude of their existing network security products were unable to keep up with these requirements, protect the assets, and prevent threats from being brought back into the corporate network.

Solution and Benefits: In October 2010, our full platform, including our GlobalProtect subscription service, was selected for its ability to safely enable applications at the user and content level, to prevent malware and viruses from being brought back into the corporate network, and to fully function regardless of the professional's devices and locations. Additionally, rather than trying to solve this problem through a complicated and costly set of products from multiple vendors that are managed separately, this organization simplified the management of their security system, reduced operation costs, and lowered their overall cost of ownership.

Backlog

Orders for services for multiple years are billed upfront shortly after receipt of an order and are included in deferred revenue. Timing of revenue recognition for services may vary depending on the contractual service period or when the services are rendered. Products are shipped and billed shortly after receipt of an order. We do not believe that our product backlog at any particular time is meaningful because it is not necessarily indicative of future revenue in any given period as such orders may be rescheduled by our partners without penalty or delayed due to inventory constraints. Additionally, the majority of our product revenue comes from orders that are received and shipped in the same quarter.

Sales and Marketing

Sales. Our sales organization is responsible for large-account acquisition and overall market development, which includes the management of the relationships with our channel partners, working with our channel partners in winning and supporting end-customers through a direct-touch approach, and acting as the liaison between the end-customers and the marketing and product development organizations. We established our sales organization in the Americas in 2007, in EMEA in 2008, and in APAC and Japan in 2009. For additional information about revenue and assets by geographic region, refer to note 13 in our consolidated financial statements included elsewhere in this prospectus. We expect to continue to grow our sales headcount in all markets and expand our presence into countries where we currently do not have a direct sales presence.

Our sales organization is supported by sales engineers with deep technical expertise and responsibility for pre-sales technical support, solutions engineering for our end-customers, and technical training for our channel partners.

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Channel Program. We work with high quality channel partners who provide our platform to end-customers. We focus on building in-depth relationships with a smaller number of solutions-oriented partners that have strong network security expertise. As of April 30, 2012, we had approximately 700 channel partners. These channel partners are supported by our sales and marketing organization and consist of distributors and resellers with proven, deep network security experience. Approximately 29% of our fiscal 2011 revenues were derived from sales to two channel partners. Sales to these channel partners are subject to our standard, non-exclusive distributor agreement, which provides for an initial term of one year, one year renewal terms, termination by us with 30-90 days written notice prior to the renewal date, and payment to us from the channel partner within 30-45 calendar days of the date we issue an invoice for such sales.

To ensure optimal productivity, we operate a formal accreditation program for the sales and technical professionals of our channel partners. Around the world, we maintain a two-tier open distribution model where value-added distributors and value-added resellers work together on a non-exclusive basis to market our platform, identify and close sales opportunities, and provide pre-sales and post-sales services to our end-customers. Our channel partner program, NextWave, rewards our channel partners based on a number of attainment goals, as well as provides them access to marketing funds, technical and sales training, and support.

Marketing. Our marketing is focused on building our brand reputation and the market awareness of our platform, driving end-customer demand, and operating the channel program. The marketing team consists primarily of product marketing, programs marketing, field marketing, channel marketing, and public relations functions. Marketing is responsible for the channel program NextWave, as well as the channel enablement functions. Marketing activities include demand generation, advertising, managing the corporate web site and partner portal, trade shows and conferences, press and analyst relations, and customer awareness. Every six months, we publish a major market research paper called the "Application Usage and Risk Report," which is based on the application and threat landscape of our end-customers. These activities and tools benefit both our direct and indirect channels and are available at no cost to our channel partners.

Manufacturing

The manufacturing of our security products is outsourced to various contract manufacturers and original design manufacturers. This approach allows us to reduce our costs as it reduces our manufacturing overhead and inventory and also allows us to adjust more quickly to changing end-customer demand. Our primary manufacturing partner is Flextronics, who assembles our products using design specifications, quality assurance programs, and standards that we establish, and it procures components and assembles our products based on our demand forecasts. These forecasts represent our estimates of future demand for our products based upon historical trends and analysis from our sales and product management functions as adjusted for overall market conditions.

We have entered into a written agreement with Flextronics pursuant to which they manufacture, assemble, and test our products. This agreement has an initial term of three years, which is automatically renewed for one-year terms, unless terminated (i) by either party giving 180 days or more notice prior to the end of the term or (ii) upon written notice, subject to applicable cure periods, if the other party has materially breached its obligations under the agreement.

The component parts within our products are either sourced by our contract manufacturers or by various suppliers. We do not have any long-term manufacturing contracts that guarantee us any fixed capacity or pricing, which increases our exposure to supply shortages or price fluctuations related to raw materials.

Research and Development

Our research and development effort is focused on developing new hardware and software and on enhancing and improving our existing products. We believe that hardware and software both are critical to expanding our leadership in enterprise network security. Our engineering team has deep networking and security expertise and

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works closely with end-customers to identify their current and future needs. In addition to our focus on hardware and software, our research and development team is focused on research into applications and threats, which is required to respond to the rapidly changing application and threat landscape.

We believe that innovation and timely development of new features and products is essential to meeting the needs of our end-customer and improving our competitive position. We supplement our own research and development effort with technologies and products that we license from third parties. We test our products thoroughly to certify and ensure interoperability with third-party hardware and software products.

We plan to continue to significantly invest in resources to conduct our research and development effort.

Competition

We operate in the intensely competitive network security market that is characterized by constant change and innovation. Changes in the application, threat, and technology landscape result in evolving customer requirements for the protection from threats and the safe enablement of applications. Our main competitors fall into four categories:

- large networking vendors such as Cisco and Juniper that incorporate network security features in their products;
- large companies such as Intel, IBM, and HP that have acquired large network security specialist vendors in recent years and have the technical and financial resources to bring competitive solutions to the market;
- independent network security vendors such as Check Point Software, Fortinet, and Sourcefire that offer network security products; and
- small and large companies that offer point solutions that compete with some of the features present in our platform.

As our market grows, it will attract more highly specialized vendors as well as larger vendors that may continue to acquire or bundle their products more effectively.

The principal competitive factors in our market include:

- product features, reliability, performance, and effectiveness;
- product line breadth and applicability;
- product extensibility and ability to integrate with other technology infrastructures;
- price and total cost of ownership;
- adherence to industry standards and certifications;
- strength of sales and marketing efforts; and
- brand awareness and reputation.

We believe we generally compete favorably with our competitors on the basis of these factors as a result of the features and performance of our platform, the ease of integration of our products with technological infrastructures, and the relatively low total cost of ownership of our products. However, many of our competitors have substantially greater financial, technical and other resources, greater name recognition, larger sales and marketing budgets, broader distribution, and larger and more mature intellectual property portfolios.

Intellectual Property

Companies in the enterprise network security industry own large numbers of patents, copyrights, trademarks, domain names, and trade secrets and frequently enter into litigation based on allegations of

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infringement, misappropriation or other violations of intellectual property or other rights. Our success depends in part upon our ability to protect our core technology and intellectual property. We rely on patents, trademarks, copyrights and trade secret laws, confidentiality procedures, and employee disclosure and invention assignment agreements to protect our intellectual property rights.

We have six issued patents and 25 patent applications pending in the United States as of April 30, 2012, relating to our next-generation security platform. Our issued patents expire between 2021 and 2029. We cannot assure you whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. Any patents that may issue may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. We purchased a portion of our issued U.S. patents from other entities. We also license software from third parties for integration into our products, including open source software and other software available on commercially reasonable terms.

We control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, end-customers and partners, and our software is protected by U.S. and international copyright laws. Despite our efforts to protect our trade secrets and proprietary rights through intellectual property rights, licenses, and confidentiality agreements, unauthorized parties may still copy or otherwise obtain and use our software and technology. In addition, we intend to expand our international operations, and effective patent, copyright, trademark, and trade secret protection may not be available or may be limited in foreign countries.

If we become more successful, we believe that competitors will be more likely to try to develop products and services that are similar to ours and that may infringe our proprietary rights. It may also be more likely that competitors or other third parties will claim that our platform infringes their proprietary rights.

Our industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patent and other intellectual property rights. In particular, leading companies in the network security industry have extensive patent portfolios and are regularly involved in both offensive and defensive litigation. From time-to-time, third parties, including certain of these leading companies, may assert patent, copyright, trademark, and other intellectual property rights against us, our channel partners, or our end-customers, whom our standard license and other agreements obligate us to indemnify against such claims. Successful claims of infringement by a third party could prevent us from distributing certain products or performing certain services, require us to expend time and money to develop non-infringing solutions, or force us to pay substantial damages (including treble damages if we are found to have willfully infringed patents or copyrights), royalties or other fees. In addition, to the extent that we gain greater visibility and market exposure as a public company, we face a higher risk of being the subject of intellectual property infringement claims from third parties. We cannot assure you that we do not currently infringe, or that we will not in the future infringe, upon any third-party patents or other proprietary rights. See “Risk Factors—Claims by others that we infringe their proprietary technology or other rights could harm our business” and “—Legal Proceedings” below for additional information.

Employees

As of April 30, 2012, we had 692 full-time employees. None of our employees is represented by a labor organization or is a party to any collective bargaining arrangement. We have never had a work stoppage, and we consider our relationship with our employees to be good.

Facilities

We currently lease approximately 105,664 square feet of space for our corporate headquarters in Santa Clara, California under a lease agreement that expires in March 2018. We have an additional technical support center in Plano, Texas under a lease agreement that expires in October 2016. We also lease space for operations

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and sales personnel in locations throughout the United States and various international locations, including Belgium, France, Japan, and Singapore. We believe that our current facilities are adequate to meet our current needs. We intend to expand our facilities or add new facilities as we add employees and enter new geographic markets, and we believe that suitable additional or alternative space will be available as needed to accommodate ongoing operations and any such growth. However, we expect to incur additional expenses in connection with such new or expanded facilities.

Legal Proceedings

In December 2011, Juniper Networks, Inc. filed a lawsuit against us in the U.S. District Court for the District of Delaware, alleging that our appliances infringe six of its U.S. patents: U.S. Pat. No. 8,077,723, titled "Packet Processing in a Multiple Processor System," U.S. Pat. No. 7,779,459, titled "Method and Apparatus For Implementing a Layer 3/Layer 7 Firewall in an L2 Device," U.S. Pat. No. 7,650,634, titled "Intelligent Integrated Network Security Device," U.S. Pat. No. 7,302,700, titled "Method and Apparatus For Implementing a Layer 3/Layer 7 Firewall in an L2 Device," U.S. Pat. No. 7,093,280, titled "Internet Security System," and U.S. Pat. No. 6,772,347, titled "Method, Apparatus and Computer Program Product For a Network Firewall." One or both of Nir Zuk and Yuming Mao are named inventors on each of the patents being asserted against us. Both Mr. Mao and Mr. Zuk were employed by NetScreen Technologies, Inc., which was acquired by Juniper in April 2004. Mr. Zuk left Juniper in 2005 and founded Palo Alto Networks in that same year. Mr. Mao joined Palo Alto Networks in 2006. Juniper seeks preliminary and permanent injunctions against infringement, treble damages, and attorney's fees. On February 9, 2012, we filed an answer to Juniper's complaint, which denied that we infringed Juniper's patents and asserted that Juniper's patents were invalid.

On February 28, 2012, Juniper filed a motion to strike our defense of invalidity based on the legal doctrine of "assignor estoppel." Under the doctrine of assignor estoppel, an inventor of a patented invention who assigns the patent to another for value cannot later challenge the validity of the patent. Under some circumstances, courts have held that the doctrine of assignor estoppel applies not only to the assigning inventor but also to a company in privity with the inventor. On March 23, 2012, we filed a brief in opposition to that motion. Juniper filed a brief in response on April 2, 2012. We filed a motion for leave to file an additional response on April 25, 2012, and Juniper filed a brief in opposition to that motion in response on May 4, 2012. If Juniper's motion to strike is granted with respect to some or all of the patents at issue, we would not be able to argue in the District Court that the patents as to which the motion to strike is granted are invalid.

The judge has issued a scheduling order which sets forth the current expectation for important events in the lawsuit, although no assurances can be given that the schedule will not change. The scheduling order does not set a date for the court to rule on Juniper's motion to strike. On June 18, 2012, Juniper served its infringement contentions, which, among other things, assert that each of our products that run our PAN-OS operating system infringes each of the Juniper patents-in-suit. According to an agreement between the parties, on July 18, 2012, we must provide our invalidity contentions. A claims construction hearing, also known as a Markman hearing, as well as motions for summary judgment, are scheduled to be heard on November 11, 2013, and a trial date has been scheduled for February 24, 2014. Pursuant to the court's general standing order, the February 2014 trial will be limited to determining whether the patents are valid and whether we infringe some or all of those patents. Thereafter, the Court will rule on any post-trial motions and enter a judgment on validity and infringement. According to the Court's general standing order, if Juniper were to prevail on one or more of its patents, a subsequent trial on damages would be scheduled following an appeal on the liability issues to the appellate court.

Should Juniper prevail on its claims that one or more of our appliances infringe one or more of its valid patents, we could be required to pay substantial damages for past sales of such appliances, enjoined from manufacturing, using, selling, and importing such appliances if a license or other right to continue selling our appliances is not made available to us, and required to pay substantial ongoing royalties and comply with unfavorable terms if such a license is made available to us. Any of these outcomes could result in a material adverse effect on our business. Even if we were to prevail, this litigation could be costly and time-consuming,

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divert the attention of our management and key personnel from our business operations, deter distributors from selling our appliances, and dissuade potential end-customers from purchasing our appliances, which would also materially harm our business. During the course of litigation, we anticipate announcements of the results of hearings and motions, and other interim developments related to the litigation. If securities analysts or investors regard these announcements as negative, the market price of our common stock may decline.

We intend to defend the lawsuit vigorously. Given the early stage in the litigation, we are unable to predict the likelihood of success of Juniper's infringement claims.

In addition, from time to time, we are a party to litigation and subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

MANAGEMENT

Executive Officers and Directors

The following table provides information regarding our executive officers and directors as of June 30, 2012:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Mark D. McLaughlin	46	Chief Executive Officer, President, and Chairman
Steffan C. Tomlinson	40	Chief Financial Officer
Nir Zuk	41	Chief Technology Officer and Director
Rajiv Batra	51	Vice President, Engineering
René Bonvanie	50	Chief Marketing Officer
Mark F. Anderson	50	Senior Vice President, Worldwide Field Operations
Asheem Chandna ⁽²⁾⁽³⁾	47	Director
Venky Ganesan ⁽¹⁾	39	Director
James J. Goetz ⁽²⁾⁽³⁾	46	Director
Shlomo Kramer	46	Director
William A. Lanfri ⁽¹⁾	59	Director
Charles J. Robel ⁽¹⁾	63	Director
Daniel J. Warmenhoven ⁽²⁾⁽³⁾	61	Director and Lead Independent Director

- (1) Member of our audit committee.
(2) Member of our compensation committee.
(3) Member of our nominating and corporate governance committee.

Executive Officers

Mark D. McLaughlin has served as our Chief Executive Officer and President and as a member of our board of directors since August 2011, and as the Chairman of our board of directors since April 2012. From March 2000 through July 2011, Mr. McLaughlin served in several roles, including as President and Chief Executive Officer and as a director, at VeriSign, Inc., a provider of Internet infrastructure services to various networks worldwide. Prior to joining VeriSign, Mr. McLaughlin was Vice President, Sales and Business Development at Signio Inc., an Internet payments company acquired by VeriSign in February 2000. In January 2011, President Barack Obama appointed Mr. McLaughlin to serve on the President's National Security Telecommunications Advisory Committee, which is composed of private sector CEOs and experts who advise the U.S. Government on matters likely to impact or threaten the operation and security of the telecommunications systems in the United States. Mr. McLaughlin holds a B.S. in Political Science from the U.S. Military Academy at West Point and a J.D. from Seattle University School of Law. Mr. McLaughlin was selected to serve on our board of directors because of the perspective and experience he brings as our Chief Executive Officer and his extensive background in the technology industry.

Steffan C. Tomlinson has served as our Chief Financial Officer since February 2012. From September 2011 to January 2012, Mr. Tomlinson was Chief Financial Officer at Arista Networks, Inc., a provider of cloud networking solutions. From April 2011 to September 2011, Mr. Tomlinson was a Partner and Chief Administrative Officer at Silver Lake Kraftwerk, a private investment firm. From September 2005 to March 2011, Mr. Tomlinson was Chief Financial Officer of Aruba Networks, Inc., a provider of intelligent wireless LAN switching systems. From 2000 until its acquisition by Juniper Networks, Inc., a supplier of network infrastructure products and services, in 2005, Mr. Tomlinson was Chief Financial Officer of Peribit Networks, Inc., a provider of WAN optimization technology. Mr. Tomlinson holds an M.B.A. from Santa Clara University and a B.A. in Sociology from Trinity College.

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Nir Zuk is one of our founders and has served as our Chief Technology Officer and as a member of our board of directors since March 2005. From April 2004 to March 2005, Mr. Zuk was Chief Security Technologist at Juniper. From September 2002 until its acquisition by Juniper in April 2004, Mr. Zuk was Chief Technology Officer at NetScreen Technologies, Inc., a provider of ASIC-based Internet security systems. In December 1999, Mr. Zuk co-founded OneSecure, Inc., a provider of prevention and detection appliances, and was Chief Technical Officer until its acquisition by NetScreen in September 2002. From 1994 to 1999, Mr. Zuk served in several technical roles, including Principal Engineer at Check Point Software Technologies Ltd., an enterprise software security company. Mr. Zuk attended Tel Aviv University where he studied Mathematics. Mr. Zuk was selected to serve on our board of directors because of the perspective and experience he brings as one of our founders and as one of our largest stockholders, as well as his extensive experience with network security companies.

Rajiv Batra has served as our Vice President, Engineering since March 2006. From July 2005 to March 2006, Mr. Batra was Vice President, Engineering at Juniper. From 2000 until its acquisition by Juniper in 2005, Mr. Batra was Vice President, Engineering at Peribit Networks. Mr. Batra holds a B.Tech. in Electrical Engineering from the Indian Institute of Technology, Kanpur, and an M.S. in Computer Science from the University of Wisconsin-Madison.

René Bonvanie has served as our Chief Marketing Officer since November 2011 and was our Vice President, Worldwide Marketing from September 2009 to November 2011. From June 2007 to August 2009, Mr. Bonvanie was a Senior Vice President of Marketing, SaaS and Information Technology at Serena Software, Inc., a developer of information technology software. From January 2007 to June 2007, Mr. Bonvanie was Senior Vice President and General Manager at salesforce.com, inc., a global enterprise software company. From March 2006 to January 2007, Mr. Bonvanie was Senior Vice President of Global Marketing at SAP AG. Mr. Bonvanie holds a B.A. in Economics from Vrije Universiteit Amsterdam.

Mark F. Anderson has served as our Senior Vice President, Worldwide Field Operations since June 2012. From October 2004 to May 2012, Mr. Anderson served in several roles, including as Executive Vice President of Worldwide Sales, for F5 Networks, an IT infrastructure company. From March 2003 to September 2004, Mr. Anderson served as Executive Vice President of North American Sales at Lucent Technologies, a telecommunications equipment and services company. Mr. Anderson holds a B.A. in Business and Economics from York University in Toronto, Canada.

Board of Directors

Asheem Chandna has served as a member of our board of directors since April 2005. Mr. Chandna has been a Partner at Greylock Partners, a venture capital firm, since September 2003, where he focuses on investments in enterprise IT, including security products. From April 2003 to October 2009, Mr. Chandna was a director of Sourcefire, Inc., a developer of network security hardware and software. From April 1996 to December 2002, Mr. Chandna was Vice President, Business Development and Product Management at Check Point Software. Mr. Chandna currently serves on the board of directors of Imperva, Inc., a data security company, and of a number of privately held companies. Mr. Chandna holds a B.S. and an M.S. in Electrical and Computer Engineering from Case Western Reserve University. Mr. Chandna was selected to serve on our board of directors because of his specific professional experience with Internet security products, his extensive background with enterprise IT companies, and his public and private company board experience.

Venky Ganesan has served as a member of our board of directors since May 2007. Mr. Ganesan has been a Managing Director at Globespan Capital Partners, a venture capital firm, since June 2004, where he focuses on enterprise software and infrastructure investments. Mr. Ganesan currently serves on the board of directors of a number of privately held companies. Mr. Ganesan holds a B.A. in Economics-Math from Reed College and a B.S. Engineering and Applied Science with a specialization in Computer Science from the California Institute of Technology. Mr. Ganesan was selected to serve on our board of directors because of his experience with the venture capital industry and providing guidance and counsel to a wide variety of Internet and technology companies.

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James J. Goetz has served as a member of our board of directors since April 2005. Mr. Goetz has been a managing member of Sequoia Capital Operations, LLC, a venture capital firm, since June 2005, where he focuses on cloud, mobile, and enterprise companies. Mr. Goetz currently serves on the board of directors of Jive Software, Inc., a provider of social business software, and of a number of privately held companies. Mr. Goetz has an M.S. in Electrical Engineering with a concentration in Computer Networking from Stanford University and a B.S. in Electrical Engineering with a concentration in Computer Engineering from the University of Cincinnati. Mr. Goetz was selected to serve on our board of directors because of his deep experience with the venture capital industry and providing guidance and counsel to a wide variety of Internet and technology companies.

Shlomo Kramer has served as a member of our board of directors since February 2006. In April 2002, Mr. Kramer founded and began serving on the board of directors of Imperva and has served as its President and Chief Executive Officer since May 2002. Prior to founding Imperva, Mr. Kramer co-founded Check Point Software in 1993, where he held various executive roles through 1998 and served on its board of directors through 2003. Mr. Kramer is an active investor and currently serves on the board of directors for a number of privately held companies in the security and enterprise software industries. Mr. Kramer holds an M.S. in Computer Science from Hebrew University of Jerusalem and a B.S. in Mathematics and Computer Science from Tel Aviv University. Mr. Kramer was selected to serve on our board of directors because of his extensive experience in the Internet security industry, his participation as an early investor in, and board member of, a number of security and enterprise software companies and his public and private company board experience.

William A. Lanfri has served as a member of our board of directors since May 2006. Since January 2006, Mr. Lanfri has been an independent investor and advisor to early stage technology companies. From 2000 to 2003, Mr. Lanfri was an Operating Partner at Accel Partners, a venture capital firm. From 2000 to 2001, Mr. Lanfri was Chief Executive Officer of Big Bear Networks, Inc., a communications equipment company. Mr. Lanfri currently serves on the board of directors of Jive Software. Mr. Lanfri holds an M.B.A. from Santa Clara University and a B.A. in Economics from the University of California at Davis. Mr. Lanfri was selected to serve on our board of directors because of his extensive experience in building enterprise networking and telecommunications companies and his public and private company board experience.

Charles J. Robel has served as a member of our board of directors since June 2011. From June 2006 to March 2011, Mr. Robel was Chairman of the Board of McAfee, Inc., a provider of virus protection and internet security solutions. Mr. Robel currently serves on the board of directors and audit committees of Autodesk, Inc., a provider of design software, Informatica Corporation, a provider of enterprise data integration, and Jive Software. In addition, Mr. Robel serves on the board of directors for a number of privately held companies. Mr. Robel holds a B.S. in Accounting from Arizona State University. Mr. Robel was selected to serve on our board of directors because of his extensive service as a board member of several other technology and software companies, which brings to our board of directors substantial experience and knowledge in the areas of financial expertise, strategic direction, and corporate governance leadership.

Daniel J. Warmenhoven has served as the lead independent director of our board of directors since March 2012. From October 1994 to August 2009, Mr. Warmenhoven was Chief Executive Officer at NetApp, Inc., a provider of computer storage and data management, and currently serves on the board of directors as Executive Chairman. Mr. Warmenhoven currently serves on the board of directors of Aruba Networks. Mr. Warmenhoven holds a B.S. degree in Electrical Engineering from Princeton University. Mr. Warmenhoven was selected to serve on our board of directors because of his extensive experience in the technology industry and his public company management and board experience.

Our executive officers are appointed by our board of directors and serve until their successors have been duly elected and qualified. There are no family relationships among any of our directors or executive officers.

Codes of Business Conduct and Ethics

Our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers.

Board Composition

Our business affairs are managed under the direction of our board of directors, which is currently composed of nine members. Seven of our directors are independent within the meaning of the independent director guidelines of the New York Stock Exchange. Immediately prior to this offering, our board of directors will be divided into three staggered classes of directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the same class whose term is then expiring, as follows:

- the Class I directors will be Shlomo Kramer, William A. Lanfri, and Nir Zuk, and their terms will expire at the annual meeting of stockholders to be held in 2012;
- the Class II directors will be Asheem Chandna, Mark D. McLaughlin, and James J. Goetz, and their terms will expire at the annual meeting of stockholders to be held in 2013; and
- the Class III directors will be Venky Ganesan, Charles J. Robel, and Daniel J. Warmenhoven, and their terms will expire at the annual meeting of stockholders to be held in 2014.

Each director's term continues until the election and qualification of his successor, or his earlier death, resignation, or removal. Any increase or decrease in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of our board of directors may have the effect of delaying or preventing changes in control of our company.

Director Independence

In connection with this offering, we intend to list our common stock on the New York Stock Exchange. Under the rules of the New York Stock Exchange, independent directors must comprise a majority of a listed company's board of directors within a specified period of the completion of this offering. In addition, the rules of the New York Stock Exchange require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and corporate governance committees be independent. Under the rules of the New York Stock Exchange, a director will only qualify as an "independent director" if, in the opinion of that company's board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended.

In order to be considered independent for purposes of Rule 10A-3, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (1) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries; or (2) be an affiliated person of the listed company or any of its subsidiaries.

Our board of directors has undertaken a review of the independence of each director and considered whether each director has a material relationship with us that could compromise his ability to exercise independent judgment in carrying out his responsibilities. As a result of this review, our board of directors determined that Messrs. Chandna, Ganesan, Goetz, Kramer, Lanfri, Robel, and Warmenhoven, representing seven of our nine directors, were "independent directors" as defined under the applicable rules and regulations of the Securities and Exchange Commission, or SEC, and the listing requirements and rules of the New York Stock Exchange.

Lead Independent Director

Our corporate governance guidelines provide that one of our independent directors should serve as a lead independent director at any time when the Chief Executive Officer serves as the Chairman of the board of directors or if the Chairman is not otherwise independent. Because Mr. McLaughlin is our Chairman, our board of directors has appointed Mr. Warmenhoven to serve as our lead independent director. As lead independent director, Mr. Warmenhoven will preside over periodic meetings of our independent directors, serve as a liaison between our Chairman and the independent directors and perform such additional duties as our board of directors may otherwise determine and delegate.

Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee, and a nominating and corporate governance committee, each of which will have the composition and responsibilities described below. Members serve on these committees until their resignation or until otherwise determined by our board of directors.

Audit Committee

Messrs. Ganesan, Lanfri, and Robel, each of whom is a non-employee member of our board of directors, comprise our audit committee. Mr. Robel is the chairman of our audit committee. Our board of directors has determined that each of the members of our audit committee satisfies the requirements for independence and financial literacy under the rules and regulations of the New York Stock Exchange and the SEC. Our board of directors has also determined that Mr. Robel qualifies as an “audit committee financial expert” as defined in the SEC rules and satisfies the financial sophistication requirements of the New York Stock Exchange, and that simultaneous service by Mr. Robel on the audit committees of more than three public companies does not impair his ability to serve on our audit committee. The audit committee is responsible for, among other things:

- selecting and hiring our registered public accounting firm;
- evaluating the performance and independence of our registered public accounting firm;
- approving the audit and pre-approving any non-audit services to be performed by our registered public accounting firm;
- reviewing our financial statements and related disclosures and reviewing our critical accounting policies and practices;
- reviewing the adequacy and effectiveness of our internal control policies and procedures and our disclosure controls and procedures;
- overseeing procedures for the treatment of complaints on accounting, internal accounting controls, or audit matters;
- reviewing and discussing with management and the independent registered public accounting firm the results of our annual audit, our quarterly financial statements, and our publicly filed reports;
- reviewing and approving in advance any proposed related person transactions; and
- preparing the audit committee report that the SEC requires in our annual proxy statement.

Compensation Committee

Messrs. Chandna, Goetz, and Warmenhoven, each of whom is a non-employee member of our board of directors, comprise our compensation committee. Mr. Chandna is the chairman of our compensation committee. Our board of directors has determined that each member of our compensation committee meets the requirements for independence under the rules of the New York Stock Exchange and SEC rules and regulations, as well as Section 162(m) of the Internal Revenue Code. The compensation committee is responsible for, among other things:

- reviewing and approving our Chief Executive Officer’s and other executive officers’ annual base salaries, incentive compensation plans, including the specific goals and amounts, equity compensation,

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- employment agreements, severance arrangements and change in control agreements, and any other benefits, compensation or arrangements;
- administering our equity compensation plans;
- overseeing our overall compensation philosophy, compensation plans, and benefits programs; and
- preparing the compensation committee report that the SEC will require in our annual proxy statement.

Nominating and Corporate Governance Committee

Messrs. Chandna, Goetz, and Warmenhoven, each of whom is a non-employee member of our board of directors, comprise our nominating and corporate governance committee. Mr. Warmenhoven is the chairman of our nominating and corporate governance committee. Our board of directors has determined that each member of our nominating and corporate governance committee meets the requirements for independence under the rules of the New York Stock Exchange. The nominating and corporate governance committee is responsible for, among other things:

- evaluating and making recommendations regarding the composition, organization, and governance of our board of directors and its committees;
- evaluating and making recommendations regarding the creation of additional committees or the change in mandate or dissolution of committees;
- reviewing and making recommendations with regard to our corporate governance guidelines and compliance with laws and regulations; and
- reviewing and approving conflicts of interest of our directors and corporate officers, other than related person transactions reviewed by the audit committee.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is or has been an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the compensation committee or director (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of any entity that has one or more executive officers serving on our compensation committee or our board of directors.

Non-Employee Director Compensation

Our non-employee directors do not currently receive, and did not receive during fiscal 2011, any cash compensation for their services as directors or as board committee members. Other than as described below, none of our non-employee directors held any outstanding equity awards as of the end of fiscal 2011.

During fiscal 2011, in connection with his appointment to our board of directors, Mr. Robel was granted options to purchase shares of our common stock as follows:

<u>Name</u>	<u>Grant Date</u>	<u>Number of Securities Underlying Unexercised Options Exercisable (#)</u>	<u>Number of Securities Underlying Unexercised Options Unexercisable (#)</u>	<u>Option Exercise Price (\$/share)</u>	<u>Option Expiration Date</u>	<u>Grant Date Fair Value of Option Awards (\$)⁽¹⁾</u>
Charles J. Robel ⁽²⁾	6/11/2011	35,000	—	7.84	6/10/2021	131,533
Charles J. Robel ⁽³⁾	6/11/2011	30,000	—	7.84	6/10/2021	112,743

(1) The amount reported in this column represents the aggregate grant date fair value of this stock option as computed in accordance with Financial Accounting Standard Board Accounting

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Standards Codification Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in this column are set forth in the notes to our audited consolidated financial statements included elsewhere in this prospectus.

- (2) Subject to his continued service as member of our board of directors, this option grant will vest as to 25% of the shares on June 11, 2012 and the remainder in 1/36 increments on each monthly anniversary thereafter. This option provides for full vesting acceleration in the event of a change of control.
- (3) Subject to his continued service as chairman of our audit committee (and of at least one other board committee to which he is appointed, if any), this option grant will vest as to 25% of the shares on June 11, 2012 and the remainder in 1/36 increments on each monthly anniversary thereafter. This option provides for full vesting acceleration in the event of a change of control.

In March 2012, Mr. Warmenhoven was granted an option to purchase 110,500 shares of common stock at an exercise price per share of \$15.50, in connection with his appointment to our board of directors. Subject to continued service as a member of our board of directors and as a member of two board committees (and as chairman of at least one board committee), the option held by Mr. Warmenhoven will vest as to 25% of the shares on February 26, 2013 and the remainder in 1/36 increments on each monthly anniversary thereafter. This option provides for full vesting acceleration in the event of a change of control.

EXECUTIVE COMPENSATION

Overview

The compensation provided to our “Named Executive Officers” for fiscal 2011 is set forth in detail in the Summary Compensation Table and the other tables that follow this section. The following discussion provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program, and each component of compensation that we provide. In addition, we explain how and why our board of directors and compensation committee arrived at the specific compensation policies and decisions involving our executive officers, including the following executive officers who served as our Named Executive Officers for fiscal 2011:

- Nir Zuk, Office of the Chief Executive Officer and our Chief Technology Officer;
- Rajiv Batra, Office of the Chief Executive Officer and our Vice President, Engineering;
- René Bonvanie, our Chief Marketing Officer;
- Lawrence J. Link, our former Vice President, Worldwide Sales and our current Senior Vice President, Emerging Markets;
- Lane M. Bess, our former President and Chief Executive Officer; and
- Michael E. Lehman, Office of the Chief Executive Officer and our former Chief Financial Officer.

In December 2010, Mr. Bess resigned from his position as our President and Chief Executive Officer. At that time, the Office of the Chief Executive Officer, consisting of Messrs. Zuk, Batra, and Lehman, assumed the role and responsibilities of the Chief Executive Officer on an interim basis. In August 2011, Mark D. McLaughlin was appointed our President and Chief Executive Officer. In February 2012, Mr. Lehman resigned as our Chief Financial Officer and Steffan C. Tomlinson was appointed our Chief Financial Officer. In June 2012, Mr. Link became our Senior Vice President, Emerging Markets. We describe the compensatory arrangements of Messrs. McLaughlin and Tomlinson below in “—Subsequent Events” because their employment with us commenced in fiscal 2012.

Executive Compensation Philosophy, Objectives, and Design

We operate in a highly competitive business environment, which is characterized by frequent technological advances, rapidly changing market requirements, and the emergence of new market entrants. To successfully grow our business in this dynamic environment, we must continually develop and refine our products and services to stay ahead of our end-customers’ needs and challenges. To achieve these objectives, we need a highly talented and seasoned team of technical, sales, marketing, operations, and other business professionals.

We compete with both our competitors and other technology companies in the San Francisco Bay Area to attract and retain a skilled management team. To meet this challenge, we have embraced a compensation philosophy of offering our executive officers a competitive total compensation program that recognizes and rewards individual performance and contributions to our success, allowing us to attract, retain, and motivate talented executives with the skills and abilities needed to drive our desired business results.

The specific objectives of our executive compensation program are to:

- reward the successful achievement of our financial growth objectives;
- drive the development of a successful and profitable business;
- attract, motivate, reward, and retain highly qualified executives who are important to our success; and
- recognize strong performers by offering equity awards and discretionary bonuses that reward individual achievement as well as contributions to our overall success.

Compensation Program Design

Our current executive compensation program reflects our stage of development as a privately-held company. Accordingly, the compensation of our executive officers, including our Named Executive Officers, has consisted of base salary, a cash bonus opportunity, equity compensation in the form of stock options, and certain employee welfare benefits. In addition, in order to attract and incentivize Messrs. McLaughlin and Tomlinson to join us, we included signing bonuses in their respective employment offer letters.

The key component of our executive compensation program has been equity awards for shares of our common stock. As a privately-held company, we have emphasized the use of equity awards to provide incentives for our executive officers to focus on the growth of our overall enterprise value and, correspondingly, to create value for our stockholders. We have used stock options as our primary equity award vehicle for all of our employees. We believe that stock options offer our employees, including our Named Executive Officers, a valuable, long-term incentive that aligns their interests with the long-term interests of our stockholders. Once we become a publicly-traded company with a liquid market for our common stock, we may introduce other forms of equity awards, as we deem appropriate, into our executive compensation program to offer our executive officers additional types of long-term equity incentives that further this objective.

We also offer cash compensation in the form of base salaries, annual cash bonus opportunities, and with respect to Messrs. McLaughlin and Tomlinson, a one-time signing bonus. Typically, we have structured our annual cash bonus opportunities to focus on the achievement of specific short-term financial and strategic objectives that will further our longer-term growth objectives.

Historically, we have used standard industry surveys, including the Radford High-Technology Executive Compensation Survey, to assist our board of directors and compensation committee in establishing cash compensation levels for our executive officers with an emphasis on technology companies of similar size, stage of development, and growth potential as our company. Using this information as a guideline, the compensation committee has emphasized remaining competitive in our market and differentiating total cash compensation levels through the use of an annual cash bonus plan.

In fiscal 2011, we retained Compensia, Inc., a national compensation consulting firm that provides executive compensation advisory services. In fiscal 2011, Compensia provided us with competitive data on our equity award strategy and our executive compensation practices. No peer group was used at that time as Compensia's assessment was done relative to the broader technology market with companies of similar size and stage of development.

We have not adopted any formal policies or guidelines for allocating compensation between current and long-term compensation, between cash and non-cash compensation, or among different forms of non-cash compensation. Instead, our board of directors and, more recently, our compensation committee reviews each component of executive compensation separately and also takes into consideration the value of each executive officer's compensation package as a whole and its relative value in comparison to our other executive officers.

Once we become a publicly-traded company, we will evaluate our philosophy and compensation programs as circumstances require, and at a minimum, we will review executive compensation annually. As part of this review process, we expect to apply our values and the objectives outlined above, together with consideration for the levels of compensation that we would be willing to pay to ensure that our compensation remains competitive and we meet our retention objectives and the cost to us if we were required to find a replacement for a key employee.

Compensation-Setting Process

Role of the Compensation Committee

Historically, compensation decisions for our executive officers were determined by our board of directors. In fiscal 2011, we began to transition these responsibilities to the compensation committee. Our compensation committee is responsible for evaluating, approving, and reviewing the compensation arrangements, plans, policies, and programs for our executive officers and directors, and overseeing our cash-based and equity-based compensation plans. Decisions with respect to the compensation of our Chief Executive Officer have been and will continue to be made by the independent members of our board of directors, based upon the recommendations of the compensation committee. For additional information on the compensation committee, including the scope of its authority, see “Management—Committees of the Board of Directors—Compensation Committee.”

At the beginning of each fiscal year, our board of directors and compensation committee, after consulting with management, establish our corporate performance objectives and make decisions with respect to any base salary adjustment, approves the individual performance objectives and target annual cash bonus opportunities, and formulates recommendations with respect to equity awards for our executive officers for the upcoming fiscal year. Any recommendations by our compensation committee for equity awards to our executive officers are submitted to our board of directors for their consideration and approval. After the end of the fiscal year, our board of directors and compensation committee assess the performance of our executive officers to determine the payouts for the annual cash bonus opportunities for the previous fiscal year.

Our board of directors and compensation committee review at least annually our executive compensation program, including any incentive compensation plans, to determine whether they are appropriate, properly coordinated, and achieve their intended purposes, and to make any modifications to existing plans and arrangements or to adopt new plans or arrangements.

Role of Management

In carrying out its responsibilities, our board of directors and compensation committee work with members of our management, including our Chief Executive Officer, our Chief Financial Officer, and our head of Human Resources. Typically, our management assists our board of directors and compensation committee by providing information on corporate and individual performance, market data, and management’s perspective and recommendations on compensation matters.

Historically, the initial compensation arrangements with our executive officers have been negotiated with each individual executive at the time that he joined us. Our Chief Executive Officer has been responsible for negotiating these arrangements, with the oversight and final approval of our board of directors and compensation committee.

Except with respect to his own compensation, our Chief Executive Officer will typically make recommendations to our board of directors and compensation committee regarding compensation matters, including the compensation of our executive officers. He also participates in meetings of our board of directors and compensation committee, except with respect to discussions involving his own compensation.

While our board of directors and compensation committee solicit the recommendations and proposals of our Chief Executive Officer with respect to compensation-related matters, these recommendations and proposals are only one factor in their compensation decisions.

Role of Compensation Consultant

In March 2011, our board of directors granted a stock option to Mr. Link, our former Vice President, Worldwide Sales. The size of the stock option grant was guided by market data information provided by Compensia related to retention stock option grants.

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In April 2011, we engaged Compensia to assist us in refining our executive compensation strategy and guiding principles, developing a competitive equity compensation strategy and guidelines, establishing equity and employee stock purchase plan funding strategies once we become a publicly traded company, and assessing current executive total compensation levels against public company competitive market practices. Compensia was engaged by our head of Human Resources who acted as a liaison between Compensia and our compensation committee, and our compensation committee considered Compensia's guidance when making its decisions regarding executive compensation.

The compensation committee is authorized to retain the services of one or more executive compensation advisors from time to time, as it sees fit, in connection with carrying out its duties, but did not do so prior to fiscal 2012. We expect that the compensation committee, as part of its annual review of our executive compensation, will retain an executive compensation advisor to perform, among other things, an analysis of our executive compensation program to assist our compensation committee in aligning our compensation strategy and competitive market practices.

Use of Competitive Data

To assess the competitiveness of our executive compensation program and to assist in setting compensation levels, our board of directors and compensation committee have historically referred to standard industry surveys, including the Radford High-Technology Executive Compensation Survey. While our board of directors and compensation committee reviewed this compensation data to inform their decision-making process, they did not set compensation components to meet specific benchmarks. Instead, our board of directors and compensation committee used this data as a point of reference so that they could set total compensation levels that they believed were reasonably competitive. While compensation levels differed among our executive officers based on competitive factors and the role, responsibilities, and performance of each executive officer, there have been no material differences in the compensation policies and practices among our executive officers.

While we have not used competitive data to benchmark our executive compensation program, our compensation philosophy has been influenced by the use of competitive data. We expect that, once we are a publicly traded company, the compensation committee will retain an executive compensation advisor to develop a peer group of companies for evaluating our compensation levels in light of the compensation paid by these market competitors. We anticipate that the compensation committee will use this market data to inform its decision-making process.

Executive Compensation Program Components

The following describes each component of our executive compensation program, the rationale for each, and how compensation amounts and awards are determined.

Base Salary. Base salary is the primary fixed component of our executive compensation program. We use base salary to compensate our executive officers for services rendered during the year and to ensure that we remain competitive in attracting and retaining executive talent. Historically, to obtain the skills and experience that we believe are necessary to lead our growth, most of our executive officers have been hired from larger organizations. Their initial base salaries were generally established through arm's-length negotiations at the time each executive officer was hired, taking into account his qualifications, experience, prior salary level, and the base salaries of our other executive officers.

Our board of directors and compensation committee, as applicable, have reviewed the base salaries of each executive officer from time to time and made adjustments as they determined to be reasonable and necessary to reflect the scope of an executive officer's performance, contributions, responsibilities, experience, prior salary level, position (in the case of a promotion), and market conditions. In August 2010, our board of directors reviewed the base salaries of our executive officers, taking into consideration a compensation analysis performed by our human resources department and the recommendations of our Chief Executive Officer, as well as the

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other factors described above. Exercising its judgment and discretion, our board of directors determined that no adjustments were necessary to the annual base salaries of our Named Executive Officers because their salaries remained appropriate.

In July 2011, as part of its review of our executive compensation practice, Compensia determined that on average the base salary of our executive officers was at the 35th percentile of the market range for public companies of comparable size. Relative to private companies, the base salary of our executive officers was at the 60th percentile. The base salaries paid to our Named Executive Officers during fiscal 2011 are set forth in the “Fiscal 2011 Summary Compensation Table” below.

Annual Cash Bonuses. We use cash bonuses to motivate our executive officers to achieve our annual financial and operational objectives, while making progress towards our longer-term strategic and growth goals. Historically, at the beginning of each fiscal year, our board of directors or the compensation committee has adopted a bonus plan for that fiscal year which identifies the plan participants and establishes the target cash bonus opportunity for each participant, the performance measures to be tracked during the fiscal year and the associated target levels for each measure, and the potential payouts based on actual performance for the fiscal year.

Typically, annual cash bonuses have been determined after the end of the fiscal year by our board of directors or the compensation committee based on its assessment of our performance against one or more financial and operational performance objectives for the fiscal year as set forth in our annual operating plan. While the decision to pay discretionary bonuses is made in the sole discretion of our board of directors and compensation committee, in making their recommendations for discretionary bonus payouts, our board of directors and compensation committee consider input from our Chief Executive Officer on the actual performance of the other executive officers, as well as their own evaluation of the expected and actual performance of each executive officer and his individual contributions.

Fiscal 2011 Bonus Plan. In September 2010, our board of directors adopted an Executive Bonus Plan for fiscal 2011, which was based on our annual operating plan. The Fiscal 2011 Bonus Plan provided potential cash bonus payouts based on our actual achievement of pre-established corporate financial objectives.

- *Target Annual Cash Bonus Opportunities.* Each Named Executive Officer’s target cash bonus opportunity was negotiated with each executive officer at the time that he joined the company. In setting these target cash bonus opportunities, the compensation committee exercised its judgment and discretion and considered several factors, including the executive officer’s potential to contribute to our long-term strategic goals, his role and scope of responsibilities within the company, his individual experience and skills, competitive market practices for annual bonuses, and the results of arm’s length negotiations as of the executive officer’s date of hire. The target annual cash bonus opportunities established under the Fiscal 2011 Bonus Plan were as follows:

<u>Named Executive Officer</u>	<u>Fiscal 2011 Base Salary (\$)</u>	<u>Target Cash Bonus Opportunity (as a % of base salary)</u>	<u>Target Cash Bonus Opportunity (\$)</u>
Mr. Zuk	220,000	18%	40,000
Mr. Batra	220,000	20%	44,000
Mr. Bonvanie	224,000	43%	96,000
Mr. Link	200,000	73%	145,000
Mr. Bess	250,000	80%	200,000
Mr. Lehman	250,000	30%	75,000

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- *Corporate Performance Measures.* For purposes of funding the Fiscal 2011 Bonus Plan, our board of directors selected bookings and adjusted operating income as the two corporate performance measures that best supported our annual operating plan and enhanced long-term value creation. We define bookings as non-cancellable orders received during the fiscal period. We define adjusted operating income as operating income exclusive of expense related to share-based compensation and expense related to the bonuses under this plan. Our executive officers were eligible for bonus payouts only to the extent, and in the amount, that we exceeded our bookings and adjusted operating income targets for fiscal 2011 as set forth in our annual operating plan. Accordingly, for our executive officers to be eligible to receive bonus payouts at 100% of the target level, we would have to achieve 110% of the bookings and adjusted operating income targets set forth in our annual operating plan. In addition, to the extent that we exceeded 110% of our bookings and adjusted operating income targets for fiscal 2011, our executive officers would be eligible to receive additional annual cash bonus payouts based on a multiple of the payout at target level. For fiscal 2011, the target levels for our bookings and adjusted operating income performance measures were set to be aggressive, yet achievable, with diligent effort during the year.
- *Fiscal 2011 Bonus Plan Decisions.* Under the Fiscal 2011 Bonus Plan, we paid a quarterly cash bonus if bookings and adjusted operating income exceed our operating plan by 10%. As the minimum performance would require exceeding our operating plan by 10%, we determined that this target would be sufficiently challenging yet achievable with strong performance. The quarterly cash bonus was an all or nothing bonus equal to 25% of the target cash bonus opportunity for each Named Executive Officer. During fiscal 2011, we achieved the quarterly targets of our corporate performance measures, and therefore, each Named Executive Officer received a quarterly cash bonus equal to 25% of his respective target cash bonus opportunity.

The Fiscal 2011 Bonus Plan provides for additional, pro rata payouts to our Named Executive Officers if we achieve more than 110% of our operating plan. In August, 2011, our compensation committee evaluated our financial performance for fiscal 2011 and determined that we had exceeded our annual bookings and adjusted operating income targets. Accordingly, based on this strong performance in a volatile market, our compensation committee determined based on the formula set forth in the Fiscal 2011 Bonus Plan and as described above that our Named Executive Officers earned an additional annual bonus under the Fiscal 2011 Bonus Plan equal to 303% of their respective target cash bonus opportunity. As a result, each Named Executive Officer received a total cash bonus equal to 403% of his target cash bonus opportunity.

The compensation committee approved total cash bonuses for our Named Executive Officers under the Fiscal 2011 Bonus Plan for fiscal 2011 as follows:

<u>Named Executive Officer</u>	<u>Target Cash Bonus Opportunity (\$)</u>	<u>Actual Cash Bonus (\$)</u>
Mr. Zuk	40,000	161,078
Mr. Batra	44,000	177,185
Mr. Bonvanie	96,000	386,586
Mr. Link	145,000	564,213
Mr. Lehman	75,000	302,020

Mr. Link's Sales Commission Opportunity. As our Vice President, Worldwide Sales during fiscal 2011, Mr. Link was also a participant in our sales incentive plan during the first quarter of fiscal 2011. As a participant, he was eligible to earn up to \$33,750 during the quarter as part of his variable compensation plan, the terms of which were established at the beginning of fiscal 2011 by the mutual agreement of Mr. Link and our board of directors. For fiscal 2011, Mr. Link agreed that his bonus opportunity would be based on achieving a specified level of sales transactions involving new customers. Our board of directors believed that this target level of sales transactions was appropriate to establish an aggressive, yet attainable, performance objective that, if achieved, would result in a bonus commensurate with results achieved and represent a significant contribution to the

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achievement of our annual operating plan. At the end of the first quarter of fiscal 2011, our board of directors determined that Mr. Link had earned \$32,238 in commissions from his sales activities during that period. At that time, our board of directors decided to terminate Mr. Link's participation in our sales incentive plan and make him a full-time participant in the Fiscal 2011 Bonus Plan. This transition was made to solidify Mr. Link's role as a key member of the executive team as opposed to a sales employee and to ensure that the incentives to Mr. Link were aligned with those for the rest of the executive team. Mr. Link's target annual cash bonus opportunity is relatively high compared to our other Named Executive Officers because we believed it was important for Mr. Link's compensation to be competitive with those of sales vice presidents of comparable companies.

Special Bonuses. In July 2011, our compensation committee awarded a \$200,000 discretionary cash bonus to each of Messrs. Lehman, Zuk, and Batra for their performance and service as the Office of the Chief Executive Officer for fiscal 2011. The additional service provided by each of them as a member of the Office of the Chief Executive Officer exceeded their respective job descriptions, and in light of our strong financial performance and the successful recruitment of Mr. McLaughlin, the compensation committee determined that these individuals earned a discretionary special bonus.

Finally, in July 2011, our compensation committee awarded a \$75,000 discretionary cash bonus to Mr. Link for his exemplary performance leading our sales team in fiscal 2011, which contributed to the achievement of our financial growth objectives.

The cash bonuses paid to our Named Executive Officers for fiscal 2011 are set forth in the "Fiscal 2011 Summary Compensation Table" below.

2012 Executive Bonus Plan. Because each executive officer's target annual cash bonus opportunity was based on individual negotiations that began in 2006, there was wide disparity in the target annual cash bonus opportunity among the Named Executive Officers. In an effort to address this disparity and reset target annual cash bonus opportunities to be based on each Named Executive Officer's current role and scope of responsibilities and current market conditions, on September 30, 2011, our board of directors approved the following target annual cash bonus opportunities for fiscal 2012 described below. In order to manage potential incentive compensation costs and maintain appropriate incentives for our Named Executive Officers, our board of directors imposed a per person individual cap of amounts payable under our fiscal 2012 Executive Bonus Plan equal to three times the target annual bonus opportunity.

<u>Named Executive Officer</u>	<u>Fiscal 2012 Target Cash Bonus Opportunity (\$)</u>
Mr. Zuk	66,000
Mr. Batra	67,500
Mr. Bonvanie	69,000
Mr. Link	180,000
Mr. McLaughlin	150,000
Mr. Lehman	75,000

Equity Compensation. We use equity awards to incentivize and reward our executives officers for long-term corporate performance based on the value of our common stock and, thereby, to align the interests of our executive officers with those of our stockholders. These equity awards have generally been granted in the form of stock options. We believe that stock options, when granted with exercise prices equal to the fair market value of our common stock on the date of grant, provide an appropriate long-term incentive for our executive officers because the stock options reward them only to the extent that our stock price increases and stockholders realize value following their grant date.

Historically, the size and form of the initial equity awards for our executive officers have been established through arm's-length negotiations at the time the individual executive was hired. In making these awards, we considered, among other things, the prospective role and responsibility of the individual executive, competitive

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factors, the amount of equity-based compensation held by the executive officer at his former employer, the cash compensation received by the executive officer, and the need to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value.

In addition, we have granted equity awards to our executive officers when our board of directors and compensation committee have determined that such awards were necessary or appropriate to recognize corporate and individual performance, in recognition of a promotion, or to achieve our retention objectives. To date, we have not applied a rigid formula in determining the size of these equity awards. Instead, our board of directors or the compensation committee has determined the size of such equity awards for an individual executive officer after taking into consideration a compensation analysis performed by our human resources department, the equity award recommendations of our Chief Executive Officer, the scope of an executive officer's performance, contributions, responsibilities, and experience, and the amount of equity compensation held by the executive officer, including the current economic value of his unvested equity and the ability of this equity to satisfy our retention objectives, market conditions, and internal equity considerations. In making its award decisions, our board of directors or the compensation committee has exercised its judgment and discretion to set the size of each award at a level it considered appropriate to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value.

On March 31, 2011, based on the recommendation of the compensation committee, our board of directors granted a stock option to purchase up to 125,000 shares of our common stock to Mr. Link, in recognition of our financial results, his individual performance in fiscal 2010 and in light of Mr. Link being significantly vested with respect to prior equity award grants. The exercise price for the stock option was \$5.39 per share, which our board of directors determined was the fair market value of our common stock on that date.

This equity award is set forth in the "Fiscal 2011 Summary Compensation Table" and the "Fiscal 2011 Grants of Plan-Based Awards Table" below.

In January 2012, our board of directors granted restricted stock awards to certain Named Executive Officers. We describe these grants in "—Subsequent Events" below.

Welfare and Other Employee Benefits. We have established a tax-qualified Section 401(k) retirement plan for all employees who satisfy certain eligibility requirements, including requirements relating to age and length of service. We currently do not match any contributions made to the plan by our employees, including executive officers. We intend for the plan to qualify under Section 401(a) of the Internal Revenue Code so that contributions by employees to the plan, and income earned on plan contributions, are not taxable to employees until withdrawn from the plan. In addition, we provide other benefits to our executive officers on the same basis as all of our full-time employees in the country in which they are resident. These benefits include medical, dental, and vision benefits, medical and dependent care flexible spending accounts, short-term and long-term disability insurance, accidental death and dismemberment insurance, and basic life insurance coverage. We design our employee benefits programs to be affordable and competitive in relation to the market, as well as compliant with applicable laws and practices. We adjust our employee benefits programs as needed based upon regular monitoring of applicable laws and practices and the competitive market.

Perquisites and Other Personal Benefits. Currently, we do not provide perquisites or other personal benefits to our executive officers. In the future, we may provide perquisites or other personal benefits in limited circumstances, such as where we believe it is appropriate to assist an individual executive officer in the performance of his or her duties, to make our executive officers more efficient and effective, and for recruitment, motivation, or retention purposes. All future practices with respect to perquisites or other personal benefits will be approved and subject to periodic review by the compensation committee.

Employment Agreements

While we have not historically entered into employment agreements with any of our executive officers, the initial terms and conditions of employment of each of the Named Executive Officers (other than Mr. Zuk) were

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set forth in a written employment offer letter. Each of these arrangements was approved by our board of directors or, in certain instances, the compensation committee. We believed that these employment offer letters were necessary to induce these individuals to forego other employment opportunities or leave their current employer for the uncertainty of a demanding position in a new and unfamiliar organization.

In filling these executive positions, our board of directors and the compensation committee were aware that it would be necessary to recruit candidates with the requisite experience and skills to manage a growing business in a unique market niche. Accordingly, it recognized that it would need to develop competitive compensation packages to attract qualified candidates in a dynamic labor market. At the same time, our board of directors and the compensation committee were sensitive to the need to integrate new executive officers into the executive compensation structure that we were seeking to develop, balancing both competitive and internal equity considerations. Each of these employment offer letters provided for “at will” employment and set forth the initial compensation arrangements for the executive officer, including an initial base salary, an annual cash bonus opportunity, and an equity award in the form of a stock option to purchase shares of our common stock.

In December 2011, we entered into new employment agreements with our executive officers in order to achieve consistency in the employment terms among our executive officers. For a summary of the material terms and conditions of these employment arrangements, see “—Executive Employment Agreements” below.

Post-Employment Compensation

The new employment agreements with our executive officers provide the executive officers with protections in the event of their involuntary termination of employment following a change in control of us. We believe that these protections assisted us in attracting these individuals to join us. We also believe that these protections serve our executive retention objectives by helping our executive officers maintain continued focus and dedication to their responsibilities to maximize stockholder value, including in the event that there is a potential transaction that could involve a change in control of us. The terms of these agreements were determined after our board of directors and compensation committee reviewed our retention goals for each executive officer and an analysis of relevant market data.

For a summary of the material terms and conditions of these post-employment compensation arrangements, see “—Executive Employment Agreements” and “—Potential Payments Upon Termination or Change in Control” below.

Other Compensation Policies

Currently, we have not implemented policies regarding minimum stock ownership requirements, compensation recovery, or derivatives trading and hedging for our executive officers.

Risk Assessment and Compensation Practices

Our management assesses and discusses with our compensation committee our compensation policies and practices for our employees as they relate to our risk management, and based upon this assessment, we believe that, for the following reasons, any risks arising from such policies and practices are not reasonably likely to have a material adverse effect on us in the future:

- our use of multiple performance objectives in our plans and our use of a single incentive compensation plan for our management team together minimize the risk that might be posed by the short-term variable component of our compensation program;
- our incentive compensation plan reflects a pay for performance philosophy and rewards executive officers for achievement of performance targets, and historically, we reserve the payment of discretionary bonuses for extraordinary performance and achievement;

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- although there was no cap on fiscal 2011, short-term annual bonuses, the long-term component of our compensation program, which to date has consisted of stock options, keeps our officers and employees appropriately focused on long-term, entity-level growth through multi-year vesting schedules and by conveying value only if we succeed in growing our business in a way that results in appreciation of the value of our stock over time; and
- for our fiscal 2012 incentive compensation plan, we instituted a per person cap of three times the target opportunity to manage costs and to limit any potential risks related to short-term incentives.

Tax and Accounting Considerations

Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code generally disallows public companies a tax deduction for federal income tax purposes of remuneration in excess of \$1 million paid to the chief executive officer and each of the three other most highly compensated executive officers (other than the chief financial officer) in any taxable year. Generally, remuneration in excess of \$1 million may only be deducted if it is “performance-based compensation” within the meaning of the Code. In this regard, the compensation income realized upon the exercise of stock options granted under a stockholder-approved stock option plan generally will be deductible so long as the options are granted by a committee whose members are non-employee directors and certain other conditions are satisfied.

As we are not currently publicly-traded, our board of directors has not previously taken the deductibility limit imposed by Section 162(m) into consideration in setting compensation for our executive officers. We expect that, where reasonably practicable, the compensation committee will seek to qualify the variable compensation paid to our executive officers for the “performance-based compensation” exemption from the deductibility limit. As such, in approving the amount and form of compensation for our executive officers in the future, we will consider all elements of the cost to the company of providing such compensation, including the potential impact of Section 162(m). In the future, the compensation committee may, in its judgment, authorize compensation payments that do not comply with an exemption from the deductibility limit when it believes that such payments are appropriate to attract and retain executive talent.

Taxation of “Parachute” Payments. Sections 280G and 4999 of the Internal Revenue Code provide that executive officers and directors who hold significant equity interests and certain other service providers may be subject to significant additional taxes if they receive payments or benefits in connection with a change-in-control of the company that exceeds certain prescribed limits and that the company (or a successor) may forfeit a deduction on the amounts subject to this additional tax. We did not provide any executive officer with a “gross-up” or other reimbursement payment for any tax liability that the executive officer might owe as a result of the application of Sections 280G or 4999 during fiscal 2011, and we have not agreed and are not otherwise obligated to provide any executive officer with such a “gross-up” or other reimbursement.

Accounting for Share-Based Compensation. We follow Financial Accounting Standard Board Accounting Standards Codification Topic 718, or ASC Topic 718, for our share-based compensation awards. ASC Topic 718 requires companies to measure the compensation expense for all share-based payment awards made to employees and directors, including stock options, based on the grant date “fair value” of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our executive officers may never realize any value from their awards. ASC Topic 718 also requires companies to recognize the compensation cost of their share-based compensation awards in their income statements over the period that an executive officer is required to render service in exchange for the option or other award.

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Fiscal 2011 Summary Compensation Table

The following table presents summary information regarding the total compensation for services rendered in all capacities that was awarded to, earned by, and paid to each individual who served as our Chief Executive Officer or Chief Financial Officer at any time during the last completed fiscal year, and the other most highly compensated executive officers who were serving as executive officers at July 31, 2011, the end of the last completed fiscal year. These individuals are our Named Executive Officers for fiscal 2011.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Stock Awards</u>	<u>Option Awards (\$)⁽¹⁾</u>	<u>Non-Equity Incentive Plan Compensation (\$)</u>	<u>All Other Compensation (\$)⁽²⁾</u>	<u>Total (\$)</u>
Nir Zuk <i>Office of the Chief Executive Officer and Chief Technology Officer</i>	2011	220,000	200,000	—	—	161,078	—	581,078
Rajiv Batra <i>Office of the Chief Executive Officer and Vice President, Engineering</i>	2011	217,462	200,000	—	—	177,185	—	594,647
René Bonvanie <i>Chief Marketing Officer</i>	2011	224,000	—	—	—	386,586	—	610,586
Lawrence J. Link <i>Former Vice President, Worldwide Sales and current Senior Vice President, Emerging Markets⁽³⁾</i>	2011	197,500	75,000	—	444,375	564,213	—	1,281,088
Lane M. Bess <i>Former President and Chief Executive Officer⁽⁴⁾</i>	2011	101,362	—	—	—	50,000	250,000	401,362
Michael E. Lehman <i>Office of the Chief Executive Officer and Former Chief Financial Officer⁽⁵⁾</i>	2011	250,000	200,000	—	—	302,020	—	752,020

- (1) The amounts reported in the Option Awards column represent the grant date fair value of the stock options granted to the Named Executive Officers during fiscal 2011 as computed in accordance with ASC Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in this column are set forth in the notes to our audited consolidated financial statements included in this prospectus. Note that the amounts reported in this column do not correspond to the actual economic value that may be received by the Named Executive Officers from the options.
- (2) The amounts reported in the All Other Compensation column for Mr. Bess represents a cash payment paid upon his resignation.
- (3) Mr. Link became our Senior Vice President, Emerging Markets in June 2012.
- (4) Mr. Bess resigned as President and Chief Executive Officer in December 2010.
- (5) Mr. Lehman resigned as Chief Financial Officer in February 2012.

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Fiscal 2011 Grants of Plan-Based Awards

The following table presents, for each of our Named Executive Officers, information concerning each grant of a cash or equity award made during fiscal 2011. This information supplements the information about these awards set forth in the Summary Compensation Table.

<u>Named Executive Officer</u>	<u>Grant Date</u>	<u>Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Threshold) (\$)</u>	<u>Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Target) (\$)</u>	<u>Estimated Future Payouts Under Non-Equity Incentive Plan Awards (Maximum) (\$)</u>	<u>All Other Option Awards: Number of Securities Underlying Options (#)⁽¹⁾</u>	<u>Exercise or Base Price of Option Awards (\$/share)</u>	<u>Grant Date Fair Value of Option Awards (\$)⁽²⁾</u>
Mr. Zuk	—	—	40,000	—	—	—	—
Mr. Batra	—	—	44,000	—	—	—	—
Mr. Bonvanie	—	—	96,000	—	—	—	—
Mr. Link	3/31/2011	—	—	—	125,000	5.39	444,375
Mr. Link	—	—	145,000	—	—	—	—
Mr. Bess	—	—	200,000	—	—	—	—
Mr. Lehman	—	—	75,000	—	—	—	—

- (1) The stock option grants to purchase shares of our common stock were made under the Palo Alto Networks, Inc. 2005 Equity Incentive Plan, or the 2005 Plan. The exercise price of these options is equal to the fair market value of our common stock on the date of grant. All stock options granted under the 2005 Plan to the Named Executive Officers are subject to service-based vesting requirements.
- (2) The amounts reported represent the grant date fair value of the stock options granted in fiscal 2011, calculated in accordance with ASC Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in this column are set forth in the notes to our audited consolidated financial statements included in this prospectus. Note that the amounts reported in this column do not correspond to the actual economic value that may be received by the Named Executive Officers from the options.

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Fiscal 2011 Outstanding Equity Awards at Fiscal Year-End

The following table presents, for each of our Named Executive Officers, information regarding outstanding stock options and other equity awards held as of July 31, 2011. The fair value of the shares of our common stock reflected in the table is based upon the midpoint of the price range set forth on the cover page of this prospectus.

<u>Named Executive Officer</u>	<u>Grant Date⁽¹⁾</u>	<u>Option Awards – Number of Securities Underlying Unexercised Options (#) Exercisable</u>	<u>Option Awards – Number of Securities Underlying Unexercised Options (#) Unexercisable</u>	<u>Option Awards – Option Exercise Price (\$)</u>	<u>Option Awards – Option Expiration Date</u>	<u>Stock Awards – Number of Shares or Units of Stock That Have Not Vested (#)⁽²⁾</u>	<u>Stock Awards – Fair Value of Shares or Units of Stock That Have Not Vested (\$)⁽²⁾</u>
Mr. Zuk	3/25/2009	—	—	0.63	3/24/2019	196,878	6,989,169
Mr. Batra	3/25/2009	—	—	0.63	3/24/2019	196,878	6,989,169
Mr. Bonvanie	11/11/2009	—	—	0.64	11/10/2019	270,835	9,614,643
Mr. Link	1/8/2010	50,000	—	0.64	1/7/2020	—	—
	3/31/2011	125,000	—	5.39	3/30/2021	—	—
Mr. Bess	—	—	—	—	—	—	—
Mr. Lehman	4/20/2010	600,000	—	1.24	4/19/2020	—	—

- (1) These stock options vest over a four-year period as follows: 25% of the shares of common stock underlying the options vest on the first anniversary of the date of grant and thereafter 1/48th of the shares of common stock underlying the options vest each month. Notwithstanding the vesting schedule, these stock options were immediately exercisable in full as of the date of grant, with the underlying option shares subject to a right of repurchase in favor of the company at the option exercise price.
- (2) These shares were purchased upon the exercise of a stock option that was immediately exercisable in full as of the date of grant, with the underlying option shares subject to a right of repurchase in favor of the company at the option exercise price. This right of repurchase lapses over a four-year period at the rate of 25% of the shares of common stock underlying the option on the first anniversary of the date of grant and thereafter 1/48th of the shares of common stock underlying the option each month.

Fiscal 2011 Option Exercises and Stock Vested

None of our Named Executive Officers acquired shares of our common stock upon the exercise of stock options or the vesting of stock awards during fiscal 2011.

Pension Benefits

We did not sponsor any defined benefit pension or other actuarial plan for our Named Executive Officers during fiscal 2011.

Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our Named Executive Officers during fiscal 2011.

Executive Employment Agreements

We have entered into employment offer letters with each of our Named Executive Officers in connection with his commencement of employment with us. With the exception of his own arrangement, each of these offer letters was negotiated on our behalf by our then-serving chief executive officer, with the oversight and approval of our board of directors and compensation committee.

Additionally, in December 2011, we entered into confirmatory new employment agreements with our executive officers and amended the employment offer letter of Mr. McLaughlin in order to achieve consistency in the employment terms with our executive officers. Each of our Named Executive Officers is eligible to receive certain severance payments and benefits in connection with his termination of employment under various circumstances, including following a change in control of us, pursuant to written severance and change in control arrangements.

For a summary of the material terms and conditions of these arrangements, as well as an estimate of the potential payments and benefits payable to our Named Executive Officers under these arrangements, see “—Employment Agreements” above and “—Subsequent Events” and “—Potential Payments Upon Termination or Change in Control” below. The estimated potential severance payments and benefits payable to each Named Executive Officer in the event of termination of employment as of July 31, 2011, pursuant to the arrangements under the confirmatory employment agreements, are described below.

The actual amounts that would be paid or distributed to our Named Executive Officers as a result of one of the termination events occurring in the future may be different than those presented below as many factors will affect the amount of any payments and benefits upon a termination of employment. For example, some of the factors that could affect the amounts payable include the Named Executive Officer’s base salary and the market price of our common stock. Although we have entered into written arrangements to provide severance payments and benefits to our Named Executive Officers in connection with a termination of employment under particular circumstances, we or an acquirer may mutually agree with the Named Executive Officers on severance terms that vary from those provided in these pre-existing arrangements. Finally, in addition to the amounts presented below, each Named Executive Officer would also be able to exercise any previously-vested stock options that he held. For more information about the Named Executive Officers outstanding equity awards as of July 31, 2011, see “—Fiscal 2011 Outstanding Equity Awards at Fiscal Year-End.”

Along with the severance payments and benefits described in a Named Executive Officer’s individual severance and change in control arrangement, these executives are eligible to receive any benefits accrued under our broad-based benefit plans, such as accrued vacation pay, in accordance with those plans and policies.

Termination of Employment Unrelated to a Change in Control—Mr. Batra. In the event of an involuntary termination of employment (a termination of employment by us without “cause”), provided that he executes an appropriate release and waiver of claims, Mr. Batra would be eligible to receive:

- a lump sum cash payment equal to six months of his base salary as in effect as of the date of termination;
- a lump sum cash payment equal to the amount payable for premiums for continued COBRA benefits for a period of six months; and
- accelerated vesting of six months vesting of his then outstanding time-based equity awards.

Termination of Employment—Other Named Executive Officers. None of the remaining Named Executive Officers are eligible to receive any specific payments or benefits in the event of an involuntary termination of employment unrelated to a change in control. Messrs. McLaughlin and Tomlinson were not Named Executive Officers for fiscal 2011. For a description of their severance benefits for terminations of employment unrelated to a change in control, see “—Subsequent Events” below.

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Termination of Employment in Connection with a Change in Control. In the event of an involuntary termination of employment (a termination of employment by us without “cause” or a termination of employment for “good reason”) within 12 months following a “change in control” of us, provided that the executive officer executes an appropriate release and waiver of claims, Messrs. Zuk, Batra, Bonvanie, and Link would be eligible to receive:

- a lump sum cash payment equal to 12 months of his base salary as in effect as of the date of termination;
- a lump sum cash payment equal to 100% of his target bonus for that fiscal year;
- a lump sum cash payment equal to the amount payable for premiums for continued COBRA benefits for a period of 12 months; and
- accelerated vesting of the greater of (i) 12 months vesting of his then outstanding time-based equity awards, or (ii) 50% of his then outstanding, time-based equity awards.

Messrs. McLaughlin and Tomlinson were not Named Executive Officers for fiscal 2011. For a description of their severance benefits for terminations of employment in connection with a change in control, see “—Subsequent Events” below.

Applicable Definitions. Generally, for purposes of the foregoing provisions, a “change in control” means:

- the sale or other disposition of all or substantially all of our assets;
- any sale or exchange of our capital stock by stockholders in a transaction or series of related transactions where more than 50% of the outstanding voting power of the company is acquired by a person or entity or group of related persons or entities;
- any reorganization, consolidation, or merger of the company where our outstanding voting securities immediately before the transaction represent or are converted into less than 50% of the outstanding voting power of the surviving entity (or its parent organization) immediately after the transaction; or
- the consummation of the acquisition of 51% or more of our outstanding stock pursuant to a tender offer validly made under any state or federal law (other than a tender offer by us).

Generally, for purposes of the foregoing provisions, “cause” is limited to:

- conviction of any felony or any crime involving moral turpitude or dishonesty;
- participation in intentional fraud or an act of willful dishonesty against us;
- willful breach of our policies that materially harms us;
- intentional damage of a substantial amount of our property;
- willful and material breach of the Named Executive Officer’s employment offer letter, employment agreement or his employee invention assignment and confidentiality agreement; or
- a willful failure or refusal in a material respect to follow the lawful, reasonable policies or directions of us as specified by our board of directors or Chief Executive Officer after being provided with notice of such failure, which failure is not remedied within 30 days after receipt of written notice from us.

Generally, for purposes of the foregoing provisions, “good reason” means a resignation within 12 months following the occurrence, without the Named Executive Officer’s written consent, of one or more of the following:

- there is a material reduction in the Named Executive Officer’s authority, status, obligations, or responsibilities, provided that, following a “change in control,” a change in title alone will not constitute a material reduction;

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- there is a reduction in the Named Executive Officer's total annual compensation of more than 10% unless such reduction is no greater (in percentage terms) than compensation reductions imposed on substantially all of our employees pursuant to a directive of our board of directors;
- any failure by us to pay the Named Executive Officer's base salary or guaranteed bonus or continue to provide him with the opportunity to participate, on terms no less favorable than those in effect for the benefit of any employee in a comparable position, in additional bonus or fringe benefits;
- the relocation of the principal place of our business to a location that is more than a specified number of miles further away from the Named Executive Officer's home than our current location.

A resignation for "good reason" will not be deemed to have occurred unless the Named Executive Officer gives us written notice of one of the above conditions within 90 days of its occurrence, and we fail to remedy the condition within 30 days of receipt of such notice.

Separation Agreement—Mr. Bess. In connection with his resignation as President and Chief Executive Officer and as a member of our board of directors, effective December 3, 2010, we entered into a separation agreement, dated March 8, 2011, with Mr. Bess. Under this agreement, in return for a general release and waiver of claims and compliance with certain specified covenants in favor of us, Mr. Bess received the following payments and benefits:

- a cash payment in the amount of \$250,000, less the reimbursement of certain specified expenses incurred by us (up to a maximum amount of \$37,500) and applicable payroll deductions;
- the reimbursement of the costs associated with maintaining his then-existing health care benefits coverage for a period of 12 months;
- the full and immediate vesting of 238,454 shares of our common stock previously purchased by him and unvested as of the effective date of the separation agreement; and
- the repurchase of 915,663 shares of our common stock previously purchased by him and unvested as of the effective date of the separation agreement at their original purchase price of \$0.41 per share through cancellation of an equivalent portion of his outstanding indebtedness to us, pursuant to the terms of a stock purchase agreement and secured full recourse promissory note.

Separation Agreement—Mr. Lehman. In connection with his resignation as Chief Financial Officer in February 2012 and as our employee effective March 19, 2012, we entered into a separation agreement and release, dated February 8, 2012, with Mr. Lehman. Under this agreement, in return for a general release and waiver of claims and compliance with certain specified covenants in favor of us, Mr. Lehman received the following payments and benefits:

- a cash payment in the amount of \$250,000, less applicable withholding;
- a cash payment in the amount of his on-target bonus for the second quarter of fiscal 2012, less applicable withholding;
- reimbursement of the costs associated with maintaining his then-existing health care benefits coverage for a period of 12 months;
- the full immediate vesting of 74,999 shares of our common stock subject to the options granted to him that were unvested as of March 19, 2012; and
- the extension of the period of time in which he has to exercise the shares subject to his options until the earlier of (i) the expiration of the original term of each of his options or (ii) September 19, 2013.

Potential Payments Upon Termination or Change in Control

The tables below provide an estimate of the value of the compensation and benefits due to each of our Named Executive Officers for fiscal 2011 in the events described below, assuming that the termination of employment and change in control was effective on July 31, 2011, under the confirmatory employment agreements described above, which were entered into in December 2011. The actual amounts to be paid can only be determined at the time of the termination of employment or change of control, as applicable.

Termination without Cause or Resignation for Good Reason

Named Executive Officer	Salary Continuation (\$)	Value of Accelerated Equity Awards (\$) ⁽¹⁾	Value of Continued Health Care Coverage Premiums (\$)	Total (\$)
Mr. Batra	110,000	1,961,438 ⁽²⁾	8,342	2,079,780

- (1) Amounts indicated in the table are calculated as the difference between \$35.50, which is the midpoint of the range reflected on the cover page of this prospectus, and the exercise price of these options, multiplied by the number of accelerated shares.
- (2) As of July 31, 2011, 56,250 shares of common stock subject to Mr. Batra's options would accelerate if he were terminated without cause, which represents an additional six months of vesting of the shares subject to the options granted to Mr. Batra that were unvested as of July 31, 2011.

Termination without Cause or Resignation for Good Reason on or following a Change in Control

Named Executive Officer	Salary Continuation (\$)	Target Annual Cash Bonus (\$)	Value of Accelerated Equity Awards (\$) ⁽¹⁾	Value of Continued Health Care Coverage Premiums (\$)	Total (\$)
Mr. Zuk	220,000	40,000	3,922,875 ⁽²⁾	16,684	4,199,559
Mr. Batra	220,000	44,000	3,922,875 ⁽³⁾	16,684	4,203,559
Mr. Bonvanie	224,000	96,000	4,357,500 ⁽⁴⁾	16,684	4,694,184
Mr. Link	200,000	145,000	2,426,563 ⁽⁵⁾	16,684	2,788,247

- (1) Amounts indicated in the table are calculated as the difference between \$35.50, which is the midpoint of the range reflected on the cover page of this prospectus, and the exercise price of these options, multiplied by the number of accelerated shares.
- (2) As of July 31, 2011, 112,500 shares of common stock subject to Mr. Zuk's options would accelerate if he is terminated without cause or resigns for good reason on or following a change in control, which represents an additional 12 months of vesting of the shares subject to the options granted to Mr. Zuk that were unvested as of July 31, 2011.
- (3) As of July 31, 2011, 112,500 shares of common stock subject to Mr. Batra's options would accelerate if he is terminated without cause or resigns for good reason on or following a change in control, which represents an additional 12 months of vesting of the shares subject to the options granted to Mr. Batra that were unvested as of July 31, 2011.
- (4) As of July 31, 2011, 125,000 shares of common stock subject to Mr. Bonvanie's options would accelerate if he is terminated without cause or resigns for good reason on or following a change in control, which represents an additional 12 months of vesting of the shares subject to the options granted to Mr. Bonvanie that were unvested as of July 31, 2011.
- (5) As of July 31, 2011, 78,125 shares of common stock subject to Mr. Link's options would accelerate if he is terminated without cause or resigns for good reason within the period commencing on and ending 12 months after a change in control, which represents 50% of the shares subject to the options granted to Mr. Link that were unvested as of July 31, 2011.

Subsequent Events

Mr. McLaughlin's Employment Offer Letter, as Amended

In August 2011, Mr. McLaughlin was named our President and Chief Executive Officer. The terms and conditions of his employment were reviewed and recommended for approval by the compensation committee and approved by our board of directors. Mr. McLaughlin's employment offer letter was amended in December 2011 in connection with the entering of confirmatory employment agreements with our other executive officers.

Mr. McLaughlin's employment offer letter sets forth the principal terms and conditions of his employment, including an initial annual base salary of \$300,000, an initial target annual cash bonus opportunity of \$300,000, a one-time signing bonus of \$400,000, and an initial stock option grant to purchase up to 2,143,977 shares of our common stock, which was intended to represent 3.0% of our fully diluted capitalization as of the date of the offer letter. Following execution of the offer letter, we determined that the calculation was incorrect and determined that 3.0% of our fully diluted capitalization as of the date of the offer letter was actually 2,155,984 shares, which was consistent with the number of shares of common stock underlying the actual stock option grant. The initial stock option grant was exercisable as to unvested shares, provided that any shares unvested as of a termination of employment would be subject to repurchase at the original price paid. The initial stock option grant allowed for a 24 month, post-termination exercise period as to vested shares. After discussion with Mr. McLaughlin regarding his desire for greater internal pay equity with his executive team, in September 2011, our board of directors reset Mr. McLaughlin's target annual cash bonus opportunity to \$150,000. In addition, we agreed to reimburse Mr. McLaughlin for reasonable relocation expenses up to a maximum of \$100,000. Other than these terms, Mr. McLaughlin's employment is "at will."

In addition, the employment offer letter provides Mr. McLaughlin with certain protection in the event of his termination of employment under certain specified circumstances. Specifically, if Mr. McLaughlin's employment is terminated by us without "cause" (as defined in his employment offer letter) and provided that he executes a general release and waiver of claims in favor of us, then he will receive the following payments and benefits:

- continued payment of his base salary as in effect as of the date of termination for a period of 12 months;
- a lump sum cash payment equal to the amount payable for premiums for continued COBRA benefits for a period of 12 months; and
- accelerated vesting of the number of shares of our common stock underlying the stock option granted to him on September 30, 2011 that are then unvested, equal to the number of shares that would have vested if he had remained employed for six months after the date of termination.

In the event of an involuntary termination of employment (a termination of employment by us without "cause" or a termination of employment for "good reason") within 24 months following a "change in control" of us (as those terms are defined in his employment offer letter), provided that he executes an appropriate release and waiver of claims, then Mr. McLaughlin will receive the following payments and benefits:

- a lump sum payment of his annual base salary as in effect as of the date of termination and 100% of his target annual cash bonus opportunity for the year of termination;
- a lump sum cash payment equal to the amount payable for premiums for continued COBRA benefits for a period of 12 months; and
- 24 months of accelerated vesting of his then-outstanding, time-based equity awards.

Mr. Tomlinson's Offer Letter

In February 2012, Mr. Tomlinson was named our Chief Financial Officer. The terms and conditions of his employment were reviewed and recommended for approval by our compensation committee and approved by our board of directors.

Mr. Tomlinson's employment offer letter sets forth the principal terms and conditions of his employment, including an initial annual base salary of \$250,000, an initial target annual cash bonus opportunity of 30% of his annual base salary, a one-time signing bonus of \$100,000, and an initial stock option grant to purchase up to 450,000 shares of our common stock. Following the execution of the offer letter, our board of directors determined that, as a result of the increase in the per share fair value of our common stock, the proposed number of shares of our common stock subject to the option grant would not provide the incentive value originally intended. Accordingly, our board of directors determined that Mr. Tomlinson's initial stock option award should be increased to 497,000 shares of our common stock in order to provide additional incentive value. Mr. Tomlinson's must repay us 100% of the signing bonus if his employment terminates for any reason within the first 12 months of his employment. Other than these terms, Mr. Tomlinson's employment is "at will."

In addition, the employment offer letter provides Mr. Tomlinson with certain protections in the event of his termination of employment under certain specified circumstances. Specifically, if Mr. Tomlinson's employment is terminated by us without "cause" (as defined in his employment offer letter) and provided that he executes a general release and waiver of claims in favor of us, then he will receive the following payments and benefits:

- continued payment of his base salary as in effect as of the date of termination for a period of six months; and
- a lump sum cash payment equal to the amount payable for premiums for continued COBRA benefits for a period of six months.

In the event of an involuntary termination of employment (a termination of employment by us without "cause" or a termination of employment for "good reason") within 24 months following a "change in control" of us, provided that he executes an appropriate release and waiver of claims, then Mr. Tomlinson will receive the following payments and benefits:

- a lump sum payment of his annual base salary as in effect as of the date of termination and 100% of his target annual cash bonus opportunity for the year of termination;
- a lump sum cash payment equal to the amount payable for premiums for continued COBRA benefits for a period of 12 months; and
- 24 months of accelerated vesting of his then-outstanding, time-based equity awards.

Fiscal 2012 Equity Award Grants

In January 2012, our board of directors approved restricted stock grants to certain Named Executive Officers as described in the table below. The restricted stock grants were intended to incentivize certain Named Executive Officers to drive us toward an initial public offering of our common stock and to reflect the fact that these individuals were substantially vested in their existing, long-term equity incentives. Each restricted stock grant was granted for zero purchase price and vests based on a service condition, generally over a period of four years, and a liquidity condition, which is defined as a change of control transaction or six months following the completion of our initial public offering. To the extent a Named Executive Officer terminates service prior to the vesting date, the then-unvested shares terminate without consideration.

<u>Named Executive Officer</u>	<u>Restricted Stock Grant</u>
Mr. Zuk	75,000
Mr. Batra	75,000
Mr. Bonvanie	10,000
Mr. Link	10,000

Employee Benefit and Stock Plans

2012 Equity Incentive Plan

Prior to the completion of this offering, our board of directors and stockholders will adopt our 2012 Equity Incentive Plan, or the 2012 Plan. Subject to stockholder approval, the 2012 Plan will be effective one business day prior to the effectiveness of this registration statement. Our 2012 Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, to our employees and any of our parent and subsidiary corporations' employees, and for the grant of nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to our employees, directors and consultants, and our parent and subsidiary corporations' employees and consultants.

Authorized Shares. A total of 10,000,000 shares of our common stock are reserved for issuance pursuant to the 2012 Plan, of which no awards are issued and outstanding. In addition, the shares reserved for issuance under our 2012 Plan will also include (a) those shares reserved but unissued under our 2005 Plan (as defined below) as of the effective date described above and (b) shares returned to our 2005 Plan as the result of expiration or termination of options (provided that the maximum number of shares that may be added to the 2012 Plan pursuant to (a) and (b) is 9,000,000 shares). The number of shares available for issuance under the 2012 Plan will also include an annual increase on the first day of each fiscal year beginning in fiscal 2014, equal to the least of:

- 8,000,000 shares;
- 4.5% of the outstanding shares of common stock as of the last day of our immediately preceding fiscal year; or
- such other amount as our board of directors may determine.

Our compensation committee will administer our 2012 Plan after the completion of this offering. In the case of options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code, the committee will consist of two or more "outside directors" within the meaning of Section 162(m).

Plan Administration. Subject to the provisions of our 2012 Plan, the administrator has the power to determine the terms of the awards, including the exercise price, the number of shares subject to each such award, the exercisability of the awards, and the form of consideration, if any, payable upon exercise. The administrator also has the authority to amend existing awards to reduce their exercise price, to allow participants the opportunity to transfer outstanding awards to a financial institution or other person or entity selected by the administrator and to institute an exchange program by which outstanding awards may be surrendered in exchange for awards with a higher or lower exercise price.

Stock Options. The exercise price of options granted under our 2012 Plan must at least be equal to the fair market value of our common stock on the date of grant. The term of an incentive stock option may not exceed ten years, except that with respect to any participant who owns more than 10% of the voting power of all classes of our outstanding stock, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. Subject to the provisions of our 2012 Plan, the administrator determines the term of all other options.

After the termination of service of an employee, director, or consultant, he or she may exercise his or her option or stock appreciation right for the period of time stated in his or her award agreement. Generally, if termination is due to death or disability, the option or stock appreciation right will remain exercisable for 12 months. In all other cases, the option or stock appreciation right will generally remain exercisable for three months following the termination of service. However, in no event may an option be exercised later than the expiration of its term.

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Stock Appreciation Rights. Stock appreciation rights may be granted under our 2012 Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. Subject to the provisions of our 2012 Plan, the administrator determines the terms of stock appreciation rights, including when such rights become exercisable and whether to pay any increased appreciation in cash or with shares of our common stock, or a combination thereof, except that the per share exercise price for the shares to be issued pursuant to the exercise of a stock appreciation right will be no less than 100% of the fair market value per share on the date of grant.

Restricted Stock. Restricted stock may be granted under our 2012 Plan. Restricted stock awards are grants of shares of our common stock that vest in accordance with terms and conditions established by the administrator. The administrator will determine the number of shares of restricted stock granted and may impose whatever conditions to vesting it determines to be appropriate (for example, the administrator may set restrictions based on the achievement of specific performance goals or continued service to us). The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture.

Restricted Stock Units. Restricted stock units may be granted under our 2012 Plan. Restricted stock units are bookkeeping entries representing an amount equal to the fair market value of one share of our common stock. The administrator determines the terms and conditions of restricted stock units, including the number of units granted, the vesting criteria (which may include accomplishing specified performance criteria or continued service to us), and the form and timing of payment. The administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed.

Performance Units and Performance Shares. Performance units and performance shares may be granted under our 2012 Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. After the grant of a performance unit or performance share, the administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance units or performance shares. The administrator, in its sole discretion, may pay earned performance units or performance shares in the form of cash, in shares, or in some combination thereof.

Non-Employee Directors. Our 2012 Plan provides that all non-employee directors will be eligible to receive all types of awards (except for incentive stock options) under the 2012 Plan. Please see the description of our non-employee director compensation above under “Management—Non-Employee Director Compensation.”

Non-Transferability of Awards. Unless the administrator provides otherwise, our 2012 Plan generally does not allow for the transfer of awards, and only the recipient of an award may exercise an award during his or her lifetime.

Merger or Change in Control. Our 2012 Plan provides that in the event of a merger or change in control, as defined in the 2012 Plan, each outstanding award will be treated as the administrator determines, including that the successor corporation or its parent or subsidiary will assume or substitute an equivalent award for each outstanding award. The administrator is not required to treat all awards similarly. If there is no assumption or substitution of outstanding awards, the awards will fully vest, all restrictions will lapse, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels, and the awards will become fully exercisable.

2012 Employee Stock Purchase Plan

Prior to the completion of this offering, our board of directors and stockholders will adopt our 2012 Employee Stock Purchase Plan, or ESPP. The ESPP will become effective upon completion of this offering. We believe that allowing our employees to participate in the ESPP provides them with a further incentive towards ensuring our success and accomplishing our corporate goals.

Authorized Shares. A total of 1,000,000 shares of our common stock will be made available for sale under the ESPP. In addition, our ESPP provides for annual increases in the number of shares available for issuance under the plan on the first day of each fiscal year beginning in fiscal 2014, equal to the least of:

- 1% of the outstanding shares of our common stock on the first day of such fiscal year;
- 2,000,000 shares; or
- such amount as determined by our board of directors.

Plan Administration. Our compensation committee administers the ESPP, and has full and exclusive authority to interpret the terms of the plan and determine eligibility to participate, subject to the conditions of the plan as described below.

Eligibility. Generally, all of our employees are eligible to participate if they are employed by us, or any participating subsidiary, for at least 20 hours per week and more than five months in any calendar year. However, an employee may not be granted rights to purchase stock under the 2012 Employee Stock Purchase Plan if such employee:

- immediately after the grant would own stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock; or
- hold rights to purchase stock under all of our employee stock purchase plans that accrue at a rate that exceeds \$25,000 worth of stock for each calendar year.

Offering Periods. Our ESPP is intended to qualify under Section 423 of the Code. Each offering period includes purchase periods, which will be the approximately six months commencing with one exercise date and ending with the next exercise date. The offering periods are scheduled to start on the first trading day on or after March 15 and September 15 of each year, except for the first offering period, which will commence on the first trading day on or after completion of this offering and will end on the first trading day on or after March 15, 2013.

Our ESPP permits participants to purchase shares of common stock through payroll deductions of up to 15% of their eligible compensation. A participant may purchase a maximum of 625 shares during a six month period.

Exercise of Purchase Right. Amounts deducted and accumulated by the participant are used to purchase shares of our common stock at the end of each six month purchase period. The purchase price of the shares will be 85% of the lower of the fair market value of our common stock on the first trading day of each offering period or on the exercise date. If the fair market value of our common stock on the exercise date is less than the fair market value on the first trading day of the offering period, participants will be withdrawn from the current offering period following their purchase of shares on the purchase date and will be automatically re-enrolled in a new offering period. Participants may end their participation at any time during an offering period and will be paid their accrued contributions that have not yet been used to purchase shares of common stock. Participation ends automatically upon termination of employment with us.

Non-Transferability. A participant may not transfer rights granted under the ESPP. If the compensation committee permits the transfer of rights, it may only be done by will, the laws of descent and distribution, or as otherwise provided under the ESPP.

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Merger or Change in Control. In the event of our merger or change in control, as defined under the ESPP, a successor corporation may assume or substitute each outstanding purchase right. If the successor corporation refuses to assume or substitute for the outstanding purchase right, the offering period then in progress will be shortened, and a new exercise date will be set. The administrator will notify each participant that the exercise date has been changed and that the participant's option will be exercised automatically on the new exercise date unless prior to such date the participant has withdrawn from the offering period.

Amendment; Termination. Our ESPP will automatically terminate in 2032, unless we terminate it sooner. Our board of directors has the authority to amend, suspend, or terminate our ESPP, except that, subject to certain exceptions described in the ESPP, no such action may adversely affect any outstanding rights to purchase stock under our ESPP.

2005 Equity Incentive Plan, as Amended

Our board of directors adopted our 2005 Equity Incentive Plan, or our 2005 Plan, in April 2005, and our stockholders approved it in August 2005. Our 2005 Plan was most recently amended in June 2012.

Authorized Shares. As of April 30, 2012, an aggregate of 27,252,434 shares of our common stock were reserved for issuance under our 2005 Plan. Our 2005 Plan provided for the grant of incentive stock options, nonqualified stock options, and restricted stock. As of April 30, 2012, options to purchase 12,900,814 shares of our common stock remained outstanding under our 2005 Plan.

Plan Administration. Our board of directors currently administers our 2005 Plan. Our compensation committee will administer our 2005 Plan after the completion of this offering. Subject to the provisions of our 2005 Plan, the administrator has the power to construe and interpret our 2005 Plan and any agreement thereunder and determine the terms of awards, including the recipients, the number of shares subject to each award, the exercise price (if any), the fair market value of a share of our common stock, the vesting schedule applicable to the awards, together with any vesting acceleration, and the terms of the award agreement for use under our 2005 Plan. The administrator may, at any time, authorize the issue of new awards for the surrender and cancellation of any outstanding award with the consent of a participant. The administrator may also buy out an award previously granted for cash, shares, or other consideration as the administrator and the participant may agree.

Options. Stock options may be granted under our 2005 Plan. The exercise price per share of all options must equal at least 100% of the fair market value per share of our common stock on the date of grant. The term of an option may not exceed 10 years. An incentive stock option held by a participant who owns more than 10% of the total combined voting power of all classes of our stock, or any parent or subsidiary corporations, may not have a term in excess of five years and must have an exercise price of at least 110% of the fair market value per share of our common stock on the date of grant. The administrator will determine the methods of payment of the exercise price of an option, which may include cash, shares, or certain other property, or other consideration acceptable to the administrator. After the termination of service of an employee, director, or consultant, the participant may generally exercise his or her options, to the extent vested as of such date of termination, for three months after termination. If termination is due to death or disability (or the participant dies within three months after a general termination), the option will generally remain exercisable, to the extent vested as of such date of termination, for 12 months after termination. However, in no event may an option be exercised later than the expiration of its term. If termination is for cause, then an option expires on the participant's termination date.

Restricted Stock. Restricted stock may be granted under our 2005 Plan. Restricted stock awards are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Shares of restricted stock will vest, and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator.

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Transferability of Awards. Our 2005 Plan generally does not allow for the transfer of awards, and only the recipient of an option may exercise such an award during his or her lifetime.

Certain Adjustment. In the event of certain changes in our capitalization, the number of shares reserved under our 2005 Plan, the exercise prices of, and the number of shares subject to, outstanding options, and the purchase price of, and the numbers of shares subject to, outstanding awards will be proportionately adjusted, subject to any required action by our board of directors.

Merger or Change in Control. Our 2005 Plan provides that, in the event of a merger, change in control, or other corporate transaction, as defined under our 2005 Plan, each outstanding award may be assumed or substituted for an equivalent award. In the event that awards are not assumed or substituted for, then the vesting of outstanding awards will be accelerated, and stock options will become exercisable in full prior to such corporate transaction. Stock options will then generally terminate immediately prior to the corporate transaction.

Amendment; Termination. Our board of directors may amend our 2005 Plan at any time, provided that such amendment does not impair the rights under outstanding awards without the award holder's written consent. Upon completion of this offering, our 2005 Plan will be terminated and no further awards will be granted thereunder. All outstanding awards will continue to be governed by their existing terms.

Employee Bonus Plan

Our Employee Bonus Plan, or the Bonus Plan, was adopted by our board of directors in September 2011. The Bonus Plan allows our board of directors or a committee appointed by our board of directors to provide cash incentive awards to any employee, other than employees in our sales organization, based upon performance goals established by our board of directors.

Under the Bonus Plan, our board of directors or a committee appointed by our board of directors determines the performance goals applicable to any award, including bookings, contract awards, earnings, earnings per share, expenses, gross margin, new product development, operating cash flow, operating expenses, operating income, operating margin, overhead or other expense reduction, revenue, and working capital, as well as individual objectives such as peer reviews, or other subjective or objective criteria. The performance goals may differ from participant to participant and from award to award.

Our board of directors may, in its sole discretion and at any time, increase, reduce or eliminate a participant's actual award, or increase, reduce or eliminate the amount allocated to the bonus pool for a particular performance period. The actual award may be below, at, or above a participant's target award, in the board of director's discretion. Our board of directors may determine the amount of any reduction on the basis of such factors as it deems relevant, and it is not be required to establish any allocation or weighting with respect to the factors it considers.

Actual awards are paid in cash only after they are earned, which requires continued employment through the date a bonus is paid.

Our board of directors has the authority to amend, alter, suspend, or terminate the Bonus Plan provided such action does not impair the existing rights of any participant with respect to any earned bonus.

Limitation on Liability and Indemnification Matters

Our amended and restated certificate of incorporation and amended and restated bylaws, each to be effective upon the completion of this offering, will provide that we will indemnify our directors and officers, and may indemnify our employees and other agents, to the fullest extent permitted by the Delaware General Corporation Law, which prohibits our amended and restated certificate of incorporation from limiting the liability of our directors for the following:

- any breach of the director's duty of loyalty to us or to our stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or unlawful stock repurchases or redemptions; and
- any transaction from which the director derived an improper personal benefit.

If Delaware law is amended to authorize corporate action further eliminating or limiting the personal liability of a director, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law, as so amended. Our amended and restated certificate of incorporation does not eliminate a director's duty of care and in appropriate circumstances, equitable remedies, such as injunctive or other forms of non-monetary relief, remain available under Delaware law. This provision also does not affect a director's responsibilities under any other laws, such as the federal securities laws or other state or federal laws. Under our amended and restated bylaws, we will also be empowered to purchase insurance on behalf of any person whom we are required or permitted to indemnify.

In addition to the indemnification required in our amended and restated certificate of incorporation and amended and restated bylaws, we plan to enter into indemnification agreements with each of our current directors, officers, and some employees before the completion of this offering. These agreements will provide indemnification for certain expenses and liabilities incurred in connection with any action, suit, proceeding, or alternative dispute resolution mechanism, or hearing, inquiry, or investigation that may lead to the foregoing, to which they are a party, or are threatened to be made a party, by reason of the fact that they are or were a director, officer, employee, agent, or fiduciary of our company, or any of our subsidiaries, by reason of any action or inaction by them while serving as an officer, director, agent, or fiduciary, or by reason of the fact that they were serving at our request as a director, officer, employee, agent, or fiduciary of another entity. In the case of an action or proceeding by, or in the right of, our company or any of our subsidiaries, no indemnification will be provided for any claim where a court determines that the indemnified party is prohibited from receiving indemnification. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and our stockholders. A stockholder's investment may be harmed to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. Insofar as we may provide indemnification for liabilities arising under the Securities Act to our directors, officers, and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. There is no pending litigation or proceeding naming any of our directors or officers as to which indemnification is being sought, nor are we aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We describe below transactions and series of similar transactions, during our last three fiscal years, to which we were a party or will be a party, in which:

- the amounts involved exceeded or will exceed \$120,000; and
- any of our directors, executive officers, or beneficial holders of more than 5% of any class of our capital stock had or will have a direct or indirect material interest.

Other than as described below, there has not been, nor is there any currently proposed, transactions or series of similar transactions to which we have been or will be a party other than compensation arrangements, which are described where required under “Executive Compensation.”

Equity Financings

Series C Convertible Preferred Stock Financing

From August 2008 through October 2008, we sold an aggregate of 12,760,771 shares of our Series C preferred stock at a purchase price per share of \$2.87, for an aggregate purchase price of \$36,623,413. The following table summarizes purchases of our Series C preferred stock by persons who hold more than 5% of our outstanding capital stock:

<u>Name of Stockholder</u>	<u>Shares of Series C Preferred Stock</u>	<u>Total Purchase Price</u>
Entities affiliated with Greylock Partners ⁽¹⁾	2,290,568	\$6,573,930
Entities affiliated with Sequoia Capital ⁽²⁾	2,290,568	\$6,573,930
Globespan Capital Partners V, L.P. ⁽³⁾	817,013	\$2,344,827

- (1) Affiliates of Greylock Partners holding our securities whose shares are aggregated for purposes of reporting share ownership information include Greylock XI Limited Partnership, Greylock XI Principals LLC, and Greylock XI-A Limited Partnership. Asheem Chandna, a member of our board of directors, is a Partner at Greylock Partners.
- (2) Affiliates of Sequoia Capital holding our securities whose shares are aggregated for purposes of reporting share ownership information include Sequoia Capital XI, LP, Sequoia Capital Growth Fund III, LP, Sequoia Capital XI Principals Fund, LLC, Sequoia Technology Partners XI, LP, Sequoia Capital Growth III Principals Fund, LLC, and Sequoia Capital Growth Partners III, LP. James J. Goetz, a member of our board of directors, is a managing member of Sequoia Capital Operations, LLC.
- (3) Venky Ganesan, a member of our board of directors, is a Managing Director at Globespan Capital Partners.

Loans to Executive Officers

Nir Zuk

We entered into an option exercise agreement with Nir Zuk, our Chief Technology Officer and a director, in July 2009. Under this agreement, we loaned Mr. Zuk \$283,050 for the purchase price of 450,000 shares of our common stock issued pursuant to the exercise of an option held by Mr. Zuk. This loan bore interest at the rate per annum of 2.05%, compounded annually. As of January 31, 2012, the outstanding balance of this loan was \$297,795, including principal of \$283,050 and total accrued interest of \$14,745. This loan and all accrued interest was repaid in full by Mr. Zuk in March 2012.

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Rajiv Batra

We entered into an option exercise agreement with Rajiv Batra, our Vice President, Engineering, in May 2009. Under this agreement, we loaned Mr. Batra \$283,050 for the purchase price of 450,000 shares of our common stock issued pursuant to the exercise of an option held by Mr. Batra. This loan bore interest at the rate per annum of 2.05%, compounded annually. As of January 31, 2012, the outstanding balance of this loan was \$298,803, including principal of \$283,050 and total accrued interest of \$15,753. This loan and all accrued interest was repaid in full by Mr. Batra in March 2012.

Investors' Rights Agreement

We are party to an investors' rights agreement which provides, among other things, that holders of our preferred stock have the right to demand that we file a registration statement or request that their shares be covered by a registration statement that we are otherwise filing. For a more detailed description of these registration rights, see "Description of Capital Stock—Registration Rights."

Employment Arrangements and Indemnification Agreements

We have entered into employment arrangements with certain current and former executive officers. See "Management—Executive Employment Agreements."

We have also entered into indemnification agreements with certain directors and officers. The indemnification agreements and our amended and restated certificate of incorporation and amended and restated bylaws in effect upon the completion of this offering require us to indemnify our directors and officers to the fullest extent permitted by Delaware law. See "Management—Limitation on Liability and Indemnification Matters."

Policies and Procedures for Related Party Transactions

The audit committee of our board of directors has the primary responsibility for reviewing and approving transactions with related parties. Our audit committee charter provides that the audit committee shall review and approve in advance any related party transactions.

In March 2012, we also adopted a formal written policy providing that our executive officers, directors, nominees for election as directors, beneficial owners of more than 5% of any class of our common stock, any member of the immediate family of any of the foregoing persons, and any firm, corporation, or other entity in which any of the foregoing persons is employed, is a general partner or principal or in a similar position, or in which such person has a 5% or greater beneficial ownership interest, is not permitted to enter into a related party transaction with us without the consent of our audit committee, subject to the exceptions described below. In approving or rejecting any such proposal, our audit committee is to consider the relevant facts and circumstances available and deemed relevant to our audit committee, including, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, and the extent of the related party's interest in the transaction. Our audit committee has determined that certain transactions will not require audit committee approval, including certain employment arrangements of executive officers, director compensation, transactions with another company at which a related party's only relationship is as a non-executive employee or beneficial owner of less than 5% of that company's shares, transactions where a related party's interest arises solely from the ownership of our common stock and all holders of our common stock received the same benefit on a pro rata basis, and transactions available to all employees generally.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our common stock at June 30, 2012, and as adjusted to reflect the sale of common stock in this offering, for:

- each of our directors;
- each of our named executive officers;
- all of our current directors and executive officers as a group;
- each person or group, who beneficially owned more than 5% of our common stock; and
- all selling stockholders.

We have determined beneficial ownership in accordance with the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as indicated by the footnotes below, we believe, based on information furnished to us, that the persons and entities named in the table below have sole voting and sole investment power with respect to all shares of common stock that they beneficially owned, subject to applicable community property laws.

Applicable percentage ownership prior to this offering is based on 61,940,831 shares of common stock outstanding at June 30, 2012, assuming automatic conversion of our convertible preferred stock into common stock. Applicable percentage ownership after this offering is based on 66,693,040 shares of common stock outstanding at June 30, 2012, after giving effect to the issuance of 4,687,259 shares of our common stock and the exercise of 64,950 shares of our common stock that we expect to be sold in this offering by certain selling stockholders upon the exercise of vested options at the closing of this offering. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of such person, we deemed to be outstanding all shares of common stock subject to options held by the person that are currently exercisable or exercisable within 60 days of June 30, 2012. However, we did not deem such shares outstanding for the purpose of computing the percentage ownership of any other person.

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Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Palo Alto Networks, Inc., 3300 Olcott Street, Santa Clara, California 95054.

Name of Beneficial Owner+	Beneficial Ownership Prior to this Offering		Shares Being Offered	Beneficial Ownership After this Offering	
	Number	Percent		Number	Percent
5% Stockholders:					
Entities affiliated with Greylock Partners ⁽¹⁾	13,786,763	22.3%	—	13,786,763	20.7%
Entities affiliated with Sequoia Capital and other group members ⁽²⁾	13,786,763	22.3%	—	13,786,763	20.7%
Globespan Capital Partners V, L.P. ⁽³⁾	4,917,543	8.0%	—	4,917,543	7.4%
Directors and Named Executive Officers:					
Mark D. McLaughlin ⁽⁴⁾	538,996	*	—	538,996	*
Nir Zuk ⁽⁵⁾	3,826,535	6.2%	350,000	3,476,535	5.2%
Rajiv Batra ⁽⁶⁾	2,202,216	3.6%	202,000	2,000,216	3.0%
René Bonvanie ⁽⁷⁾	510,000	*	—	510,000	*
Lawrence J. Link ⁽⁸⁾	791,031	1.3%	72,000	719,031	1.1%
Asheem Chandna ⁽⁹⁾	14,093,813	22.8%	—	14,093,813	21.1%
Venky Ganesan ⁽³⁾	—	—	—	—	—
James J. Goetz ⁽¹⁰⁾	1,567,944	2.5%	—	1,567,944	2.4%
Shlomo Kramer ⁽¹¹⁾	997,524	1.6%	—	997,524	1.5%
William A. Lanfri ⁽¹²⁾	750,186	1.2%	—	750,186	1.1%
Charles J. Robel ⁽¹³⁾	18,958	*	—	18,958	*
Daniel J. Warmenhoven	—	—	—	—	—
Lane M. Bess ⁽¹⁴⁾	2,025,000	3.3%	500,000	1,525,000	2.3%
Michael E. Lehman ⁽¹⁵⁾	362,496	*	—	362,496	*
All current directors and executive officers as a group (13 Persons) ⁽¹⁶⁾	24,506,172	39.2%	552,000	23,954,172	35.9%
Certain Other Selling Stockholders:					
Lee Klarich ⁽¹⁷⁾	802,708	1.3%	75,000	727,708	1.1%
Yuming Mao	688,078	1.1%	50,000	638,078	*
Anapum Bharali ⁽¹⁸⁾	448,958	*	17,500	431,458	*
Barun Kar ⁽¹⁹⁾	310,833	*	25,000	285,833	*
Wilson Xu ⁽²⁰⁾	262,292	*	10,000	252,292	*
William Roberson ⁽²¹⁾	228,110	*	10,000	218,110	*
Karl Driesen ⁽²²⁾	226,667	*	19,500	207,167	*
Huangang Xie ⁽²³⁾	206,667	*	19,000	187,667	*
Jeffrey Jahr ⁽²⁴⁾	193,333	*	16,000	177,333	*
Radhakrishna Anabathula ⁽²⁵⁾	184,875	*	12,000	172,875	*
Robert Munne ⁽²⁶⁾	180,000	*	12,000	168,000	*
Michael Jacobsen ⁽²⁷⁾	148,333	*	14,812	133,521	*
Barrett Eldridge ⁽²⁸⁾	147,125	*	10,000	137,125	*
Kalyan Rao ⁽²⁹⁾	105,000	*	8,000	97,000	*
Ides Vanneuville ⁽³⁰⁾	104,988	*	5,000	99,988	*
Elkova Sallaberry ⁽³¹⁾	102,292	*	8,000	94,292	*
Amarendra Verma ⁽³²⁾	99,792	*	9,000	90,792	*
Shadi Hesarsorkh ⁽³³⁾	99,167	*	10,000	89,167	*
Bryan Petty ⁽³⁴⁾	99,058	*	9,739	89,319	*
Joel Mollo ⁽³⁵⁾	65,000	*	4,739	60,261	*
All Other Selling Stockholders (23 Persons) ⁽³⁶⁾	574,931	*	43,451	531,480	*

* Represents beneficial ownership of less than one percent (1%).

+ Options to purchase shares of our capital stock included in this table are generally early exercisable, and to the extent such shares are unvested as of a given date, such shares will remain subject to a right of repurchase held by us.

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- (1) Consists of (i) 12,071,776 shares held of record by Greylock XI Limited Partnership; (ii) 1,378,678 shares held of record by Greylock XI Principals LLC; and (iii) 336,309 shares held of record by Greylock XI-A Limited Partnership (collectively referred to as the “Greylock Partners Entities”). Greylock XI GP Limited Partnership is the sole general partner of each of Greylock XI Limited Partnership and Greylock XI-A Limited Partnership. William W. Helman and Aneel Bhusri are the managing members of Greylock XI GP Limited Partnership and are partners of Greylock XI Principals LLC. The address for these entities is 2550 Sand Hill Road, Menlo Park, CA 94025.
- (2) Consists of (i) 10,617,630 shares held of record by Sequoia Capital XI, LP; (ii) 1,475,592 shares held of record by Sequoia Capital Growth Fund III, LP; (iii) 1,155,116 shares held of record by Sequoia Capital XI Principals Fund, LLC; (iv) 335,396 shares held of record by Sequoia Technology Partners XI, LP; (v) 76,202 shares held of record by Sequoia Capital Growth III Principals Fund, LLC; (vi) 16,150 shares held of record by Sequoia Capital Growth Partners III, LP; and (vii) 110,677 shares held of record by SCGE Fund, L.P. SC XI Management, LLC is the general partner of Sequoia Capital XI, LP and Sequoia Technology Partners XI, LP and is the managing member of Sequoia Capital XI Principals Fund, LLC and SCGF III Management, LLC is the general partner of Sequoia Capital Growth Fund III, LP and Sequoia Capital Growth Partners III, LP and is the managing member of Sequoia Capital Growth III Principals Fund, LLC (collectively referred to as the “Sequoia Capital Entities”). The managing members of SC XI Management, LLC are Michael Goguen, Douglas Leone, and Michael Moritz. The managing members of SCGF III Management, LLC are Roelof Botha, J. Scott Carter, James J. Goetz, Michael Goguen, Douglas Leone and Michael Moritz. SCGE (LTGP), L.P. is the general partner of, and SCGE Management, L.P., a registered investment adviser under the Investment Advisers Act of 1940, as amended, acts as investment adviser to, SCGE Fund, L.P. (collectively referred to as the “SCGE Entities”). Christopher Lyle is the sole person with voting and investment power on behalf of the SCGE Entities. The SCGE Entities and the Sequoia Capital Entities may be deemed to be a group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, with respect to their ownership of our shares. The address for these entities is 3000 Sand Hill Road, Suite 4-250, Menlo Park, CA 94025.
- (3) Globespan Management Associates V, LLC is the sole general partner of Globespan Management Associates V, L.P., which is the sole general partner of Globespan Capital Partners V, L.P. The sole members of Globespan Management Associates V, LLC are Andrew P. Goldfarb and Barry J. Schiffman, who hold voting and dispositive power over the shares held by Globespan Capital Partners V, L.P. Mr. Ganesan, one of our directors, has no voting or dispositive power with respect to these shares. The address for these entities is 300 Hamilton Avenue, Palo Alto, CA 94301.
- (4) Consists of 538,996 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (5) Consists of 3,826,535 shares held of record by Mr. Zuk, of which 150,000 may be repurchased by us at the original exercise price within 60 days of June 30, 2012.
- (6) Consists of (i) 75,000 shares held of record by Mr. Batra, all of which may be repurchased by us at the original exercise price within 60 days of June 30, 2012; (ii) 1,877,216 shares held of record by Rajiv Batra and Ritu Batra as Trustees of the Batra Family Trust U/A/D 5th of January 2006 of which 75,000 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (iii) 250,000 shares held of record by Rajiv Batra and Ritu Batra as Trustees of the Trust Agreement for Aditya Joshua Batra dated February 22, 2005.
- (7) Consists of 510,000 shares held of record by Mr. Bonvanie, of which 145,416 may be repurchased by us at the original exercise price within 60 days of June 30, 2012.
- (8) Consists of (i) 749,364 shares held of record by Mr. Link, of which 28,750 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 41,667 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012. Mr. Link served as our Vice President, Worldwide Sales until June 2012, when he became our Senior Vice President, Emerging Markets.

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- (9) Consists of (i) the shares listed in footnote (1) above, which are held by the Greylock Partners Entities; and (ii) 307,050 shares held of record by the Chandna Family Revocable Trust DTD 4/13/98 for which Mr. Chandna serves as trustee. Mr. Chandna, one of our directors, is a partner of the Greylock Partners Entities, and therefore may be deemed to share voting or dispositive power with respect to the shares held by the Greylock Partners Entities.
- (10) Consists of the shares held by Sequoia Capital Growth Fund III, LP, Sequoia Capital Growth III Principals Fund, LLC and Sequoia Capital Growth Partners III, LP listed in footnote (2) above. Mr. Goetz, one of our directors, is a managing member of the general partner or managing member of the Sequoia Capital Entities specified above, and therefore may be deemed to share voting and dispositive power over the shares held by such Sequoia Capital Entities.
- (11) Consists of (i) 132,000 shares held of record by Mr. Kramer; and (ii) 865,524 shares held of record by Hapri Limited. Mr. Kramer is one of two directors of Hapri Limited, with Amir Rapoport, the Kramer family office Chief Financial Officer, being the other director. All of Hapri Limited's shares are ultimately controlled by a trust of which Mr. Kramer is the sole grantor and sole beneficiary during his life. The address for Hapri Limited is PFD Corporate Services (BVI) Limited, Tropic Isle Building, P.O. Box 3331, Road Town, Tortola, British Virgin Islands VG 1110.
- (12) Consists of 750,186 shares held of record by Hawkswatch Holdings LLC for which Mr. Lanfri is the sole member.
- (13) Consists of 18,958 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (14) Consists of 2,025,000 shares held of record by one or more family members or trusts controlled by Mr. Bess. Mr. Bess resigned as President and Chief Executive Officer in December 2010.
- (15) Consists of 362,496 shares issuable pursuant to stock options exercisable within 60 days of April 30, 2012. Mr. Lehman resigned as Chief Financial Officer in February 2012.
- (16) Consists of (i) 24,506,172 shares beneficially owned by the current directors and executive officers, of which 445,416 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 557,954 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (17) Consists of (i) 270,000 shares held of record by Mr. Klarich, of which 10,000 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 532,708 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (18) Consists of (i) 400,000 shares held of record by one or more family trusts controlled by Mr. Bharali; and (ii) 48,958 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (19) Consists of (i) 255,000 shares held of record by Mr. Kar; and (ii) 55,833 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (20) Consists of (i) 242,500 shares held of record by Mr. Xu, of which 10,000 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 19,792 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (21) Consists of (i) 185,402 shares held of record by Mr. Roberson; and (ii) 42,708 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (22) Consists of 226,667 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (23) Consists of (i) 190,000 shares held of record by Mr. Xie, of which 12,500 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 16,667 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (24) Consists of (i) 185,000 shares held of record by Mr. Jahr, of which 11,667 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 8,333 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.

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- (25) Consists of (i) 166,000 shares held of record by Mr. Anabathula; (ii) 7,000 shares held of record by one or more family members controlled by Mr. Anabathula; and (iii) 11,875 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (26) Consists of (i) 145,000 shares held of record by Mr. Munne, of which 11,771 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 35,000 shares held of record by one or more family trusts controlled by Mr. Munne.
- (27) Consists of (i) 85,000 shares held of record by Mr. Jacobsen; and (ii) 63,333 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (28) Consists of (i) 6,500 shares held of record by Mr. Eldridge, all of which may be repurchased by us at the original exercise price within 60 days of June 30, 2012; (ii) 25,000 shares held of record by one or more family trusts controlled by Mr. Eldridge; and (iii) 115,625 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (29) Consists of (i) 90,000 shares held of record by Mr. Rao, of which 5,625 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 15,000 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (30) Consists of 104,988 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (31) Consists of (i) 100,000 shares held of record by Ms. Sallabury, of which 312 may be repurchased by us at the original exercise price within 60 days of June 30, 2012; and (ii) 2,292 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (32) Consists of (i) 70,000 shares held of record by Mr. Verma; and (ii) 29,792 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (33) Consists of (i) 40,000 shares held of record by Ms. Hesarsorkh; and (ii) 59,167 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (34) Consists of (i) 40,000 shares held of record by Mr. Petty; and (ii) 59,058 shares issuable pursuant to stock options exercisable within 60 days of June 30, 2012.
- (35) Consists of 65,000 shares held of record by Mr. Mollo, of which 13,542 may be repurchased by us at the original exercise price within 60 days of June 30, 2012.
- (36) Represents shares held by 23 selling stockholders not listed above who, as a group, own less than 1% of our outstanding common stock prior to this offering. Of these selling stockholders, all 23 are current employees of our company.

DESCRIPTION OF CAPITAL STOCK

General

The following is a summary of the rights of our common stock and preferred stock and certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws as they will be in effect upon the completion of this offering. This summary does not purport to be complete and is qualified in its entirety by the provisions of our amended and restated certificate of incorporation and amended and restated bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

Immediately following the completion of this offering, our authorized capital stock will consist of 1,100,000,000 shares, with a par value of \$0.0001 per share, of which:

- 1,000,000,000 shares are designated as common stock; and
- 100,000,000 shares are designated as preferred stock.

As of April 30, 2012, we had outstanding 61,914,185 shares of common stock, held by approximately 290 stockholders of record, and no shares of preferred stock, assuming the automatic conversion of all outstanding shares of our convertible preferred stock into common stock effective immediately prior to the completion of this offering. In addition, as of April 30, 2012, we had outstanding options to acquire 12,900,814 shares of our common stock.

Common Stock

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences that may be applicable to any preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive ratably any dividends declared by our board of directors out of assets legally available. See the section entitled "Dividend Policy." Upon our liquidation, dissolution, or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding shares of preferred stock. Holders of common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

After the completion of this offering, no shares of preferred stock will be outstanding. Pursuant to our amended and restated certificate of incorporation, our board of directors will have the authority, without further action by the stockholders, to issue from time to time up to 100,000,000 shares of preferred stock in one or more series. Our board of directors may designate the rights, preferences, privileges, and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, redemption rights, liquidation preference, sinking fund terms, and the number of shares constituting any series or the designation of any series. The issuance of preferred stock could have the effect of restricting dividends on the common stock, diluting the voting power of the common stock, impairing the liquidation rights of the common stock, or delaying, deterring, or preventing a change in control. Such issuance could have the effect of decreasing the market price of the common stock. We currently have no plans to issue any shares of preferred stock.

Registration Rights

Following the completion of this offering, the holders of shares of our convertible preferred stock or their permitted transferees are entitled to rights with respect to the registration of these shares under the Securities Act.

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These rights are provided under the terms of an investors' rights agreement between us and the holders of these shares, which was entered into in connection with our convertible preferred stock financings, and include demand registration rights, short-form registration rights, and piggyback registration rights. In any registration made pursuant to such investors' rights agreement, all fees, costs, and expenses of underwritten registrations will be borne by us and all selling expenses, including estimated underwriting discounts and selling commissions, will be borne by the holders of the shares being registered.

The registration rights terminate seven years following the completion of this offering or, with respect to any particular stockholder, at such time that that stockholder can sell all of its shares during any three month period pursuant to Rule 144 of the Securities Act.

Demand Registration Rights

The holders of an aggregate of 41,084,032 shares of our common stock, or their permitted transferees, are entitled to demand registration rights. Under the terms of the investors' rights agreement, we will be required, upon the written request of holders of at least 40% of the shares that are entitled to registration rights under the investors' rights agreement, to register, as soon as practicable, all or a portion of these shares for public resale. We are required to effect only two registrations pursuant to this provision of the investors' rights agreement. We are not required to effect a demand registration earlier than 180 days after the effective date of this offering.

Short-Form Registration Rights

The holders of an aggregate of 41,304,600 shares of our common stock or their permitted transferees are also entitled to short-form registration rights. If we are eligible to file a registration statement on Form S-3, these holders have the right, upon written request from holders of these shares, to have such shares registered by us if the proposed aggregate offering price of the shares to be registered by the holders requesting registration is at least \$1.0 million, subject to exceptions set forth in the investors' rights agreement.

Piggyback Registration Rights

Following the completion of this offering, the holders of an aggregate of 41,304,600 shares of our common stock or their permitted transferees are entitled to piggyback registration rights. If we register any of our securities for our own account, after the completion of this offering, the holders of these shares are entitled to include their shares in the registration. The underwriters of any underwritten offering have the right to limit the number of shares registered by these holders for marketing reasons, subject to limitations set forth in the investors' rights agreement.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

Our amended and restated certificate of incorporation and amended and restated bylaws to be effective upon the completion of this offering will contain provisions that could have the effect of delaying, deferring, or discouraging another party from acquiring control of us. These provisions and certain provisions of Delaware law, which are summarized below, could discourage takeovers, coercive or otherwise. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us.

Undesignated Preferred Stock. As discussed above under "—Preferred Stock," our board of directors will have the ability to designate and issue preferred stock with voting or other rights or preferences that could deter hostile takeovers or delay changes in our control or management.

Limits on Ability of Stockholders to Act by Written Consent or Call a Special Meeting. Our amended and restated certificate of incorporation will provide that our stockholders may not act by written consent. This limit

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on the ability of stockholders to act by written consent may lengthen the amount of time required to take stockholder actions. As a result, the holders of a majority of our capital stock would not be able to amend the amended and restated bylaws or remove directors without holding a meeting of stockholders called in accordance with the amended and restated bylaws.

In addition, our amended and restated bylaws will provide that special meetings of the stockholders may be called only by the chairman of our board of directors, the chief executive officer, the president (in the absence of a chief executive officer), or our board of directors. A stockholder may not call a special meeting, which may delay the ability of our stockholders to force consideration of a proposal or for holders controlling a majority of our capital stock to take any action, including the removal of directors.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our amended and restated bylaws will establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee of the board of directors. These advance notice procedures may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed and may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempt to obtain control of our company.

Board Classification. Our board of directors will be divided into three classes. The directors in each class will serve for a three-year term, one class being elected each year by our stockholders. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for stockholders to replace a majority of the directors.

Delaware Anti-Takeover Statute. We will be subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a publicly held Delaware corporation from engaging, under certain circumstances, in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder unless:

- prior to the date of the transaction, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, but not the outstanding voting stock owned by the interested stockholder, (1) shares owned by persons who are directors and also officers and (2) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to the date of the transaction, the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's outstanding voting stock. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

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The provisions of Delaware law and the provisions of our amended and restated certificate of incorporation and amended and restated bylaws could have the effect of discouraging others from attempting hostile takeovers and as a consequence, they might also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions might also have the effect of preventing changes in our management. It is also possible that these provisions could make it more difficult to accomplish transactions that stockholders might otherwise deem to be in their best interests.

Transfer Agent and Registrar

Upon the completion of this offering, the transfer agent and registrar for our common stock will be ComputerShare Trust Company, N.A. The transfer agent's address is 250 Royall Street, Canton, Massachusetts 02021, and its telephone number is (877) 373-6374.

Exchange Listing

We have applied to list our common stock on the New York Stock Exchange under the symbol "PANW."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for shares of our common stock. Future sales of substantial amounts of shares of common stock, including shares issued upon the exercise of outstanding options, in the public market after this offering, or the possibility of these sales occurring, could adversely affect the prevailing market price for our common stock or impair our ability to raise equity capital.

Upon the completion of this offering, a total of 66,601,444 shares of common stock will be outstanding, assuming the automatic conversion of all outstanding shares of preferred stock into shares of common stock upon the completion of this offering. Of these shares, all 6,200,000 shares of common stock sold in this offering by us and the selling stockholders, plus any shares sold upon exercise of the underwriters' over-allotment option, will be freely tradable in the public market without restriction or further registration under the Securities Act, unless these shares are held by "affiliates," as that term is defined in Rule 144 under the Securities Act.

The remaining 60,401,444 shares of common stock will be "restricted securities," as that term is defined in Rule 144 under the Securities Act. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below.

Subject to the lock-up agreements described below and the provisions of Rules 144 and 701 under the Securities Act, these restricted securities will be available for sale in the public market at various times beginning more than 180 days (subject to extension) after the date of this prospectus.

Rule 144

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell such shares without complying with the manner of sale, volume limitation, or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then such person is entitled to sell such shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon expiration of the lock-up agreements described above, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 666,014 shares immediately after this offering; or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the

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immediately preceding 90 days to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation, or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. However, all holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling such shares pursuant to Rule 701.

Lock-Up Agreements

We, the selling stockholders, all of our directors and officers, and the holders of substantially all of our common stock, or securities exercisable for or convertible into our common stock outstanding immediately prior to this offering have agreed that, without the prior written consent of Morgan Stanley & Co. LLC and Goldman, Sachs & Co. on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;
- file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock;

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. This agreement is subject to certain exceptions, and is also subject to extension for up to an additional 34 days, as set forth in the section entitled “Underwriters.”

Registration Rights

The holders of 41,304,600 shares of common stock or their transferees will be entitled to various rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by affiliates. See “Description of Capital Stock—Registration Rights” for additional information.

Registration Statements on Form S-8

Upon the completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register all of the shares of common stock issued or reserved for issuance under our stock option plans. Shares covered by this registration statement will be eligible for sale in the public market, upon the expiration or release from the terms of the lock-up agreements and subject to vesting of such shares.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax consequences to non-U.S. holders (as defined below) of the ownership and disposition of our common stock, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings, and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those set forth below.

This summary also does not address the tax considerations arising under the laws of any non-U.S., state or local jurisdiction, or under U.S. federal gift and estate tax laws, except to the limited extent set forth below. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies, or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- controlled foreign corporations, passive foreign investment companies, and corporations that accumulate earnings to avoid U.S. federal income tax;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock (except to the extent specifically set forth below);
- certain former citizens or long-term residents of the United States;
- persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction," or other risk reduction transaction;
- persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code; or
- persons deemed to sell our common stock under the constructive sale provisions of the Code.

In addition, if a partnership or entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors.

You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership, and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any state, local, non-U.S., or other taxing jurisdiction or under any applicable tax treaty.

Non-U.S. Holder Defined

For purposes of this discussion, you are a non-U.S. holder if you are any holder other than:

- a partnership or entity classified as a partnership for U.S. federal income tax purposes;

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- an individual citizen or resident of the United States (for tax purposes);
- a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (x) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (y) which has made an election to be treated as a U.S. person.

Distributions

We have not made any distributions on our common stock and do not intend to do so in the foreseeable future. However, if we do make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock.

Any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us with an IRS Form W-8BEN or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. A non-U.S. holder of shares of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the non-U.S. holder's behalf, the non-U.S. holder will be required to provide appropriate documentation to the agent, which then will be required to provide certification to us or our paying agent, either directly or through other intermediaries.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, attributable to a permanent establishment maintained by you in the U.S.) are generally exempt from such withholding tax. In order to obtain this exemption, you must provide us with an IRS Form W-8ECI or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

Gain on Disposition of Common Stock

Subject to the discussion below regarding legislation related to foreign accounts, you generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment maintained by you in the United States);
- you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or
- our common stock constitutes a U.S. real property interest by reason of our status as a "United States real property holding corporation," or USRPHC, for U.S. federal income tax purposes at any time

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within the shorter of the five-year period preceding your disposition of, or your holding period for, our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the shorter of the five-year period preceding your disposition of, or your holding period for, our common stock.

If you are a non-U.S. holder described in the first bullet above, you will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates, and a corporate non-U.S. holder described in the first bullet above also may be subject to the branch profits tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty. If you are an individual non-U.S. holder described in the second bullet above, you will be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses for the year. You should consult any applicable income tax or other treaties that may provide for different rules.

Federal Estate Tax

Our common stock beneficially owned by an individual who is not a citizen or resident of the United States (as defined for U.S. federal estate tax purposes) at the time of their death will generally be includable in the decedent's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report will be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends or of proceeds on the disposition of stock made to you may be subject to information reporting and backup withholding at a current rate of 28% (such rate scheduled to increase to 31% for payments made after December 31, 2012) unless you establish an exemption, for example, by properly certifying your non-U.S. status on a Form W-8BEN or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund, or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Legislation Relating to Foreign Accounts

Legislation enacted in 2012 generally will impose a U.S. federal withholding tax of 30% on dividends on, and the gross proceeds of a disposition of, our common stock, paid to a "foreign financial institution" (as specially defined under these rules), unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities certain information regarding the U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as

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well as certain account holders that are foreign entities with U.S. owners). The legislation also generally will impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity (or certifying that it does not have any “substantial U.S. owners”). The legislation applies to payments made after December 31, 2012. Under certain transition rules, the obligation to withhold would apply to dividends paid on our common stock after December 31, 2013, and to the gross proceeds from the sale or other disposition of our common stock after December 31, 2014. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our common stock.

Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local and non-U.S. tax consequences of purchasing, holding and disposing of our common stock, including the consequences of any proposed change in applicable laws.

UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. LLC, Goldman, Sachs & Co., and Citigroup Global Markets Inc. are acting as representatives, have severally agreed to purchase, and we and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

<u>Name</u>	<u>Number of Shares</u>
Morgan Stanley & Co. LLC	
Goldman, Sachs & Co.	
Citigroup Global Markets Inc.	
Credit Suisse Securities (USA) LLC	
Barclays Capital Inc.	
UBS Securities LLC	
Raymond James & Associates, Inc.	
Total	<u><u>6,200,000</u></u>

The underwriters and the representatives are collectively referred to as the “underwriters” and the “representatives,” respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters’ over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of \$ a share under the public offering price. After the initial offering of the shares of common stock, the offering price, and other selling terms may from time to time be varied by the representatives. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters’ right to reject any order in whole or in part.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 930,000 additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter’s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

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The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us and the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase up to an additional 930,000 shares of our common stock.

	<u>Per Share</u>	<u>Total</u>	
	<u>\$</u>	<u>No Exercise</u>	<u>Full Exercise</u>
Public offering price	\$	\$	\$
Underwriting discounts and commissions paid by:			
Us	\$	\$	\$
The selling stockholders	\$	\$	\$
Proceeds, before expenses, to us	\$	\$	\$
Proceeds, before expenses, to selling stockholders	\$	\$	\$

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately \$3.9 million, which includes legal, accounting and printing costs, and various other fees associated with the registration and listing of our common stock. The underwriters have agreed to reimburse us for certain of these expenses.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of shares of common stock offered by them.

We have applied to list our common stock on the New York Stock Exchange under the symbol "PANW."

We, the selling stockholders, all of our directors and officers, and the holders of substantially all of our common stock and securities exercisable for or convertible into our common stock outstanding immediately prior to this offering have agreed that, without the prior written consent of Morgan Stanley & Co. LLC and Goldman, Sachs & Co. on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus (the "restricted period"):

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;
- file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock.

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we and each such person agrees that, without the prior written consent of Morgan Stanley & Co. LLC and Goldman, Sachs & Co. on behalf of the underwriters, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restrictions described in the immediately preceding paragraph to do not apply to:

- the sale of shares to the underwriters;

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- the issuance by us of shares of common stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date of the underwriting agreement of which the underwriters have been advised in writing;
- transactions by a security holder relating to shares of common stock or other securities acquired in open market transactions after completion of this offering; provided that no filing under Section 16 of the Exchange Act is required or voluntarily made in connection with subsequent sales of common stock or other securities acquired in such open market transactions;
- the transfer by a security holder of shares of common stock or any securities convertible into or exercisable or exchangeable for common stock (i) to an immediate family member of a security holder or to a trust formed for the benefit of such an immediate family member, (ii) by bona fide gift, will or intestacy, (iii) if the security holder is a corporation, partnership, limited liability company or other business entity (A) to another corporation, partnership, limited liability company or other business entity that is an affiliate of such security holder or (B) as part of a distribution to an equity holder of such stockholder or (iv) if the security holder is a trust, to a trustor or beneficiary of the trust, provided that in each case, the transferee, donee or distributee signs and delivers a lock-up agreement prior to or upon such transfer and no filing under Section 16 of the Exchange Act is required or voluntarily made during the restricted period;
- the receipt by a security holder of common stock upon the vesting of restricted stock awards or the exercise of options or warrants, provided that any securities received upon such vesting or exercise will also be subject to these restrictions and no filing under Section 16 of the Exchange Act is required or voluntarily made in connection with such vesting or exercise;
- the disposition of shares of common stock by a security holder to us solely in connection with the payment of taxes due with respect to the vesting of restricted stock awards, provided that no filing under Section 16 of the Exchange Act is required or voluntarily made in connection with such disposition;
- the transfer of shares of common stock by a security holder pursuant to option agreements relating to the early exercise of unvested options under which we have the right to repurchase such shares and only to the extent that we elect to exercise such right;
- the establishment by a security holder of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of common stock, provided that such plan does not provide for the transfer of common stock during the restricted period and no public announcement or filing under the Exchange Act regarding the establishment of such plan is required or voluntarily made.
- the conversion of outstanding preferred stock into shares of common stock by a security holder, provided that such shares of common stock remain subject to these restrictions;
- if the a security holder is an individual, the transfer of shares of common stock or any security convertible into or exercisable or exchangeable for common stock that occurs by operation of law, such as pursuant to a qualified domestic order or in connection with a divorce settlement, provided that the security holder uses its reasonable best efforts to cause the transferee to sign and deliver a lock-up agreement prior to such transfer;
- the transfer of shares of common stock or any security convertible into or exercisable or exchangeable for common stock by a security holder pursuant to a bona fide third party tender offer, merger, consolidation or other similar transaction made to all holders of our common stock involving a change of control of us, provided that in the event that the tender offer, merger, consolidation or other such transaction is not completed, such securities will continue to be subject to these restrictions;
- the grant of options to purchase or the issuance of shares of common stock by us to our employees, officers, directors, advisors or consultants pursuant to employee benefit plans in effect on the date of

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- the underwriting agreement and described herein or pursuant to an employee stock purchase plan described herein;
- the filing by us of a registration statement with the Securities and Exchange Commission on Form S-8 in respect of any shares issued under or the grant of any award pursuant to an employee benefit plan in effect on the date of the underwriting agreement and described herein; or
- the sale or issuance of or entry into an agreement to sell or issue shares of common stock or securities convertible into or exercisable for common stock in connection with any mergers, acquisition of securities, businesses, property or other assets, joint ventures, strategic alliances, equipment leasing arrangements or debt financing, in an aggregate number of shares of common stock or securities convertible into or exercisable for common stock (on an as-converted or as-exercised basis, as the case may be) not to exceed 10% of the total number of shares of our common stock issued and outstanding immediately following the completion of this offering, provided that each recipient of shares of common stock or securities convertible into or exercisable for common stock pursuant to this exception shall be subject to the lock-up restrictions described above.

The restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the restricted period we issue an earnings release or material news or a material event relating to us occurs, or
- prior to the expiration of the restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the restricted period or provide notification to Morgan Stanley & Co. LLC and Goldman, Sachs & Co. of any earnings release or material news or material event that may give rise to an extension of the initial 180-day restricted period,

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Morgan Stanley & Co. LLC and Goldman, Sachs & Co., in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice. When determining whether or not to release common stock and other securities from lock-up agreements, Morgan Stanley & Co. LLC and Goldman, Sachs & Co. will consider, among other factors, the holder's reasons for requesting the release, the number of shares of common stock and other securities for which the release is being requested and market conditions at the time.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it

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because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We, the selling stockholders and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

Pricing of the Offering

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations between us and the representative. Among the factors considered in determining the initial public offering price were our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), an offer to the public of any shares of our common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of our common stock to be offered so as to enable an investor to decide to purchase any shares of our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

Each underwriter has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the “FSMA”)) received by it in connection with the issue or sale of the shares of our common stock in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom.

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation, or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares, and debentures of that corporation, or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Wilson Sonsini Goodrich & Rosati, P.C., Palo Alto, California. Davis Polk & Wardwell LLP, Menlo Park, California, is acting as counsel to the underwriters.

EXPERTS

The consolidated financial statements of Palo Alto Networks, Inc. at July 31, 2010 and 2011, and for each of the three years in the period ended July 31, 2011, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement, some of which is contained in exhibits to the registration statement as permitted by the rules and regulations of the SEC. For further information with respect to us and our common stock, we refer you to the registration statement, including the exhibits filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document is not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, please see the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. You may obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy statements, and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

As a result of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with this law, will file periodic reports, proxy statements, and other information with the SEC. These periodic reports, proxy statements, and other information will be available for inspection and copying at the SEC's public reference facilities and the website of the SEC referred to above. We also maintain a website at www.paloaltonetworks.com. Upon completion of this offering, you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

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PALO ALTO NETWORKS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Palo Alto Networks, Inc.

We have audited the accompanying consolidated balance sheets of Palo Alto Networks, Inc. as of July 31, 2011 and 2010, and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' deficit, and cash flows for each of the three years in the period ended July 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Palo Alto Networks, Inc. at July 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California
April 6, 2012

PALO ALTO NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	<u>July 31,</u>		<u>April 30,</u>	<u>Pro Forma</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Stockholders'</u> <u>Equity as of</u> <u>April 30, 2012</u> <u>(Unaudited)</u>
Assets				
Current assets:				
Cash and cash equivalents	\$ 18,835	\$ 40,517	\$ 90,283	
Accounts receivable, net of allowance for doubtful accounts of \$6 at July 31, 2010 and 2011 and \$54 at April 30, 2012 (unaudited)	14,241	29,677	38,796	
Prepaid expenses and other current assets	<u>2,584</u>	<u>6,646</u>	<u>12,537</u>	
Total current assets	35,660	76,840	141,616	
Property and equipment, net	1,833	12,666	19,613	
Other assets	<u>626</u>	<u>1,666</u>	<u>5,260</u>	
Total assets	<u>\$ 38,119</u>	<u>\$ 91,172</u>	<u>\$ 166,489</u>	
Liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)				
Current liabilities:				
Accounts payable	\$ 2,701	\$ 5,435	\$ 10,514	
Accrued liabilities	6,155	6,957	11,262	
Accrued compensation	3,267	9,456	8,998	
Deferred revenue	<u>16,537</u>	<u>45,253</u>	<u>74,795</u>	
Total current liabilities	28,660	67,101	105,569	
Deferred revenue—non-current	7,584	22,002	41,857	
Preferred stock warrant liability	491	2,068	—	
Other long-term liabilities	<u>2,541</u>	<u>6,964</u>	<u>8,160</u>	
Commitments and contingencies (Note 5)				
Redeemable convertible preferred stock, \$0.0001 par value; 41,723 shares authorized at July 31, 2010, 2011, and April 30, 2012 (unaudited); 41,084 issued and outstanding with liquidation preference of \$64,760 at July 31, 2010 and 2011; and 41,305 issued and outstanding with liquidation preference of \$64,907 at April 30, 2012 (unaudited); no shares issued and outstanding, pro forma (unaudited)	64,491	64,491	67,517	—
Stockholders' equity (deficit):				
Common stock, \$0.0001 par value; 75,000 shares authorized; 19,790, 19,751, 20,610, and 61,915 shares issued and outstanding at July 31, 2010, 2011, April 30, 2012 (unaudited), and pro forma (unaudited), respectively	2	2	2	6
Additional paid-in capital	2,587	9,309	18,813	86,808
Accumulated deficit	<u>(68,237)</u>	<u>(80,765)</u>	<u>(75,429)</u>	<u>(75,911)</u>
Total stockholders' equity (deficit)	<u>(65,648)</u>	<u>(71,454)</u>	<u>(56,614)</u>	<u>10,903</u>
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	<u>\$ 38,119</u>	<u>\$ 91,172</u>	<u>\$ 166,489</u>	<u>\$ 166,489</u>

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011 (Unaudited)	2012 (Unaudited)
Revenue:					
Product	\$ 10,110	\$ 36,789	\$ 84,800	\$55,716	\$125,023
Services	3,242	11,993	33,797	22,655	54,473
Total revenue	13,352	48,782	118,597	78,371	179,496
Cost of revenue:					
Product	3,952	10,822	21,766	14,003	32,082
Services	2,324	4,812	10,507	6,917	16,904
Total cost of revenue	6,276	15,634	32,273	20,920	48,986
Total gross profit	7,076	33,148	86,324	57,451	130,510
Operating expenses:					
Research and development	8,208	12,788	21,366	14,437	26,824
Sales and marketing	15,372	29,726	62,254	38,747	78,196
General and administrative	2,536	11,291	13,108	9,290	17,355
Total operating expenses	26,116	53,805	96,728	62,474	122,375
Operating income (loss)	(19,040)	(20,657)	(10,404)	(5,023)	8,135
Interest income	52	4	3	3	7
Other expense, net	(5)	(424)	(1,651)	(1,195)	(1,033)
Income (loss) before income taxes	(18,993)	(21,077)	(12,052)	(6,215)	7,109
Provision for income taxes	12	56	476	333	1,773
Net income (loss)	<u>\$(19,005)</u>	<u>\$(21,133)</u>	<u>\$(12,528)</u>	<u>\$(6,548)</u>	<u>\$ 5,336</u>
Net income (loss) attributable to common stockholders:					
Basic	<u>\$(19,005)</u>	<u>\$(21,133)</u>	<u>\$(12,528)</u>	<u>\$(6,548)</u>	<u>\$ 40</u>
Diluted	<u>\$(19,005)</u>	<u>\$(21,133)</u>	<u>\$(12,528)</u>	<u>\$(6,548)</u>	<u>\$ 49</u>
Net income (loss) per share attributable to common stockholders:					
Basic	<u>\$ (2.01)</u>	<u>\$ (1.78)</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>	<u>\$ 0.00</u>
Diluted	<u>\$ (2.01)</u>	<u>\$ (1.78)</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>	<u>\$ 0.00</u>
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic	<u>9,435</u>	<u>11,901</u>	<u>14,201</u>	<u>13,559</u>	<u>17,238</u>
Diluted	<u>9,435</u>	<u>11,901</u>	<u>14,201</u>	<u>13,559</u>	<u>23,020</u>
Pro forma net income (loss) per share attributable to common stockholders (unaudited):					
Basic			<u>\$ (0.20)</u>		<u>\$ 0.10</u>
Diluted			<u>\$ (0.20)</u>		<u>\$ 0.09</u>
Pro forma weighted-average shares used to compute net income (loss) per share attributable to common stockholders (unaudited):					
Basic			<u>55,285</u>		<u>58,421</u>
Diluted			<u>55,285</u>		<u>64,328</u>

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT
(In thousands)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance as of August 1, 2008	28,323	\$ 28,025	16,360	\$ 2	\$ 561	\$ (28,099)	\$ (27,536)
Net loss and comprehensive loss	—	—	—	—	—	(19,005)	(19,005)
Net proceeds from issuance of Series C preferred stock	12,343	35,266	—	—	—	—	—
Conversion of related-party loan into preferred stock	418	1,200	—	—	—	—	—
Stock option exercises, net of unvested portion	—	—	263	—	256	—	256
Stock options early exercised in exchange for note deemed non-recourse for accounting purposes	—	—	900	—	—	—	—
Partial cancellation of promissory note for unvested portion of stock options exercised early	—	—	(392)	—	—	—	—
Proceeds from issuance of stock to non-employees	—	—	11	—	7	—	7
Share-based compensation	—	—	—	—	374	—	374
Balance as of July 31, 2009	41,084	64,491	17,142	2	1,198	(47,104)	(45,904)
Net loss and comprehensive loss	—	—	—	—	—	(21,133)	(21,133)
Stock option exercises, net of unvested portion	—	—	2,684	—	513	—	513
Proceeds from issuance of restricted stock to non-employees	—	—	10	—	7	—	7
Share-based compensation	—	—	—	—	869	—	869
Repurchase of unvested restricted common stock from terminated employees	—	—	(46)	—	—	—	—
Balance as of July 31, 2010	41,084	64,491	19,790	2	2,587	(68,237)	(65,648)
Net loss and comprehensive loss	—	—	—	—	—	(12,528)	(12,528)
Stock option exercises, net of unvested portion	—	—	951	—	1,094	—	1,094
Share-based compensation	—	—	—	—	4,733	—	4,733
Repurchase of unvested restricted common stock from terminated employees	—	—	(990)	—	—	—	—
Proceeds from settlement of note receivable	—	—	—	—	895	—	895
Balance as of July 31, 2011	41,084	64,491	19,751	2	9,309	(80,765)	(71,454)
Net income and comprehensive income (unaudited)	—	—	—	—	—	5,336	5,336
Stock option exercises, net of unvested portion (unaudited)	—	—	712	—	1,518	—	1,518
Share-based compensation for equity based awards (unaudited)	—	—	—	—	7,350	—	7,350
Repurchase of unvested restricted common stock from terminated employees (unaudited)	—	—	(45)	—	—	—	—
Issuance of restricted common stock to employees (unaudited)	—	—	192	—	—	—	—
Proceeds from settlement of note receivable (unaudited)	—	—	—	—	636	—	636
Exercise of preferred stock warrants (unaudited)	221	3,026	—	—	—	—	—
Balance as of April 30, 2012 (unaudited)	41,305	\$ 67,517	20,610	\$ 2	\$ 18,813	\$ (75,429)	\$ (56,614)

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011 (Unaudited)	2012
Cash flows from operating activities					
Net income (loss)	\$(19,005)	\$(21,133)	\$(12,528)	\$ (6,548)	\$ 5,336
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,180	1,123	2,189	1,131	4,193
Share-based compensation for equity based awards	374	869	4,733	3,810	7,350
Change in fair value of preferred stock warrants	(7)	423	1,577	1,140	958
Changes in operating assets and liabilities:					
Accounts receivable, net	(2,104)	(10,712)	(15,436)	(7,459)	(9,119)
Prepaid expenses and other assets	2	(1,163)	(5,114)	(2,419)	(9,251)
Accounts payable	171	894	2,734	2,653	5,079
Accrued and other liabilities	1,720	8,488	6,340	2,799	3,834
Deferred revenue	4,146	18,528	43,134	23,004	49,397
Reimbursement of cost of leasehold improvements	—	—	4,473	3,850	701
Net cash provided by (used in) operating activities	(13,523)	(2,683)	32,102	21,961	58,478
Cash flows from investing activities					
Purchase of property, equipment, and other assets	(1,045)	(1,685)	(13,000)	(10,902)	(11,281)
Net cash used in investing activities	(1,045)	(1,685)	(13,000)	(10,902)	(11,281)
Cash flows from financing activities					
Changes in restricted cash	—	—	—	—	1,221
Repayment of related-party loans	(800)	—	—	—	—
Proceeds from exercise of stock options	171	1,854	1,775	1,544	1,477
Proceeds from issuance of stock to non-employees	7	7	—	—	—
Proceeds from settlement of note receivable	—	—	895	—	637
Repurchase of restricted common stock from terminated employees	—	(24)	(90)	(80)	(63)
Payments for deferred offering costs	—	—	—	—	(703)
Net proceeds from issuance of preferred stock	35,266	—	—	—	—
Net cash provided by financing activities	34,644	1,837	2,580	1,464	2,569
Net increase (decrease) in cash and cash equivalents	20,076	(2,531)	21,682	12,523	49,766
Cash and cash equivalents—beginning of period	1,290	21,366	18,835	18,835	40,517
Cash and cash equivalents—end of period	<u>\$ 21,366</u>	<u>\$ 18,835</u>	<u>\$ 40,517</u>	<u>\$ 31,358</u>	<u>\$ 90,283</u>
Supplemental disclosures of cash flow information					
Cash paid for income taxes	<u>\$ 13</u>	<u>\$ 9</u>	<u>\$ 32</u>	<u>\$ 32</u>	<u>\$ 1,133</u>
Cash paid for interest	<u>\$ 18</u>	<u>\$ 1</u>	<u>\$ 25</u>	<u>\$ 19</u>	<u>\$ 13</u>
Non-cash investing and financing activities					
Conversion of related party loan into preferred stock	<u>\$ 1,200</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Change in liability for early exercise of stock options, net of vested portion	<u>\$ 85</u>	<u>\$ 1,317</u>	<u>\$ 591</u>	<u>\$ 728</u>	<u>\$ 104</u>
Issuance of preferred stock upon exercise of warrant	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Palo Alto Networks, Inc., 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 next-generation network security platform that allows enterprises, service providers, and government entities to secure their networks and safely enable the increasingly complex and rapidly growing number of applications running on their networks. The core of our platform is our Next-Generation Firewall that delivers application, user, and content visibility and control integrated within the firewall through our proprietary operating system, hardware, and software architecture. We primarily sell our products and services to end-customers through distributors, resellers, and strategic partners, and infrequently directly to end-customers (collectively partners), who are supported by our sales and marketing organization, in the Americas, in Europe, the Middle East, and Africa (EMEA), and in Asia Pacific and Japan (APAC).

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries (collectively, the “Company,” “we,” “us,” or “our”). All significant intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of April 30, 2012, the consolidated statements of operations and cash flows for the nine month periods ended April 30, 2011 and 2012, the consolidated statement of redeemable convertible preferred stock and stockholders’ deficit for the nine month period ended April 30, 2012, and the related footnote disclosures are unaudited. These unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). In management’s opinion, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our statement of financial position as of April 30, 2012 and our results of operations and cash flows for the nine month periods ended April 30, 2011 and 2012. The results for the nine month period ended April 30, 2012 are not necessarily indicative of the results expected for the full fiscal year.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such management estimates include the best estimate of selling price for our products and services, share-based compensation including the fair value of our common stock, future taxable income, contract manufacturer liabilities, litigation and settlement costs and other loss contingencies, warranty liabilities, and fair value of preferred stock warrant liability. We base our estimates on historical experience and also on assumptions that we believe are reasonable. Actual results could differ from those estimates.

Unaudited Pro Forma Consolidated Balance Sheet

Upon the consummation of the initial public offering contemplated by us, all of the outstanding shares of redeemable convertible preferred stock will automatically convert into shares of common stock, assuming we raise at least \$50 million. The April 30, 2012 unaudited pro forma consolidated balance sheet data has been

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prepared assuming the conversion of the convertible preferred stock outstanding into 41,305,000 shares of common stock. Additionally, as described in detail in “Note 8—Equity Award Plans—Share-Based Compensation” below, in January 2012, we granted restricted stock awards that vest based on a service condition and a liquidity condition. As a result, the unaudited pro forma balance sheet information as of April 30, 2012, gives effect to share-based compensation expense of \$482,000 associated with these awards, which we expect to record upon the completion of our initial public offering.

Concentrations

Financial instruments that subject us to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. We maintain a substantial portion of our cash and cash equivalents in money market funds invested in U.S. Treasury related obligations. Management believes that the financial institutions that hold our investments are financially sound and, accordingly, are subject to minimal credit risk. Deposits held with banks may exceed the amount of insurance provided on such deposits.

Our accounts receivables are primarily derived from our partners representing various geographical locations. We perform ongoing credit evaluations of our partners and generally do not require collateral on accounts receivable. We maintain an allowance for doubtful accounts for estimated potential credit losses. As of July 31, 2011, four partners represented 17%, 16%, 12%, and 10% of our gross accounts receivable. For fiscal 2011, two partners represented 16% and 13% of our total revenue. We rely on an independent contract manufacturer to assemble all of our products and sole suppliers for a certain number of our components.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). We have no components of other comprehensive income or loss, and accordingly, net income (loss) equals comprehensive income (loss) for all periods presented.

Foreign Currency Translation/Transactions

The functional currency of our foreign subsidiaries is the U.S. dollar. Assets and liabilities denominated in foreign currencies have been re-measured into U.S. dollars using the exchange rates in effect at the balance sheet dates. Foreign currency denominated revenue and expenses have been re-measured using the average exchange rates in effect during each period. Foreign currency re-measurement gains and losses have been included in other income (expense) and are not significant to the financial statements. Foreign currency transaction gains and losses have been included in operating expenses and are not significant to the financial statements.

Cash and Cash Equivalents

We consider all highly liquid investments held at financial institutions, such as commercial paper, money market funds, and other money market securities with original maturities of three months or less at date of purchase to be cash equivalents.

Fair Value of Financial Instruments

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, we consider the principal or most advantageous market in which to transact and the market-based risk. We apply fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The carrying amounts reported in the consolidated financial statements approximate the fair value for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, due to their short-term nature.

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Effective February 1, 2012, we adopted ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations, or cash flows.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on our assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice, each partner's expected ability to pay, and the collection history with each partner, when applicable, to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified. For the years ended July 31, 2009, 2010, and 2011, the allowance for doubtful accounts activity was not significant.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally one to seven years. Demonstration units are transferred from inventory at cost and are amortized over 18 months from the date of transfer. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the remaining lease term.

Impairment of Long-Lived Assets

We evaluate events and changes in circumstances that could indicate carrying amounts of long-lived assets, including property and equipment, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether or not the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future undiscounted cash flows is less than the carrying amount of an asset, we record an impairment charge for the amount by which the carrying amount of the assets exceeds the fair value of the asset. Through April 30, 2012, we have not written down any of our long-lived assets as a result of impairment.

Deferred Offering Costs

Deferred offering costs consisted primarily of direct incremental legal and accounting fees related to our proposed initial public offering. Approximately \$1,055,000 (unaudited) of deferred offering costs are included in other assets on our consolidated balance sheet as of April 30, 2012. No amounts were deferred as of July 31, 2010 and 2011. Upon completion of the initial public offering contemplated herein, these amounts will be reflected in the net proceeds of the offering. If the offering is terminated, the deferred offering costs will be expensed.

Warranties

We generally provide a one-year warranty on hardware and a three-month warranty on software. We accrue for potential warranty claims as a component of cost of product revenues based on historical experience and other data. Accrued warranty is recorded in accrued liabilities on the consolidated balance sheets and is reviewed periodically for adequacy. To date, we have not accrued any significant costs associated with our warranty.

Contract Manufacturer Liabilities

We outsource most of our manufacturing, repair, and supply chain management operations to our independent contract manufacturer and payments to it are a significant portion of our product cost of revenues. Although we could be contractually obligated to purchase manufactured products, we generally do not own the

manufactured products. Product title transfers from our independent contract manufacturer to us and immediately to our partner upon shipment. Our independent contract manufacturer assembles our products using design specifications, quality assurance programs, and standards that we establish and it procures components and assembles our products based on our demand forecasts. These forecasts represent our estimates of future demand for our products based upon historical trends and analysis from our sales and product management functions as adjusted for overall market conditions. If the actual component usage and product demand are significantly lower than forecast, we may accrue for costs for contractual manufacturing commitments in excess of our forecasted demand including costs for excess components or for carrying costs incurred by our contract manufacturer. To date, we have not accrued any significant costs associated with this exposure.

Preferred Stock Warrant Liability

Preferred stock warrant liability is measured and recognized in the financial statements at its fair value. The fair value of the warrants is estimated using the Black-Scholes-Merton ("Black-Scholes") option pricing model at each reporting date. The change in fair value of the warrants is then recorded on the consolidated statements of operations as other expense. The warrants were exercised as of April 30, 2012.

Revenue Recognition

We generate revenue from the sales of hardware and software products, subscriptions, support and maintenance, and other services primarily through a direct sales force and indirect relationships with our partners.

Revenue is recognized when all of the following criteria are met:

- ***Persuasive Evidence of an Arrangement Exists.*** We rely upon non-cancelable sales agreements and purchase orders to determine the existence of an arrangement.
- ***Delivery has Occurred.*** We use shipping documents or transmissions of service contract registration codes to verify delivery.
- ***The Fee is Fixed or Determinable.*** We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction.
- ***Collectability is Reasonably Assured.*** We assess collectability based on credit analysis and payment history.

We recognize product revenue at the time of shipment provided that all other revenue recognition criteria have been met. At the time of shipment, product revenue generally meets the criteria for fixed or determinable fees as our partners receive an order from an end-customer prior to placing an order with us. In addition, payment from our partners is not contingent on the partner's success in sales to end-customers. Our partners generally do not stock appliances and only have limited stock rotation rights and no price protection rights. When necessary, we make certain estimates and maintain allowances for sales returns, stock rotation, and other programs based on our historical experience. To date, these estimates have not been significant. We recognize services revenue from subscriptions and support and maintenance ratably over the contractual service period, which is typically one year, with some up to three years. Other services revenue is recognized as the services are rendered and has not been significant to date.

Most of our arrangements, other than renewals of subscriptions and support and maintenance, are multiple-element arrangements with a combination of hardware, software, subscriptions, support and maintenance, and other services. Products and services generally qualify as separate units of accounting. Our hardware deliverables typically include proprietary operating system software, which together deliver the essential functionality of our products. For multiple-element arrangements, we allocate revenue to each unit of accounting based on an estimated selling price at the arrangement inception. The estimated selling price for each element is based upon

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the following hierarchy: vendor-specific objective evidence (“VSOE”) of selling price, if available, third-party evidence (“TPE”) of selling price, if VSOE of selling price is not available, or best estimate of selling price (“BESP”), if neither VSOE of selling price nor TPE of selling price are available. The total arrangement consideration is allocated to each separate unit of accounting using the relative estimated selling prices of each unit based on the aforementioned selling price hierarchy. We limit the amount of revenue recognized for delivered elements to an amount that is not contingent upon future delivery of additional products or services or meeting of any specified performance conditions.

To determine the estimated selling price in multiple-element arrangements, we establish VSOE of selling price using the prices charged for a deliverable when sold separately and, for subscriptions and support and maintenance, based on the renewal rates and discounts offered to partners. If VSOE of selling price cannot be established for a deliverable, we establish TPE of selling price by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated partners. However, as our products contain a significant element of proprietary technology and offer substantially different features and functionality from our competitors, we are unable to obtain comparable pricing of our competitors’ products with similar functionality on a standalone basis. Therefore, we have not been able to obtain reliable evidence of TPE of selling price. If neither VSOE nor TPE of selling price can be established for a deliverable, we establish BESP primarily based on historical transaction pricing. Historical transactions are segregated 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 products and services were sold (domestic or international), offering type (products or services), and whether or not the opportunity was identified by our sales force or by our partners. In analyzing historical transaction pricing we evaluate whether a majority of the prices charged for a product, as represented by a percentage of list price, fall within a reasonable range. To further support the best estimate of selling price as determined by the historical transaction pricing or when such information is unavailable, such as when there are limited sales of a new product, we consider the same factors we have established through our pricing model and go-to-market strategy. The determination of BESP is made through consultation with and approval by our management.

In multiple element arrangements where software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative estimated selling prices of each of the deliverables in the arrangement based on the aforementioned estimated selling price hierarchy. The arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the residual method when the VSOE of fair value of the undelivered items exists. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements. In determining VSOE of fair value, we evaluate whether a substantial majority of the historical prices charged for a product or service sold on a standalone basis, as represented by a percentage of list price, fall within a reasonably narrow range. If VSOE of fair value of one or more undelivered items does not exist, revenue from the entire arrangement is deferred and recognized at the earlier of: (i) delivery of those elements or (ii) when fair value can be established unless support and maintenance is the only undelivered element, in which case, the entire arrangement fee is recognized ratably over the contractual service period.

We account for multiple agreements with a single partner as one arrangement 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 arrangement.

Revenues are reported net of sales taxes. Shipping charges billed to partners are included in revenues and related costs are included in cost of revenue. Sales commissions and other incremental costs to acquire contracts are also expensed as incurred. After receipt of a partner order, any amounts billed in excess of revenue recognized are recorded as deferred revenue.

Advertising Costs

Advertising costs, which are expensed and included in sales and marketing expense when incurred, were \$164,000, \$366,000, and \$757,000 during the years ended July 31, 2009, 2010, and 2011, respectively.

Software Development Costs

The costs to develop software have not been capitalized as we believe our current software development process is essentially completed concurrent with the establishment of technological feasibility. As such, all software development costs are expensed as incurred and included in research and development expense on the consolidated statements of operations.

Share-Based Compensation

Compensation expense related to share-based transactions, including employee and non-employee director awards, is measured and recognized in the financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model and a single option award approach. This model requires that at the date of grant we determine the fair value of the underlying common stock, the expected term of the award, the expected volatility of the price of our common stock, risk-free interest rates, and expected dividend yield of our common stock. The share-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four years. We estimate a forfeiture rate to calculate the share-based compensation for our awards. Our forfeiture rate is based on an analysis of our actual historical forfeitures.

Income Taxes

We account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses and research and development credit carryforwards. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized.

We apply the authoritative accounting guidance prescribing a threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax liability as the largest amount that is more likely than not to be realized upon ultimate settlement.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-05, *Presentation of Comprehensive Income*. The standard requires entities to have more detailed reporting of comprehensive income. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2011. Early adoption is permitted. The guidance should be applied retrospectively. We believe that adoption of this guidance will not have a material impact on our consolidated financial position, results of operations, or cash flows.

2. Fair Value Measurements

We categorize assets and liabilities recorded at fair value on our 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.

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- 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 using the above input categories (in thousands):

Description	July 31, 2010		July 31, 2011		April 30, 2012 (Unaudited)	
	Level 1	Level 3	Level 1	Level 3	Level 1	Level 3
Money market funds	\$14,720	\$ —	\$14,023	\$ —	\$15,001	\$ —
Preferred stock warrant liability	—	491	—	2,068	—	—

The following table presents the fair value activity for preferred stock warrant liability (in thousands):

	Level 3
Balance at July 31, 2009	\$ 68
Change in fair value of preferred stock warrant liability	423
Realized losses (gains)	—
Balance at July 31, 2010	491
Change in fair value of preferred stock warrant liability	1,577
Realized losses (gains)	—
Balance at July 31, 2011	2,068
Change in fair value of preferred stock warrant liability (unaudited)	958
Realized losses (gains) (unaudited)	—
Settlements, net (unaudited)	(3,026)
Balance at April 30, 2012 (unaudited)	\$ —

3. Other Financial Information

Prepaid expenses and other current assets consisted of the following (in thousands):

	July 31,		April 30,
	2010	2011	2012 (Unaudited)
Prepaid expenses	\$2,537	\$4,479	\$ 4,306
Other current assets	47	2,167	8,231
Total prepaid and other current assets	<u>\$2,584</u>	<u>\$6,646</u>	<u>\$ 12,537</u>

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Property and equipment, net consisted of the following (in thousands):

	July 31,		April 30,
	2010	2011	2012 (Unaudited)
Computers, equipment, and software	\$ 2,362	\$ 4,149	\$ 9,602
Leasehold improvements	54	7,324	8,760
Demonstration units	2,215	4,605	7,991
Furniture and fixtures	124	1,518	2,308
Total property and equipment	4,755	17,596	28,661
Less: accumulated depreciation and amortization	(2,922)	(4,930)	(9,048)
Total property and equipment, net	<u>\$ 1,833</u>	<u>\$12,666</u>	<u>\$ 19,613</u>

Depreciation and amortization expense related to property and equipment during the years ended July 31, 2009, 2010, and 2011, was \$1,180,000, \$1,111,000, and \$2,167,000, respectively.

Accrued liabilities consisted of the following (in thousands):

	July 31,		April 30,
	2010	2011	2012 (Unaudited)
Accrued expenses payable	\$ 4,461	\$ 4,039	\$ 7,665
Other liabilities	1,694	2,918	3,597
Total accrued liabilities	<u>\$ 6,155</u>	<u>\$ 6,957</u>	<u>\$ 11,262</u>

Other long-term liabilities consisted of the following (in thousands):

	July 31,		April 30,
	2010	2011	2012 (Unaudited)
Deferred rent	\$ —	\$ 4,792	\$ 6,542
Other long-term liabilities	2,541	2,172	1,618
Total other long-term liabilities	<u>\$ 2,541</u>	<u>\$ 6,964</u>	<u>\$ 8,160</u>

4. Preferred Stock Warrants

The following preferred stock warrants are outstanding (in thousands, except per share amounts):

	Exercisable Date	Expiration Date	Shares	Exercise Price per Share	July 31,		April 30,
					2010	2011	2012 (Unaudited)
Series A warrants	8/10/2006	Later of 8/10/13 or 5 years after an initial public offering	200	\$ 0.50	\$ 454	\$ 1,866	\$ —
Series B warrants	3/25/2008	Earlier of 3/25/15 or 3 years after an initial public offering	25	1.97	37	202	—
Total					<u>\$ 491</u>	<u>\$ 2,068</u>	<u>\$ —</u>

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Upon exercise, the holders of the warrants had the option of gross physical settlement or net share settlement based on the then current fair value of the shares. On July 31, 2011, had the holders of the warrants opted for net share settlement, we would have issued 190,000 shares of Series A redeemable convertible preferred stock and 20,000 shares of Series B redeemable convertible preferred stock. Increases in the fair value of our common stock increase the number of shares received by the holders upon net share settlement.

In December 2011 and January 2012, these preferred stock warrants were exercised by the holders. As a result, we issued 197,000 shares of Series A redeemable convertible preferred stock and 24,000 shares of Series B redeemable convertible preferred stock. We recalculated the fair value of the warrants using the Black-Scholes option pricing model at the respective dates of exercise and recorded \$958,000 of other expense for the nine month period ended April 30, 2012.

We estimated the fair value of each preferred stock warrant using the Black-Scholes option pricing model using certain valuation assumptions, including the fair value of the underlying common stock, the estimated term that the warrants may be outstanding, the expected volatility, a risk-free interest rate, and an expected dividend rate. The estimated volatility was based on the historical stock volatilities of our peer group as we did not have a sufficient trading history. The risk-free interest rate used was based on the implied yield available on U.S. Treasury zero-coupon issues with a remaining term equivalent with that of the warrants. The following table summarizes the assumptions used to determine the fair value of our preferred stock warrants:

	July 31,	
	2010	2011
Fair value of common stock	\$ 2.75	\$ 9.80
Risk-free interest rate	0.8% – 1.5%	0.4% – 1.7%
Estimated term	3 – 5 years	2 – 6 years
Volatility	50%	50%
Dividend yield	—%	—%

5. Commitments and Contingencies

Leases

We lease our facilities under various non-cancelable operating leases, which expire through the year ending July 31, 2018.

In October 2010, we entered into a seven-year lease agreement for corporate office space in Santa Clara, California. This lease allows for two separate five-year options to extend the lease term. This lease also has an allowance for tenant improvements and a one year rent holiday. Beginning in year two of the lease, the payments will be approximately \$1,504,000 a year. For the year ended July 31, 2011, we received reimbursement for the cost of leasehold improvements totaling \$4,472,000. In determining rent expense, we included the allowance for tenant improvements, which are treated as an adjustment to deferred rent when received and will be recognized as a reduction of rent expense over the lease term, and the one year rent holiday in our calculations.

Rent expense was \$782,000, \$805,000, and \$1,393,000 for the years ended July 31, 2009, 2010, and 2011, respectively. Rent expense is recognized using the straight-line method over the term of the lease.

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The aggregate future non-cancelable minimum rental payments on our operating leases, as of July 31, 2011, are as follows (in thousands):

Years ending July 31:	
2012	\$ 607
2013	1,871
2014	2,351
2015	2,339
2016 and thereafter	6,237
Total	<u>\$13,405</u>

Contract Manufacturer Commitments

Our independent contract manufacturer procures components and assembles our products based on our forecasts. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and an analysis from our sales and product marketing organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate supply, we may issue forecasts and orders for components and products that are non-cancelable. As of July 31, 2011 and April 30, 2012, we had \$13,632,000 and \$23,030,000 (unaudited) of open orders.

Line of Credit

In December 2009, we entered into a loan agreement that provided for a revolving loan commitment equal to the lesser of \$10,000,000 or 80% of adjusted accounts receivable through December 2011, at which time any unpaid principal and interest was to be repaid. Loan principal outstanding was charged annual interest payable monthly at the greater of 4% or the bank prime rate, plus, in either case, a rate of 0.5% to 1.5%, depending on our adjusted quick ratio. The interest rate assessed could have increased an additional 5% in the event of a default. We maintained a tangible net worth of at least a negative \$12,000,000 through March 2011, which was a required financial covenant for maintaining the loan. In May 2011, we entered into an agreement to waive this financial covenant as of March 2011. As of July 31, 2011, \$170,000 for standby letters of credit and various deposits was reserved against the line of credit resulting in \$9,830,000 available for future borrowings. This line of credit required us to obtain written consent from the bank prior to paying any dividends.

In December 2011, we entered into an amendment to our loan agreement to extend the line of credit and waiver of the financial covenant through March 2012. In March 2012, we allowed our line of credit to expire.

Litigation

We accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss. We have made an assessment of the probability of incurring any such losses and whether or not those losses are estimable.

Beginning in January 2009, Fortinet, Inc. began filing a series of complaints against us in the U.S. District Court for the Northern District of California alleging, among other claims, patent infringement. In January 2011, we entered into a settlement agreement with Fortinet, Inc. to the mutual satisfaction of both parties. Under the terms of the settlement agreement, we agreed to pay Fortinet, Inc. \$6,000,000 over a period of three years. We recorded the cost related to the settlement as of July 31, 2010. As of July 31, 2011, \$2,500,000 remained payable under this settlement and is included in accrued and other long-term liabilities in our consolidated statement of financial position.

In December 2011, Juniper Networks, Inc. filed a complaint against us in the United States District Court for the District of Delaware alleging patent infringement. The complaint seeks preliminary and permanent

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injunctions against infringement, treble damages, and attorney's fees. On February 9, 2012, we filed a response to the complaint, which denied all claims and asserted that the claimant's patents were invalid. A trial date has been scheduled for February 24, 2014, and we intend to vigorously defend ourselves from such claims. Given the early stage in the litigation, we are unable to estimate a possible loss or range of possible loss.

In addition to the above matter, 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 amounts, to the extent they can be reasonably estimated, that we believe are adequate to address any liabilities related to legal proceedings and other loss contingencies that we believe will result in a probable loss that is reasonably estimable.

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. We do not currently believe that it is reasonably possible that additional losses in connection with litigation arising in the ordinary course of business would be material.

Indemnification

Under the indemnification provisions of our standard sales related contracts, we agree to defend our end-customers against third-party claims asserting infringement of certain intellectual property rights, which may include patents, copyrights, trademarks, or trade secrets, and to pay judgments entered on such claims. Our exposure under these indemnification provisions is generally limited to the total amount paid by our end-customer under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of the amount received under the agreement. In addition, we indemnify our officers, directors, and certain key employees while they are serving in good faith in their company capacities. To date, there have been no claims under any indemnification provisions.

6. Redeemable Convertible Preferred Stock

Redeemable convertible preferred stock consists of the following (in thousands):

	<u>July 31, 2010 and 2011</u>			<u>April 30, 2012</u>		
	<u>Shares Authorized</u>	<u>Shares Issued and Outstanding</u>	<u>Liquidation Preference</u>	<u>Shares Authorized</u>	<u>Shares Issued and Outstanding (Unaudited)</u>	<u>Liquidation Preference</u>
Series A Preferred	19,016	18,816	\$ 9,408	19,016	19,013	\$ 9,507
Series B Preferred	9,532	9,507	18,729	9,532	9,531	18,776
Series C Preferred	13,174	12,761	36,623	13,174	12,761	36,624
Total	<u>41,722</u>	<u>41,084</u>	<u>\$ 64,760</u>	<u>41,722</u>	<u>41,305</u>	<u>\$ 64,907</u>

Significant terms of Series A, B, and C redeemable convertible preferred stock are as follows:

Voting Rights

The holders are entitled to one vote for each share of common stock into which the share may be converted. The holders of the redeemable convertible preferred stock and common stock vote together and not as separate classes.

Dividends

The holders are entitled, when, as, and if declared by the Board of Directors, and prior and in preference to common stock, to non-cumulative dividends at a rate of 8% per annum of the respective original issue price for

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each series of redeemable convertible preferred stock. There were no cumulative preferred dividends in arrears as of July 31, 2011 and April 30, 2012.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Company, all assets available for distribution among the holders of preferred stock will be distributed to them in the following order: each holder of shares of Series A through Series C are entitled to receive an amount equal to the original issue price (Series A \$0.50 per share, Series B \$1.97 per share, Series C \$2.87 per share) plus all declared and unpaid dividends. Any remaining available funds are distributed to holders of common stock and preferred stock on a pro-rata basis up to three times the original issue price. If the available funds are insufficient to permit full payment of each Series' original issue price, the available funds will be allocated based on the number of shares of preferred stock outstanding on a pro-rata basis.

Conversion

Shares of preferred stock are convertible, at any time or from time to time, at the option of the holder, into shares of common stock at a conversion price determined under the guidelines detailed in the Certificate of Incorporation. Shares of preferred stock automatically convert to common shares just prior to the closing of an initial public offering provided the aggregate proceeds from an initial public offering exceed \$50 million. As of July 31, 2010 and 2011, the conversion ratio for all series of preferred stock was one-to-one.

Redemption

The holders of preferred stock have no voluntary rights to redeem shares. A liquidation or winding up of the Company, a greater than 50% change in control, or a sale of substantially all of our assets would constitute a redemption event. Although the redeemable convertible preferred stock is not mandatorily or currently redeemable, a liquidation or winding up of the Company would constitute a redemption event outside our control. Therefore, all shares of redeemable convertible preferred stock have been presented outside of permanent equity.

7. Common Shares Reserved for Issuance

At July 31, 2011, we reserved shares of common stock for issuance as follows (in thousands):

	<u>July 31, 2011</u>
Reserved under stock award plans	8,650
Conversion of preferred stock	41,722
Warrants to purchase redeemable convertible preferred stock	225
Total	<u>50,597</u>

8. Equity Award Plans

Our 2005 Equity Incentive Plan ("2005 Plan") was adopted by the Board of Directors and approved by the stockholders on April 8, 2005. Our 2005 Plan provides for the issuance of restricted stock and granting of options to our employees, officers, directors, and consultants. Awards granted under our 2005 Plan vest over the periods determined by the Board of Directors, generally four years, and expire no more than ten years after the date of grant. In the case of an incentive stock option granted to an employee, who at the time of grant, owns stock representing more than 10% of the total combined voting power of all classes of stock, the exercise price shall be no less than 110% of the fair value per share on the date of grant, and expire five years from the date of grant, and for options granted to any other employee, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. In the case of a non-statutory stock option and options granted to

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consultants, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. Stock that is purchased prior to vesting is subject to our right of repurchase at any time following termination of the participant.

Share-Based Compensation

We record share-based compensation awards, including employee stock options, based on fair value as of the grant date using the Black-Scholes option-pricing model. We recognize such costs to compensation expense on a straight-line basis over the employee's requisite service period, which is generally four years. We determined valuation assumptions as follows:

Fair Value of Common Stock

Given the absence of a public trading market, our Board of Directors considered numerous objective and subjective factors to determine the fair value of its common stock at each meeting at which awards were approved. These factors included, but were not limited to (i) contemporaneous third-party valuations of common stock; (ii) the rights and preferences of convertible preferred stock relative to common stock; (iii) the lack of marketability of common stock; (iv) developments in the business; and (v) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, given prevailing market conditions.

Risk-Free Interest Rate

We base the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the options for each option group.

Expected Term

The expected term represents the period that our share-based awards are expected to be outstanding. We determined the expected term assumption based on our historical exercise behavior combined with estimates of the post-vesting holding period.

Volatility

We determine the price volatility factor based on the historical volatilities of our peer group as we did not have a sufficient trading history for our common stock.

Dividend Yield

The expected dividend assumption is based on our current expectations about our anticipated dividend policy.

The following table summarizes the assumptions relating to our stock options as follows:

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
Fair value of common stock	\$0.63	\$0.64 – \$2.75	\$3.62 – \$9.80	\$3.62 – \$7.23	\$10.77 – \$18.59
Risk-free interest rate	1.5% – 2.9%	2.0% – 3.0%	0.8% – 1.8%	0.8% – 1.8%	0.7% – 1.1%
Expected term	6 – 7 years	6 years	4 years	4 years	4 – 6 years
Volatility	54% – 59%	51% – 53%	49%	49%	49 – 50%
Dividend yield	—%	—%	—%	—%	—%

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Share-based compensation expense is included in costs and expenses as follows (in thousands):

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Cost of revenue	\$ 15	\$ 55	\$ 206	\$ 124	\$ 433
Research and development	126	318	1,020	703	2,217
Sales and marketing	186	364	1,133	739	2,049
General and administrative	47	132	2,374	2,244	2,674
Total	<u>\$374</u>	<u>\$869</u>	<u>\$4,733</u>	<u>\$3,810</u>	<u>\$7,373</u>

For fiscal 2011, we modified the terms of certain share-based awards for a former employee and as a result, we recorded \$1,626,000 of compensation expense within general and administrative expense.

For the third quarter of fiscal 2012, we modified the terms of certain share-based awards for a former employee and as a result, we recorded \$854,000 of compensation expense within research and development expense.

A summary of the activity under our stock plans and changes during the reporting periods and a summary of information related to options exercisable, vested, and expected to vest are presented below (in thousands, except per share amounts):

	Shares Available for Grant	Options Outstanding			
		Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance—July 31, 2010	23	5,621	\$ 0.80	8.9	\$ 10,976
Additional shares authorized	3,882	—	—		
Options granted	(3,835)	3,835	4.74		
Options forfeited	310	(310)	1.80		
Repurchased	75	—	0.47		
Options exercised	—	(951)	1.86		
Balance—July 31, 2011	455	8,195	2.48	8.6	59,987
Additional shares authorized (unaudited)	7,295	—	—		
Options granted (unaudited)	(5,938)	5,938	12.68		
Restricted stock awards granted (unaudited)	(192)	—	—		
Options forfeited (unaudited)	520	(520)	3.46		
Repurchased (unaudited)	45	—	1.40		
Options exercised (unaudited)	—	(712)	2.07		
Balance—April 30, 2012 (unaudited)	<u>2,185</u>	<u>12,901</u>	7.16	8.6	168,100
Options vested and expected to vest—July 31, 2011		<u>7,241</u>	<u>\$ 2.32</u>	<u>8.5</u>	<u>\$ 54,163</u>
Options exercisable—July 31, 2011		<u>7,405</u>	<u>\$ 2.30</u>	<u>8.5</u>	<u>\$ 55,538</u>
Options vested and expected to vest—April 30, 2012 (unaudited)		<u>12,127</u>	<u>\$ 6.96</u>	<u>8.3</u>	<u>\$ 160,440</u>
Options exercisable—April 30, 2012 (unaudited)		<u>9,193</u>	<u>\$ 4.85</u>	<u>8.2</u>	<u>\$ 141,021</u>

The weighted-average fair value of employee options granted for the years ended July 31, 2009, 2010, and 2011 and the nine month periods ended April 30, 2011 and 2012 was \$0.33, \$0.86, \$2.90, \$2.70, and \$5.64, respectively. The intrinsic value of employee options exercised for the years ended July 31, 2009, 2010, and 2011 and the nine month periods ended April 30, 2011 and 2012 was \$22,000, \$2,799,000, \$3,854,000, \$2,716,000, and \$9,296,000, respectively. The grant date fair value of employee options vested for the years ended July 31, 2009, 2010, and 2011 and the nine month periods ended April 30, 2011 and 2012 was \$389,000, \$584,000, \$1,777,000, \$752,000, and \$4,882,000, respectively.

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At July 31, 2011 and April 30, 2012, total compensation cost related to unvested share-based awards granted to employees under our stock plans but not yet recognized was \$10,789,000 and \$34,248,000, net of estimated forfeitures, respectively. This cost for both periods is expected to be amortized on a straight-line basis over a weighted-average period of three years. Future grants will increase the amount of compensation expense to be recorded in these periods.

Additional information regarding options outstanding as of July 31, 2011, is as follows (in thousands, except per share amounts):

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$0.05	265	4.8		265	
0.41	540	6.2		540	
0.63	1,281	7.6		1,281	
0.64	993	8.4		993	
1.24	1,771	8.8		1,625	
2.75	737	9.2		495	
3.62	723	9.4		688	
5.39	1,215	9.6		991	
7.84	670	9.9		527	
	<u>8,195</u>	8.6	\$ 2.48	<u>7,405</u>	\$ 2.30

In January 2012, we granted 192,000 restricted stock awards that vest based on a service condition, which is four years, and a liquidity condition. A liquidity condition is satisfied upon the occurrence of a qualifying event, defined as a change of control transaction or six months following the completion of our initial public offering. No expense related to these awards will be recognized unless the liquidity condition is satisfied. The grant date fair value of the restricted stock awards was approximately \$3.0 million.

9. Income Taxes

Loss before provision for income taxes consisted of the following (in thousands):

	Year Ended July 31,		
	2009	2010	2011
United States	\$ (19,008)	\$ (21,264)	\$ (12,654)
Foreign	15	187	602
Total	<u>\$ (18,993)</u>	<u>\$ (21,077)</u>	<u>\$ (12,052)</u>

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The provision for income taxes consisted of the following (in thousands):

	Year Ended July 31,		
	2009	2010	2011
Federal:			
Current	\$—	\$—	\$—
Deferred	—	—	—
State:			
Current	6	13	24
Deferred	—	—	—
Foreign:			
Current	6	45	490
Deferred	—	(2)	(38)
Total	<u>\$12</u>	<u>\$56</u>	<u>\$476</u>

The items accounting for the difference between income taxes computed at the federal statutory income tax rate and the provision for income taxes consisted of the following:

	Year Ended July 31,		
	2009	2010	2011
Federal statutory rate	34.0%	34.0%	34.0%
Effect of:			
State taxes, net of federal tax benefit	5.3	4.9	4.6
Change in valuation allowance	(40.6)	(40.1)	(26.9)
Foreign income at other than U.S. rates	—	0.1	(1.8)
Share-based compensation	(0.6)	(1.0)	(6.9)
Preferred stock warrant liability	—	(0.8)	(5.0)
Other, net	1.9	2.6	(1.9)
Total	<u>—%</u>	<u>(0.3)%</u>	<u>(3.9)%</u>

The components of the deferred tax assets and liabilities are as follows (in thousands):

	July 31,	
	2010	2011
Deferred tax assets:		
Net operating loss carryforwards	\$ 18,002	\$ 21,140
Accruals and reserves	7,797	7,752
Research and development credits	1,975	3,025
Share-based compensation	88	247
Gross deferred tax assets	27,862	32,164
Valuation allowance	(27,862)	(32,126)
Total deferred tax assets	—	38
Deferred tax liabilities	—	—
Total	<u>\$ —</u>	<u>\$ 38</u>

A valuation allowance is provided when it is more likely than not that the deferred tax asset will not be realized. Realization of the deferred tax assets is dependent upon future taxable income, if any, the amount and timing of which are uncertain. At such time, if it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be adjusted. As of July 31, 2011, we have provided a valuation

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allowance for our federal and state deferred tax assets that we believe are more likely than not unrealizable. The net valuation allowance increased by approximately \$4,264,000 during fiscal 2011. As of July 31, 2011, we had federal and state net operating loss carryforwards of approximately \$53,615,000 and \$52,046,000, respectively, available to reduce future taxable income, if any. If not utilized, the federal net operating loss carryforwards will expire from the years ending July 31, 2027 through 2031 while state net operating loss carryforwards will expire from the years ending July 31, 2017 through 2031.

We also have federal and state research and development tax credit carryforwards of approximately \$1,879,000 and \$1,593,000, respectively. If not utilized, the federal credit carryforwards will expire in various amounts from the years ended July 31, 2026 through 2031. The state credit will carry forward indefinitely.

Utilization of the net operating loss carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

As of July 31, 2011, we had \$1,972,000 of unrecognized tax benefits, all of which would affect income tax expense if recognized, before consideration of our valuation allowance. As of July 31, 2011, our federal, state, and foreign returns for the tax years 2007 through the current period are still open to examination. We do not expect the unrecognized tax benefits to change significantly over the next 12 months. We recognize both interest and penalties associated with uncertain tax positions as a component of income tax expense. As of July 31, 2010 and 2011, we have not accrued any penalties and the provision for interest was none and \$21,000, respectively. The ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty.

A reconciliation of the gross unrecognized tax benefit is as follows (in thousands):

	Year Ended July 31,		
	2009	2010	2011
Unrecognized tax benefits at the beginning of the period	\$457	\$ 759	\$1,061
Additions for tax positions taken in prior years	—	—	320
Reductions for tax positions taken in prior years	—	—	—
Additions for tax positions related to the current year	302	302	591
Settlements	—	—	—
Lapse of statute of limitations	—	—	—
Unrecognized tax benefits at the end of the period	<u>\$759</u>	<u>\$1,061</u>	<u>\$1,972</u>

As of July 31, 2011, we have not made any tax provision for U.S. federal and state income taxes on approximately \$695,000 of undistributed earnings in foreign subsidiaries, which we expect to reinvest outside of the U.S. indefinitely. If we were to repatriate these earnings to the U.S., we would be subject to U.S. income taxes, subject to an adjustment for foreign tax credits and foreign withholding taxes. The amount of unrecognized deferred tax liability was not significant.

The provision for income taxes for the nine month period ended April 30, 2011 reflected a negative effective tax rate primarily due to foreign income taxes on profits realized by our foreign subsidiaries, despite a consolidated loss before income taxes. The provision for income taxes for the nine month period ended April 30, 2012 reflected an effective tax rate of 24.9% (unaudited) primarily due to U.S. federal alternative minimum tax, state taxes, and foreign taxes on our consolidated income before income taxes.

10. Net Income (Loss) Per Share

We compute net income (loss) per share of common stock using the two-class method required for participating securities. We consider all series of our redeemable convertible preferred stock to be participating

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securities as the holders are entitled to participate in common stock dividends with common stock on an as-converted basis. The holders of our redeemable convertible preferred stock are also entitled to non-cumulative dividends prior and in preference to common stock and do not have a contractual obligation to share in the losses of the Company. Additionally, we consider shares issued upon the early exercise of options subject to repurchase and unvested restricted shares to be participating securities because holders of such shares have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares. In accordance with the two-class method, earnings allocated to these participating securities, which include participation rights in undistributed earnings with common stock, are subtracted from net income to determine net income (loss) attributable to common stockholders.

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by basic weighted-average shares outstanding during the period. All participating securities are excluded from basic weighted-average shares outstanding. In computing diluted net income (loss) attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. Diluted net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by diluted weighted-average shares outstanding, including potentially dilutive securities.

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

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Net income (loss) used to compute net income (loss) per share:					
Net income (loss)	\$ (19,005)	\$ (21,133)	\$ (12,528)	\$ (6,548)	\$ 5,336
Less: undistributed earnings allocated to participating securities	—	—	—	—	(5,296)
Net income (loss) attributable to common stockholders, basic	(19,005)	(21,133)	(12,528)	(6,548)	40
Reallocation of income attributable to participating securities	—	—	—	—	9
Net income (loss) attributable to common stockholders, diluted	<u>\$ (19,005)</u>	<u>\$ (21,133)</u>	<u>\$ (12,528)</u>	<u>\$ (6,548)</u>	<u>\$ 49</u>
Weighted-average shares used to compute net income (loss) per share:					
Weighted-average shares used to compute net income (loss) per share, basic	9,435	11,901	14,201	13,559	17,238
Weighted-average effect of potentially dilutive securities:					
Employee stock options	—	—	—	—	5,782
Weighted-average shares used to compute net income (loss) per share, diluted	<u>9,435</u>	<u>11,901</u>	<u>14,201</u>	<u>13,559</u>	<u>23,020</u>
Net income (loss) per share attributable to common stockholders:					
Basic	<u>\$ (2.01)</u>	<u>\$ (1.78)</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>	<u>\$ 0.00</u>
Diluted	<u>\$ (2.01)</u>	<u>\$ (1.78)</u>	<u>\$ (0.88)</u>	<u>\$ (0.48)</u>	<u>\$ 0.00</u>

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The following outstanding options, warrants, and convertible preferred stock were excluded from the computation of diluted net income (loss) per common share applicable to common stockholders for the periods presented as their effect would have been antidilutive (in thousands):

	Year Ended July 31,			Nine Months Ended April 30,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Options to purchase common stock	3,665	5,621	8,195	7,687	3,021
Redeemable convertible preferred stock	41,084	41,084	41,084	41,084	41,305
Warrants to purchase redeemable convertible preferred stock	225	225	225	225	—

Unaudited Pro Forma Net Income (Loss) Per Share

Pro forma basic and diluted net income (loss) per share have been computed to give effect to the conversion of our preferred stock into common stock and preferred stock warrants into common stock warrants as of the beginning of the period presented or the original issuance date, if later. Undistributed earnings allocated to participating securities represents the portion of net income, net of the effect of the conversion of our preferred stock warrants, allocated to participating securities on an as-converted basis assuming conversion of our preferred stock. After conversion of the preferred securities, only shares issued upon the early exercise of options subject to repurchase and unvested restricted shares are considered to be participating securities because holders of such shares have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares. In addition, the pro forma share amounts include the effect of share-based compensation awards with vesting upon a qualifying event as previously defined. Share-based compensation expense associated with these awards is excluded from this pro forma presentation. Had the qualifying event occurred on April 30, 2012, we would have recorded \$482,000 (unaudited) of share-based compensation expense on that date related to these awards. The following table shows our calculation of pro forma basic and diluted net income (loss) per share (in thousands, except per share data):

	Year Ended July 31, 2011	Nine Months Ended April 30, 2012 (unaudited)
Net income (loss) used to compute pro forma net income (loss) per share:		
Net income (loss)	\$ (12,528)	\$ 5,336
Change in fair value of preferred stock warrant liability	1,577	958
Less: undistributed earning allocated to participating securities	—	(292)
Pro forma net income (loss) attributable to common stockholders, basic	(10,951)	6,002
Reallocation of income attributable to participating securities	—	25
Pro forma net income (loss) attributable to common stockholders, diluted	<u>\$ (10,951)</u>	<u>\$ 6,027</u>
Weighted-average shares used to compute pro forma net income (loss) per share:		
Weighted-average shares used to compute basic net income (loss) per share, basic	14,201	17,238
Pro forma adjustment to reflect assumed conversion of redeemable convertible preferred stock	41,084	41,183
Weighted-average shares used to compute pro forma net income (loss) per share, basic	55,285	58,421
Weighted-average effect of potentially dilutive securities:		
Employee stock options and preferred stock warrants	—	5,907
Weighted-average shares used to compute pro forma net income (loss) per share, diluted	<u>55,285</u>	<u>64,328</u>
Pro forma net income (loss) per share attributable to common stockholders:		
Basic	<u>\$ (0.20)</u>	<u>\$ 0.10</u>
Diluted	<u>\$ (0.20)</u>	<u>\$ 0.09</u>

11. Employee Benefit Plan

We have established a 401(k) tax-deferred savings plan (the "401(k) Plan") which permits participants to make contributions by salary deduction pursuant to Section 401(k) of the Internal Revenue Code. We are responsible for administrative costs of the 401(k) Plan and have made no contributions to the 401(k) Plan since inception.

12. Related Party Transactions

Employee Notes Receivable

Certain senior management have exercised stock options early or purchased restricted stock in exchange for promissory notes bearing annual interest of 2% to 5% payable to us. These notes are secured by the underlying shares purchased and such unvested shares can be repurchased by us upon employee termination at the original issuance price. The promissory notes become due as outlined below but may become due earlier if we become subject to Securities and Exchange Commission Section 13 requirements of the 1934 Act, have a change in control or the employee terminates services. Because we only have recourse to the underlying shares, we deemed the exercise of the stock options or purchase of the restricted stock to be non-substantive. As such, the notes receivable are not reflected in these consolidated financial statements and the related stock transactions will be recorded at the time the notes receivable are settled in cash.

Employee notes receivable as of July 31, 2010 and 2011 was \$1,791,000 and \$596,000, respectively.

During the nine month period ended April 30, 2012, all of the remaining outstanding employee notes receivable were repaid.

Board Member Investor

In July 2008, we received \$2,000,000 from Hawkswatch Holdings, LLC, an entity of which one of our board members is an investor, in exchange for a subordinated convertible promissory note. The note bore annual interest of 8% and was due on the earliest of October 31, 2008 or upon an event of default within the provisions of the note. The note provided for an automatic conversion of \$1,200,000 (including all accrued but unpaid interest) of the then outstanding balance into shares of our Series C redeemable convertible preferred stock upon the completion of a qualified round of financing, provided such a round achieved or exceeded \$15,000,000. In August 2008, we settled in full the outstanding balance and interest of the note by issuing 418,000 shares of Series C redeemable convertible preferred stock and paying \$818,000 in cash.

13. Segment Information

We conduct business globally and are primarily managed on a geographic theater basis. Our chief operating decision maker reviews financial information presented on a consolidated basis accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. We have one business activity and there are no segment managers who are held accountable for operations, operating results, and plans for levels, components, or types of products or services below the consolidated unit level. Accordingly, we are considered to be in a single reportable segment and operating unit structure.

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Revenue by geographic theater based on the billing address of the partner is as follows (in thousands):

Revenue:	Year Ended July 31,		
	2009	2010	2011
Americas			
United States	\$10,510	\$29,804	\$ 69,696
Other Americas	167	828	3,449
Total Americas	<u>10,677</u>	<u>30,632</u>	<u>73,145</u>
EMEA	1,780	11,805	32,504
APAC	895	6,345	12,948
Total revenue	<u>\$13,352</u>	<u>\$48,782</u>	<u>\$118,597</u>

Substantially all of our assets were attributable to the Americas operations as of July 31, 2010 and 2011.

14. Subsequent Events

In May 2012, we granted 743,500 options to employees with an exercise price of \$20.19 per share with a grant date fair value of \$8,207,000. These options vest over a four year service period.

In June 2012, we granted 815,500 options to employees with an exercise price of \$20.19 per share with a grant date fair value of \$16,430,000. These options vest over a four year service period.



Focused on the success of our end-customers.





PART II**INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The following table sets forth all expenses to be paid by the Registrant, other than underwriting discounts and commissions, upon completion of this offering. All amounts shown are estimates except for the SEC registration fee and the FINRA filing fee.

SEC registration fee	\$ 30,233
FINRA filing fee	40,072
Exchange listing fee	250,000
Printing and engraving	275,000
Legal fees and expenses	1,750,000
Accounting fees and expenses	1,300,000
Transfer agent and registrar fees	15,000
Miscellaneous	239,695
Total	<u>\$ 3,900,000</u>

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law authorizes a corporation's board of directors to grant, and authorizes a court to award, indemnity to officers, directors, and other corporate agents.

On completion of this offering, as permitted by Section 102(b)(7) of the Delaware General Corporation Law, the Registrant's amended and restated certificate of incorporation will include provisions that eliminate the personal liability of its directors and officers for monetary damages for breach of their fiduciary duty as directors and officers.

In addition, as permitted by Section 145 of the Delaware General Corporation Law, the amended and restated certificate of incorporation and amended and restated bylaws of the Registrant will provide that:

- The Registrant shall indemnify its directors and officers for serving the Registrant in those capacities or for serving other business enterprises at the Registrant's request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful.
- The Registrant may, in its discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law.
- The Registrant is required to advance expenses, as incurred, to its directors and officers in connection with defending a proceeding, except that such director or officer shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification.
- The Registrant will not be obligated pursuant to the amended and restated bylaws to indemnify a person with respect to proceedings initiated by that person, except with respect to proceedings authorized by the Registrant's board of directors or brought to enforce a right to indemnification.

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- The rights conferred in the amended and restated certificate of incorporation and amended and restated bylaws are not exclusive, and the Registrant is authorized to enter into indemnification agreements with its directors, officers, employees, and agents and to obtain insurance to indemnify such persons.
- The Registrant may not retroactively amend the bylaw provisions to reduce its indemnification obligations to directors, officers, employees, and agents.

The Registrant's policy is to enter into separate indemnification agreements with each of its directors and officers that provide the maximum indemnity allowed to directors and executive officers by Section 145 of the Delaware General Corporation Law and also to provide for certain additional procedural protections. The Registrant also maintains directors and officers insurance to insure such persons against certain liabilities.

These indemnification provisions and the indemnification agreements entered into between the Registrant and its officers and directors may be sufficiently broad to permit indemnification of the Registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

The underwriting agreement filed as Exhibit 1.1 to this registration statement provides for indemnification by the underwriters of the Registrant and its officers and directors for certain liabilities arising under the Securities Act and otherwise.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Since July 1, 2009, the Registrant issued the following unregistered securities:

Warrants

In December 2011, the Registrant issued 135,228 shares of Registrant's convertible preferred stock to an accredited investor, in exchange for the cancellation of warrants for an equivalent number of shares of Registrant's convertible preferred stock.

In January 2012, an accredited investor net exercised warrants to purchase an aggregate of 85,340 shares of the Registrant's convertible preferred stock.

Option and Common Stock Issuances

From July 1, 2009 through June 30, 2012, pursuant to the terms of its 2005 Equity Incentive Plan, the Registrant granted to its officers, directors, employees, consultants, and other service providers (i) options to purchase an aggregate of 16,160,059 shares of its common stock at exercise prices ranging from \$0.64 to \$20.19 per share, and (ii) an aggregate of 194,500 shares of its restricted common stock at purchase prices ranging from \$0.00 to \$15.50 per share.

From July 1, 2009 through June 30, 2012, pursuant to the terms of its 2005 Equity Incentive Plan, the Registrant issued and sold to its officers, directors, employees, consultants, and other service providers (i) an aggregate of 4,874,375 shares of its common stock upon the exercise of options at exercise prices ranging from \$0.05 to \$10.77 per share, for an aggregate exercise price of \$5,511,081, and (ii) an aggregate of 191,500 shares of its restricted common stock in exchange for services.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. The Registrant believes the offers, sales, and issuances of the above securities were exempt from registration under the Securities Act by virtue of Rule 504 of Regulation D promulgated thereunder and/or Section 4(2) of the Securities Act because the issuance of securities to the recipients did not involve a public offering or in reliance on Rule 701 because the transactions were pursuant to compensatory benefit plans or

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contracts relating to compensation as provided under such rule. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with the Registrant, to information about the Registrant. The sales of these securities were made without any general solicitation or advertising.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits.

We have filed the exhibits listed on the accompanying Exhibit Index of this Registration Statement.

(b) Financial Statement Schedules.

All financial statement schedules are omitted because the information called for is not required or is shown either in the consolidated financial statements or in the notes thereto.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this amendment to registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Santa Clara, California, on the 9th day of July 2012.

PALO ALTO NETWORKS, INC.

By: /s/ Mark D. McLaughlin
Mark D. McLaughlin
Chief Executive Officer and President

Pursuant to the requirements of the Securities Act of 1933, this amendment to registration statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Mark D. McLaughlin</u> Mark D. McLaughlin	Chief Executive Officer, President, and Director (Principal Executive Officer)	July 9, 2012
<u>/s/ Steffan C. Tomlinson</u> Steffan C. Tomlinson	Chief Financial Officer (Principal Accounting and Financial Officer)	July 9, 2012
<u>*</u> Nir Zuk	Chief Technology Officer and Director	July 9, 2012
<u>*</u> Asheem Chandna	Director	July 9, 2012
<u>*</u> Venky Ganesan	Director	July 9, 2012
<u>*</u> James J. Goetz	Director	July 9, 2012
<u>*</u> Shlomo Kramer	Director	July 9, 2012
<u>*</u> William A. Lanfri	Director	July 9, 2012
<u>*</u> Charles J. Robel	Director	July 9, 2012
<u>Daniel J. Warmenhoven</u>		

*By: /s/ Mark D. McLaughlin
Mark D. McLaughlin
Attorney-in-fact

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
1.1	Form of Underwriting Agreement.
3.1	Form of Amended and Restated Certificate of Incorporation of the Registrant, to be in effect upon the completion of this offering.
3.2	Form of Amended and Restated Bylaws of the Registrant, to be in effect upon the completion of this offering.
4.1	Specimen common stock certificate of the Registrant.
4.2#	Second Amended and Restated Investors' Rights Agreement, dated as of August 8, 2008, among Registrant and certain holders of the Registrant's capital stock named therein.
5.1	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation.
10.1	Form of Indemnification Agreement between the Registrant and its directors and officers.
10.2	2005 Equity Incentive Plan and related form agreements under 2005 Equity Incentive Plan.
10.3	2012 Equity Incentive Plan and related form agreements under 2012 Equity Incentive Plan.
10.4	2012 Employee Stock Purchase Plan and related form agreements under 2012 Employee Stock Purchase Plan.
10.5#	Employee Bonus Plan.
10.6#	Offer Letter between the Registrant and Mark D. McLaughlin, dated July 21, 2011, as amended.
10.7#	Offer Letter between the Registrant and Steffan C. Tomlinson, dated January 17, 2012.
10.8#	Letter Agreement between the Registrant and Nir Zuk, dated December 19, 2011.
10.9#	Letter Agreement between the Registrant and Rajiv Batra, dated December 19, 2011.
10.10#	Letter Agreement between the Registrant and René Bonvanie, dated December 19, 2011.
10.11#	Letter Agreement between the Registrant and Lawrence J. Link, dated December 19, 2011.
10.12#	Offer Letter between the Registrant and Charles J. Robel, dated June 9, 2011.
10.13#	Offer Letter between the Registrant and Daniel J. Warmenhoven, dated February 14, 2012.
10.14#	Lease between the Registrant and Santa Clara Office Partners LLC, dated October 20, 2010, as amended.
10.15†#	Manufacturing Services Agreement between the Registrant and Flextronics Telecom Systems Ltd., dated September 20, 2010.
10.16	Offer Letter between the Registrant and Mark F. Anderson, dated May 23, 2012.
21.1#	List of subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
23.2	Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in Exhibit 5.1).
24.1#	Power of Attorney (see page II-4 of the original filing of this registration statement on Form S-1).
†	Portions of this exhibit have been omitted pending a determination by the Securities and Exchange Commission as to whether these portions should be granted confidential treatment.
#	Previously filed.

[—] Shares

PALO ALTO NETWORKS, INC.
COMMON STOCK, PAR VALUE \$0.0001 PER SHARE

UNDERWRITING AGREEMENT

[], 2012

Morgan Stanley & Co. LLC
Goldman, Sachs & Co.
Citigroup Global Markets Inc.

c/o Morgan Stanley & Co. LLC
1585 Broadway
New York, New York 10036

Goldman, Sachs & Co.
200 West Street
New York, New York 10282

Citigroup Global Markets Inc.
388 Greenwich Street
New York, New York 10013

Ladies and Gentlemen:

Palo Alto Networks, Inc., a Delaware corporation (the “**Company**”), proposes to issue and sell to the several Underwriters named in Schedule II hereto (the “**Underwriters**”) for whom you are acting as representatives (the “**Representatives**”), and certain stockholders of the Company (the “**Selling Stockholders**”) named in Schedule I hereto severally propose to sell to the several Underwriters, an aggregate of [—] shares of common stock, par value \$0.0001 per share, of the Company (the “**Firm Shares**”), of which [—] shares are to be issued and sold by the Company and [—] shares are to be sold by the Selling Stockholders, each Selling Stockholder selling the amount set forth opposite such Selling Stockholder’s name in Schedule I hereto.

The Company also proposes to issue and sell to the several Underwriters not more than an additional [—] shares of its common stock, par value \$0.0001 per share (the “**Additional Shares**”), if and to the extent that you, as the Representatives of the offering, shall have determined to exercise, on behalf of the Underwriters, the right to purchase such shares of common stock granted to the Underwriters in Section 3 hereof. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the “**Shares**.” The shares of common stock, par value \$0.0001 per share, of the Company to be outstanding after giving effect to the sales contemplated hereby are hereinafter referred to as the “**Common Stock**.” The Company and the Selling Stockholders are hereinafter sometimes collectively referred to as the “**Sellers**.”

The Company has filed with the Securities and Exchange Commission (the “**Commission**”) a registration statement, including a prospectus, relating to the Shares. The registration statement as amended at the time it becomes effective, including the information (if any) deemed to be part of the registration statement at the time of effectiveness pursuant to Rule 430A under the Securities Act of 1933, as amended (the “**Securities Act**”), is hereinafter referred to as the “**Registration Statement**”; the prospectus in the form first used to confirm sales of Shares (or in the form first made available to the Underwriters by the Company to meet requests of purchasers pursuant to Rule 173 under the Securities Act) is hereinafter referred to as the “**Prospectus**.” If the Company has filed an abbreviated registration statement to register additional shares of Common Stock pursuant to Rule 462(b) under the Securities Act (the “**Rule 462 Registration Statement**”), then any reference herein to the term “**Registration Statement**” shall be deemed to include such Rule 462 Registration Statement.

For purposes of this Agreement, “**free writing prospectus**” has the meaning set forth in Rule 405 under the Securities Act, “**Time of Sale Prospectus**” means the preliminary prospectus dated [], 2012 together with the documents, pricing information and the free writing prospectuses, if any, each identified in Schedule III hereto, and “**broadly available road show**” means a “bona fide electronic road show” as defined in Rule 433(h)(5) under the Securities Act that has been made available without restriction to any person. As used herein, the terms “Registration Statement,” “preliminary prospectus,” “Time of Sale Prospectus” and “Prospectus” shall include the documents, if any, incorporated by reference therein.

1. *Representations and Warranties of the Company.* The Company represents and warrants to and agrees with each of the Underwriters that:
 - (a) The Registration Statement has become effective; no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or, to the Company’s knowledge, threatened by the Commission.
 - (b) (i) The Registration Statement, when it became effective, did not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder, (iii) the Time of Sale Prospectus does not, and at the time of each sale of the Shares in connection with the offering when the Prospectus is not yet available to prospective purchasers and at the Closing Date (as defined in Section 5), the Time of Sale Prospectus, as then amended or supplemented by the Company, if applicable, will not, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the

light of the circumstances under which they were made, not misleading, (iv) each broadly available road show, if any, does not contain any information which conflicts with the information contained in the Registration Statement, the Time of Sale Prospectus or the Prospectus, and when considered together with the Time of Sale Prospectus, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and (v) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in the Registration Statement, the Time of Sale Prospectus or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein.

- (c) The Company is not an “ineligible issuer” in connection with the offering pursuant to Rules 164, 405 and 433 under the Securities Act. Any free writing prospectus that the Company is required to file pursuant to Rule 433(d) under the Securities Act has been, or will be, filed with the Commission in accordance with the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder. Each free writing prospectus that the Company has filed, or is required to file, pursuant to Rule 433(d) under the Securities Act or that was prepared by or on behalf of or used or referred to by the Company complies or will comply in all material respects with the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder. Except for the free writing prospectuses, if any, identified in Schedule III hereto, and electronic road shows, if any, each furnished to you before first use, the Company has not prepared, used or referred to, and will not, without your prior consent, prepare, use or refer to, any free writing prospectus.
- (d) Since the initial filing of the registration statement through the date hereof, the Company has been and is an “emerging growth company,” as defined in Section 2(a) of the Securities Act (an “**Emerging Growth Company**”).
- (e) The Company (a) has not engaged in any Testing-the-Waters Communication and (b) has not authorized anyone to engage in Testing-the-Waters Communications. The Company has not distributed any Written Testing-the-Waters Communications. “**Testing-the-Waters Communication**” means any oral or written communication with potential investors undertaken in reliance on Section 5(d) of the Securities Act. “**Written Testing-the-Waters Communications**” means any Testing-the-Waters Communication that is a written communication within the meaning of Rule 405 under the Securities Act.
- (f) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the State of Delaware, has the corporate power and authority to own or lease its property and to conduct its

business as described in the Time of Sale Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole (a “**Material Adverse Effect**”).

- (g) Each subsidiary of the Company has been duly organized, is validly existing and in good standing under the laws of the jurisdiction of its organization (to the extent such concepts are applicable under such laws), has the corporate power and authority to own its property and to conduct its business as described in the Time of Sale Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification (to the extent such concepts are applicable under such laws), except to the extent that the failure to be so qualified or be in good standing would not have a Material Adverse Effect; all of the issued equity interests of each subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims.
- (h) This Agreement has been duly authorized, executed and delivered by the Company.
- (i) The unissued Shares issuable upon the exercise of options (the “Options”) to be exercised by certain of the Selling Stockholders (the “Optionholders”) have been duly authorized by the Company and reserved for issuance, and at the time of delivery to the Underwriters with respect to such Shares, such Shares will be issued and delivered in accordance with the provisions of the stock-based compensation plans of the Company pursuant to which such Options were granted (the “**Option Agreements**”) and will be validly issued, fully paid and non-assessable, and will conform to the description thereof in the Time of Sale Prospectus and the Prospectus.
- (j) The authorized capital stock of the Company will conform, as of the Closing Date, as to legal matters to the description thereof contained in each of the Time of Sale Prospectus and the Prospectus.
- (k) The Options were duly authorized and issued pursuant to the Option Agreements and constitute valid and binding obligations of the Company and the Optionholders are entitled to the benefits provided by the Option Agreements; the Option Agreements were duly authorized, executed and delivered and constitute valid and legally binding agreements enforceable against the Company in accordance with their terms except as enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors’ rights generally or by equitable principles relating to enforceability; and the Options and the Option Agreements conform to the descriptions thereof in the Time of Sale Prospectus and the Prospectus.

- (l) The shares of Common Stock (including the Shares to be sold by the Selling Stockholders) outstanding prior to the issuance of the Shares to be sold by the Company have been duly authorized and are validly issued, fully paid and non-assessable.
- (m) The Shares to be sold by the Company have been duly authorized and, when issued, delivered and paid for in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights that have not been validly waived.
- (n) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement, and the issuance by the Company of the Shares to be issued upon exercise of the Options, will not (i) contravene any provision of applicable law, (ii) violate the terms of the certificate of incorporation or bylaws of the Company, (iii) conflict with or result in a breach of any agreement or other instrument binding upon the Company or any of its subsidiaries, or (iv) result in any violation of any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, except that in the case of clauses (i) and (iii) as would not, individually or in the aggregate, have a Material Adverse Effect or materially affect the power or ability of the Company to perform its obligations under this Agreement; and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required to be obtained for the performance by the Company of its obligations under this Agreement, and the issuance by the Company of the Shares to be issued upon the exercise of the Options, except (i) such as may have previously been obtained and (ii) as may be required by the securities or Blue Sky laws of the various states or foreign jurisdictions or the rules and regulations of the Financial Industry Regulatory Authority, Inc. (“**FINRA**”) in connection with the offer and sale of the Shares.
- (o) There has not occurred any material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole from that set forth in the Time of Sale Prospectus and the Prospectus.
- (p) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject (i) other than proceedings accurately described in all material respects in the Time of Sale Prospectus and the Prospectus and proceedings that would not, individually or in the aggregate, have a Material Adverse Effect or materially affect the power or ability of the Company to

perform its obligations under this Agreement or to consummate the transactions contemplated by the Time of Sale Prospectus and the Prospectus, or (ii) that are required to be described in the Registration Statement or the Prospectus and are not so described in all material respects; and there are no statutes, regulations, contracts or other documents to which the Company or its subsidiaries is subject or by which the Company or its subsidiaries is bound that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described in all material respects or filed as required.

- (q) Each preliminary prospectus filed as part of the registration statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Securities Act, complied when so filed in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder.
- (r) The Company is not, and after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus will not be, required to register as an “investment company” as such term is defined in the Investment Company Act of 1940, as amended.
- (s) The Company and its subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants (“**Environmental Laws**”), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, reasonably be expected to have a Material Adverse Effect.
- (t) There are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) which would, singly or in the aggregate, be reasonably expected to have a Material Adverse Effect.
- (u) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement, except as otherwise have been validly waived in connection with the issuance and sale of the Shares contemplated hereby and as have been described in the Time of Sale Prospectus and the Prospectus.

- (v) Neither the Company nor any of its subsidiaries or controlled affiliates, nor any director or officer of the Company, nor, to the Company's knowledge, any employee, agent or representative of the Company or of any of its subsidiaries or affiliates acting on behalf of the Company or any of its subsidiaries or affiliates, has taken (or has any plans to take) any action in furtherance of an offer, payment, promise to pay, or authorization or approval of the payment or giving of money, property, gifts or anything else of value, directly or indirectly, to any "government official" (including any officer or employee of a government or government-owned or controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any of the foregoing, or any political party or party official or candidate for political office) to influence official action or secure an improper advantage for the Company or its subsidiaries; and the Company and its subsidiaries and controlled affiliates have conducted their businesses in compliance with applicable anti-corruption laws and have instituted and are maintaining (and have no present or currently foreseeable intent to discontinue) policies and procedures designed to promote and achieve compliance with such laws.
- (w) The operations of the Company and its subsidiaries are and have been conducted at all times in material compliance with all applicable financial recordkeeping and reporting requirements, including those of the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), and the applicable anti-money laundering statutes of jurisdictions where the Company and its subsidiaries conduct business, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "**Anti-Money Laundering Laws**"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Anti-Money Laundering Laws is pending or, to the knowledge of the Company, threatened.
- (x) (i) Neither the Company nor any of its subsidiaries, nor any director, officer, or employee thereof, nor, to the Company's knowledge, any agent, affiliate or representative of the Company or any of its subsidiaries, is an individual or entity ("**Person**") that is, or is owned or controlled by a Person that is:
- (A) the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control ("**OFAC**"), the United Nations Security Council ("**UNSC**"), the European Union ("**EU**"), Her Majesty's Treasury ("**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor

- (B) located, organized or resident in a country or territory that is the subject of Sanctions (including, without limitation, Burma/Myanmar, Cuba, Iran, Libya, North Korea, Sudan and Syria).
- (ii) The Company will not, directly or indirectly, use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person:
 - (A) to fund or facilitate any activities or business of or with any Person or in any country or territory that, at the time of such funding or facilitation, is the subject of Sanctions; or
 - (B) in any other manner that will result in a violation of Sanctions by any Person (including any Person participating in the offering, whether as underwriter, advisor, investor or otherwise).
- (iii) For the past 5 years, the Company and its subsidiaries have not knowingly engaged in, are not now knowingly engaged in, and have no present or currently foreseeable intent to engage in, any dealings or transactions with any Person, or in any country or territory, that at the time of the dealing or transaction is or was the subject of Sanctions.
- (y) Subsequent to the respective dates as of which information is given in each of the Registration Statement, the Time of Sale Prospectus and the Prospectus, and except as disclosed in the Time of Sale Prospectus and the Prospectus, (i) the Company and its subsidiaries have not incurred any material liability or obligation, direct or contingent, nor entered into any material transaction; (ii) the Company has not purchased any of its outstanding capital stock other than from its employees or other service providers in connection with the termination of their service, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock other than ordinary and customary dividends; and (iii) there has not been any material change in the capital stock, short-term debt or long-term debt of the Company and its subsidiaries, except in each case as described in each of the Registration Statement, the Time of Sale Prospectus and the Prospectus, respectively.
- (z) The Company and its subsidiaries do not own any real property. The Company and its subsidiaries have good and marketable title to all personal property owned by them which is material to the business of the Company and its subsidiaries taken as a whole, in each case free and clear of all liens, encumbrances and defects, except such as are described in the Time of Sale Prospectus and the Prospectus or such as do not materially diminish the value of such property and do not materially interfere with the use made and proposed to

be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and, to the Company's knowledge, enforceable leases with such exceptions as are not material and do not materially interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries, in each case except as described in the Time of Sale Prospectus and the Prospectus.

- (aa) The Company and its subsidiaries own or possess, or can acquire on commercially reasonable terms, all material patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), service marks, trade names and trademarks, currently employed by them in connection with the business now conducted by them ("**Company Intellectual Property**"). Except as disclosed in the Time of Sale Prospectus, (i) there are no third parties who have been able to establish any material rights to any Company Intellectual Property, except for the retained rights of the owners of the Company Intellectual Property that is licensed to the Company; (ii) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others (A) challenging the validity, enforceability or scope of any Company Intellectual Property or (B) challenging the Company's rights or any of its subsidiaries' rights in or to any Company Intellectual Property; and (iii) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others that the Company or any subsidiary materially infringes, misappropriates or otherwise violates or conflicts with any intellectual property or other proprietary rights of others, and the Company and its subsidiaries are unaware of any fact which would form a reasonable basis for any such action, suit, proceeding or claim.
- (bb) On February 9, 2012, the Company filed an answer in the case of *Juniper Networks Inc. v. Palo Alto Networks Inc.*, C.A. No. 11-1258-SLR (D. Del. filed on December 19, 2011), in which the Company denied all of the patent infringement claims alleged by Juniper Networks, Inc, asserted that all patents in suit are invalid and plead certain affirmative defenses. As of the date hereof, the Company continues to deny infringement, assert that all patents in suit are invalid and pursue such affirmative defenses.
- (cc) No material labor dispute with the employees of the Company or any of its subsidiaries exists, except as described in the Time of Sale Prospectus and the Prospectus, or, to the knowledge of the Company, is imminent; and the Company is not aware of any existing, threatened or imminent labor disturbance by the employees of any of its principal suppliers, manufacturers or contractors that would reasonably be expected to have a Material Adverse Effect.
- (dd) The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are, in the Company's reasonable judgment, prudent and customary in

the businesses in which they are engaged; neither the Company nor any of its subsidiaries has been refused any insurance coverage sought or applied for; and neither the Company nor any of its subsidiaries has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not reasonably be expected to have a Material Adverse Effect, except as described in the Time of Sale Prospectus and the Prospectus.

- (ee) The Company and its subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses except where the failure to obtain such certificates, authorizations or permits would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect, and neither the Company nor any of its subsidiaries has received any written notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect, except as described in the Time of Sale Prospectus.
- (ff) The Company and its subsidiaries maintain a system of internal accounting controls over financial reporting sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles as applied in the United States ("U.S. GAAP") and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Except as described in the Time of Sale Prospectus, since the end of the Company's most recent fiscal year for which audited financial statements are available, there has been (i) no material weakness in the Company's internal control over financial reporting (whether or not remediated) and (ii) no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
- (gg) The financial statements of the Company filed with the Commission as a part of the Registration Statement and included in the Time of Sale Prospectus and the Prospectus present fairly the financial position of the Company as of the dates indicated and the results of its operations and cash flows for the periods specified. Such financial statements have been prepared in conformity with U.S. GAAP applied on a consistent basis throughout the periods involved.

- (hh) The Company maintains disclosure controls and procedures that comply with the requirements of the Exchange Act; such disclosure controls and procedures have been designed to ensure that material information relating to the Company and its subsidiaries is made known to the Company's principal executive officer and principal financial officer by others within those entities; and such disclosure controls and procedures are effective.
 - (ii) Nothing has come to the attention of the Company that has caused the Company to believe that the statistical and market-related data included in the Registration Statement, the Time of Sale Prospectus and the Prospectus is not based on or derived from sources that are reliable and accurate in all material respects.
 - (jj) Except as described in the Time of Sale Prospectus and the Registration Statement, the Company has not sold, issued or distributed any shares of Common Stock during the six-month period preceding the date hereof, including any sales pursuant to Rule 144A under, or Regulation D or S of, the Securities Act, other than shares issued pursuant to employee benefit plans, qualified stock option plans or other employee compensation plans or pursuant to outstanding options, rights or warrants.
 - (kk) The Company and each of its subsidiaries have filed all federal, state, local and foreign tax returns required to be filed through the date of this Agreement or have requested extensions thereof (except where the failure to file would not, individually or in the aggregate, have a Material Adverse Effect) and have paid all taxes required to be paid thereon (except for cases in which the failure to file or pay would not have a Material Adverse Effect, or, except as currently being contested in good faith and for which reserves required by U.S. GAAP have been created in the financial statements of the Company), and no tax deficiency has been determined adversely to the Company or any of its subsidiaries which has had (nor does the Company nor any of its subsidiaries have any notice or knowledge of any tax deficiency which could reasonably be expected to be determined adversely to the Company or its subsidiaries and which could reasonably be expected to have) a Material Adverse Effect.
2. *Representations and Warranties of the Selling Stockholders.* Each Selling Stockholder, solely with respect to itself and not as to any other Selling Stockholder, represents and warrants to and agrees with each of the Underwriters that:
- (a) This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder.
 - (b) The execution and delivery by such Selling Stockholder of, and the performance by such Selling Stockholder of its obligations under, this Agreement, the Custody Agreement signed by such Selling Stockholder and Computershare Inc., as Custodian, relating to the deposit of the Shares to be sold by such Selling

Stockholder (the “**Custody Agreement**”) and the Power of Attorney appointing certain individuals as such Selling Stockholder’s attorneys-in-fact to the extent set forth therein, relating to the transactions contemplated hereby and by the Registration Statement (the “**Power of Attorney**”) will not contravene (i) any provision of applicable law, (ii) the certificate of incorporation or by-laws of such Selling Stockholder (if such Selling Stockholder is a corporation), (iii) the constituent documents of such Selling Stockholder (if such Selling Stockholders is not a natural person or a corporation), (iv) any agreement or other instrument binding upon such Selling Stockholder or (v) any judgment, order or decree of any governmental body, agency or court having jurisdiction over such Selling Stockholder, except in the cases of (i) and (iv) above, for such contraventions as would not reasonably be expected to have a material adverse effect on the ability of such Selling Stockholder to perform its obligations hereunder, or under the Custody Agreement or the Power of Attorney. No consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by such Selling Stockholder of its obligations under this Agreement or the Custody Agreement or Power of Attorney of such Selling Stockholder, except such as have been obtained and made under the Securities Act and such as may be required by the Exchange Act or the rules and regulations thereunder or the securities or Blue Sky laws of the various states or foreign jurisdictions in connection with the offer and sale of the Shares.

- (c) With respect to the Shares to be sold by such Selling Stockholder that are outstanding on the date hereof, such Selling Stockholder has, and with respect to such Shares to be sold upon exercise of options on the Closing Date will have, valid title to, or a valid “security entitlement” within the meaning of Section 8-501 of the New York Uniform Commercial Code (the “**UCC**”) in respect of, the Shares to be sold by such Selling Stockholder free and clear of all security interests, claims, liens, equities or other encumbrances (other than those created by the Custody Agreement and Power of Attorney) and the legal right and power, and all authorization and approval required by law, to enter into this Agreement, the Custody Agreement and the Power of Attorney and to sell, transfer and deliver the Shares to be sold by such Selling Stockholder or a security entitlement in respect of such Shares.
- (d) The Custody Agreement and the Power of Attorney have been duly authorized, executed and delivered by such Selling Stockholder and are valid and binding agreements of such Selling Stockholder, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors’ rights and to general equity principles.
- (e) Upon payment for the Shares to be sold by such Selling Stockholder pursuant to this Agreement, delivery of such Shares, as directed by the Underwriters, to Cede & Co. (“**Cede**”) or such other nominee as may be designated by the Depository Trust Company (“**DTC**”), registration of such Shares in the name of Cede or such other nominee and the crediting of such

Shares on the books of DTC to securities accounts of the Underwriters (assuming that neither DTC nor any such Underwriter has notice of any adverse claim (within the meaning of Section 8-105 of the UCC) to such Shares), (A) DTC shall be a “protected purchaser” of such Shares within the meaning of Section 8-303 of the UCC, (B) under Section 8-501 of the UCC, the Underwriters will acquire a valid security entitlement in respect of such Shares and (C) no action based on any “adverse claim”, within the meaning of Section 8-102 of the UCC, to such Shares may be validly asserted against the Underwriters with respect to such security entitlement; for purposes of this representation, such Selling Stockholder may assume that when such payment, delivery and crediting occur, (x) such Shares will have been registered in the name of Cede or another nominee designated by DTC, in each case on the Company’s share registry in accordance with its certificate of incorporation, bylaws and applicable law, (y) DTC will be registered as a “clearing corporation” within the meaning of Section 8-102 of the UCC and (z) appropriate entries to the accounts of the several Underwriters on the records of DTC will have been made pursuant to the UCC.

- (f) Such Selling Stockholder is not prompted to sell and transfer its Shares pursuant to this Agreement by any material information concerning the Company or its subsidiaries which is not set forth in the Time of Sale Prospectus.
- (g) (i) The Registration Statement, when it became effective, did not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Time of Sale Prospectus does not, and at the time of each sale of the Shares in connection with the offering when the Prospectus is not yet available to prospective purchasers and at the Closing Date (as defined in Section 5), the Time of Sale Prospectus, as then amended or supplemented by the Company, if applicable, will not, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, (iii) each broadly available road show, if any, when considered together with the Time of Sale Prospectus, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and (iv) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, provided that such Selling Stockholder makes no representation and warranty with respect to any statements or omissions made in reliance upon and in conformity with information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use in such Registration Statement, Time of Sale Prospectus or Prospectus; provided further that, the representations and warranties set forth in this paragraph 2(g) are limited in all respects to statements or omissions made in reliance upon information relating to such Selling Stockholder

furnished to the Company in writing by such Selling Stockholder expressly for use in the Registration Statement, the Time of Sale Prospectus, any broadly available road show, or the Prospectus or any amendments or supplements thereto it being understood and agreed that the only information furnished by such Selling Stockholder consists of the name of such Selling Stockholder the number of offered shares and the address and other information with respect to such Selling Stockholder (excluding percentages) that appear in the table (and corresponding footnotes) under the caption "Principal and Selling Stockholders" in the Prospectus (the "**Selling Stockholder Information**").

- (h) Such Selling Stockholder has executed a "lock-up" agreement, substantially in the form of Exhibit A hereto, relating to sales and certain other dispositions of shares of Common Stock or certain other securities, that is in full force and effect as of the date hereof and shall be in full force and effect as of the Closing Date.
- 3. *Agreements to Sell and Purchase.* Each Seller, severally and not jointly, hereby agrees to sell to the several Underwriters, and each Underwriter, upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, agrees, severally and not jointly, to purchase from such Seller at \$[—] a share (the "**Purchase Price**") the number of Firm Shares (subject to such adjustments to eliminate fractional shares as you may determine) that bears the same proportion to the number of Firm Shares to be sold by such Seller as the number of Firm Shares set forth in Schedule II hereto opposite the name of such Underwriter bears to the total number of Firm Shares.

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to sell to the Underwriters the Additional Shares, and the Underwriters shall have the right to purchase, severally and not jointly, up to [—] Additional Shares at the Purchase Price, provided, however, that the amount paid by the Underwriters for any Additional Shares shall be reduced by an amount per share equal to any dividends declared by the Company and payable on the Firm Shares but not payable on such Additional Shares. You may exercise this right on behalf of the Underwriters in whole or from time to time in part by giving written notice not later than 30 days after the date of this Agreement. Any exercise notice shall specify the number of Additional Shares to be purchased by the Underwriters and the date on which such shares are to be purchased. Each purchase date must be at least one business day after the written notice is given and may not be earlier than the closing date for the Firm Shares nor later than ten business days after the date of such notice. Additional Shares may be purchased as provided in Section 5 hereof solely for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. On each day, if any, that Additional Shares are to be purchased (an "**Option Closing Date**"), each Underwriter agrees, severally and not jointly, to purchase the number of Additional Shares (subject to such adjustments to eliminate fractional shares as you may determine) that bears the same proportion to the total number of Additional Shares to be purchased on such Option Closing Date as the number of Firm Shares set forth in Schedule II hereto opposite the name of such Underwriter bears to the total number of Firm Shares.

The Company hereby agrees that, without the prior written consent of Morgan Stanley & Co. LLC and Goldman, Sachs & Co. on behalf of the Underwriters, it will not, during the period ending 180 days after the date of the Prospectus, (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise or (3) file any registration statement with the Commission relating to the offering of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock.

The restrictions contained in the preceding paragraph shall not apply to (a) the Shares to be sold hereunder, (b) the issuance by the Company of shares of Common Stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof of which the Underwriters have been advised in writing, (c) the grant of options to purchase or the issuance of shares of Common Stock by the Company to employees, officers, directors, advisors or consultants of the Company pursuant to employee benefit plans in effect on the date hereof and described in the Time of Sale Prospectus and Prospectus or pursuant to an employee stock purchase plan described in the Time of Sale Prospectus and Prospectus, (d) the filing by the Company of a registration statement with the Commission on Form S-8 in respect of any shares issued under or the grant of any award pursuant to an employee benefit plan in effect on the date hereof and described in the Time of Sale Prospectus or (e) the sale or issuance of or entry into an agreement to sell or issue shares of Common Stock or securities convertible into or exercisable for Common Stock in connection with any (i) mergers, (ii) acquisition of securities, businesses, property or other assets, (iii) joint ventures, (iv) strategic alliances, (v) equipment leasing arrangements or (vi) debt financing; provided, that the aggregate number of shares of Common Stock or securities convertible into or exercisable for Common Stock (on an as-converted or as-exercised basis, as the case may be) that the Company may sell or issue or agree to sell or issue pursuant to this clause (e) shall not exceed 10% of the total number of shares of the Company's Common Stock issued and outstanding immediately following the completion of the transactions contemplated by this Agreement; and provided further, that each recipient of shares of Common Stock or securities convertible into or exercisable for Common Stock pursuant to this clause (e) shall, on or prior to such issuance, execute a lock-up agreement substantially in the form of Exhibit A hereto. Notwithstanding the foregoing, if (1) during the last 17 days of the 180-day restricted period the

Company issues an earnings release or material news or a material event relating to the Company occurs; or (2) prior to the expiration of the 180-day restricted period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the 180-day period or provides notification to Morgan Stanley & Co. LLC and Goldman, Sachs & Co. of any earnings release or material news or a material event that may give rise to an extension of the initial 180-day restricted period, the restrictions imposed upon the Company by this and the preceding paragraphs shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. The Company shall promptly notify Morgan Stanley & Co. LLC and Goldman, Sachs & Co. of any earnings release, news or event that may give rise to an extension of the initial 180-day restricted period.

If Morgan Stanley & Co. LLC and Goldman, Sachs & Co., in their sole discretion, agree to release or waive the restrictions set forth in a lock-up agreement described in Section 6 hereof for an officer or director of the Company and provide the Company with notice of the impending release or waiver at least three business days before the effective date of the release or waiver, which notice shall be substantially in the form of Exhibit B hereto, the Company agrees to announce the impending release or waiver by a press release substantially in the form of Exhibit C hereto through a major news service at least two business days before the effective date of the release or waiver.

4. *Terms of Public Offering.* The Sellers are advised by you that the Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable. The Sellers are further advised by you that the Shares are to be offered to the public initially at \$[—] a share (the “**Public Offering Price**”) and to certain dealers selected by you at a price that represents a concession not in excess of \$[—] a share under the Public Offering Price.
5. *Payment and Delivery.* Payment for the Firm Shares to be sold by each Seller shall be made to such Seller in Federal or other funds immediately available in Menlo Park, California against delivery of such Firm Shares for the respective accounts of the several Underwriters at 10:00 a.m., New York City time, on [], 2012, or at such other time on the same or such other date, not later than [], 2012, as shall be designated in writing by you. The time and date of such payment are hereinafter referred to as the “**Closing Date.**” The Closing Date and each Option Closing Date are each sometimes referred to herein as an “**Applicable Closing Date.**”

Payment for any Additional Shares shall be made to the Company in Federal or other funds immediately available in Menlo Park, California against delivery of such Additional Shares for the respective accounts of the several Underwriters at 10:00 a.m., New York City time, on the date specified in the corresponding notice described in Section 3 or at such other time on the same or on such other date, in any event not later than [], 2012, as shall be designated in writing by you.

The Firm Shares and Additional Shares shall be registered in such names and in such denominations as you shall request in writing not later than one full business day prior to the Closing Date or the applicable Option Closing Date, as the case may be. The Firm Shares and Additional Shares shall be delivered to you on the Closing Date or an Option Closing Date, as the case may be, for the respective accounts of the several Underwriters. The Purchase Price payable by the Underwriters shall be reduced by (i) any transfer taxes paid by, or on behalf of, the Underwriters in connection with the transfer of the Shares to the Underwriters duly paid and (ii) any withholding required by law.

6. *Conditions to the Underwriters' Obligations.* The obligations of the Sellers to sell the Shares to the Underwriters and the several obligations of the Underwriters to purchase and pay for the Shares on each Applicable Closing Date are subject to the condition that the Registration Statement shall have become effective not later than [•] (New York City time) on the date hereof.

The several obligations of the Underwriters are subject to the following further conditions:

- (a) Subsequent to the execution and delivery of this Agreement and prior to each Applicable Closing Date:
- (i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the securities of the Company or any of its subsidiaries by any "nationally recognized statistical rating organization," as such term is defined in Section 3(a)(62) of the Exchange Act; and
 - (ii) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Time of Sale Prospectus that, in your judgment, is material and adverse and that makes it, in your judgment, impracticable to market the Shares on the terms and in the manner contemplated in the Time of Sale Prospectus.
- (b) The Underwriters shall have received on each Applicable Closing Date a certificate, dated such Applicable Closing Date and signed on behalf of the Company by an executive officer of the Company, to the effect set forth in Section 6(a)(i) above and to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of such Applicable Closing Date and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before such Applicable Closing Date.

The officer signing and delivering such certificate may rely upon the best of his or her knowledge as to proceedings threatened.

- (c) The Underwriters shall have received on each Applicable Closing Date an opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation (“**WSGR**”), outside counsel for the Company, dated such Applicable Closing Date, including opinions set forth in Annex I hereto with respect to the Company.
- (d) The Underwriters shall have received on each Applicable Closing Date an opinion of WSGR, counsel for certain Selling Stockholders named therein, dated such Applicable Closing Date, including the opinions set forth on Annex I hereto with respect to such Selling Stockholders, and for all other Selling Stockholders not named therein, an opinion from such other counsel acceptable to the Underwriters, dated such Applicable Closing Date, an opinion of counsel, including the opinions set forth on Annex II.
- (e) The Underwriters shall have received on the Closing Date an opinion of Durie Tangri LLP, counsel for the Company, dated the Closing Date, covering the statements in each of the Time of Sale Prospectus and Prospectus under “Risk Factors—We are involved in the early stages of litigation in which Juniper alleges that our appliances infringe six of its patents. If Juniper prevails in the litigation, we could be required to pay substantial damages for past sales of any infringing appliances, enjoined from manufacturing, using, selling, and importing such appliances if a license or other right to continue selling our appliances is not made available to us, and required to pay substantial ongoing royalties and comply with unfavorable terms if such a license is made available to us.” and “Business—Legal Proceedings” (but excluding the paragraph that begins with the sentence “In addition, from time to time, we are a party to litigation and subject to claims incident to the ordinary course of business.”
- (f) The Underwriters shall have received on each Applicable Closing Date an opinion of Davis Polk & Wardwell LLP, counsel for the Underwriters, dated such Applicable Closing Date, covering such matters as the Underwriters may reasonably request.

With respect to Sections 6(c), 6(e) and 6(f) above, WSGR, Durie Tangri LLP and Davis Polk & Wardwell LLP may state that their opinions and beliefs are based upon their participation in the preparation of the Registration Statement, the Time of Sale Prospectus and the Prospectus and any amendments or supplements thereto and review and discussion of the contents thereof, but are without independent check or verification, except as specified. With respect to Section 6(d) above, WSGR may rely upon an opinion or opinions of counsel for any Selling Stockholders and, with respect to factual matters and to the extent such counsel deems appropriate, upon the representations of each Selling

Stockholder contained herein and in the Custody Agreement and Power of Attorney of such Selling Stockholder and in other documents and instruments; provided that (A) each such counsel for the Selling Stockholders is satisfactory to your counsel, (B) a copy of each opinion so relied upon is delivered to you and is in form and substance satisfactory to your counsel, (C) copies of such Custody Agreements and Powers of Attorney and of any such other documents and instruments shall be delivered to you and shall be in form and substance satisfactory to your counsel and (D) WSGR shall state in their opinion that they are justified in relying on each such other opinion.

The opinions of WSGR and Durie Tangri LLP described in Sections 6(c), 6(d) and 6(e) above (and any opinions of counsel for any Selling Stockholder referred to in the immediately preceding paragraph) shall be rendered to the Underwriters at the request of the Company or one or more of the Selling Stockholders, as the case may be, and shall so state therein.

- (g) The Underwriters shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Underwriters, from Ernst & Young LLP, independent public accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement, the Time of Sale Prospectus and the Prospectus; *provided* that the letter delivered on such Applicable Closing Date shall use a "cut-off date" not earlier than three days prior to such Applicable Closing Date.
- (h) The "lock-up" agreements, each substantially in the form of Exhibit A hereto, between you and each officer and director of the Company and certain stockholders relating to sales and certain other dispositions of shares of Common Stock or certain other securities, delivered to you on or before the date hereof, shall be in full force and effect on each Applicable Closing Date.

The several obligations of the Underwriters to purchase Additional Shares hereunder are subject to the delivery to you on the applicable Option Closing Date of such documents as you may reasonably request with respect to the good standing of the Company, the due authorization and issuance of the Additional Shares to be sold on such Option Closing Date and other matters related to the issuance of such Additional Shares.

7. *Covenants of the Company.* The Company covenants with each Underwriter as follows:
- (a) To furnish to you, without charge, nine signed copies of the Registration Statement (including exhibits thereto) and for delivery to each other Underwriter a conformed copy of the Registration Statement (without exhibits thereto) and to furnish to you in New York City, without charge, prior to

10:00 a.m. New York City time on the business day next succeeding the date of this Agreement and during the period mentioned in Section 7(e) or 7(f) below, as many copies of the Time of Sale Prospectus, the Prospectus and any supplements and amendments thereto or to the Registration Statement as you may reasonably request.

- (b) Before amending or supplementing the Registration Statement, the Time of Sale Prospectus or the Prospectus, to furnish to you a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which you reasonably object, and to file with the Commission within the applicable period specified in Rule 424(b) under the Securities Act any prospectus required to be filed pursuant to such Rule.
- (c) To furnish to you a copy of each proposed free writing prospectus to be prepared by or on behalf of, used by, or referred to by the Company and not to use or refer to any proposed free writing prospectus to which you reasonably object.
- (d) Not to take any action that would result in an Underwriter or the Company being required to file with the Commission pursuant to Rule 433(d) under the Securities Act a free writing prospectus prepared by or on behalf of the Underwriter that the Underwriter otherwise would not have been required to file thereunder.
- (e) If the Time of Sale Prospectus is being used to solicit offers to buy the Shares at a time when the Prospectus is not yet available to prospective purchasers and any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Time of Sale Prospectus in order to make the statements therein, in the light of the circumstances, not misleading, or if any event shall occur or condition exist as a result of which the Time of Sale Prospectus conflicts with the information contained in the Registration Statement then on file, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Time of Sale Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to any dealer upon request, either amendments or supplements to the Time of Sale Prospectus so that the statements in the Time of Sale Prospectus as so amended or supplemented will not, in the light of the circumstances when the Time of Sale Prospectus is delivered to a prospective purchaser, be misleading or so that the Time of Sale Prospectus, as amended or supplemented, will no longer conflict with the Registration Statement, or so that the Time of Sale Prospectus, as amended or supplemented, will comply with applicable law.
- (f) If, during such period after the first date of the public offering of the Shares as in the opinion of counsel for the Underwriters the Prospectus (or in lieu thereof the notice referred to in Rule 173(a) of the Securities Act) is required by law to be delivered in connection with sales by an Underwriter or dealer, any

event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus (or in lieu thereof the notice referred to in Rule 173(a) of the Securities Act) is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to the dealers (whose names and addresses you will furnish to the Company) to which Shares may have been sold by you on behalf of the Underwriters and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus (or in lieu thereof the notice referred to in Rule 173(a) of the Securities Act) is delivered to a purchaser, be misleading or so that the Prospectus, as amended or supplemented, will comply with applicable law.

- (g) To endeavor to qualify the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as you shall reasonably request.
 - (h) To make generally available to the Company's security holders and to you as soon as practicable an earning statement covering a period of at least twelve months beginning with the first fiscal quarter of the Company occurring after the date of this Agreement which shall satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder.
 - (i) If any Seller is not a U.S. person for U.S. federal income tax purposes, the Company will deliver to each Underwriter (or its agent), on or before the Closing Date, (i) a certificate with respect to the Company's status as a "United States real property holding corporation," dated not more than thirty (30) days prior to the Closing Date, as described in Treasury Regulations Sections 1.897-2(h) and 1.1445-2(c)(3), and (ii) proof of delivery to the Internal Revenue Service ("**IRS**") of the required notice, as described in Treasury Regulations Section 1.897-2(h)(2).
 - (j) To promptly notify the Representatives if the Company ceases to be an Emerging Growth Company at any time prior to the later of (a) completion of the distribution of the Shares within the meaning of the Securities Act and (b) completion of the 180-day restricted period referred to in Section 3 hereof.
8. *Covenants of the Sellers.* Each Seller, severally and not jointly, covenants with each Underwriter as follows:
- (a) Each Seller will deliver to each Underwriter (or its agent), prior to or at the Closing Date, a properly completed and executed IRS Form W-9 or an IRS Form W-8, as appropriate, together with all required attachments to such form.

9. *Expenses.* Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Sellers agree to pay or cause to be paid all expenses incident to the performance of their obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel, the Company's accountants and counsel for the Selling Stockholders (except to the extent that any Selling Stockholders shall pay for its own expenses of counsel) in connection with the registration and delivery of the Shares under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, any preliminary prospectus, the Time of Sale Prospectus, the Prospectus, any free writing prospectus prepared by or on behalf of, used by, or referred to by the Company and amendments and supplements to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Underwriters and dealers, in the quantities hereinabove specified, (ii) all costs and expenses related to the transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) the cost of printing or producing any Blue Sky or Legal Investment memorandum in connection with the offer and sale of the Shares under state securities laws and all expenses in connection with the qualification of the Shares for offer and sale under state securities laws as provided in Section 7(g) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky or Legal Investment memorandum, (iv) all filing fees and the reasonable fees and disbursements of counsel to the Underwriters incurred in connection with the review and qualification of the offering of the Shares by FINRA (provided that the amount payable by the Company with respect to fees and disbursements of counsel pursuant to subsections (iii) and (iv) shall not exceed \$50,000), (v) all fees and expenses in connection with the preparation and filing of the registration statement on Form 8-A relating to the Common Stock and all costs and expenses incident to listing the Shares on the New York Stock Exchange and other national securities exchanges and foreign stock exchanges, (vi) the cost of printing certificates representing the Shares, (vii) the costs and charges of any transfer agent, registrar or depository, (viii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the offering of the Shares, including, without limitation, expenses associated with the preparation or dissemination of any electronic road show, expenses associated with the production of road show slides and graphics, travel and lodging expenses of the representatives and officers of the Company, and 50% of the cost of any aircraft chartered in connection with the road show (the remaining 50% of the cost of such aircraft to be paid by the Underwriters), (ix) the document production charges and expenses associated with printing this Agreement and (x) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section. It is understood, however, that except as provided in this Section, Section 11 entitled "Indemnity and Contribution" and the last paragraph of Section 13 below, the Underwriters will pay all of their costs and expenses, including fees and disbursements of their counsel, stock transfer taxes payable on resale of any of the Shares by them and any advertising expenses connected with any offers they may make.

The provisions of this Section shall not supersede or otherwise affect any agreement that the Sellers may otherwise have for the allocation of such expenses among themselves.

10. *Covenants of the Underwriters.* Each Underwriter severally covenants with the Company not to take any action that would result in the Company being required to file with the Commission under Rule 433(d) a free writing prospectus prepared by or on behalf of such Underwriter that otherwise would not be required to be filed by the Company thereunder, but for the action of the Underwriter.
11. *Indemnity and Contribution.* (a) The Company agrees to indemnify and hold harmless each Underwriter, each director, officer, employee and agent of each Underwriter, each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, and each affiliate of any Underwriter within the meaning of Rule 405 under the Securities Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus, the Time of Sale Prospectus, or any amendment or supplement thereto, any issuer free writing prospectus as defined in Rule 433(h) under the Securities Act, any Company information that the Company has filed, or is required to file, pursuant to Rule 433(d) under the Securities Act, or the Prospectus or any amendment or supplement thereto, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through you expressly for use therein.
(b) Each Selling Stockholder agrees, severally and not jointly, to indemnify and hold harmless (i) each Underwriter, each director, officer, employee and agent of each Underwriter, each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act, and each affiliate of any Underwriter within the meaning of Rule 405 under the Securities Act, and (ii) the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses

reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus, the Time of Sale Prospectus or any amendment or supplement thereto, any issuer free writing prospectus as defined in Rule 433(h) under the Securities Act, any Company information that the Company has filed, or is required to file, pursuant to Rule 433(d) under the Securities Act, or the Prospectus or any amendment or supplement thereto, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, (i) except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use therein and (ii) only to the extent as such losses, claims, damages or liabilities caused by any untrue statement or omission or alleged untrue statement or omission made in reliance on the Selling Stockholder Information.

- (c) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, the Selling Stockholders, the directors of the Company, the officers of the Company who sign the Registration Statement and each person, if any, who controls the Company or any Selling Stockholder within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus, the Time of Sale Prospectus, or any amendment or supplement thereto, any issuer free writing prospectus as defined in Rule 433(h) under the Securities Act, any Company information that the Company has filed, or is required to file, pursuant to Rule 433(d) under the Securities Act, or the Prospectus, or any amendment or supplement thereto, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only with reference to information relating to such Underwriter furnished to the Company in writing by such Underwriter through you expressly for use in the Registration Statement, any preliminary prospectus, the Time of Sale Prospectus, any issuer free writing prospectus, or the Prospectus or any amendment or supplement thereto.
- (d) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 11(a), 11(b) or 11(c), such person (the “**indemnified party**”) shall promptly notify the person against whom such indemnity may be sought (the “**indemnifying party**”) in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the

indemnifying party may designate in such proceeding and shall pay the reasonable fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for (i) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Underwriters and all persons, if any, who control any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act or who are affiliates of any Underwriter within the meaning of Rule 405 under the Securities Act, (ii) the fees and expenses of more than one separate firm (in addition to any local counsel) for the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either such Section and (iii) the fees and expenses of more than one separate firm (in addition to any local counsel) for all Selling Stockholders and all persons, if any, who control any Selling Stockholder within the meaning of either such Section, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Underwriters and such control persons and affiliates of any Underwriters, such firm shall be designated in writing by Morgan Stanley & Co. LLC, Goldman, Sachs & Co. and Citigroup Global Markets Inc. In the case of any such separate firm for the Company, and such directors, officers and control persons of the Company, such firm shall be designated in writing by the Company. In the case of any such separate firm for the Selling Stockholders and such control persons of any Selling Stockholders, such firm shall be designated in writing by the persons named as attorneys-in-fact for the Selling Stockholders under the Powers of Attorney. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any

settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement (x) includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding and (y) does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

- (e) To the extent the indemnification provided for in Section 11(a), 11(b) or 11(c) is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party or parties on the other hand from the offering of the Shares or (ii) if the allocation provided by clause 11(e)(i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 11(e)(i) above but also the relative fault of the indemnifying party or parties on the one hand and of the indemnified party or parties on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Sellers on the one hand and the Underwriters on the other hand in connection with the offering of the Shares shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Shares (before deducting expenses) received by each Seller and the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate Public Offering Price of the Shares. The relative fault of the Sellers on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Sellers or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Underwriters' respective obligations to contribute pursuant to this Section 11 are several in proportion to the respective number of Shares they have purchased hereunder, and not joint.
- (f) The Sellers and the Underwriters agree that it would not be just or equitable if contribution pursuant to this Section 11 were determined by *pro rata* allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in Section 11(e). The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in Section 11(e) shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party

in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 11, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 11 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

- (g) The indemnity and contribution provisions contained in this Section 11 and the representations, warranties and other statements of the Company and the Selling Stockholders contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter, any director, officer, employee or agent of any Underwriter, any person controlling any Underwriter or any affiliate of any Underwriter, any Selling Stockholder or any person controlling any Selling Stockholder, or the Company, its officers or directors or any person controlling the Company and (iii) acceptance of and payment for any of the Shares.
 - (h) Notwithstanding anything to the contrary in this Agreement, the liability of each Selling Stockholder under the indemnity and contribution agreements contain in this Section 11, and in respect of any claim in respect of a breach of the representations and warranties of such Selling Stockholder contained in Section 2 hereof, shall be limited in the aggregate to an amount equal to the aggregate Public Offering Price of the Shares sold by such Selling Stockholder (after deducting underwriting discounts and commissions but before expenses) under this Agreement.
12. *Termination.* The Underwriters may terminate this Agreement by notice given by you to the Company, if after the execution and delivery of this Agreement and prior to each Applicable Closing Date (i) trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the New York Stock Exchange, the NASDAQ Stock Market or other relevant exchanges, (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market, which, for the avoidance of doubt, shall not include secondary markets for privately-held securities, (iii) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred, (iv) any moratorium on commercial banking activities shall have been declared by Federal or New York State authorities or (v) there shall have occurred any outbreak or escalation of hostilities, or any change in financial markets or any calamity or crisis that, in your judgment, is material and adverse and which, singly or together with any

other event specified in this clause (v), makes it, in your judgment, impracticable or inadvisable to proceed with the offer, sale or delivery of the Shares on the terms and in the manner contemplated in the Time of Sale Prospectus or the Prospectus. If this Agreement is terminated pursuant to this Section 12, such termination shall be without liability of any party to any other party, except as provided for under Sections 1, 2, 11, 13 and 16 hereof, which sections shall survive such termination and remain in full force and effect.

13. *Effectiveness; Defaulting Underwriters.* This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

If, on the Closing Date or an Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase Shares that it has or they have agreed to purchase hereunder on such date, and the aggregate number of Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of the Shares to be purchased on such date, the other Underwriters shall be obligated severally in the proportions that the number of Firm Shares set forth opposite their respective names in Schedule II bears to the aggregate number of Firm Shares set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as you may specify, to purchase the Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date; provided that in no event shall the number of Shares that any Underwriter has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 13 by an amount in excess of one-ninth of such number of Shares without the written consent of such Underwriter. If, on the Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Firm Shares and the aggregate number of Firm Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Firm Shares to be purchased on such date, and arrangements satisfactory to you, the Company and the Selling Stockholders for the purchase of such Firm Shares are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter, the Company or the Selling Stockholders. In any such case either you or the relevant Sellers shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement, in the Time of Sale Prospectus, in the Prospectus or in any other documents or arrangements may be effected. If, on an Option Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Additional Shares and the aggregate number of Additional Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Additional Shares to be purchased on such Option Closing Date, the non-defaulting Underwriters shall have the option to (i) terminate their obligation hereunder to purchase the Additional Shares to be sold on such Option Closing Date or (ii) purchase not less than the number of Additional Shares that such non-defaulting Underwriters would have been obligated to purchase in the absence of such default. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

If this Agreement shall be terminated by the Underwriters, or any of them, for any reason permitted under this Agreement, or because of any failure or refusal on the part of any Seller to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason any Seller shall be unable to perform its obligations under this Agreement, the Sellers will reimburse the Underwriters or such Underwriters as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by such Underwriters in connection with this Agreement or the offering contemplated hereunder.

In accordance with the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), the Underwriters are required to obtain, verify and record information that identifies their respective clients, including the Company, which information may include the name and address of their respective clients, as well as other information that will allow the Underwriters to properly identify their respective clients.

14. *Entire Agreement.* (a) This Agreement, together with any contemporaneous written agreements and any prior written agreements (to the extent not superseded by this Agreement) that relate to the offering of the Shares, represents the entire agreement between the Company and the Selling Stockholders, on the one hand, and the Underwriters, on the other, with respect to the preparation of any preliminary prospectus, the Time of Sale Prospectus, the Prospectus, the conduct of the offering, and the purchase and sale of the Shares.
 - (b) The Company acknowledges that in connection with the offering of the Shares: (i) the Underwriters have acted at arms length, are not agents of, and owe no fiduciary duties to, the Company, the Selling Stockholders or any other person, (ii) the Underwriters owe the Company only those duties and obligations set forth in this Agreement and prior written agreements (to the extent not superseded by this Agreement), if any, and (iii) the Underwriters may have interests that differ from those of the Company and the Selling Stockholders. The Company and each Selling Stockholder waives to the full extent permitted by applicable law any claims it may have against the Underwriters arising from an alleged breach of fiduciary duty in connection with the offering of the Shares.
15. *Counterparts.* This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.
 16. *Applicable Law; Trial by Jury.* This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York. Each of the Company, each Selling Stockholder and each of the Underwriters hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

17. *Headings.* The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.
18. *Notices.* All communications hereunder shall be in writing and effective only upon receipt and if to the Underwriters shall be delivered, mailed or sent to you in care of Morgan Stanley & Co. LLC, 1585 Broadway, New York, New York 10036, Attention: Equity Syndicate Desk, with a copy to the Legal Department, in care of Goldman, Sachs & Co., 200 West Street, New York, New York 10282, Attention: Registration Department and in care of Citigroup Global Markets Inc. General Counsel (fax no.: (212) 816-7912) and confirmed to the General Counsel, Citigroup Global Markets Inc., at 388 Greenwich Street, New York, New York, 10013, Attention: General Counsel; if to the Company shall be delivered, mailed or sent to 3300 Olcott Street, Santa Clara, California 95054, Attention: General Counsel, and if to the Selling Stockholders shall be delivered, mailed or sent to 3300 Olcott Street, Santa Clara, California 95054.

Very truly yours,

PALO ALTO NETWORKS, INC.

By: _____
Name:
Title:

The Selling Stockholders named in
Schedule I hereto, acting severally

By: _____
Attorney-in-Fact

Accepted as of the date hereof

Morgan Stanley & Co. LLC
Goldman, Sachs & Co.
Citigroup Global Markets Inc.

Acting severally on behalf of themselves and the several
Underwriters named in Schedule II hereto

By: Morgan Stanley & Co. LLC

By: _____
Name:
Title:

By: Goldman, Sachs & Co.

By: _____
Name:
Title:

By: Citigroup Global Markets Inc.

By: _____
Name:
Title:

<u>Selling Stockholder</u>	<u>Number of Firm Shares To Be Sold</u>
Total:	

<u>Underwriter</u>	<u>Number of Firm Shares To Be Purchased</u>
Morgan Stanley & Co. LLC	
Goldman, Sachs & Co.	
Citigroup Global Markets Inc.	
Credit Suisse Securities (USA) LLC	
Barclays Capital Inc.	
UBS Securities LLC	
Raymond James & Associates, Inc.	
Total:	

Time of Sale Prospectus

III-1

FORM OF LOCK-UP LETTER

[To be provided separately]

FORM OF WAIVER OF LOCK-UP

[To be provided separately]

B-1

FORM OF PRESS RELEASE

[To be provided separately]

B-2

[To be provided separately]

RESTATED CERTIFICATE OF INCORPORATION**OF****PALO ALTO NETWORKS, INC.**

a Delaware Corporation

Palo Alto Networks, Inc., a corporation organized and existing under the laws of the State of Delaware (the “**Corporation**”), hereby certifies as follows:

A. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on February 28, 2005.

B. This Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware (the “**DGCL**”), and restates, integrates and further amends the provisions of the Corporation’s Certificate of Incorporation, and has been duly approved by the written consent of the stockholders of the Corporation in accordance with Section 228 of the DGCL.

C. The text of the Certificate of Incorporation of the Corporation is hereby amended and restated in its entirety to read as follows:

ARTICLE I

The name of the Corporation is Palo Alto Networks, Inc.

ARTICLE II

The address of the Corporation’s registered office in the State of Delaware is 3500 South DuPont Highway, City of Dover, County of Kent, DE 19901. The name of its registered agent at such address is Incorporating Services, Ltd.

ARTICLE III

The nature of the business or purpose to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the DGCL.

ARTICLE IV

4.1 Authorized Capital Stock. The total number of shares of all classes of capital stock that the Corporation is authorized to issue is 1,100,000,000 shares, consisting of 1,000,000,000 shares of Common Stock, par value \$0.0001 per share (the “**Common Stock**”), and 100,000,000 shares of Preferred Stock, par value \$0.0001 per share (the “**Preferred Stock**”).

4.2 Increase or Decrease in Authorized Capital Stock. The number of authorized shares of Preferred Stock or Common Stock may be increased or decreased (but not below the number of

shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the Corporation entitled to vote generally in the election of directors, irrespective of the provisions of Section 242(b)(2) of the DGCL (or any successor provision thereto), voting together as a single class, without a separate vote of the holders of the class or classes the number of authorized shares of which are being increased or decreased, unless a vote by any holders of one or more series of Preferred Stock is required by the express terms of any series of Preferred Stock as provided for or fixed pursuant to the provisions of Section 4.4 of this Article IV.

4.3 Common Stock.

(a) The holders of shares of Common Stock shall be entitled to one vote for each such share on each matter properly submitted to the stockholders on which the holders of shares of Common Stock are entitled to vote. Except as otherwise required by law or this certificate of incorporation (this “**Certificate of Incorporation**” which term, as used herein, shall mean the certificate of incorporation of the Corporation, as amended from time to time, including the terms of any certificate of designations of any series of Preferred Stock), and subject to the rights of the holders of Preferred Stock, at any annual or special meeting of the stockholders the holders of shares of Common Stock shall have the right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation that relates solely to the terms, number of shares, powers, designations, preferences, or relative participating, optional or other special rights (including, without limitation, voting rights), or to qualifications, limitations or restrictions thereon, of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one more other such series, to vote thereon pursuant to this Certificate of Incorporation (including, without limitation, by any certificate of designations relating to any series of Preferred Stock) or pursuant to the DGCL.

(b) Subject to the rights of the holders of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive such dividends and other distributions (payable in cash, property or capital stock of the Corporation) when, as and if declared thereon by the Board of Directors from time to time out of any assets or funds of the Corporation legally available therefor and shall share equally on a per share basis in such dividends and distributions.

(c) In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation, and subject to the rights of the holders of Preferred Stock in respect thereof, the holders of shares of Common Stock shall be entitled to receive all the remaining assets of the Corporation available for distribution to its stockholders, ratably in proportion to the number of shares of Common Stock held by them.

4.4 Preferred Stock.

(a) The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board of Directors). The Board of

Directors is further authorized, subject to limitations prescribed by law, to fix by resolution or resolutions and to set forth in a certification of designations filed pursuant to the DGCL the powers, designations, preferences and relative, participation, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, if any, of any wholly unissued series of Preferred Stock, including without limitation authority to fix by resolution or resolutions that dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series, and the number of shares constituting any such series and the designation thereof, or any of the foregoing.

(b) The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issuance of shares of such series then outstanding, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in the Certificate of Incorporation or the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

ARTICLE V

5.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

5.2 Number of Directors; Election; Term.

(a) Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, the number of directors that constitutes the entire Board of Directors of the Corporation shall be fixed solely by resolution of the Board of Directors.

(b) Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, effective upon the closing date (the "Effective Date") of the initial sale of shares of common stock in the Corporation's initial public offering pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, the directors of the Corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. The initial assignment of members of the Board of Directors to each such class shall be made by the Board of Directors. The term of office of the initial Class I directors shall expire at the first regularly-scheduled annual meeting of the stockholders following the Effective Date, the term of office of the initial Class II directors shall expire at the second annual meeting of the stockholders following the Effective Date and the term of office of the initial Class III directors shall expire at the third annual meeting of the stockholders following the Effective Date. At each annual meeting of stockholders, commencing with the first regularly-scheduled annual meeting of stockholders following the Effective Date, each of the successors elected to replace the directors of a Class whose term shall have expired at such annual meeting shall be elected to hold office until the third annual meeting next succeeding his or her election and until his or her respective successor shall have been duly elected and qualified. Subject to the rights of

holders of any series of Preferred Stock with respect to the election of directors, if the number of directors that constitutes the Board of Directors is changed, any newly created directorships or decrease in directorships shall be so apportioned by the Board of Directors among the classes as to make all classes as nearly equal in number as is practicable, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(c) Notwithstanding the foregoing provisions of this Section 5.2, and subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, each director shall serve until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.

(d) Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

5.3 Removal. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, a director may be removed from office by the stockholders of the Corporation only for cause.

5.4 Vacancies and Newly Created Directorships. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, and except as otherwise provided in the DGCL, vacancies occurring on the Board of Directors for any reason and newly created directorships resulting from an increase in the authorized number of directors may be filled only by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, or by a sole remaining director, at any meeting of the Board of Directors. A person so elected by the Board of Directors to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been assigned by the Board of Directors and until his or her successor shall be duly elected and qualified.

ARTICLE VI

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized to adopt, amend or repeal the Bylaws of the Corporation.

ARTICLE VII

7.1 No Action by Written Consent of Stockholders. Except as otherwise expressly provided by the terms of any series of Preferred Stock permitting the holders of such series of Preferred Stock to act by written consent, any action required or permitted to be taken by stockholders of the Corporation must be effected at a duly called annual or special meeting of the stockholders and may not be effected by written consent in lieu of a meeting.

7.2 Special Meetings. Except as otherwise expressly provided by the terms of any series of Preferred Stock permitting the holders of such series of Preferred Stock to call a special meeting of the holders of such series, special meetings of stockholders of the Corporation may be called only by the Board of Directors, the chairperson of the Board of Directors, the chief executive officer or the president (in the absence of a chief executive officer), and the ability of the

stockholders to call a special meeting is hereby specifically denied. The Board of Directors may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders.

7.3 Advance Notice. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the Bylaws of the Corporation.

ARTICLE VIII

8.1 Limitation of Personal Liability. To the fullest extent permitted by the DGCL, as it presently exists or may hereafter be amended from time to time, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

8.2 Indemnification.

The Corporation shall indemnify, to the fullest extent permitted by applicable law, any director or officer of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "**Proceeding**") by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding. The Corporation shall be required to indemnify a person in connection with a Proceeding initiated by such person only if the Proceeding was authorized by the Board.

The Corporation shall have the power to indemnify, to the extent permitted by the DGCL, as it presently exists or may hereafter be amended from time to time, any employee or agent of the Corporation who was or is a party or is threatened to be made a party to any Proceeding by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding.

Any repeal or amendment of this Article VIII by the stockholders of the Corporation or by changes in law, or the adoption of any other provision of this Certificate of Incorporation inconsistent with this Article VIII will, unless otherwise required by law, be prospective only (except to the extent such amendment or change in law permits the Corporation to further limit or

eliminate the liability of directors) and shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or amendment or adoption of such inconsistent provision with respect to acts or omissions occurring prior to such repeal or amendment or adoption of such inconsistent provision.

ARTICLE IX

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation (including any rights, preferences or other designations of Preferred Stock), in the manner now or hereafter prescribed by this Certificate of Incorporation and the DGCL; and all rights, preferences and privileges herein conferred upon stockholders by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article IX. Notwithstanding any other provision of this Certificate of Incorporation, and in addition to any other vote that may be required by law or the terms of any series of Preferred Stock, the affirmative vote of the holders of at least 66 ²/₃% of the voting power of all then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend, alter or repeal, or adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of, Article V, Article VI, Article VII or this Article IX (including, without limitation, any such Article as renumbered as a result of any amendment, alteration, change, repeal or adoption of any other Article).

IN WITNESS WHEREOF, Palo Alto Networks, Inc. has caused this Restated Certificate of Incorporation to be signed by the President and Chief Executive Officer of the Corporation on this day of 2012.

By: _____
Mark D. McLaughlin
President and Chief Executive Officer

AMENDED AND RESTATED BYLAWS OF

PALO ALTO NETWORKS, INC.

(initially adopted on March 2, 2005)

(as amended and restated on April 6, 2012 and effective as of the closing of the corporation's initial public offering)

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ARTICLE I — CORPORATE OFFICES

1.1 REGISTERED OFFICE

The registered office of Palo Alto Networks, Inc. shall be fixed in the corporation's certificate of incorporation. References in these bylaws to the certificate of incorporation shall mean the certificate of incorporation of the corporation, as amended from time to time, including the terms of any certificate of designations of any series of Preferred Stock.

1.2 OTHER OFFICES

The corporation's board of directors may at any time establish other offices at any place or places where the corporation is qualified to do business.

ARTICLE II — MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the board of directors. The board of directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the General Corporation Law of the State of Delaware (the "DGCL"). In the absence of any such designation or determination, stockholders' meetings shall be held at the corporation's principal executive office.

2.2 ANNUAL MEETING

The annual meeting of stockholders shall be held on such date, at such time, and at such place (if any) within or without the State of Delaware as shall be designated from time to time by the board of directors and stated in the corporation's notice of the meeting. At the annual meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING

(i) A special meeting of the stockholders, other than those required by statute, may be called at any time only by (A) the board of directors, (B) the chairperson of the board of directors, (C) the chief executive officer or (D) the president (in the absence of a chief executive officer). A special meeting of the stockholders may not be called by any other person or persons. The board of directors may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders.

(ii) The notice of a special meeting shall include the purpose for which the meeting is called. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting by or at the direction of the board of directors, the chairperson of the board of directors, the chief executive officer or the president (in the absence of a chief executive officer). Nothing contained in this Section 2.3(ii) shall be construed as limiting, fixing or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

2.4 ADVANCE NOTICE PROCEDURES

(i) *Advance Notice of Stockholder Business.* At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be brought: (A) pursuant to the corporation's proxy materials with respect to such meeting, (B) by or at the direction of the board of directors, or (C) by a stockholder of the corporation who (1) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(i) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has timely complied in proper written form with the notice procedures set forth in this Section 2.4(i). In addition, for business to be properly brought before an annual meeting by a stockholder, such business must be a proper matter for stockholder action pursuant to these bylaws and applicable law. Except for proposals properly made in accordance with Rule 14a-8 under the Securities and Exchange Act of 1934, and the rules and regulations thereunder (as so amended and inclusive of such rules and regulations), and included in the notice of meeting given by or at the direction of the board of directors, for the avoidance of doubt, clause (C) above shall be the exclusive means for a stockholder to bring business before an annual meeting of stockholders.

(a) To comply with clause (C) of Section 2.4(i) above, a stockholder's notice must set forth all information required under this Section 2.4(i) and must be timely received by the secretary of the corporation. To be timely, a stockholder's notice must be received by the secretary at the principal executive offices of the corporation not later than the 45th day nor earlier than the 75th day before the one-year anniversary of the date on which the corporation first mailed its proxy materials or a notice of availability of proxy materials (whichever is earlier) for the preceding year's annual meeting; *provided, however*, that in the event that no annual meeting was held in the previous year or if the date of the annual meeting is advanced by more than 30 days prior to or delayed by more than 60 days after the one-year anniversary of the date of the previous year's annual meeting, then, for notice by the stockholder to be timely, it must be so received by the secretary not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of (i) the 90th day prior to such annual meeting, or (ii) the tenth day following the day on which Public Announcement (as defined below) of the date of such annual meeting is first made. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described in this Section 2.4(i)(a). "**Public Announcement**" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or any successor thereto (the "**1934 Act**").

(b) To be in proper written form, a stockholder's notice to the secretary must set forth as to each matter of business the stockholder intends to bring before the annual meeting: (1) a brief description of the business intended to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (2) the name and address, as they appear on the corporation's books, of the

stockholder proposing such business and any Stockholder Associated Person (as defined below), (3) the class and number of shares of the corporation that are held of record or are beneficially owned by the stockholder or any Stockholder Associated Person and any derivative positions held or beneficially held by the stockholder or any Stockholder Associated Person, (4) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit from share price changes for, or to increase or decrease the voting power of, such stockholder or any Stockholder Associated Person with respect to any securities of the corporation, (5) any material interest of the stockholder or a Stockholder Associated Person in such business, and (6) a statement whether either such stockholder or any Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of at least the percentage of the corporation's voting shares required under applicable law to carry the proposal (such information provided and statements made as required by clauses (1) through (6), a "**Business Solicitation Statement**"). In addition, to be in proper written form, a stockholder's notice to the secretary must be supplemented not later than ten days following the record date for notice of the meeting to disclose the information contained in clauses (3) and (4) above as of the record date for notice of the meeting. For purposes of this Section 2.4, a "**Stockholder Associated Person**" of any stockholder shall mean (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the corporation owned of record or beneficially by such stockholder and on whose behalf the proposal or nomination, as the case may be, is being made, or (iii) any person controlling, controlled by or under common control with such person referred to in the preceding clauses (i) and (ii).

(c) Without exception, no business shall be conducted at any annual meeting except in accordance with the provisions set forth in this Section 2.4(i) and, if applicable, Section 2.4(ii). In addition, business proposed to be brought by a stockholder may not be brought before the annual meeting if such stockholder or a Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Business Solicitation Statement applicable to such business or if the Business Solicitation Statement applicable to such business contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that business was not properly brought before the annual meeting and in accordance with the provisions of this Section 2.4(i), and, if the chairperson should so determine, he or she shall so declare at the annual meeting that any such business not properly brought before the annual meeting shall not be conducted.

(ii) *Advance Notice of Director Nominations at Annual Meetings.* Notwithstanding anything in these bylaws to the contrary, only persons who are nominated in accordance with the procedures set forth in this Section 2.4(ii) shall be eligible for election or re-election as directors at an annual meeting of stockholders. Nominations of persons for election or re-election to the board of directors of the corporation shall be made at an annual meeting of stockholders only (A) by or at the direction of the board of directors or (B) by a stockholder of the corporation who (1) was a stockholder of record at the time of the giving of the notice required by this Section 2.4(ii) and on the record date for the determination of stockholders entitled to vote at the annual meeting and (2) has complied with the notice procedures set forth in this Section 2.4(ii). In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the secretary of the corporation.

(a) To comply with clause (B) of Section 2.4(ii) above, a nomination to be made by a stockholder must set forth all information required under this Section 2.4(ii) and must be received by the secretary of the corporation at the principal executive offices of the corporation at the time set forth in, and in accordance with, the final three sentences of Section 2.4(i)(a) above.

(b) To be in proper written form, such stockholder's notice to the secretary must set forth:

(1) as to each person (a "**nominee**") whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of the nominee, (B) the principal occupation or employment of the nominee, (C) the class and number of shares of the corporation that are held of record or are beneficially owned by the nominee and any derivative positions held or beneficially held by the nominee, (D) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of the nominee with respect to any securities of the corporation, and a description of any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares), the effect or intent of which is to mitigate loss to, or to manage the risk or benefit of share price changes for, or to increase or decrease the voting power of the nominee, (E) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, (F) a written statement executed by the nominee acknowledging that as a director of the corporation, the nominee will owe a fiduciary duty under Delaware law with respect to the corporation and its stockholders, and (G) any other information relating to the nominee that would be required to be disclosed about such nominee if proxies were being solicited for the election or re-election of the nominee as a director, or that is otherwise required, in each case pursuant to Regulation 14A under the 1934 Act (including without limitation the nominee's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected or re-elected, as the case may be); and

(2) as to such stockholder giving notice, (A) the information required to be provided pursuant to clauses (2) through (5) of Section 2.4(i)(b) above, and the supplement referenced in the second sentence of Section 2.4(i)(b) above (except that the references to "business" in such clauses shall instead refer to nominations of directors for purposes of this paragraph), and (B) a statement whether either such stockholder or Stockholder Associated Person will deliver a proxy statement and form of proxy to holders of a number of the corporation's voting shares reasonably believed by such stockholder or Stockholder Associated Person to be necessary to elect or re-elect such nominee(s) (such information provided and statements made as required by clauses (A) and (B) above, a "**Nominee Solicitation Statement**").

(c) At the request of the board of directors, any person nominated by a stockholder for election or re-election as a director must furnish to the secretary of the corporation (1) that information required to be set forth in the stockholder's notice of nomination of such person as a director as of a date subsequent to the date on which the notice of such person's nomination was given and (2) such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director or audit committee financial expert of the corporation under applicable law, securities exchange rule or regulation, or any publicly-disclosed corporate governance guideline or committee charter of the corporation and (3) that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee; in the absence of the furnishing of such information if requested, such stockholder's nomination shall not be considered in proper form pursuant to this Section 2.4(ii).

(d) Without exception, no person shall be eligible for election or re-election as a director of the corporation at an annual meeting of stockholders unless nominated in accordance with the provisions set forth in this Section 2.4(ii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading. The chairperson of the annual meeting shall, if the facts warrant, determine and declare at the annual meeting that a nomination was not made in accordance with the provisions prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the annual meeting, and the defective nomination shall be disregarded.

(iii) Advance Notice of Director Nominations for Special Meetings.

(a) For a special meeting of stockholders at which directors are to be elected or re-elected, nominations of persons for election or re-election to the board of directors shall be made only (1) by or at the direction of the board of directors or (2) by any stockholder of the corporation who (A) is a stockholder of record at the time of the giving of the notice required by this Section 2.4(iii) and on the record date for the determination of stockholders entitled to vote at the special meeting and (B) delivers a timely written notice of the nomination to the secretary of the corporation that includes the information set forth in Sections 2.4(ii)(b) and (ii)(c) above. To be timely, such notice must be received by the secretary at the principal executive offices of the corporation not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which Public Announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected or re-elected at such meeting. A person shall not be eligible for election or re-election as a director at a special meeting unless the person is nominated (i) by or at the direction of the board of directors or (ii) by a stockholder in accordance with the notice procedures set forth in this Section 2.4(iii). In addition, a nominee shall not be eligible for election or re-election if a stockholder or Stockholder Associated Person, as applicable, takes action contrary to the representations made in the Nominee Solicitation Statement applicable to such nominee or if the Nominee Solicitation Statement applicable to such nominee contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein not misleading.

(b) The chairperson of the special meeting shall, if the facts warrant, determine and declare at the meeting that a nomination or business was not made in accordance with the procedures prescribed by these bylaws, and if the chairperson should so determine, he or she shall so declare at the meeting, and the defective nomination or business shall be disregarded.

(iv) Other Requirements and Rights. In addition to the foregoing provisions of this Section 2.4, a stockholder must also comply with all applicable requirements of state law and of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.4. Nothing in this Section 2.4 shall be deemed to affect any rights of:

(a) a stockholder to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the 1934 Act; or

(b) the corporation to omit a proposal from the corporation's proxy statement pursuant to Rule 14a-8 (or any successor provision) under the 1934 Act.

2.5 NOTICE OF STOCKHOLDERS' MEETINGS

Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, if any, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Except as otherwise provided in the DGCL, the certificate of incorporation or these bylaws, the written notice of any meeting of stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting.

2.6 QUORUM

The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. Where a separate vote by a class or series or classes or series is required, a majority of the outstanding shares of such class or series or classes or series, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter, except as otherwise provided by law, the certificate of incorporation or these bylaws.

If a quorum is not present or represented at any meeting of the stockholders, then either (i) the chairperson of the meeting, or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.7 ADJOURNED MEETING; NOTICE

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the board of directors shall fix a new record date for notice of such adjourned meeting in accordance with Section 213(a) of the DGCL and Section 2.11 of these bylaws, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting.

2.8 CONDUCT OF BUSINESS

The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business. The chairperson of any meeting of stockholders shall be designated by the board of directors; in the absence of such designation, the chairperson of the board, if any, the chief executive officer (in the absence of the chairperson) or the president (in the absence of the chairperson of the board and the chief executive officer), or in their absence any other executive officer of the corporation, shall serve as chairperson of the stockholder meeting.

2.9 VOTING

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to Section 217 (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the DGCL.

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

Except as otherwise required by law, the certificate of incorporation or these bylaws, in all matters other than the election of directors, the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Except as otherwise required by law, the certificate of incorporation or these bylaws, directors shall be elected by a plurality of the voting power of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or series or classes or series is required, in all matters other than the election of directors, the affirmative vote of the majority of shares of such class or series or classes or series present in person or represented by proxy at the meeting shall be the act of such class or series or classes or series, except as otherwise provided by law, the certificate of incorporation or these bylaws.

2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Subject to the rights of the holders of the shares of any series of Preferred Stock or any other class of stock or series thereof that have been expressly granted the right to take action by written consent, any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

2.11 RECORD DATES

In order that the corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If the board of directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the board of directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination.

If no record date is fixed by the board of directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however,* that the board of directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the provisions of Section 213 of the DGCL and this Section 2.11 at the adjourned meeting.

In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

2.12 PROXIES

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL. A written proxy may be in the form of a telegram, cablegram, or other means of electronic transmission which sets forth or is submitted with information from which it can be determined that the telegram, cablegram, or other means of electronic transmission was authorized by the person.

2.13 LIST OF STOCKHOLDERS ENTITLED TO VOTE

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; *provided, however,* if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the list shall reflect the stockholders entitled to vote as of the tenth day before the meeting date. The stockholder list shall be arranged in alphabetical order and shall show the address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the corporation's principal place of business. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

2.14 INSPECTORS OF ELECTION

Before any meeting of stockholders, the board of directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment. The number of inspectors shall be either one (1) or three (3). If any person appointed as inspector fails to appear or fails or refuses to act, then the chairperson of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability. The inspector or inspectors so appointed and designated shall (i) ascertain the number of shares of capital stock of the corporation outstanding and the voting power of each share, (ii) determine the shares of capital stock of the corporation represented at the meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, (v) certify their determination of the number of shares of capital stock of the corporation represented at the meeting and such inspector or inspectors' count of all votes and ballots, (vi) determine when the polls shall close; (vii) determine the result; and (viii) do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

In determining the validity and counting of proxies and ballots cast at any meeting of stockholders of the corporation, the inspector or inspectors may consider such information as is permitted by applicable law. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

ARTICLE III — DIRECTORS

3.1 POWERS

The business and affairs of the corporation shall be managed by or under the direction of the board of directors, except as may be otherwise provided in the DGCL or the certificate of incorporation.

3.2 NUMBER OF DIRECTORS

The board of directors shall consist of one or more members, each of whom shall be a natural person. Unless the certificate of incorporation fixes the number of directors, the number of directors shall be determined from time to time solely by resolution of the board of directors. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS

Except as provided in Section 3.4 of these bylaws, each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until such director's successor is elected and qualified or until such director's earlier death, resignation or removal. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws. The certificate of incorporation or these bylaws may prescribe other qualifications for directors. If so provided in the certificate of incorporation, the directors of the corporation shall be divided into three classes.

3.4 RESIGNATION AND VACANCIES

Any director may resign at any time upon notice given in writing or by electronic transmission to the corporation; *provided, however*, that if such notice is given by electronic transmission, such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the director. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. Acceptance of such resignation shall not be necessary to make it effective. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. Unless otherwise provided in the certificate of incorporation or these bylaws, when one or more directors resign from the board of directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

Unless otherwise provided in the certificate of incorporation or these bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class shall be filled only by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. If the directors are divided into classes, a person so elected by the directors then in office to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been duly elected and qualified.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board of directors (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the voting stock at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the DGCL as far as applicable.

3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE

The board of directors may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 REGULAR MEETINGS

Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board of directors.

3.7 SPECIAL MEETINGS; NOTICE

Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairperson of the board of directors, the chief executive officer, the president, the secretary or a majority of the authorized number of directors, at such times and places as he or she or they shall designate.

Notice of the time and place of special meetings shall be:

- (i) delivered personally by hand, by courier or by telephone;
- (ii) sent by United States first-class mail, postage prepaid;
- (iii) sent by facsimile; or
- (iv) sent by electronic mail,

directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the corporation's records.

If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the corporation's principal executive office) nor the purpose of the meeting.

3.8 QUORUM; VOTING

At all meetings of the board of directors, a majority of the total authorized number of directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the board of directors, except as may be otherwise specifically provided by statute, the certificate of incorporation or these bylaws.

If the certificate of incorporation provides that one or more directors shall have more or less than one vote per director on any matter, every reference in these bylaws to a majority or other proportion of the directors shall refer to a majority or other proportion of the votes of the directors.

3.9 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without

a meeting if all members of the board of directors or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board of directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

3.10 FEES AND COMPENSATION OF DIRECTORS

Unless otherwise restricted by the certificate of incorporation or these bylaws, the board of directors shall have the authority to fix the compensation of directors.

3.11 REMOVAL OF DIRECTORS

A director may be removed from office by the stockholders of the corporation only for cause.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

ARTICLE IV — COMMITTEES

4.1 COMMITTEES OF DIRECTORS

The board of directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors or in these bylaws, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) approve or adopt, or recommend to the stockholders, any action or matter (other than the election or removal of directors) expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopt, amend or repeal any bylaw of the corporation.

4.2 COMMITTEE MINUTES

Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 MEETINGS AND ACTION OF COMMITTEES

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

- (i) Section 3.5 (place of meetings and meetings by telephone);

- (ii) Section 3.6 (regular meetings);
- (iii) Section 3.7 (special meetings; notice);
- (iv) Section 3.8 (quorum; voting);
- (v) Section 3.9 (action without a meeting); and
- (vi) Section 7.5 (waiver of notice)

with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members. *However:*

(i) the time of regular meetings of committees may be determined by resolution of the committee;

(ii) special meetings of committees may also be called by resolution of the committee; and

(iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

Any provision in the certificate of incorporation providing that one or more directors shall have more or less than one vote per director on any matter shall apply to voting in any committee or subcommittee, unless otherwise provided in the certificate of incorporation or these bylaws.

4.4 SUBCOMMITTEES

Unless otherwise provided in the certificate of incorporation, these bylaws or the resolutions of the board of directors designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee.

ARTICLE V — OFFICERS

5.1 OFFICERS

The officers of the corporation shall be a president and a secretary. The corporation may also have, at the discretion of the board of directors, a chairperson of the board of directors, a vice chairperson of the board of directors, a chief executive officer, a chief financial officer or treasurer, one or more vice presidents, one or more assistant vice presidents, one or more assistant treasurers, one or more assistant secretaries, and any such other officers as may be appointed in accordance with the provisions of these bylaws. Any number of offices may be held by the same person.

5.2 APPOINTMENT OF OFFICERS

The board of directors shall appoint the officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 of these bylaws, subject to the rights, if any, of an officer under any contract of employment. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in this Section 5.2 for the regular election to such office.

5.3 SUBORDINATE OFFICERS

The board of directors may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, the president, to appoint, such other officers and agents as the business of the corporation may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors may from time to time determine.

5.4 REMOVAL AND RESIGNATION OF OFFICERS

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board of directors or, except in the case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written or electronic notice to the corporation; *provided, however*, that if such notice is given by electronic transmission, such electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the officer. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 VACANCIES IN OFFICES

Any vacancy occurring in any office of the corporation shall be filled by the board of directors or as provided in Section 5.3.

5.6 REPRESENTATION OF SHARES OF OTHER CORPORATIONS

The chairperson of the board of directors, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

5.7 AUTHORITY AND DUTIES OF OFFICERS

All officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the board of directors.

5.8 THE CHAIRPERSON OF THE BOARD

The chairperson of the board shall have the powers and duties customarily and usually associated with the office of the chairperson of the board. The chairperson of the board shall preside at meetings of the stockholders and of the board of directors.

5.9 THE VICE CHAIRPERSON OF THE BOARD

The vice chairperson of the board shall have the powers and duties customarily and usually associated with the office of the vice chairperson of the board. In the case of absence or disability of the chairperson of the board, the vice chairperson of the board shall perform the duties and exercise the powers of the chairperson of the board.

5.10 THE CHIEF EXECUTIVE OFFICER

The chief executive officer shall have, subject to the supervision, direction and control of the board of directors, ultimate authority for decisions relating to the supervision, direction and management of the affairs and the business of the corporation customarily and usually associated with the position of chief executive officer, including, without limitation, all powers necessary to direct and control the organizational and reporting relationships within the corporation. If at any time the office of the chairperson and vice chairperson of the board shall not be filled, or in the event of the temporary absence or disability of the chairperson of the board and the vice chairperson of the board, the chief executive officer shall perform the duties and exercise the powers of the chairperson of the board unless otherwise determined by the board of directors.

5.11 THE PRESIDENT

The president shall have, subject to the supervision, direction and control of the board of directors, the general powers and duties of supervision, direction and management of the affairs and business of the corporation customarily and usually associated with the position of president. The president shall have such powers and perform such duties as may from time to time be assigned to him or her by the board of directors, the chairperson of the board or the chief executive officer. In the event of the absence or disability of the chief executive officer, the president shall perform the duties and exercise the powers of the chief executive officer unless otherwise determined by the board of directors.

5.12 THE VICE PRESIDENTS AND ASSISTANT VICE PRESIDENTS

Each vice president and assistant vice president shall have such powers and perform such duties as may from time to time be assigned to him or her by the board of directors, the chairperson of the board, the chief executive officer or the president.

5.13 THE SECRETARY AND ASSISTANT SECRETARIES

(i) The secretary shall attend meetings of the board of directors and meetings of the stockholders and record all votes and minutes of all such proceedings in a book or books kept for such purpose. The secretary shall have all such further powers and duties as are customarily and usually associated with the position of secretary or as may from time to time be assigned to him or her by the board of directors, the chairperson of the board, the chief executive officer or the president.

(ii) Each assistant secretary shall have such powers and perform such duties as may from time to time be assigned to him or her by the board of directors, the chairperson of the board, the chief executive officer, the president or the secretary. In the event of the absence, inability or refusal to act of the secretary, the assistant secretary (or if there shall be more than one, the assistant secretaries in the order determined by the board of directors) shall perform the duties and exercise the powers of the secretary.

5.14 THE CHIEF FINANCIAL OFFICER AND ASSISTANT TREASURERS

(i) The chief financial officer shall be the treasurer of the corporation. The chief financial officer shall have custody of the corporation's funds and securities, shall be responsible for maintaining the corporation's accounting records and statements, shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation, and shall deposit or cause to be deposited moneys or other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors. The chief financial officer shall also maintain adequate records of all assets, liabilities and transactions of the corporation and shall assure that adequate audits thereof are currently and regularly made. The chief financial officer shall have all such further powers and duties as are customarily and usually associated with the position of chief financial officer, or as may from time to time be assigned to him or her by the board of directors, the chairperson, the chief executive officer or the president.

(ii) Each assistant treasurer shall have such powers and perform such duties as may from time to time be assigned to him or her by the board of directors, the chief executive officer, the president or the chief financial officer. In the event of the absence, inability or refusal to act of the chief financial officer, the assistant treasurer (or if there shall be more than one, the assistant treasurers in the order determined by the board of directors) shall perform the duties and exercise the powers of the chief financial officer.

ARTICLE VI — STOCK

6.1 STOCK CERTIFICATES; PARTLY PAID SHARES

The shares of the corporation shall be represented by certificates, provided that the board of directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the corporation by the chairperson of the board of directors or vice-chairperson of the board of directors, or the president or a vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be

such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. The corporation shall not have power to issue a certificate in bearer form.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly-paid shares, or upon the books and records of the corporation in the case of uncertificated partly-paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully-paid shares, the corporation shall declare a dividend upon partly-paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

6.2 SPECIAL DESIGNATION ON CERTIFICATES

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; *provided, however,* that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this section 6.2 or Sections 156, 202(a) or 218(a) of the DGCL or with respect to this section 6.2 a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of uncertificated stock and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.

6.3 LOST, STOLEN OR DESTROYED CERTIFICATES

Except as provided in this Section 6.3, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

6.4 DIVIDENDS

The board of directors, subject to any restrictions contained in the certificate of incorporation or applicable law, may declare and pay dividends upon the shares of the corporation's capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock, subject to the provisions of the certificate of incorporation.

The board of directors may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

6.5 TRANSFER OF STOCK

Transfers of record of shares of stock of the corporation shall be made only upon its books by the holders thereof, in person or by an attorney duly authorized, and, if such stock is certificated, upon the surrender of a certificate or certificates for a like number of shares, properly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer; *provided, however*, that such succession, assignment or authority to transfer is not prohibited by the certificate of incorporation, these bylaws, applicable law or contract.

6.6 STOCK TRANSFER AGREEMENTS

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

6.7 REGISTERED STOCKHOLDERS

The corporation:

- (i) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner;
- (ii) shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares; and
- (iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE VII — MANNER OF GIVING NOTICE AND WAIVER

7.1 NOTICE OF STOCKHOLDERS' MEETINGS

Notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the corporation's records. An affidavit of the secretary or an assistant secretary of the corporation or of the transfer agent or other agent of the corporation that the notice has been given shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

7.2 NOTICE BY ELECTRONIC TRANSMISSION

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the corporation under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if:

- (i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent; and
- (ii) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

- (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;
- (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;
- (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and
- (iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

An “**electronic transmission**” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

7.3 NOTICE TO STOCKHOLDERS SHARING AN ADDRESS

Except as otherwise prohibited under the DGCL, without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the corporation under the provisions of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a single written notice to stockholders who share an address if consented to by the stockholders at that address to whom such notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any

stockholder who fails to object in writing to the corporation, within 60 days of having been given written notice by the corporation of its intention to send the single notice, shall be deemed to have consented to receiving such single written notice.

7.4 NOTICE TO PERSON WITH WHOM COMMUNICATION IS UNLAWFUL

Whenever notice is required to be given, under the DGCL, the certificate of incorporation or these bylaws, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

7.5 WAIVER OF NOTICE

Whenever notice is required to be given to stockholders, directors or other persons under any provision of the DGCL, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders or the board of directors, as the case may be, need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

ARTICLE VIII — INDEMNIFICATION

8.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN THIRD PARTY PROCEEDINGS

Subject to the other provisions of this Article VIII, the corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "**Proceeding**") (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director of the corporation or an officer of the corporation, or while a director of the corporation or officer of the corporation is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such Proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

8.2 INDEMNIFICATION OF DIRECTORS AND OFFICERS IN ACTIONS BY OR IN THE RIGHT OF THE CORPORATION

Subject to the other provisions of this Article VIII, the corporation shall indemnify, to the fullest extent permitted by the DGCL, as now or hereinafter in effect, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director or officer of the corporation, or while a director or officer of the corporation is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

8.3 SUCCESSFUL DEFENSE

To the extent that a present or former director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described in Section 8.1 or Section 8.2, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

8.4 INDEMNIFICATION OF OTHERS

Subject to the other provisions of this Article VIII, the corporation shall have power to indemnify its employees and its agents to the extent not prohibited by the DGCL or other applicable law. The board of directors shall have the power to delegate the determination of whether employees or agents shall be indemnified to such person or persons as the board of determines.

8.5 ADVANCED PAYMENT OF EXPENSES

Expenses (including attorneys' fees) incurred by an officer or director of the corporation in defending any Proceeding shall be paid by the corporation in advance of the final disposition of such Proceeding upon receipt of a written request therefor (together with documentation reasonably evidencing such expenses) and an undertaking by or on behalf of the person to repay such amounts if it shall ultimately be determined that the person is not entitled to be indemnified under this Article VIII or the DGCL. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents may be so paid upon such terms and conditions, if any, as the corporation deems reasonably appropriate and shall be subject to the corporation's expense guidelines. The right to advancement of expenses shall not apply to any claim for which indemnity is excluded pursuant to these bylaws, but shall apply to any Proceeding referenced in Section 8.6(ii) or 8.6(iii) prior to a determination that the person is not entitled to be indemnified by the corporation.

8.6 LIMITATION ON INDEMNIFICATION

Subject to the requirements in Section 8.3 and the DGCL, the corporation shall not be obligated to indemnify any person pursuant to this Article VIII in connection with any Proceeding (or any part of any Proceeding):

(i) for which payment has actually been made to or on behalf of such person under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;

(ii) for an accounting or disgorgement of profits pursuant to Section 16(b) of the 1934 Act, or similar provisions of federal, state or local statutory law or common law, if such person is held liable therefor (including pursuant to any settlement arrangements);

(iii) for any reimbursement of the corporation by such person of any bonus or other incentive-based or equity-based compensation or of any profits realized by such person from the sale of securities of the corporation, as required in each case under the 1934 Act (including any such reimbursements that arise from an accounting restatement of the corporation pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**"), or the payment to the corporation of profits arising from the purchase and sale by such person of securities in violation of Section 306 of the Sarbanes-Oxley Act), if such person is held liable therefor (including pursuant to any settlement arrangements);

(iv) initiated by such person against the corporation or its directors, officers, employees, agents or other indemnitees, unless (a) the board of directors authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (b) the corporation provides the indemnification, in its sole discretion, pursuant to the powers vested in the corporation under applicable law, (c) otherwise required to be made under Section 8.7 or (d) otherwise required by applicable law; or

(v) if prohibited by applicable law; *provided, however*, that if any provision or provisions of this Article VIII shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this Article VIII (including, without limitation, each portion of any paragraph or clause containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this Article VIII (including, without limitation, each such portion of any paragraph or clause containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

8.7 DETERMINATION; CLAIM

If a claim for indemnification or advancement of expenses under this Article VIII is not paid in full within 90 days after receipt by the corporation of the written request therefor, the claimant shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification or advancement of expenses. The corporation shall indemnify such person against any and all expenses that are incurred by such person in connection with any action for indemnification or advancement of expenses from the corporation under this Article VIII, to the extent such person is successful in such action, and to the extent not prohibited by law. In any such suit, the corporation shall, to the fullest extent not prohibited by law, have the burden of proving that the claimant is not entitled to the requested indemnification or advancement of expenses.

8.8 NON-EXCLUSIVITY OF RIGHTS

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the certificate of incorporation or any statute, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advancement of expenses, to the fullest extent not prohibited by the DGCL or other applicable law.

8.9 INSURANCE

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of the DGCL.

8.10 SURVIVAL

The rights to indemnification and advancement of expenses conferred by this Article VIII shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

8.11 EFFECT OF REPEAL OR MODIFICATION

Any amendment, alteration or repeal of this Article VIII shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to such amendment, alteration or repeal.

8.12 CERTAIN DEFINITIONS

For purposes of this Article VIII, references to the "**corporation**" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to "**other enterprises**" shall include employee benefit plans; references to "**finances**" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "**servicing at the request of the corporation**" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "**not opposed to the best interests of the corporation**" as referred to in this Article VIII.

ARTICLE IX — GENERAL MATTERS

9.1 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS

Except as otherwise provided by law, the certificate of incorporation or these bylaws, the board of directors may authorize any officer or officers, or agent or agents, to enter into any contract or execute any document or instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

9.2 FISCAL YEAR

The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

9.3 SEAL

The corporation may adopt a corporate seal, which shall be adopted and which may be altered by the board of directors. The corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

9.4 CONSTRUCTION; DEFINITIONS

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “**person**” includes both an entity and a natural person.

ARTICLE X — AMENDMENTS

These bylaws may be adopted, amended or repealed by the stockholders entitled to vote; *provided, however*, that the affirmative vote of the holders of at least 66 2/3% of the total voting power of outstanding voting securities, voting together as a single class, shall be required for the stockholders of the corporation to alter, amend or repeal, or adopt any bylaw inconsistent with, the following provisions of these bylaws: Article II, Sections 3.1, 3.2, 3.4 and 3.11 of Article III, Article VIII and this Article X (including, without limitation, any such Article or Section as renumbered as a result of any amendment, alteration, change, repeal, or adoption of any other Bylaw). The board of directors shall also have the power to adopt, amend or repeal bylaws; *provided, however*, that a bylaw amendment adopted by stockholders which specifies the votes that shall be necessary for the election of directors shall not be further amended or repealed by the board of directors.

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COMMON STOCK
PAR VALUE \$0.0001

COMMON STOCK
THIS CERTIFICATE IS TRANSFERABLE IN
CANTON, MA AND NEW YORK, NY

Certificate Number
ZQ 000000

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palalto
NETWORKS
the network security company™

PALO ALTO NETWORKS, INC.
INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

CUSIP 697435 10 5
SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT

MR. SAMPLE & MRS. SAMPLE & MRS. SAMPLE

is the owner of

*****ZERO HUNDRED THOUSAND ZERO HUNDRED AND ZERO*****

FULLY-PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

Palo Alto Networks, Inc. (hereinafter called the "Company"), transferable on the books of the Company in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed. This Certificate and the shares represented hereby, are issued and shall be held subject to all of the provisions of the Certificate of Incorporation, as amended, and the By-Laws, as amended, of the Company (copies of which are on file with the Company and with the Transfer Agent), to all of which each holder, by acceptance hereof, assents. This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

Witness the facsimile seal of the Company and the facsimile signatures of its duly authorized officers.

DATED <<Month Day, Year>>

COUNTERSIGNED AND REGISTERED:
COMPUTERSHARE TRUST COMPANY, N.A.
TRANSFER AGENT AND REGISTRAR,

By _____ AUTHORIZED SIGNATURE

Seal: PALO ALTO NETWORKS, INC. February 28, 2005 DELAWARE

Signatures:
President: *Samuel S. Levine*
Secretary: *John C. Zane*

1234567

palalto
NETWORKS
the network security company™
PO BOX 43004, Providence, RI 02940-3004

MR. A. SAMPLE
DESIGNATION (IF ANY)
ADD 1
ADD 2
ADD 3
ADD 4

CUSIP	Holder ID	Insurance Value	Number of Shares	DTC	Certificate Numbers	Num/No. Demom.	Total	
1234567890	XXXXXXXXXX	1,000,000.00	123456	12345678	1234567890	1	1	
1234567890	XXXXXXXXXX	1,000,000.00	123456	12345678	1234567890	2	2	
1234567890	XXXXXXXXXX	1,000,000.00	123456	12345678	1234567890	3	3	
1234567890	XXXXXXXXXX	1,000,000.00	123456	12345678	1234567890	4	4	
1234567890	XXXXXXXXXX	1,000,000.00	123456	12345678	1234567890	5	5	
1234567890	XXXXXXXXXX	1,000,000.00	123456	12345678	1234567890	6	6	
1234567890	XXXXXXXXXX	1,000,000.00	123456	12345678	1234567890	7	7	
Total Transaction								

PALO ALTO NETWORKS, INC.

THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH SHAREHOLDER WHO SO REQUESTS, A SUMMARY OF THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OF THE COMPANY AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND RIGHTS, AND THE VARIATIONS IN RIGHTS, PREFERENCES AND LIMITATIONS DETERMINED FOR EACH SERIES, WHICH ARE FIXED BY THE CERTIFICATE OF INCORPORATION OF THE COMPANY, AS AMENDED, AND THE RESOLUTIONS OF THE BOARD OF DIRECTORS OF THE COMPANY, AND THE AUTHORITY OF THE BOARD OF DIRECTORS TO DETERMINE VARIATIONS FOR FUTURE SERIES. SUCH REQUEST MAY BE MADE TO THE OFFICE OF THE SECRETARY OF THE COMPANY OR TO THE TRANSFER AGENT. THE BOARD OF DIRECTORS MAY REQUIRE THE OWNER OF A LOST OR DESTROYED STOCK CERTIFICATE, OR HIS LEGAL REPRESENTATIVES, TO GIVE THE COMPANY A BOND TO INDEMNIFY IT AND ITS TRANSFER AGENTS AND REGISTRARS AGAINST ANY CLAIM THAT MAY BE MADE AGAINST THEM ON ACCOUNT OF THE ALLEGED LOSS OR DESTRUCTION OF ANY SUCH CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT	- _____ Custodian _____ (Cust) _____ (Minor)	(State)
TEN ENT	- as tenants by the entireties		under Uniform Gifts to Minors Act _____	
JT TEN	- as joint tenants with right of survivorship and not as tenants in common	UNIF TRF MIN ACT	- _____ Custodian (until age _____) (Cust) _____ under Uniform Transfers to Minors Act _____ (Minor) _____ (State)	

Additional abbreviations may also be used though not in the above list.

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

For value received, _____ hereby sell, assign and transfer unto

[Redacted box for social security or other identifying number of assignee]

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE)

_____ Shares
of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney
to transfer the said stock on the books of the within-named Company with full power of substitution in the premises.

Dated: _____ 20 _____

Signature: _____

Signature: _____

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement, or any change whatever.

Signature(s) Guaranteed: Medallion Guarantee Stamp
THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15.

SECURITY INSTRUCTIONS

THIS IS WATERMARKED PAPER. DO NOT ACCEPT WITHOUT NOTING WATERMARK. HOLD TO LIGHT TO VERIFY WATERMARK.



The IRS requires that we report the cost basis of certain shares acquired after January 1, 2011. If your shares were covered by the legislation and you have sold or transferred the shares and requested a specific cost basis calculation method, we have processed as requested. If you did not specify a cost basis calculation method, we have defaulted to the first in, first out (FIFO) method. Please visit our website or consult your tax advisor if you need additional information about cost basis.

If you do not keep in contact with us or do not have any activity in your account for the time periods specified by state law, your property could become subject to state unclaimed property laws and transferred to the appropriate state.

1534201

July 9, 2012

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

Re: Registration Statement on Form S-1

Ladies and Gentlemen:

This opinion is furnished to you in connection with the Registration Statement on Form S-1 (Registration No. 333-180620), as amended (the "Registration Statement"), filed by Palo Alto Networks, Inc. (the "Company") with the Securities and Exchange Commission in connection with the registration under the Securities Act of 1933, as amended, of 7,130,000 shares of the Company's common stock, \$0.0001 par value per share (the "Shares"), of which up to 4,687,259 shares (including up to 930,000 shares issuable upon exercise of an over-allotment option granted by the Company) will be issued and sold by the Company and up to 1,512,741 shares will be sold by certain selling stockholders (the "Selling Stockholders"). We understand that the Shares are to be sold to the underwriters for resale to the public as described in the Registration Statement and pursuant to an underwriting agreement, substantially in the form filed as an exhibit to the Registration Statement, to be entered into by and among the Company, the Selling Stockholders and the underwriters (the "Underwriting Agreement").

We are acting as counsel for the Company in connection with the sale of the Shares by the Company and the Selling Stockholders. In such capacity, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments as we have deemed necessary for the purposes of rendering this opinion. In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity with the originals of all documents submitted to us as copies, the authenticity of the originals of such documents and the legal competence of all signatories to such documents.

We express no opinion herein as to the laws of any state or jurisdiction other than the General Corporation Law of the State of Delaware (including the statutory provisions and all applicable judicial decisions interpreting those laws) and the federal laws of the United States of America.

Palo Alto Networks, Inc.

July 9, 2012

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On the basis of the foregoing, we are of the opinion, that (1) the Shares to be issued and sold by the Company have been duly authorized and, when such Shares are issued and paid for in accordance with the terms of the Underwriting Agreement, will be validly issued, fully paid and nonassessable, and (2) the Shares to be sold by the Selling Stockholders have been duly authorized and are validly issued, fully paid and nonassessable; provided, however, with respect to the 64,950 Shares to be sold by certain of the Selling Stockholders that will be issued upon the exercise of vested options prior to such sale, such Shares will be validly issued, fully-paid and nonassessable upon the exercise of such options and payment in compliance with the terms of such options pursuant to which such Shares are to be issued prior to the completion of this offering.

We consent to the use of this opinion as an exhibit to the Registration Statement, and we consent to the reference of our name under the caption "Legal Matters" in the prospectus forming part of the Registration Statement.

Very truly yours,

WILSON SONSINI GOODRICH & ROSATI
Professional Corporation

/s/ Wilson Sonsini Goodrich & Rosati, P.C.

PALO ALTO NETWORKS, INC.

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this “**Agreement**”) is dated as of [insert date], and is between Palo Alto Networks, Inc., a Delaware corporation (the “**Company**”), and [insert name of indemnitee] (“**Indemnitee**”).

RECITALS

A. Indemnitee’s service to the Company substantially benefits the Company.

B. Individuals are reluctant to serve as directors or officers of corporations or in certain other capacities unless they are provided with adequate protection through insurance or indemnification against the risks of claims and actions against them arising out of such service.

C. Indemnitee does not regard the protection currently provided by applicable law, the Company’s governing documents and any insurance as adequate under the present circumstances, and Indemnitee may not be willing to serve as a director or officer without additional protection.

D. In order to induce Indemnitee to continue to provide services to the Company, it is reasonable, prudent and necessary for the Company to contractually obligate itself to indemnify, and to advance expenses on behalf of, Indemnitee as permitted by applicable law.

E. This Agreement is a supplement to and in furtherance of the indemnification provided in the Company’s certificate of incorporation and bylaws, and any resolutions adopted pursuant thereto, and this Agreement shall not be deemed a substitute therefor, nor shall this Agreement be deemed to limit, diminish or abrogate any rights of Indemnitee thereunder.

The parties therefore agree as follows:

1. Definitions.

(a) A “**Change in Control**” shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

(i) *Acquisition of Stock by Third Party.* Any Person (as defined below) is or becomes the Beneficial Owner (as defined below), directly or indirectly, of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company’s then outstanding securities;

(ii) *Change in Board Composition.* During any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Company’s board of directors, and any new directors (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Sections 1(a)(i), 1(a)(i) or 1(a)(iv)) whose election by the board of directors or nomination for election by the Company’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Company’s board of directors;

(iii) *Corporate Transactions*. The effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;

(iv) *Liquidation*. The approval by the stockholders of the Company of a complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; and

(v) *Other Events*. Any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended, whether or not the Company is then subject to such reporting requirement.

For purposes of this Section 1(a), the following terms shall have the following meanings:

(1) "**Person**" shall have the meaning as set forth in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended; *provided, however*, that "**Person**" shall exclude (i) the Company, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, and (iii) any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(2) "**Beneficial Owner**" shall have the meaning given to such term in Rule 13d-3 under the Securities Exchange Act of 1934, as amended; *provided, however*, that "**Beneficial Owner**" shall exclude any Person otherwise becoming a Beneficial Owner by reason of (i) the stockholders of the Company approving a merger of the Company with another entity or (ii) the Company's board of directors approving a sale of securities by the Company to such Person.

(b) "**Corporate Status**" describes the status of a person who is or was a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of the Company or any other Enterprise.

(c) "**DGCL**" means the General Corporation Law of the State of Delaware.

(d) "**Disinterested Director**" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(e) "**Enterprise**" means the Company and any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary.

(f) "**Expenses**" include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees and costs of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses also include (i) Expenses incurred in connection with any appeal resulting from any Proceeding.

including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond or other appeal bond or their equivalent, and (ii) for purposes of Section 12(c), Expenses incurred by Indemnatee in connection with the interpretation, enforcement or defense of Indemnatee's rights under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company. Expenses, however, shall not include amounts paid in settlement by Indemnatee or the amount of judgments or fines against Indemnatee.

(g) "**Independent Counsel**" means a law firm, or a partner or member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent (i) the Company or Indemnatee in any matter material to either such party (other than as Independent Counsel with respect to matters concerning Indemnatee under this Agreement, or other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "**Independent Counsel**" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnatee in an action to determine Indemnatee's rights under this Agreement.

(h) "**Proceeding**" means any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, including any appeal therefrom and including without limitation any such Proceeding pending as of the date of this Agreement, in which Indemnatee was, is or will be involved as a party, a potential party, a non-party witness or otherwise by reason of (i) the fact that Indemnatee is or was a director or officer of the Company, (ii) any action taken by Indemnatee or any action or inaction on Indemnatee's part while acting as a director or officer of the Company, or (iii) the fact that he or she is or was serving at the request of the Company as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of the Company or any other Enterprise, in each case whether or not serving in such capacity at the time any liability or Expense is incurred for which indemnification or advancement of expenses can be provided under this Agreement.

(i) Reference to "**other enterprises**" shall include employee benefit plans; references to "**finest**" shall include any excise taxes assessed on a person with respect to any employee benefit plan (excluding any "parachute payments" within the meanings of Sections 280G and 4999 of the Internal Revenue Code of 1986, as amended); references to "**servicing at the request of the Company**" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he or she reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "**not opposed to the best interests of the Company**" as referred to in this Agreement.

2. Indemnity in Third-Party Proceedings. The Company shall indemnify Indemnatee in accordance with the provisions of this Section 2 if Indemnatee is, or is threatened to be made, a party to or a participant in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 2, Indemnatee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnatee or on his or her behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnatee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

3. Indemnity in Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company. No indemnification for Expenses shall be made under this Section 3 in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged by a court of competent jurisdiction to be liable to the Company, unless and only to the extent that the Delaware Court of Chancery or any court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such expenses as the Delaware Court of Chancery or such other court shall deem proper.

4. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. To the extent that Indemnitee is a party to or a participant in and is successful (on the merits or otherwise) in defense of any Proceeding or any claim, issue or matter therein, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. To the extent permitted by applicable law, if Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, in defense of one or more but less than all claims, issues or matters in such Proceeding, then, subject to and in accordance with the requirements and process described in Section 10, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with (a) each successfully resolved claim, issue or matter and (b) any claim, issue or matter related to any such successfully resolved claim, issue or matter. For purposes of this section, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

5. Indemnification for Expenses of a Witness. To the extent that Indemnitee is, by reason of his or her Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified to the extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

6. Additional Indemnification.

(a) Notwithstanding any limitation in Sections 2, 3 or 4, the Company shall indemnify Indemnitee to the fullest extent permitted by applicable law if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf in connection with the Proceeding or any claim, issue or matter therein.

(b) For purposes of Section 6(a), the meaning of the phrase "**to the fullest extent permitted by applicable law**" shall include, but not be limited to:

(i) the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL; and

(ii) the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

7. Exclusions. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any Proceeding (or any part of any Proceeding):

(a) [except as provided in Section 14,] for which payment has actually been made to or on behalf of Indemnitee under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;

(b) for an accounting or disgorgement of profits pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of federal, state or local statutory law or common law, if Indemnitee is held liable therefor (including pursuant to any settlement arrangements);

(c) for any reimbursement of the Company by Indemnitee of any bonus or other incentive-based or equity-based compensation or of any profits realized by Indemnitee from the sale of securities of the Company, as required in each case under the Securities Exchange Act of 1934, as amended (including any such reimbursements that arise from an accounting restatement of the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "**Sarbanes-Oxley Act**"), or the payment to the Company of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act), if Indemnitee is held liable therefor (including pursuant to any settlement arrangements);

(d) for any reimbursement of the Company by Indemnitee of any bonus or other incentive-based or equity-based compensation to the extent such reimbursement is required under Section 954 of the Dodd–Frank Wall Street Reform and Consumer Protection Act or any rules adopted or promulgated thereunder or in connection therewith, but in any case only if Indemnitee is held liable therefor (including pursuant to any settlement arrangements);

(e) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees, agents or other indemnitees, unless (i) the Company's board of directors authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law, (iii) otherwise authorized in Section 12(d) or (iv) otherwise required by applicable law; or

(f) if prohibited by applicable law.

8. Advances of Expenses; Audit of Expenses.

(a) The Company shall advance the Expenses incurred by Indemnitee in connection with any Proceeding, and such advancement shall be made as soon as reasonably practicable, but in any event no later than 60 days, after the receipt by the Company of a written statement or statements requesting such advances from time to time (which shall include invoices received by Indemnitee in connection with such Expenses but, in the case of invoices in connection with legal services, any references to legal work performed or to expenditure made that would cause Indemnitee to waive any privilege accorded by applicable law shall not be included with the invoice). Advances shall be unsecured and interest free and made without regard to Indemnitee's ability to repay such advances. Indemnitee hereby undertakes to repay any advance to the extent that it is ultimately determined that Indemnitee is

not entitled to be indemnified by the Company. This Section 8 shall not apply to the extent advancement is prohibited by law and shall not apply to any Proceeding for which indemnity is not permitted under this Agreement, but shall apply to any Proceeding referenced in Section 7(b) or 7(c) prior to a determination that Indemnitee is not entitled to be indemnified by the Company.

(b) The Company shall have the right, from time to time and upon written request, to audit, review and inspect any and all Expenses for which advancement, reimbursement and/or indemnification is sought ("**Expense Audit**"). Indemnitee will cooperate with the Company in the performance of any Expense Audit. In addition to other requests it may make in connection with any Expense Audit, the Company may require that the Indemnitee provide to the Company receipts or other documentation sufficient, in the reasonable determination of this Company, to document and confirm that such Expenses are actual, complete, correct and subject to the terms of this Agreement. If the Indemnitee fails to provide such documentation in a timely manner, the Company may reject Indemnitee's request for indemnification, reimbursement and/or advancement of such Expenses.

9. Procedures for Notification and Defense of Claim.

(a) Indemnitee shall notify the Company in writing of any matter with respect to which Indemnitee intends to seek indemnification or advancement of Expenses as soon as reasonably practicable following the receipt by Indemnitee of notice thereof. The written notification to the Company shall include, in reasonable detail, a description of the nature of the Proceeding and the facts underlying the Proceeding. The failure by Indemnitee to notify the Company will not relieve the Company from any liability which it may have to Indemnitee hereunder or otherwise than under this Agreement, and any delay in so notifying the Company shall not constitute a waiver by Indemnitee of any rights.

(b) If, at the time of the receipt of a notice of a Proceeding pursuant to the terms hereof, the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement of the Proceeding to the insurers in accordance with the procedures set forth in the applicable policies. The Company shall thereafter take all commercially-reasonable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(c) In the event the Company may be obligated to make any indemnity in connection with a Proceeding, the Company shall be entitled to assume the defense of such Proceeding with counsel approved by Indemnitee, which approval shall not be unreasonably withheld. After the retention of such counsel by the Company, the Company will not be liable to Indemnitee for any fees or expenses of counsel subsequently incurred by Indemnitee with respect to the same Proceeding. Notwithstanding the Company's assumption of the defense of any such Proceeding, the Company shall be obligated to pay the fees and expenses of Indemnitee's separate counsel to the extent (i) the employment of separate counsel by Indemnitee is authorized by the Company, (ii) Independent Counsel shall have reasonably concluded that there is a conflict of interest between the Company and Indemnitee in the conduct of any such defense such that Indemnitee needs to be separately represented, or (iii) the Company shall not have retained, or shall not continue to retain, such counsel to defend such Proceeding. The Company shall have the right to conduct such defense as it sees fit in its sole discretion. Regardless of any provision in this Agreement, Indemnitee shall have the right to employ counsel in any Proceeding at Indemnitee's personal expense. The Company shall not be entitled, without the consent of Indemnitee, to assume the defense of any claim brought by or in the right of the Company. In the event the Company is obligated to pay the fees and expenses of Indemnitee separate counsel pursuant to subsection (i) above, the Company's obligations to advance or indemnify Expenses for such separate counsel will be capped at \$3 million unless and until the Board authorizes additional funding for such separate counsel.

(d) Indemnitee shall give the Company such information and cooperation in connection with the Proceeding as may be reasonably appropriate.

(e) Indemnitee shall not enter into any settlement in connection with a Proceeding (or any part thereof) without ten days prior written notice to the Company.

(f) The Company shall not settle any Proceeding (or any part thereof) without Indemnitee's prior written consent, to the extent that such settlement imposes any liability directly upon Indemnitee.

10. Procedures upon Application for Indemnification.

(a) To obtain indemnification, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and as is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of the Proceeding. The Company shall, as soon as reasonably practicable after receipt of such a request for indemnification, advise the board of directors that Indemnitee has requested indemnification. Any delay in providing the request will not relieve the Company from its obligations under this Agreement, except to the extent such failure is prejudicial.

(b) Upon written request by Indemnitee for indemnification pursuant to Section 10(a), a determination with respect to Indemnitee's entitlement thereto shall be made in the specific case (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Company's board of directors, a copy of which shall be delivered to Indemnitee or (ii) if a Change in Control shall not have occurred, (A) by a majority vote of the Disinterested Directors, even though less than a quorum of the Company's board of directors, (B) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum of the Company's board of directors, (C) if there are no such Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Company's board of directors, a copy of which shall be delivered to Indemnitee or (D) if so directed by the Company's board of directors, by the stockholders of the Company. If it is determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten days after such determination. Indemnitee shall cooperate with the person, persons or entity making the determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information that is not privileged or otherwise protected from disclosure and that is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) reasonably incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company, to the extent permitted by applicable law.

(c) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 10(b), the Independent Counsel shall be selected as provided in this Section 10(c). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Company's board of directors, and the Company shall give written notice to Indemnitee advising him or her of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Company's board of directors, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within ten days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; *provided, however*, that such

objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 1 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after the later of (i) submission by Indemnitee of a written request for indemnification pursuant to Section 10(a) hereof and (ii) the final disposition of the Proceeding, the parties have not agreed upon an Independent Counsel, either the Company or Indemnitee may petition a court of competent jurisdiction for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 10(b) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 12(a) of this Agreement, the Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(d) The Company agrees to pay the reasonable fees and expenses of any Independent Counsel and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

11. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall, to the fullest extent not prohibited by law, presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a) of this Agreement, and the Company shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption in connection with the making by such person, persons or entity of any determination contrary to that presumption.

(b) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(c) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith to the extent Indemnitee relied in good faith on (i) the records or books of account of the Enterprise, including financial statements (except that this shall not apply to the extent that the Indemnitee participated in the creating of such financial statements or otherwise certified their completeness and/or veracity), (ii) information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, (iii) the advice of legal counsel for the Enterprise or its board of directors or counsel selected by any committee of the board of directors or (iv) information or records given or reports made to the Enterprise by an independent certified public accountant, an appraiser, investment banker or other expert selected with reasonable care by the Enterprise or its board of directors or any committee of the board of directors. The provisions of this Section 11(c) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(d) Neither the knowledge, actions nor failure to act of any other director, officer, agent or employee of the Enterprise shall be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

12. Remedies of Indemnitee.

(a) Subject to Section 12(e), in the event that (i) a determination is made pursuant to Section 10 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 8 or 12(d) of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10 of this Agreement within 90 days after the later of the receipt by the Company of the request for indemnification or the final disposition of the Proceeding, (iv) payment of indemnification pursuant to this Agreement is not made (A) within ten days after a determination has been made that Indemnitee is entitled to indemnification or (B) with respect to indemnification pursuant to Sections 4, 5 and 12(d) of this Agreement, within 30 days after receipt by the Company of a written request therefor, or (v) the Company or any other person or entity takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, Indemnitee the benefits provided or intended to be provided to Indemnitee hereunder, Indemnitee shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at his or her option, may seek an award in arbitration with respect to his or her entitlement to such indemnification or advancement of Expenses, to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 12(a); *provided, however*, that the foregoing clause shall not apply in respect of a proceeding brought by Indemnitee to enforce his or her rights under Section 4 of this Agreement. The Company shall not oppose Indemnitee's right to seek any such adjudication or an award in arbitration in accordance with this Agreement.

(b) Neither (i) the failure of the Company, its board of directors, any committee or subgroup of the board of directors, Independent Counsel or stockholders to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor (ii) an actual determination by the Company, its board of directors, any committee or subgroup of the board of directors, Independent Counsel or stockholders that Indemnitee has not met the applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has or has not met the applicable standard of conduct. In the event that a determination shall have been made pursuant to Section 10 of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 12 shall be conducted in all respects as a *de novo* trial, or arbitration, on the merits, and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 12, the Company shall, to the fullest extent not prohibited by law, have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) To the fullest extent not prohibited by law, the Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this

Agreement. If a determination shall have been made pursuant to Section 10 of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statements not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) To the extent not prohibited by law, the Company shall indemnify Indemnitee against all Expenses that are incurred by Indemnitee in connection with any action for indemnification or advancement of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company to the extent Indemnitee is successful in such action, and, if requested by Indemnitee, shall (as soon as reasonably practicable, but in any event no later than 60 days, after receipt by the Company of a written request therefor) advance such Expenses to Indemnitee, subject to the provisions of Section 8.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification shall be required to be made prior to the final disposition of the Proceeding.

13. **Non-exclusivity.** The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Company's certificate of incorporation or bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Company's certificate of incorporation and bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change, subject to the restrictions expressly set forth herein or therein. Except as expressly set forth herein, no right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. Except as expressly set forth herein, the assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

14. **[Primary Responsibility.** The Company acknowledges that Indemnitee has certain rights to indemnification and advancement of expenses provided by *[insert name of fund]* (the "**Secondary Indemnitor**"). The Company agrees that, as between the Company and the Secondary Indemnitor, the Company is primarily responsible for amounts required to be indemnified or advanced under the Company's certificate of incorporation or bylaws or this Agreement and any obligation of the Secondary Indemnitor to provide indemnification or advancement for the same amounts is secondary to those Company obligations. To the extent not in contravention of any insurance policy or policies providing liability or other insurance for the Company or any director, trustee, general partner, managing member, officer, employee, agent or fiduciary of the Company or any other Enterprise, the Company waives any right of contribution or subrogation against the Secondary Indemnitor with respect to the liabilities for which the Company is primarily responsible under this Section 14. In the event of any payment by the Secondary Indemnitor of amounts otherwise required to be indemnified or advanced by the Company under the Company's certificate of incorporation or bylaws or this Agreement, the Secondary Indemnitor shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee for indemnification or advancement of expenses under the Company's certificate of incorporation or bylaws or this Agreement or, to the extent such subrogation is unavailable and contribution is found to be the applicable remedy, shall have a right of contribution with respect to the amounts paid. The Secondary Indemnitor is an express third-party beneficiary of the terms of this Section 14.]

15. **No Duplication of Payments.** [Except as provided in Section 14, t][T]he Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received payment for such amounts under any insurance policy, contract, agreement or otherwise.

16. **Insurance.** To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, trustees, general partners, managing members, officers, employees, agents or fiduciaries of the Company or any other Enterprise, Indemnitee shall be covered by such policy or policies to the same extent as the most favorably-insured persons under such policy or policies in a comparable position.

17. **Subrogation.** [Except as provided in Section 14, i] [I]n the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

18. **Services to the Company.** Indemnitee agrees to serve as a director or officer of the Company or, at the request of the Company, as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of another Enterprise, for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders his or her resignation or is removed from such position. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in such position. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries or any Enterprise) and Indemnitee. Indemnitee specifically acknowledges that any employment with the Company (or any of its subsidiaries or any Enterprise) is at will, and Indemnitee may be discharged at any time for any reason, with or without cause, with or without notice, except as may be otherwise expressly provided in any executed, written employment contract between Indemnitee and the Company (or any of its subsidiaries or any Enterprise), any existing formal severance policies adopted by the Company's board of directors or, with respect to service as a director or officer of the Company, the Company's certificate of incorporation or bylaws or the DGCL. No such document shall be subject to any oral modification thereof.

19. **Duration.** This Agreement shall continue until and terminate upon the later of (a) ten years after the date that Indemnitee shall have ceased to serve as a director or officer of the Company or as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of any other Enterprise, as applicable; or (b) one year after the final termination of any Proceeding, including any appeal, then pending in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement relating thereto.

20. **Successors.** This Agreement shall be binding upon the Company and its successors and assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company, and shall inure to the benefit of Indemnitee and Indemnitee's heirs, executors and administrators. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, by written agreement, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

21. **Severability.** Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order or other applicable law, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (ii) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (iii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

22. **Enforcement.** The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director or officer of the Company.

23. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; *provided, however*, that this Agreement is a supplement to and in furtherance of the Company's certificate of incorporation and bylaws and applicable law.

24. **Modification and Waiver.** No supplement, modification or amendment to this Agreement shall be binding unless executed in writing by the parties hereto. No amendment, alteration or repeal of this Agreement shall adversely affect any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. No waiver of any of the provisions of this Agreement shall constitute or be deemed a waiver of any other provision of this Agreement nor shall any waiver constitute a continuing waiver.

25. **Notices.** All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by facsimile or electronic mail or otherwise delivered by hand, messenger or courier service addressed:

(a) if to Indemnitee, to Indemnitee's address, facsimile number or electronic mail address as shown on the signature page of this Agreement or in the Company's records, as may be updated in accordance with the provisions hereof; or

(b) if to the Company, to the attention of the Chief Executive Officer or Chief Financial Officer of the Company at 3300 Olcott Street, Santa Clara, California 95054, or at such other current address as the Company shall have furnished to Indemnitee, with a copy (which shall not constitute notice) to Jeffrey D. Saper, Esq., Wilson Sonsini Goodrich & Rosati, P.C., 650 Page Mill Road, Palo Alto, California 94304.

Each such notice or other communication shall for all purposes of this Agreement be treated as effective or having been given (i) if delivered by hand, messenger or courier service, when delivered (or if sent *via* a nationally-recognized overnight courier service, freight prepaid, specifying next-business-day delivery, one business day after deposit with the courier), or (ii) if sent *via* mail, at the earlier of its receipt or five days after the same has been deposited in a regularly-maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid, or (iii) if sent *via* facsimile, upon confirmation of facsimile transfer or, if sent *via* electronic mail, upon confirmation of delivery when directed to the relevant electronic mail address, if sent during normal business hours of the recipient, or if not sent during normal business hours of the recipient, then on the recipient's next business day.

26. **Applicable Law and Consent to Jurisdiction.** This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 12(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court of Chancery, and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court of Chancery for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) appoint, to the extent such party is not otherwise subject to service of process in the State of Delaware, The Corporation Trust Company, Wilmington, Delaware as its agent in the State of Delaware as such party's agent for acceptance of legal process in connection with any such action or proceeding against such party with the same legal force and validity as if served upon such party personally within the State of Delaware, (iv) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court of Chancery, and (v) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court of Chancery has been brought in an improper or inconvenient forum.

27. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. This Agreement may also be executed and delivered by facsimile signature and in counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

28. **Captions.** The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

(signature page follows)

The parties are signing this Indemnification Agreement as of the date stated in the introductory sentence.

PALO ALTO NETWORKS, INC.

(Signature)

(Print name)

(Title)

[INSERT INDEMNITEE NAME]

(Signature)

(Print name)

(Street address)

(City, State and ZIP)

(Signature page to Indemnification Agreement)

PALO ALTO NETWORKS, INC.
2005 EQUITY INCENTIVE PLAN
As Adopted on April 8, 2005
(and amended through June 5, 2012)

1. PURPOSE. The purpose of this Plan is to provide incentives to attract, retain and motivate eligible persons whose present and potential contributions are important to the success of the Company, its Parent and Subsidiaries, by offering them an opportunity to participate in the Company's future performance through awards of Options and Restricted Stock. Capitalized terms not defined in the text are defined in Section 22 hereof. Although this Plan is intended to be a written compensatory benefit plan within the meaning of Rule 701 promulgated under the Securities Act, grants may be made pursuant to this Plan that do not qualify for exemption under Rule 701 or Section 25102(o) of the California Corporations Code ("**Section 25102(o)**"). Any requirement of this Plan that is required in law only because of Section 25102(o) need not apply if the Committee so provides.

2. SHARES SUBJECT TO THE PLAN.

2.1 Number of Shares Available. Subject to Sections 2.2 and 17 hereof, the total number of Shares reserved and available for grant and issuance pursuant to this Plan will be 27,252,434 Shares. Subject to Sections 2.2, 5.10 and 17 hereof, Shares subject to Awards previously granted will again be available for grant and issuance in connection with future Awards under this Plan to the extent such Shares: (i) cease to be subject to issuance upon exercise of an Option, other than due to exercise of such Option; (ii) are subject to an Award granted hereunder but the Shares subject to such Award are forfeited or repurchased by the Company at the original issue price; or (iii) are subject to an Award that otherwise terminates without Shares being issued. At all times the Company will reserve and keep available a sufficient number of Shares as will be required to satisfy the requirements of all Awards granted and outstanding under this Plan.

2.2 Adjustment of Shares. In the event that the number of outstanding shares of the Company's Common Stock is changed by a stock dividend, recapitalization, stock split, reverse stock split, subdivision, combination, reclassification or similar change in the capital structure of the Company without consideration, then (i) the number of Shares reserved for issuance under this Plan, (ii) the Exercise Prices of and number of Shares subject to outstanding Options and (iii) the Purchase Prices of and number of Shares subject to other outstanding Awards will be proportionately adjusted, subject to any required action by the Board or the stockholders of the Company and compliance with applicable securities laws; provided, however, that fractions of a Share will not be issued but will either be paid in cash at the Fair Market Value of such fraction of a Share or will be rounded down to the nearest whole Share, as determined by the Committee; and provided, further, that the Exercise Price of any Option may not be decreased to below the par value of the Shares.

3. ELIGIBILITY. The Committee will have the authority to select persons to receive Awards. ISOs (as defined in Section 5 hereof) may be granted only to employees (including officers and directors who are also employees) of the Company or of a Parent or Subsidiary of the Company. NQSOs (as defined in Section 5 hereof) and Restricted Stock

Awards may be granted to employees, officers, directors and consultants of the Company or any Parent or Subsidiary of the Company; provided such consultants render bona fide services not in connection with the offer and sale of securities in a capital-raising transaction when Rule 701 is to apply to the Award granted for such services. A person may be granted more than one Award under this Plan.

4. ADMINISTRATION.

4.1 Committee Authority. This Plan will be administered by the Committee or the Board if no Committee is created by the Board. Subject to the general purposes, terms and conditions of this Plan, and to the direction of the Board, the Committee will have full power to implement and carry out this Plan. Without limitation, the Committee will have the authority to:

(a) construe and interpret this Plan, any Award Agreement and any other agreement or document executed pursuant to this Plan;

(b) prescribe, amend, expand, modify and rescind or terminate rules and regulations relating to this Plan;

(c) approve persons to receive Awards;

(d) determine the form and terms of Awards;

(e) determine the number of Shares or other consideration subject to Awards;

(f) determine whether Awards will be granted singly, in combination with, in tandem with, in replacement of, or as alternatives to, other Awards under this Plan or awards under any other incentive or compensation plan of the Company or any Parent or Subsidiary of the Company;

(g) grant waivers of any conditions of this Plan or any Award;

(h) determine the terms of vesting, exercisability and payment of Awards;

(i) correct any defect, supply any omission, or reconcile any inconsistency in this Plan, any Award, any Award Agreement, any Exercise Agreement or any Restricted Stock Purchase Agreement;

(j) determine whether an Award has been earned;

(k) determine the terms and conditions of any, and to institute any Exchange Program;

(l) make all other determinations necessary or advisable for the administration of this Plan; and

(m) extend the vesting period beyond a Participant's Termination Date.

4.2 Committee Composition Discretion. The Board may delegate full administrative authority over the Plan and Awards to a Committee consisting of at least two members of the Board (or such greater number as may then be required by applicable law). Unless in contravention of any express terms of this Plan or Award, any determination made by the Committee with respect to any Award will be made in its sole discretion either (i) at the time of grant of the Award, or (ii) subject to Section 5.9 hereof, at any later time. Any such determination will be final and binding on the Company and on all persons having an interest in any Award under this Plan. The Committee may delegate to one or more officers of the Company the authority to grant an Award under this Plan, provided such officer or officers are members of the Board.

5. OPTIONS. The Committee may grant Options to eligible persons described in Section 3 hereof and will determine whether such Options will be Incentive Stock Options within the meaning of the Code (“*ISOs*”) or Nonqualified Stock Options (“*NQSOs*”), the number of Shares subject to the Option, the Exercise Price of the Option, the period during which the Option may be exercised, and all other terms and conditions of the Option, subject to the following:

5.1 Form of Option Grant. Each Option granted under this Plan will be evidenced by an Award Agreement which will expressly identify the Option as an ISO or an NQSO (“*Stock Option Agreement*”), and will be in such form and contain such provisions (which need not be the same for each Participant) as the Committee may from time to time approve, and which will comply with and be subject to the terms and conditions of this Plan.

5.2 Date of Grant. The date of grant of an Option will be the date on which the Committee makes the determination to grant such Option, unless a later date is otherwise specified by the Committee. The Stock Option Agreement and a copy of this Plan will be delivered to the Participant within a reasonable time after the granting of the Option.

5.3 Exercise Period. Options may be exercisable immediately but subject to repurchase pursuant to Section 10 hereof or may be exercisable within the times or upon the events determined by the Committee as set forth in the Stock Option Agreement governing such Option; provided, however, that no Option will be exercisable after the expiration of ten (10) years from the date the Option is granted; and provided further that no ISO granted to a person who directly or by attribution owns more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Parent or Subsidiary of the Company (“*Ten Percent Shareholder*”) will be exercisable after the expiration of five (5) years from the date the ISO is granted. The Committee also may provide for Options to become exercisable at one time or from time to time, periodically or otherwise, in such number of Shares or percentage of Shares as the Committee determines.

5.4 Exercise Price. The Exercise Price of an Option will be determined by the Committee when the Option is granted and shall not be less than the Fair Market Value per share unless expressly determined in writing by the Committee on the Option’s date of grant; provided that the Exercise Price of an ISO granted to a Ten Percent Shareholder will not be less than one hundred ten percent (110%) of the Fair Market Value of the Shares on the date of grant. Payment for the Shares purchased must be made in accordance with Section 7 hereof.

5.5 Method of Exercise. Options may be exercised only by delivery to the Company of a written stock option exercise agreement (the “*Exercise Agreement*”) in a form approved by the Committee (which need not be the same for each Participant). The Exercise Agreement will state (i) the number of Shares being purchased, (ii) the restrictions imposed on the Shares purchased under such Exercise Agreement, if any, and (iii) such representations and agreements regarding Participant’s investment intent and access to information and other matters, if any, as may be required or desirable by the Company to comply with applicable securities laws. Each Participant’s Exercise Agreement may be modified by (i) agreement of Participant and the Company or (ii) substitution by the Company, upon becoming a public company, in order to add the payment terms set forth in Section 9.1 that apply to a public company and such other terms as shall be necessary or advisable in order to exercise a public company option. Upon exercise of an Option, Participant shall execute and deliver to the Company the Exercise Agreement together with payment in full of the Exercise Price, and any applicable taxes, for the number of Shares being purchased.

5.6 Termination. Subject to earlier termination pursuant to Sections 17 and 18 hereof and notwithstanding the exercise periods set forth in the Stock Option Agreement, exercise of an Option will always be subject to the following terms and conditions:

(a) If the Participant is Terminated for any reason other than death, Disability or for Cause, then the Participant may exercise such Participant’s Options only to the extent that such Options are exercisable as to Vested Shares upon the Termination Date or as otherwise determined by the Committee. Such Options must be exercised by the Participant, if at all, as to all or some of the Vested Shares calculated as of the Termination Date or such other date determined by the Committee, within three (3) months after the Termination Date (or within such shorter time period, not less than thirty (30) days, or within such longer time period, not exceeding five (5) years, after the Termination Date as may be determined by the Committee, with any exercise beyond three (3) months after the Termination Date deemed to be an NQSO) but in any event, no later than the expiration date of the Options.

(b) If the Participant is Terminated because of Participant’s death or Disability (or the Participant dies within three (3) months after a Termination other than for Cause), then Participant’s Options may be exercised only to the extent that such Options are exercisable as to Vested Shares by Participant on the Termination Date or as otherwise determined by the Committee. Such options must be exercised by Participant (or Participant’s legal representative or authorized assignee), if at all, as to all or some of the Vested Shares calculated as of the Termination Date or such other date determined by the Committee, within twelve (12) months after the Termination Date (or within such shorter time period, not less than six (6) months, or within such longer time period, not exceeding five (5) years, after the Termination Date as may be determined by the Committee, with any exercise beyond (i) three (3) months after the Termination Date when the Termination is for any reason other than the Participant’s death or disability, within the meaning of Section 22(e)(3) of the Code, or (ii) twelve (12) months after the Termination Date when the Termination is for Participant’s disability, within the meaning of Section 22(e)(3) of the Code, deemed to be an NQSO) but in any event no later than the expiration date of the Options.

(c) If the Participant is terminated for Cause, the Participant may exercise such Participant’s Options, but not to an extent greater than such Options are exercisable as to Vested Shares upon the Termination Date and Participant’s Options shall expire on such Participant’s Termination Date, or at such later time and on such conditions as are determined by the Committee.

5.7 Limitations on Exercise. The Committee may specify a reasonable minimum number of Shares that may be purchased on any exercise of an Option, provided that such minimum number will not prevent Participant from exercising the Option for the full number of Shares for which it is then exercisable.

5.8 Limitations on ISOs. The aggregate Fair Market Value (determined as of the date of grant) of Shares with respect to which ISOs are exercisable for the first time by a Participant during any calendar year (under this Plan or under any other incentive stock option plan of the Company or any Parent or Subsidiary of the Company) will not exceed One Hundred Thousand Dollars (\$100,000). If the Fair Market Value of Shares on the date of grant with respect to which ISOs are exercisable for the first time by a Participant during any calendar year exceeds One Hundred Thousand Dollars (\$100,000), then the Options for the first One Hundred Thousand Dollars (\$100,000) worth of Shares to become exercisable in such calendar year will be ISOs and the Options for the amount in excess of One Hundred Thousand Dollars (\$100,000) that become exercisable in that calendar year will be NQSOs. In the event that the Code or the regulations promulgated thereunder are amended after the Effective Date (as defined in Section 18 hereof) to provide for a different limit on the Fair Market Value of Shares permitted to be subject to ISOs, then such different limit will be automatically incorporated herein and will apply to any Options granted after the effective date of such amendment.

5.9 Modification, Extension or Renewal. The Committee may modify, extend or renew outstanding Options and authorize the grant of new Options in substitution therefor, provided that any such action may not, without the written consent of a Participant, impair any of such Participant's rights under any Option previously granted. Any outstanding ISO that is modified, extended, renewed or otherwise altered will be treated in accordance with Section 424(h) of the Code. Subject to Section 5.10 hereof, the Committee may reduce the Exercise Price of outstanding Options without the consent of Participants by a written notice to them; provided, however, that the Exercise Price may not be reduced below the minimum Exercise Price that would be permitted under Section 5.4 hereof for Options granted on the date the action is taken to reduce the Exercise Price; provided, further, that the Exercise Price will not be reduced below the par value of the Shares, if any.

5.10 No Disqualification. Notwithstanding any other provision in this Plan, no term of this Plan relating to ISOs will be interpreted, amended or altered, nor will any discretion or authority granted under this Plan be exercised, so as to disqualify this Plan under Section 422 of the Code or, without the consent of the Participant, to disqualify any Participant's ISO under Section 422 of the Code. In no event shall the total number of Shares issued (counting each reissuance of a Share that was previously issued and then forfeited or repurchased by the Company as a separate issuance) under the Plan upon exercise of ISOs exceed 60,000,000 Shares (adjusted in proportion to any adjustments under Section 2.2 hereof) over the term of the Plan.

5.11 Information to Optionees. If the Company is relying on the exemption from registration under Section 12(g) of the Exchange Act pursuant to Rule 12h-1(f)(1) promulgated under the Exchange Act, then the Company shall provide the Required Information (as defined below) in the manner required by Rule 12h-1(f)(1) to all optionees every six months until the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the

Exchange Act or is no longer relying on the exemption pursuant to Rule 12h-1(f)(1); provided, that, prior to receiving access to the Required Information the optionee must agree to keep the Required Information confidential pursuant to a written agreement in the form provided by the Company. For purposes of this Section 5.11, "Required Information" means the information described in Rules 701(e)(3), (4) and (5) under the Securities Act, with the financial statements being not more than 180 days old.

6. RESTRICTED STOCK. A Restricted Stock Award is an offer by the Company to sell to an eligible person Shares that are subject to certain specified restrictions. The Committee will determine to whom an offer will be made, the number of Shares the person may purchase, the Purchase Price, the restrictions to which the Shares will be subject, and all other terms and conditions of the Restricted Stock Award, subject to the following:

6.1 Form of Restricted Stock Award. All purchases under a Restricted Stock Award made pursuant to this Plan will be evidenced by an Award Agreement ("**Restricted Stock Purchase Agreement**") that will be in such form (which need not be the same for each Participant) as the Committee will from time to time approve, and will comply with and be subject to the terms and conditions of this Plan. The Restricted Stock Award will be accepted by the Participant's execution and delivery of the Restricted Stock Purchase Agreement and full payment for the Shares to the Company within thirty (30) days from the date the Restricted Stock Purchase Agreement is delivered to the person. If such person does not execute and deliver the Restricted Stock Purchase Agreement along with full payment for the Shares to the Company within such thirty (30) days, then the offer will terminate, unless otherwise determined by the Committee.

6.2 Purchase Price. The Purchase Price of Shares sold pursuant to a Restricted Stock Award will be determined by the Committee on the date the Restricted Stock Award is granted or at the time the purchase is consummated. Payment of the Purchase Price must be made in accordance with Section 7 hereof.

6.3 Restrictions. Restricted Stock Awards may be subject to the restrictions set forth in Section 10 hereof or such other restrictions not inconsistent with Section 25102(o).

7. PAYMENT FOR SHARE PURCHASES.

7.1 Payment. Payment for Shares purchased pursuant to this Plan may be made in cash (by check) or, where expressly approved for the Participant by the Committee and where permitted by law:

(a) by cancellation of indebtedness of the Company owed to the Participant;

(b) by surrender of shares of the Company that: (i) either (A) for which the Company has received "full payment of the purchase price" within the meaning of SEC Rule 144 (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares) or (B) were obtained by Participant in the public market and (ii) are clear of all liens, claims, encumbrances or security interests;

(c) by tender of a full recourse promissory note having such terms as may be approved by the Committee and bearing interest at a rate sufficient to avoid imputation of income under Sections 483 and 1274 of the Code; provided, however, that Participants who are not employees or directors of the Company will not be entitled to purchase Shares with a promissory note unless the note is adequately secured by collateral other than the Shares; provided, further, that the portion of the Exercise Price or Purchase Price, as the case may be, equal to the par value of the Shares must be paid in cash or other legal consideration permitted by Delaware General Corporation Law;

(d) by waiver of compensation due or accrued to the Participant from the Company for services rendered;

(e) by participating in a formal cashless exercise program implemented by the Committee in connection with the Plan;

(f) subject to compliance with applicable law and solely in the discretion of the Committee by exercising as set forth below:

(i) through a “same day sale” commitment from the Participant and a broker-dealer, whereby the Participant irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased sufficient to pay the total Exercise Price, and whereby the broker-dealer irrevocably commits upon receipt of such Shares to forward the total Exercise Price directly to the Company; or

(ii) through a “margin” commitment from the Participant and a broker-dealer whereby the Participant irrevocably elects to exercise the Option and to pledge the Shares so purchased to the Dealer in a margin account as security for a loan from the broker-dealer in the amount of the total Exercise Price, and whereby the broker-dealer irrevocably commits upon receipt of such Shares to forward the total Exercise Price directly to the Company; or

(g) by any combination of the foregoing or any other method of payment approved by the Committee.

7.2 Loan Guarantees. The Committee may, in its sole discretion, elect to assist the Participant in paying for Shares purchased under this Plan by authorizing a guarantee by the Company of a third-party loan to the Participant.

8. WITHHOLDING TAXES.

8.1 Withholding Generally. Whenever Shares are to be issued in satisfaction of Awards granted under this Plan, the Company may require the Participant to remit to the Company an amount sufficient to satisfy applicable tax withholding requirements prior to the delivery of any certificate or certificates for such Shares. Whenever, under this Plan, payments in satisfaction of Awards are to be made in cash by the Company, such payment will be net of an amount sufficient to satisfy applicable tax withholding requirements.

8.2 Stock Withholding. When, under applicable tax laws, a Participant incurs tax liability in connection with the exercise or vesting of any Award that is subject to tax withholding and the Participant is obligated to pay the Company the amount required to be

withheld, the Committee may in its sole discretion allow the Participant to satisfy the minimum withholding tax obligation by electing to have the Company withhold from the Shares to be issued up to minimum number of Shares having a Fair Market Value on the date that the amount of tax to be withheld is to be determined that is not more than the minimum amount to be withheld; but in no event will the Company withhold Shares if such withholding would result in adverse accounting consequences to the Company. All elections by a Participant to have Shares withheld for this purpose will be made in accordance with the requirements established by the Committee for such elections and be in writing in a form acceptable to the Committee.

9. PRIVILEGES OF STOCK OWNERSHIP. No Participant will have any of the rights of a shareholder with respect to any Shares until the Shares are issued to the Participant. After Shares are issued to the Participant, the Participant will be a shareholder and have all the rights of a shareholder with respect to such Shares, including the right to vote and receive all dividends or other distributions made or paid with respect to such Shares; provided, that if such Shares are Restricted Stock, then any new, additional or different securities the Participant may become entitled to receive with respect to such Shares by virtue of a stock dividend, stock split or any other change in the corporate or capital structure of the Company will be subject to the same restrictions as the Restricted Stock. The Participant will have no right to retain such stock dividends or stock distributions with respect to Unvested Shares that are repurchased pursuant to Section 101 hereof.

10. TRANSFERABILITY. Awards granted under this Plan, and any interest therein, will not be transferable or assignable by Participant, other than by will or by the laws of descent and distribution, and, with respect to NQSOs, by instrument to an inter vivos or testamentary trust in which the NQSOs are to be passed to beneficiaries upon the death of the trustor (settlor), or by gift to "family member" as that term is defined in Rule 701, and may not be made subject to execution, attachment or similar process. For the avoidance of doubt, the prohibition against assignment and transfer applies to a stock option and, prior to exercise, the shares to be issued on exercise of a stock option, and pursuant to the foregoing sentence shall be understood to include, without limitation, a prohibition against any pledge, hypothecation, or other transfer, including any short position, any "put equivalent position" or any "call equivalent position" (in each case, as defined in Rule 16a-1 promulgated under the Exchange Act). During the lifetime of the Participant an Award will be exercisable only by the Participant or Participant's legal representative and any elections with respect to an Award may be made only by the Participant or Participant's legal representative. The terms of an Option shall be binding upon the executor, administrator, successors and assigns of the Participant who is a party thereto.

11. RESTRICTIONS ON SHARES.

11.1 Right of First Refusal. At the discretion of the Committee, the Company may reserve to itself and/or its assignee(s) in the Award Agreement a right of first refusal to purchase all Shares that a Participant (or a subsequent transferee) may propose to transfer to a third party, provided that such right of first refusal terminates upon the Company's initial public offering of Common Stock pursuant to an effective registration statement filed under the Securities Act.

11.2 Right of Repurchase. At the discretion of the Committee, the Company may reserve to itself and/or its assignee(s) in the Award Agreement a right to repurchase Unvested Shares held by a Participant for cash and/or cancellation of purchase money indebtedness owed to the Company by the Participant following such Participant's Termination at any time.

12. CERTIFICATES. All certificates for Shares or other securities delivered under this Plan will be subject to such stock transfer orders, legends and other restrictions as the Committee may deem necessary or advisable, including restrictions under any applicable federal, state or foreign securities law, or any rules, regulations and other requirements of the SEC or any stock exchange or automated quotation system upon which the Shares may be listed or quoted.

13. ESCROW; PLEDGE OF SHARES. To enforce any restrictions on a Participant's Shares set forth in Section 11 hereof, the Committee may require the Participant to deposit all certificates representing Shares, together with stock powers or other instruments of transfer approved by the Committee, appropriately endorsed in blank, with the Company or an agent designated by the Company to hold in escrow until such restrictions have lapsed or terminated. The Committee may cause a legend or legends referencing such restrictions to be placed on the certificates. Any Participant who is permitted to execute a promissory note as partial or full consideration for the purchase of Shares under this Plan will be required to pledge and deposit with the Company all or part of the Shares so purchased as collateral to secure the payment of Participant's obligation to the Company under the promissory note; provided, however, that the Committee may require or accept other or additional forms of collateral to secure the payment of such obligation and, in any event, the Company will have full recourse against the Participant under the promissory note notwithstanding any pledge of the Participant's Shares or other collateral. In connection with any pledge of the Shares, Participant will be required to execute and deliver a written pledge agreement in such form as the Committee will from time to time approve. The Shares purchased with the promissory note may be released from the pledge on a pro rata basis as the promissory note is paid.

14. EXCHANGE AND BUYOUT OF AWARDS. The Committee may, at any time or from time to time, determine the terms and conditions of any, and institute any Exchange Program.

15. SECURITIES LAW AND OTHER REGULATORY COMPLIANCE. Although this Plan is intended to be a written compensatory benefit plan within the meaning of Rule 701 promulgated under the Securities Act, grants may be made pursuant to this plan that do not qualify for exemption under Rule 701 or Section 25102(o). Any requirement of this Plan which is required in law only because of Section 25102(o) need not apply with respect to a particular Award to which Section 25102(o) will not apply. An Award will not be effective unless such Award is in compliance with all applicable federal and state securities laws, rules and regulations of any governmental body, and the requirements of any stock exchange or automated quotation system upon which the Shares may then be listed or quoted, as they are in effect on the date of grant of the Award and also on the date of exercise or other issuance. Notwithstanding any other provision in this Plan, the Company will have no obligation to issue or deliver certificates for Shares under this Plan prior to (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable, and/or (b) compliance with any exemption, completion of any registration or other qualification of such Shares under any state or federal law or ruling of any governmental body that the Company determines to be necessary or advisable. The Company will be under no obligation to register the Shares with the SEC or to effect compliance with the exemption, registration, qualification or listing requirements of any state securities laws, stock exchange or automated quotation system, and the Company will have no liability for any inability or failure to do so.

16. NO OBLIGATION TO EMPLOY. Nothing in this Plan or any Award granted under this Plan will confer or be deemed to confer on any Participant any right to continue in the employ of, or to continue any other relationship with, the Company or any Parent or Subsidiary of the Company or limit in any way the right of the Company or any Parent or Subsidiary to terminate Participant's employment or other relationship at any time, with or without Cause.

17. CORPORATE TRANSACTIONS.

17.1 Assumption or Replacement of Awards by Successor or Acquiring Company. In the event of (i) a dissolution or liquidation of the Company, (ii) a merger or consolidation in which the Company is not the surviving corporation (other than a merger or consolidation with a wholly-owned subsidiary, a reincorporation of the Company in a different jurisdiction, or other transaction in which there is no substantial change in the stockholders of the Company or their relative stock holdings and the Awards granted under this Plan are assumed, converted or replaced by the successor or acquiring entity, which assumption, conversion or replacement will be binding on all Participants), (iii) a merger in which the Company is the surviving corporation but after which the stockholders of the Company immediately prior to such merger (other than any stockholder which merges with the Company in such merger, or which owns or controls another entity which merges with the Company in such merger) cease to own their shares or other equity interests in the Company, or (iv) the sale of all or substantially all of the assets ("**Sale of Assets**") of the Company (each of (i), (ii), (iii) and (iv), a Corporate Transaction), any or all outstanding Awards may be assumed, converted or replaced by the successor or acquiring entity (if any), which assumption, conversion or replacement will be binding on all Participants. In the alternative, the successor or acquiring entity may substitute equivalent Awards or provide substantially similar consideration to Participants in respect of their outstanding Awards as was provided to stockholders of the Company in the Corporate Transaction after taking into account the existing provisions of the Awards (except that the exercise price and the number and nature of shares issuable upon exercise of any such option or stock appreciation right, or any award that is subject to Section 409A of the Code, will be adjusted appropriately pursuant to Section 424(a) of the Code). The successor or acquiring entity may also substitute by issuing, in place of any Award of outstanding Shares of the Company held by a Participant, substantially similar shares of stock or other property subject to repurchase restrictions and other provisions no less favorable to such Participant than those which applied to such outstanding Shares immediately prior to such Corporate Transaction. In the event neither the successor or acquiring entity (if any), nor any Parent (if any) of such successor or acquiring entity assumes, converts, replaces or substitutes Awards, as provided above, pursuant to a Corporate Transaction, then notwithstanding any other provision in this Plan to the contrary, the vesting of such Awards will accelerate and the Options will become exercisable in full prior to the consummation of such Corporate Transaction at such times and on such conditions as the Committee determines, and if such Options are not exercised prior to the consummation of the Corporate Transaction, unless otherwise approved by the Committee or otherwise required by the terms of any Award Agreement or any separate written agreement governing such Award that has been approved by the Board, each such Award that has not already terminated in accordance with the Plan or the applicable Award Agreement shall terminate immediately prior to the consummation of such Corporate Transaction (or, if such Corporate Transaction is a Sale of Assets, immediately prior to the Company's distribution of any funds or assets to the Company's stockholders following such Sale of Assets) at such time and upon such conditions as the Committee may determine.

17.2 Other Treatment of Awards. Subject to any greater rights granted to Participants under the foregoing provisions of this Section 17, in the event of the occurrence of any Corporate Transaction, any outstanding Awards will be treated as provided in the applicable agreement or plan of reorganization, merger, consolidation, dissolution, liquidation or sale of assets.

17.3 Assumption of Awards by the Company. The Company, from time to time, also may substitute or assume outstanding awards granted by another entity, whether in connection with an acquisition of such other entity or otherwise, by either (i) granting an Award under this Plan in substitution of such other entity's award or (ii) assuming such award as if it had been granted under this Plan if the terms of such assumed award could be applied to an Award granted under this Plan. Such substitution or assumption will be permissible if the holder of the substituted or assumed award would have been eligible to be granted an Award under this Plan if the other entity had applied the rules of this Plan to such grant. In the event the Company assumes an award granted by another entity, the terms and conditions of such award will remain unchanged (except that the exercise price and the number and nature of shares issuable upon exercise of any such option will be adjusted appropriately pursuant to Section 424(a) of the Code). In the event the Company elects to grant a new Option rather than assuming an existing option, such new Option may be granted with a similarly adjusted Exercise Price.

18. ADOPTION AND STOCKHOLDER APPROVAL. This Plan will become effective on the date that it is adopted by the Board (the "*Effective Date*"). This Plan will be approved by the stockholders of the Company (excluding Shares issued pursuant to this Plan), consistent with applicable laws, within twelve (12) months before or after the Effective Date.

19. TERM OF PLAN/GOVERNING LAW. Unless earlier terminated as provided herein, this Plan will terminate ten (10) years from the Effective Date or, if earlier, the date of stockholder approval. This Plan and all agreements hereunder shall be governed by and construed in accordance with the laws of the State of California, without giving effect to that body of laws pertaining to conflict of laws.

20. AMENDMENT OR TERMINATION OF PLAN. Subject to Section 5.9 hereof, the Board may at any time terminate or amend this Plan in any respect, including without limitation amendment of any form of Award Agreement or instrument to be executed pursuant to this Plan; provided, however, that the Board will not, without the approval of the stockholders of the Company, amend this Plan in any manner that requires such stockholder approval pursuant to Section 25102(o) or pursuant to the Code or the regulations promulgated thereunder as such provisions apply to ISO plans.

21. NONEXCLUSIVITY OF THE PLAN. Neither the adoption of this Plan by the Board, the submission of this Plan to the stockholders of the Company for approval, nor any provision of this Plan will be construed as creating any limitations on the power of the Board to adopt such additional compensation arrangements as it may deem desirable, including, without limitation, the granting of stock options and other equity awards otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

22. DEFINITIONS. As used in this Plan, the following terms will have the following meanings:

“**Award**” means any award under this Plan, including any Option or Restricted Stock Award.

“**Award Agreement**” means, with respect to each Award, the signed written agreement between the Company and the Participant setting forth the terms and conditions of the Award, including the Stock Option Agreement and Restricted Stock Agreement.

“**Board**” means the Board of Directors of the Company.

“**Cause**” means Termination because of (i) any willful, material violation by the Participant of any law or regulation applicable to the business of the Company or a Parent or Subsidiary of the Company, the Participant’s conviction for, or guilty plea to, a felony or a crime involving moral turpitude, or any willful perpetration by the Participant of a common law fraud, (ii) the Participant’s commission of an act of personal dishonesty which involves personal profit in connection with the Company or any other entity having a business relationship with the Company, (iii) any material breach by the Participant of any provision of any agreement or understanding between the Company or any Parent or Subsidiary of the Company and the Participant regarding the terms of the Participant’s service as an employee, officer, director or consultant to the Company or a Parent or Subsidiary of the Company, including without limitation, the willful and continued failure or refusal of the Participant to perform the material duties required of such Participant as an employee, officer, director or consultant of the Company or a Parent or Subsidiary of the Company, other than as a result of having a Disability, or a breach of any applicable invention assignment and confidentiality agreement or similar agreement between the Company or a Parent or Subsidiary of the Company and the Participant, (iv) Participant’s disregard of the policies of the Company or any Parent or Subsidiary of the Company so as to cause loss, damage or injury to the property, reputation or employees of the Company or a Parent or Subsidiary of the Company, or (v) any other misconduct by the Participant which is materially injurious to the financial condition or business reputation of, or is otherwise materially injurious to, the Company or a Parent or Subsidiary of the Company.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Committee**” means the committee created and appointed by the Board to administer this Plan, or if no committee is created and appointed, the Board.

“**Company**” means Palo Alto Networks, Inc., or any successor corporation.

“**Disability**” means a disability, whether temporary or permanent, partial or total, as determined by the Committee.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Exercise Price**” means the price at which a holder of an Option may purchase the Shares issuable upon exercise of the Option.

“**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 Committee, and/or (iii) the exercise price of an outstanding Award is increased or reduced. The Committee will determine the terms and conditions of any Exchange Program in its sole discretion.

“Fair Market Value” means, as of any date, the value of a share of the Company’s Common Stock determined as follows:

(a) if such Common Stock is then publicly traded on a national securities exchange, its closing price on the date of determination on the principal national securities exchange on which the Common Stock is listed or admitted to trading as reported in The Wall Street Journal;

(b) if such Common Stock is publicly traded but is not quoted on the Nasdaq National Market nor listed or admitted to trading on a national securities exchange, the average of the closing bid and asked prices on the date of determination as reported by The Wall Street Journal (or, if not so reported, as otherwise reported by any newspaper or other source as the Committee may determine); or

(c) if neither of the foregoing is applicable to the valuation in question, by the Committee in good faith.

“Option” means an award of an option to purchase Shares pursuant to Section 5 hereof.

“Parent” of a specified entity means, any entity that, either directly or indirectly, owns or controls such specified entity, where for this purpose, “control” means the ownership of stock, securities or other interests that possess at least a majority of the voting power of such specified entity (including indirect ownership or control of such stock, securities or other interests).

“Participant” means a person who receives an Award under this Plan.

“Plan” means this 2005 Equity Incentive Plan, as amended from time to time.

“Purchase Price” means the price at which a Participant may purchase Restricted Stock.

“Restricted Stock” means Shares purchased pursuant to a Restricted Stock Award.

“Restricted Stock Award” means an award of Shares pursuant to Section 6 hereof.

“Rule 701” means Rule 701 et seq promulgated by the SEC under the Securities Act.

“SEC” means the Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“**Shares**” means shares of the Company’s Common Stock, \$0.0001 par value per share, reserved for issuance under this Plan, as adjusted pursuant to Sections 2 and 17 hereof, and any successor security.

“**Subsidiary**” means any entity (other than the Company) in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain owns stock or other equity securities representing fifty percent (50%) or more of the total combined voting power of all classes of stock or other equity securities one of the other entities in such chain.

“**Termination**” or “**Terminated**” means, for purposes of this Plan with respect to a Participant, that the Participant has for any reason ceased to provide services as an employee, officer, director or consultant to the Company or a Parent or Subsidiary of the Company. A Participant will not be deemed to have ceased to provide services in the case of (i) sick leave, (ii) military leave, or (iii) any other leave of absence approved by the Committee, provided that such leave is for a period of not more than ninety (90) days (a) unless reinstatement (or, in the case of an employee with an ISO, reemployment) upon the expiration of such leave is guaranteed by contract or statute, or (b) unless provided otherwise pursuant to formal policy adopted from time to time by the Company’s Board and issued and promulgated in writing. In the case of any Participant on (i) sick leave, (ii) military leave or (iii) an approved leave of absence, the Committee may make such provisions respecting suspension of vesting of the Award while on leave from the Company or a Parent or Subsidiary of the Company as it may deem appropriate, except that in no event may an Option be exercised after the expiration of the term set forth in the Stock Option Agreement. The Committee will have sole discretion to determine whether a Participant has ceased to provide services and the effective date on which the Participant ceased to provide services (the “**Termination Date**”).

“**Unvested Shares**” means “**Unvested Shares**” as defined in the Award Agreement.

“**Vested Shares**” means “**Vested Shares**” as defined in the Award Agreement.

PALO ALTO NETWORKS, INC.

NOTICE OF STOCK OPTION GRANT

You (the "Participant") are hereby granted an option (the "Option") to purchase shares of Common Stock (the "Shares") of Palo Alto Networks, Inc. (the "Company") pursuant to the Company's 2005 Equity Incentive Plan, as may be amended from time to time (the "Plan"), as described below.

Participant:

Pre-split Post-split

Number of Shares:

Exercise Price Per Share:

\$

Date of Grant:

Vesting Start Date:

Option Expiration Date:

The date ten (10) years after the Date of Grant, with earlier expiration in the event of termination of service as provided in Section 3 of the Stock Option Agreement.

Tax Status of Option:

[] Incentive [] Nonqualified (Check one).

(The Option is a nonqualified stock option if neither box is checked).

Vesting Schedule: Provided you continue to provide services to the Company or any Subsidiary or Parent of the Company, the Option will become vested as to portions of the Shares as follows:

- (a) The Option shall not be vested with respect to any of the Shares until the date twelve months after the Vesting Start Date;
(b) The Option will become vested as to 25% of the Shares on that twelve month anniversary of the Vesting Start Date; and
(c) Thereafter, the Option will become vested as to 2.0833% of the Shares at the end of each full month succeeding the twelve month anniversary of the Vesting Start Date until 100% of the Shares are vested.

Additional Terms: [] If this box is checked, the additional terms and conditions set forth on Attachment 1 hereto (which must be executed by the Company and the Participant) are applicable and are incorporated herein by reference. (No document need be attached as Attachment 1 if the box is not checked.)

By their signatures below, the Company and the Participant agree that the Option is granted under and governed by this Notice and by the provisions of the Plan and the Stock Option Agreement attached hereto as Exhibit A. The Plan and the Stock Option Agreement are incorporated herein by reference. Capitalized terms not defined herein shall have the meanings ascribed to them in the Plan or in the Stock Option Agreement, as applicable. The Participant acknowledges receipt of a copy of the Plan and the Stock Option Agreement, represents that the Participant has carefully read and is familiar with their provisions, and hereby accepts the Option subject to all of their terms and conditions. The Participant acknowledges that there may be adverse tax consequences upon exercise of the Option or disposition of the Shares and that Participant should consult a tax adviser prior to such exercise or disposition.

PALO ALTO NETWORKS, INC.

PARTICIPANT

By: _____

Signature _____

Its: _____

ATTACHMENTS: Exhibit A – Stock Option Agreement (with Stock Option Exercise Agreement attached thereto) Attachment 1 (if applicable) – Additional terms and conditions

PALO ALTO NETWORKS, INC.
2005 EQUITY INCENTIVE PLAN
STOCK OPTION AGREEMENT
(Early Exercise)

Palo Alto Networks, Inc. hereby grants to the Participant an option under the Plan to purchase the number of shares of the Company's Common Stock indicated in the Grant Notice at the exercise price indicated in the Grant Notice.

1. **GRANT OF OPTION.** Palo Alto Networks, Inc. (the "**Company**") hereby grants to the Participant an option (this "**Option**") to purchase up to the total number of shares of Common Stock of the Company set forth in the Notice of Stock Option Grant (the "**Grant Notice**") (collectively, the "**Shares**") at the Exercise Price Per Share set forth in the Grant Notice (the "**Exercise Price**"), subject to all of the terms and conditions of this Agreement and the Plan. Capitalized terms not defined herein shall have the meanings ascribed to them in the Company's 2005 Equity Incentive Plan, as may be amended from time to time (the "**Plan**"), or in the Grant Notice, as applicable. If designated as an Incentive Stock Option in the Grant Notice, the Option is intended to qualify as an "incentive stock option" (an "**ISO**") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "**Code**").

2. **VESTING AND EXERCISE.**

2.1 **Vesting and Exercise Period of Option.** For Exempt employees, this Option is immediately exercisable with respect to any of the Shares and for Nonexempt employees this Option is exercisable beginning on the date which is six months from the Date of Grant. The Shares issued upon exercise of the Option will be subject to the restrictions on transfer and Repurchase Option and Right of First Refusal set forth in Sections 7, 8 and 9 below. This Option will become vested during its term as to portions of the Shares in accordance with the Vesting Schedule set forth in the Grant Notice. If application of the applicable vesting percentage causes a fractional share, such share shall be rounded down to the nearest whole share for each month except for the last month in such vesting period, at the end of which last month the Option shall become exercisable for the full remainder of the Shares. Unvested Shares may not be sold or otherwise transferred by Participant without the Company's prior written consent. Notwithstanding any provision in the Plan or this Agreement to the contrary, Options for Unvested Shares (as defined in Section 2.2 of this Agreement) will not be exercisable on or after Participant's Termination Date.

2.2 **Vesting of Options.** Shares that are vested pursuant to the Vesting Schedule set forth in the Grant Notice are "**Vested Shares.**" Shares that are not vested pursuant to the Vesting Schedule set forth in the Grant Notice are "**Unvested Shares.**"

2.3 **Expiration.** The Option shall expire on the Option Expiration Date set forth in the Grant Notice or earlier as provided in Section 3 below or pursuant to Section 5.6 of the Plan.

3. **TERMINATION.**

3.1 **Termination for Any Reason Except Death, Disability or Cause.** If the Participant is Terminated for any reason, except death, Disability or for Cause, the Option, to the extent (and only to the extent) that it would have been exercisable by the Participant on the Termination Date, may be exercised by the Participant no later than three (3) months after the Termination Date, but in any event no later than the Option Expiration Date set forth in the Grant Notice. Any exercise beyond three (3) months in an NQSO.

3.2 **Termination Because of Death or Disability.** If the Participant is Terminated because of death or Disability of the Participant (or the Participant dies within three (3) months of Termination when Termination is for any reason other than the Participant's Disability or for Cause), the Option, to the extent that it is exercisable by the Participant on the Termination Date, may be exercised by the Participant (or the Participant's legal representative) no later than twelve (12) months after the Termination Date, but in any event no later than the Option Expiration Date set forth in the Grant Notice. Any exercise beyond (i) three (3) months after the Termination Date when the Termination is for any reason other than the Participant's death or disability, within the meaning of Section 22(e)(3) of the Code; or (ii) twelve (12) months after the Termination Date when the termination is for the Participant's disability, within the meaning of Section 22(e)(3) of the Code, is deemed to be an NQSO.

3.3 **Termination for Cause.** If the Participant is Terminated for Cause, the Participant's Option shall expire on such Participant's Termination Date, or at such later time and on such conditions as are determined by the Committee.

3.4 **No Obligation to Employ.** Nothing in the Plan or this Agreement shall confer on the Participant any right to continue in the employ of, or other relationship with, the Company or any Parent or Subsidiary of the Company, or limit in any way the right of the Company or any Parent or Subsidiary of the Company to terminate the Participant's employment or other relationship at any time, with or without Cause.

4. **MANNER OF EXERCISE.**

4.1 **Stock Option Exercise Agreement.** To exercise this Option, the Participant (or in the case of exercise after the Participant's death or incapacity, the Participant's executor, administrator, heir or legatee, as the case may be) must deliver to the Company an executed Stock Option Exercise Agreement in the form attached hereto as Exhibit A, or in such other form as may be approved by the Committee from time to time (the "**Exercise Agreement**"), which shall set forth, *inter alia*, (i) the Participant's election to exercise the Option, (ii) the number of Shares being purchased, (iii) any restrictions imposed on the Shares and (iv) any representations, warranties and agreements regarding the Participant's investment intent and access to information as may be required by the Company to comply with applicable securities laws. If someone other than the Participant exercises the Option, then such person must submit documentation reasonably acceptable to the Company verifying that such person has the legal right to exercise the Option and such person shall be subject to all of the restrictions contained herein as if such person were the Participant.

4.2 **Limitations on Exercise.** The Option may not be exercised unless such exercise is in compliance with all applicable federal and state securities laws, as they are in effect on the date of exercise. The Option may not be exercised as to fewer than one hundred (100) Shares unless it is exercised as to all Shares as to which the Option is then exercisable.

4.3 **Payment.** The Exercise Agreement shall be accompanied by full payment of the Exercise Price for the shares being purchased in cash (by check), or where permitted by law:

(a) by cancellation of indebtedness of the Company to the Participant;

(b) by surrender of Vested Shares of the Company's Common Stock that (i) either (A) have been owned by the Participant for more than six (6) months and have been paid for within the meaning of SEC Rule 144 (and, if such shares were purchased from the Company by use of a promissory note, such note has been fully paid with respect to such shares); or (B) were obtained by the Participant in the open public market; and (ii) are clear of all liens, claims, encumbrances or security interests;

(c) by waiver of compensation due or accrued to the Participant for services rendered;

(d) provided that a public market for the Company's stock exists: (i) through a "same day sale" commitment from the Participant and a broker-dealer that is a member of the National Association of Securities Dealers (an "**NASD Dealer**") whereby the Participant irrevocably elects to exercise the Option and to sell a portion of the Shares so purchased sufficient to pay for the total Exercise Price and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the total Exercise Price directly to the Company, or (ii) through a "margin" commitment from the Participant and an NASD Dealer whereby the Participant irrevocably elects to exercise the Option and to pledge the Shares so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the total Exercise Price, and whereby the NASD Dealer irrevocably commits upon receipt of such Shares to forward the total Exercise Price directly to the Company;

(e) any other form of consideration approved by the Committee; or

(f) by any combination of the foregoing.

4.4 **Tax Withholding.** Prior to the issuance of the Shares upon exercise of the Option, the Participant must pay or provide for any applicable federal, state and local withholding obligations of the Company. If the Committee permits, the Participant may provide for payment of withholding taxes upon exercise of the Option by requesting that the Company retain the minimum number of Shares with a Fair Market Value equal to the minimum amount of taxes required to be withheld; but in no event will the Company withhold Shares if such withholding would result in adverse accounting consequences to the Company. In such case, the Company shall issue the net number of Shares to the Participant by deducting the Shares retained from the Shares issuable upon exercise.

4.5 **Issuance of Shares.** Provided that the Exercise Agreement and payment are in form and substance satisfactory to counsel for the Company, the Company shall issue the Shares registered in the name of the Participant, the Participant's authorized assignee, or the Participant's legal representative, and shall deliver certificates representing the Shares with the appropriate legends affixed thereto.

5. **NOTICE OF DISQUALIFYING DISPOSITION OF ISO SHARES.** If the Option is an ISO, and if the 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 Date of Grant, and (ii) the date one (1) year after transfer of such Shares to the Participant upon exercise of the Option, the Participant shall immediately notify the Company in writing of such disposition. The Participant agrees that the Participant may be subject to income tax withholding by the Company on the compensation income recognized by the Participant from the early disposition by payment in cash or out of the current wages or other compensation payable to the Participant.

6. **COMPLIANCE WITH LAWS AND REGULATIONS.** The Plan and this Agreement are intended to comply with Section 25102(o) of the California Corporations Code and any regulations relating thereto. Any provision of this Agreement that is inconsistent with Section 25102(o) or any regulations relating thereto shall, without further act or amendment by the Company or the Board, be reformed to comply with the requirements of Section 25102(o) and any regulations relating thereto. The exercise of the Option and the issuance and transfer of Shares shall be subject to compliance by the Company and the Participant with all applicable requirements of U.S. federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's Common Stock may be listed at the time of such issuance or transfer. The Participant understands that the Company is under no obligation to register or qualify the Shares with the SEC, any state securities commission or any stock exchange to effect such compliance.

7. **NONTRANSFERABILITY OF OPTION.** The Option may not be transferred in any manner other than by will or by the laws of descent and distribution, and, with respect to NQSOs, by instrument to an inter vivos or testamentary trust in which the options are to be passed to beneficiaries upon the death of the trustor (settlor), or by gift to "immediate family" as that term is defined in 17 C.F.R. 240.16a-1(e), and may be exercised during the lifetime of the Participant only by the Participant or in the event of the Participant's incapacity, by the Participant's legal representative. The terms of the Option shall be binding upon the executors, administrators, successors and assigns of the Participant.

8. **COMPANY'S REPURCHASE OPTION FOR UNVESTED SHARES.** The Company, or its assignee, shall have the option to repurchase Participant's Unvested Shares (as defined in Section 2.2 of this Agreement) on the terms and conditions set forth in the Exercise Agreement (the "**Repurchase Option**") if Participant is Terminated (as defined in the Plan) for any reason, or no reason, including without limitation Participant's death, Disability (as defined in the Plan), voluntary resignation or termination by the Company with or without Cause. Notwithstanding the foregoing, the Company shall retain the Repurchase Option for Unvested Shares only as to that number of Unvested Shares (whether or not exercised) that exceeds the number of shares which remain unexercised.

9. **COMPANY'S RIGHT OF FIRST REFUSAL.** Unvested Shares may not be sold or otherwise transferred by Participant without the Company's prior written consent. Before any Vested Shares acquired upon exercise of this Option may be sold or otherwise transferred (including without limitation a transfer by gift or operation of law) by the Participant or any transferee of such Vested Shares, the Company and/or its assignee(s) shall have an assignable right of first refusal to purchase the Vested Shares to be sold or transferred on the terms and conditions set forth in the Exercise Agreement (the "**Right of First Refusal**"). The Company's Right of First Refusal will terminate when the Company's securities become publicly traded.

10. **TAX CONSEQUENCES.** Set forth below is a brief summary as of the Effective Date of the Plan of some of the U.S. federal and California state tax consequences of exercise of the Option and disposition of the Shares. **THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE PARTICIPANT SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THE OPTION OR DISPOSING OF THE SHARES.**

10.1 **Exercise of ISO.** If the Option qualifies as an ISO, there will be no regular U.S. federal or California state income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as a tax preference item for federal alternative minimum tax purposes and may subject the Participant to the alternative minimum tax in the year of exercise.

10.2 **Exercise of Nonqualified Stock Option.** If the Option does not qualify as an ISO, there may be regular U.S. federal and California state income tax liability upon the exercise of the Option. The Participant will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If the Participant is a current or former employee of the Company, the Company may be required to withhold from the Participant's compensation or collect from the Participant and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

10.3 **Disposition of Shares.** The following tax consequences may apply upon disposition of the Shares.

(a) **Incentive Stock Options.** If the Shares are held for more than twelve (12) months after the date of purchase of the Shares pursuant to the exercise of an ISO and are disposed of more than two (2) years after the Date of Grant set forth in the Grant Notice, any gain realized on disposition of the Shares will be treated as long term capital gain for U.S. federal and California state income tax purposes. If Shares purchased under an ISO are disposed of within either of the applicable one (1) year or two (2) year holding periods, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates in the year of the disposition) to the extent of the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price.

(b) **Nonqualified Stock Options.** If the Shares are held for more than twelve (12) months after the date of purchase of the Shares pursuant to the exercise of an NQSO, any gain realized on disposition of the Shares will be treated as long-term capital gain.

(c) **Withholding.** The Company may be required to withhold from the Participant's compensation or collect from the Participant and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income.

10.4 **Section 83(b) Election for Unvested Shares.** With respect to Unvested Shares, which are subject to the Repurchase Option, unless an election is filed by the Participant with the Internal Revenue Service (and, if necessary, the proper state taxing authorities), within 30 days of the purchase of the Unvested Shares, electing pursuant to Section 83(b) of the Code (and similar state tax provisions, if applicable) to be taxed currently on any difference between the Exercise Price of the Unvested Shares and their Fair Market Value on the date of purchase, there may be a recognition of taxable income (including, where applicable, alternative minimum taxable income) to the Participant, measured by the excess, if any, of the Fair Market Value of the Unvested Shares at the time they cease to be Unvested Shares, over the Exercise Price of the Unvested Shares.

11. **PRIVILEGES OF STOCK OWNERSHIP.** The Participant shall not have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Participant.

12. **INTERPRETATION.** Any dispute regarding the interpretation of this Agreement shall be submitted by the Participant or the Company to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on the Company and the Participant.

13. **ENTIRE AGREEMENT.** The Plan is incorporated herein by reference. This Agreement, the Grant Notice and the Plan constitute the entire agreement of the parties and supersede all prior undertakings and agreements with respect to the subject matter hereof.

14. **NOTICES.** Any notice required to be given or delivered to the Company under the terms of this Agreement shall be in writing and addressed to the Corporate Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to the Participant shall be in writing and addressed to the Participant at the last address provided by the Participant to the Company. All notices shall be deemed to have been given or delivered upon: (i) personal delivery; (ii) three (3) days after deposit in the United States mail by certified or registered mail (return receipt requested); or (iii) one (1) business day after deposit with any return receipt express courier (prepaid).

15. **SUCCESSORS AND ASSIGNS.** The Company may assign any of its rights under this Agreement, including its rights to purchase Shares under the Repurchase Option and the Right of First Refusal. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Agreement shall be binding upon the Participant and the Participant's heirs, executors, administrators, legal representatives, successors and assigns.

16. **GOVERNING LAW.** This Agreement shall be governed by and construed in accordance with the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California. If any provision of this Agreement is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

EXHIBIT A

FORM OF STOCK OPTION EXERCISE AGREEMENT

PALO ALTO NETWORKS, INC.

STOCK OPTION EXERCISE AGREEMENT
(Early Exercise)

This Stock Option Exercise Agreement (the “*Exercise Agreement*”) is made and entered into as of _____ (the “*Effective Date*”) by and between Palo Alto Networks, Inc., a Delaware corporation (the “*Company*”), and the purchaser named below (the “*Purchaser*”). Capitalized terms not defined herein shall have the meanings ascribed to them in the Company’s 2005 Equity Incentive Plan, as may be amended from time to time (the “*Plan*”).

Purchaser: _____

Social Security Number: _____

Address: _____

Total Number of Shares: _____

Exercise Price Per Share: _____

Date of Grant: _____

Expiration Date: The date of ten (10) years after the Date of the Grant, with earlier expiration in the event of termination service as provided in Section 3 of the Stock Option Agreement.

Type of Stock Option

(Check one):

- Incentive Stock Option
- Nonqualified Stock Option

1. EXERCISE OF OPTION.

1.1 Exercise. Pursuant to exercise of that certain option (the “*Option*”) granted to Purchaser under the Plan and subject to the terms and conditions of this Exercise Agreement, Purchaser hereby purchases from the Company, and the Company hereby sells to Purchaser, the Total Number of Shares set forth above (the “*Shares*”) of the Company’s Common Stock, \$0.001 par value per share, at the Exercise Price Per Share set forth above (the “*Exercise Price*”). As used in this Exercise Agreement, the term “*Shares*” refers to the Shares purchased under this Exercise Agreement and includes all securities received (i) in replacement of the Shares, (ii) as a result of stock dividends or stock splits with respect to the Shares, and (iii) all securities received in replacement of the Shares in a merger, recapitalization, reorganization or similar corporate transaction.

1.2 Title to Shares. The exact spelling of the name(s) under which Purchaser will take title to the Shares is:

Purchaser desires to take title to the Shares as follows:

Individual, as separate property

Husband and wife, as community property

Joint Tenants

Other; please specify: _____

To assign the Shares to a trust, a stock transfer agreement in the form provided by the Company (the "**Stock Transfer Agreement**") must be completed and executed.

1.3 Payment. Purchaser hereby delivers payment of the Exercise Price in the manner permitted in the Stock Option Agreement as follows (check and complete as appropriate):

in cash (by check) in the amount of \$ _____, receipt of which is acknowledged by the Company;

2. DELIVERY.

2.1 Deliveries by Purchaser. Purchaser hereby delivers to the Company (i) this Exercise Agreement, (ii) two (2) copies of a blank Stock Power and Assignment Separate from Stock Certificate in the form of Exhibit 1 attached hereto (the "**Stock Powers**"), both executed by Purchaser (and Purchaser's spouse, if any), (iii) if Purchaser is married, a Consent of Spouse in the form of Exhibit 2 attached hereto (the "**Spouse Consent**") executed by Purchaser's spouse, and (iv) the Exercise Price and payment or other provision for any applicable tax obligations in the form of a check, a copy of which is attached hereto as Exhibit 3.

2.2 Deliveries by the Company. Upon its receipt of the Exercise Price, payment or other provision for any applicable tax obligations and all the documents to be executed and delivered by Purchaser to the Company under Section 2.1, the Company will issue a duly executed stock certificate evidencing the Shares in the name of Purchaser to be placed in escrow as provided in Section 11 until expiration or termination of the Company's Repurchase Option and Right of First Refusal described in Sections 8 and 9.

3. REPRESENTATIONS AND WARRANTIES OF PURCHASER. Purchaser represents and warrants to the Company that:

3.1 Agrees to Terms of the Plan. Purchaser has received a copy of the Plan, the Notice of Stock Option Grant (the "**Grant Notice**"), the Stock Option Agreement, has read and understands the terms of the Plan, the Grant Notice, the Stock Option Agreement and this Exercise Agreement, and agrees to be bound by their terms and conditions. Purchaser

acknowledges that there may be adverse tax consequences upon exercise of the Option or disposition of the Shares, and that Purchaser should consult a tax adviser prior to such exercise or disposition.

3.2 Purchase for Own Account for Investment. Purchaser is purchasing the Shares for Purchaser's own account for investment purposes only and not with a view to, or for sale in connection with, a distribution of the Shares within the meaning of the Securities Act. Purchaser has no present intention of selling or otherwise disposing of all or any portion of the Shares and no one other than Purchaser has any beneficial ownership of any of the Shares.

3.3 Access to Information. Purchaser has had access to all information regarding the Company and its present and prospective business, assets, liabilities and financial condition that Purchaser reasonably considers important in making the decision to purchase the Shares, and Purchaser has had ample opportunity to ask questions of the Company's representatives concerning such matters and this investment.

3.4 Understanding of Risks. Purchaser is fully aware of: (i) the highly speculative nature of the investment in the Shares; (ii) the financial hazards involved; (iii) the lack of liquidity of the Shares and the restrictions on transferability of the Shares (e.g., that Purchaser may not be able to sell or dispose of the Shares or use them as collateral for loans); (iv) the qualifications and backgrounds of the management of the Company; and (v) the tax consequences of investment in the Shares. Purchaser is capable of evaluating the merits and risks of this investment, has the ability to protect Purchaser's own interests in this transaction and is financially capable of bearing a total loss of this investment.

3.5 No General Solicitation. At no time was Purchaser presented with or solicited by any publicly issued or circulated newspaper, mail, radio, television or other form of general advertising or solicitation in connection with the offer, sale and purchase of the Shares.

4. COMPLIANCE WITH SECURITIES LAWS.

4.1 Compliance with U.S. Federal Securities Laws. Purchaser understands and acknowledges that the Shares have not been registered with the SEC under the Securities Act and that, notwithstanding any other provision of the Grant Notice or Stock Option Agreement to the contrary, the exercise of any rights to purchase any Shares is expressly conditioned upon compliance with the Securities Act and all applicable state securities laws. Purchaser agrees to cooperate with the Company to ensure compliance with such laws. Unless otherwise specified on Attachment 1 (if applicable) to the Grant Notice, the Shares are being issued under the Securities Act pursuant to the exemption provided by SEC Rule 701.

4.2 Compliance with California Securities Laws. *UNLESS OTHERWISE SPECIFIED ON ATTACHMENT 1 (IF APPLICABLE) TO THE GRANT NOTICE, THE PLAN, THE STOCK OPTION AGREEMENT, THE GRANT NOTICE AND THIS EXERCISE AGREEMENT ARE INTENDED TO COMPLY WITH SECTION 25102(o) OF THE CALIFORNIA CORPORATIONS CODE AND ANY RULES (INCLUDING COMMISSIONER RULES, IF APPLICABLE) OR REGULATIONS PROMULGATED THEREUNDER BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS (THE "REGULATIONS"), AND ANY PROVISION OF THIS EXERCISE AGREEMENT THAT IS INCONSISTENT WITH SECTION 25102(o) SHALL, WITHOUT FURTHER ACT OR AMENDMENT BY THE COMPANY OR THE BOARD, BE REFORMED TO COMPLY WITH THE REQUIREMENTS OF SECTION 25102(o). THE SALE OF THE SECURITIES THAT ARE THE SUBJECT OF THIS*

EXERCISE AGREEMENT, IF NOT YET QUALIFIED WITH THE CALIFORNIA COMMISSIONER OF CORPORATIONS AND NOT EXEMPT FROM SUCH QUALIFICATION, IS SUBJECT TO SUCH QUALIFICATION, AND THE ISSUANCE OF SUCH SECURITIES, AND THE RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL UNLESS THE SALE IS EXEMPT. THE RIGHTS OF THE PARTIES TO THIS EXERCISE AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED OR AN EXEMPTION BEING AVAILABLE.

5. RESTRICTED SECURITIES.

5.1 No Transfer Unless Registered or Exempt. Purchaser understands that Purchaser may not transfer any Shares unless such Shares are registered under the Securities Act or qualified under applicable state securities laws or unless, in the opinion of counsel to the Company, exemptions from such registration and qualification requirements are available. Purchaser understands that only the Company may file a registration statement with the SEC and that the Company is under no obligation to do so with respect to the Shares. Purchaser has also been advised that exemptions from registration and qualification may not be available or may not permit Purchaser to transfer all or any of the Shares in the amounts or at the times proposed by Purchaser.

5.2 SEC Rule 144. In addition, Purchaser has been advised that SEC Rule 144 promulgated under the Securities Act, which permits certain limited sales of unregistered securities, is not presently available with respect to the Shares and, in any event, requires that the Shares be held for a minimum of one (1) year, and in certain cases two (2) years, after they have been purchased and paid for (within the meaning of Rule 144). Purchaser understands that Rule 144 may indefinitely restrict transfer of the Shares so long as Purchaser remains an "affiliate" of the Company or if "current public information" about the Company (as defined in Rule 144) is not publicly available.

5.3 SEC Rule 701. Unless otherwise specified on Attachment 1 (if applicable) to the Grant Notice, the Shares are issued pursuant to SEC Rule 701 promulgated under the Securities Act and may become freely tradeable by non-affiliates (under limited conditions regarding the method of sale) ninety (90) days after the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the SEC, subject to the lengthier market standoff agreement contained in Section 7 of this Exercise Agreement or any other agreement entered into by Purchaser. Affiliates must comply with the provisions (other than the holding period requirements) of Rule 144.

6. RESTRICTIONS ON TRANSFERS.

6.1 Disposition of Shares. Purchaser hereby agrees that Purchaser shall make no disposition of the Shares (other than as permitted by this Exercise Agreement) unless and until:

- (a) Purchaser shall have notified the Company of the proposed disposition and provided a written summary of the terms and conditions of the proposed disposition;
- (b) Purchaser shall have complied with all requirements of this Exercise Agreement applicable to the disposition of the Shares;

(c) Purchaser shall have provided the Company with written assurances, in form and substance satisfactory to counsel for the Company, that (i) the proposed disposition does not require registration of the Shares under the Securities Act or (ii) all appropriate actions necessary for compliance with the registration requirements of the Securities Act or of any exemption from registration available under the Securities Act (including Rule 144) have been taken; and

(d) Purchaser shall have provided the Company with written assurances, in form and substance satisfactory to the Company, that the proposed disposition will not result in the contravention of any transfer restrictions applicable to the Shares pursuant to the provisions of the Regulations referred to in Section 4.2 hereof.

6.2 Restriction on Transfer. Purchaser shall not transfer, assign, grant a lien or security interest in, pledge, hypothecate, encumber or otherwise dispose of any of the Shares that are subject to the Company's Repurchase Option or the Company's Right of First Refusal described below, except as permitted by this Exercise Agreement.

6.3 Transferee Obligations. Each person (other than the Company) to whom the Shares are transferred by means of one of the permitted transfers specified in this Exercise Agreement must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Company that such person is bound by the provisions of this Exercise Agreement and that the transferred Shares are subject to (i) both the Company's Repurchase Option and the Company's Right of First Refusal granted hereunder and (ii) the market stand-off provisions of Section 7 hereof, to the same extent such Shares would be so subject if retained by the Purchaser.

7. MARKET STANDOFF AGREEMENT. Purchaser agrees in connection with any registration of the Company's securities that, upon the request of the Company or the underwriters managing any public offering of the Company's securities, Purchaser will not sell or otherwise dispose of any Shares without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) after the effective date of such registration requested by such managing underwriters and subject to all restrictions as the Company or the underwriters may specify. Purchaser further agrees to enter into any agreement reasonably required by the underwriters to implement the foregoing.

8. COMPANY'S REPURCHASE OPTION FOR UNVESTED SHARES. The Company, or its assignee, shall have the option to repurchase all or a portion of the Purchaser's Unvested Shares (as defined in Section 2.2 of the Stock Option Agreement) on the terms and conditions set forth in this Section (the "**Repurchase Option**") if Purchaser is Terminated (as defined in the Plan) for any reason, or no reason, including without limitation, Purchaser's death, Disability (as defined in the Plan), voluntary resignation or termination by the Company with or without Cause. Notwithstanding the foregoing, the Company shall retain the Repurchase Option for Unvested Shares only as to that number of Unvested Shares (whether or not exercised) that exceeds the number of shares which remain unexercised.

8.1 Termination and Termination Date. In case of any dispute as to whether Purchaser is Terminated, the Committee shall have discretion to determine whether Purchaser has been Terminated and the effective date of such Termination (the "**Termination Date**").

8.2 Exercise of Repurchase Option. At any time within ninety (90) days after the Purchaser's Termination Date (or, in the case of securities issued upon exercise of an Option after the Purchaser's Termination Date, within ninety (90) days after the date of such exercise), the Company, or its assignee, may elect to repurchase any or all the Purchaser's Unvested Shares by giving Purchaser written notice of exercise of the Repurchase Option.

8.3 Calculation of Repurchase Price for Unvested Shares. The Company or its assignee shall have the option to repurchase from Purchaser (or from Purchaser's personal representative as the case may be) the Unvested Shares at the Purchaser's Exercise Price, proportionately adjusted for any stock split or similar change in the capital structure of the Company as set forth in Section 2.2 of the Plan (the "**Repurchase Price**").

8.4 Payment of Repurchase Price. The Repurchase Price shall be payable, at the option of the Company or its assignee, by check or by cancellation of all or a portion of any outstanding indebtedness owed by Purchaser to the Company or such assignee, or by any combination thereof. The Repurchase Price shall be paid without interest within sixty (60) days after exercise of the Repurchase Option.

8.5 Right of Termination Unaffected. Nothing in this Exercise Agreement shall be construed to limit or otherwise affect in any manner whatsoever the right or power of the Company (or any Parent or Subsidiary of the Company) to terminate Purchaser's employment or other relationship with Company (or the Parent or Subsidiary of the Company) at any time, for any reason or no reason, with or without Cause.

9. COMPANY'S RIGHT OF FIRST REFUSAL. Unvested Shares may not be sold or otherwise be transferred by Purchaser without the Company's prior written consent. Before any Vested Shares held by Purchaser or any transferee of such Vested Shares (either sometimes referred to herein as the "**Holder**") may be sold or otherwise transferred (including, without limitation, a transfer by gift or operation of law), the Company and/or its assignee(s) will have a right of first refusal to purchase the Vested Shares to be sold or transferred (the "**Offered Shares**") on the terms and conditions set forth in this Section (the "**Right of First Refusal**").

9.1 Notice of Proposed Transfer. The Holder of the Offered Shares will deliver to the Company a written notice (the "**Notice**") stating: (i) the Holder's bona fide intention to sell or otherwise transfer the Offered Shares; (ii) the name and address of each proposed purchaser or other transferee (the "**Proposed Transferee**"); (iii) the number of Offered Shares to be transferred to each Proposed Transferee; (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Offered Shares (the "**Offered Price**"); and (v) that the Holder acknowledges this Notice is an offer to sell the Offered Shares to the Company and/or its assignee(s) pursuant to the Company's Right of First Refusal at the Offered Price as provided for in this Exercise Agreement.

9.2 Exercise of Right of First Refusal. At any time within thirty (30) days after the date of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all (or, with the consent of the Holder, less than all) the Offered Shares proposed to be transferred to any one or more of the Proposed Transferees named in the Notice, at the purchase price, determined as specified below.

9.3 Purchase Price. The purchase price for the Offered Shares purchased under this Section will be the Offered Price, provided that if the Offered Price consists of no legal consideration (as, for example, in the case of a transfer by gift) the purchase price will be the fair market value of the Offered Shares as determined in good faith by the Company's Board of Directors. If the Offered Price includes consideration other than cash, then the value of the non-cash consideration, as determined in good faith by the Company's Board of Directors, will conclusively be deemed to be the cash equivalent value of such non-cash consideration.

9.4 Payment. Payment of the purchase price for the Offered Shares will be payable, at the option of the Company and/or its assignee(s) (as applicable), by check or by cancellation of all or a portion of any outstanding purchase money indebtedness owed by the Holder to the Company (or to such assignee, in the case of a purchase of Offered Shares by such assignee) or by any combination thereof. The purchase price will be paid without interest within sixty (60) days after the Company's receipt of the Notice, or, at the option of the Company and/or its assignee(s), in the manner and at the time(s) set forth in the Notice.

9.5 Holder's Right to Transfer. If all of the Offered Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Offered Shares to each Proposed Transferee at the Offered Price or at a higher price, provided that (i) such sale or other transfer is consummated within one hundred twenty (120) days after the date of the Notice, (ii) any such sale or other transfer is effected in compliance with all applicable securities laws, and (iii) each Proposed Transferee agrees in writing that the provisions of this Section will continue to apply to the Offered Shares in the hands of such Proposed Transferee. If the Offered Shares described in the Notice are not transferred to each Proposed Transferee within such one hundred twenty (120) day period, then a new Notice must be given to the Company pursuant to which the Company will again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

9.6 Exempt Transfers. Notwithstanding anything to the contrary in this Section, the following transfers of Vested Shares will be exempt from the Right of First Refusal: (i) the transfer of any or all of the Vested Shares during Purchaser's lifetime by gift or on Purchaser's death by will or intestacy to Purchaser's "Immediate Family" (as defined below) or to a trust for the benefit of Purchaser or Purchaser's Immediate Family, provided that each transferee or other recipient agrees in a writing satisfactory to the Company that the provisions of this Section will continue to apply to the transferred Vested Shares in the hands of such transferee or other recipient; (ii) any transfer or conversion of Vested Shares made pursuant to a statutory merger or statutory consolidation of the Company with or into another corporation or corporations (except that the Right of First Refusal will continue to apply thereafter to such Vested Shares, in which case the surviving corporation of such merger or consolidation shall succeed to the rights of the Company under this Section unless (A) the common stock of the surviving corporation or any direct or indirect parent corporation thereof is registered under the Securities Exchange Act of 1934, as amended; or (B) the agreement of merger or consolidation expressly otherwise provides); or (iii) any transfer of Vested Shares pursuant to the winding up and dissolution of the Company. As used herein, the term "**Immediate Family**" will mean Purchaser's spouse, the lineal descendant or antecedent, father, mother, brother or sister, child, adopted child, grandchild or adopted grandchild of the Purchaser or the Purchaser's spouse, or the spouse of any of the above.

9.7 Termination of Right of First Refusal. The Right of First Refusal will terminate as to all Shares (i) on the effective date of the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the SEC under the 1933 Act (other than a registration statement relating solely to the issuance of Common Stock pursuant to a business combination or an employee incentive or benefit plan) or (ii) on any transfer or conversion of Shares made pursuant to a statutory merger or statutory consolidation of the Company with or into another corporation or corporations if the common stock of the surviving corporation or any direct or indirect parent corporation thereof is registered under the Securities Exchange Act of 1934, as amended.

9.8 Encumbrances on Vested Shares. Purchaser may grant a lien or security interest in, or pledge, hypothecate or encumber Vested Shares only if each party to whom such lien or security interest is granted, or to whom such pledge, hypothecation or other encumbrance is made, agrees in a writing satisfactory to the Company that: (i) such lien, security interest, pledge, hypothecation or encumbrance will not apply to such Vested Shares after they are acquired by the Company and/or its assignees under this Section; and (ii) the provisions of this Section will continue to apply to such Vested Shares in the hands of such party and any transferee of such party. Purchase may not grant a lien or security interest in, or pledge, hypothecate or encumber, any Unvested Shares.

10. RIGHTS AS A STOCKHOLDER. Subject to the terms and conditions of this Exercise Agreement, Purchaser will have all of the rights of a stockholder of the Company with respect to the Shares from and after the date that Shares are issued to Purchaser until such time as Purchaser disposes of the Shares or the Company and/or its assignee(s) exercise(s) the Repurchase Option or the Right of First Refusal. Upon an exercise of the Repurchase Option or the Right of First Refusal, Purchaser will have no further rights as a holder of the Shares so purchased upon such exercise, other than the right to receive payment for the Shares so purchased in accordance with the provisions of this Exercise Agreement, and Purchaser will promptly surrender the stock certificate(s) evidencing the Shares so purchased to the Company for transfer or cancellation.

11. ESCROW. As security for Purchaser's faithful performance of this Exercise Agreement, Purchaser agrees, immediately upon receipt of the stock certificate(s) evidencing the Shares, to deliver such certificate(s), together with the Stock Powers executed by Purchaser and by Purchaser's spouse, if any (with the date and number of Shares left blank), to the Secretary of the Company or other designee of the Company (the "**Escrow Holder**"), who is hereby appointed to hold such certificate(s) and Stock Powers in escrow and to take all such actions and to effectuate all such transfers and/or releases of such Shares as are in accordance with the terms of this Exercise Agreement. Purchaser and the Company agree that Escrow Holder will not be liable to any party to this Exercise Agreement (or to any other party) for any actions or omissions unless Escrow Holder is grossly negligent or intentionally fraudulent in carrying out the duties of Escrow Holder under this Exercise Agreement. Escrow Holder may rely upon any letter, notice or other document executed with any signature purported to be genuine and may rely on the advice of counsel and obey any order of any court with respect to the transactions contemplated by this Exercise Agreement. The Shares will be released from escrow upon termination of the Repurchase Option and the Right of First Refusal.

12. RESTRICTIVE LEGENDS AND STOP-TRANSFER ORDERS.

12.1 Legends. Purchaser understands and agrees that the Company will place the legends set forth below or similar legends on any stock certificate(s) evidencing the Shares, together with any other legends that may be required by state or U.S. Federal securities laws, the Company's Certificate of Incorporation or Bylaws, any other agreement between Purchaser and the Company or any agreement between Purchaser and any third party:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON PUBLIC RESALE AND TRANSFER, INCLUDING THE RIGHT OF REPURCHASE AND RIGHT OF FIRST REFUSAL OPTION HELD BY THE ISSUER AND/OR ITS ASSIGNEE(S) AS SET FORTH IN A STOCK OPTION EXERCISE AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH PUBLIC SALE AND TRANSFER RESTRICTIONS INCLUDING THE RIGHT OF REPURCHASE AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A 180 DAY MARKET STANDOFF RESTRICTION AS SET FORTH IN A CERTAIN AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. AS A RESULT OF SUCH AGREEMENT, THESE SHARES MAY NOT BE TRADED PRIOR TO 180 DAYS AFTER THE EFFECTIVE DATE OF ANY PUBLIC OFFERING OF THE COMMON STOCK OF THE ISSUER HEREOF. SUCH RESTRICTION IS BINDING ON TRANSFEREES OF THESE SHARES.

12.2 Stop-Transfer Instructions. Purchaser agrees that, to ensure compliance with the restrictions imposed by this Exercise Agreement, the Company may issue appropriate "stop-transfer" instructions to its transfer agent, if any, and if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

12.3 Refusal to Transfer. The Company will not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Agreement or (ii) to treat as owner of such Shares, or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares have been so transferred.

13. TAX CONSEQUENCES. PURCHASER UNDERSTANDS THAT PURCHASER MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF PURCHASER'S PURCHASE OR DISPOSITION OF THE SHARES. PURCHASER REPRESENTS: (i) THAT PURCHASER HAS CONSULTED WITH ANY TAX ADVISER THAT PURCHASER DEEMS ADVISABLE IN CONNECTION WITH THE PURCHASE OR DISPOSITION OF THE SHARES AND (ii) THAT PURCHASER IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE. IN PARTICULAR, IF UNVESTED SHARES ARE SUBJECT TO REPURCHASE BY THE COMPANY, PURCHASER REPRESENTS THAT PURCHASER HAS CONSULTED WITH PURCHASER'S OWN TAX ADVISER CONCERNING THE ADVISABILITY OF FILING AN 83(b) ELECTION WITH THE INTERNAL REVENUE SERVICE WHICH MUST BE FILED WITHIN THIRTY (30) DAYS OF THE PURCHASE OF SHARES TO BE EFFECTIVE. Set forth below is a brief summary as of the date the Plan was adopted by the Board of some of the U.S. Federal and California tax consequences of exercise of the Option and disposition of the Shares. *THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. PURCHASER SHOULD CONSULT HIS OR HER OWN TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.*

13.1 Exercise of Incentive Stock Option. If the Option qualifies as an ISO, there will be no regular U.S. Federal income tax liability or California income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as a tax preference item for U.S. Federal alternative minimum tax purposes and may subject Purchaser to the alternative minimum tax in the year of exercise.

13.2 Exercise of Nonqualified Stock Option. If the Option does not qualify as an ISO, there may be a regular U.S. Federal income tax liability and a California income tax liability upon the exercise of the Option. Purchaser will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Purchaser is or was an employee of the Company, the Company may be required to withhold from Purchaser's compensation or collect from Purchaser and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

13.3 Disposition of Shares. The following tax consequences may apply upon disposition of the Shares.

(a) **Incentive Stock Options.** If the Shares are held for more than twelve (12) months after the date of purchase of the Shares pursuant to the exercise of an ISO and are disposed of more than two (2) years after the Date of Grant, any gain realized on disposition of the Shares will be treated as long term capital gain for federal and California income tax purposes. If Shares purchased under an ISO are disposed of within the applicable one (1) year or two (2) year period, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates in the year of the disposition) to the extent of the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. To the extent the Shares were exercised prior to vesting coincident with the filing of an 83(b) Election, the amount taxed because of a disqualifying disposition will be based upon the excess, if any, of the fair market value on the date of vesting over the exercise price.

(b) **Nonqualified Stock Options.** If the Shares are held for more than twelve (12) months after the date of purchase of the Shares pursuant to the exercise of an NQSO, any gain realized on disposition of the Shares will be treated as long term capital gain.

(c) **Withholding.** The Company may be required to withhold from the Purchaser's compensation or collect from the Purchaser and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income.

13.4 Section 83(b) Election for Unvested Shares. With respect to Unvested Shares, which are subject to the Repurchase Option, unless an election is filed by the Purchaser with the Internal Revenue Service (and, if necessary, the proper state taxing authorities), **within 30 days of the purchase** of the Unvested Shares, electing pursuant to Section 83(b) of the Code (and similar state tax provisions, if applicable) to be taxed currently on any difference between the Exercise Price of the Unvested Shares and their Fair Market Value on the date of purchase, there may be a recognition of taxable income (including, where applicable, alternative minimum taxable income) to the Purchaser, measured by the excess, if any, of the Fair Market Value of the Unvested Shares at the time they cease to be Unvested Shares, over the Exercise Price of the Unvested Shares. A form of Election under Section 83(b) is attached hereto as Exhibit 4 for reference.

14. COMPLIANCE WITH LAWS AND REGULATIONS. The issuance and transfer of the Shares will be subject to and conditioned upon compliance by the Company and Purchaser with all applicable state and U.S. Federal laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer.

15. SUCCESSORS AND ASSIGNS. The Company may assign any of its rights under this Exercise Agreement, including its right to purchase Shares under the Repurchase Option and the Right of First Refusal. This Exercise Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Agreement will be binding upon Purchaser and Purchaser's heirs, executors, administrators, legal representatives, successors and assigns.

16. GOVERNING LAW; SEVERABILITY. This Exercise Agreement shall be governed by and construed in accordance with the internal laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California. If any provision of this Exercise Agreement is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

17. NOTICES. Any notice required to be given or delivered to the Company shall be in writing and addressed to the Corporate Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to Purchaser shall be in writing and addressed to Purchaser at the address indicated above or to such other address as Purchaser may designate in writing from time to time to the Company. All notices shall be deemed effectively given upon personal delivery, (i) three (3) days after deposit in the United States mail by

certified or registered mail (return receipt requested), (ii) one (1) business day after its deposit with any return receipt express courier (prepaid), or (iii) one (1) business day after transmission by rapifax or telecopier.

18. FURTHER INSTRUMENTS. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Exercise Agreement.

19. HEADINGS. The captions and headings of this Exercise Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Exercise Agreement. All references herein to Sections will refer to Sections of this Exercise Agreement.

20. ENTIRE AGREEMENT. The Plan, the Grant Notice, the Stock Option Agreement and this Exercise Agreement, together with all Exhibits thereto, constitute the entire agreement and understanding of the parties with respect to the subject matter of this Exercise Agreement, and supersede all prior understandings and agreements, whether oral or written, between the parties hereto with respect to the specific subject matter hereof.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this Exercise Agreement to be executed in duplicate by its duly authorized representative and Purchaser has executed this Exercise Agreement in duplicate as of the Effective Date, indicated above.

PALO ALTO NETWORKS, INC.

PURCHASER

By: _____

(Signature)

(Please print name)

(Please print name)

(Please print title)

SIGNATURE PAGE TO PALO ALTO NETWORKS, INC. STOCK OPTION EXERCISE AGREEMENT

LIST OF EXHIBITS

- Exhibit 1: Stock Power and Assignment Separate from Stock Certificate
- Exhibit 2: Spouse Consent
- Exhibit 3: Copy of Purchaser's Check
- Exhibit 4: Section 83(b) Election

EXHIBIT 1

STOCK POWER AND ASSIGNMENT
SEPARATE FROM STOCK CERTIFICATE

Stock Power And Assignment
Separate From Stock Certificate

FOR VALUE RECEIVED and pursuant to that certain Stock Option Exercise Agreement dated as of _____, (the "**Agreement**"), the undersigned hereby sells, assigns and transfers unto _____, _____ shares of the Common Stock, \$0.001 par value per share, of Palo Alto Networks, Inc., a Delaware corporation (the "**Company**"), standing in the undersigned's name on the books of the Company represented by Certificate No(s). _____ delivered herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company as the undersigned's attorney-in-fact, with full power of substitution, to transfer said stock on the books of the Company. *THIS ASSIGNMENT MAY ONLY BE USED AS AUTHORIZED BY THE AGREEMENT AND ANY EXHIBITS THERETO.*

Dated: _____

PURCHASER

(Signature)

(Please Print Name)

(Spouse's Signature, if any)

(Please Print Spouse's Name)

Instructions to Purchaser: Please do not fill in any blanks other than the signature line. The purpose of this Stock Power and Assignment is to enable the Company to acquire the shares pursuant to its "Repurchase Option" and/or "Right of First Refusal" set forth in the Exercise Agreement without requiring additional signatures on the part of the Purchaser or Purchaser's Spouse.

EXHIBIT 2

SPOUSE CONSENT

Spouse Consent

The undersigned spouse of _____ (the "**Purchaser**") has read, understands, and hereby approves the Stock Option Exercise Agreement between Purchaser and the Company (the "**Agreement**"). In consideration of the Company's granting my spouse the right to purchase the Shares as set forth in the Agreement, the undersigned hereby agrees to be irrevocably bound by the Agreement and further agrees that any community property interest I may have in the Shares shall similarly be bound by the Agreement. The undersigned hereby appoints Purchaser as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Dated: _____

Print Name of Purchaser's Spouse

Signature of Purchaser's Spouse

Address: _____

EXHIBIT 3

COPY OF PURCHASER'S CHECK

EXHIBIT 4

SECTION 83(b) ELECTION

ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE

The undersigned Taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include the excess, if any, of the fair market value of the property described below at the time of transfer over the amount paid for such property, as compensation for services in the calculation of: (1) regular gross income; (2) alternative minimum taxable income or (3) disqualifying disposition gross income, as the case may be.

1. TAXPAYER'S NAME: _____

TAXPAYER'S ADDRESS: _____

SOCIAL SECURITY NUMBER: _____

2. The property with respect to which the election is made is described as follows: _____ shares of Common Stock of Palo Alto Networks, Inc., a Delaware corporation (the "**Company**"), which were transferred upon exercise of an option by Company, which is Taxpayer's employer or the corporation for whom the Taxpayer performs services.

3. The date on which the shares were transferred pursuant to the exercise of the option was _____ and this election is made for calendar year _____.

4. The shares received upon exercise of the option are subject to the following restrictions: The Company may repurchase all or a portion of the shares at the Taxpayer's original purchase price under certain conditions at the time of Taxpayer's termination of employment or services.

5. The fair market value of the shares (without regard to restrictions other than restrictions which by their terms will never lapse) was \$ _____ per share at the time of exercise of the option.

6. The amount paid for such shares upon exercise of the option was \$ _____ per share.

7. The Taxpayer has submitted a copy of this statement to the Company.

THIS ELECTION MUST BE FILED WITH THE INTERNAL REVENUE SERVICE ("IRS**"), AT THE OFFICE WHERE THE TAXPAYER FILES ANNUAL INCOME TAX RETURNS, WITHIN 30 DAYS AFTER THE DATE OF TRANSFER OF THE SHARES, AND MUST ALSO BE FILED WITH THE TAXPAYER'S INCOME TAX RETURNS FOR THE CALENDAR YEAR. THE ELECTION CANNOT BE REVOKED WITHOUT THE CONSENT OF THE IRS.**

Dated: _____

Taxpayer's Signature

PALO ALTO NETWORKS, INC.
NOTICE OF STOCK OPTION GRANT

Participant (the "**Participant**") is hereby granted an option (the "**Option**") to purchase shares of Common Stock (the "**Shares**") of Palo Alto Networks, Inc. (the "**Company**") pursuant to the Company's 2005 Equity Incentive Plan, as may be amended from time to time (the "**Plan**"), as described below:

Participant: _____

Number of Shares: _____

Exercise Price Per Share: \$ _____

Date of Grant: _____

Vesting Start Date: _____

Exercise Schedule: This Option shall vest with respect to the first 25% of the Shares subject to this Option when the Participant completes 12 months of service as an employee, officer, director or consultant to the Company or a Parent or Subsidiary after the Vesting Start Date. This Option shall vest with respect to an additional 1/48th of the Shares subject to this Option when the Participant completes each month of continuous service thereafter.

Expiration Date: «ExpDate». The day immediately prior to the Expiration Date is the last date that this Option can be exercised, unless this Option expires earlier, as provided in Section 3 of the Stock Option Agreement.

Tax Status of Option: Incentive Nonqualified (Check one).

Early Exercise: Early Exercise is permitted if this box is checked.

Additional Terms: If this box is checked, the additional terms and conditions set forth on the Addendum hereto (which must be executed by the Company and the Participant) are applicable and are incorporated herein by reference. (No document need be attached as Addendum if the box is not checked.)

By their signatures below (whether written, electronic or otherwise), the Company and Participant agree that the Option is granted under and governed by this Notice and by the provisions of the Plan and the Stock Option Agreement, which may include country-specific provisions in Appendix A thereto, attached hereto as Exhibit A. The Plan and the Stock Option Agreement are incorporated herein by reference. Capitalized terms not defined herein shall have the meanings ascribed to them in the Plan or in the Stock Option Agreement, as applicable. Participant acknowledges receipt of a copy of the Plan and the Stock Option Agreement, represents that Participant has carefully read and is familiar with their provisions, and hereby accepts the Option subject to all of their terms and conditions. Participant acknowledges that there may be adverse tax consequences upon exercise of the Option or disposition of the Shares and that Participant should consult a tax adviser prior to such exercise or disposition.

By his/her signature, Participant agrees, to the fullest extent permitted by law, that in lieu of receiving documents in paper format, Participant accepts the electronic delivery of any documents the Company, or any third party involved in administering the Plan which the Company may designate, may deliver in connection with this grant (including the Plan, the Notice of Grant, this Agreement, any Appendix, the 701 Disclosures, account statements, or other communications or information) whether via an on-line or electronic system established and maintained by the Company or such third party, the Company's intranet or the Internet site of such third party, or via email or such other means of electronic delivery specified by the Company.
Palo Alto Networks, Inc. Participant

PALO ALTO NETWORKS, INC.

PARTICIPANT

By: _____

Signature

Its: _____

ATTACHMENTS: Exhibit A – Stock Option Agreement

PALO ALTO NETWORKS, INC.
2005 EQUITY INCENTIVE PLAN
STOCK OPTION AGREEMENT

Palo Alto Networks, Inc. hereby grants to the Participant an option under the Plan to purchase the number of shares of the Company's Common Stock indicated in the Notice of Stock Option Grant (the "**Grant Notice**") at the exercise price indicated in the Grant Notice.

1. GRANT OF OPTION. Palo Alto Networks, Inc. (the "**Company**") hereby grants to the Participant an option (this "**Option**") to purchase up to the total number of shares of Common Stock of the Company set forth in the Grant Notice (collectively, the "**Shares**") at the Exercise Price per Share set forth in the Grant Notice (the "**Exercise Price**"), subject to all of the terms and conditions of this Agreement (including any country-specific terms for Participant's country set forth in an addendum to the Agreement (the "**Addendum**") and the Plan. Capitalized terms not defined herein shall have the meanings ascribed to them in the Company's 2005 Equity Incentive Plan, as may be amended from time to time (the "**Plan**"), or in the Grant Notice, as applicable. If designated as an Incentive Stock Option in the Grant Notice, the Option is intended to qualify as an "incentive stock option" (an "**ISO**") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "**Code**"), except that if on the Date of Grant the Participant is not subject to U.S. income tax, then this Option shall be an NQSO.

2. VESTING AND EXERCISE.

2.1. Vesting and Exercise Period of Option. This Option will become vested during its term as to portions of the Shares in accordance with the Vesting Schedule set forth in the Grant Notice. The Option may not be exercised for a fraction of a share. If the Grant Notice provides "early exercise permitted", then (a) if Participant is an exempt employee, early exercise is permitted immediately with respect to any or all of the Shares; (b) if Participant is a "non-exempt" employee, early exercise is permitted only beginning on the date that is six months after the Grant Date; (c) Unvested Shares may not be sold or otherwise transferred by Participant without the Company's prior written consent; and (d) Unvested Shares issued upon exercise of the Option will be subject to the Repurchase Option set forth in Section 8 below. Notwithstanding any provision in the Plan or this Agreement to the contrary, Options for Unvested Shares will not be exercisable on or after Participant's Termination Date.

2.2. Vesting of Options. Shares that are vested pursuant to the Vesting Schedule set forth in the Grant Notice are "**Vested Shares.**" Shares that are not vested pursuant to the Vesting Schedule set forth in the Grant Notice are "**Unvested Shares.**"

2.3. Expiration. The Option shall expire on the Expiration Date set forth in the Grant Notice or earlier as provided in Section 3 below or pursuant to Section 5.6 of the Plan.

3. TERMINATION.

3.1. Termination for Any Reason Except Death, Disability or Cause. If the Participant is Terminated for any reason, except death, Disability or for Cause (as defined in the Plan or under applicable law), the Option, to the extent (and only to the extent) that it would have

been exercisable by the Participant on the Termination Date, may be exercised by the Participant no later than three (3) months after the Termination Date, but in any event no later than the Option Expiration Date set forth in the Grant Notice. Any exercise beyond three (3) months is an NQSO.

3.2. Termination Because of Death or Disability. If the Participant is Terminated because of death or Disability of the Participant (or the Participant dies within three (3) months of Termination when Termination is for any reason other than the Participant's Disability or for Cause), the Option, to the extent that it is exercisable by the Participant on the Termination Date, may be exercised by the Participant (or the Participant's legal representative) no later than twelve (12) months after the Termination Date, but in any event no later than the Option Expiration Date set forth in the Grant Notice. Any exercise beyond (a) three (3) months after the Termination Date when the Termination is for any reason other than the Participant's death or disability, within the meaning of Section 22(e)(3) of the Code; or (b) twelve (12) months after the Termination Date when the termination is for the Participant's disability, within the meaning of Section 22(e)(3) of the Code, is deemed to be an NQSO.

3.3. Termination for Cause. If the Participant is Terminated for Cause, the Participant's Option shall expire on such Participant's Termination Date, or at such later time and on such conditions as are determined by the Committee.

3.4. No Obligation to Employ. Nothing in the Plan or this Agreement shall confer on the Participant any right to continue in the employ of, or other relationship with, the Company or any Parent or Subsidiary of the Company, or limit in any way the right of the Company or any Parent or Subsidiary of the Company to terminate the Participant's employment or other relationship at any time, with or without Cause.

4. MANNER OF EXERCISE.

4.1. Stock Option Exercise Agreement. To exercise this Option, the Participant (or in the case of exercise after the Participant's death or incapacity, the Participant's executor, administrator, heir or legatee, as the case may be) must deliver to the Company an executed Stock Option Exercise Agreement in such form as may be approved by the Committee from time to time (the "**Exercise Agreement**"), which shall set forth, *inter alia*, (a) the Participant's election to exercise the Option, (b) the number of Shares being purchased, (c) any restrictions imposed on the Shares and (d) such representations, warranties and agreements of Participant as may be required by the Company to comply with applicable securities laws and to implement the agreements of Participant set forth in this Agreement. If someone other than the Participant exercises the Option, then such person must submit documentation reasonably acceptable to the Company verifying that such person has the legal right to exercise the Option and such person shall be subject to all of the restrictions contained herein as if such person were the Participant.

4.2. Limitations on Exercise. The Option may not be exercised unless such exercise is in compliance with all applicable federal, state and foreign securities laws, as they are in effect on the date of exercise.

4.3. Payment. The Exercise Agreement shall be accompanied by full payment of the Exercise Price and any Tax-Related Items (as defined below) for the Shares being

purchased in cash (by check) and/or such other form(s) of consideration approved by the Committee, as set forth in the Exercise Agreement furnished or made available to Participant with this Agreement.

4.4. Tax Withholding. Regardless of any action the Company or the Participant's employer (the "**Employer**") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to the Participant's participation in the Plan and legally applicable to the Participant ("**Tax-Related Items**"), the Participant acknowledges that the ultimate liability for all Tax-Related Items is and remains the Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Participant further acknowledges that 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 Option, including, but not limited to, the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercises, or any dividends paid on the Shares; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant has become subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, the Participant acknowledges that 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. Prior to the relevant taxable or tax withholding event, as applicable, the Participant will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, the Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (i) withholding from the Participant's wages or other cash compensation paid to the Participant by the Company and/or the Employer; or (ii) withholding from proceeds of the sale of Shares acquired at exercise of the Option either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant's behalf pursuant to this authorization); or (iii) withholding in Shares to be issued at exercise of the Option. To avoid any negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the Participant is deemed to have been issued the full number of Shares subject to the exercised Option, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Participant's participation in the Plan. Finally, the Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of the Participant's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items.

4.5. Issuance of Shares. Provided that the Exercise Agreement and payment are in form and substance satisfactory to counsel for the Company, the Company shall issue the Shares registered in the name of the Participant, the Participant's authorized assignee, or the Participant's legal representative, and shall deliver certificates representing the Shares with the appropriate legends affixed thereto.

5. NOTICE OF DISQUALIFYING DISPOSITION OF ISO SHARES. If the Option is an ISO, and if the Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (a) the date two (2) years after the Grant Date, and (b) the date one (1) year after transfer of such Shares to the Participant upon exercise of the Option, the Participant shall immediately notify the Company in writing of such disposition. The Participant agrees that he or she may be subject to income tax withholding by the Company, on the compensation income he or she recognizes from the early disposition, by payment in cash or out of the current wages or other compensation payable to the Participant.

6. COMPLIANCE WITH LAWS AND REGULATIONS. Although the Plan is intended to be a written compensatory benefit plan within the meaning of Rule 701 promulgated under the Securities Act, grants may be made pursuant to the Plan that do not qualify for exemption under Rule 701 and Section 25102(o) of the California Corporations Code. If this grant is intended to comply with Regulation D and California Corporations Code Section 25102(f), then any requirement of this Agreement or the Exercise Agreement that is required in law only because of Section 25102(o) need not apply if the Committee has so provided. If this grant is intended to qualify for exemption under Rule 701 and Section 25102(o), then any provision of this Agreement or the Exercise Agreement that is inconsistent with Section 25102(o) or any regulations relating thereto shall, without further act or amendment by the Company or the Board, be reformed to comply therewith. The exercise of the Option and the issuance and transfer of Shares shall be subject to compliance by the Company and the Participant with all applicable requirements of foreign, U.S. federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's Common Stock may be listed at the time of such issuance or transfer. The Participant understands that the Company is under no obligation to register or qualify the Shares with the U.S. SEC, any foreign securities commission or regulator, any U.S. state securities commission or any stock exchange to effect such compliance.

7. NONTRANSFERABILITY OF OPTION. The Option may not be transferred in any manner other than by will or by the laws of descent and distribution, and, with respect to NQSOs, by instrument to an inter vivos or testamentary trust in which the NQSOs are to be passed to beneficiaries upon the death of the trustor (settlor), or by gift to "family members" as that term is defined in Rule 701, and may be exercised during the lifetime of the Participant only by the Participant or in the event of the Participant's incapacity, by the Participant's legal representative. The terms of the Option shall be binding upon the executors, administrators, successors and assigns of the Participant.

8. COMPANY'S REPURCHASE OPTION FOR UNVESTED SHARES. If Participant acquires Unvested Shares upon exercise of the Option, the Company, or its assignee, shall have the option to repurchase all or a portion of Participant's Unvested Shares on the terms and conditions set forth in the Exercise Agreement (the "**Repurchase Option**") if Participant is Terminated (as defined in the Plan) for any reason, or no reason, including without limitation Participant's death, Disability (as defined in the Plan), voluntary resignation or termination by the Company with or without Cause. Notwithstanding the foregoing, the Company shall retain the Repurchase Option for Unvested Shares only as to that number of Unvested Shares (whether or not exercised) that exceeds the number of shares which remain unexercised.

9. COMPANY'S RIGHT OF FIRST REFUSAL. Unvested Shares may not be sold or otherwise transferred by Participant without the Company's prior written consent. Before

any Vested Shares acquired upon exercise of this Option may be sold or otherwise transferred (including without limitation a transfer by gift or operation of law) by the Participant or any transferee of such Vested Shares, the Company and/or its assignee(s) shall have an assignable right of first refusal to purchase the Vested Shares to be sold or transferred on the terms and conditions set forth in the Exercise Agreement (the "**Right of First Refusal**"). The Company's Right of First Refusal will terminate when the Company's securities become publicly traded.

10. NATURE OF GRANT. In accepting the Option, the Participant acknowledges, understands, and agrees the following:

- (a) the Plan is established voluntarily by the Company, it is discretionary in nature, and may be amended, suspended or terminated by the Company at any time;
- (b) the grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted repeatedly in the past;
- (c) all decisions with respect to future option grants, if any, will be at the sole discretion of the Company;
- (d) the Participant is voluntarily participating in the Plan;
- (e) the Option and any Shares acquired under the Plan are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company or the Employer, and are outside the scope of the Participant's employment or service contract, if any;
- (f) the Option and any Shares acquired under the Plan are not intended to replace any pension rights or compensation;
- (g) the Option and any Shares acquired under the Plan are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer, or any Parent or Subsidiary;
- (h) the Option grant and the Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any Parent or Subsidiary;
- (i) the future value of the Shares underlying the Option is unknown and cannot be predicted with certainty;
- (j) if the underlying Shares do not increase in value, the Option will have no value;
- (k) if the Participant exercises the Option and acquires Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price;

(l) no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from termination of the Participant's employment by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the grant of the Option to which the Participant is otherwise not entitled, the Participant irrevocably agrees never to institute any claim against the Company or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company 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, the 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 claims;

(m) in the event of termination of the Participant's employment (whether or not in breach of local labor laws), the Participant's right to vest in the Option under the Plan, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of termination of the Participant's employment (whether or not in breach of local labor laws), the Participant's right to exercise the Option after termination of employment, if any, will be measured by the date of termination of the Participant's active employment and will not be extended by any notice period mandated under local law; the Committee shall have the exclusive discretion to determine when the Participant is no longer actively employed for purposes of the Option; and

(n) the Option and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over, or transfer of liability.

11. NO TAX OR OTHER ADVICE REGARDING GRANT. The Company is not providing any tax, legal, or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan or the Participant's acquisition or sale of the underlying Shares. The Participant is hereby advised to consult with his or her own personal tax, legal, and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan. With respect to Unvested Shares, which are subject to the Repurchase Option, unless an election is filed by the Participant with the Internal Revenue Service (and, if necessary, the proper state taxing authorities), within 30 days of the purchase of the Unvested Shares, electing pursuant to Section 83(b) of the Code (and similar state tax provisions, if applicable) to be taxed currently on any difference between the Exercise Price of the Unvested Shares and their Fair Market Value on the date of purchase, there may be a recognition of taxable income (including, where applicable, alternative minimum taxable income) to the Participant, measured by the excess, if any, of the Fair Market Value of the Unvested Shares at the time they cease to be Unvested Shares, over the Exercise Price of the Unvested Shares. The Exercise Price for this Option has been determined by the Committee based upon the best evidence available to the Committee and is intended to equal the Fair Market Value of the Shares as of the date of grant, or in some cases 110% of Fair Market Value, as required by the Code. However, the tax treatment of this Option is not guaranteed. Neither the Company, the Committee nor any of their designees shall be liable for any taxes, penalties or other monetary amounts owed by any Participant, employee, beneficiary or other person as a result of the grant, amendment, modification, exercise and/or payment of, or under, this Option, notwithstanding any challenge made to the determination of Fair Market Value by any taxing authority. **By**

accepting this Option, Participant expressly acknowledges and agrees to the foregoing. Participant acknowledges that there may be adverse tax consequences upon exercise of the Option or disposition of the Shares, that Participant should consult a tax adviser prior to such exercise or disposition, and that Participant is not relying on the Company for any tax advice.

12. DATA PRIVACY. *The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data as described in this Agreement and any other Option 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 the Participant's participation in the Plan.*

The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the 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 Options or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

The Participant understands that Data may be transferred to a third-party stock plan service provider as may be selected by the Company to assist the Company with the implementation, administration, and management of the Plan. The Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country (e.g., the United States) may have different data privacy laws and protections than the Participant's country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Participant's local human resources representative. The Participant authorizes the Company and any other possible recipients that 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 purpose of implementing, administering, and managing his or her participation in the Plan. The Participant understands that Data will be held only as long as is necessary to implement, administer, and manage Participant's participation in the Plan. The Participant understands that he or she 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 his or her local human resources representative. The Participant understands, however, that refusing or withdrawing his or her consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that he or she may contact his or her local human resources representative.

13. LANGUAGE. If the Participant has received this Agreement or any other document related to the Option and/or 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.

14. ADDENDUM. The Option shall be subject to the special provisions set forth in the Addendum for the Participant's country, if any. If the Participant relocates to one of the countries included in the Addendum during the life of the Option, the special provisions for such country shall apply to the Participant, to the extent the Company determines that the application of such provisions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Addendum constitutes part of this Agreement.

15. IMPOSITION OF OTHER REQUIREMENTS. The Company reserves the right to impose other requirements on the Option and the Shares acquired upon exercise of the Option, to the extent the Company determines it is necessary or advisable in order to comply with local laws or facilitate the administration of the Plan, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

16. PRIVILEGES OF STOCK OWNERSHIP. The Participant shall not have any of the rights of a stockholder with respect to any Shares until the Shares are issued to the Participant.

17. INTERPRETATION. Any dispute regarding the interpretation of this Agreement shall be submitted by the Participant or the Company to the Committee for review. The resolution of such a dispute by the Committee shall be final and binding on the Company and the Participant.

18. NOTICES. Any notice required to be given or delivered to the Company under the terms of this Agreement shall be in writing and addressed to the Corporate Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to the Participant shall be in writing and addressed to the Participant at the last address provided by the Participant to the Company. All notices shall be deemed to have been given or delivered upon: (a) personal delivery; (b) three (3) days after deposit in the United States mail by certified or registered mail (return receipt requested); or (c) one (1) business day after deposit with any return receipt express courier (prepaid).

19. SUCCESSORS AND ASSIGNS. The Company may assign any of its rights under this Agreement and under the Exercise Agreement, including its rights to purchase Shares under the Repurchase Option and the Right of First Refusal. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Agreement shall be binding upon the Participant and the Participant's heirs, executors, administrators, legal representatives, successors and assigns.

20. GOVERNING LAW AND VENUE. This Agreement (including the Addendum) and the Grant Notice shall be governed by and construed in accordance with the laws of the State of California, without regard to the conflict of law provisions, as such laws are applied to agreements between California residents entered into and to be performed entirely within California. If any provision of this Agreement or the Grant Notice is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this grant or the Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only 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 grant is made and/or to be performed.

**ADDENDUM
TO THE
PALO ALTO NETWORKS, INC.
2005 EQUITY INCENTIVE PLAN
STOCK OPTION AGREEMENT
FOR NON-U.S. PARTICIPANTS**

TERMS AND CONDITIONS

This Addendum includes additional terms and conditions that govern the Option granted to the Participant under the Plan if he or she is in one of the countries listed below. Certain capitalized terms used but not defined in this Addendum have the meanings set forth in the Plan and/or the Stock Option Agreement.

NOTIFICATIONS

This Addendum may also include information regarding exchange controls and certain other issues of which the 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 February 2012. Such laws are often complex and change frequently. As a result, the Company strongly recommends that the 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 the Participant exercises the Option or sells Shares acquired under the Plan.

In addition, 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, the Participant is advised to seek appropriate professional advice as to how the relevant laws in his or her country may apply to the Participant's situation.

Finally, if the Participant is a citizen or resident of a country other than the one in which he or she is currently working, transferred employment after the Option was granted or is considered a resident of another country for local law purposes, the information contained herein may not be applicable. Further, the Company shall, in its discretion, determine to what extent the terms and conditions contained herein shall apply to the Participant in this circumstance.

ARGENTINA

NOTIFICATIONS

Type of Offering. Neither the grant of the Option nor the issuance of Shares subject to the Option constitutes a public offering as defined by the Law 17,811 or any other Argentine law. The offering of the Plan is a private placement and is not subject to the supervision of any Argentine governmental authority.

Exchange Control Information. Depending upon the method of exercise, the Participant may be subject to restrictions with respect to the purchase and/or transfer of U.S. dollars pursuant to Argentine currency exchange regulations. The Company reserves the right to restrict the methods of exercise if required under Argentine laws.

Under current regulations adopted by the Argentine Central Bank (the "BCRA"), the Participant may purchase and remit foreign currency with a value of up to US\$2,000,000 per month for the purpose of acquiring foreign securities, including Shares subject to the Option, without prior approval from the BCRA. However, the Participant must register the purchase with the BCRA and execute and submit an affidavit to the entity selling the foreign currency confirming that the Participant has not purchased and remitted funds in excess of US\$2,000,000 during the relevant month.

In the event that the Participant transfers proceeds in excess of US\$2,000,000 from the sale of Shares into Argentina in a single month, he or she will be required to place 30% of any proceeds in excess of US\$2,000,000 in a non-interest-bearing, dollar-denominated mandatory deposit account for a holding period of 365 days.

The Participant must comply with any and all Argentine currency exchange restrictions, approvals and reporting requirements in connection with the exercise of the Option.

AUSTRALIA

TERMS AND CONDITIONS

Restriction on Exercise. The Participant may not exercise any portion of an Option unless and until (i) the Fair Market Value per Share underlying the Option exceeds the Exercise Price per Share, and (ii) the underlying Shares are publicly traded on a recognized stock exchange and may be sold by the Participant in accordance with the terms of the Stock Option Agreement and the Stock Option Exercise Agreement. If a portion of the Option vests when the Fair Market Value per Share is equal to or less than the Exercise Price, the Option may only be exercised starting on the business day following the first day on which the Fair Market Value per Share exceeds the Exercise Price, provided that the Shares are publicly traded on a recognized stock exchange and may be sold by the Participant in accordance with the terms of the Stock Option Agreement and the Stock Option Exercise Agreement on this day.

This restriction on exercise also applies if the Participant transfers to Australia from another jurisdiction and becomes subject to taxation in Australia before the Option is fully vested.

NOTIFICATIONS

Exchange Control Information. Exchange control reporting is required for cash transactions exceeding AUD10,000 and for international fund transfers. If an Australian bank is assisting with the transaction, the bank will file the report on behalf of the Participant. The Participant should consult his or her own legal advisor prior to making a cash transaction exceeding AUD10,000.

Securities Law Information. If the 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. The Participant should consult with his or her own legal advisor before making any such offer in Australia.

BELGIUM

TERMS AND CONDITIONS

Tax Considerations. The Option must be accepted in writing within 60 days of the offer. The Participant will receive a separate offer letter, acceptance form and undertaking form in addition to the Stock Option Agreement. He or she should refer to the offer letter for a more detailed description of the tax consequences of choosing to accept the Option. The Participant should consult a personal tax advisor with respect to completing the additional forms.

NOTIFICATIONS

Tax Reporting. The Participant is required to report any taxable income attributable to the Option, in addition to 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 Option, the Participant acknowledges that he or she agrees to comply with applicable Brazilian laws and pay any and all applicable taxes associated with the exercise of the Option and the sale of Shares acquired from the Option.

NOTIFICATIONS

Exchange Control Information. If the Participant is resident or domiciled in Brazil, he or she will be required to submit annually a declaration of assets and rights held outside of Brazil to the Central Bank of Brazil if the aggregate value of such assets and rights is equal to or greater than US\$100,000. Assets and rights that must be reported include Shares acquired from the Option.

CANADA

TERMS AND CONDITIONS

Form of Payment. Notwithstanding anything in the Plan or Stock Option Agreement to the contrary, the Participant is prohibited from surrendering Shares that the Participant owns or attesting to the ownership of Shares to pay the Exercise Price or any Tax-Related Items in connection with the Option.

Involuntary Termination Terms. In the event of involuntary termination of the Participant's employment (whether or not in breach of local labor laws), the Participant's right to continued vesting, if any, will terminate and the period remaining to exercise the Option will be measured effective as of the date that is the earlier of: (1) the date the Participant receives notice of termination of employment from the Employer, or (2) the date the Participant is no longer actively employed by the Employer, regardless of any notice period or period of pay in lieu of such notice required under local law (including, but not limited to, statutory law, regulatory law, and/or common law); the Committee shall have the exclusive discretion to determine when the Participant is no longer actively employed for purposes of the Option.

The following provision applies for employees in Quebec:

Consent to Receive Information in English for Employees in Quebec. The parties acknowledge that it is their express wish that the Stock Option Agreement, as well as all documents, notices and legal proceeds entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais de cette convention, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à ou suite à la présente convention.

Data Privacy Notice and Consent. This section supplements the "Data Privacy" section of the Stock Option Agreement:

The 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. The Participant further authorizes the Employer, the Company, and its Parent and Subsidiaries to disclose and discuss such information with their advisors. The Participant also authorizes the Employer, Company, and its Parent and Subsidiaries to record such information and to keep such information in the Participant's employee file.

FRANCE

TERMS AND CONDITIONS

Language Consent. By executing and submitting the Grant Notice, the Participant confirms that he or she has read and understood the documents relating to the Option (the Grant Notice, the Plan, and the Agreement, including this Addendum) which were provided in the English language. The Participant accepts the terms of these documents accordingly.

Consentement relatif à la langue utilisée: En signant et en renvoyant la Notification d'Attribution, le Participant confirme qu'il ou qu'elle a lu et compris les documents afférents à l'Option (la Notification d'Attribution, le Plan et l'Accord, ainsi que la présente Annexe) qui sont produits en langue anglaise. Le Participant accepte les termes de ces documents en connaissance de cause.

NOTIFICATIONS

Exchange Control Information. If the Participant retains Shares outside of France or maintains a foreign bank account, the 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. In the event that the Participant makes or receives a payment in excess of this amount, the Participant is responsible for obtaining the appropriate form from a German federal bank and complying with the reporting requirements.

HONG KONG

TERMS AND CONDITIONS

Restriction on Sale of Shares. The Participant agrees that he or she will not exercise the Option and sell the Shares prior to the six-month anniversary of the Grant Date.

NOTIFICATIONS

Securities Law Notice. *WARNING: The Option and the Shares issued upon exercise do not constitute a public offering of securities under Hong Kong law and are available only to certain employees, officers, directors and consultants of the Company or any Parent or Subsidiary of the Company. The Stock Option 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 Option is intended only for the personal use of each eligible employee, officer, director or consultant of the Employer, the Company or any Parent or Subsidiary of the Company, and may not be distributed to any other person. If the Participant is in any doubt about any of the contents of the Stock Option Agreement, including this Addendum, or the Plan, the Participant should obtain independent professional advice.*

Nature of Scheme. The Company specifically intends that the Plan will not be an occupational retirement scheme for purposes of the Occupational Retirement Schemes Ordinance.

ITALY

TERMS AND CONDITIONS

Method of Payment. Notwithstanding any provision in the Stock Option Agreement, due to securities restrictions in Italy, when the Participant exercises the Option, the Participant must use a “cashless sell-all” exercise pursuant to which he or she delivers irrevocable instructions to the broker to sell all Shares to which the Participant is entitled at exercise and remit the proceeds from sale, less any Tax-Related Items and brokerage fees or commissions, to the Participant in cash. The Participant will not be permitted to receive and hold any Shares in connection with the exercise of the Option. Thus, in order for the Participant to exercise the Option, the Company’s Shares must be publicly traded at the time of exercise. The Company reserves the right to provide the Participant with additional methods of exercising the Option depending upon development of local laws.

Data Privacy Consent. The following provision replaces the “Data Privacy” section of the Stock Option Agreement:

The Participant understands that his or her Employer, the Company and its Parent and Subsidiaries may hold certain personal information about the Participant, including, but not limited to, the 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 its Parent and Subsidiaries, details of all options granted, or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in the Participant’s favor, for the exclusive purpose of implementing, managing and administering the Plan (“Data”).

The Participant also understands that providing the Company with Data is necessary for the performance of the Plan and that the Participant’s refusal to provide such Data would make it impossible for the Company to perform its contractual obligations and may affect the Participant’s ability to participate in the Plan. The Controller of personal data processing is Palo Alto Networks, Inc., with registered offices at 232 East Java Drive, Sunnyvale, CA 94089, 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. The 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. The Participant understands that Data may also be transferred to the independent registered public accounting firm engaged by the Company. The Participant further understands that the Employer, the Company and/or any of its Subsidiaries will transfer Data among themselves as necessary for the purpose of

implementing, administering and managing the Participant's participation in the Plan, and that the Company and/or any 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 the 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 the Participant's participation in the Plan. The 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.

The 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 the Participant's consent thereto, as the processing is necessary to performance of contractual obligations related to implementation, administration, and management of the Plan. The Participant understands that, pursuant to Section 7 of the Legislative Decree no. 196/2003, the Participant has the right to, including but not limited to, access, delete, update, correct, or terminate, for legitimate reason, the Data processing.

Furthermore, the 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 the 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 Stock Option Agreement: Tax Withholding, Nature of Grant, Governing Law and Venue, Language, Electronic Delivery, Severability, and Imposition of Other Requirements. In addition, the Participant acknowledges that he or she has read and specifically and expressly approves the Data Privacy paragraphs above.

NOTIFICATIONS

Exchange Control Information. The Participant must report in his or her annual tax return any transfers of cash or Shares to or from Italy exceeding €10,000 or the equivalent amount in U.S. dollars. The reporting must be done on the Participant's individual income tax return. The Participant is exempt from this reporting obligation if the investments are made through an authorized broker resident in Italy, as the broker will comply with the reporting obligation on Participant's behalf.

Offshore Asset Reporting Obligation. The Participant must report in his or her annual tax return any foreign investments or investments (including proceeds from the sale of Shares acquired under the Plan or any vested Option) held outside Italy exceeding €10,000 or the equivalent amount in U.S. dollars, if the investment may give rise to income in Italy. The reporting must be done on Participant's individual income tax return.

JAPAN

NOTIFICATIONS

Exchange Control Information. If the Participant acquires Shares valued at more than ¥100,000,000 in a single transaction, the Participant must file a Securities Acquisition Report with the Ministry of Finance through the Bank of Japan within 20 days of the purchase of the shares.

In addition, if the Participant pays more than ¥30,000,000 in a single transaction for the purchase of Shares when the Participant exercises the Option, the Participant must file a Payment Report with the Ministry of Finance through the Bank of Japan by the 20th day of the month following the month in which the payment was made. The precise reporting requirements vary depending on whether or not the relevant payment is made through a bank in Japan.

A Payment Report is required independently from a Securities Acquisition Report. Therefore, if the total amount that the Participant pays upon a one-time transaction for exercising the Option and purchasing shares exceeds ¥100,000,000, then the Participant must file both a Payment Report and a Securities Acquisition Report.

KOREA

NOTIFICATIONS

Exchange Control Information. To remit funds out of Korea to exercise the Option by means of a cash exercise method, the Participant must obtain a confirmation of the remittance from a foreign exchange bank in Korea. The Participant likely will need to present supporting documentation evidencing the nature of the remittance to the bank processing the transaction.

In addition, exchange control laws require Korean residents who realize US\$500,000 or more from the sale of Shares to repatriate the sale proceeds back to Korea within eighteen months of the sale.

MEXICO

TERMS AND CONDITIONS

Labor Law Policy and Acknowledgment. In accepting the grant of the Option, the Participant expressly recognizes that Palo Alto Networks, Inc., with registered offices at 3300 Olcott Street, Santa Clara, CA 95054, U.S.A., is solely responsible for the administration of the Plan and that the Participant's participation in the Plan and acquisition of Shares do not constitute an employment relationship between the Participant and Palo Alto Networks, Inc. since the Participant is participating in the Plan on a wholly commercial basis and his or her sole Employer is [insert name of PAN-Mexico], located at [insert address of PAN-Mexico] Mexico. Based on the foregoing, the Participant expressly recognizes that the Plan and the benefits that he or she may derive from participating in the Plan do not establish any rights between the

Participant and the Employer, [insert name of PAN-Mexico], and do not form part of the employment conditions and/or benefits provided by [insert name of PAN-Mexico], and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of the Participant's employment.

The Participant further understands that his or her participation in the Plan is as a result of a unilateral and discretionary decision of Palo Alto Networks, Inc.; therefore, Palo Alto Networks, Inc. reserves the absolute right to amend and/or discontinue the Participant's participation at any time without any liability to the Participant.

Finally, the Participant hereby declares that he or she does not reserve to him- or herself any action or right to bring any claim against Palo Alto Networks, Inc. for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and the Participant therefore grants a full and broad release to Palo Alto Networks, Inc., its affiliates, branches, representation offices, its shareholders, officers, agents, or legal representatives with respect to any claim that may arise.

TÉRMINOS Y CONDICIONES

Política Laboral y Reconocimiento/Aceptación. Al aceptar el otorgamiento de la Opción de Compra de Acciones, el Participante expresamente reconoce que Palo Alto Networks, Inc., con domicilio registrado ubicado en 3300 Olcott Street, Santa Clara, CA 95054, U.S.A., es la única responsable por la administración del Plan y que la participación del Participante en el Plan y en su caso la adquisición de las Opciones de Compra de Acciones o Acciones no constituyen ni podrán interpretarse como una relación de trabajo entre el Participante y Palo Alto Networks, Inc, ya que el Participante participa en el Plan en un marco totalmente comercial y su único Patrón lo es [insert name of PAN-Mexico], con domicilio en [insert address of PAN-Mexico] Mexico. Derivado de lo anterior, el Participante expresamente reconoce que el Plan y los beneficios que pudieran derivar de la participación en el Plan no establecen derecho alguno entre el Participante y el Patrón, [insert name of PAN-Mexico] y no forma parte de las condiciones de trabajo y/o las prestaciones otorgadas por [insert name of PAN-Mexico] y que cualquier modificación al Plan o su terminación no constituye un cambio o impedimento de los términos y condiciones de la relación de trabajo del Participante.

Asimismo, el Participante reconoce que su participación en el Plan es resultado de una decisión unilateral y discrecional de Palo Alto Networks, Inc.; por lo tanto, Palo Alto Networks, Inc. se reserva el absoluto derecho de modificar y/o terminar la participación del Participante en cualquier momento y sin responsabilidad alguna frente el Participante.

Finalmente, el Participante por este medio declara que no se reserve derecho o acción alguna que ejercitar en contra de Palo Alto Networks, Inc. por cualquier compensación o daño en relación con las disposiciones del Plan o de los beneficios derivados del Plan y por lo tanto, el Participante otorga el más amplio finiquito que en derecho proceda a Palo Alto Networks, Inc., sus afiliadas, subsidiarias, oficinas de representación, sus accionistas, funcionarios, agentes o representantes legales en relación con cualquier demanda que pudiera surgir.

NETHERLANDS

NOTIFICATIONS

Insider Trading Information. The Participant should be aware of Dutch insider trading rules that may impact the sale of Shares acquired under the Plan. In particular, the Participant may be prohibited from effecting certain transactions if he or she has insider information regarding the Company.

By accepting the grant of the Option and participating in the Plan, the Participant acknowledges having read and understood this Insider Trading Information and further acknowledges that it is the 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 employee of the Company or a Subsidiary in the Netherlands who has inside information as described herein.

Given the broad scope of the definition of inside information, certain employees of the Company working at a Subsidiary of the Company 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.

The Participant acknowledges and understands that he or she should consult with his or her personal legal advisor if the Participant is uncertain as to whether the insider trading rules apply to the Participant.

NORWAY

No country-specific provisions.

POLAND

NOTIFICATIONS

Exchange Control Information. Polish residents holding foreign securities (including Shares) abroad must report information to the National Bank of Poland on transactions and balances of the securities deposited in such accounts if the value of such transactions or balances (calculated individually or together with other assets or liabilities held abroad) exceeds PLN 7,000,000. If required, the reports are due on a quarterly basis. Polish residents are also required to transfer funds through a bank account in Poland if the transferred amount in any single transaction exceeds a specified threshold (currently €15,000). Further, upon the request of a Polish bank, Polish residents are required to inform the bank about all foreign exchange transactions

performed through such bank. In addition, Polish residents are required to store documents connected with any foreign exchange transaction for a period of five years from the date the transaction occurred.

SINGAPORE

NOTIFICATIONS

Securities Law Information. The Company is granting the Option 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. The Participant should note that the grant of the Option is subject to section 257 of the SFA and the Participant will not be able to make any subsequent sale of Shares in Singapore or any offer of such subsequent sale of Shares subject to the Option 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 (Chapter 289, 2006 Ed.).

Director Notification Requirements. If the Participant is a director, associate director or shadow director of a Singapore Subsidiary, the Participant is subject to certain notification requirements under the Singapore Companies Act. Directors must notify the Singapore Subsidiary in writing of an interest (*e.g.*, Options, Shares) in the Company or any related companies within two days of (i) its acquisition or disposal, (ii) any change in a previously disclosed interest (*e.g.*, when the Option is exercised), or (iii) becoming a director.

Insider Trading Notification. The Participant should be aware of the Singapore insider trading rules, which may impact the acquisition or disposal of Shares or rights to Shares under the Plan. Under the Singapore insider trading rules, the Participant is prohibited from selling Shares when he or she is in possession of information which is not generally available and which he or she knows or should know will have a material effect on the price of Shares once such information is generally available.

SPAIN

TERMS AND CONDITIONS

Labor Law Acknowledgment. This section supplements the “Nature of Grant” section of the Stock Option Agreement:

In accepting the Option, the Participant acknowledges that he or she consents to participation in the Plan and has received a copy of the Plan.

The Participant understands that the Company has unilaterally, gratuitously, and discretionally decided to grant options under the Plan to individuals who may be employees of the Company or its Parent and Subsidiaries 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 its Parent or any of its Subsidiaries on an ongoing basis.

Consequently, the Participant understands that the Option is granted on the assumption and condition that the Option or the Shares acquired upon exercise shall not become a part of any employment contract (either with the Company or its Parent or any of its Subsidiaries) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation), or any other right whatsoever. In addition, the Participant understands that this grant would not be made to the Participant but for the assumptions and conditions referred to above; thus, the 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 options shall be null and void.

Further, the vesting of the Option is expressly conditioned on the Participant's continued and active rendering of service, such that if the Participant's employment terminates for any reason whatsoever, the Option may cease vesting immediately, in whole or in part, effective on the date of the Participant's termination of employment (unless otherwise specifically provided in the "Termination" section of the Stock Option Agreement). This will be the case, for example, even if (1) the Participant is considered to be unfairly dismissed without good cause; (2) the Participant is dismissed for disciplinary or objective reasons or due to a collective dismissal; (3) the Participant terminates service due to a change of work location, duties or any other employment or contractual condition; (4) the Participant terminates service due to a unilateral breach of contract by the Company or its Parent or Subsidiary; or (5) the Participant's employment terminates for any other reason whatsoever. Consequently, upon termination of the Participant's employment for any of the above reasons, the Participant may automatically lose any rights to Options that were not vested or exercised on the date of the Participant's termination of employment, as described in the Plan.

The Participant acknowledges that he or she has read and specifically accepts the conditions referred to in the "Termination" sections of the Plan and the Stock Option Agreement.

NOTIFICATIONS

Securities Law Information. The Option described in the Plan and the Stock Option Agreement, including the Addendum, does 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 Stock Option Agreement, including the 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 the Participant's responsibility to comply with exchange control regulations in Spain. The purchase and sale of Shares must be declared for statistical purposes to the *Dirección General de Comercio e Inversiones* (the "DGCI"), which is a department of the *Ministerio de Industria, Turismo y Comercio*. Because the Participant will not purchase or sell the Shares through the use of a Spanish financial institution, the Participant must make the declaration himself or herself by filing a D-6 form with the DGCI. Generally, the D-6 form must be filed each January while the Shares are owned or to report the sale of Shares.

When receiving foreign currency payments derived from the ownership of Shares (*i.e.*, sale proceeds) exceeding €50,000, the Participant must inform the financial institution receiving the payment of the basis upon which such payment is made. The Participant will need to provide the institution with the following information: (i) the 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 further information that may be required.

SWEDEN

No country-specific provisions.

SWITZERLAND

NOTIFICATIONS

Securities Law Information. The offer of the Option is considered a private offering in Switzerland and is therefore not subject to securities registration in Switzerland.

Tax Information. The Participant will be subject to tax (including income tax and social insurance contributions) at the federal and cantonal level in connection with the income derived from the Option. The Participant acknowledges and understands that the Company has not obtained a ruling from any cantonal tax administration confirming the tax treatment of the Options. Although the taxable event may occur when the Option is exercised, this result is not certain and the taxable event may instead occur when the Option is granted to the Participant or when the Option vests. The Participant is advised to consult his or her personal tax advisor with respect to the tax treatment of the Option and the obligations that will apply to the Participant as a result of the grant, vesting or exercise of the Option.

TAIWAN

NOTIFICATIONS

Securities Law Information. The offer of the Option and the Shares to be issued pursuant to the Plan is available only for certain employees, officers, directors, and consultants of the Company and its Subsidiaries. It is not a public offer of securities by a Taiwanese company; therefore, it is exempt from registration in Taiwan.

Exchange Control Information. The Participant may acquire foreign currency and remit the same out of Taiwan up to US\$5 million per year without justification. When remitting funds for the purchase of Shares pursuant to the Plan, such remittances should be made through an authorized foreign exchange bank. In addition, if the Participant remits TWD\$500,000 or more in a single transaction, the Participant must submit a Foreign Exchange Transaction Form to the remitting bank. If the transaction amount is US\$500,000 or more in a single transaction, the Participant must also provide supporting documentation to the satisfaction of the remitting bank.

THAILAND

NOTIFICATIONS

Exchange Control Information. It is the Participant's responsibility to comply with all exchange control regulations in Thailand, and the Participant should consult his or her personal advisor prior to taking any action with respect to remittance of proceeds into or out of Thailand. If the Participant exercises the Option with cash, the Participant may apply directly to a commercial bank in Thailand for approval to remit up to US\$1,000,000 per year for the purchase of Shares. If the Participant exercises the Option by way of a cashless method of exercise, no application to a commercial bank is required. In addition, the Participant is required to immediately repatriate the proceeds from the sale of Shares to Thailand. Within the next 360 days after the repatriation date, the Participant must deposit the sale proceeds into a foreign currency deposit account or convert them to local currency. If the amount of such sale proceeds is equal to or greater than US\$50,000, the Participant must specifically report the inward remittance to the Bank of Thailand on a Foreign Exchange Transaction Form through the bank at which the Participant deposits or converts the sale proceeds.

TURKEY

NOTIFICATIONS

Securities Law Information. Under Turkish law, the Participant is not permitted to sell Shares acquired under the Plan in Turkey.

UNITED ARAB EMIRATES

There are no country specific provisions.

UNITED KINGDOM

TERMS AND CONDITIONS

Section 431 Election. As a condition of participation in the Plan and the exercise of the Option, the Participant agrees, jointly with the Employer, that he or she shall enter into the joint election within Section 431 of the U.K. Income Tax (Earnings and Pensions) Act 2003 ("ITEPA 2003") in respect of computing any tax charge on the acquisition of "Restricted Securities" (as defined in Sections 423 and 424 of ITEPA 2003), and that the Participant will not revoke such election at any time. This election will be to treat the Shares acquired pursuant to the exercise of the Option as if such Shares were not Restricted Securities (for U.K. tax purposes only).

Joint Election for Transfer of Liability for Employer National Insurance Contributions. As a condition of participation in the Plan and the exercise of the Option at a time when the Company's Shares are considered readily convertible assets under UK law, the Participant agrees to accept any liability for secondary Class 1 National Insurance contributions that may be payable by the Company, the Employer, a Parent or Subsidiary of the Company in connection

with the Option and any event giving rise to Tax-Related Items (the "Employer NICs"). Without prejudice to the foregoing, the Participant agrees to execute a joint election with the Company, 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 exercise of the Option. The Participant further agrees to execute such other joint elections as may be required between the Participant and any successor to the Company, the Employer, a Parent or Subsidiary of the Company. The Participant further agrees that the Company, the Employer, a Parent or Subsidiary may collect the Employer NICs from the Participant by any of the means set forth in the "Tax Withholding" section of the Stock Option Agreement.

If the Participant does not enter into a Joint Election prior to the exercise of the Option, he or she will not be entitled to exercise the Option unless and until he or she enters into a Joint Election, and no Shares will be issued to the Participant under the Plan, without any liability to the Company, the Employer, a Parent or Subsidiary of the Company.

Withholding Taxes. This provision supplements the "Tax Withholding" section of the Stock Option Agreement and applies if the Company's Shares are considered readily convertible assets under UK law at the time of exercise:

If payment or withholding of the income tax due is not made within 90 days of the event giving rise to the liability for income tax 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 income tax will constitute a loan owed by the Participant to the Employer, effective on the Due Date. The 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 4.4 of the Stock Option Agreement. Notwithstanding the foregoing, if the 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), the Participant will not be eligible for such a loan to cover the tax liability. In the event that the Participant is a director or executive officer and the income tax due is not collected from or paid by the Participant by the Due Date, the amount of any uncollected income tax will constitute a benefit to the Participant on which additional income tax and national insurance contributions will be payable. The Participant will be responsible for reporting and paying any income tax and national insurance contributions due on this additional benefit directly to HMRC under the self-assessment regime.

In addition, the Participant agrees that the Company and/or the Employer may calculate the Tax-Related Items to be withheld and accounted for by reference to the maximum applicable rates, without prejudice to any right the Participant may have to recover any overpayment from the relevant tax authorities.

PALO ALTO NETWORKS, INC.
2005 EQUITY INCENTIVE PLAN
STOCK OPTION EXERCISE AGREEMENT

This Stock Option Exercise Agreement (the "**Exercise Agreement**") is made and entered into as of _____ (the "**Effective Date**") by and between Palo Alto Networks, Inc., a Delaware corporation (the "**Company**"), and the purchaser named below (the "**Purchaser**"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Company's 2005 Equity Incentive Plan, as may be amended from time to time (the "**Plan**").

Purchaser: _____

Purchaser's Address: _____

Purchaser's Social Security Number: _____

Number of Shares Initially Subject to Option: _____

Date of Option Grant: _____

Number of Shares Purchased: _____

Exercise Price per Share: _____

Total Exercise Price: _____

(Number of Shares Purchased multiplied by Exercise Price per Share)

1. EXERCISE OF OPTION.

1.1 Exercise. Pursuant to exercise of that certain option (the "**Option**") granted to Purchaser under the Plan and subject to the terms and conditions of this Exercise Agreement, Purchaser hereby purchases from the Company, and the Company hereby sells to Purchaser, the Number of Shares Purchased set forth above (the "**Shares**") of the Company's Common Stock, \$0.0001 par value per share, at the Exercise Price per Share set forth above and for an aggregate Exercise Price (the "**Total Exercise Price**") that is the product of (a) the Number of Shares Purchased, and (b) the Exercise Price per Share. As used in this Exercise Agreement, the term "**Shares**" refers to the Shares purchased under this Exercise Agreement and includes all securities received (a) in replacement of the Shares, (b) as a result of stock dividends or stock splits with respect to the Shares, and (c) all securities received in replacement of the Shares in a merger, recapitalization, reorganization or similar corporate transaction.

1.2 Payment. Purchaser hereby delivers payment of the Total Exercise Price in manner permitted in the Plan as follows (check and complete as appropriate):

- cash (by check) in the amount of \$ _____, receipt of which is acknowledged by the Company, and a copy of which is attached to this Exercise Agreement.
- by a cashless exercise under the Company's formal cashless exercise program if such a program has been adopted by the Committee in connection with the Plan.
- provided that a public market for the Company's stock exists and subject to compliance with applicable law and solely in the discretion of the Committee: (a) through a "same day sale" commitment from Purchaser and broker-dealer whereby Purchaser irrevocably elects to exercise the Option, and to sell a portion of the Shares so purchased sufficient to pay for the Total Exercise Price, and whereby the broker-dealer irrevocably commits upon receipt of such Shares to forward the Total Exercise Price directly to the Company, or (b) through a "margin" commitment from Purchaser and a broker-dealer whereby Purchaser irrevocably elects to exercise the Option and to pledge the Shares so purchased to the Dealer in a margin account as security for a loan from the broker-dealer in the amount of the Total Exercise Price, and whereby the broker-dealer irrevocably commits upon receipt of such Shares to forward the Total Exercise Price directly to the Company.

2. DELIVERY. Purchaser hereby delivers to the Company at its principal executive offices, Attn: President: (a) this completed and signed Exercise Agreement, (b) two (2) copies of a blank Stock Power and Assignment Separate from Stock Certificate in the form attached to this Exercise Agreement (the "**Stock Powers**"), both executed by Purchaser (and Purchaser's spouse, if any), (c) if Purchaser is married, a Consent of Spouse in the form attached to this Exercise Agreement (the "**Spouse Consent**") executed by Purchaser's spouse, and (d) the Total Exercise Price and payment or other provision for any applicable tax obligations in the form of a check. Upon its receipt of the Total Exercise Price, payment or other provision for any applicable tax obligations and all the documents to be executed and delivered by Purchaser to the Company, the Company will issue a duly executed stock certificate evidencing the Shares in the name of Purchaser to be placed in escrow as provided in Section 7.2 until expiration or termination of the Company's Right of First Refusal and, if Unvested Shares are being purchased, the Company's Repurchase Option, which are described in Sections 5 and 6 respectively.

3. REPRESENTATIONS AND WARRANTIES OF PURCHASER. Purchaser represents and warrants to the Company that:

3.1 Agrees to Terms of the Plan. Purchaser has received a copy of the Plan, the Grant Notice, and the Stock Option Agreement, has read and understands the terms of the Plan, the Grant Notice, the Stock Option Agreement and this Exercise Agreement, and agrees to be bound by their terms and conditions. Purchaser acknowledges that there may be adverse tax consequences upon exercise of the Option or disposition of the Shares, and makes the representations set forth in Section 8 with respect to such tax consequences.

3.2 Shares Not Registered or Qualified. Purchaser understands and acknowledges that the Shares have not been registered with the SEC under the Securities Act of 1933 (the “*Securities Act*”), or with any securities regulatory agency administering any state securities laws, and that, notwithstanding any other provision of the Stock Option Agreement to the contrary, the exercise of any rights to purchase any Shares is expressly conditioned upon compliance with the Securities Act and all applicable state securities laws. Purchaser agrees to cooperate with the Company to ensure compliance with such laws.

3.3 No Transfer Unless Registered or Exempt. Purchaser understands that Purchaser may not transfer any Shares unless such Shares are registered under the Securities Act or qualified under applicable state securities laws or unless, in the opinion of counsel to the Company, exemptions from such registration and qualification requirements are available. Purchaser understands that only the Company may file a registration statement with the SEC and that the Company is under no obligation to do so with respect to the Shares. Purchaser has also been advised that exemptions from registration and qualification may not be available or may not permit Purchaser to transfer all or any of the Shares in the amounts or at the times proposed by Purchaser.

3.4 SEC Rule 701. If the Shares are issued pursuant to SEC Rule 701 promulgated under the Securities Act, they may become freely tradable by non-affiliates (under limited conditions regarding the method of sale) ninety (90) days after the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the SEC, subject to the lengthier market standoff agreement contained in Section 4 of this Exercise Agreement or any other agreement entered into by Purchaser. Affiliates must comply with the provisions (other than the holding period requirements) of Rule 144 which permits certain limited sales of unregistered securities. Rule 144 is not presently available with respect to the Shares and, in any event, requires that the Shares be held for a minimum of six (6) months, and in certain cases one (1) year, after they have been purchased and paid for (within the meaning of Rule 144). Purchaser understands that Rule 144 may indefinitely restrict transfer of the Shares so long as Purchaser remains an “affiliate” of the Company or if “current public information” about the Company (as defined in Rule 144) is not publicly available.

3.5 Issuance Other than Under SEC Rule 701. To the extent the Shares are issued other than under SEC Rule 701, Purchaser further represents and warrants as follows:

(a) Sophistication; Preexisting Relationship. Purchaser is a sophisticated investor having such knowledge and experience in financial matters that Purchaser is able to fend for him or her self in connection with an investment in the Company, is capable of evaluating the merits and risks of this investment and is financially capable of bearing a total loss of this investment.

(b) Access to Information. Purchaser has had access to all information regarding the Company and its present and prospective business, assets, liabilities and financial condition that Purchaser reasonably considers important in making the decision to purchase the Shares, and Purchaser has had ample opportunity to ask questions of the Company’s representatives concerning such matters and this investment.

(c) **Understanding of Risks.** Purchaser is fully aware of: (i) the highly speculative nature of the investment in the Shares; (ii) the financial hazards involved; (iii) the lack of liquidity of the Shares and the restrictions on transferability of the Shares (e.g., that Purchaser may not be able to sell or dispose of the Shares or use them as collateral for loans); (iv) the qualifications and backgrounds of the management of the Company; and (v) the tax consequences of investment in the Shares.

(d) **Purchase for Own Account for Investment.** Purchaser is purchasing the Shares for Purchaser's own account for investment purposes only and not with a view to, or for sale in connection with, a distribution of the Shares within the meaning of the Securities Act. Purchaser has no present intention of selling or otherwise disposing of all or any portion of the Shares and no one other than Purchaser has any beneficial ownership of any of the Shares.

(e) **No General Solicitation.** At no time was Purchaser presented with or solicited by any publicly issued or circulated newspaper, mail, radio, television or other form of general advertising or solicitation in connection with the offer, sale and purchase of the Shares.

(f) **SEC Rule 144.** Purchaser has been advised that SEC Rule 144 promulgated under the Securities Act, which permits certain limited sales of unregistered securities, is not presently available with respect to the Shares and, in any event, requires that the Shares be held for a minimum of six (6) months, and in certain cases one (1) year, after they have been purchased and paid for (within the meaning of Rule 144). Purchaser understands that Rule 144 may indefinitely restrict transfer of the Shares so long as Purchaser remains an "affiliate" of the Company or if "current public information" about the Company (as defined in Rule 144) is not publicly available.

4. MARKET STANDOFF AGREEMENT. Purchaser agrees in connection with any registration of the Company's securities that, upon the request of the Company or the underwriters managing any public offering of the Company's securities, Purchaser will not sell or otherwise dispose of any Shares without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) after the effective date of such registration requested by such managing underwriters and subject to all restrictions as the Company or the underwriters may specify for employee-stockholders generally. For purposes of this Section 4, the term "Company" shall include any wholly-owned subsidiary of the Company into which the Company merges or consolidates. In order to enforce the foregoing covenant, the Company shall have the right to place restrictive legends on the certificates representing the shares subject to this Section and to impose stop transfer instructions with respect to the Shares until the end of such period. Purchaser further agrees to enter into any agreement reasonably required by the underwriters to implement the foregoing.

5. COMPANY'S RIGHT OF FIRST REFUSAL. Unvested Shares (as defined in Section 2.2 of the Stock Option Agreement) may not be sold or otherwise be transferred by Purchaser without the Company's prior written consent. Before any Vested Shares held by

Purchaser or any transferee of such Vested Shares (either sometimes referred to herein as the “**Holder**”) may be sold or otherwise transferred (including, without limitation, a transfer by gift or operation of law), the Company and/or its assignee(s) will have a right of first refusal to purchase the Vested Shares to be sold or transferred (the “**Offered Shares**”) on the terms and conditions set forth in this Section 5 (the “**Right of First Refusal**”).

5.1 Notice of Proposed Transfer. The Holder of the Offered Shares will deliver to the Company a written notice (the “**Notice**”) stating: (a) the Holder’s bona fide intention to sell or otherwise transfer the Offered Shares; (b) the name and address of each proposed purchaser or other transferee (the “**Proposed Transferee**”); (c) the number of Offered Shares to be transferred to each Proposed Transferee; (d) the bona fide cash price or other consideration for which the Holder proposes to transfer the Offered Shares (the “**Offered Price**”); and (e) that the Holder acknowledges this Notice is an offer to sell the Offered Shares to the Company and/or its assignee(s) pursuant to the Company’s Right of First Refusal at the Offered Price as provided for in this Exercise Agreement.

5.2 Exercise of Right of First Refusal. At any time within thirty (30) days after the date the Notice is effective pursuant to Section 10.3, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all (or, with the consent of the Holder, less than all) the Offered Shares proposed to be transferred to any one or more of the Proposed Transferees named in the Notice, at the purchase price, determined as specified below.

5.3 Purchase Price. The purchase price for the Offered Shares purchased under this Section will be the Offered Price, provided that if the Offered Price consists of no legal consideration (as, for example, in the case of a transfer by gift) the purchase price will be the fair market value of the Offered Shares as determined in good faith by the Company’s Board of Directors. If the Offered Price includes consideration other than cash, then the value of the non-cash consideration, as determined in good faith by the Company’s Board of Directors, will conclusively be deemed to be the cash equivalent value of such non-cash consideration.

5.4 Payment. The purchase price for the Offered Shares will be paid by check. The purchase price will be paid without interest within sixty (60) days after the Company’s receipt of the Notice, or, at the option of the Company and/or its assignee(s), in the manner and at the time(s) set forth in the Notice.

5.5 Holder’s Right to Transfer. If all of the Offered Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Offered Shares to each Proposed Transferee at the Offered Price or at a higher price, provided that (a) such sale or other transfer is consummated within one hundred twenty (120) days after the date of the Notice, (b) any such sale or other transfer is effected in compliance with all applicable securities laws, and (c) each Proposed Transferee agrees in writing that the provisions of this Section will continue to apply to the Offered Shares in the hands of such Proposed Transferee. If the Offered Shares described in the Notice are not transferred to each Proposed Transferee within such one hundred twenty (120) day period, then a new Notice must be given to the Company pursuant to which the Company will again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

5.6 Exempt Transfers. Notwithstanding anything to the contrary in this Section, the following transfers of Vested Shares will be exempt from the Right of First Refusal: (a) the transfer of any or all of the Vested Shares during Purchaser's lifetime by gift or on Purchaser's death by will or intestacy to Purchaser's "Immediate Family" (as defined below) or to a trust for the benefit of Purchaser or Purchaser's Immediate Family, provided that each transferee or other recipient agrees in a writing satisfactory to the Company that the provisions of this Section will continue to apply to the transferred Vested Shares in the hands of such transferee or other recipient; (b) any transfer or conversion of Vested Shares made pursuant to a statutory merger or statutory consolidation of the Company with or into another entity or entities (except that, subject to Section 5.7, unless the agreement of merger or consolidation expressly otherwise provides, the Right of First Refusal will continue to apply thereafter to such Vested Shares, in which case the surviving entity of such merger or consolidation shall succeed to the rights of the Company under this Section 5); or (c) any transfer of Vested Shares pursuant to the winding up and dissolution of the Company. As used herein, the term "**Immediate Family**" will mean Purchaser's spouse, the lineal descendant or antecedent, father, mother, brother or sister, child, adopted child, grandchild or adopted grandchild of the Purchaser or the Purchaser's spouse, or the spouse of any of the above.

5.7 Termination of Right of First Refusal. The Right of First Refusal will terminate as to all Shares (a) on the effective date of the first sale of Common Stock of the Company to the public pursuant to a registration statement filed with and declared effective by the SEC under the Securities Act (other than a registration statement relating solely to the issuance of Common Stock pursuant to a business combination or an employee incentive or benefit plan) or (b) on any transfer or conversion of Shares made pursuant to a statutory merger or statutory consolidation of the Company with or into another entity or entities if the common stock of the surviving entity or any direct or indirect parent entity thereof is registered under the Securities Exchange Act of 1934, as amended.

6. COMPANY'S REPURCHASE OPTION FOR UNVESTED SHARES. The Company, or its assignee, shall have the option to repurchase all or a portion of the Purchaser's Unvested Shares on the terms and conditions set forth in this Section 6 (the "**Repurchase Option**") if Purchaser is Terminated (as defined in the Plan) for any reason, or no reason, including without limitation, Purchaser's death, Disability (as defined in the Plan), voluntary resignation or termination by the Company with or without Cause. Notwithstanding the foregoing, the Company shall retain the Repurchase Option for Unvested Shares only as to that number of Unvested Shares (whether or not exercised) that exceeds the number of shares which remain unexercised.

6.1 Termination and Termination Date. In case of any dispute as to whether Purchaser is Terminated, the Committee shall have discretion to determine whether Purchaser has been Terminated and the effective date of such Termination (the "**Termination Date**").

6.2 Exercise of Repurchase Option. At any time within ninety (90) days after the Purchaser's Termination Date (or, in the case of securities issued upon exercise of an Option after the Purchaser's Termination Date, within ninety (90) days after the date of such exercise), the Company, or its assignee, may elect to repurchase any or all the Purchaser's Unvested Shares by giving Purchaser written notice of exercise of the Repurchase Option, specifying the number of Unvested Shares to be repurchased. Such Unvested Shares shall be

repurchased at the Purchaser's Exercise Price, proportionately adjusted for any stock split or similar change in the capital structure of the Company as set forth in Section 2.2 of the Plan (the "**Repurchase Price**"). The Repurchase Price shall be payable, at the option of the Company or its assignee, by check or by cancellation of all or a portion of any outstanding indebtedness owed by Purchaser to the Company or such assignee, or by any combination thereof. The Repurchase Price shall be paid without interest within the term of the Repurchase Option as described in the first sentence of this Section 6.2.

6.3 Right of Termination Unaffected. Nothing in this Exercise Agreement shall be construed to limit or otherwise affect in any manner whatsoever the right or power of the Company (or any Parent or Subsidiary of the Company) to terminate Purchaser's employment or other relationship with Company (or the Parent or Subsidiary of the Company) at any time, for any reason or no reason, with or without Cause.

7. ADDITIONAL RESTRICTIONS UPON SHARE OWNERSHIP OR TRANSFER.

7.1 Rights as a Stockholder. Subject to the terms and conditions of this Exercise Agreement, Purchaser will have all of the rights of a stockholder of the Company with respect to the Shares from and after the date that Shares are issued to Purchaser until such time as Purchaser disposes of the Shares or the Company and/or its assignee(s) exercise(s) the Right of First Refusal or the Repurchase Option. Upon an exercise of the Right of First Refusal or the Repurchase Option, Purchaser will have no further rights as a holder of the Shares so purchased upon such exercise, other than the right to receive payment for the Shares so purchased in accordance with the provisions of this Exercise Agreement, and Purchaser will promptly surrender the stock certificate(s) evidencing the Shares so purchased to the Company for transfer or cancellation.

7.2 Escrow. As security for Purchaser's faithful performance of this Exercise Agreement, Purchaser agrees, immediately upon receipt of the stock certificate(s) evidencing the Shares, to deliver such certificate(s), together with the Stock Powers executed by Purchaser and by Purchaser's spouse, if any (with the date, name of transferee, stock certificate number and number of Shares left blank), to the Secretary of the Company or other designee of the Company (the "**Escrow Holder**"), who is hereby appointed to hold such certificate(s) and Stock Powers in escrow and to take all such actions and to effectuate all such transfers and/or releases of such Shares as are in accordance with the terms of this Exercise Agreement. Purchaser and the Company agree that Escrow Holder will not be liable to any party to this Exercise Agreement (or to any other person or entity) for any actions or omissions unless Escrow Holder is grossly negligent or intentionally fraudulent in carrying out the duties of Escrow Holder under this Exercise Agreement. Escrow Holder may rely upon any letter, notice or other document executed with any signature purported to be genuine and may rely on the advice of counsel and obey any order of any court with respect to the transactions contemplated by this Exercise Agreement. The Shares will be released from escrow upon termination of both the Right of First Refusal and the Repurchase Option.

7.3 Encumbrances on Option or Shares. Purchaser may not grant a lien or security interest in, or pledge, hypothecate or encumber, any Unvested Shares. Purchaser may grant a lien or security interest in, or pledge, hypothecate or encumber Vested Shares only if prior to such event each party to whom such lien or security interest is granted, or to whom such

pledge, hypothecation or other encumbrance is made, agrees in a writing satisfactory to the Company that: (a) such lien, security interest, pledge, hypothecation or encumbrance will not apply to such Vested Shares after they are acquired by the Company and/or its assignees under the Right of First Refusal; and (b) the provisions of Sections 4 and 5 of and of this Section 7 will continue to apply to such Vested Shares in the hands of such party and any transferee of such party.

7.4 General Restrictions on Transfers. Purchaser hereby agrees that Purchaser shall make no disposition of the Shares (other than as permitted by this Exercise Agreement) unless and until:

(a) Purchaser shall have notified the Company of the proposed disposition and provided a written summary of the terms and conditions of the proposed disposition;

(b) Purchaser shall have complied with all requirements of this Exercise Agreement applicable to the disposition of the Shares, including but not limited to the Right of First Refusal, the Market Standoff and the Repurchase Option; and

(c) Purchaser shall have provided the Company with written assurances, in form and substance satisfactory to counsel for the Company, that (i) the proposed disposition does not require registration of the Shares under the Securities Act or under any state securities laws, and (ii) all appropriate actions necessary for compliance with the registration and qualification requirements of the Securities Act and any state securities laws, or of any exemption from registration or qualification, available thereunder (including Rule 144) have been taken.

Each person (other than the Company) to whom the Shares are transferred by means of one of the permitted transfers specified in this Exercise Agreement must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Company that such person is bound by the provisions of this Exercise Agreement and that the transferred Shares are subject to the Company's Right of First Refusal or the Repurchase Option granted under this Exercise Agreement and the market stand-off provisions of Section 4 hereof, to the same extent such Shares would be so subject if retained by the Purchaser.

7.5 Restrictive Legends and Stop-transfer Orders. Purchaser understands and agrees that the Company will place the legends set forth below or similar legends on any stock certificate(s) evidencing the Shares, together with any other legends that may be required by applicable laws, the Company's Certificate of Incorporation or Bylaws, any other agreement between Purchaser and the Company or any agreement between Purchaser and any third party:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE

REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON PUBLIC RESALE AND TRANSFER, INCLUDING THE RIGHT OF FIRST REFUSAL AND, IN CERTAIN CIRCUMSTANCES, THE REPURCHASE OPTION HELD BY THE ISSUER AND/OR ITS ASSIGNEE(S), AND A MARKET STANDOFF AGREEMENT, AS SET FORTH IN A STOCK OPTION EXERCISE AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH PUBLIC SALE AND TRANSFER RESTRICTIONS INCLUDING THE RIGHT OF FIRST REFUSAL, THE REPURCHASE RIGHT AND THE MARKET STANDOFF ARE BINDING ON TRANSFEREES OF THESE SHARES.

Purchaser agrees that, to ensure compliance with the restrictions imposed by this Exercise Agreement, the Company may issue appropriate "stop-transfer" instructions to its transfer agent, if any, and if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records. The Company will not be required (a) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Agreement or (b) to treat as owner of such Shares, or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares have been so transferred.

8. TAX CONSEQUENCES. PURCHASER UNDERSTANDS THAT PURCHASER MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF PURCHASER'S PURCHASE OR DISPOSITION OF THE SHARES. PURCHASER REPRESENTS: (i) THAT PURCHASER HAS CONSULTED IN CONNECTION WITH THE PURCHASE OF THE SHARES, AND WILL CONSULT IN CONNECTION WITH ANY DISPOSITION OF THE SHARES, WITH ANY TAX ADVISER THAT PURCHASER DEEMS ADVISABLE, AND (ii) THAT PURCHASER IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE. IN PARTICULAR, IF UNVESTED SHARES ARE SUBJECT TO REPURCHASE BY THE COMPANY, PURCHASER REPRESENTS THAT PURCHASER HAS CONSULTED WITH PURCHASER'S OWN TAX ADVISER CONCERNING THE ADVISABILITY OF FILING AN 83(b) ELECTION WITH THE INTERNAL REVENUE SERVICE WHICH MUST BE FILED WITHIN THIRTY (30) DAYS OF THE PURCHASE OF SHARES TO BE EFFECTIVE. Set forth below is a brief summary as of the date the Plan was adopted by the Board of some of the U.S. Federal and California tax consequences of exercise of the Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. PURCHASER SHOULD CONSULT HIS OR HER OWN TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

8.1 Exercise of Incentive Stock Option. If the Option qualifies as an ISO, there will be no regular U.S. Federal income tax liability or California income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on

the date of exercise over the Exercise Price will be treated as a tax preference item for U.S. Federal alternative minimum tax purposes and may subject Purchaser to the alternative minimum tax in the year of exercise.

8.2 Exercise of Nonqualified Stock Option. If the Option does not qualify as an ISO, there may be a regular U.S. Federal income tax liability and a California income tax liability upon the exercise of the Option. Purchaser will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Purchaser is or was an employee of the Company, the Company may be required to withhold from Purchaser's compensation or collect from Purchaser and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

8.3 Disposition of Shares. The following tax consequences may apply upon disposition of the Shares:

(a) **Incentive Stock Options.** If the Shares are held for more than twelve (12) months after the date of purchase of the Shares pursuant to the exercise of an ISO and are disposed of more than two (2) years after the Date of Grant, any gain realized on disposition of the Shares will be treated as long term capital gain for federal and California income tax purposes. If Shares purchased under an ISO are disposed of within the applicable one (1) year or two (2) year period, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates in the year of the disposition) to the extent of the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. To the extent the Shares were exercised prior to vesting coincident with the filing of an 83(b) Election, the amount taxed because of a disqualifying disposition will be based upon the excess, if any, of the fair market value on the date of vesting over the exercise price.

(b) **Nonqualified Stock Options.** If the Shares are held for more than twelve (12) months after the date of purchase of the Shares pursuant to the exercise of an NQSO, any gain realized on disposition of the Shares will be treated as long term capital gain.

(c) **Withholding.** The Company may be required to withhold from the Purchaser's compensation or collect from the Purchaser and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income.

8.4 Section 83(b) Election for Unvested Shares. With respect to Unvested Shares, which are subject to the Repurchase Option, unless an election is filed by the Purchaser with the Internal Revenue Service (and, if necessary, the proper state taxing authorities), **within 30 days of the purchase** of the Unvested Shares, electing pursuant to Section 83(b) of the Code (and similar state tax provisions, if applicable) to be taxed currently on any difference between the Exercise Price of the Unvested Shares and their Fair Market Value on the date of purchase, there may be a recognition of taxable income (including, where applicable, alternative minimum taxable income) to the Purchaser, measured by the excess, if any, of the Fair Market Value of the Unvested Shares at the time they cease to be Unvested Shares, over the Exercise Price of the Unvested Shares. A form of Election under Section 83(b) is provided with this Exercise Agreement for reference. *BY PROVIDING THE FORM OF ELECTION, THE COMPANY DOES NOT THEREBY UNDERTAKE TO FILE THE ELECTION FOR PURCHASER, WHICH OBLIGATION TO FILE SHALL REMAIN SOLELY WITH PURCHASER.*

9. COMPLIANCE WITH CALIFORNIA SECURITIES LAWS. *THE SALE OF THE SECURITIES THAT ARE THE SUBJECT OF THIS EXERCISE AGREEMENT, IF NOT YET QUALIFIED WITH THE CALIFORNIA COMMISSIONER OF CORPORATIONS AND NOT EXEMPT FROM SUCH QUALIFICATION, IS SUBJECT TO SUCH QUALIFICATION, AND THE ISSUANCE OF SUCH SECURITIES, AND THE RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL UNLESS THE SALE IS EXEMPT. THE RIGHTS OF THE PARTIES TO THIS EXERCISE AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED OR AN EXEMPTION BEING AVAILABLE.*

10. GENERAL PROVISIONS.

10.1 Successors and Assigns. The Company may assign any of its rights under this Exercise Agreement, including its right to purchase Shares under the Repurchase Option and the Right of First Refusal. Neither Purchaser, nor any of Purchaser's successors and assigns, may assign, whether voluntarily or by operation of law, any of Purchaser's rights and obligations under this Exercise Agreement, except with the prior written consent of the Company. This Exercise Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Agreement will be binding upon Purchaser and Purchaser's heirs, executors, administrators, legal representatives, successors and assigns.

10.2 Governing Law. This Exercise Agreement shall be governed by and construed in accordance with the internal laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California.

10.3 Notices. Any notice required to be given or delivered to the Company shall be in writing and addressed to the Corporate Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to Purchaser shall be in writing and addressed to Purchaser at the address indicated above or to such other address as Purchaser may designate in writing from time to time to the Company. All notices shall be deemed effectively given upon personal delivery to the party to be notified, or (a) three (3) days after deposit in the United States mail by certified or registered mail (return receipt requested), (b) one (1) business day after deposit with any return receipt express courier (prepaid), for deliveries within the United States, or three (3) business days after such deposit for deliveries where sender and recipient are not both within the United States, or (c) one (1) business day after transmission by pdf electronic mail, rapifax or telecopier addressed to the other party at its e-mail address, facsimile number, or telecopier address specified herein (or hereafter noticed to the parties hereto), with confirmation of such transmission.

10.4 Further Assurances. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Exercise Agreement.

10.5 Entire Agreement. The Plan, the Grant Notice, the Stock Option Agreement and this Exercise Agreement, together with all ancillary documents referenced in this Exercise Agreement, constitute the entire agreement and understanding of the parties with respect to the subject matter of this Exercise Agreement, and supersede all prior understandings and agreements, whether oral or written, between the parties hereto with respect to the specific subject matter hereof.

10.6 Severability. If any provision of this Exercise Agreement is determined by any court or arbitrator of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such provision will be enforced to the maximum extent possible given the intent of the parties hereto. If such clause or provision cannot be so enforced, such provision shall be stricken from this Exercise Agreement and the remainder of this Exercise Agreement shall be enforced as if such invalid, illegal or unenforceable clause or provision had (to the extent not enforceable) never been contained in this Exercise Agreement. Notwithstanding the forgoing, if the value of this Exercise Agreement based upon the substantial benefit of the bargain for any party is materially impaired, which determination as made by the presiding court or arbitrator of competent jurisdiction shall be binding, then both parties agree to substitute such provision(s) through good faith negotiations.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this Stock Option Exercise Agreement to be executed by its duly authorized representative and Purchaser has executed this Stock Option Exercise Agreement as of the Effective Date, indicated above.

PALO ALTO NETWORKS, INC.

PURCHASER

By: _____

(Signature)

(Please print name)

(Please print name)

(Please print title)

Address: _____

Title to Shares. The exact spelling of the name(s) under which Purchaser will take title to the Shares is:

Purchaser desires to take title to the Shares as follows:

- Individual, as separate property
- Husband and wife, as community property
- Joint Tenants
- Other; please specify: _____

To assign the Shares to a trust, a stock transfer agreement in the form provided by the Company (the "**Stock Transfer Agreement**") must be completed and executed.

**[SIGNATURE PAGE TO PALO ALTO NETWORKS, INC.
STOCK OPTION EXERCISE AGREEMENT]**

**ANCILLARY DOCUMENTS
FURNISHED WITH
STOCK OPTION EXERCISE AGREEMENT**

Stock Power And Assignment
Separate From Stock Certificate

FOR VALUE RECEIVED and pursuant to that certain Stock Option Exercise Agreement dated as of _____, (the "**Agreement**"), the undersigned hereby sells, assigns and transfers unto _____, _____ shares of the Common Stock, \$0.0001 par value per share, of Palo Alto Networks, Inc., a Delaware corporation (the "**Company**"), standing in the undersigned's name on the books of the Company represented by Certificate No(s). _____ delivered herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company as the undersigned's attorney-in-fact, with full power of substitution, to transfer said stock on the books of the Company. *THIS ASSIGNMENT MAY ONLY BE USED AS AUTHORIZED BY THE AGREEMENT AND ANY EXHIBITS THERETO.*

Dated: _____

PURCHASER

(Signature)

(Please Print Name)

(Spouse's Signature, if any)

(Please Print Spouse's Name)

Instructions to Purchaser: Please do not fill in any blanks other than the signature line. The purpose of this Stock Power and Assignment is to enable the Company to acquire the shares pursuant to its "Repurchase Option" and/or "Right of First Refusal" set forth in the Exercise Agreement without requiring additional signatures on the part of Purchaser or Purchaser's Spouse.

Spouse Consent

The undersigned spouse of _____ (the "**Purchaser**") has read, understands, and hereby approves the Stock Option Exercise Agreement between Purchaser and Palo Alto Networks, Inc. (the "**Agreement**"). In consideration of Palo Alto Networks, Inc. granting my spouse the right to purchase the Shares as set forth in the Agreement, the undersigned hereby agrees to be irrevocably bound by the Agreement and further agrees that any community property interest I may have in the Shares shall similarly be bound by the Agreement. The undersigned hereby appoints Purchaser as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Dated: _____

Print Name of Purchaser's Spouse

Signature of Purchaser's Spouse

Address: _____

COPY OF PURCHASER'S CHECK

SECTION 83(b) ELECTION

**FOR "EARLY" EXERCISE ONLY; I.E. IF YOU ARE
PURCHASING "UNVESTED" SHARES UPON OPTION EXERCISE**

ELECTION UNDER SECTION 83(b) OF THE INTERNAL REVENUE CODE

The undersigned Taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include the excess, if any, of the fair market value of the property described below at the time of transfer over the amount paid for such property, as compensation for services in the calculation of: (1) regular gross income; (2) alternative minimum taxable income or (3) disqualifying disposition gross income, as the case may be.

1. TAXPAYER'S NAME: _____
TAXPAYER'S ADDRESS: _____
SOCIAL SECURITY NUMBER: _____
2. The property with respect to which the election is made is described as follows: _____ shares of Common Stock of Palo Alto Networks, Inc., a Delaware corporation (the "**Company**"), which were transferred upon exercise of an option by Company, which is Taxpayer's employer or the corporation for whom the Taxpayer performs services.
3. The date on which the shares were transferred pursuant to the exercise of the option was _____ and this election is made for calendar year _____.
4. The shares received upon exercise of the option are subject to the following restrictions: The Company may repurchase all or a portion of the shares at the Taxpayer's original purchase price under certain conditions at the time of Taxpayer's termination of employment or services.
5. The fair market value of the shares (without regard to restrictions other than restrictions which by their terms will never lapse) was \$ _____ per share at the time of exercise of the option.
6. The amount paid for such shares upon exercise of the option was \$ _____ per share.
7. The Taxpayer has submitted a copy of this statement to the Company.

THIS ELECTION MUST BE FILED WITH THE INTERNAL REVENUE SERVICE ("**IRS**"), AT THE OFFICE WHERE THE TAXPAYER FILES ANNUAL INCOME TAX RETURNS, WITHIN 30 DAYS AFTER THE DATE OF TRANSFER OF THE SHARES, AND MUST ALSO BE FILED WITH THE TAXPAYER'S INCOME TAX RETURNS FOR THE CALENDAR YEAR. THE ELECTION CANNOT BE REVOKED WITHOUT THE CONSENT OF THE IRS.

Dated: _____

Taxpayer's Signature

PALO ALTO NETWORKS, INC.

RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement (the “**Agreement**”) is between Palo Alto Networks, Inc., a Delaware corporation (the “**Company**”), and the participant named below (the “**Participant**”). Capitalized terms not defined herein shall have the meanings ascribed to them in the Company’s 2005 Equity Incentive Plan, as may be amended from time to time (the “**Plan**”).

Participant:

Number of Shares of Restricted Stock:

Date of Grant:

Vesting Start Date:

Vesting Schedule:

Subject to any accelerated vesting provisions in the Plan and the occurrence of a Trigger Event (described in the next paragraph), twenty-five percent (25%) of the Shares of Restricted Stock subject to this Agreement shall vest on the one (1) year anniversary of the Vesting Start Date, and [twenty-five percent (25%)/six and one-quarter percent (6.25%)] of the Shares of Restricted Stock subject to this Agreement shall vest each [year/quarter] thereafter, subject to Participant continuing to provide services as an employee, officer, director or consultant to the Company or a Parent or Subsidiary of the Company through each such vesting date.

Notwithstanding the base vesting schedule in the previous paragraph, no Shares of Restricted Stock shall vest and be released from the forfeiture provisions of Section 8 until the first to occur of: (i) a Corporate Transaction; or (ii) the date of the expiration of the market stand-off period described in Section 7 which occurs on and following the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the SEC under the 1933 Act (the first to occur, a “**Trigger Event**” and such date of the Trigger Event, the “**Trigger Date**”). Any Shares of Restricted Stock that would have vested under the base vesting schedule above (absent the previous sentence) will vest on the Trigger Date. For the avoidance of doubt, if Participant does not continue to provide services as an

employee, officer, director or consultant to the Company or a Parent or Subsidiary of the Company through the Trigger Date, then Participant will not vest in any Shares of Restricted Stock.

Any Shares of Restricted Stock granted under this Agreement which have not yet vested as of a given time are referred to herein as "**Unvested Shares.**" Shares of Restricted Stock that are vested pursuant to the Vesting Schedule above are referred to herein as "**Vested Shares.**"

1. **GRANT OF RESTRICTED STOCK.** The Company hereby grants to the Participant under the Plan for services performed and to be performed by Participant for the Company 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, the number of Shares of Restricted Stock set forth above, subject to all of the terms and conditions in this Agreement and the Plan, which is incorporated herein by reference. For the avoidance of doubt, par value per Share shall be deemed to be paid for services performed and to be performed by Participant for the Company. Subject to Section 20 of the Plan, in the event of a conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of the Plan shall prevail.

2. **DELIVERY.**

2.1 **Deliveries by Participant.** Participant hereby delivers to the Company (i) this Agreement, (ii) two (2) copies of a blank Stock Power and Assignment Separate from Stock Certificate in the form of Exhibit 1 attached hereto (the "**Stock Powers**"), both executed by Participant (and Participant's spouse, if any) and (iii) if Participant is married, a Consent of Spouse in the form of Exhibit 2 attached hereto (the "**Spouse Consent**") executed by Participant's spouse.

2.2 **Deliveries by the Company.** Upon its receipt of all the documents to be executed and delivered by Participant to the Company under Section 2.1, the Company will issue a duly executed stock certificate evidencing the Shares in the name of Participant to be placed in escrow as provided in Section 11 until expiration or termination of the forfeiture provision described in Section 8 or the Company's Right of First Refusal described in Sections 9.

3. **REPRESENTATIONS AND WARRANTIES OF PARTICIPANT.** Participant represents and warrants to the Company that:

3.1 **Agrees to Terms of the Plan.** Participant has received a copy of the Plan, has read and understands the terms of the Plan and this Agreement, and agrees to be bound by their terms and conditions. Participant acknowledges that there may be adverse tax consequences upon vesting and/or disposition of the Shares, and that Participant has had the opportunity to consult a tax adviser.

3.2 **Purchase for Own Account for Investment.** Participant is purchasing the Shares for Participant's own account for investment purposes only and not with a view to, or for sale

in connection with, a distribution of the Shares within the meaning of the Securities Act. Participant has no present intention of selling or otherwise disposing of all or any portion of the Shares and no one other than Participant has any beneficial ownership of any of the Shares.

3.3 **Access to Information.** To the extent required by applicable laws, including, but not limited to, SEC Rule 701, Participant has had access to all information regarding the Company and its present and prospective business, assets, liabilities and financial condition that Participant reasonably considers important in making the decision to purchase the Shares, and Participant has had ample opportunity to ask questions of the Company's representatives concerning such matters and this investment.

3.4 **Understanding of Risks.** Participant is fully aware of: (i) the highly speculative nature of the investment in the Shares; (ii) the financial hazards involved; (iii) the lack of liquidity of the Shares and the restrictions on transferability of the Shares (e.g., that Participant may not be able to sell or dispose of the Shares or use them as collateral for loans); (iv) the qualifications and backgrounds of the management of the Company; and (v) the tax consequences of investment in the Shares. Participant is capable of evaluating the merits and risks of this investment, has the ability to protect Participant's own interests in this transaction and is financially capable of bearing a total loss of this investment.

3.5 **No General Solicitation.** At no time was Participant presented with or solicited by any publicly issued or circulated newspaper, mail, radio, television or other form of general advertising or solicitation in connection with the offer, sale and purchase of the Shares.

4. COMPLIANCE WITH SECURITIES LAWS.

4.1 **Compliance with U.S. Federal Securities Laws.** Participant understands and acknowledges that the Shares have not been registered with the SEC under the Securities Act and that, notwithstanding any other provision of the Agreement to the contrary, the grant of Shares is expressly conditioned upon compliance with the Securities Act and all applicable state securities laws. Participant agrees to cooperate with the Company to ensure compliance with such laws. Unless otherwise specified, the Shares are being issued under the Securities Act pursuant to the exemption provided by SEC Rule 701.

4.2 **Compliance with California Securities Laws.** *UNLESS OTHERWISE SPECIFIED, THE PLAN, AND THIS AGREEMENT ARE INTENDED TO COMPLY WITH SECTION 25102(o) OF THE CALIFORNIA CORPORATIONS CODE AND ANY RULES (INCLUDING COMMISSIONER RULES, IF APPLICABLE) OR REGULATIONS PROMULGATED THEREUNDER BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS (THE "REGULATIONS"), AND ANY PROVISION OF THIS AGREEMENT THAT IS INCONSISTENT WITH SECTION 25102(o) SHALL, WITHOUT FURTHER ACT OR AMENDMENT BY THE COMPANY OR THE BOARD, BE REFORMED TO COMPLY WITH THE REQUIREMENTS OF SECTION 25102(o). THE SALE OF THE SECURITIES THAT ARE THE SUBJECT OF THIS AGREEMENT, IF NOT YET QUALIFIED WITH THE CALIFORNIA COMMISSIONER OF CORPORATIONS AND NOT EXEMPT FROM SUCH QUALIFICATION, IS SUBJECT TO SUCH*

QUALIFICATION, AND THE ISSUANCE OF SUCH SECURITIES, AND THE RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL UNLESS THE SALE IS EXEMPT. THE RIGHTS OF THE PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED OR AN EXEMPTION BEING AVAILABLE.

5. **RESTRICTED SECURITIES.**

5.1 **No Transfer Unless Registered or Exempt.** Participant understands that Participant may not transfer any Shares unless such Shares are registered under the Securities Act or qualified under applicable state securities laws or unless, in the opinion of counsel to the Company, exemptions from such registration and qualification requirements are available. Participant understands that only the Company may file a registration statement with the SEC and that the Company is under no obligation to do so with respect to the Shares. Participant has also been advised that exemptions from registration and qualification may not be available or may not permit Participant to transfer all or any of the Shares in the amounts or at the times proposed by Participant.

5.2 **SEC Rule 144.** In addition, Participant has been advised that SEC Rule 144 promulgated under the Securities Act, which permits certain limited sales of unregistered securities, is not presently available with respect to the Shares and, in any event, requires that the Shares be held for a minimum of one (1) year, and in certain cases two (2) years, after they have been purchased and paid for (within the meaning of Rule 144). Participant understands that Rule 144 may indefinitely restrict transfer of the Shares so long as Participant remains an "affiliate" of the Company or if "current public information" about the Company (as defined in Rule 144) is not publicly available.

5.3 **SEC Rule 701.** Unless otherwise specified, the Shares are issued pursuant to SEC Rule 701 promulgated under the Securities Act and may become freely tradeable by non-affiliates (under limited conditions regarding the method of sale) ninety (90) days after the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the SEC, subject to the lengthier market standoff agreement contained in Section 7 of this Agreement or any other agreement entered into by Participant. Affiliates must comply with the provisions (other than the holding period requirements) of Rule 144.

6. **RESTRICTIONS ON TRANSFERS.**

6.1 **Disposition of Shares.** Participant hereby agrees that Participant shall make no disposition of the Shares (other than as permitted by this Agreement) unless and until:

(a) Participant shall have notified the Company of the proposed disposition and provided a written summary of the terms and conditions of the proposed disposition;

(b) Participant shall have complied with all requirements of this Agreement applicable to the disposition of the Shares;

(c) Participant shall have provided the Company with written assurances, in form and substance satisfactory to counsel for the Company, that (i) the proposed disposition does not require registration of the Shares under the Securities Act or (ii) all appropriate actions necessary for compliance with the registration requirements of the Securities Act or of any exemption from registration available under the Securities Act (including Rule 144) have been taken; and

(d) Participant shall have provided the Company with written assurances, in form and substance satisfactory to the Company, that the proposed disposition will not result in the contravention of any transfer restrictions applicable to the Shares pursuant to the provisions of the Regulations referred to in Section 4.2 hereof.

6.2 **Restriction on Transfer.** Participant shall not transfer, assign, grant a lien or security interest in, pledge, hypothecate, encumber or otherwise dispose of any of the Shares that are subject to forfeiture under Section 8 or the Company's Right of First Refusal described below, except as permitted by this Agreement.

6.3 **Transferee Obligations.** Each person (other than the Company) to whom the Shares are transferred by means of one of the permitted transfers specified in this Agreement must, as a condition precedent to the validity of such transfer, acknowledge in writing to the Company that such person is bound by the provisions of this Agreement and that the transferred Shares are subject to (i) both forfeiture under Section 8 and the Company's Right of First Refusal granted hereunder and (ii) the market stand-off provisions of Section 7 hereof, to the same extent such Shares would be so subject if retained by the Participant.

7. **MARKET STANDOFF AGREEMENT.** Participant agrees in connection with any registration of the Company's securities that, upon the request of the Company or the underwriters managing any public offering of the Company's securities, Participant will not sell or otherwise dispose of any Shares without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) after the effective date of such registration requested by such managing underwriters and subject to all restrictions as the Company or the underwriters may specify. Participant further agrees to enter into any agreement reasonably required by the underwriters to implement the foregoing.

8. **FORFEITURE UPON TERMINATION.** Notwithstanding any contrary provision of this Agreement, if Participant is Terminated for any or no reason prior to vesting, the then Unvested Shares of Restricted Stock awarded by this Agreement will thereupon 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 hereby appoints the Escrow Holder (as defined below) 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.

9. **COMPANY'S RIGHT OF FIRST REFUSAL.** Unvested Shares may not be sold or otherwise be transferred by Participant without the Company's prior written consent. Before any Vested Shares held by Participant or any transferee of such Vested Shares (either sometimes referred to herein as the "**Holder**") may be sold or otherwise transferred (including, without limitation, a transfer by gift or operation of law), the Company and/or its assignee(s) will have a right of first refusal to purchase the Vested Shares to be sold or transferred (the "**Offered Shares**") on the terms and conditions set forth in this Section (the "**Right of First Refusal**").

9.1 **Notice of Proposed Transfer.** The Holder of the Offered Shares will deliver to the Company a written notice (the "**Notice**") stating: (i) the Holder's bona fide intention to sell or otherwise transfer the Offered Shares; (ii) the name and address of each proposed Participant or other transferee (the "**Proposed Transferee**"); (iii) the number of Offered Shares to be transferred to each Proposed Transferee; (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Offered Shares (the "**Offered Price**"); and (v) that the Holder acknowledges this Notice is an offer to sell the Offered Shares to the Company and/or its assignee(s) pursuant to the Company's Right of First Refusal at the Offered Price as provided for in this Agreement. Upon request of the Company, the Holder will promptly furnish to the Company such information and documentation as may be reasonably requested to establish that the Offered Price and Proposed Transferee(s) are bona fide.

9.2 **Exercise of Right of First Refusal.** At any time within thirty (30) days after the date of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all (or, with the consent of the Holder, less than all) the Offered Shares proposed to be transferred to any one or more of the Proposed Transferees named in the Notice, at the purchase price, determined as specified below.

9.3 **Purchase Price.** The purchase price for the Offered Shares purchased under this Section will be the Offered Price, provided that if the Offered Price consists of no legal consideration (as, for example, in the case of a transfer by gift) the purchase price will be the fair market value of the Offered Shares as determined in good faith by the Company's Board of Directors. If the Offered Price includes consideration other than cash, then the value of the non-cash consideration, as determined in good faith by the Company's Board of Directors, will conclusively be deemed to be the cash equivalent value of such non-cash consideration.

9.4 **Payment.** Payment of the purchase price for the Offered Shares will be payable, at the option of the Company and/or its assignee(s) (as applicable), by check or by cancellation of all or a portion of any outstanding purchase money indebtedness owed by the Holder to the Company (or to such assignee, in the case of a purchase of Offered Shares by such assignee) or by any combination thereof. The purchase price will be paid without interest within sixty (60) days after the Company's receipt of the Notice, or, at the option of the Company and/or its assignee(s), in the manner and at the time(s) set forth in the Notice.

9.5 **Holder's Right to Transfer.** If all of the Offered Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its

assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Offered Shares to each Proposed Transferee at the Offered Price or at a higher price, provided that (i) such sale or other transfer is consummated within one hundred twenty (120) days after the date of the Notice, (ii) any such sale or other transfer is effected in compliance with all applicable securities laws, and (iii) each Proposed Transferee agrees in writing that the provisions of this Section will continue to apply to the Offered Shares in the hands of such Proposed Transferee. If the Offered Shares described in the Notice are not transferred to each Proposed Transferee within such one hundred twenty (120) day period, then a new Notice must be given to the Company pursuant to which the Company will again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

9.6 Exempt Transfers. Notwithstanding anything to the contrary in this Section, the following transfers of Vested Shares will be exempt from the Right of First Refusal: (i) the transfer of any or all of the Vested Shares during Participant's lifetime by gift or on Participant's death by will or intestacy to Participant's "Immediate Family" (as defined below) or to a trust for the benefit of Participant or Participant's Immediate Family, provided that each transferee or other recipient agrees in a writing satisfactory to the Company that the provisions of this Section will continue to apply to the transferred Vested Shares in the hands of such transferee or other recipient; (ii) any transfer or conversion of Vested Shares made pursuant to a statutory merger or statutory consolidation of the Company with or into another corporation or corporations (except that the Right of First Refusal will continue to apply thereafter to such Vested Shares, in which case the surviving corporation of such merger or consolidation shall succeed to the rights of the Company under this Section unless (A) the common stock of the surviving corporation or any direct or indirect parent corporation thereof is registered under the Securities Exchange Act of 1934, as amended; or (B) the agreement of merger or consolidation expressly otherwise provides); or (iii) any transfer of Vested Shares pursuant to the winding up and dissolution of the Company. As used herein, the term "**Immediate Family**" will mean Participant's spouse, the lineal descendant or antecedent, father, mother, brother or sister, child, adopted child, grandchild or adopted grandchild of the Participant or the Participant's spouse, or the spouse of any of the above.

9.7 Termination of Right of First Refusal. The Right of First Refusal will terminate as to all Shares (i) on the effective date of the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the SEC under the 1933 Act (other than a registration statement relating solely to the issuance of Common Stock pursuant to a business combination or an employee incentive or benefit plan) or (ii) on any transfer or conversion of Shares made pursuant to a statutory merger or statutory consolidation of the Company with or into another corporation or corporations if the common stock of the surviving corporation or any direct or indirect parent corporation thereof is registered under the Securities Exchange Act of 1934, as amended.

9.8 Encumbrances on Vested Shares. Participant may grant a lien or security interest in, or pledge, hypothecate or encumber Vested Shares only if each party to whom such lien or security interest is granted, or to whom such pledge, hypothecation or other encumbrance is made, agrees in a writing satisfactory to the Company that: (i) such lien, security interest, pledge,

hypothecation or encumbrance will not apply to such Vested Shares after they are acquired by the Company and/or its assignees under this Section; and (ii) the provisions of this Section will continue to apply to such Vested Shares in the hands of such party and any transferee of such party. Purchase may not grant a lien or security interest in, or pledge, hypothecate or encumber, any Unvested Shares.

10. **RIGHTS AS A STOCKHOLDER.** Subject to the terms and conditions of this Agreement, Participant will have all of the rights of a stockholder of the Company with respect to the Shares from and after the date that Shares are issued to Participant until such time as Participant disposes of the Shares, the Company and/or its assignee(s) exercise(s) the Right of First Refusal or Participant forfeits Shares under Section 8 herein. Upon applicability of the forfeiture provision under Section 8 or the Right of First Refusal, Participant will have no further rights as a holder of the Shares, other than the right to receive payment for the Shares so purchased in accordance with the provisions of this Agreement, and Participant will promptly surrender the stock certificate(s) evidencing the Shares so purchased to the Company for transfer or cancellation.

11. **ESCROW.** As security for Participant's faithful performance of this Agreement, Participant agrees, immediately upon receipt of the stock certificate(s) evidencing the Shares, to deliver such certificate(s), together with the Stock Powers executed by Participant and by Participant's spouse, if any (with the date and number of Shares left blank), to the Secretary of the Company or other designee of the Company (the "**Escrow Holder**"), who is hereby appointed to hold such certificate(s) and Stock Powers in escrow and to take all such actions and to effectuate all such transfers and/or releases of such Shares as are in accordance with the terms of this Agreement. Participant and the Company agree that Escrow Holder will not be liable to any party to this Agreement (or to any other party) for any actions or omissions unless Escrow Holder is grossly negligent or intentionally fraudulent in carrying out the duties of Escrow Holder under this Agreement. Escrow Holder may rely upon any letter, notice or other document executed with any signature purported to be genuine and may rely on the advice of counsel and obey any order of any court with respect to the transactions contemplated by this Agreement. The Shares will be released from escrow upon termination of the forfeiture provision under Section 8 and the Right of First Refusal.

12. **RESTRICTIVE LEGENDS AND STOP-TRANSFER ORDERS.**

12.1 **Legends.** Participant understands and agrees that the Company will place the legends set forth below or similar legends on any stock certificate(s) evidencing the Shares, together with any other legends that may be required by state or U.S. Federal securities laws, the Company's Certificate of Incorporation or Bylaws, any other agreement between Participant and the Company or any agreement between Participant and any third party:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES

ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON PUBLIC RESALE AND TRANSFER, INCLUDING THE FORFEITURE PROVISION AND RIGHT OF FIRST REFUSAL OPTION HELD BY THE ISSUER AND/OR ITS ASSIGNEE(S) AS SET FORTH IN THE AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH PUBLIC SALE AND TRANSFER RESTRICTIONS INCLUDING THE FORFEITURE PROVISION AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A 180 DAY MARKET STANDOFF RESTRICTION AS SET FORTH IN A CERTAIN AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. AS A RESULT OF SUCH AGREEMENT, THESE SHARES MAY NOT BE TRADED PRIOR TO 180 DAYS AFTER THE EFFECTIVE DATE OF ANY PUBLIC OFFERING OF THE COMMON STOCK OF THE ISSUER HEREOF. SUCH RESTRICTION IS BINDING ON TRANSFEREES OF THESE SHARES.

12.2 **Stop-Transfer Instructions.** Participant agrees that, to ensure compliance with the restrictions imposed by this Agreement, the Company may issue appropriate “stop-transfer” instructions to its transfer agent, if any, and if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

12.3 **Refusal to Transfer.** The Company will not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares, or to accord the right to vote or pay dividends to any Participant or other transferee to whom such Shares have been so transferred.

13. **TAX CONSEQUENCES.** PARTICIPANT UNDERSTANDS THAT PARTICIPANT MAY SUFFER ADVERSE TAX CONSEQUENCES AS A RESULT OF PARTICIPANT'S VESTING OR DISPOSITION OF THE SHARES. PARTICIPANT REPRESENTS: (i) THAT PARTICIPANT HAS CONSULTED WITH ANY TAX ADVISER THAT PARTICIPANT DEEMS ADVISABLE IN CONNECTION WITH THE VESTING OR DISPOSITION OF THE SHARES AND (ii) THAT PARTICIPANT IS NOT RELYING ON THE COMPANY FOR ANY TAX ADVICE. IN PARTICULAR, IF UNVESTED SHARES ARE SUBJECT TO FORFEITURE, PARTICIPANT REPRESENTS THAT PARTICIPANT HAS CONSULTED WITH PARTICIPANT'S OWN TAX ADVISER CONCERNING THE ADVISABILITY OF FILING AN 83(b) ELECTION WITH THE INTERNAL REVENUE SERVICE WHICH MUST BE FILED WITHIN THIRTY (30) DAYS OF THE GRANT OF SHARES TO BE EFFECTIVE.

13.1 **General U.S. Federal Income Tax Treatment.** With respect to Unvested Shares, there may generally be recognition of taxable income (including, where applicable, alternative minimum taxable income) to the Participant, measured by the excess, if any, of the Fair Market Value of the Unvested Shares at the time they cease to be Unvested Shares, over the Exercise Price of the Unvested Shares. Participant should consult a tax adviser with respect to Participant's individual Federal, state, local and foreign tax consequences.

13.2 **Forfeiture on Filing an 83(b) Election.** If Participant files a timely election pursuant to Section 83(b) of the Code (and similar state tax provisions, if applicable) (an "83(b) Election") to be taxed currently on any difference between the purchase price, if any, of the Unvested Shares and their Fair Market Value on the date of grant, then all Unvested Shares shall automatically be forfeited under this Section 13.2 without consideration. **Therefore, if Participant files an 83(b) Election, Participant will have a tax event with respect to all the Unvested Shares subject to this Agreement and Participant will also forfeit all rights with respect to such Unvested Shares without consideration.**

13.3 **Tax Withholding.** Pursuant to such procedures as the Company may specify from time to time, the Company shall withhold the minimum amount required to be withheld for the payment of income, employment and other taxes which the Company determines must be withheld (the "Withholding Taxes") with respect to the filing of an 83(b) Election, or, if an 83(b) Election is not filed or not timely filed, upon each vesting date, by, in the Company's discretion: (i) withholding otherwise deliverable Shares having a Fair Market Value equal to the amount of such Withholding Taxes, (ii) withholding the amount of such Withholding Taxes from Participant's paycheck(s), (iii) requiring Participant to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Participant) for the satisfaction of all Withholding Taxes, or (iv) a combination of the foregoing. The Company shall not retain fractional Shares to satisfy any portion of the Withholding Taxes. Accordingly, if any withholding is done through the withholding of

Shares, Participant shall pay to the Company an amount in cash sufficient to satisfy the remaining Withholding Taxes due and payable as a result of the Company not retaining fractional Shares. Should the Company be unable to procure such cash amounts from Participant, Participant agrees and acknowledges that Participant is giving the Company permission to withhold from Participant's paycheck(s) an amount equal to the remaining Withholding Taxes due and payable as a result of the Company not retaining fractional Shares. Participant acknowledges and agrees that the Company may refuse to deliver the Shares if such withholding amounts are not delivered at the time they are due.

14. **COMPLIANCE WITH LAWS AND REGULATIONS.** The issuance and transfer of the Shares will be subject to and conditioned upon compliance by the Company and Participant with all applicable state and U.S. Federal laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer.

15. **SUCCESSORS AND ASSIGNS.** The Company may assign any of its rights under this Agreement, including its right to purchase Shares the Right of First Refusal and reacquire Shares as a result of Participant's forfeiture under Section 8. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement will be binding upon Participant and Participant's heirs, executors, administrators, legal representatives, successors and assigns.

16. **GOVERNING LAW; SEVERABILITY.** This Agreement shall be governed by and construed in accordance with the internal laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California. If any provision of this Agreement is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

17. **NOTICES.** Any notice required to be given or delivered to the Company shall be in writing and addressed to the Corporate Secretary of the Company at its principal corporate offices. Any notice required to be given or delivered to Participant shall be in writing and addressed to Participant at the address indicated above or to such other address as Participant may designate in writing from time to time to the Company. All notices shall be deemed effectively given upon personal delivery, (i) three (3) days after deposit in the United States mail by certified or registered mail (return receipt requested), (ii) one (1) business day after its deposit with any return receipt express courier (prepaid), or (iii) one (1) business day after transmission by fax or telecopier.

18. **FURTHER INSTRUMENTS.** The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

19. **HEADINGS.** The captions and headings of this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement. All references herein to Sections will refer to Sections of this Agreement.

20. **ENTIRE AGREEMENT.** The Plan and this Agreement, together with all Exhibits thereto, constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede all prior understandings and agreements, whether oral or written, between the parties hereto with respect to the specific subject matter hereof.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in duplicate by its duly authorized representative and Participant has executed this Agreement in duplicate as of the Effective Date, indicated above.

PALO ALTO NETWORKS, INC.

PARTICIPANT

By: _____

(Signature)

(Please print name)

(Please print name)

(Please print title)

[Signature Page to Restricted Stock Agreement]

LIST OF EXHIBITS

Exhibit 1: Stock Power and Assignment Separate from Stock Certificate

Exhibit 2: Spouse Consent

EXHIBIT 1

**STOCK POWER AND ASSIGNMENT
SEPARATE FROM STOCK CERTIFICATE**

Stock Power And Assignment
Separate From Stock Certificate

FOR VALUE RECEIVED and pursuant to that certain Stock Option Agreement dated as of _____, (the "**Agreement**"), the undersigned hereby sells, assigns and transfers unto _____, _____ shares of the Common Stock, \$0.001 par value per share, of Palo Alto Networks, Inc., a Delaware corporation (the "**Company**"), standing in the undersigned's name on the books of the Company represented by Certificate No(s) _____ delivered herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company as the undersigned's attorney-in-fact, with full power of substitution, to transfer said stock on the books of the Company. THIS ASSIGNMENT MAY ONLY BE USED AS AUTHORIZED BY THE AGREEMENT AND ANY EXHIBITS THERETO.

Dated: _____

PARTICIPANT

(Signature)

(Please Print Name)

(Spouse's Signature, if any)

(Please Print Spouse's Name)

Instructions to Participant: Please do not fill in any blanks other than the signature line. The purpose of this Stock Power and Assignment is to enable the Company to acquire the shares pursuant to the forfeiture provision in Section 8 and/or "Right of First Refusal" set forth in the Agreement without requiring additional signatures on the part of the Participant or Participant's Spouse.

EXHIBIT 2

SPOUSE CONSENT

Spouse Consent

The undersigned spouse of _____ (the "**Participant**") has read, understands, and hereby approves the Stock Option Agreement between Participant and the Company (the "**Agreement**"). In consideration of the Company's granting my spouse the right to purchase the Shares as set forth in the Agreement, the undersigned hereby agrees to be irrevocably bound by the Agreement and further agrees that any community property interest I may have in the Shares shall similarly be bound by the Agreement. The undersigned hereby appoints Participant as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

Dated: _____

PARTICIPANT

Print Name of Participant's Spouse

Signature of Participant's Spouse

Address: _____

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 _____ Incentive Stock Option
_____ Nonstatutory Stock Option
Term/Expiration Date _____

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 (1/48th) 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.

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. 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 Name: _____

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:

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:

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 EMPLOYEE STOCK PURCHASE PLAN

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock through accumulated Contributions. The Company's intention is to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan, accordingly, will be construed so as to extend and limit Plan participation in a uniform and nondiscriminatory basis consistent with the requirements of Section 423 of the Code.

2. Definitions.

(a) "Administrator" means the Board or any Committee designated by the Board to administer the Plan pursuant to Section 14.

(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 options are, or will be, granted under the Plan.

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

(d) "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, 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, 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 U.S. 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.

(e) "Code" means the U.S. Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or U.S. Treasury Regulation thereunder will include such section or regulation, any valid regulation or other official applicable guidance promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(f) "Committee" means a committee of the Board appointed in accordance with Section 14 hereof.

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

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

(i) "Compensation" means an Eligible Employee's base straight time gross earnings, payments for overtime and shift premium, but exclusive of payments for commissions, incentive compensation, bonuses and other similar compensation. The Administrator, in its discretion, may, on a uniform and nondiscriminatory basis, establish a different definition of Compensation for a subsequent Offering Period.

(j) “Contributions” means the payroll deductions and other additional payments that the Company may permit to be made by a Participant to fund the exercise of options granted pursuant to the Plan.

(k) “Designated Subsidiary” means any Subsidiary that has been designated by the Administrator from time to time in its sole discretion as eligible to participate in the Plan.

(l) “Director” means a member of the Board.

(m) “Eligible Employee” means any individual who is a common law employee of the Company or a Designated Subsidiary and is customarily employed for at least twenty (20) hours per week and more than five (5) months in any calendar year by the Employer, or any lesser number of hours per week and/or number of months in any calendar year established by the Administrator (if required under applicable local law) for purposes of any separate Offering. For purposes of the Plan, the employment relationship will be treated as continuing intact while the individual is on sick leave or other leave of absence that the Employer approves or is legally protected under Applicable Laws. Where the period of leave exceeds three (3) months and the individual’s right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated three (3) months and one (1) day following the commencement of such leave. The Administrator retains the authority to revise the definition of Eligible Employee (on a uniform and nondiscriminatory basis or as otherwise permitted by Treasury Regulation Section 1.423-2). Accordingly, the Administrator, in its discretion, from time to time may, prior to an Enrollment Date for all options to be granted on such Enrollment Date in an Offering, determine (on a uniform and nondiscriminatory basis or as otherwise permitted by Treasury Regulation Section 1.423-2) that the definition of Eligible Employee will or will not include an individual if he or she: (i) has not completed at least two (2) years of service since his or her last hire date (or such lesser period of time as may be determined by the Administrator in its discretion), (ii) customarily works not more than twenty (20) hours per week (or such lesser period of time as may be determined by the Administrator in its discretion), (iii) customarily works not more than five (5) months per calendar year (or such lesser period of time as may be determined by the Administrator in its discretion), (iv) is a highly compensated employee within the meaning of Section 414(q) of the Code, or (v) is a highly compensated employee within the meaning of Section 414(q) of the Code with compensation above a certain level or is an officer or subject to the disclosure requirements of Section 16(a) of the Exchange Act, provided the exclusion is applied with respect to each Offering in an identical manner to all highly compensated individuals of the Employer whose Employees are participating in that Offering. Each exclusion shall be applied with respect to an Offering in a manner complying with U.S. Treasury Regulation Section 1.423-2(e)(2)(ii).

(n) “Employer” means the employer of the applicable Eligible Employee(s).

(o) “Enrollment Date” means the first Trading Day of each Offering Period.

(p) “Exchange Act” means the Securities Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder.

(q) "Exercise Date" means the first Trading Day on or after March 15 and September 15 of each Purchase Period. Notwithstanding the foregoing, the first Exercise Date under the Plan will be March 15, 2013.

(r) "Fair Market Value" means, as of any date and unless the Administrator determines otherwise, 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, 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 as quoted on such exchange or system on the date of determination (or the closing bid, if no sales were reported), 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, its Fair Market Value will be the mean between the high bid and low asked prices for the Common Stock on the date of determination (or if no bids and asks were reported on that date, as applicable, on the last Trading Day such bids and asks were reported), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

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

(iv) For purposes of the Enrollment Date of the first Offering Period under the Plan, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement on Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Common Stock (the "Registration Statement").

(s) "Fiscal Year" means the fiscal year of the Company.

(t) "New Exercise Date" means a new Exercise Date if the Administrator shortens any Offering Period then in progress.

(u) "Offering" means an offer under the Plan of an option that may be exercised during an Offering Period as further described in Section 4. For purposes of the Plan, the Administrator may designate separate Offerings under the Plan (the terms of which need not be identical) in which Employees of one or more Employers will participate, even if the dates of the applicable Offering Periods of each such Offering are identical and the provisions of the Plan will separately apply to each Offering. To the extent permitted by U.S. Treasury Regulation Section 1.423-2(a)(1), the terms of each Offering need not be identical provided that the terms of the Plan and an Offering together satisfy U.S. Treasury Regulation Section 1.423-2(a)(2) and (a)(3).

(v) "Offering Periods" means the periods of approximately six (6) months during which an option granted pursuant to the Plan may be exercised, (i) commencing on the first Trading Day on or after March 15 and September 15 of each year and terminating on the first Trading Day on or after September 15 and March 15, approximately six (6) months later; provided, however, that

the first Offering Period under the Plan will commence with the first Trading Day on or after the date on which the Securities and Exchange Commission declares the Company's Registration Statement effective and will end on the first Trading Day on or after March 15, 2013, and provided, further, that the second Offering Period under the Plan will commence on the first Trading Day on or after March 15, 2013. The duration and timing of Offering Periods may be changed pursuant to Sections 4 and 20.

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

(x) "Participant" means an Eligible Employee that participates in the Plan.

(y) "Plan" means this Palo Alto Networks, Inc. 2012 Employee Stock Purchase Plan.

(z) "Purchase Period" means the approximately six (6) month period commencing after one Exercise Date and ending with the next Exercise Date, except that the first Purchase Period of any Offering Period will commence on the Enrollment Date and end with the next Exercise Date. Unless the Administrator provides otherwise, the Purchase Period will have the same duration and coincide with the length of the Offering Period.

(aa) "Purchase Price" means an amount equal to eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower; provided however, that the Purchase Price may be determined for subsequent Offering Periods by the Administrator subject to compliance with Section 423 of the Code (or any successor rule or provision or any other Applicable Law, regulation or stock exchange rule) or pursuant to Section 20.

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

(cc) "Trading Day" means a day on which the national stock exchange upon which the Common Stock is listed is open for trading.

(dd) "U.S. Treasury Regulations" means the Treasury regulations of the Code. Reference to a specific Treasury Regulation or Section of the Code shall include such Treasury Regulation or Section, 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.

3. Eligibility.

(a) First Offering Period. Any individual who is an Eligible Employee immediately prior to the first Offering Period will be automatically enrolled in the first Offering Period.

(b) Subsequent Offering Periods. Any Eligible Employee on a given Enrollment Date subsequent to the first Offering Period will be eligible to participate in the Plan, subject to the requirements of Section 5.

(c) Non-U.S. Employees. Employees who are citizens or residents of a non-U.S. jurisdiction (without regard to whether they also are citizens or residents of the United States or resident aliens (within the meaning of Section 7701(b)(1)(A) of the Code)) may be excluded from participation in the Plan or an Offering if the participation of such Employees is prohibited under the laws of the applicable jurisdiction or if complying with the laws of the applicable jurisdiction would cause the Plan or an Offering to violate Section 423 of the Code.

(d) Limitations. Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee will be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate, which exceeds twenty-five thousand dollars (\$25,000) worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time, as determined in accordance with Section 423 of the Code and the regulations thereunder.

4. Offering Periods. The Plan will be implemented by consecutive Offering Periods with a new Offering Period commencing on the first Trading Day on or after March 15 and September 15 each year, or on such other date as the Administrator will determine; provided, however, that the first Offering Period under the Plan will commence with the first Trading Day on or after the date upon which the Company's Registration Statement is declared effective by the Securities and Exchange Commission and end on the first Trading Day on or after March 15, 2013, and provided, further, that the second Offering Period under the Plan will commence on the first Trading Day on or after March 15, 2013. The Administrator will have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future Offerings without stockholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected thereafter; provided, however, that no Offering Period may last more than twenty-seven (27) months.

5. Participation.

(a) First Offering Period. An Eligible Employee will be entitled to continue to participate in the first Offering Period pursuant to Section 3(a) only if such individual (x) submits a subscription agreement authorizing payroll deductions in a form determined by the Administrator to the Company's designated plan administrator or (y) follows an electronic enrollment procedure determined by the Administrator, in each case, (i) no earlier than the effective date of the Form S-8 registration statement with respect to the issuance of Common Stock under this Plan and (ii) no later than ten (10) business days following the effective date of such S-8 registration statement or such

other period of time as the Administrator may determine (the "Enrollment Window"). An Eligible Employee's failure to submit the subscription agreement during the Enrollment Window will result in the automatic termination of such individual's participation in the first Offering Period.

(b) Subsequent Offering Periods. An Eligible Employee may participate in the Plan pursuant to Section 3(b) by (i) submitting to the Company's stock administration office (or its designee), on or before a date determined by the Administrator prior to an applicable Enrollment Date, a properly completed subscription agreement authorizing Contributions in the form provided by the Administrator for such purpose, or (ii) following an electronic or other enrollment procedure determined by the Administrator.

6. Contributions.

(a) At the time a Participant enrolls in the Plan pursuant to Section 5, he or she will elect to have payroll deductions made on each pay day or other Contributions (to the extent permitted by the Administrator) made during the Offering Period in an amount not exceeding fifteen percent (15%) of the Compensation, which he or she receives on each pay day during the Offering Period, including any pay day that occurs on an Exercise Date. The Administrator, in its sole discretion, may permit all Participants in a specified Offering to contribute amounts to the Plan through payment by cash, check or other means set forth in the subscription agreement prior to each Exercise Date of each Purchase Period. A Participant's subscription agreement will remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(b) Payroll deductions for a Participant will commence on the first pay day following the Enrollment Date and will end on the last pay day on or prior to the Exercise Date of such Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 10 hereof; provided, however, that for the first Offering Period, payroll deductions will commence on the first pay day on or following the end of the Enrollment Window.

(c) All Contributions made for a Participant will be credited to his or her account under the Plan and payroll deductions will be made in whole percentages only. A Participant may not make any additional payments into such account.

(d) A Participant may discontinue his or her participation in the Plan as provided in Section 10. Unless otherwise determined by the Administrator, during an Offering Period, a Participant may not increase the rate of his or her Contributions and may only decrease the rate of his or her Contributions one (1) time and such decrease must be to a Contribution rate of zero percent (0%). Any such decrease during an Offering Period requires the Participant (i) properly completing and submitting to the Company's stock administration office (or its designee), on or before a date determined by the Administrator prior to an applicable Exercise Date, a new subscription agreement authorizing the change in Contribution rate in the form provided by the Administrator for such purpose, or (ii) following an electronic or other procedure prescribed by the Administrator. If a Participant has not followed such procedures to change the rate of Contributions, the rate of his or her Contributions will continue at the originally elected rate throughout the Offering Period and future Offering Periods (unless terminated as provided in Section 10). The Administrator may, in its sole discretion, amend the nature and/or number of Contribution rate

changes that may be made by Participants during any Offering Period, and may establish such other conditions or limitations as it deems appropriate for Plan administration. Any change in payroll deduction rate made pursuant to this Section 6(d) will be effective as of the first full payroll period following five (5) business days after the date on which the change is made by the Participant (unless the Administrator, in its sole discretion, elects to process a given change in payroll deduction rate more quickly).

(e) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(d), a Participant's Contributions may be decreased to zero percent (0%) at any time during a Purchase Period. Subject to Section 423(b)(8) of the Code and Section 3(d) hereof, Contributions will recommence at the rate originally elected by the Participant effective as of the beginning of the first Purchase Period scheduled to end in the following calendar year, unless terminated by the Participant as provided in Section 10.

(f) Notwithstanding any provisions to the contrary in the Plan, the Administrator may allow Eligible Employees to participate in the Plan via cash contributions instead of payroll deductions if (i) payroll deductions are not permitted under applicable local law, and (ii) the Administrator determines that cash contributions are permissible under Section 423 of the Code.

(g) At the time the option is exercised, in whole or in part, or at the time some or all of the Common Stock issued under the Plan is disposed of (or any other time that a taxable event related to the Plan occurs), the Participant must make adequate provision for the Company's or Employer's federal, state, local or any other tax liability payable to any authority including taxes imposed by jurisdictions outside of the U.S., national insurance, social security or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock (or any other time that a taxable event related to the Plan occurs). At any time, the Company or the Employer may, but will not be obligated to, withhold from the Participant's compensation the amount necessary for the Company or the Employer to meet applicable withholding obligations, including any withholding required to make available to the Company or the Employer any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Eligible Employee. In addition, the Company or the Employer may, but will not be obligated to, withhold from the proceeds of the sale of Common Stock or any other method of withholding the Company or the Employer deems appropriate to the extent permitted by U.S. Treasury Regulation Section 1.423-2(f).

7. Grant of Option. On the Enrollment Date of each Offering Period, each Eligible Employee participating in such Offering Period will be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of Common Stock determined by dividing such Eligible Employee's Contributions accumulated prior to such Exercise Date and retained in the Eligible Employee's account as of the Exercise Date by the applicable Purchase Price; provided that in no event will an Eligible Employee be permitted to purchase during each Purchase Period more than 625 shares of Common Stock (subject to any adjustment pursuant to Section 19) and provided further that such purchase will be subject to the limitations set forth in Sections 3(d) and 13. The Eligible Employee may accept the grant of such option (i) with respect to the first Offering Period by submitting a properly completed subscription agreement in accordance with the requirements of Section 5 on or before the last day of the Enrollment Window, and (ii) with respect to any subsequent Offering Period under the Plan, by

electing to participate in the Plan in accordance with the requirements of Section 5. The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of Common Stock that an Eligible Employee may purchase during each Purchase Period of an Offering Period. Exercise of the option will occur as provided in Section 8, unless the Participant has withdrawn pursuant to Section 10. The option will expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a Participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of shares of Common Stock will be exercised automatically on the Exercise Date, and the maximum number of full shares subject to the option will be purchased for such Participant at the applicable Purchase Price with the accumulated Contributions from his or her account. No fractional shares of Common Stock will be purchased; any Contributions accumulated in a Participant's account, which are not sufficient to purchase a full share will be promptly refunded to Participant as soon as reasonably practicable following an Exercise Date. During a Participant's lifetime, a Participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Administrator determines that, on a given Exercise Date, the number of shares of Common Stock with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Enrollment Date of the applicable Offering Period, or (ii) the number of shares of Common Stock available for sale under the Plan on such Exercise Date, the Administrator may in its sole discretion (x) provide that the Company will make a pro rata allocation of the shares of Common Stock available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all Participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect or (y) provide that the Company will make a pro rata allocation of the shares available for purchase on such Enrollment Date or Exercise Date, as applicable, in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Exercise Date, and terminate any or all Offering Periods then in effect pursuant to Section 20. The Company may make a pro rata allocation of the shares available on the Enrollment Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such Enrollment Date.

9. Delivery. As soon as reasonably practicable after each Exercise Date on which a purchase of shares of Common Stock occurs, the Company will arrange the delivery to each Participant of the shares purchased upon exercise of his or her option in a form determined by the Administrator (in its sole discretion) and pursuant to rules established by the Administrator. The Company may permit or require that shares be deposited directly with a broker designated by the Company or to a designated agent of the Company, and the Company may utilize electronic or automated methods of share transfer. The Company may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. No Participant will have any voting, dividend, or other stockholder rights with respect to shares of Common Stock subject to any option granted under the Plan until such shares have been purchased and delivered to the Participant as provided in this Section 9.

10. Withdrawal.

(a) A Participant may withdraw all but not less than all the Contributions credited to his or her account and not yet used to exercise his or her option under the one (1) business day prior to an Exercise Date by (i) submitting to the Company's stock administration office (or its designee) a written notice of withdrawal in the form determined by the Administrator for such purpose, or (ii) following an electronic or other withdrawal procedure determined by the Administrator. All of the Participant's Contributions credited to his or her account will be paid to such Participant promptly after receipt of notice of withdrawal and such Participant's option for the Offering Period will be automatically terminated, and no further Contributions for the purchase of shares will be made for such Offering Period. If a Participant withdraws from an Offering Period, Contributions will not resume at the beginning of the succeeding Offering Period, unless the Participant re-enrolls in the Plan in accordance with the provisions of Section 5.

(b) A Participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in any similar plan that may hereafter be adopted by the Company or in succeeding Offering Periods that commence after the termination of the Offering Period from which the Participant withdraws.

11. Termination of Employment. Upon a Participant's ceasing to be an Eligible Employee, for any reason, he or she will be deemed to have elected to withdraw from the Plan and the Contributions credited to such Participant's account during the Offering Period but not yet used to purchase shares of Common Stock under the Plan will be returned to such Participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15, and such Participant's option will be automatically terminated.

12. Interest. No interest will accrue on the Contributions of a participant in the Plan, except as may be required by Applicable Law, as determined by the Company, and if so required by the laws of a particular jurisdiction, shall apply to all Participants in the relevant Offering except to the extent otherwise permitted by U.S. Treasury Regulation Section 1.423-2(f).

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of Common Stock that will be made available for sale under the Plan will be 1,000,000 shares of Common Stock, plus an annual increase to be added on the first day of each Fiscal Year beginning with the 2014 Fiscal Year equal to the least of (i) 2,000,000 shares of Common Stock, (ii) one percent (1%) of the outstanding shares of Common Stock on such date, or (iii) an amount determined by the Administrator.

(b) 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), a Participant will only have the rights of an unsecured creditor with respect to such shares, and no right to vote or receive dividends or any other rights as a stockholder will exist with respect to such shares.

(c) Shares of Common Stock to be delivered to a Participant under the Plan will be registered in the name of the Participant or in the name of the Participant and his or her spouse.

14. Administration. The Plan will be administered by the Board or a Committee appointed by the Board, which Committee will be constituted to comply with Applicable Laws. The Administrator will have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to designate separate Offerings under the Plan, to determine eligibility, to adjudicate all disputed claims filed under the Plan and to establish such procedures that it deems necessary for the administration of the Plan (including, without limitation, to adopt such procedures and sub-plans as are necessary or appropriate to permit the participation in the Plan by employees who are foreign nationals or employed outside the U.S., the terms of which sub-plans may take precedence over other provisions of this Plan, with the exception of Section 13(a) hereof, but unless otherwise superseded by the terms of such sub-plan, the provisions of this Plan shall govern the operation of such sub-plan). Unless otherwise determined by the Administrator, the Employees eligible to participate in each sub-plan will participate in a separate Offering. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules and procedures regarding eligibility to participate, the definition of Compensation, handling of Contributions, making of Contributions to the Plan (including, without limitation, in forms other than payroll deductions), establishment of bank or trust accounts to hold Contributions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of stock certificates that vary with applicable local requirements. The Administrator also is authorized to determine that, to the extent permitted by U.S. Treasury Regulation Section 1.423-2(f), the terms of an option granted under the Plan or an Offering to citizens or residents of a non-U.S. jurisdiction will be less favorable than the terms of options granted under the Plan or the same Offering to employees resident solely in the U.S. Every finding, decision and determination made by the Administrator will, to the full extent permitted by law, be final and binding upon all parties.

15. Designation of Beneficiary.

(a) If permitted by the Administrator, a Participant may file a designation of a beneficiary who is to receive any shares of Common Stock and cash, if any, from the Participant's account under the Plan in the event of such Participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such Participant of such shares and cash. In addition, if permitted by the Administrator, a Participant may file a designation of a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death prior to exercise of the option. If a Participant is married and the designated beneficiary is not the spouse, spousal consent will be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the Participant at any time by notice in a form determined by the Administrator, which may be electronic. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company will deliver such shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(c) All beneficiary designations will be in such form and manner as the Administrator may designate from time to time. Notwithstanding Sections 15(a) and (b) above, the Company and/or the Administrator may decide not to permit such designations by Participants in non-U.S. jurisdictions to the extent permitted by U.S. Treasury Regulation Section 1.423-2(f).

16. Transferability. Neither Contributions credited to a Participant's account nor any rights with regard to the exercise of an option or to receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition will be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. Use of Funds. The Company may use all Contributions received or held by it under the Plan for any corporate purpose, and the Company will not be obligated to segregate such Contributions except under Offerings in which applicable local law requires that Contributions to the Plan by Participants be segregated from the Company's general corporate funds and/or deposited with an independent third party for Participants in non-U.S. jurisdictions. Until shares of Common Stock are issued, Participants will only have the rights of an unsecured creditor with respect to such shares.

18. Reports. Individual accounts will be maintained for each Participant in the Plan. Statements of account will be given to participating Eligible Employees at least annually, which statements will set forth the amounts of Contributions, the Purchase Price, the number of shares of Common Stock purchased and the remaining cash balance, if any.

19. Adjustments, Dissolution, Liquidation, Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other change in the corporate structure of the Company affecting the Common Stock occurs, the Administrator, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will, in such manner as it may deem equitable, adjust the number and class of Common Stock that may be delivered under the Plan, the Purchase Price per share and the number of shares of Common Stock covered by each option under the Plan that has not yet been exercised, and the numerical limits of Sections 7 and 13.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, any Offering Period then in progress will be shortened by setting a New Exercise Date, and will terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Administrator. The New Exercise Date will be before the date of the Company's proposed dissolution or liquidation. The Administrator

will notify each Participant in writing or electronically, prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Change in Control. In the event of a merger or Change in Control, each outstanding option will be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, the Offering Period with respect to which such option relates will be shortened by setting a New Exercise Date on which such Offering Period shall end. The New Exercise Date will occur before the date of the Company's proposed merger or Change in Control. The Administrator will notify each Participant in writing or electronically prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Administrator, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Administrator, in its discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Common Stock on the next Exercise Date (which may be sooner than originally scheduled, if determined by the Administrator in its discretion), or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to Section 19). If the Offering Periods are terminated prior to expiration, all amounts then credited to Participants' accounts that have not been used to purchase shares of Common Stock will be returned to the Participants (without interest thereon, except as otherwise required under local laws, as further set forth in Section 12 hereof) as soon as administratively practicable.

(b) Without stockholder consent and without limiting Section 20(a), the Administrator will be entitled to change the Offering Periods or Purchase Periods, designate separate Offerings, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with Contribution amounts, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable that are consistent with the Plan.

(c) In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Administrator may, in its discretion and, to the extent necessary or desirable, modify, amend or terminate the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(i) amending the Plan to conform with the safe harbor definition under the Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto), including with respect to an Offering Period underway at the time;

(ii) altering the Purchase Price for any Offering Period or Purchase Period including an Offering Period or Purchase Period underway at the time of the change in Purchase Price;

(iii) shortening any Offering Period or Purchase Period by setting a New Exercise Date, including an Offering Period or Purchase Period underway at the time of the Administrator action;

(iv) reducing the maximum percentage of Compensation a Participant may elect to set aside as Contributions; and

(v) reducing the maximum number of Shares a Participant may purchase during any Offering Period or Purchase Period.

Such modifications or amendments will not require stockholder approval or the consent of any Plan Participants.

21. Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan will be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

22. Conditions Upon Issuance of Shares. Shares of Common Stock will not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto will comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and will be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option 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 by any of the aforementioned applicable provisions of law.

23. Code Section 409A. The Plan is exempt from the application of Code Section 409A and any ambiguities herein will be interpreted to so be exempt from Code Section 409A. In furtherance of the foregoing and notwithstanding any provision in the Plan to the contrary, if the Administrator determines that an option granted under the Plan may be subject to Code Section 409A or that any provision in the Plan would cause an option under the Plan to be subject to Code Section 409A, the Administrator may amend the terms of the Plan and/or of an outstanding option granted under the Plan, or take such other action the Administrator determines is necessary or appropriate, in each case, without the Participant's consent, to exempt any outstanding option or

future option that may be granted under the Plan from or to allow any such options to comply with Code Section 409A, but only to the extent any such amendments or action by the Administrator would not violate Code Section 409A. Notwithstanding the foregoing, the Company shall have no liability to a Participant or any other party if the option to purchase Common Stock under the Plan that is intended to be exempt from or compliant with Code Section 409A is not so exempt or compliant or for any action taken by the Administrator with respect thereto. The Company makes no representation that the option to purchase Common Stock under the Plan is compliant with Code Section 409A.

24. Term of Plan. The Plan will become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It will continue in effect for a term of twenty (20) years, unless sooner terminated under Section 20.

25. 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.

26. Governing Law. The Plan shall be governed by, and construed in accordance with, the laws of the State of California (except its choice-of-law provisions).

27. Severability. If any provision of the Plan is or becomes or is deemed to be invalid, illegal, or unenforceable for any reason in any jurisdiction or as to any Participant, such invalidity, illegality or unenforceability shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as to such jurisdiction or Participant as if the invalid, illegal or unenforceable provision had not been included.

28. Automatic Transfer to Low Price Offering Period. To the extent permitted by Applicable Laws, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Enrollment Date of such Offering Period, then all participants in such Offering Period will be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period as of the first day thereof.

May 23, 2012

Mark F. Anderson
[address]

Re: Offer of Employment

Dear Mark:

On behalf of Palo Alto Networks, Inc. (the "**Company**"), I am pleased to offer you employment on the terms below. We intend your start date will be no later than June 5, 2012. Your actual start date will be referred to in this offer letter as the "**Start Date**." The terms of this offer are contingent upon the satisfactory completion of a background and reference check.

1. Position. You will serve as Senior Vice President, Worldwide Field Operations (responsible for sales and customer support) of the Company. You will report to the Company's President and Chief Executive Officer (the "**CEO**") and shall perform the duties and responsibilities customary for such position and such other related duties as are assigned by the CEO. This is a full-time position. While you render services to the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company. You may engage in civic and not-for-profit activities as long as such activities do not interfere with the performance of your duties hereunder. By signing this letter agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company.

2. Cash Compensation.

(a) Base Salary. Your salary will be at an annualized rate of \$600,000 per year, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this offer letter, will be subject to applicable tax withholdings. Your salary may be adjusted from time to time by our Board of Directors (the "**Board**") or the Compensation Committee of our Board of Directors (the "**Compensation Committee**") in their sole discretion.

(b) Annual Bonus. For each fiscal year, you will have the opportunity to earn an annual cash bonus targeted at \$400,000 year based on the achievement of certain objectives, which will be established by our Board and/or the Compensation Committee. This bonus will be paid in equal installments on a quarterly basis, with a ratable portion of the bonus payable in your first fiscal year of employment with the Company. Each bonus payment is subject to your

continued employment through and until the date of payment. The bonus will be paid no later than March 15 of the year following the year in which such bonus was earned. Your target annual cash bonus opportunity and the terms and conditions thereof may be adjusted from time to time by our Board or the Compensation Committee in their sole discretion.

(c) Signing Bonus. The Company will pay you a one-time signing bonus of \$1,000,000 to be paid within thirty (30) days of the Start Date, subject to applicable tax withholding. If within the first twelve (12) months following the Start Date, your employment with the Company should terminate for any reason other than a termination by the Company without Cause, a termination by you for Good Reason, or for Disability, you will be required to repay the signing bonus to the Company within ten (10) business days of such termination; provided, however, that your repayment requirement will be forgiven at the rate of \$83,333 for each month of service during the first twelve (12) months of employment.

(d) Legal Expenses. The Company will reimburse you for the legal fees and expenses you actually and reasonably incur in connection with your departure from your current employer and the negotiation and preparation of this offer letter and related matters, such reimbursement not to exceed \$10,000.

(e) Relocation Expenses. If you and the Company agree that you should relocate to a location closer to Company headquarters in Santa Clara County, the Company will provide relocation benefits commensurate with benefits provided to senior executives at the Company consistent with past practices.

3. Equity. The Company will grant you a stock option under the Company's 2005 Equity Incentive Plan (the "**Plan**") to purchase 575,000 shares of the Company's Common Stock at the fair market value of the Company's Common Stock, as determined by the Board on the date the Board approves such grant (the "**Stock Option**"). The Stock Option will be nonstatutory stock options. The Stock Option will vest with respect to 1/4 of the shares subject to the Stock Option on the one year anniversary of the grant date, and an additional 1/48th of the shares each month thereafter, so long as you remain actively employed by the Company on each vesting date, as will be set forth in the applicable stock option agreement.

4. At Will Employment. While we look forward to a productive relationship, your employment with the Company, however, is for an unspecified period of time and this offer letter creates an at-will employment relationship that may be terminated (subject to the terms of this offer letter) by you or the Company at any time for any reason and with or without cause or prior notice. Upon termination of your employment for any reason, you shall be entitled to receive any compensation earned and reimbursements due through the effective date of termination, in addition to all other payments and benefits provided in this offer letter and in all employee benefits plan, policies and arrangements, as applicable.

5. Termination Benefits.

(a) Termination Following a Change in Control. In the event that there is a Change in Control of the Company and the Company or its successor terminates your employment other than for Cause, or you terminate your employment for Good Reason, in either case upon or within twenty-four (24) months following the Change in Control, then you will be entitled to receive: (i) a lump sum payment equal to your then-current annual base salary, 100% of your target bonus for that fiscal year paid in lump sum, and reimbursement of twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of twenty-four (24) months vesting of your then-outstanding unvested time-based equity awards (the "**Change in Control Severance Benefits**"). Your entitlement to the Change in Control Severance Benefits is subject to your compliance with subsection (c) below.

(b) Other Termination. In the event that your employment is terminated by the Company other than for Cause, at any time before a Change in Control or more than twenty-four (24) months following a Change in Control, then you will receive continued payment of your then current base salary for a period of six (6) months and reimbursement of six (6) months of your COBRA premiums in a lump sum (the "**Other Termination Severance Benefits**"). Your entitlement to the Other Termination Severance Benefits is subject to your compliance with subsection (c) below.

(c) Form and Timing of Payment. This Section 5 will not apply unless you (i) have returned all Company property in your possession, (ii) have resigned as a member of the Board of the Company and all of its subsidiaries, to the extent applicable, and (iii) have executed a general release of all claims that you may have against the Company or persons affiliated with the Company. The release must be in the form prescribed by the Company. You must execute and return the release on or before the date specified by the Company in the prescribed form (the "**Release Deadline**"). The Release Deadline will in no event be later than 50 days after your separation. If you fail to return the release on or before the Release Deadline, or if you revoke the release, then you will not be entitled to the benefits described in this Section 5. The severance payments will be paid in lump sum and/or commence, as applicable, following the effectiveness of the release within 60 days after your separation and, once they commence, will include a catch-up payment covering the amount that would have otherwise been paid during the period between your termination of employment and the first payment date but for the application of this provision. Notwithstanding the foregoing, if the 60-day period described in the preceding sentence spans two calendar years and/or if your severance payments are deferred compensation separation payments subject to Section 409A (as defined below), then the payments will be paid in lump sum and/or commence, as applicable, on the 60th day following your termination of employment, subject to Section 7.

(d) Definitions.

(i) For purposes of this letter agreement, “**Cause**” shall mean: (i) conviction of any felony or any crime involving moral turpitude or dishonesty; (ii) participation in intentional fraud or an act of willful dishonesty against the Company; (iii) willful breach of a material Company policy which materially harms the Company; (iv) intentional damage of a substantial amount of the Company’s property; (v) willful and material breach of this agreement, which breach continues following written notice and an opportunity to cure, if such breach is curable, within thirty (30) days of receipt of such notice, or a willful and material breach of the Employee Invention Assignment and Confidentiality Agreement; or (vi) a willful failure or refusal in a material respect by you to follow the lawful, reasonable policies or directions of the Company as specified by the Board or the CEO after being provided with notice of such failure, such notice specifying in reasonable detail the tasks which must be accomplished and a timeline for the accomplishment to avoid termination for Cause, and an opportunity to cure within thirty (30) days of receipt of such notice.

(ii) For purposes of this letter agreement, “**Good Reason**” shall mean: (i) a material reduction in your authority, status, obligations or responsibilities; (ii) a reduction of your total annual compensation of more than 10% unless such reduction is no greater (in percentage terms) than compensation reductions imposed on substantially all of the Company’s employees pursuant to a directive of the Board; (iii) any failure by the Company to pay your base salary; or (iv) the relocation of the principal place of the Company’s business to a location that is more than thirty-five (35) miles further from your home than before the relocation, provided that you have moved your home from Washington to a location that is in the ordinary commuting vicinity of the Company’s headquarters. Your resignation must occur within 12 months after one of the foregoing conditions has come into existence without your consent. A resignation for Good Reason will not be deemed to have occurred unless you give the Company written notice of the condition within 90 days after the condition comes into existence and the Company fails to remedy the condition within 30 days after receiving your written notice.

(iii) For purposes of this letter agreement, “**Change in Control**” shall mean: (i) the sale or other disposition of all or substantially all of the assets of the Company; (ii) any sale or exchange of the capital stock of the Company by the stockholders of the Company in one transaction or series of related transactions where more than fifty percent (50%) of the outstanding voting power of the Company is acquired by a person or entity or group of related persons or entities; (iii) any reorganization, consolidation or merger of the Company where the outstanding voting securities of the Company immediately before the transaction represent or are converted into less than fifty percent (50%) of the outstanding voting power of the surviving entity (or its parent corporation) immediately after the transaction; or (iv) the consummation of the acquisition of fifty-one percent (51%) or more of the outstanding stock of the Company pursuant to a tender offer validly made under any federal or state law (other than a tender offer

by 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 Section 409A.

6. Section 280G. If any payments and other benefits provided for in this offer letter or otherwise constitute “parachute payments” within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the “**Code**”) and, but for this Section 6, would be subject to the excise tax imposed by Section 4999 of the Code, then payments and other benefits will be payable to you either in full or in such lesser amounts as would result, after taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, on your receipt on an after-tax basis of the greatest amount of payments and other benefits, by reducing payments in the following order: (i) cancellation of accelerated vesting of stock options that are out-of-the-money; (ii) reduction in cash payments; (iii) cancellation of accelerated vesting of all equity awards that are not out-of-the-money stock options; and (iv) other employee benefits. In the event that acceleration of vesting of equity award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant.

7. Section 409A. For purposes of this offer letter, a termination of employment will be determined consistent with the rules relating to a “separation from service” as defined in Section 409A of the Code and the regulations thereunder (“**Section 409A**”). Notwithstanding anything else provided herein, to the extent any payments provided under this offer letter in connection with your termination of employment constitute deferred compensation subject to Section 409A, and you are deemed at the time of such termination of employment to be a “specified employee” under Section 409A, then such payment shall not be made or commence until the earlier of (i) the expiration of the six (6)-month period measured from your separation from service from the Company or (ii) the date of your death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to you including, without limitation, the additional tax for which you would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. The first payment thereof will include a catch-up payment covering the amount that would have otherwise been paid during the period between your termination of employment and the first payment date but for the application of this provision, and the balance of the installments (if any) will be payable in accordance with their original schedule. To the extent that any provision of this offer letter is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder comply with Section 409A. To the extent any payment under this offer letter may be classified as a “short-term deferral” within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this offer letter are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

8. Benefits. You will accrue paid time off (**PTO**) in accordance with the Company’s policies applicable to executive officers. You will also be eligible to participate in benefit plans,

policies and arrangements established by the Company for its employees from time to time. Upon your termination of employment with the Company for any reason, you will be paid your salary through your date of termination and for the value of all unused paid time off earned through that date, in addition to all other payments and benefits provided in this offer letter and in all employee benefits plan, policies and arrangements, as applicable.

9. Confidentiality; Compliance with Policies. As an employee of the Company, you will have access to certain confidential information of the Company and you may, during the course of your employment, develop certain information or inventions that will be the property of the Company. To protect the interests of the Company, as a condition of your employment you will be required to sign the Company's "Employee Invention Assignment and Confidentiality Agreement" on your start date. A copy of that agreement is attached hereto as **Exhibit A**. We wish to impress upon you that we do not want you to, and we hereby direct you not to, bring with you any confidential or proprietary material of any former employer or to violate any other obligations you may have to any former employer. You represent that your signing of this offer letter and the Company's Employee Invention Assignment and Confidentiality Agreement, and your commencement of employment with the Company, will not violate any agreement currently in place between yourself and current or past employers. You agree to be bound by the policies and procedures of the Company now or hereafter in effect relating to the conduct of employees, to the extent not inconsistent with the terms of this offer letter.

10. Authorization to Work. Please note that because of employer regulations adopted in the Immigration Reform and Control Act of 1986, within three (3) business days of commencing employment with the Company you will need to present documentation demonstrating that you have authorization to work in the United States.

11. Governing Law; Arbitration. This offer letter shall be construed and enforced in accordance with the internal laws of the State of California (without regard to its laws relating to choice-of-law or conflict-of-laws). You and the Company shall submit to mandatory and exclusive binding confidential arbitration of any controversy or claim arising out of, or relating to, this offer letter or any breach hereof or otherwise arising out of, or relating to, your employment with the Company or the termination thereof, provided, however, that the parties retain their right to, and shall not be prohibited, limited or in any other way restricted from, seeking or obtaining injunctive relief from a court having jurisdiction over the parties related to the improper use, disclosure or misappropriation of a party's proprietary, confidential or trade secret information. Such arbitration shall be conducted through JAMS in the State of California, Santa Clara County, before a single neutral arbitrator, in accordance with the JAMS' then-current rules for the resolution of employment disputes. The arbitrator shall issue a written decision that contains the essential findings and conclusions on which the decision is based. You shall bear only those costs of arbitration you would otherwise bear had you brought a covered claim in court. Judgment upon the determination or award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This agreement to arbitrate does not restrict your right to file administrative claims you may bring before any government agency where, as a

matter of law, the parties may not restrict the employee's ability to file such claims (including, but not limited to, the National Labor Relations Board, the Equal Employment Opportunity Commission and the Department of Labor). However, the parties agree that, to the fullest extent permitted by law, arbitration shall be the exclusive remedy for the subject matter of such administrative claims.

12. Miscellaneous.

(a) Successors. This offer letter shall inure to the benefit of and be binding upon (a) the Company and any of its successors, and (b) you and your heirs, executors and representatives in the event of your death. Any successor to the Company shall be deemed substituted for the Company under the terms of this agreement for all purposes. In the event of a Change in Control, the Company agrees to obtain assumption of this offer letter by its successor.

(b) Modification. This offer letter, including, but not limited to the at will provision above, may not be amended or modified other than by a written agreement designated as an amendment and executed by you and a representative of the Board, although the Company reserves the right to unilaterally modify your compensation, benefits, job title and duties (subject to any express limitations set forth above).

(c) Severability. If any provision of this offer letter or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this offer letter that can be given effect without the invalid provisions or applications and to this end the provisions of this offer letter are declared to be severable.

(d) Complete Agreement. This offer letter (together with the Employee Invention Assignment and Confidentiality Agreement, the D&O Indemnification Agreement, if any, and the Company's 2005 Equity Incentive Plan, any successor equity incentive plan and any equity award agreement issued thereunder) represents the entire agreement between you and the Company with respect to the material terms and conditions of your employment, and supersedes and replaces all prior discussions, negotiations and agreements.

(e) Counterparts. This offer letter may be executed (i) in counterparts, each of which shall be an original, with same effect as if the signatures hereto were on the same instrument; and (ii) by facsimile or pdf. The parties agree that such facsimile or pdf signatures shall be deemed original signatures for all purposes.

We are extremely excited about you joining Palo Alto Networks.

Mark F. Anderson
May 23, 2012
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Please indicate your acceptance of this offer letter, and confirmation that it contains our complete agreement regarding the terms and conditions of your employment, by signing the bottom portion of this letter and returning a copy to me via email at mmclaughlin@paloaltonetworks.com. This offer is expressly conditioned upon your commencing employment with the Company no later than June 5, 2012.

For and on behalf of Palo Alto Networks.

/s/ Mark McLaughlin

Mark McLaughlin, President & Chief Executive Officer

Agreed to and accepted:

/s/ Mark F. Anderson

Mark F. Anderson

Dated: May 25, 2012

Attachments:

Exhibit A: Employee Invention Assignment and Confidentiality Agreement

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated April 6, 2012 in Amendment No. 3 to the Registration Statement (Form S-1 No. 333-180620) and related Prospectus of Palo Alto Networks, Inc. for the registration of 7,130,000 shares of its common stock.

/s/ Ernst & Young LLP

San Francisco, California
July 6, 2012