
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported)

May 30, 2018

PALO ALTO NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation)

001-35594
(Commission File Number)

20-2530195
(IRS Employer
Identification No.)

3000 Tannery Way
Santa Clara, California 95054
(Address of principal executive office, including zip code)

(408) 753-4000
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Item 2.02 Results of Operations and Financial Condition.

On June 1, 2018, Palo Alto Networks, Inc. (the “Company”) issued a press release announcing the appointment of Nikesh Arora as the Company’s new Chief Executive Officer and Chairman of the Board of Directors (the “Board”), the transition of Mark McLaughlin to Vice Chairman of the Board, and revenue and billings for the Company’s fiscal third quarter ended April 30, 2018. A copy of the press release is furnished herewith as Exhibit 99.1, and is incorporated herein by reference.

On June 4, 2018, the Company issued a press release announcing its financial results for its fiscal third quarter ended April 30, 2018. A copy of the press release is furnished herewith as Exhibit 99.2, and is incorporated herein by reference.

The information contained in this Item 2.02 and in the accompanying Exhibits 99.1 and 99.2 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference in such filing.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Mark McLaughlin

On May 30, 2018, Mark McLaughlin informed the Board of Directors (the “Board”) of his retirement as Chief Executive Officer and Chairman of the Board, effective June 6, 2018. Mr. McLaughlin will continue to be an employee of the Company and serve on the Board as Vice Chairman, effective June 6, 2018. In connection with Mr. McLaughlin’s retirement as Chief Executive Officer, the Company entered into a new offer letter with Mr. McLaughlin on May 31, 2018 (the “New Offer Letter”). Under the terms of the New Offer Letter, (1) Mr. McLaughlin’s base salary will continue at an annualized rate of \$900,000 until August 1, 2018 and thereafter shall be reduced to an annualized rate of \$500,000, (2) Mr. McLaughlin will continue to be eligible to receive his target annual bonus of 100% for fiscal 2018, based on achievement of certain objectives, and after August 1, 2018, shall no longer be eligible to earn a bonus, and (3) in the event that the Company or its successor terminates Mr. McLaughlin’s service without “cause” (as defined in the New Offer Letter), then Mr. McLaughlin will be eligible to receive twenty-four months accelerated vesting of his then-outstanding time based equity awards, subject to his signing a release of claims.

The foregoing description of Mr. McLaughlin’s compensation and terms and conditions of his ongoing employment is qualified in its entirety by the full text of Mr. McLaughlin’s New Offer Letter, which is filed as Exhibit 10.1 to this Current Report on Form 8-K and incorporated herein by reference.

Nikesh Arora

On May 30, 2018, the Board appointed Nikesh Arora as the next Chief Executive Officer, effective as of June 6, 2018. The Board also increased the size of the Board from eleven to twelve directors and elected Mr. Arora to serve as a Class III member of the Board and Chairman of the Board, effective as of June 6, 2018.

Prior to joining the Company, from 2016 through 2018 Mr. Arora, age 50, was an angel investor and from June 2016 through December 2017, Mr. Arora served as an advisor to SoftBank Group Corp., a multinational conglomerate company (“SoftBank”). From July 2015 through June 2016, Mr. Arora served as president and chief operating officer of SoftBank and from July 2014 through June 2015, Mr. Arora served as vice chairman and chief executive officer of SoftBank Internet and Media, a subsidiary of SoftBank. Prior to SoftBank, from December 2004 through July 2014, Mr. Arora held multiple senior leadership operating roles at Google, Inc., including serving as senior vice president and chief business officer, from January 2011 to June 2014. Mr. Arora also serves on the board of Compagnie Financiere Richemont S.A., a public Switzerland-based luxury goods holding company. Mr. Arora previously served on the boards of Sprint Corp., a communications services company, from November 2014 to June 2016, Colgate-Palmolive Company, a worldwide consumer products company focused on the production, distribution and provision of household, health care and personal care products, from March 2012 to September 2014, SoftBank from 2014 to 2016, and Yahoo! Japan, an internet company, from 2015 to 2016. Mr. Arora holds an M.S. in Business Administration from Northeastern University, an M.S. in Finance from Boston College, and a B.Tech in electrical engineering from the Institute of Technology at Banaras Hindu University.

Mr. Arora was chosen to serve on the Company’s Board due to his extensive experience scaling technology businesses and executive leadership at leading edge technology companies.

The Company entered into an offer letter with Mr. Arora on May 30, 2018 (the “Offer Letter”), in connection with Mr. Arora’s appointment as Chief Executive Officer. The Offer Letter provides that effective upon his start date, Mr. Arora’s annual base salary will be \$1,000,000 and his target annual incentive compensation will be 100% of his base salary. In addition, Mr. Arora will receive the following:

- a time-based restricted stock unit award (the “Time-Based RSU”) having an approximate value of \$40,000,000, with the number of shares to be determined based on the average closing price of the Company’s stock for the 30 trading days ending on June 5, 2018. The Time-Based RSUs will vest over a 7-year period with a 1-year cliff and quarterly vesting thereafter, subject to Mr. Arora’s continued service.
- contingent upon Mr. Arora’s purchase of \$20,000,000 worth of Company common stock on the public market within generally 30 days following his start date (the “Investment Shares”), a number of restricted stock units equal to the number of Investment Shares, up to \$20,000,000 aggregate value (the “Investment RSUs”). The Investment RSUs shall vest over a 4-year period with a 1-year cliff and quarterly vesting thereafter, subject to Mr. Arora’s continued service and Mr. Arora holding all of the Investment Shares through each vesting date. If Mr. Arora ceases to hold all of the Investment Shares until June 6, 2022, Mr. Arora will forfeit all of the Investment RSUs.
- a performance-based stock option to purchase a number of shares of the Company’s common stock that results in an approximate aggregate grant date fair value for financial accounting purposes of \$66,000,000 (the “Performance Option”). If the number of shares determined per the preceding sentence would result in an option to purchase less than 1,046,000 shares of the Company’s common stock, then the Performance Option will be with respect to 1,046,000 shares. The Performance Option will have a per share exercise price equal to the fair market value of a share of the Company’s common stock on the grant date (the “Baseline Price”), which is expected to be June 7, 2018. Shares subject to the Performance Option become eligible to vest (the “Eligible Option Shares”) upon achievement of certain stock price targets (the “Stock Price Achievements”) as set forth below:

% of Performance Option becoming Eligible Option Shares	Stock Price Achievement in Excess of Baseline Price	Time to Achieve	Expiration of Option
25%	150%	4 years	7 years
25%	200%	5 years	7 years
25%	250%	6 years	7 years
25%	300%	7 years	7.5 years

To the extent that Stock Price Achievements have been met, Eligible Option Shares will vest as to one-fourth (1/4) of the shares on each anniversary of the Performance Option grant date, subject to Mr. Arora's continued service. Upon a "Change in Control" (as defined in the Offer Letter) the price payable to Company stockholders at closing will be the final Stock Price Achievement.

The equity grants described above will be granted under the Company's 2012 Equity Incentive Plan.

In the event that there is a "Change in Control" of the Company and the Company or the Company's successor terminates Mr. Arora's employment other than for "Cause" or Mr. Arora terminates his employment for "Good Reason" (each as defined in the Offer Letter), in either case upon or within 12 months following a "Change in Control," then Mr. Arora will be entitled to receive (subject to signing a release of claims):

- a lump sum payment equal to his then-current annual base salary, 100% of his incentive compensation for that fiscal year and reimbursement of 12 months of COBRA premiums;
- accelerated vesting of the Time-Based RSUs and Investment RSUs as to the greater of: (x) 50% of unvested shares or (y) shares that would vest through the date 24 months after termination of employment; and
- accelerated vesting of 100% of Eligible Option Shares subject to the Performance Option.

In the event, that Mr. Arora's employment is terminated by the Company other than for "Cause," at any time before a "Change in Control" or more than 12 months following a "Change in Control," then Mr. Arora will be entitled to receive:

- continued payment of his then-current base salary for a period of 12 months and reimbursement of 12 months of COBRA premiums; and
- accelerated vesting of the Time-Based RSUs, Investment RSUs and Eligible Option Shares for shares that would vest through the date 12 months after termination of employment.

The foregoing description of Mr. Arora's compensation, terms and conditions of his employment and treatment of Mr. Arora upon certain terminations of employment is qualified in its entirety by the full text of Mr. Arora's Offer Letter, which is filed as Exhibit 10.2 to this Current Report on Form 8-K and incorporated herein by reference.

In addition, Mr. Arora has entered into the Company's standard form of indemnification agreement, a copy of which has been filed as Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-180620) filed with the Securities and Exchange Commission on July 9, 2012.

There is no arrangement or understanding between Mr. Arora and any other persons pursuant to which Mr. Arora was elected as Chief Executive Officer or as a director. There are no family relationships between Mr. Arora and any director or executive officer of the Company, and he has no direct or indirect material interest in any transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
<u>10.1</u>	New Offer Letter between the Registrant and Mark D. McLaughlin, dated May 31, 2018.
<u>10.2</u>	Offer Letter between the Registrant and Nikesh Arora, dated May 30, 2018.
<u>99.1</u>	Press release dated as of June 1, 2018.
<u>99.2</u>	Press release dated as of June 4, 2018.

SIGNATURES

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

PALO ALTO NETWORKS, INC.

By: /s/ MARK D. McLAUGHLIN

Mark D. McLaughlin

Chief Executive Officer

Date: June 4, 2018



May 31, 2018

Mark McLaughlin
c/o Palo Alto Networks, Inc.

Re: Updated Terms of Employment

Dear Mark:

This letter agreement (the "**Agreement**") is entered into between Palo Alto Networks, Inc. ("**Palo Alto Networks**," the "**Company**" or "**we**") and you. This Agreement is effective immediately upon your resignation as the Company's Chief Executive Officer ("**Effective Date**"). The Company accepts your resignation as Chief Executive Officer and expresses appreciation and gratitude for your service. The purpose of this Agreement is to confirm the updated terms and conditions of your employment following your resignation as Chief Executive Officer and to specify your treatment upon certain terminations of your service with the Company.

1. Position. Beginning on the Effective Date, you will continue to be an employee of the Company and report to the new Chief Executive Officer and shall perform such duties and responsibilities as are requested by the new Chief Executive Officer. 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 and service do not interfere with the performance of your duties hereunder. By signing this 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 (i) continue to be at an annualized rate of \$900,000 per year as of the Effective Date and (ii) be reduced to an annualized rate of \$500,000 per year as of August 1, 2018, in each case, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this Agreement, will be subject to applicable tax withholdings. Your salary may be adjusted from time to time by the Company's Board of Directors (the "**Board**") or the Compensation Committee of the Board (the "**Compensation Committee**") in their sole discretion.

(b) Annual Incentive Compensation Payment. You will continue to have the opportunity to earn a target annual incentive compensation payment of 100% of your

annual base salary for the 2018 fiscal year based on the achievement of certain objectives, as established by the Board and/or the Compensation Committee, subject to your continued employment through and until the date of payment. The incentive compensation will be paid no later than March 15 of the year following the year in which such incentive compensation was earned. As of August 1, 2018, you will no longer be eligible for any incentive compensation from the Company (other than payments, if any, related to the 2018 fiscal year).

3. At Will Employment. While we look forward to a continued productive relationship, your employment with the Company, however, is for an unspecified period of time and this Agreement creates an at-will employment relationship that may be terminated (subject to the terms of this Agreement) 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.

4. Termination Benefits.

(a) Vesting Acceleration. In the event that the Company or its successor terminates your service other than for Cause, then your then-outstanding unvested time-based equity awards will accelerate as to shares that would have vested by the date 24 months after your termination of employment (the "**Vesting Acceleration**"). Your entitlement to the Vesting Acceleration is subject to your compliance with subsection (b) below.

(b) Form and Timing of Payment. This Section 4 will not apply unless you (i) have returned all Company property in your possession and (ii) have executed a general release of all claims that you may have against the Company and 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 Vesting Acceleration. The Vesting Acceleration will be provided following the effectiveness of the release within 60 days after your separation. Notwithstanding the foregoing, if the 60-day period described in the preceding sentence spans two calendar years and/or if any amounts that become payable as a result of the Vesting Acceleration are Deferred Payments (as defined below), then the Vesting Acceleration will be provided on the 60th day following your termination of service, subject to Section 6.

(c) Definitions. For purposes of this 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 which materially harms the Company; (iii) willful breach of the Company's policies 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 or Employee Invention Assignment and Confidentiality Agreement; or (vi) a willful failure or refusal in a

material respect by you to follow the reasonable policies or directions of the Company as specified by the Board or the Chief Executive Officer 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 30 days of receipt of such notice.

5. Section 280G. If any payments and other benefits provided for in this Agreement or otherwise constitute “parachute payments” within the meaning of Section 280G of the Code and, but for this Section 5, 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.

6. Section 409A. For purposes of this Agreement, 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 Agreement or otherwise in connection with your termination of service constitute deferred compensation subject to Section 409A (“**Deferred Payments**”), and you are deemed at the time of such termination of service 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 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 Agreement 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 Agreement 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 Agreement are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

7. Benefits. You will also continue to be eligible to participate in benefit plans 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.

8. 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 were required to sign the Company's "Employee Invention Assignment and Confidentiality Agreement" on or prior to your start date. You represent that your signing of this Agreement and the Company's Employee Invention Assignment and Confidentiality Agreement, and your continued employment with the Company, will not violate any agreement currently in place between yourself and current or past employers. You agree to continue to be bound by the policies and procedures of the Company now or hereafter in effect relating to the conduct of employees.

9. Governing Law: Arbitration. This Agreement 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 Agreement 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.

10. Miscellaneous.

(a) Successors. This Agreement shall inure to the benefit of and be binding upon 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 Agreement by its successor.

(b) Modification. This Agreement, 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 an officer of the Company, although the Company reserves the right to unilaterally modify your compensation, benefits, job title and duties.

(c) Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement that can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

(d) Complete Agreement. This Agreement (together with the Employee Invention Assignment and Confidentiality Agreement, the D&O Indemnification Agreement, the Company's 2005 Equity Incentive Plan, the Company's 2012 Equity Incentive Plan and any equity award agreements 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, including, but not limited to, the offer letter between you and the Company dated July 21, 2011, as amended on December 15, 2011.

(e) Counterparts. This Agreement 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.

[remainder of page left blank]

[signature page to follow]

We are extremely excited about your continued employment with Palo Alto Networks.

Please indicate your acceptance of this Agreement, and confirmation that it contains our complete agreement regarding the terms and conditions of your employment, by signing the bottom portion of this Agreement and returning a copy to me.

For and on behalf of Palo Alto Networks.

/s/ DAN WARMENHOVEN

Dan Warmenhoven, Lead Independent Director

Agreed to and accepted:

/s/ MARK MCLAUGHLIN

Mark McLaughlin

Dated: May 31, 2018



May 30, 2018

Nikesh Arora
Sent via e-mail

Re: Terms of Employment

Dear Nikesh:

This letter agreement (the "**Agreement**") is entered into between Palo Alto Networks, Inc. ("**Company**" or "**we**") and Nikesh Arora ("**Executive**" or "**you**"). We intend that your start date will be June 6, 2018. This Agreement will be effective on your actual start date (the "**Effective Date**").

1. **Position.** Beginning on the Effective Date, you will serve as Chief Executive Officer ("**CEO**") of the Company. You will report to the Company's Board of Directors (the "**Board**") and shall perform the duties and responsibilities customary for such position and such other related duties as are assigned by the Board. This is a full-time position. In addition, subject to necessary corporate approvals, you will be appointed as Chairman of the Board. Upon your termination as the CEO for any reason, you agree to resign from the Board and any officer positions with the Company and/or any subsidiary that you hold and will cease to be a service provider to the Company.

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 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 \$1,000,000 per year beginning on the Effective Date, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this Agreement, will be subject to applicable tax withholdings. Your salary

may be adjusted from time to time by the Board or the Compensation Committee of the Board (the “**Compensation Committee**”) in their sole discretion, subject to Section 5.

(b) Annual Incentive Compensation Payment. You will have the opportunity to earn a target annual incentive compensation payment of 100% of your annual base salary for each fiscal year based on the achievement of certain objectives, which will be established by our Board and/or the Compensation Committee. Each incentive compensation payment is subject to your continued employment through and until the date of payment. Your target annual incentive compensation 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. Your annual incentive for fiscal 2018 will be pro-rated based on the time you are employed during fiscal 2018.

3. Equity.

(a) Time-Based RSUs. The Company will grant you restricted stock units pursuant to the Company’s 2012 Equity Incentive Plan (the “**Plan**”) having an approximate value of \$40,000,000 (the “**Time-Based RSUs**”), with the number of shares determined based on the average closing price of the Company’s stock for the 30 trading days ending on the day before the Effective Date. The Time-Based RSUs will vest over a 7-year period with 1/7 of the shares subject to the Time-Based RSUs vesting on the one-year anniversary of the grant date, and 1/28 of the shares subject to the Time-Based RSUs vesting quarterly thereafter, subject to you continuing to be a Service Provider (as defined in the Plan) through each vesting date.

(b) Investment RSUs. On or before the 30th day after the Effective Date (the “**Purchase Deadline**”), you will purchase on the open market shares of Company common stock with a minimum aggregate value of \$20,000,000 (the “**Investment Shares**”). If during the period starting on the Effective Date and ending on the Purchase Deadline, you are unable to purchase the Investment Shares for a certain period of trading days by the terms of the Company’s Insider Trading Policy, then the Purchase Deadline will be extended by such number of trading days that purchase was restricted. Upon the completion of such purchase, the Company will grant you a number of restricted stock units pursuant to the Plan equal to the number of Investment Shares, up to \$20,000,000 aggregate value (the “**Investment RSUs**”). The Investment RSUs will vest over a 4-year period with 1/4 of the shares subject to the Investment RSUs vesting on the one-year anniversary of the grant date, and 1/16 of the shares subject to the subject to the Investment RSUs vesting quarterly thereafter, subject to your continuing to be a Service Provider and your holding all of the Investment Shares through each vesting date. If you cease to hold all of the Investment Shares until the fourth anniversary of Effective Date, you will forfeit all of the Investment RSUs. Purchase of the Investment Shares shall be made in accordance with the Company’s Insider Trading Policy.

(c) Performance-Stock Option. The Company will grant you a stock option pursuant to the Plan to purchase a number of shares of the Company’s common stock that results in an approximate aggregate grant date fair value for financial accounting purposes of \$66,000,000 on the terms set forth below (the “**Performance**”).

Option”). If the number of shares determined under the methodology in the prior sentence would result in an option to purchase less than 1,046,000 shares of the Company’s common stock, then the Performance Option will be with respect to 1,046,000 shares. The Performance Option will have a per share exercise price equal to the fair market value of a share of Company common stock on the grant date. We expect the grant date of the Performance Option to occur the business day following the Effective Date. The Performance Option will have a maximum term equal to 7 years, with the 1/4 of the Performance Option described under (iv) having a maximum term of 7.5 years.

Shares subject to the Performance Option become eligible to vest upon achievement of the following stock price targets (measured based on the average closing price for a 30 consecutive trading day period (“**Stock Price Achievement**”) during the period specified below following the grant date of the Performance Option (the “**Performance Window**”)):

(i) 1/4 of the shares subject to the Performance Option become eligible to vest (“**Eligible Option Shares**”) upon Stock Price Achievement during a 4-year Performance Window that exceeds 150% of the exercise price of the Performance Option (the “**Baseline Price**”).

(ii) 1/4 of the shares subject to the Performance Option become Eligible Option Shares upon Stock Price Achievement during a 5-year Performance Window that exceeds 200% of the Baseline Price.

(iii) 1/4 of the shares subject to the Performance Option become Eligible Option Shares upon Stock Price Achievement during a 6-year Performance Window that exceeds 250% of the Baseline Price.

(iv) 1/4 of the shares subject to the Performance Option become Eligible Option Shares upon Stock Price Achievement during a 7-year Performance Window that exceeds 300% of the Baseline Price.

To the extent that Stock Price Achievements have been met, Eligible Option Shares will vest as to 1/4 of such shares on each annual anniversary of the Performance Option grant date, subject to you continuing to be a Service Provider through each vesting date. If a Stock Price Achievement milestone has been achieved once during the applicable Performance Window, then achievement related to such milestone shall be deemed to occur and no subsequent stock price drop will have any effect on a previous achievement. Any shares subject to the Performance Option that do not become Eligible Option Shares prior to the expiration of the applicable Performance Window shall forfeit. If a Change in Control occurs during a Performance Window, the per share price payable to Company stockholders at the closing shall be the final Stock Price Achievement, and any shares subject to the Performance Option that do not become Eligible Option Shares as of the Change in Control will terminate.

The terms of the Time-Based RSUs, the Investment RSUs and the Performance Option shall each be set forth in a form of award agreement under the Plan.

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 Agreement creates an at-will employment relationship that may be terminated (subject to the terms of this Agreement) 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.

5. *Termination Benefits.*

(a) Subject to 5(d) below, if your employment terminates in a manner giving rise to benefits under either paragraph (b) or (c) below, the post-termination exercise period of your then-outstanding and vested stock options will be the 12 month anniversary of your separation unless the maximum term of any such stock options would occur prior to the 12 month anniversary, in which case it will be the maximum term of such stock options.

(b) *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 12 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 incentive compensation payment for that fiscal year, and reimbursement of 12 months of your COBRA premiums;

(ii) accelerated vesting of each of the Time-Based RSUs and Investment RSUs equal to the greater of: (x) 50% of the unvested shares; or (y) the shares that would have vested by the 24 month anniversary of your last date of employment; and

(iii) accelerated vesting of 100% of any unvested Eligible Option Shares subject to the Performance Option (collectively, the "***Change in Control Severance Benefits***"). Your entitlement to the Change in Control Severance Benefits is subject to your compliance with subsection (b) below.

(c) *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 12 months following a Change in Control, then you will receive:

(i) continued payment of your then current base salary for a period of 12 months and reimbursement of 12 months of your COBRA premiums; and

(ii) 12 months of additional vesting of your Time-Based RSUs, Investment RSUs and Eligible Option Shares (the "***Other Termination Severance Benefits***"). For the avoidance of doubt, if you have met the Stock Price Achievement related to the Performance Option, then any shares that have become Eligible Option Shares are eligible for acceleration under this subsection (b). Your

entitlement to the Other Termination Severance Benefits is subject to your compliance with subsection (c) below.

(d) 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 Payments (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 6.

(e) Definitions.

(i) For purposes of this 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 the Company’s policies 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 or 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 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 30 days of receipt of such notice.

(ii) For purposes of this Agreement, “**Good Reason**” shall mean: (i) a material reduction in your authority, status, obligations or responsibilities, provided that following a Change in Control a change in title alone (not accompanied by a change in authority, status, obligations or responsibilities) shall not constitute a material reduction; (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; (iv) the relocation of the principal place of the Company’s business to a location that is more than 35 miles

further from your home than before the relocation; or (v) the Company's material breach of this Agreement. 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 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 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 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 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 Agreement or otherwise constitute "parachute payments" within the meaning of Section 280G of 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. The Company will select a professional services firm to make all of the determinations required to be made under this section relating to parachute payments. The Company will bear all costs the firm may reasonably incur in connection with any calculations contemplated by these paragraphs relating to parachute payments.

7. Section 409A. For purposes of this Agreement, 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 Agreement in connection with your termination of employment constitute deferred compensation subject to Section 409A ("**Deferred Payments**"), 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 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 Agreement 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 Agreement 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 Agreement are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

8. Benefits. You will continue to be eligible to participate in benefit plans 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.

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 are required to sign the Company’s “Employee Invention Assignment and Confidentiality Agreement” on or prior to 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 Agreement 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.

10. Authorization to Work. Please note that because of employer regulations adopted in the Immigration Reform and Control Act of 1986, within 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 Agreement 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 Agreement 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 Agreement 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 Agreement by its successor.

(b) Modification. This Agreement, 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 Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement that can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

(d) Attorney's Fees. The Company will reimburse you for reasonable attorney's fees involved in the negotiation of this Agreement, up to a maximum of \$10,000.

(e) Complete Agreement. This Agreement (together with the Employee Invention Assignment and Confidentiality Agreement, the D&O Indemnification

Agreement (if any) and the 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.

(f) Counterparts. This Agreement 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.

[remainder of page left blank]

[signature page to follow]

3000 TANNERY WAY | SANTA CLARA, CA 95054 | MAIN: 408.753.4000 | PALOALTONETWORKS.COM

We are extremely excited about you joining Palo Alto Networks.

Please indicate your acceptance of this Agreement, and confirmation that it contains our complete agreement regarding the terms and conditions of your employment, by signing the bottom portion of this Agreement and returning a copy to me via email.

For and on behalf of Palo Alto Networks.

/s/ DAN WARMENHOVEN

Dan Warmenhoven, Lead Independent Director

Agreed to and accepted:

/s/ NIKESH ARORA

Nikesh Arora

Dated: May 30, 2018

Attachments:

Exhibit A: Employee Invention Assignment and Confidentiality Agreement

**EMPLOYEE INVENTION ASSIGNMENT AND
CONFIDENTIALITY AGREEMENT**

In consideration of, and as a condition of my employment with Palo Alto Networks, Inc., a Delaware corporation (the "**Company**"), I hereby represent to, and agree with the Company as follows:

1. **Purpose of Agreement.** I understand that the Company is engaged in a continuous program of research, development, production and marketing in connection with its business and that it is critical for the Company to preserve and protect its "**Proprietary Information**" (as defined in Section 7 below), its rights in "**Inventions**" (as defined in Section 2 below) and in all related intellectual property rights. Accordingly, I am entering into this Employee Invention Assignment and Confidentiality Agreement (this "**Agreement**") as a condition of my employment with the Company, whether or not I am expected to create inventions of value for the Company.

2. **Disclosure of Inventions.** I will promptly disclose in confidence to the Company all inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works and trade secrets that I make or conceive or first reduce to practice or create, either alone or jointly with others, during the period of my employment, whether or not in the course of my employment, and whether or not patentable, copyrightable or protectable as trade secrets (the "**Inventions**").

3. **Work for Hire; Assignment of Inventions.** I acknowledge and agree that any copyrightable works prepared by me within the scope of my employment are "works for hire" under the Copyright Act and that the Company will be considered the author and owner of such copyrightable works. I agree that all Inventions that (i) are developed using equipment, supplies, facilities or trade secrets of the Company, (ii) result from work performed by me for the Company, or (iii) relate to the Company's business or current or anticipated research and development (the "**Assigned Inventions**"), will be the sole and exclusive property of the Company and are hereby irrevocably assigned by me to the Company. Attached hereto as Exhibit A is a list describing all inventions, original works of authorship, developments and trade secrets which were made by me prior to the date of this Agreement, which belong to me and which are not assigned to the Company ("**Prior Inventions**"). I acknowledge and agree that if I use any of my Prior Inventions in the scope of my employment, or include them in any product or service of the Company, I hereby grant to the Company a perpetual, irrevocable, nonexclusive, world-wide, royalty-free license to use, disclose, make, sell, copy, distribute, modify and create works based on, perform or display such Prior Inventions and to sublicense third parties with the same rights. If no such list of Prior Inventions or Exhibit A is completed and/or attached hereto, I represent that I have no Prior Inventions at the time of signing this Agreement.

4. **Labor Code Section 2870 Notice.** I have been notified and understand that the provisions of Sections 3 and 5 of this Agreement do not apply to any Assigned Invention that qualifies fully under the provisions of Section 2870 of the California Labor Code, which states as follows:

ANY PROVISION IN AN EMPLOYMENT AGREEMENT WHICH PROVIDES THAT AN EMPLOYEE SHALL ASSIGN, OR OFFER TO ASSIGN, ANY OF HIS OR HER RIGHTS IN AN INVENTION TO HIS OR HER EMPLOYER SHALL NOT APPLY TO AN INVENTION THAT THE EMPLOYEE DEVELOPED ENTIRELY ON HIS OR HER OWN TIME WITHOUT USING THE EMPLOYER'S EQUIPMENT, SUPPLIES, FACILITIES, OR TRADE SECRET INFORMATION EXCEPT FOR THOSE INVENTIONS THAT EITHER: (1) RELATE AT THE TIME OF CONCEPTION OR REDUCTION TO PRACTICE OF THE INVENTION TO THE EMPLOYER'S BUSINESS, OR ACTUAL OR DEMONSTRABLY ANTICIPATED RESEARCH OR DEVELOPMENT OF THE EMPLOYER; OR (2) RESULT FROM ANY WORK PERFORMED BY THE EMPLOYEE FOR THE EMPLOYER. TO THE EXTENT A PROVISION IN AN EMPLOYMENT AGREEMENT PURPORTS TO REQUIRE AN EMPLOYEE TO ASSIGN AN INVENTION OTHERWISE EXCLUDED FROM BEING REQUIRED TO BE ASSIGNED UNDER CALIFORNIA LABOR CODE SECTION 2870(a), THE PROVISION IS AGAINST THE PUBLIC POLICY OF THIS STATE AND IS UNENFORCEABLE.

5. **Assignment of Other Rights.** In addition to the foregoing assignment of Assigned Inventions to the Company, I hereby irrevocably transfer and assign to the Company: (i) all worldwide patents, patent applications, copyrights, mask works, trade secrets and other intellectual property rights, including but not limited to rights in databases, in any Assigned Inventions, along with any registrations of or applications to register such rights; and (ii) any and all "Moral Rights" (as defined below) that I may have in or with respect to any Assigned Inventions. I also hereby forever waive and agree never to assert any and all Moral Rights I may have in or with respect to any Assigned Inventions, even after termination of my work on behalf of the Company. "**Moral Rights**" mean any rights to claim authorship of or credit on an Assigned Inventions, to object to or prevent the modification or destruction of any Assigned Inventions or Prior Inventions licensed to Company under Section 3, or to withdraw from circulation or control the publication or distribution of any Assigned Inventions or Prior Inventions licensed to Company under Section 3, and any similar right, existing under judicial or statutory law of any country or subdivision thereof in the world, or under any treaty, regardless of whether or not such right is denominated or generally referred to as a "moral right."

6. **Assistance.** I agree to assist the Company in every proper way to obtain for the Company and enforce patents, copyrights, mask work rights, trade secret rights and other legal protections for the Company's Assigned Inventions in any and all countries. I will execute any documents that the Company may reasonably request for use in obtaining or enforcing such patents, copyrights, mask work rights, trade secrets and other legal protections. My obligations under this paragraph will continue beyond the termination of my employment with the Company, provided that the Company will compensate me at a reasonable rate after such termination for time or expenses actually spent by me at the Company's request on such assistance. I appoint the Secretary of the Company as my attorney-in- fact to execute documents on my behalf for this purpose.

7. **Proprietary Information.** I understand that my employment by the Company creates a relationship of confidence and trust with respect to any information of a confidential or secret nature that may be disclosed to me by the Company or a third party that relates to the business of the Company or to the business of any parent, subsidiary, affiliate, customer or supplier of the Company or any other party with whom the Company agrees to hold information of such party in confidence (the "**Proprietary Information**"). Such Proprietary Information includes, but is not limited to, Assigned Inventions, marketing plans, product plans, business strategies, financial information, forecasts, personnel information, customer lists and data, and domain names.

8. **Confidentiality.** At all times, both during my employment and after its termination, I will keep and hold all such Proprietary Information in strict confidence and trust. I will not use or disclose any Proprietary Information without the prior written consent of the Company, except as may be necessary to perform my duties as an employee of the Company for the benefit of the Company. I understand that nothing in this Agreement prohibits me communicating with, or responding to any inquiry from, or providing testimony before, any state or federal regulatory agencies with regard to such information without first obtaining permission from the Company. However, I agree to notify such agency of the confidential nature of the information provided and request that necessary steps be taken to maintain its confidentiality. Upon termination of my employment with the Company, I will promptly deliver to the Company all documents and materials of any nature pertaining to my work with the Company and, upon Company request, will execute a document confirming my agreement to honor my responsibilities contained in this Agreement. I will not take with me or retain any documents or materials or copies thereof containing any Proprietary Information.

9. **No Breach of Prior Agreement.** I represent that my performance of all the terms of this Agreement and my duties as an employee of the Company will not breach any invention assignment, proprietary information, confidentiality or similar agreement with any former employer or other party. I represent that I will not bring with me to the Company or use in the performance of my duties for the Company any documents or materials or intangibles of a former employer or third party that are not generally available to the public or have not been legally transferred to the Company.

10. **Efforts; Duty Not to Compete.** I understand that my employment with the Company requires my undivided attention and effort during normal business hours. While I am employed by the Company, I will not provide services to, or assist in any manner, any business or third party that competes with the current or planned business of the Company, nor will I, without the prior written approval of (i) an officer of the Company if I am not an executive officer of the Company, or (ii) the Board of Directors of the Company if I am an executive officer of the Company, engage in any other professional employment or consulting.

11. **Notification.** I hereby authorize the Company to notify third parties, including, without limitation, customers and actual or potential employers, of the terms of this Agreement and my responsibilities hereunder.

12. **Non-Solicitation of Employees/Consultants.** During my employment with the Company and for a period of one (1) year thereafter, I will not directly or indirectly solicit away employees or consultants of the Company for my own benefit or for the benefit of any other person or entity.

13. **Non-Solicitation of Suppliers/Customers.** During my employment with the Company and after termination of my employment, I will not directly or indirectly solicit or take away suppliers or customers of the Company if the identity of the supplier or customer or information about the supplier or customer relationship is a trade secret or is otherwise deemed confidential information within the meaning of California law.

14. **Injunctive Relief.** I understand that in the event of a breach or threatened breach of this Agreement by me the Company may suffer irreparable harm and will therefore be entitled to injunctive relief to enforce this Agreement.

15. **Governing Law; Severability.** This Agreement will be governed by and construed in accordance with the laws of the State of California, without giving effect to its laws pertaining to conflict of laws. If any provision of this 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 Agreement and the remainder of this 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 Agreement.

16. **Counterparts.** This Agreement may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and all of which together shall constitute one and the same agreement.

17. **Entire Agreement.** This Agreement and the documents referred to herein 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 or among the parties hereto with respect to the specific subject matter hereof.

18. **Amendment and Waivers.** This Agreement may be amended only by a written agreement executed by each of the parties hereto. No amendment of or waiver of, or modification of any obligation under this Agreement will be enforceable unless set forth in a writing signed by the party against which enforcement is sought. Any amendment effected in accordance with this section will be binding upon all parties hereto and each of their respective successors and assigns. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. No waiver granted under this Agreement as to any one provision herein shall constitute a subsequent waiver of such provision or of any other provision herein, nor shall it constitute the waiver of any performance other than the actual performance specifically waived.

19. **Successors and Assigns; Assignment.** Except as otherwise provided in this Agreement, this Agreement, and the rights and obligations of the parties hereunder, will be binding upon and inure to the benefit of their respective successors, assigns, heirs, executors, administrators and legal representatives. The Company may assign any of its rights and obligations under this Agreement. No other party to this Agreement may assign, whether voluntarily or by operation of law, any of its rights and obligations under this Agreement, except with the prior written consent of the Company.

20. **Further Assurances.** The parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Agreement.

21. **"At Will" Employment.** I understand that this Agreement does not constitute a contract of employment or obligate the Company to employ me for any stated period of time. I understand that I am an "at will" employee of the Company and that my employment can be terminated at any time, with or without notice and with or without cause, for any reason or for no reason, by either the Company or myself. I acknowledge that any statements or representations to the contrary are ineffective, unless put into a writing signed by the Company. I further acknowledge that my participation in any stock option or benefit program is not to be construed as any

assurance of continuing employment for any particular period of time. This Agreement shall be effective as of the first day of my employment by the Company.

Employee:

/s/ NIKESH ARORA

Signature

Nikesh Arora

Name (Please Print)

Title

May 31, 2018

Date

EXHIBIT A

SCHEDULE OF PRIOR INVENTIONS

1. The following is a complete list of all Prior Inventions relevant to the subject matter of my employment by the Company that have been made or discovered or conceived or first reduced to practice by me or jointly with others prior to my employment by the Company that I desire to remove from the operation of the Company's Employee Invention Assignment and Confidentiality Agreement:

No inventions or improvements.

Additional sheets attached.

See below:

2. I propose to bring to my employment the following materials and documents of a former employer:

No materials or documents.

Additional sheets attached.

See below:

/s/ NIKESH ARORA

May 31, 2018

Employee Signature

Date

Palo Alto Networks Announces Record Revenues and Billings and Board Appoints Nimesh Arora as CEO and Chairman

- Current CEO and chairman of the Board Mark McLaughlin to become vice chairman of the Board.
- Company announces record revenue and billings for its fiscal third quarter 2018.
- Company to hold full earnings call before markets open on Monday, June 4.

SANTA CLARA, Calif. — June 1, 2018 — Palo Alto Networks® (NYSE: PANW), the global cybersecurity leader, today announced that its Board of Directors has named Nimesh Arora as its new chief executive officer and chairman of the Board of Directors, effective June 6, 2018. He succeeds Mark McLaughlin, who is transitioning to the role of vice chairman of the Board for Palo Alto Networks.

Arora formerly served as president and chief operating officer at SoftBank and as chief business officer at Google. At Google, Arora was instrumental in growing Google's search business from \$2 billion in revenues to over \$60 billion in revenues, led more than 20,000 employees, and developed a substantial track record of driving innovation and delivering business success. Arora has extensive experience in scaling technology businesses, running very large organizations, and operating globally.

McLaughlin said: "The company is executing extremely well and is the clear leader in next-generation security. Over the course of several quarters, I have been discussing succession planning with the Board and I couldn't be more pleased that we have found a leader in Nimesh Arora who is ideally suited to take the company on the next leg of its journey. I look forward to working with Nimesh as we transition and serving as vice chairman of the Board."

Daniel J. Warmenhoven, lead independent director said: "Mark has been an outstanding leader whose strong leadership was critical to building the company into the fastest-growing enterprise cybersecurity company in the world and we are grateful for his contributions. As we move forward in this era of digital and security transformation, there is no better person to lead Palo Alto Networks than Nimesh Arora. The Board of Directors is very pleased to have such a proven business and technology leader who brings demonstrated leadership and ability to scale to the company."

Added Arora: "I am thrilled and honored to join Palo Alto Networks. I have developed a deep appreciation for the company's culture, values and pioneering spirit as innovators and disruptors and I look forward to working with the entire Palo Alto Networks team on our mission of protecting our customers in the digital age."

The company also announced the following strong fiscal third quarter 2018 results, and will hold its earnings call before the market opens on Monday, June 4th.

In the fiscal third quarter, total revenue grew 31 percent year over year to \$567.1 million, product revenue grew 31 percent year over year to \$215.2 million, and billings grew 33 percent year over year to \$721.0 million.

Kathy Bonanno, chief financial officer commented: "We had a strong fiscal third quarter 2018 and will be reporting top line and bottom line results above all our third quarter guided ranges."

Conference Call Information

Palo Alto Networks will host a conference call for analysts and investors to discuss its fiscal third quarter 2018 results and outlook for its fiscal fourth quarter and full fiscal year 2018 on Monday, June 4th before the market opens. A separate news release will be issued with the conference call details.

Forward-Looking Statements

This press release contains forward-looking statements that involve risks and uncertainties, including statements regarding the company's transition to a new chief executive officer and Mark McLaughlin's transition to vice chairman of the Board. There are a significant number of factors that could cause actual results to differ materially from statements made in this press release, including: our limited operating history; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; risks associated with managing our rapid growth; the risks associated with new products and subscription and support offerings, including the discovery of software bugs; organizational changes and the timing of these changes; our ability to attract and retain new customers; delays in the development or release of new subscription offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support offerings; rapidly evolving technological developments in the market for network

security products and subscription and support offerings; length of sales cycles; and general market, political, economic and business conditions.

About Palo Alto Networks

We are the global cybersecurity leader, known for always challenging the security status quo. Our mission is to protect our way of life in the digital age by preventing successful cyberattacks. This has given us the privilege of safely enabling tens of thousands of organizations and their customers. Our pioneering Security Operating Platform emboldens their digital transformation with continuous innovation that seizes the latest breakthroughs in security, automation, and analytics. By delivering a true platform and empowering a growing ecosystem of change-makers like us, we provide highly effective and innovative cybersecurity across clouds, networks, and mobile devices.

Palo Alto Networks and the Palo Alto Networks logo are trademarks of Palo Alto Networks, Inc. in the United States and in jurisdictions throughout the world. All other trademarks, trade names or service marks used or mentioned herein belong to their respective owners.

Media contact:

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Palo Alto Networks, Inc.
Calculation of Billings
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 30,		April 30,	
	2018	2017	2018	2017
Total revenue	\$ 567.1	\$ 431.8	\$ 1,615.0	\$ 1,252.5
Add: change in total deferred revenue, net of acquired deferred revenue	153.9	112.3	377.1	370.1
Billings	<u>\$ 721.0</u>	<u>\$ 544.1</u>	<u>\$ 1,992.1</u>	<u>\$ 1,622.6</u>

Palo Alto Networks Reports Fiscal Third Quarter 2018 Financial Results

- *Fiscal third quarter revenue grows 31 percent year over year to \$567.1 million*
- *Fiscal third quarter billings grow 33 percent year over year to \$721.0 million*
- *Deferred revenue grows 34 percent year over year to \$2.2 billion*
- *Announced appointment of Nimesh Arora as chief executive officer and chairman and Mark McLaughlin as vice chairman on June 1, 2018*

SANTA CLARA, Calif. — June 4, 2018 — Palo Alto Networks[®] (NYSE: PANW), the global cybersecurity leader, announced today financial results for its fiscal third quarter 2018, ended April 30, 2018.

Total revenue for the fiscal third quarter 2018 grew 31 percent year over year to \$567.1 million, compared with total revenue of \$431.8 million for the fiscal third quarter 2017. GAAP net loss for the fiscal third quarter 2018 was \$46.7 million, or \$0.51 per diluted share, compared with GAAP net loss of \$60.9 million, or \$0.67 per diluted share, for the fiscal third quarter 2017.

Non-GAAP net income for the fiscal third quarter 2018 was \$95.1 million, or \$0.99 per diluted share, compared with non-GAAP net income of \$57.1 million, or \$0.61 per diluted share, for the fiscal third quarter 2017. A reconciliation between GAAP and non-GAAP information is contained in the tables below.

In a separate [news release](#) issued on June 1, 2018, the Company announced the appointment of Nikesh Arora as chief executive officer and chairman and Mark McLaughlin as vice chairman effective June 6, 2018.

“We delivered strong fiscal third quarter results with record revenue, deferred revenue and billings, while continuing to capture market share at rates that far outpace the competition,” said Mark McLaughlin, chief executive officer of Palo Alto Networks. “Our Security Operating Platform utilizes software, the cloud and analytics to deliver increasingly better prevention through automation and ecosystem leverage, while dramatically reducing the complexity of the consumption model for customers.”

“We drove market-leading top-line results through robust new customer acquisition and lifetime value expansion in the third quarter,” said Kathy Bonanno, chief financial officer of Palo Alto Networks. “We also delivered continued leverage in our operating model and generated strong cash flow, ending the quarter with cash, cash equivalents and investments of \$2.2 billion.”

Recent Highlights

- **Platform leadership:** More than 50 companies are now actively engaged with us on the Application Framework. At our Ignite USA user conference in May, many third-party applications were demonstrated, and we announced that the Application Framework will be production-ready for third party applications in August 2018.
- **Cloud capabilities:** We have established ourselves as the leader in cloud security through the unique combination of our VM-Series virtualized next-generation firewalls for inline cloud security, API-based security for public cloud services infrastructure, and Traps for host-based protections. The acquisition of Evident.io extends our API-based security capabilities to help cloud practitioners ensure their deployments are secure and achieve a constant state of compliance

through a single approach to continuous monitoring, storage security, and compliance validation and reporting.

- **Endpoint capabilities:** We introduced Traps™ 5.0 to the market, offering a cloud-delivered management service, Linux support and many other features. These capabilities allow our customers to more easily deploy and manage Traps, enabling them to stop threats on the endpoint and coordinate enforcement with cloud and network security to prevent successful cyberattacks. We also announced the acquisition of Secdo, which brings sophisticated endpoint detection and response, or EDR, capabilities - including unique data collection and visualization - to Traps and the Application Framework. Additionally, we received a “Recommended” rating for Traps from NSS Labs Inc., the world’s leading information security testing, research, and advisory company.

Financial Outlook

Palo Alto Networks provides guidance based on current market conditions and expectations.

For the fiscal fourth quarter 2018, we expect:

- Total revenue in the range of \$625 to \$635 million, representing year-over-year growth between 23 percent and 25 percent. Product revenue in the range of \$246 to \$249 million, representing year-over-year growth between 16 percent and 17 percent.
- Total billings in the range of \$815 to \$830 million, representing year-over-year growth between 22 percent and 24 percent.
- Diluted non-GAAP net income per share in the range of \$1.15 to \$1.17 using 97 to 99 million shares.

For the fiscal year 2018, we expect:

- Total revenue in the range of \$2.240 to \$2.250 billion, representing year-over-year growth between 27 percent and 28 percent. Product revenue in the range of \$850 to \$853 million, representing year-over-year growth of approximately 20 percent.
- Total billings in the range of \$2.807 to \$2.822 billion, representing year-over-year growth between 22 percent and 23 percent.
- Diluted non-GAAP net income per share in the range of \$3.86 to \$3.89 using 95 to 96 million shares.

Guidance for non-GAAP financial measures excludes share-based compensation related charges including share-based payroll tax expense, acquisition related costs, amortization expense of acquired intangible assets, litigation-related charges including legal settlements, facility exit costs, non-cash interest expense related to our convertible senior notes, foreign currency gains (losses) and income and other tax effects associated with these items, and certain non-recurring expenses. We have not reconciled diluted non-GAAP net income per share guidance to GAAP net income (loss) per diluted share because we do not provide guidance on GAAP net income (loss) and would not be able to present the various reconciling cash and non-cash items between GAAP net income (loss) and non-GAAP net income, including share-based compensation expense, without unreasonable effort. Share-based compensation expense is impacted by the company's future hiring and retention needs and, to a lesser extent, the future fair market value of the company's common stock, all of which is difficult to predict and subject to constant change. The actual amounts of such reconciling items will have a significant impact on the company's GAAP net income (loss) per diluted share.

Conference Call Information

Palo Alto Networks will host a conference call for analysts and investors to discuss its fiscal third quarter 2018 results and outlook for its fiscal fourth quarter and full fiscal year 2018 today at 8:00 a.m. Eastern

time/5:00 a.m. Pacific time. Open to the public, investors may access the call by dialing 1-888-394-8218 or 1-323-701-0225 and using conference ID 1424255. A live audio webcast of the conference call, along with supplemental financial information, will also be accessible from the “Investors” section of our website at investors.paloaltonetworks.com. Following the webcast, an archived version will be available on our website for one year. A telephonic replay of the call will be available three hours after the call, will run for ten days, and may be accessed by dialing 1-888-203-1112 or 1-719-457-0820 and entering the passcode 1424255.

Forward-Looking Statements

This press release contains forward-looking statements that involve risks and uncertainties, including statements regarding our future financial and operating performance, including our financial outlook for the fiscal fourth quarter and full fiscal year 2018, regarding the company’s transition to a new chief executive officer and Mark McLaughlin’s transition to vice chairman of the Board, and our expectations regarding the benefits to our customers of our newly acquired offerings and capabilities and the effectiveness of these offerings and capabilities to perform as intended. There are a significant number of factors that could cause actual results to differ materially from statements made in this press release, including: our limited operating history; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; risks associated with managing our rapid growth; the risks associated with new products and subscription and support offerings, including the discovery of software bugs; organizational changes and the timing of these changes; our ability to attract and retain new customers; delays in the development or release of new subscription offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support offerings; rapidly evolving technological developments in the market for network security products and subscription and support offerings; length of sales cycles; and general market, political, economic and business conditions.

Additional risks and uncertainties that could affect our financial results are included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Quarterly Report on Form 10-Q filed with the SEC on February 27, 2018, which is available on our website at investors.paloaltonetworks.com and on the SEC’s website at www.sec.gov. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this press release are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

Non-GAAP Financial Measures and Other Key Metrics

Palo Alto Networks has provided in this press release financial information that has not been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The company uses these non-GAAP financial measures and key metrics internally in analyzing its financial results and believes that the use of these non-GAAP financial measures and key metrics is useful to investors as an additional tool to evaluate ongoing operating results and trends, and in comparing the company’s financial results with other companies in its industry, many of which present similar non-GAAP financial measures or key metrics.

The presentation of these non-GAAP financial measures and key metrics are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with the company’s consolidated financial statements prepared in accordance with GAAP. A reconciliation of the company’s historical non-GAAP financial measures and key metrics to their most directly comparable GAAP measures has been provided in the financial statement tables included in this press release, and investors are encouraged to review these reconciliations.

Non-GAAP net income and net income per share, diluted. Palo Alto Networks defines non-GAAP net income as net income (loss) plus share-based compensation related charges including share-based payroll tax expense, acquisition related costs, amortization expense of acquired intangible assets, litigation related charges including legal settlements, facility exit costs, non-cash interest expense related to the company's convertible senior notes, and intellectual property restructuring related charges. The company also excludes from non-GAAP net income the foreign currency gains (losses) and tax effects associated with these items in order to provide a complete picture of the company's recurring core business operating results. The company defines non-GAAP net income per share, diluted, as non-GAAP net income divided by the weighted average diluted shares outstanding, which includes the potentially dilutive effect of the company's employee equity incentive plan awards and the company's convertible senior notes outstanding, after giving effect to the anti-dilutive impact of the company's note hedge agreements, which reduces the potential economic dilution that otherwise would occur upon conversion of the company's convertible senior notes. Under GAAP, the anti-dilutive impact of the note hedge is not reflected in diluted shares outstanding. The company believes that excluding these items from non-GAAP net income and non-GAAP net income per share, diluted, provides management and investors with greater visibility into the underlying performance of the company's core business operating results, meaning its operating performance excluding these items and, from time to time, other discrete charges that are infrequent in nature, over multiple periods.

Billings. Palo Alto Networks defines billings as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. The company considers billings to be a key metric used by management to manage the company's business given the company's hybrid-SaaS revenue model, and believes billings provides investors with an important indicator of the health and visibility of the company's business because it includes subscription and support revenue, which is recognized ratably

over the contractual service period, and product revenue, which is recognized at the time of shipment, provided that all other revenue recognition criteria have been met. The company considers billings to be a useful metric for management and investors, particularly if sales of subscriptions continue to increase and the company experiences strong renewal rates for subscriptions and support.

Free cash flow. Palo Alto Networks defines free cash flow as cash provided by operating activities less purchases of property, equipment, and other assets. The company considers free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after necessary capital expenditures.

Investors are cautioned that there are a number of limitations associated with the use of non-GAAP financial measures and key metrics as analytical tools. In particular, the billings metric reported by the company includes amounts that have not yet been recognized as revenue, and free cash flow does not represent the total increase or decrease in our cash balance for the period. In addition, many of the adjustments to the company's GAAP financial measures reflect the exclusion of items that are recurring and will be reflected in the company's financial results for the foreseeable future, such as share-based compensation, which is an important part of Palo Alto Networks employees' compensation and impacts their performance. Furthermore, these non-GAAP financial measures are not based on any standardized methodology prescribed by GAAP, and the components that Palo Alto Networks excludes in its calculation of non-GAAP financial measures may differ from the components that its peer companies exclude when they report their non-GAAP results of operations. Palo Alto Networks compensates for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP financial measures. In the future, the company may also exclude non-recurring expenses and other expenses that do not reflect the company's core business operating results.

About Palo Alto Networks

We are the global cybersecurity leader, known for always challenging the security status quo. Our mission is to protect our way of life in the digital age by preventing successful cyberattacks. This has given us the privilege of safely enabling tens of thousands of organizations and their customers. Our pioneering Security Operating Platform emboldens their digital transformation with continuous innovation that seizes the latest breakthroughs in security, automation, and analytics. By delivering a true platform and empowering a growing ecosystem of change-makers like us, we provide highly effective and innovative cybersecurity across clouds, networks, and mobile devices.

Palo Alto Networks and the Palo Alto Networks logo are trademarks of Palo Alto Networks, Inc. in the United States and in jurisdictions throughout the world. All other trademarks, trade names or service marks used or mentioned herein belong to their respective owners.

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Palo Alto Networks, Inc.
Preliminary Condensed Consolidated Statements of Operations
(In millions, except per share data)
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2018	2017	2018	2017
Revenue:				
Product	\$ 215.2	\$ 164.2	\$ 603.9	\$ 496.8
Subscription and support	351.9	267.6	1,011.1	755.7
Total revenue	567.1	431.8	1,615.0	1,252.5
Cost of revenue:				
Product	68.9	49.7	190.4	137.7
Subscription and support	91.0	74.0	270.2	200.4
Total cost of revenue	159.9	123.7	460.6	338.1
Total gross profit	407.2	308.1	1,154.4	914.4
Operating expenses:				
Research and development	99.6	86.0	290.4	260.1
Sales and marketing	277.1	226.9	800.6	673.7
General and administrative	82.1	44.3	201.1	133.1
Total operating expenses	458.8	357.2	1,292.1	1,066.9
Operating loss	(51.6)	(49.1)	(137.7)	(152.5)
Interest expense	(6.5)	(6.2)	(19.2)	(18.3)
Other income, net	8.6	2.1	18.3	7.3
Loss before income taxes	(49.5)	(53.2)	(138.6)	(163.5)
Provision for (benefit from) income taxes	(2.8)	7.7	7.0	14.9
Net loss	\$ (46.7)	\$ (60.9)	\$ (145.6)	\$ (178.4)
Net loss per share, basic and diluted	\$ (0.51)	\$ (0.67)	\$ (1.59)	\$ (1.97)
Weighted-average shares used to compute net loss per share, basic and diluted	91.9	91.0	91.3	90.5

Palo Alto Networks, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
(In millions, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 30,		April 30,	
	2018	2017	2018	2017
GAAP net loss	\$ (46.7)	\$ (60.9)	\$ (145.6)	\$ (178.4)
Share-based compensation related charges	123.1	120.6	388.3	368.0
Acquisition related costs ⁽¹⁾	13.3	2.4	13.3	3.1
Amortization expense of acquired intangible assets	3.6	2.3	8.6	6.4
Litigation related charges ⁽²⁾	3.1	3.1	9.2	9.2
Facility exit costs ⁽³⁾	23.8	—	40.8	—
Non-cash interest expense related to convertible notes	6.5	6.2	19.2	18.3
Foreign currency (gain) loss associated with non-GAAP adjustments	(2.0)	1.4	(0.5)	1.8
Income tax and other tax adjustments related to the above ⁽⁴⁾	(29.6)	(18.0)	(76.9)	(60.5)
Non-GAAP net income	<u>\$ 95.1</u>	<u>\$ 57.1</u>	<u>\$ 256.4</u>	<u>\$ 167.9</u>
GAAP net loss per share, diluted	\$ (0.51)	\$ (0.67)	\$ (1.59)	\$ (1.97)
Share-based compensation related charges	1.30	1.30	4.15	4.01
Acquisition related costs ⁽¹⁾	0.14	0.03	0.15	0.03
Amortization expense of acquired intangible assets	0.04	0.03	0.09	0.07
Litigation related charges ⁽²⁾	0.03	0.03	0.10	0.10
Facility exit costs ⁽³⁾	0.26	0.00	0.45	0.00
Non-cash interest expense related to convertible notes	0.07	0.07	0.21	0.20
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.02)	0.02	(0.01)	0.02
Income tax and other tax adjustments related to the above ⁽⁴⁾	(0.32)	(0.20)	(0.84)	(0.67)
Non-GAAP net income per share, diluted	<u>\$ 0.99</u>	<u>\$ 0.61</u>	<u>\$ 2.71</u>	<u>\$ 1.79</u>
GAAP weighted-average shares used to compute net loss per share, diluted	91.9	91.0	91.3	90.5
Weighted-average effect of potentially dilutive securities ⁽⁵⁾	4.3	2.3	3.3	3.2
Non-GAAP weighted-average shares used to compute net income per share, diluted	<u>96.2</u>	<u>93.3</u>	<u>94.6</u>	<u>93.7</u>
Net cash provided by operating activities	\$ 241.3	\$ 211.2	\$ 759.1	\$ 629.0
Less: purchases of property, equipment, and other assets	28.8	48.6	86.6	114.2
Free cash flow (non-GAAP)	<u>\$ 212.5</u>	<u>\$ 162.6</u>	<u>\$ 672.5</u>	<u>\$ 514.8</u>
Net cash used in investing activities	<u>\$ (225.1)</u>	<u>\$ (166.8)</u>	<u>\$ (313.6)</u>	<u>\$ (411.1)</u>
Net cash provided by (used in) financing activities	<u>\$ 17.8</u>	<u>\$ (113.8)</u>	<u>\$ (240.8)</u>	<u>\$ (260.3)</u>

- (1) Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, and costs to terminate certain employment and operating lease contracts of the acquired companies.
- (2) Consists of the amortization of intellectual property licenses.
- (3) Consists of charges related to the relocation of the company's corporate headquarters, including a cease-use loss of \$15.4 million and accelerated depreciation during the three months ended October 31, 2017, and an additional cease-use loss of \$23.8 million during the three months ended April 30, 2018, and charges related to the relocation of the company's research and development center in Israel, including a cease-use loss of \$1.3 million and accelerated depreciation during the three months ended January 31, 2018.
- (4) The company changed its non-GAAP effective tax rate from 31% to 22% in its second quarter of fiscal 2018 due to the reduction of the U.S. federal corporate income tax rate under the U.S. Tax Cuts and Jobs Act, which was enacted into law on December 22, 2017.
- (5) Non-GAAP net income per share, diluted, includes the potentially dilutive effect of employee equity incentive plan awards and convertible senior notes outstanding. In addition, non-GAAP net income per share, diluted, includes the anti-dilutive impact of the company's note hedge agreements, which reduced the potentially dilutive effect of the convertible notes by 2.2 million shares and 1.6 million shares for the three and nine months ended April 30, 2018, respectively, and 0.1 million shares and 0.8 million shares for the three and nine months ended April 30, 2017, respectively.

Palo Alto Networks, Inc.
Calculation of Billings
(In millions)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	April 30,		April 30,	
	2018	2017	2018	2017
Total revenue	\$ 567.1	\$ 431.8	\$ 1,615.0	\$ 1,252.5
Add: change in total deferred revenue, net of acquired deferred revenue	153.9	112.3	377.1	370.1
Billings	<u>\$ 721.0</u>	<u>\$ 544.1</u>	<u>\$ 1,992.1</u>	<u>\$ 1,622.6</u>

Palo Alto Networks, Inc.
Preliminary Condensed Consolidated Balance Sheets
(In millions)
(Unaudited)

	April 30, 2018	July 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 949.0	\$ 744.3
Short-term investments	672.2	630.7
Accounts receivable, net	361.8	432.1
Prepaid expenses and other current assets	222.5	169.2
Total current assets	2,205.5	1,976.3
Property and equipment, net	264.2	211.1
Long-term investments	592.9	789.3
Goodwill	522.2	238.8
Intangible assets, net	147.7	53.7
Other assets	175.8	169.1
Total assets	\$ 3,908.3	\$ 3,438.3
Liabilities, temporary equity, and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 32.7	\$ 35.5
Accrued compensation	95.1	117.5
Accrued and other liabilities	106.0	79.9
Deferred revenue	1,165.5	968.4
Convertible senior notes, net	543.8	—
Total current liabilities	1,943.1	1,201.3
Convertible senior notes, net	—	524.7
Long-term deferred revenue	989.4	805.1
Other long-term liabilities	226.0	147.6
Temporary equity	27.7	—
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	1,717.6	1,599.7
Accumulated other comprehensive loss	(13.2)	(3.4)
Accumulated deficit	(982.3)	(836.7)
Total stockholders' equity	722.1	759.6
Total liabilities, temporary equity, and stockholders' equity	\$ 3,908.3	\$ 3,438.3

Palo Alto Networks, Inc.
Preliminary Condensed Consolidated Statements of Cash Flows
(In millions)
(Unaudited)

	Nine Months Ended April 30,	
	2018	2017
Cash flows from operating activities		
Net loss	\$ (145.6)	\$ (178.4)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation for equity based awards	373.1	356.8
Depreciation and amortization	68.0	43.1
Cease-use loss related to facility exit	41.1	—
Amortization of debt discount and debt issuance costs	19.2	18.3
Amortization of investment premiums, net of accretion of purchase discounts	0.6	2.1
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	72.5	(14.9)
Prepaid expenses and other assets	(60.3)	(11.8)
Accounts payable	(4.6)	2.8
Accrued compensation	(24.4)	1.7
Accrued and other liabilities	42.4	39.2
Deferred revenue	377.1	370.1
Net cash provided by operating activities ⁽¹⁾	759.1	629.0
Cash flows from investing activities		
Purchases of investments	(387.9)	(726.9)
Proceeds from maturities of investments	531.0	520.7
Business acquisitions, net of cash acquired	(370.1)	(90.7)
Purchases of property, equipment, and other assets	(86.6)	(114.2)
Net cash used in investing activities	(313.6)	(411.1)
Cash flows from financing activities		
Repurchases of common stock	(259.1)	(295.1)
Proceeds from sales of shares through employee equity incentive plans	52.6	45.8
Payments for taxes related to net share settlement of equity awards	(34.3)	(11.0)
Net cash used in financing activities	(240.8)	(260.3)
Net increase (decrease) in cash and cash equivalents	204.7	(42.4)
Cash and cash equivalents - beginning of period	744.3	734.4
Cash and cash equivalents - end of period	\$ 949.0	\$ 692.0
Non-cash investing and financing activities		
Property and equipment acquired through lease incentives	\$ 37.8	\$ —

- (1) Cash provided by operating activities for the nine months ended April 30, 2018 includes the receipt of an upfront cash reimbursement of \$38.2 million from the company's landlords during the three months ended October 31, 2017, in connection with the exercise of their option to amend the lease payment schedules and eliminate the rent holiday periods under certain of the company's lease agreements. The upfront cash reimbursement will be applied against rental payments due in fiscal years 2018 through 2020 under the amended lease agreements.