
**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)

November 17, 2017

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 November 20, 2017, Palo Alto Networks, Inc. (the “Company”) issued a press release announcing its financial results for its fiscal first quarter ended October 31, 2017. A copy of the press release is furnished herewith as Exhibit 99.1, and is incorporated herein by reference.

The information contained in this Item 2.02 and in the accompanying Exhibit 99.1 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.

As previously disclosed on the Company’s Current Report on Form 8-K filed on August 31, 2017, Steffan Tomlinson, the Company’s Executive Vice President, Chief Financial Officer, notified the Company of his intention to retire and resign from his position at the Company.

On November 17, 2017, the Board of Directors (the “Board”) of the Company appointed Kathleen Bonanno, age 55, to Executive Vice President, Chief Financial Officer, effective as of November 22, 2017.

Prior to the appointment, Ms. Bonanno served as the Company’s Senior Vice President Finance, from November 2016 to November 2017, and, most recently, had responsibility for financial planning, treasury, enterprise risk management and facilities. From April 2014 when she joined the Company to November 2016, Ms. Bonanno served as Vice President Finance. In her 30 years of business experience she has held a variety of senior finance positions, including at Symantec Corporation, a cybersecurity company, and American Airlines, a major U.S. airline. Prior to joining the Company, from January 2007 to March 2014, Ms. Bonanno served as Vice President, FP&A, for Symantec Corporation. Ms. Bonanno holds an M.B.A. from Texas Christian University and a B.S. in Finance from Arizona State University.

On November 17, 2017, in connection with Ms. Bonanno’s appointment, the Company’s Board increased Ms. Bonanno’s annual base salary to \$425,000 and provided Ms. Bonanno with the opportunity to earn a target annual cash incentive compensation payment of 60% of her annual base salary, under the Company’s Employee Incentive Compensation Plan for fiscal 2018 and subsequent fiscal periods. On November 17, 2017, the Board also granted Ms. Bonanno (i) an award of restricted stock units (“RSUs”) covering 11,968 shares of the Company’s common stock pursuant to the Company’s 2012 Equity Incentive Plan (the “2012 Plan”) and (ii) an award of restricted stock units with performance-based vesting (“PSUs”) covering a target of 11,968 shares of the Company’s common stock pursuant to the Company’s 2012 Plan. One-sixteenth (1/16) of the RSUs will vest on January 20, 2018 and one-sixteenth (1/16) will vest quarterly thereafter, subject to Ms. Bonanno continuing to be a Service Provider (as defined in the 2012 Plan) through each vesting date. With regard to the PSUs, Ms. Bonanno may potentially earn from 50% to 120% of the PSU target based on the achievement, if any, of certain pre-established Company performance criteria for fiscal 2018. The actual PSUs earned shall be determined by the Compensation Committee of the Company’s Board following the fiscal 2018 performance period. If earned, vesting of the PSUs shall become time-based such that twenty-five percent (25%) of the eligible PSUs will vest on October 20, 2018, and one-sixteenth (1/16) of the PSUs will vest quarterly thereafter, subject to Ms. Bonanno continuing to be a Service Provider through each vesting date.

In the event of an involuntary termination of employment (a termination of employment by the Company without “cause” or a termination of employment for “good reason”) within 12 months following a “change in control,” provided that Ms. Bonanno executes an appropriate release and waiver of claims, Ms. Bonanno would be eligible to receive:

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

Additionally, in the event of an involuntary termination of employment (a termination of employment by us without “cause”), at any time before a “change in control” or more than 24 months following a “change in control,” provided that Ms. Bonanno executes an appropriate release and waiver of claims, Ms. Bonanno would be eligible to receive:

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

The foregoing description of Ms. Bonanno’s compensation, terms and conditions of her employment and treatment of Ms. Bonanno upon certain terminations of employment are qualified in its entirety by the full text of Ms. Bonanno’s Offer Letter, which is filed as Exhibit 10.1 to this Current Report on Form 8-K and incorporated herein by reference.

In addition, Ms. Bonanno 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 are no arrangements or understandings between Ms. Bonanno and any other persons pursuant to which she was selected as an executive officer. There are no family relationships between Ms. Bonanno and any director or other executive officer. Ms. Bonanno has not had an interest in any transaction since the beginning of the Company’s last fiscal year, or any currently proposed transaction, that requires disclosure 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>
10.1	Offer Letter between the Registrant and Kathleen Bonanno, dated November 17, 2017.
99.1	Press release dated as of November 20, 2017.

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: November 20, 2017

November 17, 2017

Kathy Bonanno
c/o Palo Alto Networks, Inc.
3000 Tannery Way
Santa Clara, CA 95054

Re: Terms of Employment

Dear Kathy:

This letter agreement (the “**Agreement**”) is entered into between Palo Alto Networks, Inc. (“**Company**” or “**we**”) and Kathy Bonanno (“**Executive**” or “**you**”). This Agreement is effective as of November 22, 2017 (“**Effective Date**”). The purpose of this Agreement is to confirm the current and updated terms and conditions of your employment and to specify your treatment upon certain terminations of employment.

1. Position. Beginning on the Effective Date, you will serve as Executive Vice President, Chief Financial Officer of the Company. You will report to the Chief Executive Officer and shall perform the duties and responsibilities customary for such position and such other related duties as are assigned by the Chief Executive Officer. This is a full-time position. While you render services to the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company. You may engage in civic and not-for-profit activities as long as such activities do not interfere with the performance of your duties hereunder. By signing this 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 \$425,000 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 our Board of Directors (the “**Board**”) or the Compensation Committee of our Board of Directors (the “**Compensation Committee**”) in their sole discretion.

(b) Annual Incentive Compensation Payment. You will have the opportunity to earn a target annual incentive compensation payment of 60% 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. The incentive compensation will be paid no later than March 15 of the year following the year in which such incentive compensation was earned. 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.

3. Equity. The Company will grant you an equity award pursuant to the terms of the Company's 2012 Equity Incentive Plan (the "**Plan**") with an approximate value of \$3,500,000, divided equally between restricted stock units ("**RSUs**") and performance-based stock units ("**PSUs**"). One-sixteenth (1/16th) of the RSUs will vest on January 20, 2018, and one-sixteenth (1/16) of the RSUs will vest quarterly thereafter, subject to you continuing to be a Service Provider (as defined in the Plan) through each vesting date. With regard to the PSUs, you may potentially earn from 50% to 120% of the PSU target based on the achievement, if any, of certain Company performance criteria as determined by the Board of Directors at the end of the applicable performance period. The actual PSU award earned shall be determined by the Company's Compensation Committee following the performance period. If earned, vesting of the PSUs shall become time-based such that twenty-five percent (25%) of the eligible PSUs would vest on October 20, 2018, and one-sixteenth (1/16) of the PSUs will vest quarterly thereafter, subject to you continuing to be a Service Provider through each vesting date.

4. 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.

5. Termination Benefits.

(a) 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 twelve (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 twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of twenty-four (24) months vesting of your then-outstanding unvested time-based equity awards (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.

(b) ***Other Termination***. In the event that your employment is terminated by the Company other than for Cause, at any time before a Change in Control or more than twenty-four (24) months following a Change in Control, then you will receive continued payment of your then current base salary for a period of six (6) months and reimbursement of six (6) months of your COBRA premiums in a lump sum (the “**Other Termination Severance Benefits**”). Your entitlement to the Other Termination Severance Benefits is subject to your compliance with subsection (c) below.

(c) ***Form and Timing of Payment***. This Section 5 will not apply unless you (i) have returned all Company property in your possession, (ii) have resigned as a member of the Board of the Company and all of its subsidiaries, to the extent applicable, and (iii) have executed a general release of all claims that you may have against the Company or persons affiliated with the Company. The release must be in the form prescribed by the Company. You must execute and return the release on or before the date specified by the Company in the prescribed form (the “**Release Deadline**”). The Release Deadline will in no event be later than 50 days after your separation. If you fail to return the release on or before the Release Deadline, or if you revoke the release, then you will not be entitled to the benefits described in this Section 4. The severance payments will be paid in lump sum 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 your severance payments are Deferred Payments (as defined below), then the payments will be paid in lump sum on the 60th day following your termination of employment, subject to Section 6.

(d) ***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 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 thirty (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; or (iv) the relocation of the principal place of the Company's business to a location that is more than thirty-five (35) miles further from your home than before the relocation. 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 fifty percent (50%) of the outstanding voting power of the Company is acquired by a person or entity or group of related persons or entities; (iii) any reorganization, consolidation or merger of the Company where the outstanding voting securities of the Company immediately before the transaction represent or are converted into less than fifty percent (50%) of the outstanding voting power of the surviving entity (or its parent corporation) immediately after the transaction; or (iv) the consummation of the acquisition of fifty-one percent (51%) or more of the outstanding stock of the Company pursuant to a tender offer validly made under any federal or state law (other than a tender offer by the Company). Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

6. Section 280G. If any payments and other benefits provided for in this 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.

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 six (6)-month period measured from your separation from service from the Company or (ii) the date of your death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to you including, without limitation, the additional tax for which you would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. The first payment thereof will include a catch-up payment covering the amount that would have otherwise been paid during the period between your termination of employment and the first payment date but for the application of this provision, and the balance of the installments (if any) will be payable in accordance with their original schedule. To the extent that any provision of this 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 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.

10. Authorization to Work. Please note that because of employer regulations adopted in the Immigration Reform and Control Act of 1986, within three (3) business days of commencing employment with the Company you were required to present documentation demonstrating that

you have authorization to work in the United States. By your signature to this Agreement, you represent that you have presented the Company such documentation.

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) Complete Agreement. This Agreement (together with the Employee Invention Assignment and Confidentiality Agreement, the D&O Indemnification Agreement (if any) and the Company's 2012 Equity Incentive Plan, any successor equity incentive plan and any equity award agreement issued thereunder) represents the entire agreement between you and the Company with respect to the material terms and conditions of your employment, and supersedes and replaces all prior discussions, negotiations and agreements, including, but not limited to your original offer letter agreement with the Company dated March 4, 2014.

(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 black]

[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 letter and returning a copy to me.

For and on behalf of Palo Alto Networks.

/s/ MARK MCLAUGHLIN
Mark McLaughlin, Chief Executive Officer

Agreed to and accepted:

/s/ KATHY BONANNO
Kathy Bonanno
Dated: November 17, 2017

Palo Alto Networks Reports Fiscal First Quarter 2018 Financial Results

- *Fiscal first quarter revenue grows 27 percent year over year to \$505.5 million; product revenue grows 14 percent year over year to \$186.5 million; and subscription and support revenue grows 36 percent year over year to \$319.0 million*
- *Fiscal first quarter billings grow 15 percent year over year to \$596.5 million*
- *Deferred revenue grows 37 percent year over year to \$1.9 billion*
- *Announces the appointment of Kathy Bonanno as Chief Financial Officer*

SANTA CLARA, Calif. — **November 20, 2017** — Palo Alto Networks[®] (NYSE: PANW), the next-generation security company, today announced financial results for its fiscal first quarter 2018 ended October 31, 2017.

Total revenue for the fiscal first quarter 2018 grew 27 percent year over year to \$505.5 million, compared with total revenue of \$398.1 million for the fiscal first quarter 2017. GAAP net loss for the fiscal first quarter 2018 was \$64.0 million, or \$0.70 per diluted share, compared with GAAP net loss of \$56.9 million, or \$0.63 per diluted share, for the fiscal first quarter 2017.

Non-GAAP net income for the fiscal first quarter 2018 was \$69.8 million, or \$0.74 per diluted share, compared with non-GAAP net income of \$51.2 million, or \$0.55 per diluted share, for the fiscal first quarter 2017. A reconciliation between GAAP and non-GAAP information is contained in the tables below.

“I am pleased with our start to fiscal year 2018 as we delivered record first quarter revenue of \$505.5 million, growing 27 percent year over year, and added more than 2,500 new customers, bringing the total number of customers we now serve to more than 45,000,” said Mark McLaughlin, chief executive officer of Palo Alto Networks. “We continue to drive disruptive evolutions in a large and growing market by delivering highly automated and orchestrated security capabilities that increase prevention rates and simplify consumption models.”

“Execution of our ‘land and expand’ go-to-market model resulted in strong first quarter performance with very strong new customer acquisition and broad adoption of our Next-Generation Security Platform,” said Steffan Tomlinson, chief financial officer of Palo Alto Networks. “Once again, we grew significantly faster than the market and our competition while delivering record deferred revenue, increasing year-over-year GAAP and non-GAAP operating margins, and generating robust cash flow. We ended the quarter with approximately \$2.3 billion in cash, cash equivalents and investments.”

Chief Financial Officer Appointed

This afternoon, the company announced the appointment of Kathy Bonanno as the company’s next chief financial officer. Kathy has held senior finance positions at Palo Alto Networks since 2014 and, most recently, had responsibility for financial planning, treasury, enterprise risk management and facilities. In her 30 years of business experience, she has held a variety of senior finance positions, including at Symantec Corporation and American Airlines. She holds a B.S. in finance from Arizona State University and an MBA from Texas Christian University.

“I am very pleased to welcome Kathy as our next chief financial officer,” said McLaughlin. “With more than three years at Palo Alto Networks and a decade in cybersecurity, she has an intimate knowledge of our company, the industry, and broad expertise across finance disciplines, as well as a proven track record

of building world-class organizations. Her knowledge of the company and team helps ensure a seamless transition, and I look forward to continuing to work with Kathy as we drive the next evolution in cybersecurity.”

“I’m excited about the growth potential in front of Palo Alto Networks,” said Bonanno. “As the market disruptor, we have a unique opportunity to continue to take share at scale, while increasing operating leverage. I look forward to continuing to work with our team to realize the company’s potential.”

Recent Highlights

- **Released Traps version 4.1** – Traps™, our advanced endpoint protection offering, now offers additional features that enable customers to prevent malware and kernel exploit attacks by monitoring for new techniques and ransomware behavior, and upon detection, prevents the attack and resulting encryption of the data.
- **Expanded Aperture SaaS security service** – Aperture™, our Cloud Access Security Broker offering, now provides application protection for several Amazon® Web Services (AWS®) solutions, including Amazon Elastic Compute Cloud, AWS Identity and Access Management and Amazon Simple Storage Service. These new capabilities enable organizations to achieve even more protection for AWS, as well as address critical cloud security needs. In addition, Aperture support for Office 365® and Google® applications has been enhanced to include cloud-based email services and G Suite Marketplace applications.
- **Earned the NSS Labs’ “Recommended” rating in its Next Generation Intrusion Prevention System test** – In the NSS Labs 2017 Next Generation Intrusion Prevention System (NGIPS) test, our platform achieved a “Recommended” rating for its block rate, resistance to evasions, and performance.

- **Joined forces with Telefónica Business Solutions** – Telefónica Business Solutions, a leading provider of a wide range of integrated communication solutions for the B2B market, announced the launch of Clean Pipes 2.0, a software-based security service jointly designed by Telefónica Business Solutions; ElevenPaths, Telefónica’s cybersecurity unit; and Palo Alto Networks. The Palo Alto Networks security platform safely enables all applications and enables Clean Pipes 2.0 to deliver highly automated, preventive protection against cyberthreats at all stages in the attack lifecycle without compromising performance.
- **Recognized by Fortune Magazine for innovation** – We were recently honored to be named to Fortune[®] Magazine’s Top 50 Companies Changing the World and Future 50 lists, recognizing the work we are doing to “empower businesses to fend off cyberattacks” with our security platform and the extension thereof to build security applications on top of it. This acknowledgement by Fortune underscores our commitment to innovation and our dedication to improving security outcomes for our customers.
- **Opened new Santa Clara, Calif. headquarters** – On September 21, we announced the grand opening of our new state-of-the-art LEED Silver U.S. headquarters. The new campus was designed to foster a culture of innovation and teamwork among employees in pursuit of achieving the company’s mission to prevent successful cyberattacks and maintain trust in the digital age.

Financial Outlook

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

For the fiscal second quarter 2018, we expect:

- Total revenue in the range of \$518 to \$528 million, representing year-over-year growth between 23 percent and 25 percent. Product revenue in the range of \$185 to \$188 million, representing year-over-year growth between 10 percent and 11 percent.

- Total billings in the range of \$640 to \$655 million, representing year-over-year growth between 14 percent and 17 percent.
- Diluted non-GAAP net income per share in the range of \$0.78 to \$0.80 using 94 to 96 million shares.

For the fiscal year 2018, we expect:

- Total revenue in the range of \$2.145 to \$2.185 billion, representing year-over-year growth between 22 percent and 24 percent. Product revenue in the range of \$755 to \$770 million, representing year-over-year growth between 6 percent and 9 percent.
- Total billings in the range of \$2.650 to \$2.710 billion, representing year-over-year growth between 16 percent and 18 percent.
- Diluted non-GAAP net income per share in the range of \$3.35 to \$3.41 using 96 to 98 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 first quarter 2018 results and outlook for its fiscal second quarter and full fiscal year 2018 today at 4:30 p.m. Eastern time/1:30 p.m. Pacific time. Open to the public, investors may access the call by dialing 1-888-737-3628 or 1-719-325-4793 and using conference ID 2061951. 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 2061951.

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 second quarter and full fiscal year 2018, our expectations regarding the benefits of new subscription offerings and the effectiveness of our offerings to perform as intended, our continued delivery of highly automated and orchestrated security capabilities that increase prevention rates and simplify consumption models, our opportunity to continue to take market share at scale, while increasing operating leverage, and our plans to use the upfront cash reimbursement received from our landlords against future rental payments. 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 to identify and effectively implement the necessary changes to address execution challenges; risks

associated with managing our rapid growth; organizational changes; the risks associated with new products and subscription and support offerings, including the discovery of software bugs; 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 Annual Report on Form 10-K filed with the SEC on September 7, 2017, 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

Palo Alto Networks is the next-generation security company, leading a new era in cybersecurity by safely enabling applications and preventing cyber breaches for tens of thousands of organizations worldwide. Built with an innovative approach and highly differentiated cyberthreat prevention capabilities, our game-changing security platform delivers security far superior to legacy or point products, safely enables daily business operations, and protects an organization's most valuable assets. Find out more at www.paloaltonetworks.com.

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

	Three Months Ended October 31,	
	2017	2016 ⁽¹⁾
Revenue:		
Product	\$ 186.5	\$ 163.8
Subscription and support	319.0	234.3
Total revenue	505.5	398.1
Cost of revenue:		
Product	57.6	42.2
Subscription and support	83.8	59.0
Total cost of revenue	141.4	101.2
Total gross profit	364.1	296.9
Operating expenses:		
Research and development	94.2	84.2
Sales and marketing	258.5	220.1
General and administrative	65.7	41.6
Total operating expenses	418.4	345.9
Operating loss	(54.3)	(49.0)
Interest expense	(6.3)	(6.0)
Other income, net	4.8	2.5
Loss before income taxes	(55.8)	(52.5)
Provision for income taxes	8.2	4.4
Net loss	\$ (64.0)	\$ (56.9)
Net loss per share, basic and diluted	\$ (0.70)	\$ (0.63)
Weighted-average shares used to compute net loss per share, basic and diluted	90.9	89.8

(1) Certain amounts have been adjusted due to the Company's early adoption of new share-based payment accounting guidance in its second quarter of fiscal 2017.

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

	Three Months Ended	
	October 31,	
	2017	2016 ⁽¹⁾
GAAP net loss	\$ (64.0)	\$ (56.9)
Share-based compensation related charges	128.9	115.6
Amortization expense of acquired intangible assets	2.5	2.1
Litigation related charges ⁽²⁾	3.1	3.1
Facility exit costs ⁽³⁾	15.6	—
Non-cash interest expense related to convertible notes	6.3	6.0
Foreign currency (gain) loss associated with non-GAAP adjustments	0.5	(0.2)
Income tax and other tax adjustments related to the above	(23.1)	(18.5)
Non-GAAP net income	<u>\$ 69.8</u>	<u>\$ 51.2</u>
GAAP net loss per share, diluted	\$ (0.70)	\$ (0.63)
Share-based compensation related charges	1.38	1.27
Amortization expense of acquired intangible assets	0.03	0.02
Litigation related charges ⁽²⁾	0.03	0.03
Facility exit costs ⁽³⁾	0.17	0.00
Non-cash interest expense related to convertible notes	0.07	0.07
Foreign currency (gain) loss associated with non-GAAP adjustments	0.01	0.00
Income tax and other tax adjustments related to the above	(0.25)	(0.21)
Non-GAAP net income per share, diluted	<u>\$ 0.74</u>	<u>\$ 0.55</u>
GAAP weighted-average shares used to compute net loss per share, diluted	90.9	89.8
Weighted-average effect of potentially dilutive securities ⁽⁴⁾	2.8	3.9
Non-GAAP weighted-average shares used to compute net income per share, diluted	<u>93.7</u>	<u>93.7</u>
Net cash provided by operating activities	\$ 274.1	\$ 203.5
Less: purchases of property, equipment, and other assets	32.2	20.9
Free cash flow (non-GAAP)	<u>\$ 241.9</u>	<u>\$ 182.6</u>
Net cash used in investing activities	<u>\$ (52.4)</u>	<u>\$ (71.2)</u>
Net cash used in financing activities	<u>\$ (123.4)</u>	<u>\$ (27.3)</u>

- (1) Certain amounts have been adjusted due to the Company's early adoption of new share-based payment accounting guidance in its second quarter of fiscal 2017.
- (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.
- (4) 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 1.3 million shares and 1.5 million shares for the three months ended October 31, 2017 and October 31, 2016, respectively.

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

	<u>Three Months Ended October 31,</u>	
	<u>2017</u>	<u>2016</u>
Total revenue	\$ 505.5	\$ 398.1
Add: change in total deferred revenue, net of acquired deferred revenue	91.0	118.8
Billings	<u>\$ 596.5</u>	<u>\$ 516.9</u>

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

	October 31, 2017	July 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 842.6	\$ 744.3
Short-term investments	660.6	630.7
Accounts receivable, net	350.8	432.1
Prepaid expenses and other current assets	185.5	169.2
Total current assets	2,039.5	1,976.3
Property and equipment, net	256.9	211.1
Long-term investments	777.4	789.3
Goodwill	238.8	238.8
Intangible assets, net	51.0	53.7
Other assets	122.9	169.1
Total assets	\$ 3,486.5	\$ 3,438.3
Liabilities, temporary equity, and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 38.8	\$ 35.5
Accrued compensation	74.5	117.5
Accrued and other liabilities	80.8	79.9
Deferred revenue	1,017.9	968.4
Convertible senior notes, net	531.0	—
Total current liabilities	1,743.0	1,201.3
Convertible senior notes, net	—	524.7
Long-term deferred revenue	846.6	805.1
Other long-term liabilities	192.2	147.6
Temporary equity	39.2	—
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	1,573.2	1,599.7
Accumulated other comprehensive loss	(7.0)	(3.4)
Accumulated deficit	(900.7)	(836.7)
Total stockholders' equity	665.5	759.6
Liabilities, temporary equity, and stockholders' equity	\$ 3,486.5	\$ 3,438.3

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

	Three Months Ended October 31,	
	2017	2016 ⁽¹⁾
Cash flows from operating activities		
Net loss	\$ (64.0)	\$ (56.9)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Share-based compensation for equity based awards	125.7	113.3
Depreciation and amortization	21.3	13.6
Cease-use loss related to facility exit	15.4	—
Amortization of debt discount and debt issuance costs	6.3	6.0
Amortization of investment premiums, net of accretion of purchase discounts	0.5	0.7
Changes in operating assets and liabilities:		
Accounts receivable, net	81.3	2.2
Prepaid expenses and other assets	(6.4)	10.1
Accounts payable	4.2	1.8
Accrued compensation	(43.0)	(14.5)
Accrued and other liabilities	41.8	8.4
Deferred revenue	91.0	118.8
Net cash provided by operating activities ⁽²⁾	274.1	203.5
Cash flows from investing activities		
Purchases of investments	(226.8)	(285.7)
Proceeds from maturities of investments	206.6	235.4
Purchases of property, equipment, and other assets	(32.2)	(20.9)
Net cash used in investing activities	(52.4)	(71.2)
Cash flows from financing activities		
Repurchases of common stock	(134.1)	(50.0)
Proceeds from sales of shares through employee equity incentive plans	22.1	22.7
Payments for taxes related to net share settlement of equity awards	(11.4)	—
Net cash used in financing activities	(123.4)	(27.3)
Net increase in cash and cash equivalents	98.3	105.0
Cash and cash equivalents - beginning of period	744.3	734.4
Cash and cash equivalents - end of period	\$ 842.6	\$ 839.4
Non-cash investing and financing activities		
Property and equipment acquired through lease incentives	\$ 37.8	\$ —

- (1) Certain amounts have been adjusted due to the Company's early adoption of new share-based payment accounting guidance in its second quarter of fiscal 2017.
- (2) Cash provided by operating activities for the three months ended October 31, 2017 includes the receipt of an upfront cash reimbursement of \$38.2 million from the Company's landlords 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.