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As filed with the Securities and Exchange Commission on April 6, 2012

Registration No. 333-

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

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PALO ALTO NETWORKS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	3576	20-2530195
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3300 Olcott Street
Santa Clara, California 95054
(408) 753-4000
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Mark D. McLaughlin
President and Chief Executive Officer
Palo Alto Networks, Inc.
3300 Olcott Street
Santa Clara, California 95054
(408) 753-4000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Jeffrey D. Saper Jon C. Avina Wilson Sonsini Goodrich & Rosati, P.C. 650 Page Mill Road Palo Alto, California 94304 (650) 493-9300	Jeffrey C. True General Counsel Palo Alto Networks, Inc. 3300 Olcott Street Santa Clara, California 95054 (408) 753-4000	Bruce K. Dallas Davis Polk & Wardwell LLP 1600 El Camino Real Menlo Park, California 94025 (650) 752-2000

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

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price (1)(2)	Amount of Registration Fee
Common Stock, $0.0001 par value per share	$175,000,000.00	$20,055.00

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Includes the aggregate offering price of additional shares that the underwriters have the option to purchase to cover over-allotments, if any.

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

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

PROSPECTUS (Subject to Completion)
Issued April 6, 2012

Shares

COMMON STOCK

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

We intend to apply to list our common stock on the under the symbol " ."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 13.

PRICE $ A SHARE

	Price to Public	***Underwriting Discounts and Commissions***	***Proceeds to Palo Alto Networks***	***Proceeds to Selling Stockholders***
Per Share	*$*	*$*	*$*	*$*
Total	*$*	*$*	*$*	*$*

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

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

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

MORGAN STANLEY *GOLDMAN, SACHS & CO.* *CITIGROUP*

CREDIT SUISSE *BARCLAYS* *UBS INVESTMENT BANK* *RAYMOND JAMES*

, 2012

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

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

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

PROSPECTUS SUMMARY

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

PALO ALTO NETWORKS, INC.

Overview

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

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

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

Our team has substantial experience in network security. As a result, we understand the architectural limitations of legacy network security approaches and have designed our platform to avoid these limitations in order to address current network security requirements. We released our Next-Generation Firewall in 2007, and since then, we have grown significantly faster than industry growth rates. We have been recognized as a technology and market leader. Gartner categorized us as a market leader in its "*2011 Magic Quadrant for Enterprise Network Firewalls*" based on our ability to execute and completeness of vision. As of January 31, 2012, we had more than 6,650 end-customers in more than 80 countries.

We serve the enterprise network security market, which consists of Firewall/VPN, Unified Threat Management (UTM), Web Gateway, Intrusion Detection and Prevention (IDP/IPS), and Virtual Private Network (VPN) technologies. According to IDC, the worldwide enterprise network security market, defined as IDC's Network Security market and Web Security market, was $10.2 billion in 2011 and is projected to grow to $13.4 billion by 2015.

We sell our platform through a high touch, channel fulfilled sales model. Our business is geographically diversified, with 62% of our total revenue from the Americas, 27% from Europe, the Middle East, and Africa (EMEA), and 11% from Asia Pacific and Japan (APAC) for the six month period ended January 31, 2012.

We have experienced rapid growth in recent periods. For fiscal 2009, 2010, and 2011, our revenues were $13.4 million, $48.8 million, and $118.6 million, respectively, representing year-over-year growth of 265% for fiscal 2010 and 143% for fiscal 2011, and our net losses were $19.0 million, $21.1 million, and $12.5 million, respectively. For the six month periods ended January 31, 2011 and 2012, our revenues were $47.2 million and $113.8 million, respectively, representing year-over-year growth of 141%. For the six month period ended January 31, 2011, we recorded a net loss of $3.8 million, and for the six month period ended January 31, 2012, we recorded net income of $4.5 million. For the six month period ended January 31, 2011 and 2012, we generated $9.6 million and $47.7 million, respectively, of cash flow provided by operating activities, and we have generated positive cash flow provided by operating activities for each of our last seven fiscal quarters.

Our Industry

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

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

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

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

Despite the rapidly changing application and threat landscape, the firewall, the mainstay of network security, has remained largely unchanged for decades. These legacy firewalls examine the port and protocol of the data packets through a classification approach known as stateful inspection, which was designed to decide whether or not to let traffic associated with the inspected packets pass into the network. This approach worked well for basic email and web browsing applications, which behaved in a predictable fashion and adhered to standard ports and protocols. Today, however, modern application categories, such as Web 2.0, social media, and SaaS, are becoming increasingly and often deliberately more complex and unpredictable and are therefore challenging to the legacy firewall.

Because the relationship between applications and ports and protocols is becoming less standardized and less predictable, legacy stateful inspection firewall technology can no longer provide the level of security, control, and intelligence required by organizations to safely enable and control today's applications. In an

attempt to compensate for the limitations of the stateful inspection firewall, three approaches have evolved, including stateful inspection "helpers" (such as web filters and IDP systems), UTM appliances, and application control blades that supplement legacy firewalls. However, these approaches still fundamentally rely on stateful inspection technology at their core and are unable to truly identify and safely enable applications. As a result, by using legacy approaches, organizations have to either unsafely allow or completely block modern applications, such as social media, Web 2.0, SaaS, and other productivity enhancing applications.

Organizations Need a Fundamentally New Approach to Network Security

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

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

Our Solution

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

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

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

Our Strategy

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

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

Competitive Strengths

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

- ***Next-Generation Network Security Platform Built from the Ground Up***. Our approach to network security focuses on integrating application visibility and control within the firewall. We natively integrate our application, user, and content classifications in our single-pass software with purpose-built hardware to deliver a comprehensive security platform while also maximizing performance.
- ***Industry Leading Application and Threat Expertise***. Our internal application and threat research capabilities position us as an IT security thought leader and differentiate us from other network security companies that cannot identify applications and simply repackage threat technologies from one or more security vendors.
- ***Experienced Technology Team***. We have assembled a team of leading technology experts from well-established network and security companies who are focused on developing our proprietary technologies.
- ***Large and Growing End-Customer Base***. We focus on serving enterprises, service providers, and government entities, and we have seen significant momentum in the adoption of our platform as our end-customer base has increased from approximately 1,800 as of July 31, 2010 to more than 6,650 as of January 31, 2012.
- ***Clear Leadership Position***. We were the first company to define and lead the industry's transition from the legacy stateful inspection approach to the next-generation firewall paradigm, and we believe that our position as a technology and market leader contributes to our ability to maintain and grow our leadership position in the network security market.

Our Go to Market Strategy

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

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

Risks Affecting Us

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

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

Corporate Information

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

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

THE OFFERING

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

The number of shares of our common stock to be outstanding after this offering is based on 61,569,101 shares of our common stock outstanding as of January 31, 2012, and excludes:

- 11,833,863 shares of common stock issuable upon the exercise of options outstanding as of January 31, 2012, with a weighted-average exercise price of $5.61 per share;
- 1,471,800 shares of common stock issuable upon the exercise of options granted after February 1, 2012, with an exercise price of $15.50 per share; and
- shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 2,125,236 shares of common stock reserved for future issuance under our 2005 Equity Incentive Plan, which shares will be added to the shares to be reserved under our 2012 Equity Incentive Plan, which will become effective upon completion of this offering, shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, which will become effective upon completion of this offering, shares of common stock reserved for future issuance under our 2012 Employee Stock Purchase Plan, which will become effective upon completion of this offering, and shares that become available under our 2012 Equity Incentive Plan and 2012 Employee Stock Purchase Plan, pursuant to provisions thereof that automatically increase the share reserves under the plans each year, as more fully described in “Executive Compensation—Employee Benefit and Stock Plans.”

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

- the automatic conversion of all shares of our convertible preferred stock outstanding as of January 31, 2012 into an aggregate of 41,304,600 shares of common stock immediately prior to the completion of this offering;
- the effectiveness of our amended and restated certificate of incorporation in connection with the completion of this offering;
- no exercise of outstanding options; and
- no exercise of the underwriters' over-allotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated statements of operations data presented below for fiscal 2009, 2010, and 2011 are derived from audited consolidated financial statements that are included in this prospectus. The summary consolidated statements of operations data for the six month periods ended January 31, 2011 and 2012 and the consolidated balance sheet data as of January 31, 2012 are derived from unaudited consolidated financial statements that are included in this prospectus. The unaudited consolidated financial statements were prepared on a basis consistent with our audited financial statements and include all adjustments, consisting of normal and recurring adjustments that we consider necessary for a fair presentation of the financial position and results of operations as of and for such periods. Operating results for the six month period ended January 31, 2012 are not necessarily indicative of the results that may be expected for fiscal 2012. The following summary consolidated financial data should be read with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Product	$ 10,110	$ 36,789	$ 84,800	$33,610	$ 81,499
Services	3,242	11,993	33,797	13,602	32,297
Total revenue	13,352	48,782	118,597	47,212	113,796
Cost of revenue:					
Product[(1)]	3,952	10,822	21,766	8,487	20,558
Services[(1)]	2,324	4,812	10,507	4,163	9,795
Total cost of revenue	6,276	15,634	32,273	12,650	30,353
Total gross profit	7,076	33,148	86,324	34,562	83,443
Operating expenses:					
Research and development[(1)]	8,208	12,788	21,366	9,036	16,362
Sales and marketing[(1)]	15,372	29,726	62,254	23,729	47,980
General and administrative[(1)]	2,536	11,291	13,108	4,791	10,925
Total operating expenses	26,116	53,805	96,728	37,556	75,267
Operating income (loss)	(19,040)	(20,657)	(10,404)	(2,994)	8,176
Interest income	52	4	3	2	4
Other expense, net	(5)	(424)	(1,651)	(603)	(1,030)
Income (loss) before income taxes	(18,993)	(21,077)	(12,052)	(3,595)	7,150
Provision for income taxes	12	56	476	246	2,610
Net income (loss)	$ (19,005)	$ (21,133)	$ (12,528)	$ (3,841)	$ 4,540
Net income (loss) attributable to common stockholders	$ (19,005)	$ (21,133)	$ (12,528)	$ (3,841)	$ —
Net income (loss) per share attributable to common stockholders, basic and diluted	$ (2.01)	$ (1.78)	$ (0.88)	$ (0.29)	$ 0.00
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders, basic and diluted	9,435	11,901	14,201	13,355	16,948

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
	(in thousands, except per share data)				
Pro forma net income (loss) per share attributable to common stockholders:					
Basic			$ (0.20)		$ 0.09
Diluted			$ (0.20)		$ 0.08
Pro forma weighted-average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic			55,285		58,071
Diluted			55,285		63,715

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

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
	(in thousands)				
Cost of product revenue	$ 6	$ 9	$ 27	$ 10	$ 37
Cost of services revenue	9	46	179	64	211
Research and development	126	318	1,020	440	765
Sales and marketing	186	364	1,133	412	1,107
General and administrative	47	132	2,374	518	1,379
Total share-based compensation	$374	$869	$4,733	$1,444	$3,499

Our consolidated balance sheet as of January 31, 2012 is presented on:

- an actual basis;
- a pro forma basis, giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into 41,304,600 shares of common stock and the effectiveness of our amended and restated certificate of incorporation as of immediately prior to the completion of this offering, as if such conversion had occurred and our amended and restated certificate of incorporation had become effective on January 31, 2012; and
- a pro forma as adjusted basis, giving effect to the pro forma adjustments and the sale of shares of common stock by us in this offering, based on an assumed initial public offering price of $ per share, the midpoint of the range reflected on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

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

	January 31, 2012		
	Actual	Pro Forma	Pro Forma As Adjusted[1]
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 82,822	$ 82,822	$
Working capital	26,466	26,466	
Total assets	136,657	136,657	
Current and long-term deferred revenue	97,908	97,908	97,908
Current and long-term notes payable	—	—	—
Total liabilities	131,696	131,696	131,696
Total stockholders' equity (deficit)	(62,556)	4,961	

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

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
	(dollars in thousands)				
Key Financial Metrics:					
Total revenue	$ 13,352	$ 48,782	$118,597	$47,212	$113,796
Year-over-year percentage increase	327.7%	265.4%	143.1%	166.5%	141.0%
Gross margin percentage	53.0%	68.0%	72.8%	73.2%	73.3%
Operating income (loss)	$(19,040)	$(20,657)	$(10,404)	$(2,994)	$ 8,176
Operating margin percentage	(142.6)%	(42.3)%	(8.8)%	(6.3)%	7.2%
Total deferred revenue at period end[1]	$ 5,593	$ 24,121	$ 67,255	$37,761	$ 97,908
Cash flow provided by (used in) operating activities[2]	$(13,523)	$ (2,683)	$ 32,102	$ 9,606	$ 47,703
Free cash flow (non-GAAP)[3]	$(14,568)	$ (4,368)	$ 19,102	$ 6,447	$ 40,640

(1) Our deferred revenue consists of amounts that have been invoiced but that have not yet been recognized as revenue as of the period end. The majority of our deferred revenue balance consists of subscription and support and maintenance revenue that is recognized ratably over the contractual service period. We monitor our deferred revenue balance because it represents a significant portion of revenue to be recognized in future periods.

(2) We monitor cash flow provided by (used in) operating activities as a measure of our overall business performance. Our cash flow provided by (used in) operating activities is driven in large part by sales of our products and from up-front payments for both new and renewal contracts for subscription and support and maintenance. Monitoring cash flow provided by (used in) operating activities enables us to analyze our financial performance without the non-cash effects of certain items such as depreciation, amortization, and share-based compensation costs, thereby allowing us to better understand and manage the cash needs of our business.

(3) We define free cash flow as cash provided by (used in) operating activities less purchase of property, equipment, and other assets. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the purchase of property, equipment, and other assets, can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening the balance sheet. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Metrics” for more information and a reconciliation of free cash flow to cash flow provided by (used in) operating activities, the most directly comparable financial measure calculated and presented in accordance with U.S. generally accepted accounting principles, or GAAP.

RISK FACTORS

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

Risks Related to Our Business and Our Industry

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

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

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

We have experienced rapid growth and increased demand for our products over the last few years. Our employee headcount and number of end-customers have increased significantly, and we expect to continue to grow our headcount significantly over the next 12 months. For example, from the end of fiscal 2010 to the end of fiscal 2011, our headcount increased from more than 200 to more than 400 employees, and our number of end-customers increased from more than 1,800 to more than 4,700 over the same period. The growth and expansion of our business and product and service offerings places a continuous significant strain on our management, operational, and financial resources. As we have grown, we have increasingly managed more complex deployments of our products and services with larger end-customers. To manage any future growth effectively, we must continue to improve and expand our information technology and financial infrastructure, our operating and administrative systems and controls, and our ability to manage headcount, capital, and processes in an efficient manner. In addition, our systems and processes may not prevent or detect all errors, omissions, or fraud. Our failure to improve our systems and processes, or their failure to operate in the intended manner, may result in our inability to manage the growth of our business and to accurately forecast our revenue, expenses, and earnings, or to prevent certain losses. Our productivity and the quality of our products and services may be adversely affected if we do not integrate and train our new employees quickly and effectively. Any future growth would add complexity to our organization and require effective coordination throughout our organization. Failure to manage any future growth effectively could result in increased costs, negatively impact our end-customers' satisfaction with our products and services, and harm our operating results.

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

Our operating results have historically varied from period to period, and we expect that this trend will continue as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to attract and retain new end-customers;
- the budgeting cycles and purchasing practices of end-customers;
- changes in end-customer, distributor or reseller requirements, or market needs;
- changes in the growth rate of the enterprise network security market;
- the timing and success of new product and service introductions by us or our competitors or any other change in the competitive landscape of our industry, including consolidation among our competitors or end-customers;
- deferral of orders from end-customers in anticipation of new products or product enhancements announced by us or our competitors;
- our ability to successfully expand our business domestically and internationally;
- decisions by potential end-customers to purchase enterprise network security solutions from larger, more established security vendors or from their primary network equipment vendors;
- price competition;
- changes in end-customer renewal rates for our services;
- insolvency or credit difficulties confronting our customers, which could adversely affect their ability to purchase or pay for our products and services, or confronting our key suppliers, including our sole source suppliers, which could disrupt our supply chain;
- any disruption in our channel or termination of our relationship with important channel partners;
- our inability to fulfill our customers' orders due to supply chain delays or events that impact our manufacturers or their suppliers;
- the cost and potential outcomes of existing and future litigation, which could have a material adverse effect on our business;
- seasonality or cyclical fluctuations in our markets;
- future accounting pronouncements or changes in our accounting policies;
- increases or decreases in our expenses caused by fluctuations in foreign currency exchange rates, as an increasing portion of our expenses are incurred and paid in currencies other than the U.S. dollar; and
- general economic conditions, both domestically and in our foreign markets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also depend on our installed end-customer base for future support and maintenance revenues. Our support and maintenance agreements are typically one year. If end-customers choose not to continue renewing their support and maintenance or seek to renegotiate the terms of support and maintenance agreements prior to renewing such agreements, our revenue may decline.

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

The market for network security products is intensely competitive, and we expect competition to increase in the future from established competitors and new market entrants. Our current competitors include networking companies such as Cisco Systems, Inc. and Juniper, large companies, such as Intel Corporation, International Business Machines (IBM), and Hewlett-Packard Company (HP) that have acquired large network security vendors in recent years, security vendors such as Check Point Software Technologies Ltd., Fortinet, Inc., and Sourcefire, Inc., and other point solution security vendors. New, privately held companies, as well as established public companies, are currently attempting to enter this market, some of which may become significant competitors in the future. Many of our existing competitors have, and some of our potential competitors could have, substantial competitive advantages such as:

- greater name recognition and longer operating histories;
- larger sales and marketing budgets and resources;
- broader distribution and established relationships with distribution partners and end-customers;
- greater customer support resources;
- greater resources to make acquisitions;
- lower labor and development costs;
- larger and more mature intellectual property portfolios; and
- substantially greater financial, technical, and other resources.

In addition, some of our larger competitors have substantially broader product offerings and leverage their relationships based on other products or incorporate functionality into existing products to gain business in a manner that discourages users from purchasing our products, including through selling at zero or negative margins, product bundling, or closed technology platforms. Potential end-customers may also prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. These larger competitors often have broader product lines and market focus and will therefore not be as susceptible to downturns in a particular market. Many of our smaller competitors that specialize in providing protection from a single type of network security threat are often able to deliver these specialized network security products to the market more quickly than we can. Conditions in our market could change rapidly and significantly as a result of technological advancements, partnering by our competitors or continuing market consolidation. New start-up companies that innovate and large competitors that are making significant investments in research and development may invent similar or superior products and technologies that compete with our products and technology. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources.

Some of our competitors have made acquisitions of businesses that may allow them to offer more directly competitive and comprehensive solutions than they had previously offered, such as Intel’s acquisition of McAfee and Check Point’s acquisition of Nokia’s security appliance business. As a result of such acquisitions, our current or potential competitors might be able to adapt more quickly to new technologies and end-customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of acquisition or other opportunities more readily, or develop and expand their product and service offerings more quickly than we do. Due to various reasons, organizations may be more willing to incrementally add solutions to their existing network security infrastructure from competitors than to replace it with our solutions. These competitive pressures in our market or our failure to compete effectively may result in price reductions, fewer orders, reduced revenue and gross margins, and loss of market share. Any failure to meet and address these factors could seriously harm our business and operating results.

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

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

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

Our future success depends, in part, on our ability to continue to attract and retain highly skilled personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel, or delays in hiring required personnel, particularly in engineering and sales, may seriously harm our business, financial condition, and operating results. Although we have entered into employment offer letters with our key personnel, these agreements have no specific duration and constitute at-will employment. We are also substantially dependent on the continued service of our existing development personnel because of the complexity of our platform. Additionally, any failure to hire, train, and adequately incentivize our sales personnel could negatively impact our growth. Further, the inability of our recently hired sales personnel to effectively ramp to target productivity levels could negatively impact our operating margins.

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

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

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

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

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

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

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

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

Large enterprises often undertake a significant evaluation process that results in a lengthy sales cycle, in some cases over 12 months. Although we have a channel sales model, our sales representatives typically engage in direct interaction with our distributors and resellers in connection with sales to larger end-customers. Because these evaluations are often lengthy, with significant size and scope and stringent requirements, we typically provide evaluation products to these end-customers. We may spend substantial time, effort, and money in our sales efforts without being successful in generating any sales. In addition, product purchases by large enterprises are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing, and other delays. Finally, large enterprises typically have longer implementation cycles, require greater product functionality and scalability and a broader range of services, demand that vendors take on a larger share of risks,

sometimes require acceptance provisions that can lead to a delay in revenue recognition, and expect greater payment flexibility from vendors. All of these factors can add further risk to business conducted with these end-customers. If we fail to realize an expected sale from a large end-customer in a particular quarter or at all, our business, operating results, and financial condition could be materially and adversely affected.

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

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

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

As a result of end-customer buying patterns and the efforts of our sales force and channel partners to meet or exceed their sales objectives, we have historically received a substantial portion of sales orders and generated a substantial portion of revenue during the last few weeks of each fiscal quarter. In addition, a significant interruption in our information technology systems, which manage critical functions such as order processing, revenue recognition, financial forecasts, inventory and supply chain management, and trade compliance reviews, could result in delayed order fulfillment and decreased revenue for that fiscal quarter. If expected revenue at the end of any fiscal quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize, our logistics partners' inability to ship products prior to fiscal quarter-end to fulfill purchase orders received near the end of the fiscal quarter, our failure to manage inventory to meet demand, our inability to release new products on schedule, any failure of our systems related to order review and processing, or any delays in shipments based on trade compliance requirements, our revenue for that quarter could fall below our expectations, resulting in a decline in the trading price of our common stock.

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

Services revenue accounts for a significant portion of our revenue, comprising 29% of total revenue in fiscal 2011, 25% of total revenue for fiscal 2010, and 24% of total revenue for fiscal 2009. Sales of new or renewal subscription and support and maintenance contracts may decline and fluctuate as a result of a number of factors, including end-customers' level of satisfaction with our products and services, the prices of our products and services, the prices of products and services offered by our competitors, and reductions in our end-customers' spending levels. If our sales of new or renewal subscription and support and maintenance contracts decline, our revenue and revenue growth may decline and our business will suffer. In addition, we recognize subscription and support and maintenance revenue monthly over the term of the relevant service period, which is typically one year and can be up to three years. As a result, much of the subscription and support and maintenance revenue we report each fiscal quarter is the recognition of deferred revenue from subscription and support and maintenance contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed subscription or support and maintenance contracts in any one fiscal quarter will not be fully reflected in revenue in that fiscal quarter but will negatively affect our revenue in future fiscal quarters. Accordingly, the effect of significant downturns in new or renewed sales of our subscriptions or support and maintenance is not reflected in full in our operating results until future periods. Also, it is difficult for us to rapidly increase our services revenue through additional service sales in any period, as revenue from new and renewal service contracts must be recognized over the applicable service period. Furthermore, any increase in the average term of services contracts would result in revenue for services contracts being recognized over longer periods of time.

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

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

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

The network security market is expected to continue to evolve rapidly. Moreover, many of our end-customers operate in markets characterized by rapidly changing technologies and business plans, which require them to add numerous network access points and adapt increasingly complex enterprise networks, incorporating a variety of hardware, software applications, operating systems, and networking protocols. The technology in our products is especially complex because it needs to effectively identify and respond to new and increasingly sophisticated methods of attack, while minimizing the impact on network performance. Additionally, some of our new products and enhancements may require us to develop new hardware architectures that involve complex, expensive, and time consuming research and development processes. Although the market expects rapid introduction of new products or product enhancements to respond to new threats, the development of these products is difficult and the timetable for commercial release and availability is uncertain as there can be long time periods between releases and availability of new products. We may experience unanticipated delays in the availability of new products and services and fail to meet customer expectations for such availability. If we do not quickly respond to the rapidly changing and rigorous needs of our end-customers by developing, releasing, and making available on a timely basis new products and services or enhancements that can respond adequately to new security threats, our competitive position and business prospects will be harmed.

Additionally, the process of developing new technology is complex and uncertain, and if we fail to accurately predict end-customers' changing needs and emerging technological trends, our business could be harmed. We must commit significant resources to developing new products before knowing whether our investments will result in products the market will accept. The success of new products depends on several factors, including appropriate new product definition, component costs, timely completion and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products, or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive.

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

Because our products and services are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by our end-customers. Product defects or errors could affect the performance of our products and could delay the development or release of new products or new versions of products, adversely affect our reputation and our end-customers' willingness to buy products from us, and adversely affect market acceptance or perception of our products. Additionally, defects may cause our products or services to be vulnerable to security attacks, cause

them to fail to help secure networks or temporarily interrupt end-customers' networking traffic. Because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques and provide a solution in time to protect our end-customers' networks. Furthermore, as a well-known provider of network security solutions, our networks, products, and services could be targeted by attacks specifically designed to disrupt our business and harm our reputation. In addition, defects or errors in our subscription updates or our products could result in a failure of our services to effectively update end-customers' hardware products and thereby leave our end-customers vulnerable to attacks. Our data centers and networks may experience technical failures and downtime, may fail to distribute appropriate updates, or may fail to meet the increased requirements of a growing end-customer base, any of which could temporarily or permanently expose our end-customers' networks, leaving their networks unprotected against the latest security threats.

Any defects, errors or vulnerabilities in our products could result in:

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

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

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

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

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

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

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

Our inventory management systems and related supply chain visibility tools may be inadequate to enable us to forecast accurately and effectively manage supply of our products and product components. Supply management remains an increased area of focus as we balance the need to maintain supply levels that are sufficient to ensure competitive lead times against the risk of obsolescence because of rapidly changing technology and end-customer requirements. If we ultimately determine that we have excess supply, we may have to reduce our prices and write-down inventory, which in turn could result in lower gross margins. Alternatively, insufficient supply levels may lead to shortages that result in delayed revenue or loss of sales opportunities altogether as potential end-customers turn to competitors' products that are readily available. Additionally, any increases in the time required to manufacture our products or ship products could result in supply shortfalls. If we are unable to effectively manage our supply and inventory, our operating results could be adversely affected.

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

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

such components, we could be forced to redesign our products and qualify new components from alternate suppliers. The resulting stoppage or delay in selling our products and the expense of redesigning our products could result in lost sales opportunities and damage to customer relationships, which would adversely affect our business and operating results.

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

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

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

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

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

We have a limited history of marketing, selling, and supporting our products and services internationally. As a result, we must hire and train experienced personnel to staff and manage our foreign operations. To the extent that we experience difficulties in recruiting, training, managing, and retaining an international staff, and specifically staff related to sales management and sales personnel, we may experience difficulties in sales productivity in foreign markets. We also enter into strategic distributor and reseller relationships with companies in certain international markets where we do not have a local presence. If we are not able to maintain successful strategic distributor relationships internationally or recruit additional companies to enter into strategic distributor relationships, our future success in these international markets could be limited. Business practices in the international markets that we serve may differ from those in the United States and may require us to include non-standard terms in customer contracts, such as extended payment or warranty terms. To the extent that we may enter into customer contracts in the future that include non-standard terms related to payment, warranties, or performance obligations, our operating results may be adversely impacted.

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

- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- management communication and integration problems resulting from cultural and geographic dispersion;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our products required in foreign countries;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of a failure of foreign employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, and any trade regulations ensuring fair trade practices;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements; and
- general economic and political conditions in these foreign markets.

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

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

Sales to U.S. and foreign, federal, state, and local governmental agency end-customers have accounted for an increasingly significant amount of our revenue, and we may in the future increase sales to government entities. Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government certification requirements for products like ours may change and in doing so restrict our ability to sell into the federal government sector until we have attained the revised certification. Government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products and services. Government entities may have statutory, contractual or other legal rights to terminate contracts with our distributors and resellers for convenience or due to a default, and any such termination may adversely impact our future operating results. Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our products and services, a reduction of revenue or fines or civil or criminal liability if the audit uncovers improper or illegal activities, which could adversely impact our operating results in a

material way. Finally, for purchases by the U.S. government, the government may require certain products to be manufactured in the United States and other relatively high cost manufacturing locations, and we may not manufacture all products in locations that meet the requirements of the U.S. government, affecting our ability to sell these products to the U.S. government.

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

Our products must interoperate with our end-customers' existing infrastructure, which often have different specifications, utilize multiple protocol standards, deploy products from multiple vendors, and contain multiple generations of products that have been added over time. As a result, when problems occur in a network, it may be difficult to identify the sources of these problems. If we find errors in the existing software or defects in the hardware used in our end-customers' infrastructure or problematic network configurations or settings, as we have in the past, we may have to modify our software or hardware so that our products will interoperate with our end-customers' infrastructure. Any delays in identifying the sources of problems or in providing necessary modifications to our software or hardware could have a negative impact on our reputation and our end-customers' satisfaction with our products and services, and our ability to sell products and services could be adversely affected. In addition, government and other end-customers may require our products to comply with certain security or other certifications and standards. If our products are late in achieving or fail to achieve compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products to such end-customers, or at a competitive disadvantage, which would harm our business, operating results, and financial condition.

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

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

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

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

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

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

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

Companies in the enterprise network security industry own large numbers of patents, copyrights, trademarks, domain names, and trade secrets and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property or other rights. As we face increasing competition and gain an increasingly high profile, the possibility of intellectual property rights claims against us grows. Third parties have asserted and may in the future assert claims of infringement of intellectual property rights against us. They may also assert such claims against our end-customers or channel partners, whom our standard license and other agreements obligate us to indemnify against claims that our products infringe the intellectual property rights of third parties. As the number of products and competitors in our market increases and overlaps occur, infringement claims may increase. While we intend to increase the size of our patent portfolio, our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. In addition, future litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may therefore provide little or no deterrence or protection. In addition, we have not registered our trademarks, including our "Palo Alto Networks" name, in all of our geographic markets and failure to secure those registrations could adversely affect our ability to enforce and defend our trademark rights. In 2007, our application to register our "Palo Alto Networks" trademark in the United States was refused, in part on the grounds that consumers may confuse it with a registered trademark owned by a third party. Any claim of infringement by a third party, even those without merit, could cause us to incur substantial costs defending against the claim, could distract our management from our business and could require us to cease use of such intellectual property. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. Refer to the discussion under "Business—Legal Proceedings" for information related to pending litigation.

Although third parties may offer a license to their technology or other intellectual property, the terms of any offered license may not be acceptable and the failure to obtain a license or the costs associated with any license

could cause our business, financial condition, and operating results to be materially and adversely affected. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. If a third party does not offer us a license to its technology or other intellectual property on reasonable terms, or at all, we could be enjoined from continued use of such intellectual property. As a result, we may be required to develop alternative, non-infringing technology, which could require significant time (during which we would be unable to continue to offer our affected products or services), effort, and expense and may ultimately not be successful. Furthermore, a successful claimant could secure a judgment or we may agree to a settlement that prevents us from distributing certain products or performing certain services or that requires us to pay substantial damages, royalties or other fees. Any of these events could seriously harm our business, financial condition, and operating results.

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

We rely and expect to continue to rely on a combination of confidentiality and license agreements with our employees, consultants, and third parties with whom we have relationships, as well as trademark, copyright, patent, and trade secret protection laws, to protect our proprietary rights. We have filed various applications for certain aspects of our intellectual property. Valid patents may not issue from our pending applications, and the claims eventually allowed on any patents may not be sufficiently broad to protect our technology or products. Any issued patents may be challenged, invalidated or circumvented, and any rights granted under these patents may not actually provide adequate defensive protection or competitive advantages to us. Patent applications in the United States are typically not published until 18 months after filing, or, in some cases, not at all, and publications of discoveries in industry-related literature lag behind actual discoveries. We cannot be certain that we were the first to make the inventions claimed in our pending patent applications or that we were the first to file for patent protection, which could prevent our patent applications from issuing as patents or invalidate our patents following issuance. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. In addition, recent changes to the patent laws in the United States may bring into question the validity of certain categories of software patents. As a result, we may not be able to obtain adequate patent protection or effectively enforce any issued patents.

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

Our products contain third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products.

Our products contain software modules licensed to us by third-party authors under "open source" licenses. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar products with lower development effort and time and ultimately could result in a loss of product sales for us.

Although we monitor our use of open source software to avoid subjecting our products to conditions we do not intend, the terms of many open source licenses have not been interpreted by United States courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our products. Moreover, we cannot assure you that our processes for controlling our use of open source software in our products will be effective. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue offering our products on terms that are not economically feasible, to re-engineer our products, to discontinue the sale of our products if re-engineering could not be accomplished on a timely basis, or to make generally available, in source code form, our proprietary code, any of which could adversely affect our business, operating results, and financial condition.

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

A wide variety of provincial, state, national, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These data protection and privacy-related laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. Our failure to comply with applicable laws and regulations, or to protect such data, could result in enforcement action against us, including fines, imprisonment of company officials and public censure, claims for damages by end-customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing end-customers and prospective end-customers), any of which could have a material adverse effect on our operations, financial performance and business. Evolving and changing definitions of personal data and personal information, within the European Union, the United States, and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the sharing of data. Even the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit adoption of our products by current and future end-customers.

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

We incorporate technology that we license from third parties, including software, into our products. We cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products. Some of our agreements with our licensors may be terminated for convenience by them. If we are unable to continue to license any of this technology because of intellectual property infringement claims brought by third parties against our licensors or against the Company, or if we are unable to continue our license agreements or enter into new licenses on commercially reasonable terms, our ability to develop and sell products containing that technology would be severely limited, and our business could be harmed. Additionally if we are

unable to license necessary technology from third parties, we may be forced to acquire or develop alternative technology of lower quality or performance standards. This would limit and delay our ability to offer new or competitive products and increase our costs of production. As a result, our margins, market share, and operating results could be significantly harmed.

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

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

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

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

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

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

As part of our business strategy, we may make investments in complementary companies, products or technologies. However, we have not made any significant acquisitions to date, and as a result, our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner is unproven. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by our end-customers, investors, and securities analysts. In addition, if we are unsuccessful at integrating such acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and operating results of the combined company could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully

evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition or the value of our common stock. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

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

We expect that our existing cash and cash equivalents, together with our net proceeds from this offering, will be sufficient to meet our anticipated cash needs for the foreseeable future. After that, we may need to raise additional funds, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests and the per share value of our common stock could decline. Furthermore, if we engage in debt financing, the holders of debt would have priority over the holders of common stock, and we may be required to accept terms that restrict our ability to incur additional indebtedness. We may also be required to take other actions that would otherwise be in the interests of the debt holders and force us to maintain specified liquidity or other ratios, any of which could harm our business, operating results, and financial condition. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

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

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

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

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

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

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

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue, and expenses that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, share-based compensation, contract manufacturing liabilities, and income taxes.

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

Most of our sales are on an open credit basis. Although we have programs in place that are designed to monitor and mitigate these risks, we cannot assure you these programs will be effective in reducing our credit risks, especially as we expand our business internationally. If we are unable to adequately control these risks, our business, operating results, and financial condition could be harmed.

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

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

The EU RoHS and the similar laws of other jurisdictions ban the use of certain hazardous materials such as lead, mercury and cadmium in the manufacture of electrical equipment, including our products. Currently, the manufacturer of our hardware appliances and major component part suppliers comply with the EU RoHS

requirements. However, if there are changes to this or other laws (or their interpretation) or if new similar laws are passed in other jurisdictions, we may be required to reengineer our products to use components compatible with these regulations. This reengineering and component substitution could result in additional costs to us or disrupt our operations or logistics.

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

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

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

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

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

A significant natural disaster, such as an earthquake, fire, a flood, or significant power outage could have a material adverse impact on our business, operating results, and financial condition. Both our corporate headquarters and the location where our products are manufactured are located in the San Francisco Bay Area, a region known for seismic activity. In addition, natural disasters could affect our supply chain, manufacturing vendors, or logistics providers' ability to provide materials and perform services such as manufacturing products or assisting with shipments on a timely basis. In the event our or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, shipments could be delayed, resulting in missed financial targets, such as revenue and shipment targets, for a particular quarter. In addition, acts of terrorism and other geo-political unrest could cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or end-customers or the economy as a whole. Any disruption in the business of our supply chain, manufacturers, logistics providers, partners or end-customers that impacts sales at the end of a fiscal quarter could have a significant adverse impact on our quarterly results. All of the aforementioned risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, or the delay in the manufacture, deployment or shipment of our products, our business, financial condition and operating results would be adversely affected.

Risks Related to this Offering, the Securities Markets and Ownership of Our Common Stock

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

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

- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of technology companies in general and of companies in our industry;
- fluctuations in the trading volume of our shares or the size of our public float;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- whether our operating results meet the expectations of securities analysts or investors;
- actual or anticipated changes in the expectations of investors or securities analysts;
- litigation involving us, our industry, or both, including any developments with respect to our pending litigation, see “Business—Legal Proceedings”;
- regulatory developments in the United States, foreign countries or both;
- general economic conditions and trends;
- major catastrophic events;
- sales of large blocks of our stock; or
- departures of key personnel.

In addition, if the market for technology stocks or the stock market in general experiences loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management’s attention and resources from our business. This could have a material adverse effect on our business, operating results and financial condition.

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

Sales of a substantial number of shares of our common stock in the public market after this offering, or the perception that these sales could occur, could adversely affect the market price of our common stock and may make it more difficult for you to sell your common stock at a time and price that you deem appropriate. Based on the total number of outstanding shares of our common stock as of January 31, 2012, upon completion of this offering, we will have shares of common stock outstanding, assuming no exercise of our outstanding options.

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

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

Based on shares outstanding as of January 31, 2012, upon completion of this offering, holders of up to approximately shares, or %, of our common stock will have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We also intend to register the offer and sale of all shares of common stock that we may issue under our equity compensation plans.

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

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

Our directors, executive officers and each of our stockholders who own greater than 5% of our outstanding common stock and their affiliates, in the aggregate, will beneficially own approximately % of the outstanding shares of our common stock after this offering, based on the number of shares outstanding as of January 31, 2012 and after giving effect to the exercise of options and the sale of shares by the selling stockholders in connection with this offering. As a result, these stockholders, if acting together, will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

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

We intend to apply for listing of our common stock on under the symbol " ." However, we cannot assure you that an active trading market for our common stock will develop on that exchange or elsewhere or, if developed, that any market will be sustained. We cannot predict the prices at which our common stock will trade. The initial public offering price of our common stock was determined by negotiations with the underwriters and may not bear any relationship to the market price at which our common stock will trade after this offering or to any other established criteria of the value of our business.

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

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

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

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

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

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the listing requirements of the securities exchange on which our common stock will be traded and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

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

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced

coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our Audit Committee and Compensation Committee, and qualified executive officers.

As a result of becoming a public company, we will be obligated to maintain proper and effective internal controls over financial reporting. We may not complete our analysis of our internal controls over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

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

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

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

The initial public offering price will be substantially higher than the pro forma net tangible book value per share of our common stock immediately following this offering based on the total value of our tangible assets less our total liabilities. Therefore, if you purchase shares of our common stock in this offering, you will experience immediate dilution of $ per share, the difference between the price per share you pay for our common stock and its pro forma net tangible book value per share as of January 31, 2012, after giving effect to the issuance of shares of our common stock in this offering. See "Dilution" for more information.

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

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

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

Our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect upon completion of this offering contain provisions that could delay or prevent a change in control of our

company. These provisions could also make it difficult for stockholders to elect directors that are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of our board of directors, our president, our secretary, or a majority vote of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our amended and restated certificate of incorporation relating to the issuance of preferred stock and management of our business or our amended and restated bylaws, which may inhibit the ability of an acquiror to effect such amendments to facilitate an unsolicited takeover attempt;
- the ability of our board of directors, by majority vote, to amend the bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquiror to amend the bylaws to facilitate an unsolicited takeover attempt; and
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

MARKET AND INDUSTRY DATA

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

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

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

(1) Gartner, *Magic Quadrant for Enterprise Network Firewalls*, December 14, 2011.

(2) IDC, *Worldwide Network Security 2011–2015 Forecast and 2010 Vendor Shares*, #231229, November 2011, and IDC, *Worldwide Web Security 2011–2015 Forecast and 2010 Vendor Shares*, #229725, November 2011.

(3) Gartner, *Re-Imagine IT Using Insights from Symposium’s Analyst Keynote*, December 2, 2011.

(4) Gartner, *Top Security Trends and Takeaways for 2011-2012*, December 1, 2011.

USE OF PROCEEDS

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

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

DIVIDEND POLICY

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

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of January 31, 2012 on:

- an actual basis;
- a pro forma basis, giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into 41,304,600 shares of common stock and the effectiveness of our amended and restated certificate of incorporation as of immediately prior to the completion of this offering, as if such conversion had occurred and our amended and restated certificate of incorporation had become effective on January 31, 2012; and
- a pro forma as adjusted basis, giving effect to the pro forma adjustments and the sale of shares of common stock by us in this offering, based on an assumed initial public offering price of $ per share, the midpoint of the price range reflected on the cover page of this prospectus, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

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

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

	January 31, 2012		
	Actual	Pro Forma	Pro Forma as Adjusted[1]
	(in thousands, except share and per share data)		
Cash and cash equivalents	$ 82,822	$ 82,822	$
Current and long-term notes payable	—	—	—
Redeemable convertible preferred stock, $0.0001 par value; 41,722,858 shares authorized, 41,304,600 issued and outstanding, actual; no shares authorized, issued and outstanding, pro forma and pro forma as adjusted	67,517	—	—
Stockholders' equity (deficit):			
Preferred Stock, par value $0.0001; no shares authorized, issued and outstanding, actual; 100,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted	—	—	—
Common stock, $0.0001 par value; 75,000,000 authorized, 20,264,501 issued and outstanding, actual; 75,000,000 authorized, 61,569,101 issued and outstanding, pro forma; 1,000,000,000 shares authorized, shares issued and outstanding, pro forma as adjusted	2	6	
Additional paid-in capital	13,667	81,180	
Accumulated other comprehensive income	—	—	—
Accumulated deficit	(76,225)	(76,225)	(76,225)
Total stockholders' equity (deficit)	(62,556)	4,961	
Total capitalization	$ 4,961	$ 4,961	$

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

The number of shares of our common stock to be outstanding after this offering is based on 61,569,101 shares of our common stock outstanding as of January 31, 2012, and excludes:

- 11,833,863 shares of common stock issuable upon the exercise of options outstanding as of January 31, 2012, with a weighted-average exercise price of $5.61 per share;
- 1,471,800 shares of common stock issuable upon the exercise of options granted after February 1, 2012 with an exercise price of $15.50 per share; and
- shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 2,125,236 shares of common stock reserved for future issuance under our 2005 Equity Incentive Plan, which shares will be added to the shares to be reserved under our 2012 Equity Incentive Plan, which will become effective upon completion of this offering, shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan, which will become effective upon completion of this offering, shares of common stock reserved for future issuance under our 2012 Employee Stock Purchase Plan, which will become effective upon completion of this offering, and shares that become available under our 2012 Equity Incentive Plan and 2012 Employee Stock Purchase Plan, pursuant to provisions thereof that automatically increase the share reserves under the plans each year, as more fully described in “Executive Compensation—Employee Benefit and Stock Plans.”

DILUTION

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

As of January 31, 2012, our pro forma net tangible book value was approximately $ million, or $ per share of common stock. Our pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of our common stock outstanding as of January 31, 2012, assuming the conversion of all outstanding shares of our convertible preferred stock.

After giving effect to our sale in this offering of shares of our common stock, at an assumed initial public offering price of $ per share, the midpoint of the price range reflected on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of January 31, 2012 would have been approximately $ million, or $ per share of our common stock. This represents an immediate increase in pro forma net tangible book value of $ per share to our existing stockholders and an immediate dilution of $ per share to investors purchasing shares in this offering.

The following table illustrates this dilution:

Assumed initial public offering price per share		$
Net tangible book value per share as of January 31, 2012	$	
Decrease per share attributable to conversion of convertible preferred stock		
Pro forma net tangible book value per share as of January 31, 2012, before giving effect to this offering		
Increase per share attributable to this offering		
Pro forma net tangible book value, as adjusted to give effect to this offering		$
Dilution in pro forma net tangible book value per share to new investors in this offering		$

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

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

The following table summarizes, on a pro forma as adjusted basis as of January 31, 2012 after giving effect to (i) the automatic conversion of all of our convertible preferred stock into common stock and the effectiveness of our amended and restated certificate of incorporation, and (ii) this offering on an assumed initial public offering price of $ per share, the midpoint of the price range reflected on the cover page of this prospectus, the difference between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us, and the average price per share paid, before deducting estimated underwriting discounts and commissions and estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%	$	%	$
New public investors					
Total		100.0%	$	100.0%	

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

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

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

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data for the years ended July 31, 2009, 2010, and 2011 and the consolidated balance sheet data as of July 31, 2010 and 2011 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for the six month periods ended January 31, 2011 and 2012 and the consolidated balance sheet data as of January 31, 2012 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for fiscal 2007 and the consolidated balance sheet data as of July 31, 2007 are unaudited. The selected consolidated statement of operations data for fiscal 2008 and the consolidated balance sheet data as of July 31, 2008 and 2009 are derived from audited financial statements not included in this prospectus. Our historical results are not necessarily indicative of the results that may be expected in the future, and the results for the six month period ended January 31, 2012 are not necessarily indicative of operating results to be expected for the full year ending July 31, 2012 or any other period. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, which consist only of normal recurring adjustments, necessary for the fair presentation of those unaudited consolidated financial statements. The selected consolidated financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended July 31,					Six Months Ended January 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in thousands, except per share data)						
Consolidated Statements of Operations Data:							
Revenue:							
Product	$ 69	$ 2,605	$ 10,110	$ 36,789	$ 84,800	$ 33,610	$ 81,499
Services	2	517	3,242	11,993	33,797	13,602	32,297
Total revenue	71	3,122	13,352	48,782	118,597	47,212	113,796
Cost of revenue:							
Product[1]	131	1,476	3,952	10,822	21,766	8,487	20,558
Services[1]	197	1,377	2,324	4,812	10,507	4,163	9,795
Total cost of revenue	328	2,853	6,276	15,634	32,273	12,650	30,353
Total gross profit	(257)	269	7,076	33,148	86,324	34,562	83,443
Operating expenses:							
Research and development[1]	6,497	7,460	8,208	12,788	21,366	9,036	16,362
Sales and marketing[1]	1,730	7,583	15,372	29,726	62,254	23,729	47,980
General and administrative[1]	1,406	1,725	2,536	11,291	13,108	4,791	10,925
Total operating expenses	9,633	16,768	26,116	53,805	96,728	37,556	75,267
Operating income (loss)	(9,890)	(16,499)	(19,040)	(20,657)	(10,404)	(2,994)	8,176
Interest income	242	358	52	4	3	2	4
Other income (expense), net	(10)	(42)	(5)	(424)	(1,651)	(603)	(1,030)
Income (loss) before income taxes	(9,658)	(16,183)	(18,993)	(21,077)	(12,052)	(3,595)	7,150
Provision for income taxes	—	4	12	56	476	246	2,610
Net income (loss)	$ (9,658)	$ (16,187)	$ (19,005)	$ (21,133)	$ (12,528)	$ (3,841)	$ 4,540

	Year Ended July 31,					Six Months Ended January 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in thousands, except per share data)						
Net income (loss) attributable to common stockholders	$(9,658)	$(16,187)	$(19,005)	$(21,133)	$(12,528)	$ (3,841)	$ —
Net income (loss) per share attributable to common stockholders, basic and diluted	$ (2.48)	$ (2.56)	$ (2.01)	$ (1.78)	$ (0.88)	$ (0.29)	$ 0.00
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders, basic and diluted	3,888	6,322	9,435	11,901	14,201	13,355	16,948
Pro forma net income (loss) per share attributable to common stockholders:							
Basic					$ (0.20)		$ 0.09
Diluted					$ (0.20)		$ 0.08
Pro forma weighted-average shares outstanding used to compute net income (loss) per share attributable to common stockholders:							
Basic					55,285		58,071
Diluted					55,285		63,713

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

	Year Ended July 31,					Six Months Ended January 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in thousands)						
Cost of product revenue	$ 1	$ 4	$ 6	$ 9	$ 27	$ 10	$ 37
Cost of services revenue	1	4	9	46	179	64	211
Research and development	39	72	126	318	1,020	440	765
Sales and marketing	17	84	186	364	1,133	412	1,107
General and administrative	7	111	47	132	2,374	518	1,379
Total share-based compensation	$65	$275	$374	$869	$4,733	$1,444	$3,499

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	July 31,					January 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in thousands)						
Consolidated Balance Sheet Data:							
Cash and cash equivalents	$ 15,965	$ 1,290	$ 21,366	$ 18,835	$ 40,517	$ 26,227	$ 82,822
Working capital (deficiency)	15,596	(1,470)	18,246	7,000	9,739	7,071	26,466
Total assets	17,297	6,170	28,213	38,119	91,172	52,331	136,657
Current and long-term notes payable	—	—	—	—	—	—	—
Preferred stock warrant liability	46	75	68	491	2,068	1,083	—
Redeemable convertible preferred stock	28,025	28,025	64,491	64,491	64,491	64,491	67,517
Common stock including additional paid-in capital	135	562	1,200	2,589	9,311	4,527	13,669
Total stockholders' deficit	(11,777)	(27,537)	(45,904)	(65,648)	(71,454)	(67,551)	(62,556)

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

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

Overview

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

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

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

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

We had more than 6,650 end-customers in over 80 countries as of January 31, 2012. Our end-customers represent a broad range of industries including education, energy, financial services, healthcare, Internet and media, manufacturing, public sector, and telecommunications. During the six month period ended January 31, 2012, 62% of our revenue was generated from the Americas, 27% from Europe, the Middle East, and Africa (EMEA), and 11% from Asia Pacific and Japan (APAC). As of January 31, 2012, we had 589 employees.

We have experienced rapid growth in recent periods. For fiscal 2009, 2010, and 2011, our revenues were $13.4 million, $48.8 million, and $118.6 million, respectively, representing year-over-year growth of 265% for fiscal 2010 and 143% for fiscal 2011, and our net losses were $19.0 million, $21.1 million, and $12.5 million, respectively. For the six month periods ended January 31, 2011 and 2012, our revenues were $47.2 million and $113.8 million, respectively, representing year-over-year growth of 141%. For the six month period ended January 31, 2011, we recorded net loss of $3.8 million, and for the six month period ended January 31, 2012, we recorded net income of $4.5 million. For the six month period ended January 31, 2011 and 2012, we generated $9.6 million and $47.7 million, respectively, of cash flow provided by operating activities, and we have generated positive cash flow provided by operating activities for each of our last seven fiscal quarters.

Key Financial Metrics

We monitor the key financial metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies. We discuss revenue, gross margin, and the components of operating income (loss) and margin below under "—Financial Overview." Deferred revenue, cash flow provided by (used in) operating activities, and free cash flow are discussed immediately below the following table.

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
			(dollars in thousands)		
Total revenue	$ 13,352	$ 48,782	$118,597	$47,212	$113,796
Year-over-year percentage increase	327.7%	265.4%	143.1%	166.5%	141.0%
Gross margin percentage	53.0%	68.0%	72.8%	73.2%	73.3%
Operating income (loss)	$(19,040)	$(20,657)	$(10,404)	$ (2,994)	$ 8,176
Operating margin percentage	(142.6)%	(42.3)%	(8.8)%	(6.3)%	7.2%
Total deferred revenue at period end	$ 5,593	$ 24,121	$ 67,255	$37,761	$ 97,908
Cash flow provided by (used in) operating activities	$(13,523)	$ (2,683)	$ 32,102	$ 9,606	$ 47,703
Free cash flow (non-GAAP)	$(14,568)	$ (4,368)	$ 19,102	$ 6,447	$ 40,640

- ***Deferred Revenue***. Our deferred revenue consists of amounts that have been invoiced but that have not yet been recognized as revenue as of the period end. The majority of our deferred revenue balance consists of subscription and support and maintenance revenue that is recognized ratably over the contractual service period. We monitor our deferred revenue balance because it represents a significant portion of revenue to be recognized in future periods.
- ***Cash Flow Provided by (Used in) Operating Activities***. We monitor cash flow provided by (used in) operating activities as a measure of our overall business performance. Our cash flow provided by (used in) operating activities is driven in large part by sales of our products and from up-front payments for both subscription and support and maintenance. Monitoring cash flow provided by (used in) operating activities enables us to analyze our financial performance without the non-cash effects of certain items such as depreciation, amortization, and share-based compensation costs, thereby allowing us to better understand and manage the cash needs of our business.

- ***Free Cash Flow***. We define free cash flow as cash provided by (used in) operating activities less purchases of property, equipment, and other assets. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the purchases of property, equipment, and other assets, can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening the balance sheet. For fiscal 2011, our free cash flow was impacted by an increase in property, equipment, and other assets, of which $7.3 million was due to leasehold improvements for our new headquarters.

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
			(in thousands)		
Cash Flow:					
Cash flow provided by (used in) operating activities	$(13,523)	$(2,683)	$ 32,102	$ 9,606	$47,703
Less: purchase of property, equipment, and other assets	1,045	1,685	13,000	3,159	7,063
Free cash flow (non-GAAP)	$(14,568)	$(4,368)	$ 19,102	$ 6,447	$40,640
Net cash used in investing activities	$ (1,045)	$(1,685)	$(13,000)	$(3,159)	$ (7,063)
Net cash provided by financing activities	$ 34,644	$ 1,837	$ 2,580	$ 945	$ 1,665

Financial Overview

Revenue

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

Our total revenue is comprised of the following:

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

Cost of Revenue

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

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

Gross Margin

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

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expense. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, share-based compensation, and with regard to sales and marketing expense, sales commissions. We expect operating expenses to increase in absolute dollars, although they may fluctuate as a percentage of revenue from period to period, as we continue to grow in response to demand for our products and services.

- ***Research and Development***. Research and development expense consists primarily of personnel costs. Research and development expense also includes prototype related expenses and allocated facilities costs. We expect research and development expense to increase in absolute dollars as we continue to invest in our future products and services, although our research and development expense may fluctuate as a percentage of total revenue.
- ***Sales and Marketing***. Sales and marketing expense consists primarily of personnel costs including commission costs. We expense commission costs as incurred. Sales and marketing expense also includes costs for market development programs, promotional and other marketing costs, travel costs, office equipment and software, depreciation of capital equipment, professional services, and allocated facilities costs. In the last 12 months, we have doubled the size of our sales force and have also substantially grown our local sales presence internationally. We expect sales and marketing expense to continue to increase in absolute dollars as we increase the size of our sales and marketing organizations to increase touch points with end-customers and to expand our international presence, although our sales and marketing expense may fluctuate as a percentage of total revenue.
- ***General and Administrative***. General and administrative expense consists of personnel costs as well as professional services. General and administrative personnel include our executive, finance, human resources, and legal organizations. Professional services consist primarily of legal, auditing, accounting, and other consulting costs. We expect general and administrative expense to increase in absolute dollars following the completion of this offering due to additional legal fees and costs associated with pending litigation, accounting, insurance, investor relations, and other costs associated with being a public company, although our general and administrative expense may fluctuate as a percentage of total revenue. Refer to the discussion under “Business—Legal Proceedings” for information related to pending litigation.

Interest Income

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

Other Income (Expense), Net

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

Provision for Income Taxes

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

Results of Operations

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

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
			(in thousands)		
Consolidated Statements of Operations Data:					
Revenue:					
Product	$ 10,110	$ 36,789	$ 84,800	$33,610	$ 81,499
Services	3,242	11,993	33,797	13,602	32,297
Total revenue	13,352	48,782	118,597	47,212	113,796
Cost of revenue:					
Product	3,952	10,822	21,766	8,487	20,558
Services	2,324	4,812	10,507	4,163	9,795
Total cost of revenue	6,276	15,634	32,273	12,650	30,353
Total gross profit	7,076	33,148	86,324	34,562	83,443
Operating expenses:					
Research and development	8,208	12,788	21,366	9,036	16,362
Sales and marketing	15,372	29,726	62,254	23,729	47,980
General and administrative	2,536	11,291	13,108	4,791	10,925
Total operating expenses	26,116	53,805	96,728	37,556	75,267
Operating income (loss)	(19,040)	(20,657)	(10,404)	(2,994)	8,176
Interest income	52	4	3	2	4
Other income (expense), net	(5)	(424)	(1,651)	(603)	(1,030)
Income (loss) before income taxes	(18,993)	(21,077)	(12,052)	(3,595)	7,150
Provision for income taxes	12	56	476	246	2,610
Net income (loss)	$(19,005)	$(21,133)	$(12,528)	$(3,841)	$ 4,540

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
	(as a percentage of revenue)				
Consolidated Statements of Operations Data:					
Revenue:					
Product	75.7%	75.4%	71.5%	71.2%	71.6%
Services	24.3%	24.6%	28.5%	28.8%	28.4%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue:					
Product	29.6%	22.2%	18.4%	18.0%	18.1%
Services	17.4%	9.8%	8.8%	8.8%	8.6%
Total cost of revenue	47.0%	32.0%	27.2%	26.8%	26.7%
Total gross profit	53.0%	68.0%	72.8%	73.2%	73.3%
Operating expenses:					
Research and development	61.5%	26.2%	18.0%	19.1%	14.4%
Sales and marketing	115.1%	60.9%	52.5%	50.3%	42.2%
General and administrative	19.0%	23.2%	11.1%	10.1%	9.5%
Total operating expenses	195.6%	110.3%	81.6%	79.5%	66.1%
Operating income (loss)	(142.6)%	(42.3)%	(8.8)%	(6.3)%	7.2%
Interest income	0.4%	—%	—%	—%	—%
Other income (expense), net	—%	(0.9)%	(1.4)%	(1.3)%	(0.9)%
Income (loss) before income taxes	(142.2)%	(43.2)%	(10.2)%	(7.6)%	6.3%
Provision for income taxes	0.1%	0.1%	0.4%	0.5%	2.3%
Net income (loss)	(142.3)%	(43.3)%	(10.6)%	(8.1)%	4.0%

Comparison of the Six Month Periods Ended January 31, 2011 and 2012

Revenue

	Six Months Ended January 31,				Change	
	2011		2012			
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Revenue:						
Product	$33,610	71.2%	$ 81,499	71.6%	$47,889	142.5%
Services	13,602	28.8%	32,297	28.4%	18,695	137.4%
Total revenue	$47,212	100.0%	$113,796	100.0%	$66,584	141.0%
Revenue by geographic theater:						
Americas	$29,637	62.8%	$ 70,553	62.0%	$40,916	138.1%
EMEA	12,560	26.6%	30,368	26.7%	17,808	141.8%
APAC	5,015	10.6%	12,875	11.3%	7,860	156.7%
Total revenue	$47,212	100.0%	$113,796	100.0%	$66,584	141.0%

Total revenue increased $66.6 million, or 141.0%, for the six month period ended January 31, 2012 compared to the six month period ended January 31, 2011. The increase in product revenue was primarily driven by higher product sales volume across most of our product lines to new and existing end-customers and the introduction of our PA-5000 Series of appliances, which has a higher selling price than our other product series.

The increase in services revenue was primarily driven by new end-customers and expansion within our existing end-customer base. The revenue growth reflects the increasing demand for our recently introduced and existing product and service offerings.

Cost of Revenue and Gross Margin

	Six Months Ended January 31,					
	2011		2012		Change	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
	(dollars in thousands)					
Cost of revenue:						
Product	$ 8,487		$20,558		$12,071	
Services	4,163		9,795		5,632	
Total cost of revenue	$12,650		$30,353		$17,703	
Gross profit:						
Product	$25,123	74.7%	$60,941	74.8%	$35,818	0.1%
Services	9,439	69.4%	22,502	69.7%	13,063	0.3%
Total gross profit	$34,562	73.2%	$83,443	73.3%	$48,881	0.1%

Gross margin increased 0.1 percentage points for the six month period ended January 31, 2012 compared to the six month period ended January 31, 2011. The increase in product margin was primarily due to an increase of 2.9 percentage points due to lower manufacturing costs partially offset by a decrease of 2.4 percentage points due to fluctuations in selling prices. The increase in services margin was primarily due to an increase of 9.9 percentage points in higher margin subscription sales corresponding to higher product sales, substantially offset by a decrease in average margins on revenue from support and maintenance.

Operating Expenses

	Six Months Ended January 31,					
	2011		2012		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(dollars in thousands)					
Operating expenses:						
Research and development	$ 9,036	19.1%	$16,362	14.4%	$ 7,326	81.1%
Sales and marketing	23,729	50.3%	47,980	42.2%	24,251	102.2%
General and administrative	4,791	10.1%	10,925	9.5%	6,134	128.0%
Total operating expenses	$37,556	79.5%	$75,267	66.1%	$37,711	100.4%
Includes share-based compensation of:						
Research and development	$ 440		$ 765		$ 325	73.9%
Sales and marketing	412		1,107		695	168.7%
General and administrative	518		1,379		861	166.2%
Total	$ 1,370		$ 3,251		$ 1,881	137.3%

Research and development expense increased $7.3 million, or 81.1%, for the six month period ended January 31, 2012 compared to the six month period ended January 31, 2011 primarily due to an increase in personnel costs of $4.9 million due to an increase in headcount and headcount related costs to support continued investment in our future product and service offerings. Additionally, allocated costs increased $1.4 million.

Sales and marketing expense increased $24.3 million, or 102.2%, for the six month period ended January 31, 2012 compared to the six month period ended January 31, 2011 primarily due to an increase in personnel costs of $14.5 million due to an increase in headcount and commissions. Ending headcount more than doubled from January 31, 2011 to January 31, 2012. Additionally, marketing activity increased $2.8 million primarily due to an increase in joint marketing development programs, travel costs increased $2.4 million, and allocated costs increased $1.8 million. The remaining increase was due to an increase in facilities costs and professional services costs.

General and administrative expense increased $6.1 million, or 128.0%, for the six month period ended January 31, 2012 compared to the six month period ended January 31, 2011 primarily due to an increase in professional services costs of $2.9 million and an increase in personnel costs of $2.5 million related to overall growth to support the business.

Other Expense, Net

	Six Months Ended January 31,			
	2011	2012	Change	
	Amount	Amount	Amount	%
	(dollars in thousands)			
Other expense, net	$ 603	$1,030	$ 427	70.8%

The change in other expense, net was due to the increase in fair value of preferred stock warrant liability during the six month period ended January 31, 2012 compared to the six month period ended January 31, 2011.

In December 2011 and January 2012, these preferred stock warrants were exercised by the holders. As a result, we issued 197,000 shares of Series A redeemable convertible preferred stock and 24,000 shares of Series B redeemable convertible preferred stock. The amount for the six month period ended January 31, 2012 represents the change in fair value of the preferred stock warrant liability from the beginning of the period to the dates of exercise of the warrants. We do not expect to incur expenses related to these warrants in future periods.

Provision for Income Taxes

	Six Months Ended January 31,			
	2011	2012	Change	
	Amount	Amount	Amount	%
	(dollars in thousands)			
Provision for income taxes	$ 246	$2,610	$2,364	961.0%
Effective tax rate	(6.8)%	36.5%		

The provision for income taxes for the six month period ended January 31, 2011 reflected a negative effective tax rate primarily due to foreign income taxes on profits realized by our foreign subsidiaries despite a consolidated loss before income taxes. The provision for income taxes for the six month period ended January 31, 2012 reflected an effective tax rate of 36.5% primarily due to U.S. federal alternative minimum tax, state taxes, and foreign taxes on our consolidated income before income taxes.

Comparison of Fiscal 2010 and 2011

Revenue

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

Total revenue increased $69.8 million, or 143.1%, for fiscal 2011 compared to fiscal 2010. The increase in product revenue was primarily driven by higher product sales volume across all of our product lines from sales to new and existing end-customers. The increase in services revenue was primarily driven by new end-customers and expansion within our existing end-customer base. The revenue growth reflects the increasing demand for our product and service offerings.

Cost of Revenue and Gross Margin

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

Gross margin increased 4.8 percentage points for fiscal 2011 compared to fiscal 2010. The increase in product margin was primarily due to a change in sales mix favoring higher margin products and lower manufacturing costs. The increase in services margin was primarily due to an increase in support and maintenance margins as a result of growth in our end-customer base relative to cost and an increase in subscription sales, which have higher margins than support and maintenance.

Operating Expenses

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

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

Sales and marketing expense increased $32.5 million, or 109.4%, for fiscal 2011 compared to fiscal 2010 primarily due to an increase in personnel costs of $22.8 million due to an increase in headcount and commissions. Ending headcount more than doubled from July 31, 2010 to July 31, 2011. Additionally marketing activity increased $3.4 million related to trade shows and conventions and marketing development programs, travel costs increased $2.7 million, and allocated costs increased $1.6 million. The remaining increase was due to an increase in facilities costs.

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

Other Expense, Net

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

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

Provision for Income Taxes

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

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

Comparison of Fiscal 2009 and 2010

Revenue

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

Total revenue increased $35.4 million, or 265.4%, for fiscal 2010 compared to fiscal 2009. The increase in product revenue was primarily driven by higher product sales volume across all of our product lines from sales to new and existing end-customers and the rapid adoption of our new products. The increase in services revenue was primarily driven by new end-customers and expansion within our existing end-customer base. The revenue growth reflects the increasing demand for our product and service offerings.

Cost of Revenue and Gross Margin

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

Gross margin increased 15.0 percentage points for fiscal 2010 compared to fiscal 2009 primarily due to an increase in margin for products of 9.7 percentage points as a result of changing our contract manufacturer and an increase in margins for services. The increase in services margin was due to an increase in support and maintenance margins as a result of growth in our end-customer base relative to cost and, to a lesser extent, an increase in subscription sales, which have higher margins than support and maintenance.

Operating Expenses

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

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

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

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

Other Expense, Net

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

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

Provision for Income Taxes

	Year Ended July 31,		Change	
	2009 Amount	2010 Amount	Amount	%
	(dollars in thousands)			
Provision for income taxes	$ 12	$ 56	$ 44	366.7%
Effective tax rate	(0.1)%	(0.3)%		

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

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly statements of operations data for each of the six quarters ended January 31, 2012, as well as the percentage that each line item represents of total revenue. The information for each of these quarters has been prepared on the same basis as the audited annual financial statements included elsewhere in this prospectus and, in the opinion of management, includes all adjustments, which includes only normal recurring adjustments, necessary for the fair presentation of the results of operations for these periods in accordance with generally accepted accounting principles in the United States. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

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

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

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

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

Quarterly Revenue Trends

Our quarterly revenue increased year-over-year for all periods presented. For the three month period ended October 31, 2011, the increase in product revenue was driven by strong performance in our federal business, as a result of improved productivity from our expanded U.S. government sales force and increased U.S. government spending at the end of its September 30 fiscal year.

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

Quarterly Gross Margin Trends

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

Quarterly Operating Expenses Trends

Total operating expenses increased year-over-year for all periods presented primarily due to the addition of personnel in connection with the expansion of our business. The addition of headcount has generally contributed to sequential increases in operating expenses. Sales and marketing expense increased significantly in the three month period ended July 31, 2011 compared to the three month period ended April 30, 2011, primarily due to higher sales and the resulting increase in commission expense. General and administrative expense increased significantly in the three month period ended July 31, 2010 compared to the three month period ended April 30, 2010, primarily due to litigation settlement costs. General and administrative expense increased in the three month period ended April 30, 2011 compared to the three month period ended January 31, 2011, primarily due to an increase in share-based compensation expense.

Liquidity and Capital Resources

	July 31,			January 31,	
	2009	2010	2011	2011	2012
			(in thousands)		
Cash and cash equivalents	$ 21,366	$18,835	$ 40,517	$ 26,227	$ 82,822

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
			(in thousands)		
Cash provided by (used in) operating activities	$(13,523)	$ (2,683)	$ 32,102	$ 9,606	$ 47,703
Cash used in investing activities	(1,045)	(1,685)	(13,000)	(3,159)	(7,063)
Cash provided by financing activities	34,644	1,837	2,580	945	1,665
Net increase (decrease) in cash and cash equivalents	$ 20,076	$ (2,531)	$ 21,682	$ 7,392	$ 42,305

At January 31, 2012, our cash and cash equivalents of $82.8 million were held for working capital purposes, of which approximately $2.5 million was held outside of the United States and not presently available to fund domestic operations and obligations. If we were to repatriate cash held outside of the United States, it could be subject to U.S. income taxes, less any previously paid foreign income taxes. We do not enter into investments for trading or speculative purposes.

Prior to fiscal 2010, we financed our operations primarily through private sales of equity securities and, more recently, cash generated from operations. In March 2012, we allowed our unused $10 million line of credit to expire. We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced products and services offerings, the costs to ensure access to adequate manufacturing capacity, and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition would be adversely affected.

Operating Activities

For the six month period ended January 31, 2012, operating activities provided $47.7 million in cash as a result of net income of $4.5 million, non-cash charges of $6.9 million, and a net change of $36.2 million in our net operating assets and liabilities.

For the six month period ended January 31, 2011, operating activities provided $9.6 million in cash as a result of a net loss of $3.8 million, offset by non-cash charges of $2.7 million as well as a net change of $10.7 million in our net operating assets and liabilities.

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

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

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

Investing Activities

Cash used in investing activities for the six month periods ended January 31, 2012 and 2011, and for fiscal 2011, 2010, and 2009 was $7.1 million, $3.2 million, $13.0 million, $1.7 million, and $1.0 million, respectively, and was primarily the result of capital expenditures to purchase property and equipment, including $7.3 million for fiscal 2011 related to moving our headquarters from Sunnyvale, California to Santa Clara, California.

Financing Activities

For the six month periods ended January 31, 2012 and 2011, financing activities provided $1.7 million and $0.9 million in cash, respectively, primarily as a result of proceeds from the exercises of stock options.

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

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

Contractual Obligations and Commitments

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

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

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

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

Off-Balance Sheet Arrangements

Through January 31, 2012, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

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

Revenue Recognition

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

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

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

We recognize product revenue at the time of shipment provided that all other revenue recognition criteria have been met. Our partners have limited stock rotation rights. They receive an order from an end-customer prior to placing an order with us and generally do not stock appliances. We make certain estimates and maintain allowances for sales returns, stock rotation, and other programs based on our historical experience. These estimates involve inherent uncertainties and management's judgment. If actual results deviate significantly from our estimates, our revenue could be adversely affected. We recognize services revenue from subscriptions and support and maintenance ratably over the contractual service period, which is typically one year, with some up to three years. Other services revenue is recognized as the services are rendered and has not been significant to date.

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

To determine the estimated selling price in multiple-element arrangements, we establish VSOE of selling price using the prices charged for a deliverable when sold separately and, for subscriptions and support and maintenance, based on the renewal rates and discounts offered to partners. If VSOE of selling price cannot be established for a deliverable, we establish TPE of selling price by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated partners. However, as our products contain a significant element of proprietary technology and offer substantially different features and functionality from our competitors, we are unable to obtain comparable pricing of our competitors' products with similar functionality on a standalone basis. Therefore, we have not been able to obtain reliable evidence of TPE of selling price. If neither VSOE nor TPE of selling price can be established for a deliverable, we establish BESP by reviewing historical transaction information and considering several other internal and external factors, including pricing practices including discounting, margin objectives, competition, the geographies in which we offer our products and services, and the type of sales channel. The determination of BESP is made through consultation with, and approval by, our management, taking into consideration our pricing model and go to market strategy. In determining BESP, we rely on certain assumptions and apply significant judgment. As our business offerings evolve over time, we may be required to modify our estimated selling prices in subsequent periods, and our revenue could be adversely affected.

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

Share-Based Compensation

Compensation expense related to share-based transactions, including employee and non-employee director awards, is measured and recognized in the financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model and a single option award

approach. The share-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four years. We estimate a forfeiture rate to calculate the share-based compensation for our awards. Our forfeiture rate is based on an analysis of our actual historical forfeitures.

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

These assumptions are estimated as follows:

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

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

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
Fair value of common stock	$0.63	$0.64 – $2.75	$3.62 – $9.80	$3.62 – $5.39	$10.77 – $12.45
Risk-free interest rate	1.5% – 2.9%	2.0% – 3.0%	0.8% – 1.8%	0.8% – 1.5%	0.7% – 1.1%
Expected term	6 – 7 years	6 years	4 years	4 years	4 – 6 years
Volatility	54% – 59%	51% – 53%	49%	49%	49% – 50%
Dividend yield	—	—	—	—	—

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

higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the share-based compensation expense recognized in the financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the share-based compensation expense recognized in the financial statements.

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

Common Stock Valuations

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

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

- contemporaneous valuations performed by unrelated third-party specialists;
- rights, preferences, and privileges of our convertible preferred stock relative to those of our common stock;
- lack of marketability of our common stock;
- actual operating and financial performance;
- current business conditions and projections;
- hiring of key personnel and the experience of our management;
- the history of the company and the introduction of new products and services;
- secondary sales of shares of our capital stock in arm’s length transactions;
- likelihood of achieving a liquidity event, such as an initial public offering or a merger or acquisition of our company given prevailing market conditions;
- illiquidity of share-based awards involving securities in a private company;
- the market performance of comparable publicly traded companies; and
- the U.S. and global capital market conditions.

In valuing our common stock prior to August 2011, our board of directors determined the equity value of our business using the income approach valuation method. The income approach estimates value based on the expectation of future cash flows that a company will generate – such as cash earnings, cost savings, tax deductions, and the proceeds from disposition. These future cash flows are discounted to their present values

using a discount rate derived from an analysis of the cost of capital of comparable publicly traded companies in our industry or similar lines of business as of each valuation date and is adjusted to reflect the risks inherent in our cash flows. In addition, we also considered an appropriate discount adjustment to recognize the lack of marketability due to being a closely held entity.

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

Commencing with the September 2011 grants, we also used the probability weighted expected return method, or PWERM, to allocate the equity value to each of our classes of stock. PWERM involves a forward-looking analysis of possible future outcomes. This method is particularly useful when discrete future outcomes can be predicted at a high confidence level within a probability distribution. Discrete future outcomes considered under PWERM included non-initial public offering, market-based outcomes as well as initial public offering scenarios.

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

Grant Date	Number of Awards Granted	Exercise Price	Fair Value Per Share of Common Stock
February 2011	507,200	$ 5.39	$ 6.62
March 2011	797,575	5.39	7.23
May 2011	247,000	7.84	7.84
June 2011	65,000	7.84	8.82
July 2011	358,250	7.84	9.80
September 2011	2,855,734	10.77	10.77
December 2011	1,343,500	12.45	12.45
March 2012	1,471,800	15.50	15.50

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

February 2011

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

Subsequently, through April 2011, the U.S. economy and the financial markets continued their recovery, and we experienced significant year-over-year revenue growth, generating $31.2 million for the quarter ended April 30, 2011 compared to $13.3 million for quarter ended April 30, 2010. In light of our recent performance and market conditions, a contemporaneous third-party valuation of our common stock as of April 30, 2011 was prepared using the same income approach as the valuation as of December 31, 2010, other than applying a discount rate to our cash flows of 30%. The contemporaneous third-party valuation determined the fair value of our common stock to be $7.84 per share as of April 30, 2011.

For financial reporting purposes, we applied a straight-line methodology using the contemporaneous third-party valuations of $5.39 per share as of December 31, 2010 and $7.84 per share as of April 30, 2011 to determine the fair value of our common stock granted in February 2011. We determined that the straight-line methodology would provide the most reasonable conclusion for the valuation of our common stock on this interim date between valuations because there was no single event that occurred during this interim period that resulted in the increase in fair value but rather a series of events related to exceeding our financial targets, as well as consideration of our progress toward a liquidity event. Based on the straight-line methodology we assessed the fair value of our common stock for awards granted in February 2011 to be $6.62 per share.

March 2011

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

For financial reporting purposes, we applied a straight-line methodology using the contemporaneous third-party valuations of $5.39 per share as of December 31, 2010 and $7.84 per share as of April 30, 2011 to determine the fair value of our common stock granted in March 2011. We determined that the straight-line methodology would provide the most reasonable conclusion for the valuation of our common stock on this interim date between valuations because there was no single event that occurred during this interim period that resulted in the increase in fair value but rather a series of events related to exceeding our financial targets, as well as consideration of our progress toward a liquidity event. Based on the straight-line methodology we assessed the fair value of our common stock for awards granted in March 2011 to be $7.23 per share.

May 2011

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

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

June 2011

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

Between May 2011 and August 2011, the U.S. economy and the financial markets began to experience volatility, which impacted the market value of our comparable public companies, although we experienced significant revenue growth, generating $40.2 million for the quarter ended July 31, 2011 compared to $17.8 million for the quarter ended July 31, 2010. On August 1, 2011, we announced the hiring of a CEO along with the achievement of several key financial metrics for fiscal 2011. In addition, we increased our financial forecast for fiscal 2012 and 2013 due to the continued growth in our revenue. In light of our recent performance, market conditions, and recent changes in management, a contemporaneous third-party valuation determined the fair value of our common stock based on the income approach was $10.77 per share as of August 31, 2011. The

valuation used a 50% weighting of the OPM under a merger and acquisition scenario and 50% weighting of the PWERM under an initial public offering scenario. The discount rate applied to our cash flows was 25%, and our enterprise value reflected a non-marketability discount of 10%.

For financial reporting purposes, we applied a straight-line methodology using the contemporaneous third-party valuations of $7.84 per share as of April 30, 2011 and $10.77 per share as of August 31, 2011 to determine the fair value of our common stock granted in June 2011. We determined that the straight-line methodology would provide the most reasonable conclusion for the valuation of our common stock on this interim date between valuations because there was no single event that occurred during this interim period that resulted in the increase in fair value but rather a series of events related to exceeding our financial targets, as well as consideration of our progress toward a liquidity event. Based on the straight-line methodology we assessed the fair value of our common stock for awards granted in June 2011 to be $8.82 per share.

July 2011

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

For financial reporting purposes, we applied a straight-line methodology using the contemporaneous third-party valuations of $7.84 per share as of April 30, 2011 and $10.77 per share as of August 31, 2011 to determine the fair value of our common stock granted in July 2011. We determined that the straight-line methodology would provide the most reasonable conclusion for the valuation of our common stock on this interim date between valuations because there was no single event that occurred during this interim period that resulted in the increase in fair value but rather a series of events related to exceeding our financial targets, as well as consideration of our progress toward a liquidity event. Based on the straight-line methodology we assessed the fair value of our common stock for awards granted in July 2011 to be $9.80 per share.

September 2011

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

December 2011

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

January and March 2012

Between December 2011 and January 2012, the U.S. economy and the financial markets continued to recover and improve. We experienced revenue growth as our products gained more market awareness, generating

$56.7 million for the quarter ended January 31, 2012 compared to $27.1 million for the quarter ended January 31, 2011. Our number of global end-customers also continued to grow. In light of our recent performance and market conditions, a contemporaneous third-party valuation determined the fair value of our common stock based on the income approach to be $15.50 per share as of January 31, 2012. The valuation used a 30% weighting of the OPM under a merger and acquisition scenario and a 70% weighting of the PWERM under an initial public offering scenario, as we began making significant progress in our preparation for a potential initial public offering, including the preparation of a registration statement for this offering to be filed with the Securities and Exchange Commission. The discount rate applied to our cash flows was 22%, and our enterprise value reflected a non-marketability discount of 10%. Throughout February 2012 and the first week of March 2012, there was no change to our financial forecast or any other significant events impacting the fair value of our common stock. Based on the factors discussed above and the valuation, we granted awards in March 2012 with an exercise price of $15.50 per share and similarly, for financial reporting purposes, determined the fair value of our common stock for awards granted in January 2012 and the first week of March 2012 to be $15.50 per share.

Income Taxes

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

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

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

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

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

Contract Manufacturer Liabilities

We outsource most of our manufacturing, repair, and supply chain management operations to our independent contract manufacturer and payments to it are a significant portion of our product cost of revenues. We have employees in our manufacturing and operations organization who manage our relationship with our independent contract manufacturer, manage our supply chain, and monitor product testing and quality. Although we could be contractually obligated to purchase manufactured products, we generally do not own the manufactured products. Product title transfers from our independent contract manufacturer to us and immediately to our partner upon shipment. Our independent contract manufacturer assembles our products using design specifications, quality assurance programs, and standards that we establish, and it procures components and assembles our products based on our demand forecasts. These forecasts represent our estimates of future demand for our products based upon historical trends and analysis from our sales and product management functions as adjusted for overall market conditions. If the actual component usage and product demand are significantly lower than forecast, which may be caused by factors outside of our control, we may accrue for costs for manufacturing commitments in excess of our forecasted demand including costs for excess components or for carrying costs incurred by our contract manufacturer, which could have an adverse impact on our gross margins and profitability. To date, we have not accrued any significant costs associated with this exposure. As of January 31, 2012, we had approximately $21.6 million of open orders with our contract manufacturer that may not be cancelable.

Loss Contingencies

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

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

Warranties

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

Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Risk

Our sales contracts are primarily denominated in U.S. dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies and are subject to fluctuations due

to changes in foreign currency exchange rates, particularly changes in the Singapore dollar and Euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, *Fair Value Measurement*. The standard requires entities to change certain measurements and disclosures about fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. We believe that adoption of this guidance will not have a material impact on our consolidated financial position, results of operations, or cash flows.

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

BUSINESS

Overview

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

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

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

Our team has substantial experience in network security. As a result, we understand the architectural limitations of legacy network security approaches and have designed our platform to avoid these limitations in order to address current network security requirements. We released our Next-Generation Firewall in 2007, and since then, we have grown significantly faster than industry growth rates. We have been recognized as a technology and market leader. Gartner categorized us as a market leader in its "*2011 Magic Quadrant for Enterprise Network Firewalls*" based on our ability to execute and completeness of vision.(1) As of January 31, 2012, we had more than 6,650 end-customers in more than 80 countries.

We serve the enterprise network security market, which consists of Firewall/VPN, Unified Threat Management (UTM), Web Gateway, Intrusion Detection and Prevention (IDP/IPS), and Virtual Private Network (VPN) technologies. According to IDC, the worldwide enterprise network security market, defined as IDC's Network Security market and Web Security market, was $10.2 billion in 2011 and is projected to grow to $13.4 billion by 2015.(2)

We sell our platform through a high touch, channel fulfilled sales model. Our business is geographically diversified, with 62% of our total revenue from the Americas, 27% from Europe, the Middle East, and Africa (EMEA), and 11% from Asia Pacific and Japan (APAC) for the six month period ended January 31, 2012.

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

We have experienced rapid growth in recent periods. For fiscal 2009, 2010, and 2011, our revenues were $13.4 million, $48.8 million, and $118.6 million, respectively, representing year-over-year growth of 265% for fiscal 2010 and 143% for fiscal 2011, and our net losses were $19.0 million, $21.1 million, and $12.5 million, respectively. For the six month periods ended January 31, 2011 and 2012, our revenues were $47.2 million and $113.8 million, respectively, representing year-over-year growth of 141%. For the six month period ended January 31, 2011, we recorded a net loss of $3.8 million, and for the six month period ended January 31, 2012, we recorded net income of $4.5 million. For the six month period ended January 31, 2011 and 2012, we generated $9.6 million and $47.7 million, respectively, of cash flow provided by operating activities, and we have generated positive cash flow provided by operating activities for each of our last seven fiscal quarters.

Industry Background

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

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

Modern Web Applications are Becoming Increasingly Complex

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

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

Historically, developers of email and web browsing applications adhered to industry standards that produced a consistent and reliable framework for matching applications with their intended function. Today, however, modern application categories, such as Web 2.0, social media, and SaaS, are becoming increasingly and often deliberately more complex and unpredictable and therefore challenging for the legacy firewall. The once rigid relationship between applications and ports and protocols no longer holds. Web applications can evade legacy detection methods and, from a policy perspective, have now become difficult to classify as good or bad traffic that should or should not be allowed to traverse the network. Moreover, traditional client/server applications are also beginning to leverage the same web-based application protocols, such as HTTP and HTTPS, making them basically invisible to legacy network security approaches. Web applications now make up approximately two-thirds of all network traffic and are becoming more common and critical to core functional areas of an organization, such that shutting them off is not an option. Three key capabilities differentiate modern application behavior from the behavior of traditional email and web browsing. These capabilities are the ability to:

- ***Spawn New Applications***. A single application can start numerous other applications that exploit its trusted port and protocol. For example, a Gmail session can spawn a Google Talk session from within the Gmail user interface.

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

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

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

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

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

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

Organizations today are more focused than ever on IT security threats as the frequency and severity of attacks continue to rise. According to Gartner’s “*Top Security Trends and Takeaways for 2011-2012*” report, by 2014, 70% of IT risk and security officers in the Global 2000 organizations will be required to report at least annually to their board of directors on the state of IT security.(4) Hackers and malicious insiders have become more organized and motivated for financial gain, leading to the use of new advanced attack techniques and customized zero-day malware in the application layer for the theft of valuable data. For example, many large organizations have recently been the victims of highly publicized, sophisticated attacks that have resulted in costly data breaches and reputational harm. Traditional network-based attacks are relatively easy to detect and remediate as many occurrences can be observed and used to provide threat prevention signatures. However, organizations remain vulnerable to highly targeted attacks aimed at exploiting network-specific applications or weaknesses. Hackers are increasingly leveraging powerful new tactics including evasive applications, proxies, tunneling, encryption techniques, vulnerability exploits, buffer overflows, DoS/DDoS attacks, botnets, and port scans. Organizations are also more vulnerable to targeted attacks against individuals within the organization such as through social engineering. As a result, organizations are being forced to increase their investment in network security infrastructure to prevent unauthorized access to valuable and sensitive data and the potential financial loss and reputational harm that could result.

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

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

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

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

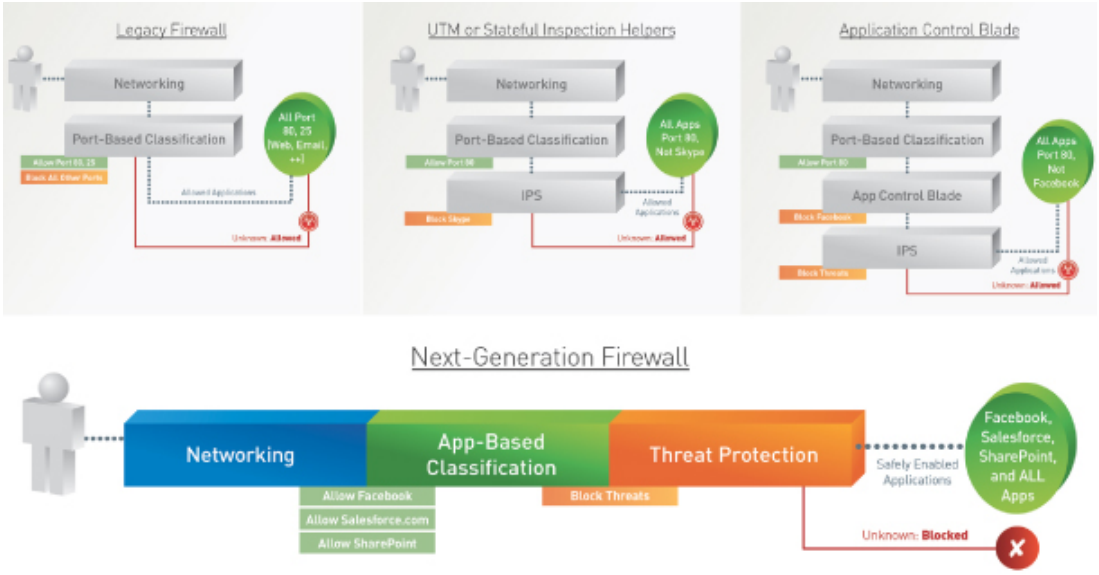
- ***Stateful Inspection Helpers***. As applications became more complex and threats became more pervasive, a variety of additional, standalone network security appliances were introduced to attempt to supplement the capabilities of the legacy stateful inspection firewall to compensate for its limitations. This created several large and distinct markets for web proxies, web filters, SSL-VPN, intrusion detection and prevention systems, DLP, IPsec, and Hybrid VPN Gateways, which, according to IDC, collectively represented a $5.3 billion market in 2011.[(5)] These devices lack integration, often rely on disparate malware signature libraries and policies, and often introduce significant network latency given the multiple scans that they must conduct. While this approach provides additional security, it offers only partial visibility and control, introduces additional complexity and cost, and decreases reliability and throughput while increasing latency in the network.
- ***Unified Threat Management (UTM)***. To address the complexity and cost issues of operating distinct helper technologies, hardware and software-based UTMs were introduced. While this approach has been successful in reducing network security complexity and cost by consolidating security functions into one product, it continues to rely on stateful inspection technology preventing it from scanning all traffic and providing native application and user visibility. This results in a simple block-or-allow control model over applications, users, and content. Moreover, as additional security functions are activated in this approach, performance can decline dramatically.
- ***Application Control Blades***. In an attempt to overcome the fundamental application visibility limitations of stateful inspection, application control blades have recently been introduced to augment legacy firewalls and UTMs. These application control blades are designed to identify applications only after the traffic is passed through the firewall, resulting in all the limitations associated with stateful inspection, including the fact that once the application control blade properly identifies an application, the only two control options are to either block or allow all traffic associated with that application. Furthermore, after an initial decision is made to allow the traffic to pass, the traffic will no longer be identified, even though the application can alter its behavior and spawn new applications. This inherent limitation thus prevents the system from being truly secure. As with all helper and UTM approaches, the processing power required to run all traffic through this sequential traffic scan results in significant

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

performance degradation. As a result, application control blades cannot look for applications on non-standard ports and do not scan all traffic for applications. These factors prevent this approach from being able to provide safe application enablement at low latency and high throughput.

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

Approaches to Address the Evolving Application and Threat Landscape



Organizations Need a Fundamentally New Approach to Network Security

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

- ***Improved Application Visibility and Control***. Identifying applications, not ports or protocols, is now the key to managing security risks. The next-generation network security platform needs to be built around identifying applications regardless of their port or protocol. In addition to identifying applications, next-generation network security platforms need to give administrators superior policy control by providing the ability to enable access to all, none, or certain features of any particular application, for any particular user, in any particular business context. For example, organizations may want to safely enable users in human resources to access communication functionality on LinkedIn for recruitment purposes but disable the same functionality for other users.

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

Our Solution

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

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

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

- ***Identify, Control, and Safely Enable Applications***. Our platform provides visibility and control over applications, users, and content, regardless of port, protocol, evasive tactics, or encryption. This allows our end-customers to safely enable almost any application. Our platform can identify more than 1,400 applications, which substantially cover the universe of known applications, and we add an average of five new applications each week. By delivering application and user intelligence in the firewall, we enable organizations to make policy decisions and enforce those policies with fine-grained controls, all within our unique and flexible, policy-based software architecture.

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

Our Strategy

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

- ***Extend Our Network Security Technology Leadership through Continued Innovation***. We believe we are disrupting the network security market with our next-generation network security platform. We intend to extend our technology leadership in network security by continuing to innovate and invest in research and development to enhance our products and services, such as WildFire, our cloud-based advanced malware analysis service, that we introduced in November 2011. We also intend to develop new security subscription services, new physical and virtual appliances, and additional management capabilities.
- ***Promote Our Disruptive Platform to Grow Our End-Customer Base***. We intend to grow our base of end-customers by promoting our disruptive platform, increasing our investment in direct sales and marketing, leveraging our network of motivated channel partners, and furthering our international expansion. We currently have end-customers in more than 80 countries and generate a significant amount of our revenues from international end-customers. We recently commenced sales operations in

Brazil, China, Mexico, India, and Russia, and plan to continue growing our presence across geographies where we can continue to capitalize on the significant network security opportunity.

- ***Increase Sales to Existing End-Customers***. We believe the strong relationships and high customer satisfaction we maintain with our more than 6,650 end-customers provide us with the opportunity to drive incremental demand for our products. We have successfully expanded, and intend to continue expanding, end-customers from a single deployment of our products to broader deployments across the organization. Our end-customers typically refresh key components of their network security infrastructure every three to five years, which provides an attractive recurring opportunity for us to sell additional products and services once we have made an initial sale. We also intend to sell additional subscription services to existing end-customers, which provides us with incremental recurring revenue opportunities on each platform we sell. With our most significant end-customers, revenue from follow-on sales of our products and services has been multiples of the revenue we realized from those end-customers' initial purchases.
- ***Focus on Customer Satisfaction***. We intend to continue to prioritize end-customer satisfaction. This typically results in new sales opportunities within existing end-customers, which typically have shorter sales cycles than new sales opportunities. We also gain valuable feedback from our existing end-customers, which helps enhance our customer support and development roadmap. Finally, references are critical in the security industry, as end-customers routinely rely on feedback from their peers, even if they are direct competitors. Our end-customers routinely serve as references for us with new prospective customers. We intend to continue to be highly focused on exceeding the expectations of our end-customers.

Competitive Strengths

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

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

- ***Large and Growing End-Customer Base***. We focus on serving enterprises, service providers, and government entities, and we have seen significant momentum in the adoption of our platform as our end-customer base has increased from approximately 1,800 as of July 31, 2010 to more than 6,650 as of January 31, 2012. We work closely with our end-customers to ensure that they have a positive experience with our platform and are given the support and service they need to successfully implement our products. Our close relationships with our end-customers allow us to develop insights and knowledge into how they use our products. This has allowed us to rapidly improve our products to meet the needs of our end-customers and stay ahead of our competitors.
- ***Clear Leadership Position***. We were the first company to define and lead the industry's transition from the legacy stateful inspection approach to the next-generation firewall paradigm, and we believe that our position as a technology and market leader contributes to our ability to maintain and grow our leadership position in the network security market. In February 2012, our Next-Generation Firewall was awarded a "Recommended" rating in the NSS Labs inaugural "*Next-Generation Firewall Group Test*" for its superior threat prevention, performance and value. Gartner categorized us as a market leader in its "*2011 Magic Quadrant for Enterprise Network Firewalls*" based on our ability to execute and completeness of vision.[(6)]

Our Go to Market Strategy

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

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

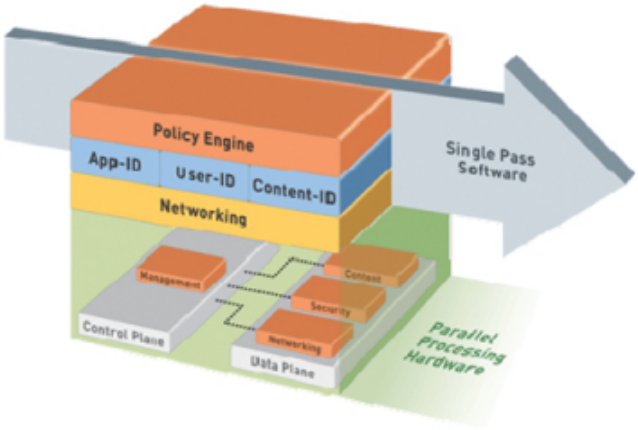
(6) See note (1) in "Market and Industry Data."

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

Technology

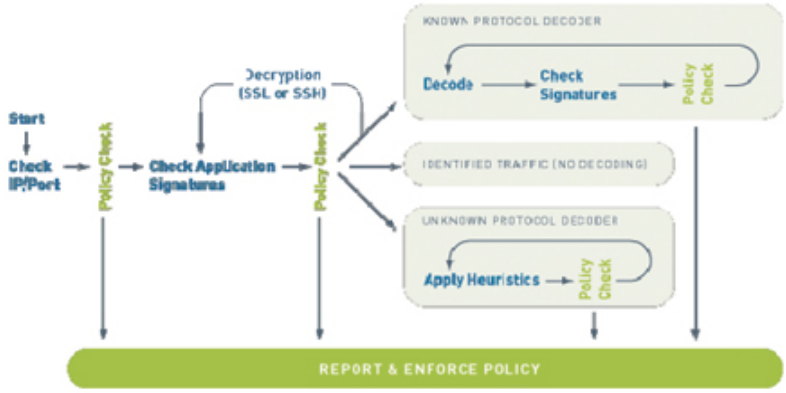
We combine our proprietary Single Pass Parallel Processing (SP3) hardware and software architecture and PAN-OS operating system to provide a comprehensive network security platform. The core of our platform is our Next-Generation Firewall, which natively integrates application visibility and control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

Our Platform Technology: PAN-OS and SP3



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

App-ID Architecture



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Products

Products and Services

				PA-2000 Series		PA-4000 Series			PA-5000 Series		
Model:		PA-200	PA-500	PA-2020	PA-2050	PA-4020	PA-4050	PA-4060	PA-5020	PA-5050	PA-5060
Deployment Environments	Data Center					✓	✓	✓	✓	✓	✓
	Perimeter			✓	✓	✓	✓	✓	✓	✓	✓
	Distributed Enterprise	✓	✓			✓	✓	✓	✓	✓	✓
Firewall Throughput(1)		100Mbps	250Mbps	500Mbps	1Gbps	2Gbps	10Gbps	10Gbps	5Gbps	10Gbps	20Gbps
Complete Protection Throughput(2)		50Mbps	100Mbps	200Mbps	500Mbps	2Gbps	5Gbps	5Gbps	2Gbps	5Gbps	10Gbps
Support and Maintenance	Standard Support	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Premium Support	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	4-Hour Premium Support	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Maintenance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Optional Subscriptions	Threat Prevention Subscription	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	URL Filtering Subscription	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	GlobalProtect Subscription	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	WildFire Subscription(3)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Virtual Systems Upgrade				✓	✓	✓	✓	✓	✓	✓	✓

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

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

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

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

Services

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

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

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

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

Customers

We sell our platform through our channel partners to end-customers globally. Our end-customers are predominantly medium to large enterprises, service providers, and government entities. Our end-customers operate in a variety of industries, including education, energy, financial services, healthcare, Internet and media, manufacturing, public sector, and telecommunications. Our end-customer deployments typically involve at least one pair of our products along with one or more of our subscription services, depending on size, security needs and requirements, and network complexity. As of January 31, 2012, we had shipped our products to more than 6,650 end-customers worldwide. No single end-customer accounted for more than 10% of our total revenue in fiscal 2011.

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

Customer Case Studies

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

Global Financial Services Organization

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

Solution and Benefits: After a yearlong evaluation process this organization chose our platform to replace their legacy firewall and IPS. This allowed them to safely enable applications, such as Facebook, meet their high throughput needs, and improve the central management of their network security components. Subsequently this organization has deployed all of our threat prevention and content filtering services throughout the datacenter and perimeter.

Large US Federal Agency

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

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

Global High-Tech Manufacturer

Problem: A large, global high-tech manufacturer had a highly fragmented network security approach resulting in multiple network security devices in addition to multiple firewalls. Despite these investments, the organization was unable to prevent many threats from entering its network or to safely enable modern applications such as instant messaging.

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

Global Professional Services Organization

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

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

Backlog

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

Sales and Marketing

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

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

Channel Program. We work with high quality channel partners who provide our platform to end-customers. We focus on building in-depth relationships with a smaller number of solutions-oriented partners that have strong network security expertise. As of January 31, 2012, we had approximately 700 channel partners. These channel partners are supported by our sales and marketing organization and consist of distributors and resellers with proven, deep network security experience. To ensure optimal productivity, we operate a formal accreditation program for the sales and technical professionals of our channel partners. Around the world, we maintain a two-tier open distribution model where value-added distributors and value-added resellers work together on a non-exclusive basis to market our platform, identify and close sales opportunities, and provide pre-sales and post-sales services to our end-customers. Our channel partner program, NextWave, rewards our channel partners based on a number of attainment goals, as well as provides them access to marketing funds, technical and sales training, and support.

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

Manufacturing

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

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

Research and Development

Our research and development effort is focused on developing new hardware and software and on enhancing and improving our existing products. We believe that hardware and software both are critical to expanding our leadership in enterprise network security. Our engineering team has deep networking and security expertise and works closely with end-customers to identify their current and future needs. In addition to our focus on hardware and software, our research and development team is focused on research into applications and threats, which is required to respond to the rapidly changing application and threat landscape.

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

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

Competition

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

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

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

The principal competitive factors in our market include:

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

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

Intellectual Property

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

We have five issued patents and 24 patent applications pending in the United States as of January 31, 2012, relating to our next-generation security platform. We cannot assure you whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. Any patents that may issue may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. We purchased a portion of our issued U.S. patents from other entities. We also license software from third parties for integration into our products, including open source software and other software available on commercially reasonable terms.

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

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

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

Employees

As of January 31, 2012, we had 589 full-time employees. None of our employees is represented by a labor organization or is a party to any collective bargaining arrangement. We have never had a work stoppage, and we consider our relationship with our employees to be good.

Facilities

We currently lease approximately 105,664 square feet of space for our corporate headquarters in Santa Clara, California under a lease agreement that expires in March 2018. We have an additional technical support center in Plano, Texas under a lease agreement that expires in October 2016. We also lease space for operations and sales personnel in locations throughout the United States and various international locations, including Belgium, France, Japan, and Singapore. We believe that our current facilities are adequate to meet our ongoing needs, and that, if we require additional space, we will be able to obtain additional facilities on commercially reasonable terms.

Legal Proceedings

In December 2011, Juniper Networks, Inc. filed a lawsuit against us in the U.S. District Court for the District of Delaware, alleging that our appliances infringe six of its U.S. patents: U.S. Pat. No. 8,077,723, titled “Packet Processing in a Multiple Processor System,” U.S. Pat. No. 7,779,459, titled “Method and Apparatus For Implementing a Layer 3/Layer 7 Firewall in an L2 Device,” U.S. Pat. No. 7,650,634, titled “Intelligent Integrated Network Security Device,” U.S. Pat. No. 7,302,700, titled “Method and Apparatus For Implementing a Layer 3/Layer 7 Firewall in an L2 Device,” U.S. Pat. No. 7,093,280, titled “Internet Security System,” and U.S. Pat. No. 6,772,347, titled “Method, Apparatus and Computer Program Product For a Network Firewall.” One or both

of Nir Zuk and Yuming Mao are named inventors on each of the patents being asserted against us. Both Mr. Mao and Mr. Zuk were employed by NetScreen Technologies, Inc., which was acquired by Juniper in April 2004. Mr. Zuk left Juniper in 2005 and founded Palo Alto Networks in that same year. Mr. Mao joined Palo Alto Networks in 2006. Juniper seeks preliminary and permanent injunctions against infringement, treble damages, and attorney's fees. On February 9, 2012, we filed an answer to Juniper's complaint, which denied that we infringed Juniper's patents and asserted that Juniper's patents were invalid.

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

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

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

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

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

MANAGEMENT

Executive Officers and Directors

The following table provides information regarding our executive officers and directors as of March 31, 2012:

Name	Age	Position(s)
Mark D. McLaughlin	46	Chief Executive Officer, President, and Chairman
Steffan C. Tomlinson	40	Chief Financial Officer
Nir Zuk	41	Chief Technical Officer and Director
Rajiv Batra	51	Vice President, Engineering
René Bonvanie	50	Chief Marketing Officer
Lawrence J. Link	51	Vice President, Worldwide Sales
Asheem Chandna[2][3]	47	Director
Venky Ganesan[1]	38	Director
James J. Goetz[2][3]	46	Director
Shlomo Kramer	46	Director
William A. Lanfri[1]	59	Director
Charles J. Robel[1]	62	Director
Daniel J. Warmenhoven[2][3]	61	Director and Lead Independent Director

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

Executive Officers

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

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

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

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

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

Lawrence J. Link has served as our Vice President, Worldwide Sales since April 2007. From December 2004 to February 2007, Mr. Link was Vice President of Worldwide Sales at Silver Peak Systems, Inc., a provider of network WAN optimization equipment. From April 2004 to September 2004, Mr. Link was Vice President of Worldwide Sales, Security Products at Juniper. From November 2003 until its acquisition by Juniper in April 2004, Mr. Link was Vice President of Worldwide Sales, Secure Access Products at NetScreen. Mr. Link holds a B.S. in Industrial Engineering from Purdue University.

Board of Directors

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

Venky Ganesan has served as a member of our board of directors since May 2007. Mr. Ganesan has been a Managing Director at Globespan Capital Partners, a venture capital firm, since June 1998, where he focuses on enterprise software and infrastructure investments. Mr. Ganesan currently serves on the board of directors of a number of privately held companies. Mr. Ganesan holds a B.A. in Economics and Math from Reed College and a B.S. in Computer Science from the California Institute of Technology. Mr. Ganesan was selected to serve on our board of directors because of his experience with the venture capital industry and providing guidance and counsel to a wide variety of Internet and technology companies.

James J. Goetz has served as a member of our board of directors since April 2005. Mr. Goetz has been a General Partner at Sequoia Capital, a venture capital firm, since June 2004, where he focuses on cloud, mobile, and enterprise companies. Mr. Goetz currently serves on the board of directors of Jive Software, Inc., a provider of social business software, and of a number of privately held companies. Mr. Goetz has an M.S. in Electrical Engineering from Stanford University and a B.S. in Electrical and Computer Engineering from the University of Cincinnati. Mr. Goetz was selected to serve on our board of directors because of his deep experience with the venture capital industry and providing guidance and counsel to a wide variety of Internet and technology companies.

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

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

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

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

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

Codes of Business Conduct and Ethics

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

Board Composition

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

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

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

Director Independence

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

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

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

Lead Independent Director

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

Committees of the Board of Directors

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

Audit Committee

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

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

Compensation Committee

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

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

employment agreements, severance arrangements and change in control agreements, and any other benefits, compensation or arrangements;

- administering our equity compensation plans;
- overseeing our overall compensation philosophy, compensation plans, and benefits programs; and
- preparing the compensation committee report that the SEC will require in our annual proxy statement.

Nominating and Corporate Governance Committee

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

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

Compensation Committee Interlocks and Insider Participation

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

Non-Employee Director Compensation

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

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

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

(1) The amount reported in this column represents the aggregate grant date fair value of this stock option as computed in accordance with Financial Accounting Standard Board Accounting Standards Codification Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in this column are set forth in the notes to our audited consolidated financial statements included elsewhere in this prospectus.

(2) Subject to his continued service as member of our board of directors, this option grant will vest as to 25% of the shares on June 11, 2012 and the remainder in 1/36 increments on each monthly anniversary thereafter. This option provides for full vesting acceleration in the event of a change of control.

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

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

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

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

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

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

Executive Compensation Philosophy, Objectives, and Design

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

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

The specific objectives of our executive compensation program are to:

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

Compensation Program Design

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

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

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

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

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

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

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

Compensation-Setting Process

Role of the Compensation Committee

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

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

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

Role of Management

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

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

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

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

Role of Compensation Consultant

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

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

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

Use of Competitive Data

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

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

Executive Compensation Program Components

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Link's Sales Commission Opportunity. As our Vice President, Worldwide Sales, Mr. Link was also a participant in our sales incentive plan during the first quarter of fiscal 2011. As a participant, he was eligible to earn up to $33,750 during the quarter as part of his variable compensation plan, the terms of which were established at the beginning of fiscal 2011 by the mutual agreement of Mr. Link and our board of directors. For fiscal 2011, Mr. Link agreed that his bonus opportunity would be based on achieving a specified level of sales transactions involving new customers. Our board of directors believed that this target level of sales transactions was appropriate to establish an aggressive, yet attainable, performance objective that, if achieved, would result in a bonus commensurate with results achieved and represent a significant contribution to the achievement of our annual operating plan. At the end of the first quarter of fiscal 2011, our board of directors determined that Mr. Link had earned $32,238 in commissions from his sales activities during that period. At that time, our board

of directors decided to terminate Mr. Link's participation in our sales incentive plan and make him a full-time participant in the Fiscal 2011 Bonus Plan. This transition was made to solidify Mr. Link's role as a key member of the executive team as opposed to a sales employee and to ensure that the incentives to Mr. Link were aligned with those for the rest of the executive team. Mr. Link's target annual cash bonus opportunity is relatively high compared to our other Named Executive Officers because we believed it was important for Mr. Link's compensation to be competitive with those of sales vice presidents of comparable companies.

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

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

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

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

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

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

Historically, the size and form of the initial equity awards for our executive officers have been established through arm's-length negotiations at the time the individual executive was hired. In making these awards, we considered, among other things, the prospective role and responsibility of the individual executive, competitive factors, the amount of equity-based compensation held by the executive officer at his former employer, the cash compensation received by the executive officer, and the need to create a meaningful opportunity for reward predicated on the creation of long-term stockholder value.

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

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

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

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

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

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

Employment Agreements

While we have not historically entered into employment agreements with any of our executive officers, the initial terms and conditions of employment of each of the Named Executive Officers (other than Mr. Zuk) were set forth in a written employment offer letter. Each of these arrangements was approved by our board of directors or, in certain instances, the compensation committee. We believed that these employment offer letters were necessary to induce these individuals to forego other employment opportunities or leave their current employer for the uncertainty of a demanding position in a new and unfamiliar organization.

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

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

Post-Employment Compensation

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

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

Other Compensation Policies

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

Risk Assessment and Compensation Practices

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

- our use of multiple performance objectives in our plans and our use of a single incentive compensation plan for our management team together minimize the risk that might be posed by the short-term variable component of our compensation program;
- our incentive compensation plan reflects a pay for performance philosophy and rewards executive officers for achievement of performance targets, and historically, we reserve the payment of discretionary bonuses for extraordinary performance and achievement;
- although there was no cap on fiscal 2011, short-term annual bonuses, the long-term component of our compensation program, which to date has consisted of stock options, keeps our officers and employees appropriately focused on long-term, entity-level growth through multi-year vesting schedules and by conveying value only if we succeed in growing our business in a way that results in appreciation of the value of our stock over time; and
- for our fiscal 2012 incentive compensation plan, we instituted a per person cap of three times the target opportunity to manage costs and to limit any potential risks related to short-term incentives.

Tax and Accounting Considerations

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

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

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

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

Fiscal 2011 Summary Compensation Table

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

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

(1) The amounts reported in the Option Awards column represent the grant date fair value of the stock options granted to the Named Executive Officers during fiscal 2011 as computed in accordance with ASC Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in this column are set forth in the notes to our audited consolidated financial statements included in this prospectus. Note that the amounts reported in this column do not correspond to the actual economic value that may be received by the Named Executive Officers from the options.

(2) The amounts reported in the All Other Compensation column for Mr. Bess represents a cash payment paid upon his resignation.

(3) Mr. Bess resigned as President and Chief Executive Officer in December 2010.

(4) Mr. Lehman resigned as Chief Financial Officer in February 2012.

Fiscal 2011 Grants of Plan-Based Awards

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

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

(1) The stock option grants to purchase shares of our common stock were made under the Palo Alto Networks, Inc. 2005 Equity Incentive Plan, or the 2005 Plan. The exercise price of these options is equal to the fair market value of our common stock on the date of grant. All stock options granted under the 2005 Plan to the Named Executive Officers are subject to service-based vesting requirements.

(2) The amounts reported represent the grant date fair value of the stock options granted in fiscal 2011, calculated in accordance with ASC Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in this column are set forth in the notes to our audited consolidated financial statements included in this prospectus. Note that the amounts reported in this column do not correspond to the actual economic value that may be received by the Named Executive Officers from the options.

Fiscal 2011 Outstanding Equity Awards at Fiscal Year-End

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

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

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

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

Fiscal 2011 Option Exercises and Stock Vested

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

Pension Benefits

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

Nonqualified Deferred Compensation

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

Executive Employment Agreements

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

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

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

The actual amounts that would be paid or distributed to our Named Executive Officers as a result of one of the termination events occurring in the future may be different than those presented below as many factors will

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

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

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

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

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

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

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

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

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

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

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

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

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

- there is a material reduction in the Named Executive Officer's authority, status, obligations, or responsibilities, provided that, following a "change in control," a change in title alone will not constitute a material reduction;
- there is a reduction in the Named Executive Officer's total annual compensation of more than 10% unless such reduction is no greater (in percentage terms) than compensation reductions imposed on substantially all of our employees pursuant to a directive of our board of directors;
- any failure by us to pay the Named Executive Officer's base salary or guaranteed bonus or continue to provide him with the opportunity to participate, on terms no less favorable than those in effect for the benefit of any employee in a comparable position, in additional bonus or fringe benefits;
- the relocation of the principal place of our business to a location that is more than a specified number of miles further away from the Named Executive Officer's home than our current location.

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

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

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

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

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

Potential Payments Upon Termination or Change in Control

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

Termination without Cause or Resignation for Good Reason

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

(1) Amounts indicated in the table are calculated as the difference between $, which is the midpoint of the range reflected on the cover page of this prospectus, and the exercise price of these options, multiplied by the number of accelerated shares.

(2) As of July 31, 2011, 56,250 shares of common stock subject to Mr. Batra's options would accelerate if he were terminated without cause, which represents an additional six months of vesting of the shares subject to the options granted to Mr. Batra that were unvested as of July 31, 2011.

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

Named Executive Officer	Salary Continuation ($)	Target Annual Cash Bonus ($)	Value of Accelerated Equity Awards ($)[1]	Value of Continued Health Care Coverage Premiums ($)	Total ($)
Mr. Zuk	220,000	40,000	(2)	16,684	
Mr. Batra	220,000	44,000	(3)	16,684	
Mr. Bonvanie	224,000	96,000	(4)	16,684	
Mr. Link	200,000	145,000	(5)	16,684	

(1) Amounts indicated in the table are calculated as the difference between $, which is the midpoint of the range reflected on the cover page of this prospectus, and the exercise price of these options, multiplied by the number of accelerated shares.

(2) As of July 31, 2011, 112,500 shares of common stock subject to Mr. Zuk's options would accelerate if he is terminated without cause or resigns for good reason on or following a change in control, which represents an additional 12 months of vesting of the shares subject to the options granted to Mr. Zuk that were unvested as of July 31, 2011.

(3) As of July 31, 2011, 112,500 shares of common stock subject to Mr. Batra's options would accelerate if he is terminated without cause or resigns for good reason on or following a change in control, which represents an additional 12 months of vesting of the shares subject to the options granted to Mr. Batra that were unvested as of July 31, 2011.

(4) As of July 31, 2011, 125,000 shares of common stock subject to Mr. Bonvanie's options would accelerate if he is terminated without cause or resigns for good reason on or following a change in control, which represents an additional 12 months of vesting of the shares subject to the options granted to Mr. Bonvanie that were unvested as of July 31, 2011.

(5) As of July 31, 2011, 78,125 shares of common stock subject to Mr. Link's options would accelerate if he is terminated without cause or resigns for good reason within the period commencing on and ending 12 months after a change in control, which represents 50% of the shares subject to the options granted to Mr. Link that were unvested as of July 31, 2011.

Subsequent Events

Mr. McLaughlin's Employment Offer Letter, as Amended

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

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

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

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

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

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

Mr. Tomlinson's Offer Letter

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

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

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

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

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

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

Fiscal 2012 Equity Award Grants

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

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

Employee Benefit and Stock Plans

2012 Equity Incentive Plan

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

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

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

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

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

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

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

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

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

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

Performance Units and Performance Shares. Performance units and performance shares may be granted under our 2012 Plan. Performance units and performance shares are awards that will result in a payment to a

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

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

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

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

2012 Employee Stock Purchase Plan

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

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

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

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

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

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

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

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

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

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

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

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

2005 Equity Incentive Plan, as Amended

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

Authorized Shares. As of January 31, 2012, an aggregate of 24,348,508 shares of our common stock were reserved for issuance under our 2005 Plan. Our 2005 Plan provided for the grant of incentive stock options, nonqualified stock options, and restricted stock. As of January 31, 2012, options to purchase 11,833,863 shares of our common stock remained outstanding under our 2005 Plan. In March 2012, our board of directors and stockholders approved an increase of 2,903,926 shares of our common stock reserved for issuance under our 2005 Plan.

Plan Administration. Our board of directors currently administers our 2005 Plan. Our compensation committee will administer our 2005 Plan after the completion of this offering. Subject to the provisions of our 2005 Plan, the administrator has the power to construe and interpret our 2005 Plan and any agreement thereunder and determine the terms of awards, including the recipients, the number of shares subject to each award, the exercise price (if any), the fair market value of a share of our common stock, the vesting schedule applicable to

the awards, together with any vesting acceleration, and the terms of the award agreement for use under our 2005 Plan. The administrator may, at any time, authorize the issue of new awards for the surrender and cancellation of any outstanding award with the consent of a participant. The administrator may also buy out an award previously granted for cash, shares, or other consideration as the administrator and the participant may agree.

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

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

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

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

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

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

Employee Bonus Plan

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

Under the Bonus Plan, our board of directors or a committee appointed by our board of directors determines the performance goals applicable to any award, including bookings, contract awards, earnings, earnings per

share, expenses, gross margin, new product development, operating cash flow, operating expenses, operating income, operating margin, overhead or other expense reduction, revenue, and working capital, as well as individual objectives such as peer reviews, or other subjective or objective criteria. The performance goals may differ from participant to participant and from award to award.

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

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

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

Limitation on Liability and Indemnification Matters

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

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

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

In addition to the indemnification required in our amended and restated certificate of incorporation and amended and restated bylaws, we plan to enter into indemnification agreements with each of our current directors, officers, and some employees before the completion of this offering. These agreements will provide indemnification for certain expenses and liabilities incurred in connection with any action, suit, proceeding, or alternative dispute resolution mechanism, or hearing, inquiry, or investigation that may lead to the foregoing, to which they are a party, or are threatened to be made a party, by reason of the fact that they are or were a director, officer, employee, agent, or fiduciary of our company, or any of our subsidiaries, by reason of any action or inaction by them while serving as an officer, director, agent, or fiduciary, or by reason of the fact that they were serving at our request as a director, officer, employee, agent, or fiduciary of another entity. In the case of an action or proceeding by, or in the right of, our company or any of our subsidiaries, no indemnification will be

provided for any claim where a court determines that the indemnified party is prohibited from receiving indemnification. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

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

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

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

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

Equity Financings

Series C Convertible Preferred Stock Financing

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

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

(1) Affiliates of Greylock Partners holding our securities whose shares are aggregated for purposes of reporting share ownership information include Greylock XI Limited Partnership, Greylock XI Principals LLC, and Greylock XI-A Limited Partnership. Asheem Chandna, a member of our board of directors, is a Partner at Greylock Partners.

(2) Affiliates of Sequoia Capital holding our securities whose shares are aggregated for purposes of reporting share ownership information include Sequoia Capital XI, Sequoia Capital Growth Fund III, Sequoia Capital XI Principals Fund, Sequoia Technology Partners XI, Sequoia Capital Growth III Principals Fund, and Sequoia Capital Growth Partners III. James J. Goetz, a member of our board of directors, is a General Partner at Sequoia Capital.

(3) Venky Ganesan, a member of our board of directors, is a Managing Director at Globespan Capital Partners.

Loans to Executive Officers

Nir Zuk

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

Rajiv Batra

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

Investors' Rights Agreement

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

Employment Arrangements and Indemnification Agreements

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

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

Policies and Procedures for Related Party Transactions

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

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

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our common stock at March 15, 2012, and as adjusted to reflect the sale of common stock in this offering, for:

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

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

Applicable percentage ownership is based on 61,608,406 shares of common stock outstanding at March 15, 2012, assuming automatic conversion of our convertible preferred stock into common stock. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of such person, we deemed to be outstanding all shares of common stock subject to options held by the person that are currently exercisable or exercisable within 60 days of March 15, 2012. However, we did not deem such shares outstanding for the purpose of computing the percentage ownership of any other person.

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

	Beneficial Ownership Prior to this Offering			Beneficial Ownership After to this Offering	
Name of Beneficial Owner+	Number	Percent	Shares Being Offered	Number	Percent
5% Stockholders:					
Entities affiliated with Greylock Partners(1)	13,786,763	22.4%			
Entities affiliated with Sequoia Partners and other group members(2)	13,786,763	22.4%			
Globespan Capital Partners V, L.P.(3)	4,917,543	8.0%			
Directors and Executive Officers:					
Mark D. McLaughlin(4)	2,155,984	3.4%			
Steffan C. Tomlinson	—	—			
Nir Zuk(5)	3,826,535	6.2%			
Rajiv Batra(6)	2,202,216	3.6%			
René Bonvanie(7)	518,000	*			
Lawrence J. Link(8)	874,364	1.4%			
Asheem Chandna(9)	14,093,813	22.9%			
Venky Ganesan(3)	—	—			
James J. Goetz(10)	13,676,086	22.2%			
Shlomo Kramer(11)	997,524	1.6%			
William A. Lanfri(12)	750,186	1.2%			
Charles J. Robel(13)	65,000	*			
Daniel J. Warmenhoven	—	—			
Lane M. Bess(14)	2,021,000	3.3%			
Michael E. Lehman(15)	600,000	1.0%			
All current directors and executive officers as a group (13 Persons)(16)	39,159,708	61.2%			

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

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

(1) Consists of (i) 12,071,776 shares held of record by Greylock XI Limited Partnership; (ii) 1,378,678 shares held of record by Greylock XI Principals LLC; and (iii) 336,309 shares held of record by Greylock XI-A Limited Partnership (collectively referred to as the "Greylock Partners Entities"). Greylock XI GP Limited Partnership is the sole general partner of each of Greylock XI Limited Partnership and Greylock XI-A Limited Partnership. William W. Helman and Aneel Bhusri are the managing members of Greylock XI GP Limited Partnership and are partners of Greylock XI Principals LLC. The address for these entities is 2550 Sand Hill Road, Menlo Park, CA 94025.

(2) Consists of (i) 10,617,630 shares held of record by Sequoia Capital XI, LP; (ii) 1,475,592 shares held of record by Sequoia Capital Growth Fund III, LP; (iii) 1,155,116 shares held of record by Sequoia Capital XI Principals Fund, LLC; (iv) 335,396 shares held of record by Sequoia Technology Partners XI, LP; (v) 76,202 shares held of record by Sequoia Capital Growth III Principals Fund, LLC; (vi) 16,150 shares held of record by Sequoia Capital Growth Partners III, LP; and (vii) 110,677 shares held of record by SCGE Fund, L.P. SC XI Management, LLC is the general partner of Sequoia Capital XI, Sequoia Technology Partners XI, and Sequoia Capital XI Principals Fund, and SCGF III Management, LLC is the general partner of Sequoia Capital Growth Fund III, Sequoia Capital Growth III Principals Fund, and Sequoia Capital Growth Partners III (collectively referred to as the "Sequoia Capital Entities"). The managing members of SC XI Management, LLC are Michael Goguen, Douglas Leone, and Michael Moritz. The managing members of SCGF III Management, LLC are Roelof Botha, J. Scott Carter, James J. Goetz, Michael Goguen, Douglas Leone and Michael Moritz. SCGE (LTGP), L.P. is the general partner of SCGE Fund, L.P (collectively referred to as the "SCGE Entities"). The managing members of SCGE (LTGP), L.P. are Christopher Lyle and Ralph Ho. The SCGE Entities and the Sequoia Capital Entities may be deemed to be a group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, with respect to their ownership of our shares. The address for these entities is 3000 Sand Hill Road, Suite 4-250, Menlo Park, CA 94025.

(3) Globespan Management Associates V, LLC is the sole general partner of Globespan Management Associates V, L.P., which is the sole general partner of Globespan Capital Partners V, L.P. The sole members of Globespan Management Associates V, LLC are Andrew P. Goldfarb and Barry J. Schiffman, who hold voting and dispositive power over the shares held by Globespan Capital Partners V, L.P. Mr. Ganesan, one of our directors, has no voting or dispositive power with respect to these shares. The address for these entities is 300 Hamilton Avenue, Palo Alto, CA 94301.

(4) Consists of 2,155,984 shares issuable pursuant to stock options exercisable within 60 days of March 15, 2012.

(5) Consists of 3,826,535 shares held of record by Mr. Zuk, of which 178,125 may be repurchased by us at the original exercise price within 60 days of March 15, 2012.

(6) Consists of (i) 525,000 shares held of record by Mr. Batra, of which 178,125 may be repurchased by us at the original exercise price within 60 days of March 15, 2012; (ii) 1,427,216 shares held of record by Rajiv Batra and Ritu Batra as Trustees of the Batra Family Trust U/A/D 5th of January 2006; and (iii) 250,000 shares held of record by Rajiv Batra and Ritu Batra as Trustees of the Trust Agreement for Aditya Joshua Batra dated February 22, 2005.

(7) Consists of (i) 510,000 shares held of record by Mr. Bonvanie, of which 176,667 may be repurchased by us at the original exercise price within 60 days of March 15, 2012; and (ii) 8,000 shares issuable pursuant to stock options exercisable within 60 days of March 15, 2012.

(8) Consists of (i) 699,364 shares held of record by Mr. Link, of which 10,000 may be repurchased by us at the original exercise price within 60 days of March 15, 2012; and (ii) 175,000 shares issuable pursuant to stock options exercisable within 60 days of March 15, 2012.

(9) Consists of (i) the shares listed in footnote (1) above, which are held by the Greylock Partners Entities; and (ii) 307,050 shares held of record by the Chandna Family Revocable Trust DTD 4/13/98 for which Mr. Chandna serves as trustee. Mr. Chandna, one of our directors, is a partner of the Greylock Partners Entities, and therefore may be deemed to share voting or dispositive power with respect to the shares held by the Greylock Partners Entities.

(10) Consists of the shares held by Sequoia Capital Entities listed in footnote (2) above. Mr. Goetz, one of our directors, is a managing member and venture investor of the applicable general partners of the Sequoia Capital Entities, and therefore may be deemed for certain legal purposes to share voting and dispositive power over the shares held by the Sequoia Capital Entities.

(11) Consists of (i) 132,000 shares held of record by Mr. Kramer; and (ii) 865,524 shares held of record by Hapri Limited. Mr. Kramer is one of two directors of Hapri Limited, with Amir Rapoport, the Kramer family office Chief Financial Officer, being the other director. All of Hapri Limited's shares are ultimately controlled by a trust of which Mr. Kramer is the sole grantor and sole beneficiary during his life. The address for Hapri Limited is PFD Corporate Services (BVI) Limited, Tropic Isle Building, P.O. Box 3331, Road Town, Tortola, British Virgin Islands VG 1110.

(12) Consists of 750,186 shares held of record by Hawkswatch Holdings LLC for which Mr. Lanfri is the sole member.

(13) Consists of 65,000 shares issuable pursuant to stock options exercisable within 60 days of March 15, 2012.

(14) Consists of 2,021,000 shares held of record by one or more family trusts controlled by Mr. Bess. Mr. Bess resigned as President and Chief Executive Officer in December 2010.

(15) Consists of 600,000 shares issuable pursuant to stock options exercisable within 60 days of March 15, 2012. Mr. Lehman resigned as Chief Financial officer in February 2012.

(16) Consists of (i) 36,755,724 shares beneficially owned by the current directors and executive officers, of which 542,917 may be repurchased by us at the original exercise price within 60 days of March 15, 2012; and (ii) 2,403,984 shares issuable pursuant to stock options exercisable within 60 days of March 15, 2012.

DESCRIPTION OF CAPITAL STOCK

General

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

Immediately following the completion of this offering, our authorized capital stock will consist of 1,100,000,000 shares, with a par value of $0.0001 per share, of which:

- 1,000,000,000 shares are designated as common stock; and
- 100,000,000 shares are designated as preferred stock.

As of January 31, 2012, we had outstanding 61,569,101 shares of common stock, held by approximately 265 stockholders of record, and no shares of preferred stock, assuming the automatic conversion of all outstanding shares of our convertible preferred stock into common stock effective immediately prior to the completion of this offering. In addition, as of January 31, 2012, we had outstanding options to acquire 11,833,863 shares of our common stock.

Common Stock

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences that may be applicable to any preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive ratably any dividends declared by our board of directors out of assets legally available. See the section entitled “Dividend Policy.” Upon our liquidation, dissolution, or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding shares of preferred stock. Holders of common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Preferred Stock

After the completion of this offering, no shares of preferred stock will be outstanding. Pursuant to our amended and restated certificate of incorporation, our board of directors will have the authority, without further action by the stockholders, to issue from time to time up to 100,000,000 shares of preferred stock in one or more series. Our board of directors may designate the rights, preferences, privileges, and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, redemption rights, liquidation preference, sinking fund terms, and the number of shares constituting any series or the designation of any series. The issuance of preferred stock could have the effect of restricting dividends on the common stock, diluting the voting power of the common stock, impairing the liquidation rights of the common stock, or delaying, deterring, or preventing a change in control. Such issuance could have the effect of decreasing the market price of the common stock. We currently have no plans to issue any shares of preferred stock.

Registration Rights

Following the completion of this offering, the holders of shares of our convertible preferred stock or their permitted transferees are entitled to rights with respect to the registration of these shares under the Securities Act.

These rights are provided under the terms of an investors' rights agreement between us and the holders of these shares, which was entered into in connection with our convertible preferred stock financings, and include demand registration rights, short-form registration rights, and piggyback registration rights. In any registration made pursuant to such investors' rights agreement, all fees, costs, and expenses of underwritten registrations will be borne by us and all selling expenses, including estimated underwriting discounts and selling commissions, will be borne by the holders of the shares being registered.

The registration rights terminate seven years following the completion of this offering or, with respect to any particular stockholder, at such time that that stockholder can sell all of its shares during any three month period pursuant to Rule 144 of the Securities Act.

Demand Registration Rights

The holders of an aggregate of 41,084,032 shares of our common stock, or their permitted transferees, are entitled to demand registration rights. Under the terms of the investors' rights agreement, we will be required, upon the written request of holders of at least 40% of the shares that are entitled to registration rights under the investors' rights agreement, to register, as soon as practicable, all or a portion of these shares for public resale. We are required to effect only two registrations pursuant to this provision of the investors' rights agreement. We are not required to effect a demand registration earlier than 180 days after the effective date of this offering.

Short-Form Registration Rights

The holders of an aggregate of 41,304,600 shares of our common stock or their permitted transferees are also entitled to short-form registration rights. If we are eligible to file a registration statement on Form S-3, these holders have the right, upon written request from holders of these shares, to have such shares registered by us if the proposed aggregate offering price of the shares to be registered by the holders requesting registration is at least $1.0 million, subject to exceptions set forth in the investors' rights agreement.

Piggyback Registration Rights

Following the completion of this offering, the holders of an aggregate of 41,304,600 shares of our common stock or their permitted transferees are entitled to piggyback registration rights. If we register any of our securities for our own account, after the completion of this offering, the holders of these shares are entitled to include their shares in the registration. The underwriters of any underwritten offering have the right to limit the number of shares registered by these holders for marketing reasons, subject to limitations set forth in the investors' rights agreement.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

Our amended and restated certificate of incorporation and amended and restated bylaws to be effective upon the completion of this offering will contain provisions that could have the effect of delaying, deferring, or discouraging another party from acquiring control of us. These provisions and certain provisions of Delaware law, which are summarized below, could discourage takeovers, coercive or otherwise. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us.

Undesignated Preferred Stock. As discussed above under "—Preferred Stock," our board of directors will have the ability to designate and issue preferred stock with voting or other rights or preferences that could deter hostile takeovers or delay changes in our control or management.

Limits on Ability of Stockholders to Act by Written Consent or Call a Special Meeting. Our amended and restated certificate of incorporation will provide that our stockholders may not act by written consent. This limit

on the ability of stockholders to act by written consent may lengthen the amount of time required to take stockholder actions. As a result, the holders of a majority of our capital stock would not be able to amend the amended and restated bylaws or remove directors without holding a meeting of stockholders called in accordance with the amended and restated bylaws.

In addition, our amended and restated bylaws will provide that special meetings of the stockholders may be called only by the chairman of our board of directors, the chief executive officer, the president (in the absence of a chief executive officer), or our board of directors. A stockholder may not call a special meeting, which may delay the ability of our stockholders to force consideration of a proposal or for holders controlling a majority of our capital stock to take any action, including the removal of directors.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our amended and restated bylaws will establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee of the board of directors. These advance notice procedures may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed and may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempt to obtain control of our company.

Board Classification. Our board of directors will be divided into three classes. The directors in each class will serve for a three-year term, one class being elected each year by our stockholders. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for stockholders to replace a majority of the directors.

Delaware Anti-Takeover Statute. We will be subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a publicly held Delaware corporation from engaging, under certain circumstances, in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder unless:

- prior to the date of the transaction, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, but not the outstanding voting stock owned by the interested stockholder, (1) shares owned by persons who are directors and also officers and (2) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to the date of the transaction, the business combination is approved by our board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation’s outstanding voting stock. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

The provisions of Delaware law and the provisions of our amended and restated certificate of incorporation and amended and restated bylaws could have the effect of discouraging others from attempting hostile takeovers and as a consequence, they might also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions might also have the effect of preventing changes in our management. It is also possible that these provisions could make it more difficult to accomplish transactions that stockholders might otherwise deem to be in their best interests.

Transfer Agent and Registrar

Upon the completion of this offering, the transfer agent and registrar for our common stock will be . The transfer agent's address is , and its telephone number is .

Exchange Listing

We intend to apply to list our common stock on the under the symbol " ."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for shares of our common stock. Future sales of substantial amounts of shares of common stock, including shares issued upon the exercise of outstanding options, in the public market after this offering, or the possibility of these sales occurring, could adversely affect the prevailing market price for our common stock or impair our ability to raise equity capital.

Upon the completion of this offering, a total of shares of common stock will be outstanding, assuming the automatic conversion of all outstanding shares of preferred stock into shares of common stock upon the completion of this offering. Of these shares, all shares of common stock sold in this offering by us and the selling stockholders, plus any shares sold upon exercise of the underwriters' over-allotment option, will be freely tradable in the public market without restriction or further registration under the Securities Act, unless these shares are held by "affiliates," as that term is defined in Rule 144 under the Securities Act.

The remaining shares of common stock will be "restricted securities," as that term is defined in Rule 144 under the Securities Act. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below.

Subject to the lock-up agreements described below and the provisions of Rules 144 and 701 under the Securities Act, these restricted securities will be available for sale in the public market at various times beginning more than 180 days (subject to extension) after the date of this prospectus.

Rule 144

In general, under Rule 144 as currently in effect, once we have been subject to public company reporting requirements for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell such shares without complying with the manner of sale, volume limitation, or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then such person is entitled to sell such shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon expiration of the lock-up agreements described above, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering; or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the

immediately preceding 90 days to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation, or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. However, all holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling such shares pursuant to Rule 701.

Lock-Up Agreements

We, the selling stockholders, all of our directors and officers, and the holders of substantially all of our common stock, or securities exercisable for or convertible into our common stock outstanding immediately prior to this offering have agreed that, without the prior written consent of Morgan Stanley & Co. LLC and Goldman, Sachs & Co. on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;
- file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock;

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. This agreement is subject to certain exceptions, and is also subject to extension for up to an additional 34 days, as set forth in the section entitled “Underwriters.”

Registration Rights

The holders of 41,304,600 shares of common stock or their transferees will be entitled to various rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by affiliates. See “Description of Capital Stock—Registration Rights” for additional information.

Registration Statements on Form S-8

Upon the completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register all of the shares of common stock issued or reserved for issuance under our stock option plans. Shares covered by this registration statement will be eligible for sale in the public market, upon the expiration or release from the terms of the lock-up agreements and subject to vesting of such shares.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax consequences to non-U.S. holders (as defined below) of the ownership and disposition of our common stock, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings, and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those set forth below.

This summary also does not address the tax considerations arising under the laws of any non-U.S., state or local jurisdiction, or under U.S. federal gift and estate tax laws, except to the limited extent set forth below. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies, or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- controlled foreign corporations, passive foreign investment companies, and corporations that accumulate earnings to avoid U.S. federal income tax;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock (except to the extent specifically set forth below);
- certain former citizens or long-term residents of the United States;
- persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction," or other risk reduction transaction;
- persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code; or
- persons deemed to sell our common stock under the constructive sale provisions of the Code.

In addition, if a partnership or entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors.

You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership, and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any state, local, non-U.S., or other taxing jurisdiction or under any applicable tax treaty.

Non-U.S. Holder Defined

For purposes of this discussion, you are a non-U.S. holder if you are any holder other than:

- a partnership or entity classified as a partnership for U.S. federal income tax purposes;
- an individual citizen or resident of the United States (for tax purposes);

- a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (x) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (y) which has made an election to be treated as a U.S. person.

Distributions

We have not made any distributions on our common stock and do not intend to do so in the foreseeable future. However, if we do make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock.

Any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, you must provide us with an IRS Form W-8BEN or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. A non-U.S. holder of shares of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the non-U.S. holder's behalf, the non-U.S. holder will be required to provide appropriate documentation to the agent, which then will be required to provide certification to us or our paying agent, either directly or through other intermediaries.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, attributable to a permanent establishment maintained by you in the U.S.) are generally exempt from such withholding tax. In order to obtain this exemption, you must provide us with an IRS Form W-8ECI or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

Gain on Disposition of Common Stock

Subject to the discussion below regarding legislation related to foreign accounts, you generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with your conduct of a U.S. trade or business (and, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment maintained by you in the United States);
- you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or
- our common stock constitutes a U.S. real property interest by reason of our status as a "United States real property holding corporation," or USRPHC, for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding your disposition of, or your holding period for, our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if you actually or constructively hold more than five percent of such regularly traded common stock at any time during the shorter of the five-year period preceding your disposition of, or your holding period for, our common stock.

If you are a non-U.S. holder described in the first bullet above, you will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates, and a corporate non-U.S. holder described in the first bullet above also may be subject to the branch profits tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty. If you are an individual non-U.S. holder described in the second bullet above, you will be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses for the year. You should consult any applicable income tax or other treaties that may provide for different rules.

Federal Estate Tax

Our common stock beneficially owned by an individual who is not a citizen or resident of the United States (as defined for U.S. federal estate tax purposes) at the time of their death will generally be includable in the decedent's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report will be sent to you. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in your country of residence.

Payments of dividends or of proceeds on the disposition of stock made to you may be subject to information reporting and backup withholding at a current rate of 28% (such rate scheduled to increase to 31% for payments made after December 31, 2012) unless you establish an exemption, for example, by properly certifying your non-U.S. status on a Form W-8BEN or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund, or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Legislation Relating to Foreign Accounts

Legislation enacted in 2012 generally will impose a U.S. federal withholding tax of 30% on dividends on, and the gross proceeds of a disposition of, our common stock, paid to a "foreign financial institution" (as specially defined under these rules), unless such institution enters into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities certain information regarding the U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). The legislation also generally will impose a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid to a non-financial foreign entity unless such entity provides the withholding agent with a

certification identifying the direct and indirect U.S. owners of the entity (or certifying that it does not have any "substantial U.S. owners"). The legislation applies to payments made after December 31, 2012. Under certain transition rules, the obligation to withhold would apply to dividends paid on our common stock after December 31, 2013, and to the gross proceeds from the sale or other disposition of our common stock after December 31, 2014. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our common stock.

Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local and non-U.S. tax consequences of purchasing, holding and disposing of our common stock, including the consequences of any proposed change in applicable laws.

UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. LLC, Goldman, Sachs & Co., and Citigroup Global Markets Inc. are acting as representatives, have severally agreed to purchase, and we and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. LLC	
Goldman, Sachs & Co.	
Citigroup Global Markets Inc.	
Credit Suisse Securities (USA) LLC	
Barclays Capital Inc.	
UBS Securities LLC	
Raymond James & Associates, Inc.	
Total	

The underwriters and the representatives are collectively referred to as the “underwriters” and the “representatives,” respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters’ over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers. After the initial offering of the shares of common stock, the offering price, and other selling terms may from time to time be varied by the representatives. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters’ right to reject any order in whole or in part.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter’s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us and the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase up to an additional shares of our common stock.

		Total	
	Per Share	No Exercise	Full Exercise
Public offering price	$	$	$
Underwriting discounts and commissions paid by:			
Us	$	$	$
The selling stockholders	$	$	$
Proceeds, before expenses, to us	$	$	$
Proceeds, before expenses, to selling stockholders	$	$	$

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately $, which includes legal, accounting and printing costs, and various other fees associated with the registration and listing of our common stock.

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of shares of common stock offered by them.

We intend to apply to have our common stock approved for listing on the under the trading symbol " ."

We, the selling stockholders, all of our directors and officers, and the holders of substantially all of our common stock and securities exercisable for or convertible into our common stock outstanding immediately prior to this offering have agreed that, without the prior written consent of Morgan Stanley & Co. LLC and Goldman, Sachs & Co. on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus (the "restricted period"):

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;
- file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock.

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we and each such person agrees that, without the prior written consent of Morgan Stanley & Co. LLC and Goldman, Sachs & Co. on behalf of the underwriters, we or such other person will not, during the restricted period, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restrictions described in the immediately preceding paragraph to do not apply to:

- the sale of shares to the underwriters;
- transactions by a security holder relating to shares of common stock or other securities acquired in open market transactions after completion of this offering; provided that no filing under Section 16 of

the Exchange Act is required or voluntarily made in connection with subsequent sales of common stock or other securities acquired in such open market transactions;

- the transfer by a security holder of shares of common stock or any securities convertible into or exercisable or exchangeable for common stock (i) to an immediate family member of a security holder or to a trust formed for the benefit of such an immediate family member, (ii) by bona fide gift, will or intestacy, (iii) if the security holder is a corporation, partnership, limited liability company or other business entity (A) to another corporation, partnership, limited liability company or other business entity that is an affiliate of such security holder or (B) as part of a distribution to an equity holder of such stockholder or (iv) if the security holder is a trust, to a trustor or beneficiary of the trust, provided that in each case, the transferee, donee or distributee signs and delivers a lock-up agreement prior to or upon such transfer and no filing under Section 16 of the Exchange Act is required or voluntarily made during the restricted period;
- the receipt by a security holder of common stock upon the vesting of restricted stock awards or the exercise of options or warrants, provided that any securities received upon such vesting or exercise will also be subject to these restrictions and no filing under Section 16 of the Exchange Act is required or voluntarily made in connection with such vesting or exercise;
- the disposition of shares of common stock by a security holder to us solely in connection with the payment of taxes due with respect to the vesting of restricted stock awards, provided that no filing under Section 16 of the Exchange Act is required or voluntarily made in connection with such disposition;
- the transfer of shares of common stock by a security holder pursuant to option agreements relating to the early exercise of unvested options under which we have the right to repurchase such shares and only to the extent that we elect to exercise such right;
- the establishment by a security holder of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of shares of common stock, provided that such plan does not provide for the transfer of common stock during the restricted period and no public announcement or filing under the Exchange Act regarding the establishment of such plan is required or voluntarily made.
- the conversion of preferred stock into shares of common stock by a security holder, provided that such shares remain subject to these restrictions;
- if the a security holder is an individual, the transfer of shares of common stock or any security convertible into or exercisable or exchangeable for common stock that occurs by operation of law, such as pursuant to a qualified domestic order or in connection with a divorce settlement, provided that the security holder uses its reasonable best efforts to cause the transferee to sign and deliver a lock-up agreement prior to such transfer; or
- the transfer of shares of common stock or any security convertible into or exercisable or exchangeable for common stock by a security holder pursuant to a bona fide third party tender offer, merger, consolidation or other similar transaction made to all holders of our common stock involving a change of control of us, provided that in the event that the tender offer, merger, consolidation or other such transaction is not completed, such securities will continue to be subject to these restrictions.

The restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the restricted period we issue an earnings release or material news event relating to us occurs, or
- prior to the expiration of the restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the restricted period or provide notification to Morgan Stanley & Co. LLC and Goldman, Sachs & Co. of any earnings release or material news or material event that may give rise to an extension of the initial 180-day restricted period,

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Morgan Stanley & Co. LLC, and Goldman, Sachs & Co. in their sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time with or without notice. When determining whether or not to release common stock and other securities from lock-up agreements, Morgan Stanley & Co. LLC and Goldman, Sachs & Co. will consider, among other factors, the holder's reasons for requesting the release, the number of shares of common stock and other securities for which the release is being requested and market conditions at the time.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We, the selling stockholders and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters, or selling group members, if any, participating in this offering. The representatives may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

Pricing of the Offering

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations between us and the representative. Among the factors considered in determining the initial public offering price were our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, and the price-earnings ratios, price-sales ratios, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any shares of our common stock may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any shares of our common stock may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares of our common stock shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any shares of our common stock in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares of our common stock to be offered so as to enable an investor to decide to purchase any shares of our common stock, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

United Kingdom

Each underwriter has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the "FSMA")) received by it in connection with the issue or sale of the shares of our common stock in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares of our common stock in, from or otherwise involving the United Kingdom.

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation, or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares, and debentures of that corporation, or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Wilson Sonsini Goodrich & Rosati, P.C., Palo Alto, California. Davis Polk & Wardwell LLP, Menlo Park, California, is acting as counsel to the underwriters.

EXPERTS

The consolidated financial statements of Palo Alto Networks, Inc. at July 31, 2010 and 2011, and for each of the three years in the period ended July 31, 2011, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement, some of which is contained in exhibits to the registration statement as permitted by the rules and regulations of the SEC. For further information with respect to us and our common stock, we refer you to the registration statement, including the exhibits filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document is not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, please see the copy of the contract or document that has been filed. Each statement is this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. You may obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy statements, and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

As a result of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with this law, will file periodic reports, proxy statements, and other information with the SEC. These periodic reports, proxy statements, and other information will be available for inspection and copying at the SEC’s public reference facilities and the website of the SEC referred to above. We also maintain a website at www.paloaltonetworks.com. Upon completion of this offering, you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

PALO ALTO NETWORKS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Palo Alto Networks, Inc.

We have audited the accompanying consolidated balance sheets of Palo Alto Networks, Inc. as of July 31, 2011 and 2010, and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' deficit, and cash flows for each of the three years in the period ended July 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Palo Alto Networks, Inc. at July 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California
April 6, 2012

PALO ALTO NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	July 31,		January 31,	Pro Forma Stockholders' Equity as of January 31, 2012
	2010	2011	2012	
			(Unaudited)	
Assets				
Current assets:				
Cash and cash equivalents	$ 18,835	$ 40,517	$ 82,822	
Accounts receivable, net of allowance for doubtful accounts of $6 at July 31, 2010 and 2011 and $54 at January 31, 2012 (unaudited)	14,241	29,677	24,073	
Prepaid expenses and other current assets	2,584	6,646	8,755	
Total current assets	35,660	76,840	115,650	
Property and equipment, net	1,833	12,666	17,064	
Other assets	626	1,666	3,943	
Total assets	$ 38,119	$ 91,172	$ 136,657	
Liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)				
Current liabilities:				
Accounts payable	$ 2,701	$ 5,435	$ 4,270	
Accrued liabilities	6,155	6,957	12,301	
Accrued compensation	3,267	9,456	9,516	
Deferred revenue	16,537	45,253	63,097	
Total current liabilities	28,660	67,101	89,184	
Deferred revenue—non-current	7,584	22,002	34,811	
Preferred stock warrant liability	491	2,068	—	
Other long-term liabilities	2,541	6,964	7,701	
Commitments and contingencies (Note 5)				
Redeemable convertible preferred stock, $0.0001 par value; 41,722 shares authorized at July 31, 2010, 2011, and January 31, 2012 (unaudited); 41,084 issued and outstanding with liquidation preference of $64,760 at July 31, 2010 and 2011; and 41,305 issued and outstanding with liquidation preference of $64,907 at January 31, 2012 (unaudited); no shares issued and outstanding, pro forma (unaudited)	64,491	64,491	67,517	—
Stockholders' equity (deficit):				
Common stock, $0.0001 par value; 75,000 shares authorized; 19,790, 19,751, 20,265, and 61,569 shares issued and outstanding at July 31, 2010, 2011, January 31, 2012 (unaudited), and pro forma (unaudited), respectively	2	2	2	6
Additional paid-in capital	2,587	9,309	13,667	81,180
Accumulated deficit	(68,237)	(80,765)	(76,225)	(76,225)
Total stockholders' equity (deficit)	(65,648)	(71,454)	(62,556)	4,961
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	$ 38,119	$ 91,172	$ 136,657	$ 136,657

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Revenue:					
Product	$ 10,110	$ 36,789	$ 84,800	$33,610	$ 81,499
Services	3,242	11,993	33,797	13,602	32,297
Total revenue	13,352	48,782	118,597	47,212	113,796
Cost of revenue:					
Product	3,952	10,822	21,766	8,487	20,558
Services	2,324	4,812	10,507	4,163	9,795
Total cost of revenue	6,276	15,634	32,273	12,650	30,353
Total gross profit	7,076	33,148	86,324	34,562	83,443
Operating expenses:					
Research and development	8,208	12,788	21,366	9,036	16,362
Sales and marketing	15,372	29,726	62,254	23,729	47,980
General and administrative	2,536	11,291	13,108	4,791	10,925
Total operating expenses	26,116	53,805	96,728	37,556	75,267
Operating income (loss)	(19,040)	(20,657)	(10,404)	(2,994)	8,176
Interest income	52	4	3	2	4
Other expense, net	(5)	(424)	(1,651)	(603)	(1,030)
Income (loss) before income taxes	(18,993)	(21,077)	(12,052)	(3,595)	7,150
Provision for income taxes	12	56	476	246	2,610
Net income (loss)	$(19,005)	$(21,133)	$(12,528)	$(3,841)	$ 4,540
Net income (loss) attributable to common stockholders	$(19,005)	$(21,133)	$(12,528)	$(3,841)	$ —
Net income (loss) per share attributable to common stockholders, basic and diluted	$ (2.01)	$ (1.78)	$ (0.88)	$ (0.29)	$ 0.00
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders, basic and diluted	9,435	11,901	14,201	13,355	16,948
Pro forma net income (loss) per share attributable to common stockholders (unaudited):					
Basic			$ (0.20)		$ 0.09
Diluted			$ (0.20)		$ 0.08
Pro forma weighted-average shares used to compute net income (loss) per share attributable to common stockholders (unaudited):					
Basic			55,285		58,071
Diluted			55,285		63,715

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT
(In thousands)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance as of August 1, 2008	28,323	$ 28,025	16,360	$ 2	$ 561	$ (28,099)	$ (27,536)
Net loss and comprehensive loss	—	—	—	—	—	(19,005)	(19,005)
Net proceeds from issuance of Series C preferred stock	12,343	35,266	—	—	—	—	—
Conversion of related-party loan into preferred stock	418	1,200	—	—	—	—	—
Stock option exercises, net of unvested portion	—	—	263	—	256	—	256
Stock options early exercised in exchange for note deemed non-recourse for accounting purposes	—	—	900	—	—	—	—
Partial cancellation of promissory note for unvested portion of stock options exercised early	—	—	(392)	—	—	—	—
Proceeds from issuance of stock to non-employees	—	—	11	—	7	—	7
Share-based compensation	—	—	—	—	374	—	374
Balance as of July 31, 2009	41,084	64,491	17,142	2	1,198	(47,104)	(45,904)
Net loss and comprehensive loss	—	—	–	—	–	(21,133)	(21,133)
Stock option exercises, net of unvested portion	—	—	2,684	—	513	—	513
Proceeds from issuance of restricted stock to non-employees	—	—	10	—	7	—	7
Share-based compensation	—	—	–	—	869	—	869
Repurchase of unvested restricted common stock from terminated employees	—	—	(46)	—	—	—	—
Balance as of July 31, 2010	41,084	64,491	19,790	2	2,587	(68,237)	(65,648)
Net loss and comprehensive loss	—	—	—	—	—	(12,528)	(12,528)
Stock option exercises, net of unvested portion	—	—	951	—	1,094	—	1,094
Share-based compensation	—	—	—	—	4,733	—	4,733
Repurchase of unvested restricted common stock from terminated employees	—	—	(990)	—	—	—	—
Proceeds from settlement of note receivable	—	—	—	—	895	—	895
Balance as of July 31, 2011	41,084	64,491	19,751	2	9,309	(80,765)	(71,454)
Net income and comprehensive income (unaudited)	—	—	—	—	—	4,540	4,540
Stock option exercises, net of unvested portion (unaudited)	—	—	367	—	821	—	821
Share-based compensation (unaudited)	—	—	—	—	3,499	—	3,499
Repurchase of unvested restricted common stock from terminated employees (unaudited)	—	—	(45)	—	—	—	—
Issuance of restricted common stock to employees (unaudited)	—	—	192	—	—	—	—
Proceeds from settlement of note receivable (unaudited)	—	—	—	—	38	—	38
Exercise of preferred stock warrants (unaudited)	221	3,026	—	—	—	—	—
Balance as of January 31, 2012 (unaudited)	41,305	$ 67,517	20,265	$ 2	$ 13,667	$ (76,225)	$ (62,556)

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Cash flows from operating activities					
Net income (loss)	$(19,005)	$(21,133)	$(12,528)	$ (3,841)	$ 4,540
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,180	1,123	2,189	687	2,474
Share-based compensation	374	869	4,733	1,444	3,499
Change in fair value of preferred stock warrants	(7)	423	1,577	592	958
Changes in operating assets and liabilities:					
Accounts receivable, net	(2,104)	(10,712)	(15,436)	(3,019)	5,604
Prepaid expenses and other assets	2	(1,163)	(5,114)	(1,329)	(5,094)
Accounts payable	171	894	2,734	422	(1,165)
Accrued and other liabilities	1,720	8,488	6,340	1,010	5,657
Deferred revenue	4,146	18,528	43,134	13,640	30,653
Reimbursement of cost of leasehold improvements	—	—	4,473	—	577
Net cash provided by (used in) operating activities	(13,523)	(2,683)	32,102	9,606	47,703
Cash flows from investing activities					
Purchase of property, equipment, and other assets	(1,045)	(1,685)	(13,000)	(3,159)	(7,063)
Net cash used in investing activities	(1,045)	(1,685)	(13,000)	(3,159)	(7,063)
Cash flows from financing activities					
Changes in restricted cash	—	—	—	—	1,221
Repayment of related-party loans	(800)	—	—	—	—
Proceeds from exercise of stock options	171	1,854	1,775	1,025	469
Proceeds from issuance of stock to non-employees	7	7	—	—	—
Proceeds from settlement of note receivable	—	—	895	—	38
Repurchase of restricted common stock from terminated employees	—	(24)	(90)	(80)	(63)
Net proceeds from issuance of preferred stock	35,266	—	—	—	—
Net cash provided by financing activities	34,644	1,837	2,580	945	1,665
Net increase (decrease) in cash and cash equivalents	20,076	(2,531)	21,682	7,392	42,305
Cash and cash equivalents—beginning of period	1,290	21,366	18,835	18,835	40,517
Cash and cash equivalents—end of period	$ 21,366	$ 18,835	$ 40,517	$26,227	$82,822
Supplemental disclosures of cash flow information					
Cash paid for income taxes	$ 13	$ 9	$ 32	$ 30	$ 548
Cash paid for interest	$ 18	$ 1	$ 25	$ 11	$ 9
Non-cash investing and financing activities					
Conversion of related party loan into preferred stock	$ 1,200	$ —	$ —	$ —	$ —
Change in liability for early exercise of stock options, net of vested portion	$ 85	$ 1,317	$ 591	$ 451	$ (415)
Issuance of preferred stock upon exercise of warrant	$ —	$ —	$ —	$ —	$ 3,026

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Palo Alto Networks, Inc., located in Santa Clara, California, was incorporated in March 2005 under the laws of the State of Delaware and commenced operations in April 2005. We offer a next-generation network security platform that allows enterprises, service providers, and government entities to secure their networks and safely enable the increasingly complex and rapidly growing number of applications running on their networks. The core of our platform is our Next-Generation Firewall that delivers natively integrated application, user, and content visibility and control through our proprietary operating system, hardware, and software architecture. We primarily sell our products and services to end-customers through distributors, resellers, and strategic partners, and infrequently directly to end-customers (collectively partners), who are supported by our sales and marketing organization, in the Americas, in Europe, the Middle East, and Africa (EMEA), and in Asia Pacific and Japan (APAC).

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries (collectively, the “Company,” “we,” “us,” or “our”). All significant intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of January 31, 2012, the consolidated statements of operations and cash flows for the six month periods ended January 31, 2011 and 2012, the consolidated statement of redeemable convertible preferred stock and stockholders’ deficit for the six month period ended January 31, 2012, and the related footnote disclosures are unaudited. These unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). In management’s opinion, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our statement of financial position as of January 31, 2012 and our results of operations and cash flows for the six month periods ended January 31, 2011 and 2012. The results for the six month period ended January 31, 2012 are not necessarily indicative of the results expected for the full fiscal year.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such management estimates include the best estimate of selling price for our products and services, share-based compensation including the fair value of our common stock, future taxable income, contract manufacturer liabilities, litigation and settlement costs and other loss contingencies, warranty liabilities, and fair value of preferred stock warrant liability. We base our estimates on historical experience and also on assumptions that we believe are reasonable. Actual results could differ from those estimates.

Unaudited Pro Forma Consolidated Balance Sheet

Upon the consummation of the initial public offering contemplated by us, all of the outstanding shares of redeemable convertible preferred stock will automatically convert into shares of common stock, assuming we raise at least $50 million. The January 31, 2012 unaudited pro forma consolidated balance sheet data has been prepared assuming the conversion of the convertible preferred stock outstanding into 41,305,000 shares of common stock.

Concentrations

Financial instruments that subject us to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. We maintain a substantial portion of our cash and cash equivalents in money market funds invested in U.S. Treasury related obligations. Management believes that the financial institutions that hold our investments are financially sound and, accordingly, are subject to minimal credit risk. Deposits held with banks may exceed the amount of insurance provided on such deposits.

Our accounts receivables are primarily derived from our partners representing various geographical locations. We perform ongoing credit evaluations of our partners and generally do not require collateral on accounts receivable. We maintain an allowance for doubtful accounts for estimated potential credit losses. As of July 31, 2011, four partners represented 17%, 16%, 12%, and 10% of our gross accounts receivable. For fiscal 2011, two partners represented 16% and 13% of our total revenue. We rely on an independent contract manufacturer to assemble all of our products and sole suppliers for a certain number of our components.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). We have no components of other comprehensive income or loss, and accordingly, net income (loss) equals comprehensive income (loss) for all periods presented.

Foreign Currency Translation/Transactions

The functional currency of our foreign subsidiaries is the U.S. dollar. Assets and liabilities denominated in foreign currencies have been re-measured into U.S. dollars using the exchange rates in effect at the balance sheet dates. Foreign currency denominated revenue and expenses have been re-measured using the average exchange rates in effect during each period. Foreign currency re-measurement gains and losses have been included in other income (expense) and are not significant to the financial statements. Foreign currency transaction gains and losses have been included in operating expenses and are not significant to the financial statements.

Cash and Cash Equivalents

We consider all highly liquid investments held at financial institutions, such as commercial paper, money market funds, and other money market securities with original maturities of three months or less at date of purchase to be cash equivalents.

Fair Value of Financial Instruments

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, we consider the principal or most advantageous market in which to transact and the market-based risk. We apply fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The carrying amounts reported in the consolidated financial statements approximate the fair value for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, due to their short-term nature.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on our assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding

invoice, each partner's expected ability to pay, and the collection history with each partner, when applicable, to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified. For the years ended July 31, 2009, 2010, and 2011, the allowance for doubtful accounts activity was not significant.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally one to seven years. Demonstration units are transferred from inventory at cost and are amortized over 18 months from the date of transfer. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the remaining lease term.

Impairment of Long-Lived Assets

We evaluate events and changes in circumstances that could indicate carrying amounts of long-lived assets, including property and equipment, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether or not the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future undiscounted cash flows is less than the carrying amount of an asset, we record an impairment charge for the amount by which the carrying amount of the assets exceeds the fair value of the asset. Through January 31, 2012, we have not written down any of our long-lived assets as a result of impairment.

Deferred Offering Costs

Deferred offering costs consisted primarily of direct incremental legal and accounting fees related to our proposed initial public offering. Approximately $0.3 million of deferred offering costs are included in other assets on our consolidated balance sheet as of January 31, 2012. No amounts were deferred as of July 31, 2010 and 2011. Upon completion of the initial public offering contemplated herein, these amounts will be reflected in the net proceeds of the offering. If the offering is terminated, the deferred offering costs will be expensed.

Warranties

We generally provide a one-year warranty on hardware and a three-month warranty on software. We accrue for potential warranty claims as a component of cost of product revenues based on historical experience and other data. Accrued warranty is recorded in accrued liabilities on the consolidated balance sheets and is reviewed periodically for adequacy. To date, we have not accrued any significant costs associated with our warranty.

Contract Manufacturer Liabilities

We outsource most of our manufacturing, repair, and supply chain management operations to our independent contract manufacturer and payments to it are a significant portion of our product cost of revenues. Although we could be contractually obligated to purchase manufactured products, we generally do not own the manufactured products. Product title transfers from our independent contract manufacturer to us and immediately to our partner upon shipment. Our independent contract manufacturer assembles our products using design specifications, quality assurance programs, and standards that we establish and it procures components and assembles our products based on our demand forecasts. These forecasts represent our estimates of future demand for our products based upon historical trends and analysis from our sales and product management functions as adjusted for overall market conditions. If the actual component usage and product demand are significantly lower than forecast, we may accrue for costs for contractual manufacturing commitments in excess of our forecasted demand including costs for excess components or for carrying costs incurred by our contract manufacturer. To date, we have not accrued any significant costs associated with this exposure.

Preferred Stock Warrant Liability

Preferred stock warrant liability is measured and recognized in the financial statements at its fair value. The fair value of the warrants is estimated using the Black-Scholes-Merton ("Black-Scholes") option pricing model at each reporting date. The change in fair value of the warrants is then recorded on the consolidated statements of operations as other expense. The warrants were exercised as of January 31, 2012.

Revenue Recognition

We generate revenue from the sales of hardware and software products, subscriptions, support and maintenance, and other services primarily through a direct sales force and indirect relationships with our partners.

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

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

We recognize product revenue at the time of shipment provided that all other revenue recognition criteria have been met. Our partners have limited stock rotation rights. They receive an order from an end-customer prior to placing an order with us and generally do not stock appliances. We make certain estimates and maintain allowances for sales returns, stock rotation, and other programs based on our historical experience. To date, these estimates have not been significant. We recognize services revenue from subscriptions and support and maintenance ratably over the contractual service period, which is typically one year, with some up to three years. Other services revenue is recognized as the services are rendered and has not been significant to date.

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

To determine the estimated selling price in multiple-element arrangements, we establish VSOE of selling price using the prices charged for a deliverable when sold separately and, for subscriptions and support and maintenance, based on the renewal rates and discounts offered to partners. If VSOE of selling price cannot be established for a deliverable, we establish TPE of selling price by evaluating similar and interchangeable competitor products or services in standalone arrangements with similarly situated partners. However, as our

products contain a significant element of proprietary technology and offer substantially different features and functionality from our competitors, we are unable to obtain comparable pricing of our competitors' products with similar functionality on a standalone basis. Therefore, we have not been able to obtain reliable evidence of TPE of selling price. If neither VSOE nor TPE of selling price can be established for a deliverable, we establish BESP by reviewing historical transaction information and considering several other internal and external factors including pricing practices including discounting, margin objectives, competition, the geographies in which we offer our products and services, and the type of sales channel. The determination of BESP is made through consultation with and approval by our management, taking into consideration our pricing model and go to market strategy.

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

We account for multiple agreements with a single partner as one arrangement if the contractual terms and/or substance of those agreements indicate that they may be so closely related that they are, in effect, parts of a single arrangement.

Revenues are reported net of sales taxes. Shipping charges billed to partners are included in revenues and related costs are included in cost of revenue. Sales commissions and other incremental costs to acquire contracts are also expensed as incurred. After receipt of a partner order, any amounts billed in excess of revenue recognized are recorded as deferred revenue.

Advertising Costs

Advertising costs, which are expensed and included in sales and marketing expense when incurred, were $164,000, $366,000, and $757,000 during the years ended July 31, 2009, 2010, and 2011, respectively.

Software Development Costs

The costs to develop software have not been capitalized as we believe our current software development process is essentially completed concurrent with the establishment of technological feasibility. As such, all software development costs are expensed as incurred and included in research and development expense on the consolidated statements of operations.

Share-Based Compensation

Compensation expense related to share-based transactions, including employee and non-employee director awards, is measured and recognized in the financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model and a single option award approach. This model requires that at the date of grant we determine the fair value of the underlying common stock, the expected term of the award, the expected volatility of the price of our common stock, risk-free interest rates, and expected dividend yield of our common stock. The share-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four years. We estimate a forfeiture rate to calculate the share-based compensation for our awards. Our forfeiture rate is based on an analysis of our actual historical forfeitures.

Income Taxes

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

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

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, *Fair Value Measurement*. The standard requires entities to change certain measurements and disclosures about fair value measurements. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. We believe that adoption of this guidance will not have a material impact on our consolidated financial position, results of operations, or cash flows.

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

2. Fair Value Measurements

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

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

The following table presents the fair value of our financial assets and liabilities using the above input categories (in thousands):

Description	July 31, 2010		July 31, 2011		January 31, 2012	
	Level 1	Level 3	Level 1	Level 3	Level 1	Level 3
					(Unaudited)	
Money market funds	$14,720	$ —	$14,023	$ —	$15,000	$ —
Preferred stock warrant liability	—	491	—	2,068	—	—

The following table presents the fair value activity for preferred stock warrant liability (in thousands):

	Level 3
Balance at July 31, 2009	$ 68
Change in fair value of preferred stock warrant liability	423
Realized losses (gains)	—
Balance at July 31, 2010	491
Change in fair value of preferred stock warrant liability	1,577
Realized losses (gains)	—
Balance at July 31, 2011	2,068
Change in fair value of preferred stock warrant liability (unaudited)	958
Realized losses (gains) (unaudited)	—
Settlements, net (unaudited)	(3,026)
Balance at January 31, 2012 (unaudited)	$ —

3. Other Financial Information

Prepaid expenses and other current assets consisted of the following (in thousands):

	July 31,		January 31,
	2010	2011	2012 (Unaudited)
Prepaid expenses	$2,537	$4,479	$ 5,590
Other current assets	47	2,167	3,165
Total prepaid and other current assets	$2,584	$6,646	$ 8,755

Property and equipment, net consisted of the following (in thousands):

	July 31,		January 31,
	2010	2011	2012 (Unaudited)
Leasehold improvements	$ 54	$ 7,324	$ 8,148
Computers, equipment, and software	2,362	4,149	7,177
Demonstration units	2,215	4,605	6,864
Furniture and fixtures	124	1,518	2,230
Total property and equipment	4,755	17,596	24,419
Less: accumulated depreciation and amortization	(2,922)	(4,930)	(7,355)
Total property and equipment, net	$ 1,833	$12,666	$ 17,064

Depreciation and amortization expense related to property and equipment during the years ended July 31, 2009, 2010, and 2011, was $1,180,000, $1,111,000, and $2,167,000, respectively.

Accrued liabilities consisted of the following (in thousands):

	July 31,		January 31,
	2010	2011	2012 (Unaudited)
Accrued expenses payable	$4,461	$4,039	$ 7,886
Other liabilities	1,694	2,918	4,415
Total accrued liabilities	$6,155	$6,957	$ 12,301

Other long-term liabilities consisted of the following (in thousands):

	July 31,		January 31,
	2010	2011	2012 (Unaudited)
Deferred rent	$ —	$4,792	$ 5,895
Other long-term liabilities	2,541	2,172	1,806
Total other long-term liabilities	$2,541	$6,964	$ 7,701

4. Preferred Stock Warrants

The following preferred stock warrants are outstanding (in thousands, except per share amounts):

	Exercisable Date	Expiration Date	Shares	Exercise Price per Share	July 31, 2010	July 31, 2011	January 31, 2012 (Unaudited)
Series A warrants	8/10/2006	Later of 8/10/13 or 5 years after an initial public offering	200	$ 0.50	$454	$1,866	$ —
Series B warrants	3/25/2008	Earlier of 3/25/15 or 3 years after an initial public offering	25	1.97	37	202	—
Total					$491	$2,068	$ —

Upon exercise, the holders of the warrants had the option of gross physical settlement or net share settlement based on the then current fair value of the shares. On July 31, 2011, had the holders of the warrants opted for net share settlement, we would have issued 190,000 shares of Series A redeemable convertible preferred stock and 20,000 shares of Series B redeemable convertible preferred stock. Increases in the fair value of our common stock increase the number of shares received by the holders upon net share settlement.

In December 2011 and January 2012, these preferred stock warrants were exercised by the holders. As a result, we issued 197,000 shares of Series A redeemable convertible preferred stock and 24,000 shares of Series B redeemable convertible preferred stock. We recalculated the fair value of the warrants using the Black-Scholes option pricing model at the respective dates of exercise and recorded $958,000 of other expense for the six month period ended January 31, 2012.

We estimated the fair value of each preferred stock warrant using the Black-Scholes option pricing model using certain valuation assumptions, including the fair value of the underlying common stock, the estimated term that the warrants may be outstanding, the expected volatility, a risk-free interest rate, and an expected dividend rate. The estimated volatility was based on the historical stock volatilities of our peer group as we did not have a sufficient trading history. The risk-free interest rate used was based on the implied yield available on U.S. Treasury zero-coupon issues with a remaining term equivalent with that of the warrants. The following table summarizes the assumptions used to determine the fair value of our preferred stock warrants:

	July 31,	
	2010	2011
Fair value of common stock	$ 2.75	$ 9.80
Risk-free interest rate	0.8% – 1.5%	0.4% – 1.7%
Estimated term	3 – 5 years	2 – 6 years
Volatility	50%	50%
Dividend yield	—%	—%

5. Commitments and Contingencies

Leases

We lease our facilities under various non-cancelable operating leases, which expire through the year ending July 31, 2018.

In October 2010, we entered into a seven-year lease agreement for corporate office space in Santa Clara, California. This lease allows for two separate five-year options to extend the lease term. This lease also has an allowance for tenant improvements and a one year rent holiday. Beginning in year two of the lease, the payments will be approximately $1,504,000 a year. For the year ended July 31, 2011, we received reimbursement for the cost of leasehold improvements totaling $4,472,000. In determining rent expense, we included the allowance for tenant improvements, which are treated as an adjustment to deferred rent when received and will be recognized as a reduction of rent expense over the lease term, and the one year rent holiday in our calculations.

Rent expense was $782,000, $805,000, and $1,393,000 for the years ended July 31, 2009, 2010, and 2011, respectively. Rent expense is recognized using the straight-line method over the term of the lease.

The aggregate future non-cancelable minimum rental payments on our operating leases, as of July 31, 2011, are as follows (in thousands):

Years ending July 31:	
2012	$ 607
2013	1,871
2014	2,351
2015	2,339
2016 and thereafter	6,237
Total	$13,405

Contract Manufacturer Commitments

Our independent contract manufacturer procures components and assembles our products based on our forecasts. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and an analysis from our sales and product marketing organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate supply, we may issue forecasts and orders for components and products that are non-cancelable. As of July 31, 2011 and January 31, 2012, we had $13,632,000 and $21,555,000 (unaudited) of open orders.

Line of Credit

In December 2009, we entered into a loan agreement that provided for a revolving loan commitment equal to the lesser of $10,000,000 or 80% of adjusted accounts receivable through December 2011, at which time any unpaid principal and interest was to be repaid. Loan principal outstanding was charged annual interest payable monthly at the greater of 4% or the bank prime rate, plus, in either case, a rate of 0.5% to 1.5%, depending on our adjusted quick ratio. The interest rate assessed could have increased an additional 5% in the event of a default. We maintained a tangible net worth of at least a negative $12,000,000 through March 2011, which was a required financial covenant for maintaining the loan. In May 2011, we entered into an agreement to waive this financial covenant as of March 2011. As of July 31, 2011, $170,000 for standby letters of credit and various deposits was reserved against the line of credit resulting in $9,830,000 available for future borrowings. This line of credit required us to obtain written consent from the bank prior to paying any dividends.

In December 2011, we entered into an amendment to our loan agreement to extend the line of credit and waiver of the financial covenant through March 2012. In March 2012, we allowed our line of credit to expire.

Litigation

We accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss. We have made an assessment of the probability of incurring any such losses and whether or not those losses are estimable.

Beginning in January 2009, Fortinet, Inc. began filing a series of complaints against us in the U.S. District Court for the Northern District of California alleging, among other claims, patent infringement. In January 2011, we entered into a settlement agreement with Fortinet, Inc. to the mutual satisfaction of both parties. Under the terms of the settlement agreement, we agreed to pay Fortinet, Inc. $6,000,000 over a period of three years. We recorded the cost related to the settlement as of July 31, 2010. As of July 31, 2011, $2,500,000 remained payable under this settlement and is included in accrued and other long-term liabilities in our consolidated statement of financial position.

In December 2011, Juniper Networks, Inc. filed a complaint against us in the United States District Court for the District of Delaware alleging patent infringement. The complaint seeks preliminary and permanent injunctions against infringement, treble damages, and attorney's fees. On February 9, 2012, we filed a response to the complaint, which denied all claims and asserted that the claimant's patents were invalid. A trial date has been scheduled for February 24, 2014, and we intend to vigorously defend ourselves from such claims. Given the early stage in the litigation, we are unable to estimate a possible loss or range of possible loss.

In addition to the above matter, we are subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Indemnification

Under the indemnification provisions of our standard sales related contracts, we agree to defend our end-customers against third-party claims asserting infringement of certain intellectual property rights, which may include patents, copyrights, trademarks, or trade secrets, and to pay judgments entered on such claims. Our exposure under these indemnification provisions is generally limited to the total amount paid by our end-customer under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of the amount received under the agreement. In addition, we indemnify our officers, directors, and certain key employees while they are serving in good faith in their company capacities. To date, there have been no claims under any indemnification provisions.

6. Redeemable Convertible Preferred Stock

Redeemable convertible preferred stock consists of the following (in thousands):

	July 31, 2010 and 2011			January 31, 2012		
	Shares Authorized	Shares Issued and Outstanding	Liquidation Preference	Shares Authorized	Shares Issued and Outstanding	Liquidation Preference
					(Unaudited)	
Series A Preferred	19,016	18,816	$ 9,408	19,016	19,013	$ 9,507
Series B Preferred	9,532	9,507	18,729	9,532	9,531	18,776
Series C Preferred	13,174	12,761	36,623	13,174	12,761	36,624
Total	41,722	41,084	$ 64,760	41,722	41,305	$ 64,907

Significant terms of Series A, B, and C redeemable convertible preferred stock are as follows:

Voting Rights

The holders are entitled to one vote for each share of common stock into which the share may be converted. The holders of the redeemable convertible preferred stock and common stock vote together and not as separate classes.

Dividends

The holders are entitled, when, as, and if declared by the Board of Directors, and prior and in preference to common stock, to noncumulative dividends at a rate of 8% per annum of the respective original issue price for each series of redeemable convertible preferred stock. There were no cumulative preferred dividends in arrears as of July 31, 2011 and January 31, 2012.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Company, all assets available for distribution among the holders of preferred stock will be distributed to them in the following order: each holder of shares of Series A through Series C are entitled to receive an amount equal to the original issue price (Series A $0.50 per share, Series B $1.97 per share, Series C $2.87 per share) plus all declared and unpaid dividends. Any remaining available funds are distributed to holders of common stock and preferred stock on a pro-rata basis up to three times the original issue price. If the available funds are insufficient to permit full payment of each Series' original issue price, the available funds will be allocated based on the number of shares of preferred stock outstanding on a pro-rata basis.

Conversion

Shares of preferred stock are convertible, at any time or from time to time, at the option of the holder, into shares of common stock at a conversion price determined under the guidelines detailed in the Certificate of Incorporation. Shares of preferred stock automatically convert to common shares just prior to the closing of an initial public offering provided the aggregate proceeds from an initial public offering exceed $50 million. As of July 31, 2010 and 2011, the conversion ratio for all series of preferred stock was one-to-one.

Redemption

The holders of preferred stock have no voluntary rights to redeem shares. A liquidation or winding up of the Company, a greater than 50% change in control, or a sale of substantially all of our assets would constitute a redemption event. Although the redeemable convertible preferred stock is not mandatorily or currently redeemable, a liquidation or winding up of the Company would constitute a redemption event outside our control. Therefore, all shares of redeemable convertible preferred stock have been presented outside of permanent equity.

7. Common Shares Reserved for Issuance

At July 31, 2011, we reserved shares of common stock for issuance as follows (in thousands):

	July 31, 2011
Reserved under stock award plans	8,650
Conversion of preferred stock	41,722
Warrants to purchase redeemable convertible preferred stock	225
Total	50,597

8. Equity Award Plans

Our 2005 Equity Incentive Plan ("2005 Plan") was adopted by the Board of Directors and approved by the stockholders on April 8, 2005. Our 2005 Plan provides for the issuance of restricted stock and granting of options to our employees, officers, directors, and consultants. Awards granted under our 2005 Plan vest over the periods determined by the Board of Directors, generally four years, and expire no more than ten years after the date of grant. In the case of an incentive stock option granted to an employee, who at the time of grant, owns stock representing more than 10% of the total combined voting power of all classes of stock, the exercise price shall be no less than 110% of the fair value per share on the date of grant, and expire five years from the date of grant, and for options granted to any other employee, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. In the case of a nonstatutory stock option and options granted to consultants, the per share exercise price shall be no less than 100% of the fair value per share on the date of grant. Stock that is purchased prior to vesting is subject to our right of repurchase at any time following termination of the participant.

Share-Based Compensation

We record share-based compensation awards, including employee stock options, based on fair value as of the grant date using the Black-Scholes option-pricing model. We recognize such costs to compensation expense on a straight-line basis over the employee's requisite service period, which is generally four years. We determined valuation assumptions as follows:

Fair Value of Common Stock

Given the absence of a public trading market, our Board of Directors considered numerous objective and subjective factors to determine the fair value of its common stock at each meeting at which awards were approved. These factors included, but were not limited to (i) contemporaneous third-party valuations of common stock; (ii) the rights and preferences of convertible preferred stock relative to common stock; (iii) the lack of marketability of common stock; (iv) developments in the business; and (v) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, given prevailing market conditions.

Risk-Free Interest Rate

We base the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the options for each option group.

Expected Term

The expected term represents the period that our share-based awards are expected to be outstanding. We determined the expected term assumption based on our historical exercise behavior combined with estimates of the post-vesting holding period.

Volatility

We determine the price volatility factor based on the historical volatilities of our peer group as we did not have a sufficient trading history for our common stock.

Dividend Yield

The expected dividend assumption is based on our current expectations about our anticipated dividend policy.

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

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Fair value of common stock	$0.63	$0.64 – $2.75	$3.62 – $9.80	$3.62 – $ 5.39	$10.77 – $ 12.45
Risk-free interest rate	1.5% – 2.9%	2.0% – 3.0%	0.8% – 1.8%	0.8% – 1.5%	0.7% – 1.1%
Expected term	6 – 7 years	6 years	4 years	4 years	4 – 6 years
Volatility	54% – 59%	51% – 53%	49%	49%	49 – 50%
Dividend yield	—%	—%	—%	—%	—%

Share-based compensation expense is included in costs and expenses as follows (in thousands):

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Cost of revenue	$ 15	$ 55	$ 206	$ 74	$ 248
Research and development	126	318	1,020	440	765
Sales and marketing	186	364	1,133	412	1,107
General and administrative	47	132	2,374	518	1,379
Total	$374	$869	$4,733	$1,444	$3,499

For fiscal 2011, we modified the terms of certain share-based awards for a former employee and as a result, we recorded $1,626,000 of compensation expense within general and administrative expense.

A summary of the activity under our stock plans and changes during the reporting periods and a summary of information related to options exercisable, vested, and expected to vest are presented below (in thousands, except per share amounts):

		Options Outstanding			
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance—July 31, 2010	23	5,621	$ 0.80	8.9	$ 10,976
Additional shares authorized	3,882	—	—		
Options granted	(3,835)	3,835	4.74		
Options forfeited	310	(310)	1.80		
Repurchased	75	—	0.47		
Options exercised	—	(951)	1.86		
Balance—July 31, 2011	455	8,195	2.48	8.6	59,987
Authorized (unaudited)	4,391	—	—		
Options granted (unaudited)	(4,199)	4,199	11.31		
Restricted stock awards granted (unaudited)	(192)	—	—		
Options forfeited (unaudited)	193	(193)	4.85		
Repurchased (unaudited)	45	—	1.40		
Options exercised (unaudited)	—	(367)	1.28		
Balance—January 31, 2012 (unaudited)	693	11,834	5.61	8.3	117,038
Options vested and expected to vest—July 31, 2011		7,241	$ 2.32	8.5	$ 54,163
Options exercisable—July 31, 2011		7,405	$ 2.30	8.5	$ 55,538
Options vested and expected to vest—January 31, 2012 (unaudited)		11,096	$ 5.44	8.2	$111,626
Options exercisable—January 31, 2012 (unaudited)		9,747	$ 4.69	8.5	$ 47,700

The weighted-average fair value of employee options granted for the years ended July 31, 2009, 2010, and 2011 and the six month periods ended January 31, 2011 and 2012 was $0.33, $0.86, $2.90, $2.22, and $4.86, respectively. The intrinsic value of employee options exercised for the years ended July 31, 2009, 2010, and 2011 and the six month periods ended January 31, 2011 and 2012 was $22,000, $2,799,000, $3,854,000, $1,602,000, and $3,819,000, respectively. The grant date fair value of employee options vested for the years ended July 31, 2009, 2010, and 2011 and the six month periods ended January 31, 2011 and 2012 was $389,000, $584,000, $1,777,000, $375,000, and $2,537,000, respectively.

At July 31, 2011 and January 31, 2012, total compensation cost related to unvested share-based awards granted to employees under our stock plans but not yet recognized was $10,789,000 and $25,555,000, net of estimated forfeitures, respectively. This cost for both periods is expected to be amortized on a straight-line basis over a weighted-average period of three years. Future grants will increase the amount of compensation expense to be recorded in these periods.

Additional information regarding options outstanding as of July 31, 2011, is as follows (in thousands, except per share amounts):

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$0.05	265	4.8		265	
0.41	540	6.2		540	
0.63	1,281	7.6		1,281	
0.64	993	8.4		993	
1.24	1,771	8.8		1,625	
2.75	737	9.2		495	
3.62	723	9.4		688	
5.39	1,215	9.6		991	
7.84	670	9.9		527	
	8,195	8.6	$ 2.48	7,405	$ 2.30

In January 2012, we granted 192,000 restricted stock awards that vest based on a service condition and a liquidity condition. A liquidity condition is satisfied upon the occurrence of a qualifying event, defined as a change of control transaction or six months following the completion of our initial public offering. No expense related to these awards will be recognized unless the liquidity condition is satisfied. The grant date fair value of the restricted stock awards was $15.50 per share.

9. Income Taxes

Loss before provision for income taxes consisted of the following (in thousands):

	Year Ended July 31,		
	2009	2010	2011
United States	$(19,008)	$(21,264)	$(12,654)
Foreign	15	187	602
Total	$(18,993)	$(21,077)	$(12,052)

The provision for income taxes consisted of the following (in thousands):

The provision for income taxes consisted of the following (in thousands):

	Year Ended July 31,		
	2009	2010	2011
Federal:			
Current	$—	$—	$ —
Deferred	—	—	—
State:			
Current	6	13	24
Deferred	—	—	—
Foreign:			
Current	6	45	490
Deferred	—	(2)	(38)
Total	$12	$56	$476

The items accounting for the difference between income taxes computed at the federal statutory income tax rate and the provision for income taxes consisted of the following:

	Year Ended July 31,		
	2009	2010	2011
Federal statutory rate	34.0%	34.0%	34.0%
Effect of:			
State taxes, net of federal tax benefit	5.3	4.9	4.6
Change in valuation allowance	(40.6)	(40.1)	(26.9)
Foreign income at other than U.S. rates	—	0.1	(1.8)
Share-based compensation	(0.6)	(1.0)	(6.9)
Preferred stock warrant liability	—	(0.8)	(5.0)
Other, net	1.9	2.6	(1.9)
Total	—%	(0.3)%	(3.9)%

The components of the deferred tax assets and liabilities are as follows (in thousands):

	July 31,	
	2010	2011
Deferred tax assets:		
Net operating loss carryforwards	$ 18,002	$ 21,140
Accruals and reserves	7,797	7,752
Research and development credits	1,975	3,025
Share-based compensation	88	247
Gross deferred tax assets	27,862	32,164
Valuation allowance	(27,862)	(32,126)
Total deferred tax assets	—	38
Deferred tax liabilities	—	—
Total	$ —	$ 38

A valuation allowance is provided when it is more likely than not that the deferred tax asset will not be realized. Realization of the deferred tax assets is dependent upon future taxable income, if any, the amount and timing of which are uncertain. At such time, if it is determined that it is more likely than not that the deferred tax

assets are realizable, the valuation allowance will be adjusted. As of July 31, 2011, we have provided a valuation allowance for our federal and state deferred tax assets that we believe are more likely than not unrealizable. The net valuation allowance increased by approximately $4,264,000 during fiscal 2011. As of July 31, 2011, we had federal and state net operating loss carryforwards of approximately $53,615,000 and $52,046,000, respectively, available to reduce future taxable income, if any. If not utilized, the federal net operating loss carryforwards will expire from the years ending July 31, 2027 through 2031 while state net operating loss carryforwards will expire from the years ending July 31, 2017 through 2031.

We also have federal and state research and development tax credit carryforwards of approximately $1,879,000 and $1,593,000, respectively. If not utilized, the federal credit carryforwards will expire in various amounts from the years ended July 31, 2026 through 2031. The state credit will carry forward indefinitely.

Utilization of the net operating loss carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

As of July 31, 2011, we had $1,972,000 of unrecognized tax benefits, all of which would affect income tax expense if recognized, before consideration of our valuation allowance. As of July 31, 2011, our federal, state, and foreign returns for the tax years 2007 through the current period are still open to examination. We do not expect the unrecognized tax benefits to change significantly over the next 12 months. We recognize both interest and penalties associated with uncertain tax positions as a component of income tax expense. As of July 31, 2010 and 2011, we have not accrued any penalties and the provision for interest was none and $21,000, respectively. The ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty.

A reconciliation of the gross unrecognized tax benefit is as follows (in thousands):

	Year Ended July 31,		
	2009	2010	2011
Unrecognized tax benefits at the beginning of the period	$457	$ 759	$1,061
Additions for tax positions taken in prior years	—	—	320
Reductions for tax positions taken in prior years	—	—	—
Additions for tax positions related to the current year	302	302	591
Settlements	—	—	—
Lapse of statute of limitations	—	—	—
Unrecognized tax benefits at the end of the period	$759	$1,061	$1,972

As of July 31, 2011, we have not made any tax provision for U.S. federal and state income taxes on approximately $695,000 of undistributed earnings in foreign subsidiaries, which we expect to reinvest outside of the U.S. indefinitely. If we were to repatriate these earnings to the U.S., we would be subject to U.S. income taxes, subject to an adjustment for foreign tax credits and foreign withholding taxes. The amount of unrecognized deferred tax liability was not significant.

The provision for income taxes for the six month period ended January 31, 2011 reflected a negative effective tax rate primarily due to foreign income taxes on profits realized by our foreign subsidiaries, despite a consolidated loss before income taxes. The provision for income taxes for the six month period ended January 31, 2012 reflected an effective tax rate of 36.5% (unaudited) primarily due to U.S. federal alternative minimum tax, state taxes, and foreign taxes on our consolidated income before income taxes.

10. Net Income (Loss) Per Share

We compute net income (loss) per share of common stock using the two-class method required for participating securities. We consider all series of our redeemable convertible preferred stock to be participating

securities. The holders of our redeemable convertible preferred stock do not have a contractual obligation to share in the losses of the Company. Additionally, we consider shares issued upon the early exercise of options subject to repurchase and unvested restricted shares to be participating securities, because holders of such shares have non-forfeitable dividend rights in the event of our declaration of a dividend for common shares. In accordance with the two-class method, earnings allocated to these participating securities, which include participation rights in undistributed earnings, are subtracted from net income to determine net income (loss) attributable to common stockholders.

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by basic weighted-average shares outstanding during the period. All participating securities are excluded from basic weighted-average shares outstanding. In computing diluted net income (loss) attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. Diluted net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by diluted weighted-average shares outstanding, including potentially dilutive securities.

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

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Net income (loss) used to compute net income (loss) per share:					
Net income (loss)	$(19,005)	$(21,133)	$(12,528)	$ (3,841)	$ 4,540
Less: undistributed earnings allocated to participating securities	—	—	—	—	(4,540)
Net income (loss) attributable to common stockholders	(19,005)	(21,133)	(12,528)	(3,841)	—
Weighted-average shares used to compute net income (loss) per share, basic and diluted	9,435	11,901	14,201	13,355	16,948
Net income (loss) per share attributable to common stockholders, basic and diluted	$ (2.01)	$ (1.78)	$ (0.88)	$ (0.29)	$ 0.00

The following outstanding options, warrants, and convertible preferred stock were excluded from the computation of diluted net income (loss) per common share applicable to common stockholders for the periods presented as their effect would have been antidilutive (in thousands):

	Year Ended July 31,			Six Months Ended January 31,	
	2009	2010	2011	2011	2012
				(Unaudited)	
Options to purchase common stock	3,665	5,621	8,195	6,689	11,834
Redeemable convertible preferred stock	41,084	41,084	41,084	41,084	—
Warrants to purchase redeemable convertible preferred stock	225	225	225	225	—

Unaudited Pro Forma Net Income (Loss) Per Share

Pro forma basic and diluted net income (loss) per share have been computed to give effect to the conversion of our preferred stock into common stock and preferred stock warrants into common stock warrants. In addition, the pro forma share amounts include the effect of share-based compensation awards with vesting upon a qualifying event as previously defined. Share-based compensation expense associated with these awards is excluded from this pro forma presentation. If the qualifying event had occurred on January 31, 2012, we would not have recorded a significant amount of share-based compensation expense related to these awards. The following table shows our calculation of pro forma basic and diluted net income (loss) per share (in thousands, except per share data):

	Year Ended July 31, 2011	Six Months Ended January 31, 2012
Net income (loss) used to compute pro forma net income (loss) per share:		
Net income (loss)	$ (12,528)	$ 4,540
Change in fair value of preferred stock warrant liability	1,577	958
Less: undistributed earning allocated to participating securities	—	(269)
Pro forma net income (loss) attributable to common stockholders, basic	(10,951)	5,229
Reallocation of income attributable to participating securities	—	22
Pro forma net income (loss) attributable to common stockholders, diluted	$ (10,951)	$ 5,251
Weighted-average shares used to compute pro forma net income (loss) per share:		
Weighted-average shares used to compute basic net income (loss) per share, basic	14,201	16,948
Pro forma adjustment to reflect assumed conversion of redeemable convertible preferred stock	41,084	41,123
Weighted-average shares used to compute pro forma net income (loss) per share, basic	55,285	58,071
Weighted-average effect of potentially dilutive securities:		
Employee stock options and preferred stock warrants	—	5,644
Weighted-average shares used to compute pro forma net income (loss) per share, diluted	55,285	63,715
Pro forma net income (loss) per share attributable to common stockholders:		
Basic	$ (0.20)	$ 0.09
Diluted	$ (0.20)	$ 0.08

11. Employee Benefit Plan

We have established a 401(k) tax-deferred savings plan (the "401(k) Plan") which permits participants to make contributions by salary deduction pursuant to Section 401(k) of the Internal Revenue Code. We are responsible for administrative costs of the 401(k) Plan and have made no contributions to the 401(k) Plan since inception.

12. Related Party Transactions

Employee Notes Receivable

Certain senior management have exercised stock options early or purchased restricted stock in exchange for promissory notes bearing annual interest of 2% to 5% payable to us. These notes are secured by the underlying shares purchased and such unvested shares can be repurchased by us upon employee termination at the original issuance price. The promissory notes become due as outlined below but may become due earlier if we become subject to Securities and Exchange Commission Section 13 requirements of the 1934 Act, have a change in control or the employee terminates services. Because we only have recourse to the underlying shares, we deemed the exercise of the stock options or purchase of the restricted stock to be non-substantive. As such, the notes receivable are not reflected in these consolidated financial statements and the related stock transactions will be recorded at the time the notes receivable are settled in cash.

Employee notes receivable as of July 31, 2010 and 2011 was $1,791,000 and $596,000, respectively.

In January 2012, one employee repaid an outstanding notes receivable and as a result employee notes receivable as of January 31, 2012 was $566,000 (unaudited), which becomes due in the year ended July 31, 2015.

Board Member Investor

In July 2008, we received $2,000,000 from Hawkswatch Holdings, LLC, an entity of which one of our board members is an investor, in exchange for a subordinated convertible promissory note. The note bore annual interest of 8% and was due on the earliest of October 31, 2008 or upon an event of default within the provisions of the note. The note provided for an automatic conversion of $1,200,000 (including all accrued but unpaid interest) of the then outstanding balance into shares of our Series C redeemable convertible preferred stock upon the completion of a qualified round of financing, provided such a round achieved or exceeded $15,000,000. In August 2008, we settled in full the outstanding balance and interest of the note by issuing 418,000 shares of Series C redeemable convertible preferred stock and paying $818,000 in cash.

13. Segment Information

We conduct business globally and are primarily managed on a geographic theater basis. Our chief operating decision maker reviews financial information presented on a consolidated basis accompanied by information about revenue by geographic region for purposes of allocating resources and evaluating financial performance. We have one business activity and there are no segment managers who are held accountable for operations, operating results, and plans for levels, components, or types of products or services below the consolidated unit level. Accordingly, we are considered to be in a single reportable segment and operating unit structure.

Revenue by geographic theater based on the billing address of the partner is as follows (in thousands):

	Year Ended July 31,		
	2009	2010	2011
Revenue:			
Americas			
United States	$10,510	$29,804	$ 69,696
Other Americas	167	828	3,449
Total Americas	10,677	30,632	73,145
EMEA	1,780	11,805	32,504
APAC	895	6,345	12,948
Total revenue	$13,352	$48,782	$118,597

Substantially all of our assets were attributable to the Americas operations as of July 31, 2010 and 2011.

14. Subsequent Events

In March 2012, we received cash proceeds for the settlement of the remaining $566,000 of employee notes receivable.

In March 2012, our board of directors approved and our stockholders ratified an increase of 2,904,000 shares of common stock reserved for issuance under our 2005 plan and an increase to our authorized common stock of 2,000,000 shares.

In March 2012, we granted 1,472,000 options to employees and a non-employee director with an exercise price of $15.50 per share.

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the network security company

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth all expenses to be paid by the Registrant, other than underwriting discounts and commissions, upon completion of this offering. All amounts shown are estimates except for the SEC registration fee and the FINRA filing fee.

SEC registration fee	$20,055
FINRA filing fee	18,000
Exchange listing fee	*
Printing and engraving	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue sky fees and expenses (including legal fees)	*
Transfer agent and registrar fees	*
Miscellaneous	*
Total	$ *

* To be filed by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law authorizes a corporation's board of directors to grant, and authorizes a court to award, indemnity to officers, directors, and other corporate agents.

On completion of this offering, as permitted by Section 102(b)(7) of the Delaware General Corporation Law, the Registrant's amended and restated certificate of incorporation will include provisions that eliminate the personal liability of its directors and officers for monetary damages for breach of their fiduciary duty as directors and officers.

In addition, as permitted by Section 145 of the Delaware General Corporation Law, the amended and restated certificate of incorporation and amended and restated bylaws of the Registrant will provide that:

- The Registrant shall indemnify its directors and officers for serving the Registrant in those capacities or for serving other business enterprises at the Registrant's request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful.
- The Registrant may, in its discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law.
- The Registrant is required to advance expenses, as incurred, to its directors and officers in connection with defending a proceeding, except that such director or officer shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification.
- The Registrant will not be obligated pursuant to the amended and restated bylaws to indemnify a person with respect to proceedings initiated by that person, except with respect to proceedings authorized by the Registrant's board of directors or brought to enforce a right to indemnification.

- The rights conferred in the amended and restated certificate of incorporation and amended and restated bylaws are not exclusive, and the Registrant is authorized to enter into indemnification agreements with its directors, officers, employees, and agents and to obtain insurance to indemnify such persons.
- The Registrant may not retroactively amend the bylaw provisions to reduce its indemnification obligations to directors, officers, employees, and agents.

The Registrant's policy is to enter into separate indemnification agreements with each of its directors and officers that provide the maximum indemnity allowed to directors and executive officers by Section 145 of the Delaware General Corporation Law and also to provide for certain additional procedural protections. The Registrant also maintains directors and officers insurance to insure such persons against certain liabilities.

These indemnification provisions and the indemnification agreements entered into between the Registrant and its officers and directors may be sufficiently broad to permit indemnification of the Registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

The underwriting agreement filed as Exhibit 1.1 to this registration statement provides for indemnification by the underwriters of the Registrant and its officers and directors for certain liabilities arising under the Securities Act and otherwise.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Since March 16, 2009, the Registrant issued the following unregistered securities:

Warrants

In December 2011, the Registrant issued 135,228 shares of Registrant's convertible preferred stock to an accredited investor, in exchange for the cancellation of warrants for an equivalent number of shares of Registrant's convertible preferred stock.

In January 2012, an accredited investor net exercised warrants to purchase an aggregate of 85,340 shares of the Registrant's convertible preferred stock.

Option and Common Stock Issuances

From March 16, 2009 through March 15, 2012, pursuant to the terms of its 2005 Equity Incentive Plan, the Registrant granted to its officers, directors, employees, consultants, and other service providers (i) options to purchase an aggregate of 16,385,559 shares of its common stock at exercise prices ranging from $0.63 to $15.50 per share, and (ii) an aggregate of 202,750 shares of its restricted common stock at purchase prices ranging from $0.00 to $15.50 per share.

From March 16, 2009 through March 15, 2012, pursuant to the terms of its 2005 Equity Incentive Plan, the Registrant issued and sold to its officers, directors, employees, consultants, and other service providers (i) an aggregate of 5,085,283 shares of its common stock upon the exercise of options at exercise prices ranging from $0.05 to $10.77 per share, for an aggregate exercise price of $4,902,426, and (ii) an aggregate of 199,750 shares of its restricted common stock at purchase prices ranging from $0.00 to $0.63 per share, for an aggregate purchase price of $5,198.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. The Registrant believes the offers, sales, and issuances of the above securities were exempt from registration under the Securities Act by virtue of Rule 504 of Regulation D promulgated thereunder and/or Section 4(2) of the Securities Act because the issuance of securities to the recipients did not involve a public offering or in reliance on Rule 701 because the transactions were pursuant to compensatory benefit plans or

contracts relating to compensation as provided under such rule. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with the Registrant, to information about the Registrant. The sales of these securities were made without any general solicitation or advertising.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) *Exhibits.*

We have filed the exhibits listed on the accompanying Exhibit Index of this Registration Statement.

(b) *Financial Statement Schedules.*

All financial statement schedules are omitted because the information called for is not required or is shown either in the consolidated financial statements or in the notes thereto.

ITEM 17. UNDERTAKINGS.

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Santa Clara, California, on the 6th day of April 2012.

PALO ALTO NETWORKS, INC.

By: /s/ Mark D. McLaughlin
Mark D. McLaughlin
Chief Executive Officer and President

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Mark D. McLaughlin and Steffan C. Tomlinson, and each of them, as his true and lawful attorney-in-fact and agent with full power of substitution, for him in any and all capacities, to sign any and all amendments to this registration statement (including post-effective amendments or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) increasing the number of securities for which registration is sought), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact, proxy, and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact, proxy and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mark D. McLaughlin Mark D. McLaughlin	Chief Executive Officer, President, and Director (Principal Executive Officer)	April 6, 2012
/s/ Steffan C. Tomlinson Steffan C. Tomlinson	Chief Financial Officer (Principal Accounting and Financial Officer)	April 6, 2012
/s/ Nir Zuk Nir Zuk	Chief Technical Officer and Director	April 6, 2012
/s/ Asheem Chandna Asheem Chandna	Director	April 6, 2012
/s/ Venky Ganesan Venky Ganesan	Director	April 6, 2012
/s/ James J. Goetz James J. Goetz	Director	April 6, 2012
/s/ Shlomo Kramer Shlomo Kramer	Director	April 6, 2012
/s/ William A. Lanfri William A. Lanfri	Director	April 6, 2012
/s/ Charles J. Robel Charles J. Robel	Director	April 6, 2012
/s/ Daniel J. Warmenhoven Daniel J. Warmenhoven	Director	April 6, 2012

EXHIBIT INDEX

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
3.1*	Form of Amended and Restated Certificate of Incorporation of the Registrant, to be in effect upon the completion of this offering.
3.2*	Form of Amended and Restated Bylaws of the Registrant, to be in effect upon the completion of this offering.
4.1*	Specimen common stock certificate of the Registrant.
4.2	Second Amended and Restated Investors' Rights Agreement, dated as of August 8, 2008, among Registrant and certain holders of the Registrant's capital stock named therein.
5.1*	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation.
10.1*	Form of Indemnification Agreement between the Registrant and its directors and officers.
10.2*	2005 Equity Incentive Plan and related form agreements under 2005 Equity Incentive Plan.
10.3*	2012 Equity Incentive Plan and related form agreements under 2012 Equity Incentive Plan.
10.4*	2012 Employee Stock Purchase Plan and related form agreements under 2012 Employee Stock Purchase Plan.
10.5	Employee Bonus Plan.
10.6	Offer Letter between the Registrant and Mark D. McLaughlin, dated July 21, 2011, as amended.
10.7	Offer Letter between the Registrant and Steffan C. Tomlinson, dated January 17, 2012.
10.8	Letter Agreement between the Registrant and Nir Zuk, dated December 19, 2011.
10.9	Letter Agreement between the Registrant and Rajiv Batra, dated December 19, 2011.
10.10	Letter Agreement between the Registrant and René Bonvanie, dated December 19, 2011.
10.11	Letter Agreement between the Registrant and Lawrence J. Link, dated December 19, 2011.
10.12	Offer Letter between the Registrant and Charles J. Robel, dated June 9, 2011.
10.13	Offer Letter between the Registrant and Daniel J. Warmenhoven, dated February 14, 2012.
10.14	Lease between the Registrant and Santa Clara Office Partners LLC, dated October 20, 2010, as amended.
10.15†	Manufacturing Services Agreement between the Registrant and Flextronics Telecom Systems Ltd., dated September 20, 2010.
21.1	List of subsidiaries of the Registrant.
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
23.2*	Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in Exhibit 5.1).
24.1	Power of Attorney (see page II-4 to this registration statement on Form S-1).

* To be filed by amendment.

† Portions of this exhibit have been omitted pending a determination by the Securities and Exchange Commission as to whether these portions should be granted confidential treatment.

Exhibit 4.2

SECOND AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

This Second Amended and Restated Investors' Rights Agreement (this "***Agreement***") is made and entered into as of August 8, 2008 by and among Palo Alto Networks, Inc., a Delaware corporation (the "***Company***"), and the persons and entities listed on Exhibit A hereto (each an "***Investor***" and collectively, the "***Investors***").

A. Certain of the Investors are holders of outstanding shares of the Company's Series A-1 Preferred Stock and Series A-2 Preferred Stock (together, the "***Series A Stock***") purchased pursuant to that certain Series A Preferred Stock Purchase Agreement dated as of April 11, 2005 by and among the Company and certain of the Investors, as amended January 12, 2006 (such agreement, as amended from time to time, the "***Series A Agreement***"). Certain of the Investors are holders of outstanding shares of the Company's Series B Preferred Stock (the "***Series B Stock***") purchased pursuant to that certain Series B Preferred Stock Purchase Agreement dated as of May 25, 2007 by and among the Company and certain of the Investors (such agreement, as amended from time to time, the "***Series B Agreement***"). Investors holding Series A Stock and Series B Stock have been granted certain information and registration rights and rights of first refusal under an Amended and Restated Investors' Rights Agreement by and among the Company and such Investors dated as of May 25, 2007 (the "***Prior Rights Agreement***").

B. Certain Investors have agreed to purchase shares of the Company's Series C Preferred Stock (the "***Series C Stock***" and together with the Series A Stock and the Series B Stock constitute the "***Preferred Stock***") pursuant to a certain Series C Preferred Stock Purchase Agreement dated of even date herewith, as may hereafter be amended from time to time (the "***Series C Agreement***"). The Series C Agreement provides that, as a condition to such Investors' purchase of Series C Stock thereunder, the Company will grant such Investors the rights set forth herein.

C. The Company and the Investors who are signatories to the Prior Rights Agreement (the "***Prior Investors***") desire to enter into this Agreement in order to amend, restate and replace their rights and obligations under the Prior Rights Agreement with the rights and obligations set forth in this Agreement. Section 4.2 of the Prior Rights Agreement provides that the Prior Rights Agreement may be amended by the written consent of the Company and holders of at least sixty-six and two-thirds percent (66 2/3%) of the Investors' Shares (as defined in the Prior Rights Agreement) and the undersigned Prior Investors hold at least 66 2/3% of the Investors' Shares, as so defined.

NOW, ***THEREFORE***, in consideration of the foregoing recitals and the mutual promises hereinafter set forth, the parties hereto agree as follows:

1. **INFORMATION RIGHTS**.

1.1 **Financial Information**. The Company covenants and agrees that for so long as any Investor holds at least Two Hundred Thousand (200,000) shares of Preferred Stock and/or the equivalent number (on an as-converted basis) of shares of Common Stock of the Company (the "***Common Stock***") issued upon the conversion of such shares of Preferred Stock (the "***Conversion Stock***"), the Company will:

(a) Annual Reports. Furnish to each such Investor, as soon as practicable and in any event within one hundred twenty (120) days after the end of each fiscal year of the Company, a consolidated Balance Sheet as of the end of such fiscal year, a consolidated Statement of Operations and a consolidated Statement of Cash Flows of the Company and its subsidiaries for such year, setting forth in each case in comparative form the figures from the Company's previous fiscal year (if any), all prepared in accordance with generally accepted accounting principles and practices and audited by nationally recognized independent certified public accountants;

(b) Quarterly Reports. Furnish to each such Investor as soon as practicable, and in any case within forty-five (45) days after the end of each fiscal quarter of the Company (except the last quarter of the Company's fiscal year), quarterly unaudited financial statements, including an unaudited Balance Sheet, an unaudited Statement of Operations, and an unaudited Statement of Cash Flows;

(c) Monthly Reports. Furnish to each such Investor as soon as practicable, and in any case within thirty (30) days after the end of each calendar month (except the last month of the Company's fiscal year), monthly unaudited financial statements, including an unaudited Balance Sheet, an unaudited Statement of Operations and an unaudited Statement of Cash Flows; and

(d) Annual Budget. Furnish to each such Investor as soon as practicable and in any event no later than thirty (30) days after the close of each fiscal year of the Company, an annual operating plan and budget, prepared on a monthly basis, for the next immediate fiscal year. The Company shall also furnish to such Investor, within a reasonable time of their preparation, amendments to the annual budget, if any.

(e) Other Information. Furnish to each such Investor other information relating to the financial condition, business or corporate affairs of the Company as the Investor may from time to time request, provided, however, that the Company shall not be obligated under this subsection (e) or any other subsection to provide information that it deems in good faith to be a trade secret or similar confidential information.

Each Investor agrees to hold all information received pursuant to this Section in confidence, and not to use or disclose any of such information to any third party, except to the extent such information may be made publicly available by the Company or was in the possession of such party prior to the disclosure thereof by the Company, or to the extent such Investor may be compelled or required by law, regulations, or a judicial or any government or other regulatory body to disclose such information. Notwithstanding the foregoing, such Investor may provide (i) any such information to its general partner or fund manager (and its members or officers), lenders, consultants, accountants, and attorneys and (ii) general and financial information for purposes of fund financial reporting. Furthermore, nothing in this paragraph shall restrict any Investor's ability to disclose the existence and nature of its relationship with the Company to its affiliates, members or partners, or to provide its affiliates, members or partners with periodic reports and such other information about the Company prepared by such Investor in the ordinary course of its business.

1.2 **Inspection Rights**. The Company shall permit each Investor who holds at the time of such request at least two percent (2.0%) of the Company's Fully Diluted Shares (as defined below) to visit and inspect the Company's properties, to examine its minutes, consents, books of account and records and to discuss the Company's affairs, finances and accounts with its officers, at such Investor's expense, all at such reasonable times as may be requested upon prior notice by such Investor.

1.3 **Termination of Certain Rights**. The Company's obligations under Sections 1.1 and 1.2 above will terminate upon the closing of the Company's initial public offering of Common Stock pursuant to an effective registration statement filed under the U.S. Securities Act of 1933, as amended (the "***Securities Act***"), covering the offer and sale of Common Stock for the account of the Company in which the aggregate public offering price (before deduction of underwriters' discounts and commissions) equals or exceeds Fifty Million Dollars ($50,000,000).

1.4 **Fully Diluted Shares**. As used in Section 1.2, the term "***Fully Diluted Shares***" shall mean the sum of (a) all shares of Common Stock of the Company that are outstanding at the time in question, plus (b) all shares of Common Stock of the Company issuable upon conversion of all shares of Preferred Stock or other stock or securities convertible into or exchangeable for shares of Common Stock ("***Convertible Securities***") that are outstanding at the time in question, plus (c) all shares of Common Stock of the Company that are issuable upon the exercise of rights, warrants or options that are outstanding at the time in question, assuming the full conversion or exchange into Common Stock of all such rights or options that are rights or options to purchase or acquire Preferred Stock or other Convertible Securities, plus (d) all shares of Common Stock of the Company that are reserved for future grants of awards, rights or options under the Company's equity incentive plan(s).

2. **REGISTRATION RIGHTS**.

2.1 **Definitions**. For purposes of this Section 2:

(a) Registration. The terms "***register***," "***registration***" and "***registered***" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement.

(b) Registrable Securities. The term "***Registrable Securities***" means:

(i) all the shares of Common Stock of the Company issuable or issued upon the conversion of any shares of Series A Stock, Series B Stock and Series C Stock that are now owned or may hereafter be acquired by any Investor or any Investor's permitted successors and assigns;

(ii) for the purposes of Sections 2.3 through 2.12 only, Common Stock directly or indirectly issuable upon conversion or exercise of those certain Warrants to purchase 200,000 shares of Series A-2 Preferred Stock and those certain Warrants to purchase 25,380 shares of Series B Stock held by Silicon Valley Bank and Gold Hill Venture Lending 03 LP; and

(iii) any shares of Common Stock of the Company issued (or issuable upon the conversion or exercise of any warrant, right or other security which is issued) as a dividend or other distribution with respect to, or in exchange for or in replacement of, all such shares of Common Stock described in clauses (i) and (ii) of this subsection excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which rights under this Section 2 are not assigned in accordance with this Agreement or any Registrable Securities with respect to which, pursuant to Section 2.11 hereof, the holders are no longer entitled to registration rights pursuant to Sections 2.2, 2.3 or 2.4 hereof.

(c) Registrable Securities Then Outstanding. The number of shares of "***Registrable Securities then outstanding***" shall mean the number of shares of Common Stock which are Registrable Securities that are then (i) issued and outstanding or (ii) issuable pursuant to the exercise or conversion of then outstanding and then exercisable and qualifying options, warrants or convertible securities.

(d) Holder. The term "***Holder***" means any person owning of record Registrable Securities or any assignee of record of such Registrable Securities to whom rights set forth herein have been duly assigned in accordance with this Agreement; provided, however, that the Company shall in no event be obligated to register shares of Preferred Stock, and that Holders of Registrable Securities will not be required to convert their shares of Preferred Stock into Common Stock in order to exercise the registration rights granted hereunder, until immediately before the closing of the offering to which the registration relates.

(e) Form S-3. The term "***Form S-3***" means such form under the Securities Act as is in effect on the date hereof or any successor registration form under the Securities Act subsequently adopted by the SEC that permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(f) SEC. The term "***SEC***" or "***Commission***" means the U.S. Securities and Exchange Commission.

(g) Affiliate. The term "***Affiliate***" means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified and includes without limitation any person meeting the definition of "affiliate" set forth in Rule 405 of the Securities Act.

2.2 **Demand Registration**.

(a) Request by Holders. If the Company shall receive at any time after the earlier of May 25, 2010 or six (6) months after the effective date of the Company's initial public offering of its securities pursuant to a registration filed under the Securities Act, a written request from the Holders of at least forty percent (40%) of the Registrable Securities then outstanding that the Company file a registration statement under the Securities Act covering the registration of Registrable Securities pursuant to this Section 2.2, then the Company shall, within twenty (20) days after the receipt of such written request, give written notice of such request (the "***Request Notice***") to all Holders, and effect, as soon as practicable, the registration under the Securities Act of all

Registrable Securities which Holders request to be registered and included in such registration by written notice given by such Holders to the Company within twenty (20) days after receipt of the Request Notice, subject only to the limitations of this Section 2; provided that the Registrable Securities requested by all Holders to be registered pursuant to such request must either (i) be at least forty percent (40%) of all Registrable Securities then outstanding or (ii) have an anticipated aggregate public offering price (before any underwriting discounts and commissions) of not less than Five Million Dollars ($5,000,000). A registration statement filed pursuant to this Section 2.2 may include other securities of the Company with respect to which registration rights have been granted in accordance with the terms of this Agreement.

(b) Underwriting. If the Holders initiating the registration request under this Section 2.2 (the "***Initiating Holders***") intend to distribute the Registrable Securities covered by their request by means of an underwriting, then they shall so advise the Company as a part of their request made pursuant to this Section 2.2 and the Company shall include such information in the written notice referred to in subsection 2.2(a). In such event, the right of any Holder to include his, her, or its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting by the Company. The Company shall not be required to include any securities of any Holder in such underwriting unless such Holder accepts the terms of the underwriting as agreed upon between the Company and the underwriters selected by it and enters into an underwriting agreement in customary form with the underwriter or underwriters selected by the Company. Notwithstanding any other provision of this Section 2.2, if the underwriter(s) advise(s) the Company in writing that marketing factors require a limitation of the number of securities to be underwritten then the Company shall so advise all Holders of Registrable Securities that would otherwise be registered and underwritten pursuant hereto, and the number of Registrable Securities that may be included in the underwriting shall be reduced as required by the underwriter(s) and allocated among the Holders of Registrable Securities on a pro rata basis according to the number of Registrable Securities then outstanding held by each Holder requesting registration (including the Initiating Holders); provided, however, that the number of shares of Registrable Securities to be included in such underwriting and registration shall in no event be reduced unless all other securities of the Company, including but not limited to securities held by stockholders of the Company that are not Holders, are first entirely excluded from the underwriting and registration. Any Registrable Securities excluded and withdrawn from such underwriting shall be withdrawn from the registration.

(c) Deferral. Notwithstanding the foregoing, if the Company shall furnish to Holders requesting the filing of a registration statement pursuant to this Section 2.2, a certificate signed by the President or Chief Executive Officer of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its stockholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, then the Company shall have the right to defer such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the

Initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period and provided further that the Company shall not register any securities for the account of itself or any other stockholder during such one hundred twenty (120) day period (other than (i) a registration relating solely to the sale of securities of participants in a Company stock plan, (ii) a registration relating to a corporate reorganization or transaction under Rule 145 of the Securities Act, (iii) a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or (iv) a registration in which the only Common Stock being registered its Common Stock issuable upon conversion of debt securities that are also being registered.

(d) Other Limitations on Demand Registrations. The Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to this Section 2.2:

(i) after the Company has effected two (2) registrations pursuant to this Section 2.2 and such registrations have been declared or ordered effective;

(ii) during the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of filing of, and ending on a date one hundred eighty (180) days after the effective date of, a registration subject to Section 2.3 hereof; provided that the Company is actively employing in good faith all commercially reasonable efforts to cause such registration statement to be effective.

(e) Expenses. All expenses incurred in connection with a registration pursuant to this Section 2.2, including without limitation all registration and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one counsel for the selling Holders, which may be counsel for the Company (but excluding underwriters' discounts and commissions), shall be borne by the Company. Each Holder participating in a registration pursuant to this Section 2.2 shall bear such Holder's proportionate share (based on the number of shares sold by such Holder over the total number of shares included in such registration at the time it is declared effective) of all discounts, commissions or other amounts payable to underwriters or brokers in connection with such offering and the fees and disbursements of any special counsel of the Holders other than the one counsel for the selling Holders described in the prior sentence. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to this Section 2.2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered, unless the Holders of a majority of the Registrable Securities then outstanding agree to forfeit their right to one (1) demand registration pursuant to this Section 2.2 (in which case such right shall be forfeited by all Holders of Registrable Securities); provided, further, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company not known to the Holders at the time of their request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Holders shall not be required to pay any of such expenses and shall retain their demand registration rights pursuant to this Section 2.2.

2.3 **Piggyback Registrations**. The Company shall notify all Holders of Registrable Securities in writing at least thirty (30) days prior to filing any registration statement under the Securities Act for purposes of effecting a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding registration statements relating to any registration under Section 2.2 or Section 2.4 of this Agreement or to any employee benefit plan or a corporate reorganization or other transaction covered by Rule 145 promulgated under the Securities Act, or a registration on any registration form which does not permit secondary sales or does not include substantially the same information as would be required to be included in a registration statement covering the sale of Registrable Securities,) and will afford each such Holder an opportunity to include in such registration statement all or any part of the Registrable Securities then held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by such Holder shall, within twenty (20) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Registrable Securities such Holder wishes to include in such registration statement. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(a) Underwriting. If a registration statement under which the Company gives notice under this Section 2.3 is for an underwritten offering, then the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder's Registrable Securities to be included in a registration pursuant to this Section 2.3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriter(s) selected for such underwriting. Notwithstanding any other provision of this Agreement, if the managing underwriter determine(s) in good faith that marketing factors require a limitation of the number of shares to be underwritten, then the managing underwriter(s) may exclude shares (including Registrable Securities) from the registration and the underwriting, and the number of shares that may be included in the registration and the underwriting shall be allocated, first, to the Company, second, to Holders requesting inclusion of their Registrable Securities in such registration statement on a pro rata basis based on the number of Registrable Securities each such Holder has requested to be included in the registration and third, to the holders of other securities of the Company. Notwithstanding the foregoing, in no event shall the amount of securities of the selling Holders included in the offering be reduced below twenty-five percent (25%) of the total amount of securities included in such offering, unless such offering is the initial public offering of the Company's securities, in which case the selling Holders may be excluded if the underwriters make the determination described above and no other stockholder's securities are included in such offering. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice, given in accordance with Section 6.1 hereof, to the Company and the underwriter delivered at least five (5) days prior to the effective date of the registration statement. Any Registrable Securities

excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration. For any Holder that is a partnership, limited liability company or corporation, the partners, retired partners, members, retired members and stockholders of such Holder, or the estates and family members of any such partners, retired partners, members, retired members and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "Holder," and any pro rata reduction with respect to such "Holder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "Holder," as defined in this sentence.

(b) Expenses. All expenses incurred in connection with a registration pursuant to this Section 2.3, including without limitation all registration and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one counsel for the selling Holders, which may be counsel for the Company (but excluding underwriters' discounts and commissions), shall be borne by the Company. Each Holder participating in a registration pursuant to this Section 2.3 shall bear such Holder's proportionate share (based on the number of shares sold by such Holder over the total number of shares included in such registration at the time it goes effective) of all discounts, commissions or other amounts payable to underwriters or brokers in connection with such offering and the fees and disbursements of any counsel for the participating Holders other than the one counsel for the selling Holders described in the prior sentence.

2.4 **Form S-3 Registration**. In case the Company shall receive from any Holder or Holders of the Registrable Securities then outstanding a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, then the Company will do the following:

(a) Notice. Promptly give written notice of the proposed registration and the Holder's or Holders' request therefor, and any related qualification or compliance, to all other Holders of Registrable Securities.

(b) Registration. As soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within twenty (20) days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 2.4:

(i) if Form S-3 is not available for such offering;

(ii) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than One Million Dollars ($1,000,000);

(iii) if the Company shall furnish to the Holders a certificate signed by the President or Chief Executive Officer of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its stockholders for such Form S-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement no more than once during any twelve (12) month period for a period of not more than one hundred twenty (120) days after receipt of the request of the Holder or Holders under this Section 2.4 and provided that the Company shall not register any securities for the account of itself or any other stockholder during such one hundred twenty (120) day period (other than (A) a registration relating solely to the sale of securities of participants in a Company stock plan, (B) a registration relating to a corporate reorganization or transaction under Rule 145 of the Securities Act, (C) a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or (D) a registration in which the only Common Stock being registered as Common Stock issuable upon conversion of debt securities that are also being registered);

(iv) if the Company has, within the twelve (12) month period preceding the date of such request, already effected one (1) registration on Form S-3 for the Holders pursuant to this Section 2.4; or

(v) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) Expenses. Subject to the foregoing, the Company shall file a Form S-3 registration statement covering the Registrable Securities and other securities so requested to be registered pursuant to this Section 2.4 as soon as practicable after receipt of the request or requests of the Holders for such registration. The Company shall pay all expenses incurred in connection with each registration requested pursuant to this Section 2.4, (excluding underwriters' or brokers' discounts and commissions), including without limitation all filing, registration and qualification, printers' and accounting fees and the reasonable fees and disbursements of one (1) counsel for the selling Holder or Holders and counsel for the Company. Each Holder participating in a registration pursuant to this Section 2.4 shall bear such Holder's proportionate share (based on the number of shares sold by such Holder over the total number of shares included in such registration at the time it goes effective) of all discounts, commissions or other amounts payable to underwriters or brokers in connection with such offering.

(d) Not Demand Registration. Form S-3 registrations shall not be deemed to be demand registrations as described in Section 2.2 above.

2.5 **Obligations of the Company**. Whenever required to effect the registration of any Registrable Securities under this Agreement, the Company shall, subject to the provisions of Section 2.5(k) below, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to one hundred twenty (120) days.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement and, in connection with any registration on Form S-3 pursuant to Section 2.4 above, use reasonable, diligent efforts to timely file all reports required under the Securities Exchange Act of 1934, as amended, in order to maintain the right to continue to use such Form and to maintain such registration in effect.

(c) Promptly notify the Holders of the effectiveness of such registration statement and furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of the Registrable Securities owned by them that are included in such registration.

(d) Following the effective date of such registration statement, notify the Holders of any request by the SEC that the Company amend or supplement such registration statement, or the associated prospectus.

(e) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(f) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting hereby agrees to also enter into and perform its obligations under such an agreement.

(g) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(h) Use its best efforts to furnish, at the request of any Holder requesting registration of Registrable Securities, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (1) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest

of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (2) a "comfort" letter dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

(i) Cause all such Registrable Securities registered pursuant to this Section 2 to be listed on a national exchange or trading system and on each securities exchange and trading system on which similar securities issued by the Company are then listed.

(j) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

(k) Notwithstanding any other provision of this Agreement, from and after the time a registration statement filed under this Section 2 covering Registrable Securities is declared effective, the Company shall have the right to suspend the registration statement and the related prospectus in order to prevent premature disclosure of any material non-public information related to corporate developments by delivering notice of such suspension to the Holders, provided, however, that the Company may exercise the right to such suspension only once in any 12-month period and for a period not to exceed 90 days and provided further that during any such period all executive officers and directors of the Company are also prohibited from selling securities of the Company (or any security of any of the Company's subsidiaries or affiliates) except pursuant to pre-existing Rule 10b-5(1) trading plans. From and after the date of a notice of suspension under this Section 2.5, each Holder agrees not to use the registration statement or the related prospectus for resale of any Registrable Security until the earlier of (1) notice from the Company that such suspension has been lifted or (2) the 90th day following the giving of the notice of suspension. In the event of the suspension of effectiveness of any registration statement pursuant to this Section 2.5(k), the applicable time period during which such registration statement is to remain effective shall be extended by that number of days equal to the number of days the effectiveness of such registration statement was suspended.

(l) Cooperate with the Holders requesting registration pursuant to this Agreement, the underwriters participating in the offering and their counsel in any due diligence investigation reasonably requested by the Holders or the underwriters in connection therewith, and participate, to the extent reasonably requested by the managing underwriter for the offering or the Holders, in efforts to sell the Registrable Securities under the offering (including without limitation, participating in "roadshow" meetings with prospective investors) that would be customary for underwritten primary offerings of a comparable amount of equity securities by the Company. shall furnish to the Company such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be required to timely effect the registration of their Registrable Securities.

2.6 **Furnish Information**. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Sections 2.2, 2.3 or 2.4 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be required to timely effect the registration of their Registrable Securities.

2.7 **Delay of Registration**. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

2.8 **Indemnification**. In the event any Registrable Securities are included in a registration statement under Sections 2.2, 2.3 or 2.4:

(a) By the Company. To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, members, officers and directors of each Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (the "***Exchange Act***"), or against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively, the "***Violations***" and, individually, a "***Violation***"):

(1) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto; or

(2) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or

(3) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any federal or state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any federal or state securities law in connection with the offering covered by such registration statement.

The Company will reimburse each such Holder, partner, member, officer or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them, as such expenses are incurred, in connection with investigating or defending any such loss, claim, damage, liability or action; provided however, that the indemnity agreement contained in this subsection 2.8(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, officer, director, underwriter or controlling person of such Holder.

(b) By Selling Holders. To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, directors or officers or any person who controls such Holder within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, partner or director, officer or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration. Each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, partner, member, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the indemnity agreement contained in this subsection 2.8(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided further, that the total amounts payable in indemnity by a Holder under this Section 2.8(b) in respect of any Violation shall not exceed the net proceeds received by such Holder in the registered offering out of which such Violation arises.

(c) Notice. Promptly after receipt by an indemnified party under this Section 2.8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.8, deliver to the indemnifying party a written notice of the commencement thereof. The indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of liability to the indemnified party under this Section 2.8 to the extent of such prejudice, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.8.

(d) Contribution. If the indemnification provided for in this Section 2.8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to herein, then the indemnifying party, in lieu of indemnifying the indemnified party, shall contribute to the amount paid or payable by such indemnified party with respect to such loss, liability, claim, damage or expense in the proportion that is appropriate to reflect the relative fault of the indemnifying party and the indemnified party in connection with the statements or omissions that resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. In any such case, (A) no such Holder will be required to contribute any amount in excess of net proceeds received by such Holder (when combined with any amounts paid by such Holder pursuant to Section 2.8(b)) from all such Registrable Securities offered and sold by such Holder pursuant to such registration statement; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

(e) Conflict with Underwriting Agreement. Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement will control.

(f) Survival. The obligations of the Company and Holders under this Section 2.8 shall survive the completion of any offering of Registrable Securities in a registration statement, and otherwise.

2.9 **"Market Stand-Off" Agreement**. Each Holder hereby agrees that it shall not, to the extent requested by the Company or an underwriter of securities of the Company, sell or otherwise transfer or dispose of any Registrable Securities or other shares of stock of the Company then owned by such Holder (other than to donees or partners of the Holder who agree to be similarly bound) for up to one hundred eighty (180) days following the effective date of any registration statement of the Company filed under the Securities Act; provided, however, that:

(a) such agreement shall be applicable only to the first such registration statement of the Company which covers securities to be sold on its behalf to the public in an underwritten offering but not to Registrable Securities sold pursuant to such registration statement;

(b) (i) all executive officers and directors of the Company then holding Common Stock of the Company and (ii) stockholders holding 1% of the total equity of the Company, enter into similar agreements; and

(c) the Company shall use reasonable efforts to ensure that such market stand-off agreement (i) provides for periodic early releases of portions of the securities subject thereto upon the occurrence of certain specified events and (ii) provides that in the event of any early release, all Holders will be released on a pro rata basis from such market stand-off agreement. For purposes of this Section 2.9, the term "Company" shall include any wholly-owned subsidiary of the Company into which the Company merges or consolidates. In order to enforce the foregoing covenant, the Company shall have the right to place restrictive legends on the certificates representing the shares subject to this Section and to impose stop transfer instructions with respect to the Registrable Securities and such other shares of stock of each Holder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period. Each Holder further agrees to enter into any agreement reasonably required by the underwriters to implement the foregoing within any reasonable timeframe so requested.

2.10 **Rule 144 Reporting**. With a view to making available the benefits of certain rules and regulations of the Commission which may at any time permit the sale of the Registrable Securities to the public without registration or pursuant to a registration on Form S-3, after such time as a public market exists for the Common Stock of the Company, the Company agrees to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;

(b) File with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) So long as a Holder owns any Registrable Securities, to furnish to the Holder forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and the Exchange Act (at any time after it has become subject to the reporting requirements of the Exchange Act), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company, and (iii) such other reports and documents of the Company as a Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing a Holder to sell any such securities without registration or pursuant to such form (at any time after the Company has become subject to the reporting requirements of the Exchange Act).

2.11 **Termination of the Company's Obligations**. The Company shall have no obligations pursuant to Sections 2.2 through 2.4 with respect to: (a) any request or requests for registration made by any Holder on a date more than seven (7) years after the closing date of the Company's initial public offering of Common Stock pursuant to an effective registration statement filed under the Securities Act covering the offer and sale of Common Stock for the account of the Company in which the aggregate public offering price (before deduction of underwriters' discounts and commissions) equals or exceeds Fifty Million Dollars ($50,000,000); or (b) any Registrable Securities proposed to be sold by a Holder in a registration pursuant to Section 2.2, 2.3 or 2.4 if all such Registrable Securities proposed to be sold by a Holder may be sold in a three (3) month period without registration under the Securities Act pursuant to Rule 144 under the Securities Act.

2.12 **Limitations on Subsequent Registration Rights**. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of at least sixty-six and two-thirds percent (66 2/3%) of the Registrable Securities then outstanding, enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder (a) to include such securities in any registration filed under Section 2.2, 2.3 or 2.4 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of the securities of such holder or prospective holder will not reduce the amount of the Registrable Securities of the Holders which is included, or (b) to make a demand registration which could result in such registration statement being declared effective prior to the earlier of either of the dates set forth in subsection 2.2(a), or within one hundred twenty (120) days of the effective date of any registration effected pursuant to Section 2.2.

3. **RIGHT OF FIRST REFUSAL**.

3.1 **General**. Each Holder (as defined in Section 2.1(d)) and any party to whom such Holder's rights under this Section 3 have been duly assigned in accordance with Section 4.1(b) (each such Holder or assignee being hereinafter referred to as a "***Rights Holder***") has the right of first refusal to purchase such Rights Holder's Pro Rata Share (as defined below) of all (or any part) of any "New Securities" (as defined in Section 3.2) that the Company may from time to time issue after the date of this Agreement, provided, however, such Rights Holder shall have no right to purchase any such New Securities if such Rights Holder cannot demonstrate to the Company's reasonable satisfaction that such Rights Holder is at the time of the proposed issuance of such New Securities an "accredited investor" as such term is defined in Regulation D under the Securities Act. A Rights Holder's "***Pro Rata Share***" for purposes of this right of first refusal is the ratio of (a) the number of Registrable Securities as to which such Rights Holder is the Holder, to (b) a number of shares of Common Stock of the Company equal to the sum of (i) the total number of shares of Common Stock of the Company then outstanding plus (ii) the total number of shares of Common Stock of the Company into which all then outstanding shares of Preferred Stock (or other Convertible Securities) are then convertible plus (iii) the number of shares of Common Stock of the Company obtainable upon the exercise of all then outstanding options under any stock purchase or stock option plan of the Company and the exercise of outstanding warrants (assuming the full conversion or exchange into Common Stock of shares issued upon exercise of all such options or warrants that are options or warrants to purchase or acquire Preferred Stock or other Convertible Securities).

3.2 **New Securities**. "***New Securities***" shall mean any Common Stock or Preferred Stock of the Company, whether now authorized or not, and rights, options or warrants to purchase such Common Stock or Preferred Stock, and securities of any type whatsoever that are, or may become, convertible or exchangeable into such Common Stock or Preferred Stock; provided, however, that the term "New Securities" does not include

(a) shares of Common Stock issued or issuable upon conversion of shares of all the series of the Preferred Stock, whether currently outstanding or issued hereafter;

(b) any shares of Common Stock (or options, warrants or rights therefor) granted or issued hereafter to employees, officers, directors, contractors, consultants or advisers to, the Company or any subsidiary of the Company, for the primary purpose of retaining the services of the foregoing, pursuant to incentive agreements, stock purchase or stock option plans, stock bonuses or awards, warrants, contracts or other arrangements that are approved by a majority of the Board of Directors;

(c) any shares of the Company's Common Stock or Preferred Stock (and/or options or warrants therefor) issued or issuable to parties that are (i) strategic partners investing in connection with a commercial relationship with the Company or (ii) providing the Company with equipment leases, real property leases, loans, credit lines, guaranties of indebtedness, cash price reductions or similar transactions, under arrangements, in each case, approved by a majority of the Board of Directors and entered into for other than primarily equity financing purposes;

(d) any shares of Common Stock or Preferred Stock issued pursuant to the bona fide acquisition of another corporation or entity by the Company by consolidation, merger, purchase of all or substantially all of the assets, or other reorganization in which the Company acquires, in a single transaction or series of related transactions, all or substantially all of the assets of such other corporation or entity or fifty percent (50%) or more of the voting power of such other corporation or entity or fifty percent (50%) or more of the equity ownership of such other entity; provided that such transaction or series of transactions has been approved by a majority of the Company's Board of Directors;

(e) any shares of Series C Stock issued under the Series C Agreement, as such agreement may be amended;

(f) shares of Common Stock or Preferred Stock issuable upon exercise of any options, warrants or rights to purchase any securities of the Company outstanding as of the date of this Agreement and any securities issuable upon the conversion thereof;

(g) shares of the Company's Common Stock or Preferred Stock issued in connection with any stock split or stock dividend or recapitalization;

(h) shares of Common Stock issued or issuable in a public offering prior to or in connection with which all outstanding shares of Preferred Stock will be converted to Common Stock; and

(i) any shares of Common Stock or Preferred Stock (or options, or warrants or rights to acquire same) issued or issuable hereafter that are (i) approved by the Board of Directors and (ii) approved by the vote of the holders of at least sixty-six and two-thirds percent (66 2/3%) of the Preferred Stock, voting together as a single class and on an as-converted basis, as being excluded from the definition of "New Securities" under this Section 3.2.

3.3 **Procedures**. In the event that the Company proposes to undertake an issuance of New Securities, it shall give to each Rights Holder a written notice of its intention to issue New Securities (the "***Notice***"), describing the type of New Securities and the price and the general terms upon which the Company proposes to issue such New Securities given in accordance with Section 6.1 hereof. Each Rights Holder shall have ten (10) days from the date such Notice is effective, as determined pursuant to Section 6.1 hereof based upon the manner or method of notice, to agree in writing to purchase such Rights Holder's Pro Rata Share of such New Securities for the price and upon the general terms specified in the Notice by giving written notice to the Company and stating therein the quantity of New Securities to be purchased (not to exceed such Rights Holder's Pro Rata Share). If any Rights Holder fails to so agree in writing within such ten (10) day period to purchase such Rights Holder's full Pro Rata Share of an offering of New Securities (a "***Nonpurchasing Holder***"), then such Nonpurchasing Holder shall forfeit the right hereunder to purchase that part of his Pro Rata Share of such New Securities that he, she or it did not so agree to purchase and the Company shall promptly give each Rights Holder who has timely agreed to purchase his full Pro Rata Share of such offering of New Securities (a "***Purchasing Holder***") written notice of the failure of any Nonpurchasing Holder to purchase such Nonpurchasing Rights Holder's full Pro Rata Share of such offering of New Securities (the "***Overallotment Notice***"). Each Purchasing Holder shall have a right of overallotment such that such Purchasing Holder may agree to purchase a portion of the Nonpurchasing Holders' unpurchased Pro Rata Shares of such offering on a pro rata basis according to the relative Pro Rata Shares of the Purchasing Holders, at any time within five (5) days after receiving the Overallotment Notice.

The rights provided in this Section 3 may be assigned or transferred by any Holder that is a venture capital fund to an affiliated venture capital fund or, if such Holder is a partnership or limited liability company, to the partners or retired partners of such partnership Holder or to the members or retired members of such limited liability company Holder.

3.4 **Failure to Exercise**. In the event that the Rights Holders fail to exercise in full the right of first refusal within such fifteen (15) day period, then the Company shall have one hundred twenty (120) days thereafter to sell the New Securities with respect to which the Rights Holders' rights of first refusal hereunder were not exercised, at a price and upon general terms not materially more favorable to the purchasers thereof than specified in the Company's Notice to the Rights Holders. In the event that the Company has not issued and sold the New Securities within such one hundred twenty (120) day period, then the Company shall not thereafter issue or sell any New Securities without again first offering such New Securities to the Rights Holders pursuant to this Section 3.

3.5 **Termination**. This right of first refusal shall terminate (a) upon the closing of the Company's initial public offering of Common Stock pursuant to an effective registration statement filed under the Securities Act covering the offer and sale of Common Stock for the account of the Company in which the aggregate public offering price (before deduction of underwriters' discounts and commissions) equals or exceeds Fifty Million Dollars ($50,000,000) or (b) upon the closing of a Liquidation Event (as such term is defined in the Company's Restated Certificate of Incorporation, as it may be amended) in connection with which all proceeds received by the Company's stockholders are cash and/or publicly traded securities.

4. **ASSIGNMENT AND AMENDMENT**.

4.1 **Assignment**. Notwithstanding anything herein to the contrary:

(a) Information and Inspection Rights. The rights of an Investor under Section 1 hereof may be assigned only to a party who acquires from an Investor (or an Investor's permitted assigns) the number of shares of Preferred Stock and/or an equivalent number (on an as-converted basis) of shares of Conversion Stock that is required in order to be entitled to information or inspection rights under Section 1.1 or 1.2 hereof, respectively.

(b) Registration Rights; Refusal Rights. The registration rights of a Holder under Section 2 hereof and the rights of first refusal of a Rights Holder under Section 3 hereof may be assigned only to a party who acquires at least 200,000 shares of Preferred Stock and/or an equivalent number (on an as-converted basis) of Registrable Securities issued upon conversion thereof (each as adjusted for stock splits, stock dividends, combinations and the like); provided, however that no party may be assigned any of the foregoing rights unless the Company is given written notice by the assigning party at the time of such assignment stating the name and address of the assignee and identifying the securities of the Company as to which the rights in question are being assigned; provided further, that any such assignee of such rights is not deemed by the Board of Directors of the Company, in its reasonable judgment, to be a competitor of the Company; and provided further that any such assignee shall receive such assigned rights subject to all the terms and conditions of this Agreement, including without limitation the provisions of this Section 4. Notwithstanding anything herein to the contrary, the registration and/or first refusal rights of a Holder under Section 2 hereof may be assigned to (i) a subsidiary, parent, partner, limited partner, retired partner, member, retired member, Affiliate, affiliated venture capital fund or stockholder of a Holder or (ii) a Holder's family member or trust for the benefit of an individual Holder.

4.2 **Amendment and Waiver of Rights**. Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and Investors (and/or any of their permitted successors or assigns) holding shares of Preferred Stock and/or Conversion Stock representing and/or convertible into at least sixty-six and two-thirds percent (66 2/3%) of all the Investors' Shares (as defined below); provided however, that the grant to third parties of piggyback registration rights under Section 2.3 hereof on a pari passu basis with the piggyback registration rights of the Investors under Section 2.3, if such grant is approved by the Board of Directors, shall not be deemed to be a material and adverse change to the piggyback registration rights of the Investors under this Agreement and shall not require the consent of the Investors. As used herein, the term "***Investors' Shares***" shall mean the shares of Common Stock then issuable upon conversion of all then outstanding shares of Series A Stock issued under the Series A Agreement, the Series B Stock issued under the Series B Agreement and the Series C Stock issued under the Series C Agreement plus all then outstanding shares of Conversion Stock that were issued upon the conversion of any shares of such Series A Stock, Series B Stock or Series C Stock. Any amendment or waiver effected in accordance with this Section 4.2 shall be binding upon each Investor, each Holder, each permitted successor or assignee of such Investor or Holder and the Company.

5. **OPTION GRANTS AND STOCK ISSUANCES**.

5.1 **Vesting of Shares**. Capital stock sold and options granted to employees and consultants of the Company will be subject to (i) vesting over four (4) years, with 25% of the shares vesting at the end of the first year and with the remaining shares vesting in equal monthly installments over the following 36 months, (ii) a 180-day lockup period in connection with the Company's initial public offering and (iii) a right of first refusal in favor of the Company, unless otherwise approved by the Board of Directors, including a majority of the directors elected by the holders of Preferred Stock.

6. **GENERAL PROVISIONS**.

6.1 **Notices**. Any notice required or permitted to be given to a party pursuant to the provisions of this Agreement will be in writing and will be effective and deemed given to such party under this Agreement on the earliest of the following:

(a) the date of personal delivery;

(b) one (1) business day after transmission by facsimile or telecopier, addressed to the other party at its facsimile number or telecopier address specified herein (or hereafter noticed to the parties hereto), with written confirmation of transmission;

(c) one (1) business day after deposit with an express courier for United States deliveries, or three (3) business days after such deposit for deliveries outside of the United States; or

(d) three (3) business days after deposit in the United States mail by registered or certified mail for United States deliveries.

All notices not delivered personally or by facsimile will be sent with postage and/or other charges prepaid and properly addressed to the party to be notified at the address set forth below such party's signature on this Agreement or on an Exhibit hereto, or at such other address as such other party may designate by ten (10) days' advance written notice to the other parties hereto. All notices for delivery outside the United States will be sent by facsimile or by express courier. Any notice given hereunder to more than one person will be deemed to have been given, for purposes of counting time periods hereunder, on the date effectively given to the last party required to be given such notice. Notices to the Company should be marked "Attention: Chief Executive Officer" and should be delivered to 232 East Java Drive, Sunnyvale, California 94089.

6.2 **Entire Agreement**. This Agreement and the documents referred to herein, together with all the Exhibits hereto, constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede any and all prior understandings and agreements, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof.

6.3 **Governing Law**. This Agreement will be governed by and construed in accordance with the laws of the State of California, without giving effect to that body of laws pertaining to conflict of laws.

6.4 **Severability**. 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. Notwithstanding the foregoing, if the value of this Agreement based upon the substantial benefit of the bargain for any party is materially impaired, which determination as made by the presiding court or arbitrator of competent jurisdiction shall be binding, then both parties agree to substitute such provision(s) through good faith negotiations.

6.5 **Third Parties**. Nothing in this Agreement, express or implied, is intended to confer upon any person, other than the parties hereto and their successors and assigns, any rights or remedies under or by reason of this Agreement.

6.6 **Successors and Assigns**. Subject to the provisions of Section 4.1, 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.

6.7 **Titles and Headings**. The titles, captions and headings of this Agreement are included for ease of reference only and will be disregarded in interpreting or construing this Agreement. Unless otherwise specifically stated, all references herein to “sections” and “exhibits” will mean “sections” and “exhibits” to this Agreement.

6.8 **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.

6.9 **Costs and Attorneys’ Fees**. In the event that any action, suit or other proceeding is instituted concerning or arising out of this Agreement or any transaction contemplated hereunder, the prevailing party shall recover all of such party’s costs and attorneys’ fees incurred in each such action, suit or other proceeding, including any and all appeals or petitions therefrom.

6.10 **Adjustments for Stock Splits, Etc**. Wherever in this Agreement there is a reference to a specific number of shares of Common Stock or Preferred Stock of the Company of any class or series, then, upon the occurrence of any subdivision, combination or stock dividend of such class or series of stock, the specific number of shares so referenced in this Agreement shall automatically be proportionally adjusted to reflect the effect on the outstanding shares of such class or series of stock by such subdivision, combination or stock dividend.

6.11 **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.

6.12 **Facsimile Signatures**. This Agreement may be executed and delivered by facsimile and upon such delivery the facsimile signature will be deemed to have the same effect as if the original signature had been delivered to the other party.

6.13 **Aggregation of Stock**. All shares of Registrable Securities held or acquired by Affiliates or affiliated entities (including affiliated venture capital funds) or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

6.14 **New Investors**. Notwithstanding anything herein to the contrary, if pursuant to Section 1.4 of the Series C Agreement, additional parties purchase shares of Series C Stock at an Additional Closing thereunder, then each such new Investor shall become a party to this Agreement as an "Investor" hereunder, without the need of obtaining any consent, approval or signature of any Investor when such new Investor has both: (a) purchased shares of Series C Stock under the Series C Agreement and paid the Company all consideration payable for such shares and (b) executed one or more counterpart signature pages to this Agreement as an "Investor".

6.15 **Waiver of Notice Rights**. The Prior Investors hereby waive any notice period required under Section 3 of the Prior Rights Agreement with respect to the sale and issuance by the Company of the Series C Stock pursuant to the Series C Agreement (and any Common Stock issuable upon the conversion thereof).

6.16 **Prior Agreement Superseded**. Pursuant to Section 4.2 of the Prior Rights Agreement, the Prior Investors hereby amend and restate the Prior Rights Agreement to read in its entirety as set forth in this Agreement, all with the intent and effect that the Prior Rights Agreement shall hereby be terminated and entirely replaced and superseded by this Agreement.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and-Restated Investors' Rights Agreement as of the date first written above.

PALO ALTO NETWORKS, INC.

By: /s/ Lane Bess
Name: Lane Bess
Title: President and CEO

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTORS:

LEHMAN BROTHERS VENTURE PARTNERS V L.P.

By: Lehman Brothers Venture Associates V L.P., its General Partner

By: Lehman Brothers Venture Associates V LLC., its General Partner

By: /s/ James A. Hinson
Name: James A. Hinson
Title: Vice President

LEHMAN BROTHERS VENTURE PARTNERS V-P, L.P.

By: Lehman Brothers Venture Associates V L.P., its General Partner

By: Lehman Brothers Venture Associates V LLC., its General Partner

By: /s/ James A. Hinson
Name: James A. Hinson
Title: Vice President

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

GLOBESPAN CAPITAL PARTNERS V, L.P.

By: Globespan Management Associates V, L.P.,
its sole General Partner

By: Globespan Management Associates V, LLC,
its sole General Partner

By: /s/ Mary F. Beylock
Name: Mary F. Bevlock
Title: Authorized Signatory

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTORS:

GREYLOCK XI LIMITED PARTNERSHIP
GREYLOCK XI-A LIMITED PARTNERSHIP

By: Greylcok XI GP Limited Partnership, its General Partner

By: /s/ Donald A. Sullivan
Name: Donald A. Sullivan
Title: Administrative Partner

GREYLOCK XI PRINCIPALS LLC

By: Greylock Management Corporation, Sole Member

By: /s/ Donald A. Sullivan
Name: Donald A. Sullivan
Title: Treasurer

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second . Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTORS:

SEQUOIA CAPITAL XI
SEQUOIA TECHNOLOGY PARTNERS XI
SEQUOIA CAPITAL XI PRINCIPALS FUND

By: SC XI Management, LLC
A Delaware Limited Liability Company
General Partner of Each

By: /s/ James Goetz
Managing Member

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTORS:

SEQUOIA CAPITAL GROWTH FUND III
SEQUOIA CAPITAL GROWTH PARTNERS III
SEQUOIA CAPITAL GROWTH III PRINCIPALS FUND

By: SCGF III Management, LLC
A Delaware Limited Liability Company
General Partner of Each

By: /s/ James Goetz
Managing Member

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

NIR ZUK

Name: /s/ Nir Zuk

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

F&W INVESTMENTS LLC — SERIES 2006

By: /s/ Laird H. Simons III
Name: Laird H. Simons III
Title: Managing Member

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

F&W INVESTMENTS II LLC — SERIES 2008

By: /s/ Laird H. Simons III
Name: Laird H. Simons III
Title: Managing Member

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

SHLOMO KRAMER

By: /s/ Shlomo Kramer
Name: _____
Title: _____

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

CHANDNA FAMILY REVOCABLE TRUST DTD 4/13/98

By: /s/ Asheem Chandna
Name: Asheem Chandna
Title: Trustee

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above,

INVESTORS:

RAJIV BATRA AND RITU BATRA
AS TRUSTEES OF THE BATRA FAMILY TRUST
U/A/D 5th OF JANUARY 2006

By: /s/ Rajiv Batra
Name: Rajiv Batra
Title: Trustee

By: /s/ Ritu Batra
Name: Ritu Batra
Title: Trustee

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

YUMING MAO

Name: /s/ Yuming Mao

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

RAKESH LOONKAR

By: /s/ Rakesh Loonkar
Name: Rakesh K. Loonkar
Title:

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

PALO ALTO NETWORKS OF ELEVEN RINGS, LLC
HARRIS BARTON/HRJ CAPITAL

By: /s/ Jeff Bloom /s/ Harris Barton
Name: Jeff Bloom & Harris Barton
Title: Managing Member & Managing Member

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

HAWKSWATCH HOLDINGS GS LLC

By: /s/ William A. Lanfri
Name: William A. Lanfri
Title: Sole Member

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

NCD INVESTORS,
A DELAWARE MULTIPLE SERIES LLC

By: /s/ Thomas Vardell
Name: Thomas Vardell
Title: Managing Member

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Second Amended and Restated Investors' Rights Agreement as of the date first written above.

INVESTOR:

GOLD HILL VENTURE LENDING 03, LP

By: /s/ Rob Helm
Name: Rob Helm
Title: Managing Director

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTOR:

KRANZ & ASSOCIATES LLC

By: /s/ Deborah Kranz
Name: Deborah Kranz
Title: Partner

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTOR:

LANE BESS

Name: /s/ Lane Bess

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTOR:

THE HOLMAN GROUP, INC. PROFIT SHARING TRUST

By: /s/ Jonathan S. Holman
Name: Jonathan S. Holman
Title: Trustee, The Holman Group, Inc. Profit Sharing Trust

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTOR:

LARRY LINK

Name: /s/ Larry Link

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTOR:

DOUGLAS BURNS

Name: /s/ Douglas Burns

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTOR:

LISA MEPHAM

Name: /s/ Lisa Mepham

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTORS:

ROBERTO MUNNE AND SUSAN T. MUNNE,
AS CO-TRUSTEES OF THE MUNNE LIVING
TRUST , DATED NOVEMBER 23, 1999

By: /s/ Roberto Munne
Name: Roberto Munne
Title: Trustee

By: /s/ Susan T. Munne
Name: Susuan T. Munne
Title: Trustee

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTOR:
(ENTITY)

Name: Hitachi Systems & Services, Ltd.
(*entity name*)

By: /s/ Yoshihiko Saiki
(*signature*)

Title: Vice President and Executive Officer

INVESTOR:
(INDIVIDUAL)

Name: _____
(*print name*)

By: _____
(*signature*)

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated investors' Rights Agreement on the date and year first written above.

INVESTOR:
(ENTITY)

Name: JAIC- A Top Venture Capital Investment, L.P.
(*entity name*)

By: /s/ Toyoji Tatsuoka
(*signature*)

Title: Japan Asia Investment Co. Ld., its general partner
President & CEO

INVESTOR:
(INDIVIDUAL)

Name: _____
(*print name*)

By: _____
(*signature*)

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and year first written above.

INVESTOR:

JAFCO TECHNOLOGY PARTNERS III, L.P.

BY: /s/ H. Joseph Horowitz
Name: H. Joseph Horowitz
Title: Managing Director

JTP Management Associates II, L.L.C.
Its General Partner

IN WITNESS WHEREOF, the parties have executed this Second Amended and Restated Investors' Rights Agreement on the date and ye .r first written above.

INVESTOR:

HERBERT S. MADAN REVOCABLE TRUST 4/23/9

By: /s/ Herbert S. Madan
Name: Herbert S. Madan
Title: Trustee

EXHIBIT A

INVESTORS

Investors	Shares of Series A-1 Preferred Stock Purchased	Shares of Series A-2 Preferred Stock Purchased	Shares of Series B Preferred Stock Purchased	Shares of Series C Preferred Stock Purchased
Lehman Brothers Venture Partners V L.P. [Address] Attention: Facsimile:	0	0	0	1,774,943
Lehman Brothers Venture Partners V-P, L.P. [Address]	0	0	0	489,865
Globespan Capital Partners V, L.P. [Address] [Fax Number]	0	0	4,061,053	817,013
Greylock XI Limited Partnership c/o Greylock Partners [Address] Attention: Don Sullivan [Fax Number]	211,458	7,668,692	2,089,081	2,005,636
Greylock XI-A Limited Partnership c/o Greylock Partners [Address] Attention: Don Sullivan [Fax Number]	5,892	213,642	58,200	55,875
Greylock XI Principals LLC c/o Greylock Partners [Address] Attention: Don Sullivan [Fax Number]	24,150	875,816	238,587	229,057
Sequoia Capital Growth Fund III [Address] [Fax Number]	0	0	0	1,475,592
Sequoia Capital Growth III Principals Fund [Address] [Fax Number]				76,202

Investors	Shares of Series A-1 Preferred Stock Purchased	Shares of Series A-2 Preferred Stock Purchased	Shares of Series B Preferred Stock Purchased	Shares of Series C Preferred Stock Purchased
Sequoia Capital Growth Partners III [Address] [Fax Number]	0	0	0	16,150
Sequoia Capital XI [Address] [Fax Number]	211,772	7,680,022	2,092,167	633,669
Sequoia Capital XI Principals Fund [Address] [Fax Number]	23,038	835,528	227,612	68,938
Sequoia Technology Partners XI [Address] [Fax Number]	6,690	242,600	66,089	20,017
Nir Zuk [Address]	5,667	13,333	5,089	4,846
Tamar Zuk [Address]	11,333	26,667	10,179	0
F&W Investments LLC — Series 2006 [Address] Attn: Laird H. Simons III [Fax Number]	0	50,000	13,393	0
F&W Investments II LLC — Series 2008 [Address] Attn: Laird H. Simons III [Fax Number]	0	0	0	12,753
Shlomo Kramer CPA Amir [Address] [Email]	0	200,000	152,289	505,227
Chandna Family Revocable Trust DTD 4/13/98 [Address] [Email]	0	200,000	53,571	51,014
David B. Stevens [Address]	0	40,000	10,714	0

Investors	Shares of Series A-1 Preferred Stock Purchased	Shares of Series A-2 Preferred Stock Purchased	Shares of Series B Preferred Stock Purchased	Shares of Series C Preferred Stock Purchased
Fengmin Gong [Address]	0	40,000	0	0
Rajiv Batra and Ritu Batra as Trustees of the Batra Family Trust U/A/D 5th of January 2006 [Address] [Email]	0	40,000	10,714	10,202
Yuming Mao [Address] [Email]	0	40,000	10,714	34,844
Rakesh Loonkar [Address]	0	50,000	13,393	28,691
Pradeep and Juhi Aswani [Address] [Email]	0	50,000	13,393	0
Palo Alto Networks of Eleven Rings, LLC Harris Barton/HRJ Capital [Address] Attn: Darren Wong [Email]	0	50,000	50,763	34,844
Hawkswatch Holdings, LLC Attn: Bill Lanfri [Address]	0	0	152,289	505,227
NCD Investors, A Delaware Multiple Series LLC [Address] [Fax Number]	0	0	50,763	1,070,827
Gold Hill Venture Lending 03, LP [Address]	0	0	126,908	69,687
Kranz & Associates LLC [Address]	0	0	0	17,422
Lane Bess [Address]	0	0	0	35,000
The Holman Group, Inc. Profit Sharing Trust [Address]	0	0	0	17,422

Investors	Shares of Series A-1 Preferred Stock Purchased	Shares of Series A-2 Preferred Stock Purchased	Shares of Series B Preferred Stock Purchased	Shares of Series C Preferred Stock Purchased
Larry Link [Address]	0	0	0	34,844
Douglas Burns [Address]	0	0	0	9,756
Lisa Mepham [Address]	0	0	0	6,969
Roberto Munne and Susan T. Munne, as Co-Trustees of the Munne Living Trust , dated November 23, 1999 [Address]	0	0	0	35,000
Hitachi System & Services, Ltd. [Address] Attn : Koichi Saito ko- [Email]	0	0	0	209,059
JAIC America [Address] Attn: Mitch Kitamura [Email]	0	0	0	139,372
JAFCO Technology Partners III, L.P. [Address] [Fax Number] Attn: Takenori Sanami	0	0	0	2,090,592
Herbert S. Madan Revocable Trust 4/23/97 [Address]	0	0	0	174,216
TOTALS:	500,000	18,316,300	9,506,961	12,760,771

Exhibit 10.5

PALO ALTO NETWORKS, INC.

EMPLOYEE BONUS PLAN

Adopted by the Board of Directors on September 30, 2011

1. Purposes of the Plan. The Plan is intended to increase stockholder value and the success of the Company by motivating Employees to (a) perform to the best of their abilities, and (b) achieve the Company's objectives.

2. Definitions.

(a) "Affiliate" means any corporation or other entity (including, but not limited to, partnerships and joint ventures) controlled by the Company.

(b) "Actual Award" means as to any Performance Period, the actual award (if any) payable to a Participant for the Performance Period, subject to the Committee's authority under Section 3(d) to modify the award.

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

(d) "Bonus Pool" means the pool of funds available for distribution to Participants. Subject to the terms of the Plan, the Committee establishes the Bonus Pool for each Performance Period.

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

(f) "Committee" means the committee appointed by the Board (pursuant to Section 5) to administer the Plan. Unless and until the Board otherwise determines, the Board's Compensation Committee will administer the Plan.

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

(h) "Employee" means any executive team member, or non-sales (non-commissioned) employee of the Company or of an Affiliate, whether such individual is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

(i) "Participant" means as to any Performance Period, an Employee who has been selected by the Committee for participation in the Plan for that Performance Period.

(j) "Performance Period" means the period of time for the measurement of the performance criteria that must be met to receive an Actual Award, as determined by the Committee in its sole discretion. A Performance Period may be divided into one or more shorter periods if, for example, but not by way of limitation, the Committee desires to measure some performance criteria over 12 months and other criteria over 3 months.

(k) "Plan" means this Employee Bonus Plan, as set forth in this instrument and as hereafter amended from time to time.

(l) "Target Award" means the target award, at 100% performance achievement, payable under the Plan to a Participant for the Performance Period, as determined by the Committee in accordance with Section 3(b).

3. Selection of Participants and Determination of Awards.

(a) Selection of Participants. The Committee, in its sole discretion, will select the Employees who will be Participants for any Performance Period. Participation in the Plan is in the sole discretion of the Committee, on a Performance Period by Performance Period basis. Accordingly, an Employee who is a Participant for a given Performance Period in no way is guaranteed or assured of being selected for participation in any subsequent Performance Period or Periods.

(b) Determination of Target Awards. The Committee, in its sole discretion, will establish a Target Award for each Participant, which generally will be a percentage of a Participant's average annual base salary as of the end of the Performance Period.

(c) Bonus Pool. Each Performance Period, the Committee, in its sole discretion, will establish a Bonus Pool, which pool may be established before, during or after the applicable Performance Period. Actual Awards will be paid from the Bonus Pool.

(d) Discretion to Modify Awards. Notwithstanding any contrary provision of the Plan, the Committee may, in its sole discretion and at any time, (i) increase, reduce or eliminate a Participant's Actual Award, and/or (ii) increase, reduce or eliminate the amount allocated to the Bonus Pool. The Actual Award may be below, at or above the Target Award, in the Committee's discretion. The Committee may determine the amount of any reduction on the basis of such factors as it deems relevant, and will not be required to establish any allocation or weighting with respect to the factors it considers.

(e) Discretion to Determine Criteria. Notwithstanding any contrary provision of the Plan, the Committee will, in its sole discretion, determine the performance goals applicable to any Target Award which may include, without limitation, (i) attainment of research and development milestones, (ii) bookings, (iii) business divestitures and acquisitions, (iv) cash flow, (v) cash position, (vi) contract awards, (vii) customer renewals, (viii) customer retention rates from an acquired company, business unit or division, (ix) earnings (which may include earnings before interest and taxes, earnings before taxes and net earnings), (x) earnings per share, (xi) expenses, (xii) gross margin, (xiii) growth in stockholder value relative to the moving average of the S&P 500 Index or another index, (xiv) internal rate of return, (xv) inventory turns, (xvi) inventory levels, market share, (xvii) net income, (xviii) net profit, (xix) net sales, (xx) new product development, (xxi) new product invention or innovation, (xxii) number of customers, (xxiii) operating cash flow,

(xxiv) operating expenses, (xxv) operating income, (xxvi) operating margin, (xxvii) overhead or other expense reduction, (xxviii) product defect measures, (xxix) product release timelines, (xxx) productivity, (xxxi) profit, (xxxii) return on assets, (xxxiii) return on capital, (xxxiv) return on equity, (xxxv) return on investment, (xxxvi) return on sales, (xxxvii) revenue, (xxxviii) revenue growth, (xxxix) sales results, (xl) sales growth, (xli) stock price, (xlii) time to market, (xliii) total stockholder return, (xliv) working capital, and individual objectives such as peer reviews or other subjective or objective criteria. As determined by the Committee, the performance goals may be based on GAAP or Non-GAAP results and any actual results may be adjusted by the Committee for one-time items or unbudgeted or unexpected items when determining whether the performance goals have been met. The goals may be on the basis of any factors the Committee determines relevant, and may be on an individual, divisional, business unit or Company-wide basis. The performance goals may differ from Participant to Participant and from award to award. Failure to meet the goals will result in a failure to earn the Target Award, except as provided in Section 3(d).

4. Payment of Awards.

(a) Right to Receive Payment. Each Actual Award will be paid solely from the general assets of the Company. Nothing in this Plan will be construed to create a trust or to establish or evidence any Participant's claim of any right other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

(b) Timing of Payment. To be entitled to an Actual Award, a Participant must be employed by the Company or any Affiliate on the date the Actual Award is paid. Accordingly, an Actual Award is not considered earned until paid.

It is the intent that this Plan be exempt from, or comply with, the requirements of Code Section 409A so that none of the payments to be provided hereunder will be subject to the additional tax imposed under Code Section 409A, and any ambiguities herein will be interpreted to so comply.

(c) Form of Payment. Each Actual Award will be paid in cash (or its equivalent) in a single lump sum.

5. Plan Administration.

(a) Committee is the Administrator. The Plan will be administered by the Committee. The Committee will consist of not less than two (2) members of the Board. The members of the Committee will be appointed from time to time by, and serve at the pleasure of, the Board.

(b) Committee Authority. It will be the duty of the Committee to administer the Plan in accordance with the Plan's provisions. The Committee will have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to (i) determine which Employees will be granted awards, (ii) prescribe the terms and conditions of awards, (iii) interpret the Plan and the awards, (iv) adopt such procedures and subplans as are necessary or appropriate to permit participation in the Plan by Employees who are foreign nationals or employed outside of the United States, (v) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, and (vi) interpret, amend or revoke any such rules.

(c) Decisions Binding. All determinations and decisions made by the Committee, the Board, and any delegate of the Committee pursuant to the provisions of the Plan will be final, conclusive, and binding on all persons, and will be given the maximum deference permitted by law.

(d) Delegation by Committee. The Committee, in its sole discretion and on such terms and conditions as it may provide, may delegate all or part of its authority and powers under the Plan to one or more directors and/or officers of the Company.

(e) Indemnification. Each person who is or will have been a member of the Committee will be indemnified and held harmless by the Company against and from (i) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any award, and (ii) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she will give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification will not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

6. General Provisions.

(a) Tax Withholding. The Company will withhold all applicable taxes from any Actual Award, including any federal, state and local taxes (including, but not limited to, the Participant's FICA and SDI obligations).

(b) No Effect on Employment or Service. Nothing in the Plan will interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, with or without cause. Employment with the Company and its Affiliates is on an at-will basis only. The Company expressly reserves the right, which may be exercised at any time and without regard to when during a Performance Period such exercise occurs, to terminate any individual's employment with or without cause, and to treat him or her without regard to the effect that such treatment might have upon him or her as a Participant.

(c) Participation. No Employee will have the right to be selected to receive an award under this Plan, or, having been so selected, to be selected to receive a future award.

(d) Successors. All obligations of the Company under the Plan, with respect to awards granted hereunder, will be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

(e) Nontransferability of Awards. No award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will, by the laws of descent and distribution, or to the limited extent provided in Section 6(e). All rights with respect to an award granted to a Participant will be available during his or her lifetime only to the Participant.

7. Amendment, Termination, and Duration.

(a) Amendment, Suspension, or Termination. The Board, in its sole discretion, may amend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension or termination of the Plan will not, without the consent of the Participant, alter or impair any rights or obligations under any Actual Award theretofore earned by such Participant. No award may be granted during any period of suspension or after termination of the Plan.

(b) Duration of Plan. The Plan will commence on the date specified herein, and subject to Section 7(a) (regarding the Board's right to amend or terminate the Plan), will remain in effect thereafter.

8. Legal Construction.

(a) Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also will include the feminine; the plural will include the singular and the singular will include the plural.

(b) Severability. In the event any provision of the Plan will be held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of the Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had not been included.

(c) Requirements of Law. The granting of awards under the Plan will be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(d) Governing Law. The Plan and all awards will be construed in accordance with and governed by the laws of the State of California, but without regard to its conflict of law provisions.

(e) Bonus Plan. The Plan is intended to be a "bonus program" as defined under U.S. Department of Labor regulation 2510.3-2(c) and will be construed and administered in accordance with such intention.

(f) Captions. Captions are provided herein for convenience only, and will not serve as a basis for interpretation or construction of the Plan.

Exhibit 10.6

July 21, 2011

Mark McLaughlin

Re: Offer of Employment

Dear Mark:

On behalf of Palo Alto Networks, Inc. (the "***Company***"), I am pleased to offer you employment on the terms below.

1. *Position*. You will serve as President and Chief Executive Officer of the Company. You will report to the 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. While you serve as President and Chief Executive Officer, you will also serve on the Board. This is a full-time position. While you render services to the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company. You may engage in civic and not-for-profit activities as long as such activities do not interfere with the performance of your duties hereunder. By signing this letter agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company.

2. *Cash Compensation*.

(a) Base Salary. Your salary will be at an annualized rate of $300,000 per year, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this offer letter, will be subject to applicable tax withholdings.

(b) Annual Bonus. Commencing August 1, 2011 (the start of the Company's fiscal year), you will have the opportunity to earn an annual cash bonus of $300,000 for each fiscal year based on the achievement of certain objectives, which you and the Board will mutually establish. This bonus will be paid in equal installments on a quarterly basis, with a ratable portion of the bonus payable in your first fiscal year of employment with the Company. Each bonus payment is subject to your continued employment through and until the date of payment. The bonus will be paid no later than March 15 of the year following the year in which such bonus was earned.

(c) Signing Bonus. The Company will pay you a one-time signing bonus of $400,000 to be paid within thirty (30) days of your start date, subject to applicable tax withholding.

(d) Relocation. The Company will reimburse the reasonable expenses you incur to move your family and household goods from Virginia to the San Francisco Bay area up to a maximum reimbursement of $100,000.

3. *Equity*.

(a) Option. The Company will grant you a stock option under the Company's 2005 Equity Incentive Plan (the "***Plan***") to purchase 2,143,977 shares of the Company's Common Stock, which represents 3.0% of fully diluted capitalization as of the date of this letter, at the fair market value of the Company's Common Stock, as determined by the Board on the date the Board approves such grant (the "***Stock Option***"). The Stock Option will be incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the "***Code***") to the maximum extent permitted by the Code. The Stock Option will vest with respect to 1/48th of the shares each month following the commencement of your employment with the Company, so long as you remain actively employed by the Company on each vesting date, as described in the applicable stock option agreement. The Stock Option will be immediately exercisable for all shares; however, any unvested shares purchased under the Stock Option will be subject to repurchase at the original exercise price paid per share, should you cease providing services to the Company prior to vesting in those shares. You will be permitted to exercise any vested shares subject to the Stock Option for a period of twenty-four (24) months following the termination of your service, but in no event shall such period exceed the expiration of the maximum term of the Stock Option. The provisions of this offer letter supersede any conflicting provisions of the Plan.

(b) Loan. Upon your execution of a promissory note payable to the Company, the Company will loan you an amount not to exceed the aggregate exercise price for the shares subject to the Stock Option and all applicable withholding and payroll taxes and other deductions required by law to be paid by you to the Company (the "***Promissory Note***"). The Promissory Note will bear interest at a rate not less than the Applicable Federal Rate specified by the IRS, be secured by the shares received upon the exercise of the Stock Option, and will be due as set forth in such note (including provisions for a term of seven (7) years with acceleration of the due date upon the occurrence of the following events: (i) twenty-four (24) months following termination of employment; (ii) your insolvency, filing of a bankruptcy petition, or similar event; or (iii) the Company filing a registration statement under the Securities Act of 1933. Accordingly, the Promissory Note will need to be repaid or refinanced at least ten (10) business days prior to the Company filing a registration statement under the Securities Act of 1933. The total principal amount of the Promissory Note will be full recourse, that is the Company will have recourse to all of the shares received upon the exercise of your Stock Option and all of your other assets if any portion of the Promissory Note is not paid when due. Since you may partially or fully exercise your Stock Option, you may have more than one outstanding loan with the Company with respect to the exercise of your Stock Option.

4. *At Will Employment*. While we look forward to a productive relationship, your employment with the Company, however, is for an unspecified period of time and this offer letter creates an at-will employment relationship that may be terminated (subject to the terms of this offer letter) by you or the Company at any time for any reason and with or without cause or prior notice. Upon termination of your employment for any reason, you shall be entitled to receive any compensation earned and reimbursements due through the effective date of termination.

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 twenty-four (24) months following the Change in Control, then you will be entitled to receive: (i) continued payment of your then-current base salary for a period of twelve (12) months, 100% of your target bonus for that fiscal year, and reimbursement of twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of the vesting of fifty percent (50%) of the total shares subject to the Stock Option (the "***Change in Control Severance Benefits***"). Your entitlement to the Change in Control Severance Benefits is subject to your compliance with subsection (c) below.

(b) Other Termination. In the event that your employment is terminated by the Company other than for Cause, at any time before a Change in Control or more than twenty-four (24) months following a Change in Control, then you will receive (i) continued payment of your then current base salary for a period of twelve (12) months, reimbursement of twelve (12) months of your COBRA premiums in a lump sum, and (ii) acceleration of six (6) months vesting of your then unvested shares subject to the Stock Option (the "***Other Termination Severance Benefits***"). Your entitlement to the Other Termination Severance Benefits is subject to your compliance with subsection (c) below.

(c) Form and Timing of Payment. This Section 5 will not apply unless you (i) have returned all Company property in your possession, (ii) have resigned as a member of the Board of the Company and all of its subsidiaries, to the extent applicable, and (iii) have executed a general release of all claims that you may have against the Company or persons affiliated with the Company. The release must be in the form prescribed by the Company. You must execute and return the release on or before the date specified by the Company in the prescribed form (the "Release Deadline"). The Release Deadline will in no event be later than 50 days after your Separation. If you fail to return the release on or before the Release Deadline, or if you revoke the release, then you will not be entitled to the benefits described in this Section 5. The salary continuation payments will commence 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. However, if the 60-day period described in the preceding sentence spans two calendar years, then the payments will in any event begin in the second calendar year.

(d) *Definitions*.

(i) For purposes of this Section 5 and Section 3, "***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 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 Section 5 and Section 3, "***Good Reason***" shall mean: (i) a material reduction in your authority, status, obligations or responsibilities; (ii) a reduction of your total annual compensation of more than 10% unless such reduction is no greater (in percentage terms) than compensation reductions imposed on substantially all of the Company's employees pursuant to a directive of the Board; (iii) any failure by the Company to pay your base salary; or (iv) the relocation of the principal place of the Company's business to a location that is more than thirty-five (35) miles further from your home than before the relocation. 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 Section 5, "***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).

6. *Section 280G*. If any payments and other benefits provided for in this offer letter or otherwise constitute "parachute payments" within the meaning of Section 280G of the Code and, but for this Section 6, would be subject to the excise tax imposed by Section 4999 of the Code, then

payments and other benefits will be payable to you either in full or in such lesser amounts as would result, after taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, on your receipt on an after-tax basis of the greatest amount of payments and other benefits, by reducing payments in the following order: (i) cancellation of accelerated vesting of stock options that are out-of-the-money; (ii) reduction in cash payments; (iii) cancellation of accelerated vesting of all equity awards that are not out-of-the-money stock options; and (iv) other employee benefits. In the event that acceleration of vesting of equity award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant.

7. *Section 409A*. For purposes of this offer letter, a termination of employment will be determined consistent with the rules relating to a "separation from service" as defmed in Section 409A of the Code and the regulations thereunder ("***Section 409A***"). Notwithstanding anything else provided herein, to the extent any payments provided under this offer letter in connection with your termination of employment constitute deferred compensation subject to Section 409A, and you are deemed at the time of such termination of employment to be a "specified employee" under Section 409A, then such payment shall not be made or commence until the earlier of (i) the expiration of the six (6)-month period measured from your separation from service from the Company or (ii) the date of your death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to you including, without limitation, the additional tax for which you would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. The first payment thereof will include a catch-up payment covering the amount that would have otherwise been paid during the period between your termination of employment and the first payment date but for the application of this provision, and the balance of the installments (if any) will be payable in accordance with their original schedule. To the extent that any provision of this offer letter is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder comply with Section 409A. To the extent any payment under this offer letter may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this offer letter are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

8. *Benefits*. You will accrue paid time off (***PTO***) in accordance with the Company's policies applicable to executive officers. You will also be eligible to participate in benefit plans established by the Company for its employees from time to time. Upon your termination of employment with the Company for any reason, you will be paid your salary through your date of termination and for the value of all unused paid time off earned through that date.

9. *Confidentiality; Compliance with Policies*. As an employee of the Company, you will have access to certain confidential information of the Company and you may, during the course of your employment, develop certain information or inventions that will be the property of the

Company. To protect the interests of the Company, as a condition of your employment you will be required to sign the Company's "Employee Invention Assignment and Confidentiality Agreement" on your start date. A copy of that agreement is attached hereto as Exhibit A. We wish to impress upon you that we do not want you to, and we hereby direct you not to, bring with you any confidential or proprietary material of any former employer or to violate any other obligations you may have to any former employer. You represent that your signing of this offer letter and the Company's Employee Invention Assignment and Confidentiality Agreement, and your commencement of employment with the Company, will not violate any agreement currently in place between yourself and current or past employers. You agree to be bound by the policies and procedures of the Company now or hereafter in effect relating to the conduct of employees.

10. *Authorization to Work*. Please note that because of employer regulations adopted in the Immigration Reform and Control Act of 1986, within three (3) business days of commencing employment with the Company you will need to present documentation demonstrating that you have authorization to work in the United States.

11. *Governing Law: Arbitration*. This offer letter shall be construed and enforced in accordance with the internal laws of the State of California (without regard to its laws relating to choice-of-law or conflict-of-laws). You and the Company shall submit to mandatory and exclusive binding confidential arbitration of any controversy or claim arising out of, or relating to, this offer letter or any breach hereof or otherwise arising out of, or relating to, your employment with the Company or the termination thereof, provided, however, that the parties retain their right to, and shall not be prohibited, limited or in any other way restricted from, seeking or obtaining injunctive relief from a court having jurisdiction over the parties related to the improper use, disclosure or misappropriation of a party's proprietary, confidential or trade secret information. Such arbitration shall be conducted through JAMS in the State of California, Santa Clara County, before a single neutral arbitrator, in accordance with the JAMS' then-current rules for the resolution of employment disputes. The arbitrator shall issue a written decision that contains the essential findings and conclusions on which the decision is based. You shall bear only those costs of arbitration you would otherwise bear had you brought a covered claim in court. Judgment upon the determination or award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This agreement to arbitrate does not restrict your right to file administrative claims you may bring before any government agency where, as a matter of law, the parties may not restrict the employee's ability to file such claims (including, but not limited to, the National Labor Relations Board, the Equal Employment Opportunity Commission and the Department of Labor). However, the parties agree that, to the fullest extent permitted by law, arbitration shall be the exclusive remedy for the subject matter of such administrative claims.

12. *Miscellaneous*.

(a) Successors. This offer letter shall inure to the benefit of and be binding upon the Company and any of its successors, and (b) you and your heirs, executors and representatives in the event of your death. Any successor to the Company shall be deemed substituted for the Company under the terms of this agreement for all purposes. In the event of a Change in Control, the Company agrees to obtain assumption of this offer letter by its successor.

(b) Modification. This offer letter, including, but not limited to the at will provision above, may not be amended or modified other than by a written agreement designated as an amendment and executed by you and a representative of the Board, although the Company reserves the right to unilaterally modify your compensation, benefits, job title and duties (subject to any express limitations set forth above).

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

(d) Complete Agreement. This offer letter (together with the Employee Invention Assignment and Confidentiality Agreement, the D&O Indemnification Agreement, and the Company's 2005 Equity Incentive Plan and any stock option agreement issued thereunder) represents the entire agreement between you and the Company with respect to the material terms and conditions of your employment, and supersedes and replaces all prior discussions, negotiations and agreements.

(e) Counterparts. This offer letter may be executed (i) in counterparts, each of which shall be an original, with same effect as if the signatures hereto were on the same instrument; and (ii) by facsimile or pdf. The parties agree that such facsimile or pdf signatures shall be deemed original signatures for all purposes.

We are extremely excited about you joining Palo Alto Networks.

Please indicate your acceptance of this offer letter, and confirmation that it contains our complete agreement regarding the terms and conditions of your employment, by signing the bottom portion of this letter and returning a copy to me via email at mlehman@paloaltonetworks.com. This offer is expressly conditioned upon your commencing employment with the Company no later than Monday, August 29, 2011. This offer will expire at 5:00 p.m. PST on July 29, 2011.

For and on behalf of Palo Alto Networks.

/s/ Nir Zuk, Founder and Office of CEO

Agreed to and accepted:

/s/ Mark McLaughlin
Mark McLaughlin

Date: 7/25/11

Attachments:

Exhibit A: Employee Invention Assignment and Confidentiality Agreement

December 15, 2011

Mark McLaughlin
c/o Palo Alto Networks, Inc.
3300 Olcott Street
Santa Clara, CA 95054

Re: Amendment of Offer of Employment

Dear Mark:

The following is an amendment to your offer letter agreement (the "***Amendment***") with Palo Alto Networks, Inc. (the "***Company***") dated July 21, 2011 (the "***Offer Letter***"). By signing below, you and the Company each acknowledge and agree that the Offer Letter shall be amended as follows. All capitalized terms used but not defined herein shall have the meaning ascribed to them in the Offer Letter.

1. *Change in Control Termination Benefits*. Section 5(a) of the Offer Letter is hereby amended and replaced in its entirety as follows:

"(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 twenty-four (24) months following the Change in Control, then you will be entitled to receive: (i) a lump sum payment equal to your then-current annual base salary, 100% of your target bonus for that fiscal year paid in lump sum, and reimbursement of twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of twenty-four (24) months vesting of your then-outstanding unvested time-based equity awards (the "***Change in Control Severance Benefits***"). Your entitlement to the Change in Control Severance Benefits is subject to your compliance with subsection (c) below."

2. *Form and Timing of Payment*. Section 5(c) of the Offer Letter is hereby amended and replaced in its entirety as follows:

"(c) *Form and Timing of Payment*. This Section 5 will not apply unless you (i) have returned all Company property in your possession, (ii) have resigned as a member of the Board of the Company and all of its subsidiaries, to the extent applicable, and (iii) have executed a general release of all claims that you may have against the Company or persons affiliated with the Company.

The release must be in the form prescribed by the Company. You must execute and return the release on or before the date specified by the Company in the prescribed form (the "***Release Deadline***"). The Release Deadline will in no event be later than 50 days after your separation. If you fail to return the release on or before the Release Deadline, or if you revoke the release, then you will not be entitled to the benefits described in this Section 5. The severance payments will be paid in lump sum and/or commence, as applicable, following the effectiveness of the release within 60 days after your separation and, once they commence, will include a catch-up payment covering the amount that would have otherwise been paid during the period between your termination of employment and the first payment date but for the application of this provision. Notwithstanding the foregoing, if the 60-day period described in the preceding sentence spans two calendar years and/or if your severance payments are deferred compensation separation payments subject to Section 409A (as defined below), then the payments will be paid in lump sum and/or commence, as applicable, on the 60th day following your termination of employment, subject to Section 7."

3. *Change in Control Definition*. The Change in Control definition in the Offer Letter as set for the in Section 5(d)(iii) is hereby amended and replaced as follows:

"(iii) For purposes of this Section 5, "**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."

4. *Governing Law*. This Amendment 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).

5. *Full Force and Effect*. To the extent not expressly amended hereby, the Offer Letter shall remain in full force and effect.

6. *Complete Agreement*. This Amendment (together with the Offer Letter, Employee Invention Assignment and Confidentiality Agreement, the D&O Indemnification Agreement, and the Company's 2005 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.

7. *Counterparts*. This Amendment 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.

Please indicate your acceptance of Amendment, by signing the bottom portion of this letter and returning a copy to me.

For and on behalf of Palo Alto Networks.

/s/ Jim Goetz
Jim Goetz, Director

Agreed to and accepted:

/s/ March McLaughlin
Mark McLaughlin

Dated: 12/15/11

Exhibit 10.7

January 17, 2012

Steffan Tomlinson

Re: Offer of Employment

Dear Steffan:

On behalf of Palo Alto Networks, Inc. (the "***Company***"), I am pleased to offer you employment on the terms below. We intend your start date will be February 1, 2012. Your actual start date will be referred to in this offer letter as the "***Start Date***."

1. *Position*. You will serve as Chief Financial Officer of the Company. You will report to the Company's President and Chief Executive Officer (the "***CEO***") and shall perform the duties and responsibilities customary for such position and such other related duties as are assigned by the CEO. This is a full-time position. While you render services to the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company. You may engage in civic and not-for-profit activities as long as such activities do not interfere with the performance of your duties hereunder. By signing this letter agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company.

2. *Cash Compensation*.

(a) Base Salary. Your salary will be at an annualized rate of $250,000 per year, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this offer letter, will be subject to applicable tax withholdings. Your salary may be adjusted from time to time by our Board of Directors (the "***Board***") or the Compensation Committee of our Board of Directors (the "***Compensation Committee***") in their sole discretion.

(b) Annual Bonus. For each fiscal year, you will have the opportunity to earn an annual cash bonus targeted at 30% of your base salary for the fiscal year based on the achievement of certain objectives, which you and the Board will mutually establish. This bonus will be paid in equal installments on a quarterly basis, with a ratable portion of the bonus payable in your first fiscal year of employment with the Company. Each bonus payment is subject to your continued employment through and until the date of payment. The bonus will be paid no later than March 15 of the year following the year in which such bonus was earned. Your target annual cash bonus opportunity and the terms and conditions thereof may be adjusted from time to time by our Board or the Compensation Committee in their sole discretion.

(c) Signing Bonus. The Company will pay you a one-time signing bonus of $100,000 to be paid within thirty (30) days of the Start Date, subject to applicable tax withholding. If within the first twelve (12) months following the Start Date, your employment with the Company should terminate for any reason other than a termination by the Company without Cause, you will be required to repay 100% of the signing bonus to the Company within ten (10) business days of such termination.

3. *Equity*. The Company will grant you a stock option under the Company's 2005 Equity Incentive Plan (the "***Plan***") to purchase 450,000 shares of the Company's Common Stock at the fair market value of the Company's Common Stock, as determined by the Board on the date the Board approves such grant (the "***Stock Option***"). The Stock Option will be nonstatutory stock options. The Stock Option will vest with respect to 1/4 of the shares subject to the Stock Option on the one year anniversary of your Start Date, and an additional 1/48th of the shares each month thereafter, so long as you remain actively employed by the Company on each vesting date, as will be set forth in the applicable stock option agreement.

4. *At Will Employment*. While we look forward to a productive relationship, your employment with the Company, however, is for an unspecified period of time and this offer letter creates an at-will employment relationship that may be terminated (subject to the terms of this offer letter) by you or the Company at any time for any reason and with or without cause or prior notice. Upon termination of your employment for any reason, you shall be entitled to receive any compensation earned and reimbursements due through the effective date of termination.

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 twenty-four (24) months following the Change in Control, then you will be entitled to receive: (i) a lump sum payment equal to your then-current annual base salary, 100% of your target bonus for that fiscal year paid in lump sum, and reimbursement of twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of twenty-four (24) months vesting of your then-outstanding unvested time-based equity awards (the "***Change in Control Severance Benefits***"). Your entitlement to the Change in Control Severance Benefits is subject to your compliance with subsection (c) below.

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

(c) *Form and Timing of Payment*. This Section 5 will not apply unless you (i) have returned all Company property in your possession, (ii) have resigned as a member of the Board of the Company and all of its subsidiaries, to the extent applicable, and (iii) have executed a general release of all claims that you may have against the Company or persons affiliated with the Company. The release must be in the form prescribed by the Company. You must execute and return the release on or before the date specified by the Company in the prescribed form (the "***Release Deadline***"). The Release Deadline will in no event be later than 50 days after your separation. If you fail to return the release on or before the Release Deadline, or if you revoke the release, then you will not be entitled to the benefits described in this Section 5. The severance payments will be paid in lump sum and/or commence, as applicable, following the effectiveness of the release within 60 days after your separation and, once they commence, will include a catch-up payment covering the amount that would have otherwise been paid during the period between your termination of employment and the first payment date but for the application of this provision. Notwithstanding the foregoing, if the 60-day period described in the preceding sentence spans two calendar years and/or if your severance payments are deferred compensation separation payments subject to Section 409A (as defined below), then the payments will be paid in lump sum and/or commence, as applicable, on the 60th day following your termination of employment, subject to Section 7.

(d) *Definitions*.

(i) For purposes of this letter agreement, "**Cause**" shall mean: (i) conviction of any felony or any crime involving moral turpitude or dishonesty; (ii) participation in intentional fraud or an act of willful dishonesty against the Company 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 lawful, reasonable policies or directions of the Company as specified by the Board or the CEO after being provided with notice of such failure, such notice specifying in reasonable detail the tasks which must be accomplished and a timeline for the accomplishment to avoid termination for Cause, and an opportunity to cure within thirty (30) days of receipt of such notice.

(ii) For purposes of this letter agreement, "**Good Reason**" shall mean: (i) a material reduction in your authority, status, obligations or responsibilities; (ii) a reduction of your total annual compensation of more than 10% unless such reduction is no greater (in percentage terms) than compensation reductions imposed on substantially all of the Company's employees pursuant to a directive of the Board; (iii) any failure by the Company to pay your base salary; or (iv) the relocation of the principal place of the Company's business to a location that is more than thirty-five (35) miles further from your home than before the relocation. Your resignation must occur within 12 months after one of the foregoing conditions has come into existence without your consent. A resignation for Good Reason will not be deemed to have occurred unless you give the Company written notice of the condition within 90 days after the condition comes into existence and the Company fails to remedy the condition within 30 days after receiving your written notice.

(iii) For purposes of this letter agreement, "**Change in Control**" shall mean: (i) the sale or other disposition of all or substantially all of the assets of the Company; (ii) any sale or exchange of the capital stock of the Company by the stockholders of the Company in one transaction or series of related transactions where more than fifty percent (50%) of the outstanding voting power of the Company is acquired by a person or entity or group of related persons or entities; (iii) any reorganization, consolidation or merger of the Company where the outstanding voting securities of the Company immediately before the transaction represent or are converted into less than fifty percent (50%) of the outstanding voting power of the surviving entity (or its parent corporation) immediately after the transaction; or (iv) the consummation of the acquisition of fifty-one percent (51%) or more of the outstanding stock of the Company pursuant to a tender offer validly made under any federal or state law (other than a tender offer by the Company). Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

6. *Section 280G*. If any payments and other benefits provided for in this offer letter or otherwise constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "***Code***") and, but for this Section 6, would be subject to the excise tax imposed by Section 4999 of the Code, then payments and other benefits will be payable to you either in full or in such lesser amounts as would result, after taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, on your receipt on an after-tax basis of the greatest amount of payments and other benefits, by reducing payments in the following order: (i) cancellation of accelerated vesting of stock options that are out-of-the-money; (ii) reduction in cash payments; (iii) cancellation of accelerated vesting of all equity awards that are not out-of-the-money stock options; and (iv) other employee benefits. In the event that acceleration of vesting of equity award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant.

7. *Section 409A*. For purposes of this offer letter, a termination of employment will be determined consistent with the rules relating to a "separation from service" as defined in Section 409A of the Code and the regulations thereunder ("***Section 409A***"). Notwithstanding anything else provided herein, to the extent any payments provided under this offer letter in connection with your termination of employment constitute deferred compensation subject to Section 409A, and you are deemed at the time of such termination of employment to be a "specified employee" under Section 409A, then such payment shall not be made or commence until the earlier of (i) the expiration of the six (6)-month period measured from your separation from service from the Company or (ii) the date of your death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to you including, without limitation, the additional tax for which you would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. The first payment thereof will include a catch-up payment covering the amount that would have

otherwise been paid during the period between your termination of employment and the first payment date but for the application of this provision, and the balance of the installments (if any) will be payable in accordance with their original schedule. To the extent that any provision of this offer letter is ambiguous as to its compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder comply with Section 409A. To the extent any payment under this offer letter may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this offer letter are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

8. *Benefits*. You will accrue paid time off (***PTO***) in accordance with the Company's policies applicable to executive officers. You will also be eligible to participate in benefit plans established by the Company for its employees from time to time. Upon your termination of employment with the Company for any reason, you will be paid your salary through your date of termination and for the value of all unused paid time off earned through that date.

9. *Confidentiality; Compliance with Policies*. As an employee of the Company, you will have access to certain confidential information of the Company and you may, during the course of your employment, develop certain information or inventions that will be the property of the Company. To protect the interests of the Company, as a condition of your employment you will be required to sign the Company's "Employee Invention Assignment and Confidentiality Agreement" on your start date. A copy of that agreement is attached hereto as **Exhibit A**. We wish to impress upon you that we do not want you to, and we hereby direct you not to, bring with you any confidential or proprietary material of any former employer or to violate any other obligations you may have to any former employer. You represent that your signing of this offer letter and the Company's Employee Invention Assignment and Confidentiality Agreement, and your commencement of employment with the Company, will not violate any agreement currently in place between yourself and current or past employers. You agree to be bound by the policies and procedures of the Company now or hereafter in effect relating to the conduct of employees.

10. *Authorization to Work*. Please note that because of employer regulations adopted in the Immigration Reform and Control Act of 1986, within three (3) business days of commencing employment with the Company you will need to present documentation demonstrating that you have authorization to work in the United States.

11. *Governing Law; Arbitration*. This offer letter shall be construed and enforced in accordance with the internal laws of the State of California (without regard to its laws relating to choice-of-law or conflict-of-laws). You and the Company shall submit to mandatory and exclusive binding confidential arbitration of any controversy or claim arising out of, or relating to, this offer letter or any breach hereof or otherwise arising out of, or relating to, your employment with the Company or the termination thereof, provided, however, that the parties retain their right to, and shall not be prohibited, limited or in any other way restricted from, seeking or obtaining injunctive relief from a court having jurisdiction over the parties related to

the improper use, disclosure or misappropriation of a party's proprietary, confidential or trade secret information. Such arbitration shall be conducted through JAMS in the State of California, Santa Clara County, before a single neutral arbitrator, in accordance with the JAMS' then-current rules for the resolution of employment disputes. The arbitrator shall issue a written decision that contains the essential findings and conclusions on which the decision is based. You shall bear only those costs of arbitration you would otherwise bear had you brought a covered claim in court. Judgment upon the determination or award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This agreement to arbitrate does not restrict your right to file administrative claims you may bring before any government agency where, as a matter of law, the parties may not restrict the employee's ability to file such claims (including, but not limited to, the National Labor Relations Board, the Equal Employment Opportunity Commission and the Department of Labor). However, the parties agree that, to the fullest extent permitted by law, arbitration shall be the exclusive remedy for the subject matter of such administrative claims.

12. *Miscellaneous*.

(a) Successors. This offer letter shall inure to the benefit of and be binding upon (a) the Company and any of its successors, and (b) you and your heirs, executors and representatives in the event of your death. Any successor to the Company shall be deemed substituted for the Company under the terms of this agreement for all purposes. In the event of a Change in Control, the Company agrees to obtain assumption of this offer letter by its successor.

(b) Modification. This offer letter, including, but not limited to the at will provision above, may not be amended or modified other than by a written agreement designated as an amendment and executed by you and a representative of the Board, although the Company reserves the right to unilaterally modify your compensation, benefits, job title and duties (subject to any express limitations set forth above).

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

(d) Complete Agreement. This offer letter (together with the Employee Invention Assignment and Confidentiality Agreement, the D&O Indemnification Agreement, and the Company's 2005 Equity Incentive Plan, any successor equity incentive plan and any equity award agreement issued thereunder) represents the entire agreement between you and the Company with respect to the material terms and conditions of your employment, and supersedes and replaces all prior discussions, negotiations and agreements.

(e) Counterparts. This offer letter may be executed (i) in counterparts, each of which shall be an original, with same effect as if the signatures hereto were on the same instrument; and (ii) by facsimile or pdf. The parties agree that such facsimile or pdf signatures shall be deemed original signatures for all purposes.

We are extremely excited about you joining Palo Alto Networks.

Please indicate your acceptance of this offer letter, and confirmation that it contains our complete agreement regarding the terms and conditions of your employment, by signing the bottom portion of this letter and returning a copy to me via email at mmclaughlin@paloaltonetworks.com. This offer is expressly conditioned upon your commencing employment with the Company no later than January 19, 2012. This offer will expire at 5:00 p.m. PST on Thursday January 19, 2012.

For and on behalf of Palo Alto Networks.

/s/ Mark McLaughlin

Agreed to and accepted:

/s/ Steffan Tomlinson
Steffan Tomlinson

Dated: 1/19/12

Attachments:

Exhibit A: Employee Invention Assignment and Confidentiality Agreement

Exhibit 10.8

December 19, 2011

Nir Zuk
c/o Palo Alto Networks, Inc.
3300 Olcott Street
Santa Clara, CA 95054

Re: Confirmatory Employment Letter with Updated Change in Control Protection

Dear Nir:

This letter agreement (the "***Agreement***") is entered into between Palo Alto Networks, Inc. ("***Company***" or "***we***") and Nir Zuk ("***Executive***" or "***you***"). This Agreement is effective as of December 16, 2011 ("***Effective Date***"). The purpose of this Agreement is to confirm the current terms and conditions of your employment and to specify your treatment upon certain terminations of employment.

1. *Position*. You will continue to serve as Chief Technology Officer of the Company. You will continue to 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. As of the Effective Date, your salary will be at an annualized rate of $220,000 per year, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this 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 Bonus. Commencing August 1, 2011 (the start of the Company's fiscal year), you will have the opportunity to earn a target annual cash bonus of $66,000 for each fiscal year based on the achievement of certain objectives, which will be established by our Board and/or the Compensation Committee. For fiscal 2012, this bonus will be paid in equal installments on a quarterly basis. Each bonus payment is subject to your continued employment through and until the date of payment. The bonus will be paid no later than March 15 of the year following the year in which such bonus was earned. Your target annual cash bonus opportunity and the terms and conditions thereof may be adjusted from time to time by our Board or the Compensation Committee in their sole discretion.

3. *At Will Employment*. While we look forward to continue 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.

4. *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 bonus for that fiscal year, and reimbursement of twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of the vesting of the greater of (A) twelve (12) months vesting of your then-outstanding unvested time-based equity awards, or (B) fifty percent (50%) of your then-outstanding unvested time-based equity awards (for the avoidance of doubt, the greater of under this sub-section (ii) will be determined on an award by award basis) (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) *Form and Timing of Payment*. This Section 4 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.

(c) *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.

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 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. 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 continue accrue paid time off (***PTO***) in accordance with the Company's policies applicable to executive officers. 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 and for the value of all unused paid time off earned through that date.

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. 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 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. *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.

10. *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.

11. *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 2005 Equity Incentive Plan, any successor equity incentive plan and any equity award agreement issued thereunder) represents the entire agreement between you and the Company with respect to the material terms and conditions of your employment, and supersedes and replaces all prior discussions, negotiations and agreements.

(e) Counterparts. This 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 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/ Nir Zuk
Nir Zuk

Dated: 1/11/12

Exhibit 10.9

December 19, 2011

Rajiv Batra
c/o Palo Alto Networks, Inc.
3300 Olcott Street
Santa Clara, CA 95054

Re: Confirmatory Employment Letter with Updated Change in Control Protection

Dear Rajiv:

This letter agreement (the "***Agreement***") is entered into between Palo Alto Networks, Inc. ("***Company***" or "***we***") and Rajiv Batra ("***Executive***" or "***you***"). This Agreement is effective as of December 16 , 2011 ("***Effective Date***"). The purpose of this Agreement is to confirm the current terms and conditions of your employment and to specify your treatment upon certain terminations of employment.

1. *Position*. You will continue to serve as Vice President, Engineering of the Company. You will continue to 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. As of the Effective Date, your salary will be at an annualized rate of $225,000 per year, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this 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 Bonus. Commencing August 1, 2011 (the start of the Company's fiscal year), you will have the opportunity to earn a target annual cash bonus of $67,500 for each fiscal year based on the achievement of certain objectives, which will be established by our Board and/or the Compensation Committee. For fiscal 2012, this bonus will be paid in equal installments on a quarterly basis. Each bonus payment is subject to your continued employment through and until the date of payment. The bonus will be paid no later than March 15 of the year following the year in which such bonus was earned. Your target annual cash bonus opportunity and the terms and conditions thereof may be adjusted from time to time by our Board or the Compensation Committee in their sole discretion.

3. *At Will Employment*. While we look forward to continue 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.

4. *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 bonus for that fiscal year, and reimbursement of twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of the vesting of the greater of (A) twelve (12) months vesting of your then-outstanding unvested time-based equity awards, or (B) fifty percent (50%) of your then-outstanding unvested time-based equity awards (for the avoidance of doubt, the greater of under this sub-section (ii) will be determined on an award by award basis) (collectively, the "***Change in Control Severance Benefits***"). Your entitlement to the Change in Control Severance Benefits is subject to your compliance with subsection (c) below.

(b) *Other Termination*. In the event that your employment is terminated by the Company other than for Cause, at any time before a Change in Control or more than twelve (12) months following a Change in Control, then you will receive (i) continued payment of your then current base salary for a period of six (6) months, reimbursement of six (6) months of your COBRA premiums in a lump sum, and (ii) acceleration of six (6) months vesting of your then unvested shares subject to your then-outstanding time-based equity awards (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 4 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 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.

(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.

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 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.

7. *Benefits*. You will continue accrue paid time off (***PTO***) in accordance with the Company's policies applicable to executive officers. 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 and for the value of all unused paid time off earned through that date.

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. 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 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. *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.

10. *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.

11. *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 2005 Equity Incentive Plan, any successor equity incentive plan and any equity award agreement issued thereunder) represents the entire agreement between you and the Company with respect to the material terms and conditions of your employment, and supersedes and replaces all prior discussions, negotiations and agreements, including, but not limited to your original offer letter agreement with the Company dated January 1, 2006.

(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 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/ Rajiv Batra
Rajiv Batra

Dated: 12/20/2011

Exhibit 10.10

December 19, 2011

Rene Bonvanie
c/o Palo Alto Networks, Inc.
3300 Olcott Street
Santa Clara, CA 95054

Re: Confirmatory Employment Letter with Updated Change in Control Protection

Dear Rene:

This letter agreement (the "***Agreement***") is entered into between Palo Alto Networks, Inc. ("***Company***" or "***we***") and Rene Bonvanie ("***Executive***" or "***you***"). This Agreement is effective as of December 16, 2011 ("***Effective Date***"). The purpose of this Agreement is to confirm the current terms and conditions of your employment and to specify your treatment upon certain terminations of employment.

1. *Position*. You will continue to serve as Chief Marketing Officer of the Company. You will continue to 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. As of the Effective Date, your salary will be at an annualized rate of $230,000 per year, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this 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 Bonus. Commencing August 1, 2011 (the start of the Company's fiscal year), you will have the opportunity to earn a target annual cash bonus of $69,000 for each fiscal year based on the achievement of certain objectives, which will be established by our Board and/or the Compensation Committee. For fiscal 2012, this bonus will be paid in equal installments on a quarterly basis. Each bonus payment is subject to your continued employment through and until the date of payment. The bonus will be paid no later than March 15 of the year following the year in which such bonus was earned. Your target annual cash bonus opportunity and the terms and conditions thereof may be adjusted from time to time by our Board or the Compensation Committee in their sole discretion.

3. *At Will Employment*. While we look forward to continue 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.

4. *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 bonus for that fiscal year, and reimbursement of twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of the vesting of the greater of (A) twelve (12) months vesting of your then-outstanding unvested time-based equity awards, or (B) fifty percent (50%) of your then-outstanding unvested time-based equity awards (for the avoidance of doubt, the greater of under this sub-section (ii) will be determined on an award by award basis) (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) *Form and Timing of Payment*. This Section 4 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.

(c) *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.

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 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.

7. *Benefits*. You will continue accrue paid time off (***PTO***) in accordance with the Company's policies applicable to executive officers. 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 and for the value of all unused paid time off earned through that date.

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. 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 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. *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.

10. *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.

11. *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 2005 Equity Incentive Plan, any successor equity incentive plan and any equity award agreement issued thereunder) represents the entire agreement between you and the Company with respect to the material terms and conditions of your employment, and supersedes and replaces all prior discussions, negotiations and agreements, including, but not limited to your original offer letter agreement with the Company dated August 20, 2009.

(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 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/ Rene Bonvanie
Rene Bonvanie

Dated: 12/19/2011

Exhibit 10.11

December 19, 2011

Lawrence J. Link
c/o Palo Alto Networks, Inc.
3300 Olcott Street
Santa Clara, CA 95054

Re: Confirmatory Employment Letter with Updated Change in Control Protection

Dear Larry:

This letter agreement (the "***Agreement***") is entered into between Palo Alto Networks, Inc. ("***Company***" or "***we***") and Lawrence Link ("***Executive***" or "***you***"). This Agreement is effective as of December 16, 2011 ("***Effective Date***"). The purpose of this Agreement is to confirm the current terms and conditions of your employment and to specify your treatment upon certain terminations of employment.

1. *Position*. You will continue to serve as Vice President, Global Sales of the Company. You will continue to 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. As of the Effective Date, your salary will be at an annualized rate of $240,000 per year, payable in accordance with the Company's standard payroll schedule. Your salary, as well as any other cash amounts payable under this 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 Bonus. Commencing August 1, 2011 (the start of the Company's fiscal year), you will have the opportunity to earn a target annual cash bonus of $180,000 for each fiscal year based on the achievement of certain objectives, which will be established by our Board and/or the Compensation Committee. For fiscal 2012, this bonus will be paid in equal installments on a quarterly basis. Each bonus payment is subject to your continued employment through and until the date of payment. The bonus will be paid no later than March 15 of the year following the year in which such bonus was earned. Your target annual cash bonus opportunity and the terms and conditions thereof may be adjusted from time to time by our Board or the Compensation Committee in their sole discretion.

3. *At Will Employment*. While we look forward to continue 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.

4. *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 bonus for that fiscal year, and reimbursement of twelve (12) months of your COBRA premiums in a lump sum; and (ii) acceleration of the vesting of the greater of (A) twelve (12) months vesting of your then-outstanding unvested time-based equity awards, or (B) fifty percent (50%) of your then-outstanding unvested time-based equity awards (for the avoidance of doubt, the greater of under this sub-section (ii) will be determined on an award by award basis) (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) *Form and Timing of Payment*. This Section 4 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 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.

(c) *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.

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 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.

7. *Benefits*. You will continue accrue paid time off (***PTO***) in accordance with the Company's policies applicable to executive officers. 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 and for the value of all unused paid time off earned through that date.

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. 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 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. *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.

10. *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.

11. *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 2005 Equity Incentive Plan, any successor equity incentive plan and any equity

award agreement issued thereunder) represents the entire agreement between you and the Company with respect to the material terms and conditions of your employment, and supersedes and replaces all prior discussions, negotiations and agreements, including, but not limited to your original offer letter agreement with the Company dated April 9, 2007.

(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 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/ Lawrence J. Link
Lawrence J. Link

Dated: 12/19/2011

Exhibit 10.12

June 9, 2011

Mr. Charles J. Robel

Dear Chuck:

On behalf of the Board of Directors (the "Board") of Palo Alto Networks, Inc. (the "Company"), we are pleased to inform you that our Board has nominated you for election as a member of our Board and as chairman of the Board's Audit Committee.

As you are aware, the Company is a Delaware corporation and therefore your rights and duties as a Board member of the Company are prescribed by Delaware law, our charter documents as well as by the policies established by our Board from time to time. If the Company completes an initial public offering of its common stock, you should anticipate that your duties and responsibilities would increase as a result of being a director of a publicly traded company. In addition, you may also be requested to serve as a director of one or more of our subsidiaries in which case you may be subject to other laws while serving in such a capacity.

From time to time, our Board may establish certain other committees to which it may delegate certain duties. You will be appointed by the Board to serve on at least one additional committee. In addition to committee meetings, which shall be convened as needed, our Board meetings are generally held quarterly at the Company's offices in Santa Clara, California. We would hope that your schedule would permit you to attend all of the meetings of the Board and any committees of which you are a member. In addition, from time to time, there may be telephonic meetings to address special matters.

It is expected that during the term of your Board membership with the Company you will not engage in any other employment, occupation, consulting or other business activity that competes with the business in which the Company is now involved in or becomes involved in during the term of your service to the Company, nor will you engage in any other activities that conflict with your obligations to the Company.

If you decide to join the Board and to serve as chairman of the Audit Committee, it will be recommended at the time of your election as a member of the Board and as chairman of the Audit Committee that the Company grant you (i) an option exercisable for 30,000 shares of common stock (the "Board Shares") in consideration for your service as a member of the Board and (ii) an option exercisable for 35,000 shares of common stock (the "Committee Shares") in consideration for your service as chairman of the Audit Committee and a member of at least one other Board committee, in each case at a price per share equal to the fair market value per share of the common stock on the date of grant, as determined by the Board. Each such option grant will vest as to 1/4 of the shares subject to the option grant on the first anniversary of the grant date, with 1/48th of the shares subject to the option grant vesting at the end of each month thereafter, subject, (y) in the case of the Board Shares, to you continuing to serve as a Board member on each vesting date and (z) in the case of the Committee Shares, to you continuing to serve as chairman of the Audit Committee and a member of at least one other Board committee on each vesting date.

Following a Change in Control (defined below), all shares subject to options granted in accordance with the foregoing provisions shall fully vest and become immediately exercisable. "Change of 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).

In addition, if the Company completes an initial public offering of its common stock, we anticipate that you would receive a compensation package for your services to the Company as determined by the Board.

The payment of compensation to Board members is subject to many restrictions under applicable law, and as such, you should be aware that the compensation set forth above is subject to such future changes and modifications as the Board or its committees may deem necessary or appropriate. In addition, please note that unless otherwise approved by our Board or required under applicable law, directors of our subsidiaries shall not be entitled to any compensation.

You shall be entitled to reimbursement for reasonable expenses incurred by you in connection with your service to the Company and attendance of Board and committee meetings in accordance with the Company's established policies.

Please note that nothing in this letter or any agreement granting you equity stock options should be construed to interfere with or otherwise restrict in any way the rights of the Company, its Board or stockholders from removing you from the Board or any committee in accordance with the provisions of applicable law. Furthermore, except as otherwise provided to other non-employee Board members or required by law, the Company does not intend to afford you any rights as an employee, including without limitation, the right to further employment or any other benefits.

We hope that you find the foregoing terms acceptable. You may indicate your agreement with these terms by signing and dating both the enclosed duplicate and original letter and returning them to me. By signing this letter you also represent that the execution and delivery of this agreement and the fulfillment of the terms hereof will not require the consent of another person, constitute a default under or conflict with any agreement or other instrument to which you are bound or a party.

On behalf of the Company it gives us great pleasure to welcome you as a member of our Board. We anticipate your leadership and experience shall make a key contribution to our success at this critical time in our growth and development.

Yours very truly,

/s/ Nir Zuk /s/ Rajiv Batra /s/ Michael Lehman

Nir Zuk, Rajiv Batra and Michael Lehman
Office of the Chief Executive Officer
Palo Alto Networks, Inc.

Acknowledged and agreed to

June 10, 2011

/s/ Charles J. Robel

Charles J. Robel

Exhibit 10.13

February 14, 2012

Mr. Dan Warmenhoven

Dear Dan:

On behalf of the Board of Directors (the "Board") of Palo Alto Networks, Inc. (the "Company"), we are pleased to inform you that our Board has nominated you for election as a member of our Board and as Lead Independent Director.

As you are aware, the Company is a Delaware corporation and therefore your rights and duties as a Board member of the Company are prescribed by Delaware law, our charter documents as well as by the policies established by our Board from time to time. If the Company completes an initial public offering of its common stock, you should anticipate that your duties and responsibilities would increase as a result of being a director of a publicly traded company. In addition, you may also be requested to serve as a director of one or more of our subsidiaries in which case you may be subject to other laws while serving in such a capacity.

From time to time, our Board may establish certain other committees to which it may delegate certain duties. You will be appointed by the Board to serve on two committees and be required to serve as the chair of at least one of those committees. In addition to committee meetings, which shall be convened as needed, our Board meetings are generally held quarterly at the Company's offices in Santa Clara, California. We would hope that your schedule would permit you to attend all of the meetings of the Board and any committees of which you are a member. In addition, from time to time, there may be telephonic meetings to address special matters.

It is expected that during the term of your Board membership with the Company you will not engage in any other employment, occupation, consulting or other business activity that competes with the business in which the Company is now involved in or becomes involved in during the term of your service to the Company, nor will you engage in any other activities that conflict with your obligations to the Company.

If you decide to join the Board, to serve on two committees and to serve as the chair of at least one of those committees, it will be recommended at the time of your election as a member of the Board and as Lead Independent Director that the Company grant you an option exercisable for 100,000 shares of common stock (the "Option") in consideration for your service as a member of the Board, as Lead Independent Director, as a member two committees and as the chair of at least one of those committees, at a price per share equal to the fair market value per share of the common stock on the date of grant, as determined by the Board. The Option shares will vest as to 1/4 of the shares subject to the Option grant on the first anniversary of the grant date, with 1/48th of the shares subject to the Option grant vesting at the end of each month thereafter, subject to you continuing to serve as a Board member, as Lead Independent Director, as a member two committees and as the chair of at least one of those committees on each vesting date.

Following a Change in Control (defined below), all shares subject to Options granted in accordance with the foregoing provisions shall fully vest and become immediately exercisable. "Change of 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).

In addition, if the Company completes an initial public offering of its common stock, we anticipate that you would receive a compensation package for your services to the Company as determined by the Board.

The payment of compensation to Board members is subject to many restrictions under applicable law, and as such, you should be aware that the compensation set forth above is subject to such future changes and modifications as the Board or its committees may deem necessary or appropriate. In addition, please note that unless otherwise approved by our Board or required under applicable law, directors of our subsidiaries shall not be entitled to any compensation.

You shall be entitled to reimbursement for reasonable expenses incurred by you in connection with your service to the Company and attendance of Board and committee meetings in accordance with the Company's established policies.

Please note that nothing in this letter or any agreement granting you equity stock options should be construed to interfere with or otherwise restrict in any way the rights of the Company, its Board or stockholders from removing you from the Board or any committee in accordance with the provisions of applicable law. Furthermore, except as otherwise provided to other non-employee Board members or required by law, the Company does not intend to afford you any rights as an employee, including without limitation, the right to further employment or any other benefits.

We hope that you find the foregoing terms acceptable. You may indicate your agreement with these terms by signing and dating both the enclosed duplicate and original letter and returning them to me. By signing this letter you also represent that the execution and delivery of this agreement and the fulfillment of the terms hereof will not require the consent of another person, constitute a default under or conflict with any agreement or other instrument to which you are bound or a party.

On behalf of the Company it gives us great pleasure to welcome you as a member of our Board. We anticipate your leadership and experience shall make a key contribution to our success at this critical time in our growth and development.

Yours very truly,

/s/ Mark McLaughlin
Mark McLaughlin
Chief Executive Officer
Palo Alto Networks, Inc.

Acknowledged and agreed to

February 15, 2012

/s/ Dan Warmenhoven
Dan Warmenhoven

Exhibit 10.14

LEASE

BY AND BETWEEN

SANTA CLARA OFFICE PARTNERS LLC,

a Delaware limited liability company

as Landlord

and

PALO ALTO NETWORKS, INC.

a Delaware corporation

as Tenant

October 20, 2010

For Premises Located at:

3300 Olcott Street

Santa Clara, California

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LEASE

THIS LEASE, dated October __, 2010 for reference purposes only, is made by and between **SANTA CLARA INCOME PARTNERS LLC**, a Delaware limited liability company ("Landlord") and **PALO ALTO NETWORKS, INC**., a Delaware corporation ("Tenant"), to be effective and binding upon the parties as of the date the last of the designated signatories to this Lease shall have executed this Lease (the "Effective Date of this Lease").

ARTICLE 1
REFERENCE

1.1 **References**. All references in this Lease (subject to any further clarifications contained in this Lease) to the following terms shall have the following meaning or refer to the respective address, person, date, time period, amount, percentage, calendar year or fiscal year as below set forth:

Tenant's Representative: Phone Number:	Michael Lehman [Phone Number]
Landlord's Representative: Phone Number:	Henry Bullock/Richard Holmstrom [Phone Number]
Delivery Date	Two (2) business days after the Effective Date of this Lease
Commencement Date:	April 1, 2011
Term:	Eighty-four (84) months
Lease Expiration Date:	Eighty-four (84) months from the Lease Commencement Date, unless earlier terminated by Landlord in accordance with the terms of this Lease, or extended by Tenant pursuant to Article 15.
Options to Extend:	Two (2) option(s) to extend, each for a term of five (5) years.
First Month's Prepaid Rent:	$124,000.00
Tenant's Security Deposit:	$190,159.20 plus Landlord's estimate of the Property Operating Expenses applicable to the 84th month of the Lease Term.

Late Charge Amount:	Five Percent (5%) of the Delinquent Amount
Tenant's Required Liability Coverage:	$5,000,000 Combined Single Limit
Tenant's Broker(s):	Cresa Partners (John Brady)
Property:	That certain real property situated in the City of Santa Clara, County of Santa Clara, State of California, Assessor's Parcel No. 224-47-017, as presently improved with one (1) building, which real property is shown on the Site Plan attached hereto as **Exhibit A** and is commonly known as or otherwise described as follows: 3300 Olcott Street, Santa Clara, California.
Building:	That certain building on the Property in which the Leased Premises are located (the "Building"), which Building is shown outlined on **Exhibit A** hereto.
Outside Areas:	The "Outside Areas" shall mean all areas within the Property which are located outside the Building, such as pedestrian walkways, parking areas, landscaped areas, open areas and enclosed trash disposal areas.
Parking:	With respect to the Leased Premises, Tenant shall be entitled to utilize all parking spaces on the Property, such spaces to be located in the parking area of the Outside Areas
Leased Premises:	All the interior space within the Building, including stairwells, connecting walkways, and atriums, consisting of approximately 105,664 rentable square feet as determined by Landlord's method of measurement (which has been explained to Tenant) and, for purposes of this Lease, agreed to contain said number of rentable square feet. The Building and the Leased Premises are not subject to re-measurement unless, pursuant to a written amendment to this Lease, space is subtracted therefrom or additional space is added thereto. Recognizing that both Landlord and Tenant have agreed to the foregoing rentable square footage number and have agreed that there will be no re-measurement except as expressly provided above, Landlord has given Tenant the opportunity to measure the Building and the Leased Premises and has encouraged Tenant to do so, and Tenant hereby confirms that it has measured the Building and the Leased Premises and is in agreement with the foregoing number.

Tenant's Expense Share: The term "Tenant's Expense Share" shall mean the percentage obtained by dividing the rentable square footage of the Leased Premises at the time of calculation by the rentable square footage of all buildings located on the Property at the time of calculation. Such percentage is currently 100%. In the event that any portion of the Property is sold by Landlord, or the rentable square -footage of the Leased Premises or the Property is otherwise changed, Tenant's Expense Share shall be recalculated to equal the percentage described in the first sentence of this paragraph, so that the aggregate Tenant's Expense Share of all tenants of the Property shall equal 100%. Tenant's Expense Share is subject to adjustment as set forth in Paragraphs 13.12(b) and 13.12 (c).

Base Monthly Rent: The term "Base Monthly Rent" shall mean the following:

Period	Base Monthly Rent
4/1/2011 — 3/31/20	$ 0
4/1/2012 — 3/31/20	$ 124,000.00
4/1/2013 — 9/30/20	$ 128,000.00
10/1/2013 — 3/31/20	$ 169,030.40
4/1/2014 — 3/31/20	$ 174,312.60
4/1/2015 — 3/31/20	$ 179,594.80
4/1/2016 — 3/31/20	$ 184,877.00
4/1/2017 — 3/31/20	$ 190,159.20

Permitted Use:	General office, engineering, research and development, testing, light assembly, electronic laboratories, sales, training, storage of Tenant's products, and ancillary related uses, to the extent in compliance with all Laws and Restrictions and the terms of this Lease.
Exhibits:	The term "Exhibits" shall mean the Exhibits of this Lease which are described as follows: **Exhibit A** — Site Plan showing the Property and delineating the Building in which the Leased Premises are located. **Exhibit B** — Tenant Work Letter **Exhibit C** — Subordination, Nondisturbance and Attornment Provisions **Exhibit D** — Form of Tenant Estoppel Certificate

ARTICLE 2
LEASED PREMISES, TERM AND POSSESSION

2.1 **Demise Of Leased Premises**. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord for Tenant's own use in the conduct of Tenant's business and not for purposes of speculating in real estate, for the Lease Term and upon the terms and subject to the conditions of this Lease, that certain interior space described in Article 1 as the Leased Premises, reserving and excepting to Landlord the right to fifty percent (50%) of all assignment consideration and excess rentals as provided in Article 7 below. Tenant's lease of the Leased Premises, together with the appurtenant right to use the Outside Areas as described in Paragraph 2.2 below, shall be conditioned upon and be subject to the continuing compliance by Tenant with (i) all the terms and conditions of this Lease, (ii) all Laws and Restrictions governing the use or occupancy of the Leased Premises and the Property, (iii) all easements and other matters now of public record respecting the use of the Leased Premises and Property, and (iv) all reasonable rules and regulations from time to time established by Landlord. Notwithstanding any provision of this Lease to the contrary, Landlord hereby reserves to itself and its designees all rights of access, use and occupancy of the Building roof, and Tenant shall have no right of access, use or occupancy of the Building roof except (if at all) to the extent required in order to enable Tenant to perform Tenant's maintenance and repair obligations pursuant to this Lease. Tenant acknowledges receipt, without representation or warranty by Landlord, of Landlord's existing title insurance policy relating to the Property (the "Title Policy"). Landlord represents to Tenant that to Landlord's knowledge, there are no covenants, conditions and restrictions

encumbering the Property other than as shown on the Title Policy. In addition, Landlord also agrees that Tenant's construction of the Tenant Improvements (as defined in Paragraph 2.5 below) as approved by Landlord and constructed in accordance with the Work Letter (as defined in Paragraph 2.4 below), will not constitute a default under this Lease, even if the same is a technical default under the covenants, conditions and restrictions described in Paragraph 1 of Schedule B of the Title Policy.

2.2 **Right To Use Outside Areas**. As an appurtenant right to Tenant's right to the use and occupancy of the Leased Premises, Tenant shall have the right to use the Outside Areas in conjunction with its use of the Leased Premises solely for the purposes for which they were designed and intended and for no other purposes whatsoever. Tenant's right to so use the Outside Areas shall be subject to the limitations on such use as set forth in Article 1 and shall terminate concurrently with any termination of this Lease.

2.3 **Lease Commencement Date And Lease Term**. The term of this Lease shall begin, and the Lease Commencement Date shall be deemed to have occurred, on the Commencement Date, as set forth in Article 1 (the "Lease Commencement Date"). The term of this Lease shall in all events end on the Lease Expiration Date (as set forth in Article 1). The Lease Term shall be that period of time commencing on the Lease Commencement Date and ending on the Lease Expiration Date (the "Lease Term").

2.4 **Delivery Of Possession**. Landlord shall deliver to Tenant possession of the Leased Premises on the Delivery Date in its "AS IS" condition, with all faults, subject only to (a) Landlord completing the Landlord's Work as defined in the Work Letter attached hereto as Exhibit B (the "Work Letter"), and (b) latent defects in the components of the Building for which Landlord has the maintenance obligations pursuant to Paragraph 5.1(b) below. Tenant has inspected the Building and the Leased Premises and has noted no defects. Landlord agrees to assign or otherwise make available to Tenant the benefit of any warranties received by Landlord with respect to Landlord's Work. Tenant may occupy the Leased Premises prior to the Lease Commencement Date commencing on the Delivery Date for the sole purpose of constructing tenant improvements and installing furniture, fixtures and equipment, provided that Tenant shall comply with all other provisions of this Lease (other than payment of Base Monthly Rent and Additional Rent, except that Tenant shall pay for utilities from and after the Delivery Date).

2.5 **Performance Of Improvement Work; Acceptance Of Possession**. Tenant shall, in accordance with and pursuant to the Work Letter, performs the work and make the installations in the Leased Premises substantially as set forth in the Work Letter (such work and installations to be performed by Tenant hereinafter referred to as the "Tenant Improvements"). It is agreed that by accepting possession of the Leased Premises, Tenant formally accepts same and

acknowledges that the Building is in the condition called for by this Lease and the Work Letter, subject only to defects described in clause (b) of Paragraph 2.4 above. Tenant shall prosecute the Tenant Improvements employing commercially reasonable efforts so as not to delay Landlord in the completion of Landlord's Work. No delay in the completion of the Tenant Improvements or the Landlord's Work shall affect the Lease Commencement Date, which shall in all events be as set forth in Paragraph 2.3 above.

2.6 **Surrender Of Possession**. Immediately prior to the expiration or upon the sooner termination of this Lease, Tenant shall remove all of Tenant's signs from the exterior of the Building and shall remove all of Tenant's equipment (excluding telecommunications wiring and cabling), trade fixtures, furniture, supplies, wall decorations and other personal property from within the Leased Premises, the Building and the Outside Areas, and shall vacate and surrender the Leased Premises, the Building, the Outside Areas and the Property to Landlord in the same condition, broom clean, as existed at the Lease Commencement Date, reasonable wear and tear excepted. Tenant shall repair all damage to the Leased Premises, the exterior of the Building and the Outside Areas caused by Tenant's removal of Tenant's property. Tenant shall, with respect to telecommunications wiring and cabling, leave the same in good condition and repair and labeled and/or coded sufficiently so that Landlord can readily determine the origin, destination and function of the wires and cables. Tenant shall patch and refinish, to Landlord's reasonable satisfaction, all penetrations made by Tenant or its employees to the floor, walls or ceiling of the Leased Premises, whether such penetrations were made with Landlord's approval or not. Tenant shall repair or replace all stained or damaged ceiling tiles, wall coverings and floor coverings to the reasonable satisfaction of Landlord. Tenant shall repair all damage caused by Tenant to the exterior surface of the Building and the paved surfaces of the Outside Areas and, where necessary, replace or resurface same. Additionally, to the extent that Landlord shall have notified or is deemed to have notified Tenant in writing at the time the improvements were completed that it desired to have certain improvements made by Tenant or at the request of Tenant removed at the expiration or sooner termination of the Lease, Tenant shall, upon the expiration or sooner termination of the Lease, remove any such improvements constructed or installed by Landlord or Tenant and repair all damage caused by such removal. If the Leased Premises, the Building, the Outside Areas and the Property are not surrendered to Landlord in the condition required by this paragraph at the expiration or sooner termination of this Lease, Landlord may, at Tenant's expense, so remove Tenant's signs, property and/or improvements not so removed and make such repairs and replacements not so made or hire, at Tenant's expense, independent contractors to perform such work. Tenant shall be liable to Landlord for all costs incurred by Landlord in returning the Leased Premises, the Building and the Outside Areas to the required condition, together with interest on all costs so incurred from the date paid by Landlord at the then maximum rate of interest not prohibited or made usurious by law until paid. Tenant shall pay to Landlord the amount of all costs so incurred plus such interest thereon, within ten (10) days of Landlord's billing Tenant for same. Notwithstanding the foregoing, Landlord may consent (in its sole and absolute discretion, which consent may be withheld for any reason or no reason) to accept a cash payment from Tenant in lieu of Tenant completing all or any portion of the work required pursuant to this paragraph, such consent to be in a written notice specifying the work from which

Tenant shall be excused. Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in surrendering the Leased Premises, including, without limitation, any claims made by any succeeding Tenant or any losses to Landlord with respect to lost opportunities to lease to succeeding tenants.

ARTICLE 3
RENT, LATE CHARGES AND SECURITY DEPOSITS

3.1 **Base Monthly Rent**. Commencing on the Lease Commencement Date (as determined pursuant to Paragraph 2.3 above) and continuing throughout the Lease Term, Tenant shall pay to Landlord, without prior demand therefor, in advance on the first day of each calendar month, cash or other immediately available good funds in the amount set forth as "Base Monthly Rent" in Article 1 (the "Base Monthly Rent").

3.2 **Additional Rent**. Commencing on the Lease Commencement Date (as determined pursuant to Paragraph 2.3 above) and continuing throughout the Lease Term, in addition to the Base Monthly Rent and to the extent not required by Landlord to be contracted for and paid directly by Tenant, Tenant shall pay to Landlord as additional rent (the "Additional Rent"), cash or other immediately available good funds in the following amounts:

(a) An amount equal to all Property Operating Expenses (as defined in Article 13) incurred or to be incurred by Landlord. Payment shall be made by whichever of the following methods (or combination of methods) is (are) from time to time designated by Landlord:

(i) Landlord may forward invoices or bills for such expenses to Tenant, and Tenant shall, no later than ten (10) days prior to the due date, pay such invoices or bills and deliver satisfactory evidence of such payment to Landlord, and/or

(ii) Landlord may bill to Tenant, on a periodic basis not more frequently than monthly, the amount of such expenses (or group of expenses) as paid or incurred by Landlord, and Tenant shall pay to Landlord the amount of such expenses within ten days after receipt of a written bill therefor from Landlord, and/or

(iii) Landlord may deliver to Tenant Landlord's reasonable estimate of any given expense (such as Landlord's Insurance Costs or Real Property Taxes), or group of expenses, which it anticipates will be paid or incurred for the ensuing calendar or fiscal year, as Landlord may determine, and Tenant shall pay to Landlord an amount equal to the estimated amount of such expenses for such year in equal monthly installments during such year with the installments of Base Monthly Rent. Landlord reserves the right to revise such estimate from time to time.

Landlord reserves the right to change from time to time the methods of billing Tenant for any given expense or group of expenses or the periodic basis on which such expenses are billed.

(b) Landlord's share of the consideration received by Tenant upon certain assignments and sublettings as required by Article 7.

(c) Any legal fees and costs that Tenant is obligated to pay or reimburse to Landlord pursuant to Article 13; and

(d) Any other charges or reimbursements due Landlord from Tenant pursuant to the terms of this Lease.

Notwithstanding the foregoing, Landlord may elect by written notice to Tenant to have Tenant pay Real Property Taxes or any portion thereof directly to the applicable taxing authority, in which case Tenant shall make such payments and deliver satisfactory evidence of payment to Landlord no later than ten (10) days before such Real Property Taxes become delinquent. In the event Tenant is responsible to pay taxes directly, Landlord shall have no obligation to make such payments, whether or not Landlord receives evidence of payment from Tenant, and Tenant shall in all cases be responsible for any fines, penalties, interest and damages for late payment.

3.3 **Year-End Adjustments**. If Landlord shall have elected to bill Tenant for the Property Operating Expenses (or any group of such expenses) on an estimated basis in accordance with the provisions of Paragraph 3.2(a)(iii) above, Landlord shall furnish to Tenant within four months following the end of the applicable calendar or fiscal year, as the case may be, a statement setting forth (i) the amount of such expenses paid or incurred during the just ended calendar or fiscal year, as appropriate, and (ii) the amount that Tenant has paid to Landlord for credit against such expenses for such period. If Tenant shall have paid more than its obligation for such expenses for the stated period, Landlord shall, at its election, either (i) credit the amount of such overpayment toward the next ensuing payment or payments of Additional Rent that would otherwise be due or (ii) refund in cash to Tenant the amount of such overpayment. If such year-end statement shall show that Tenant did not pay its obligation for such expenses in full, then Tenant shall pay to Landlord the amount of such underpayment within thirty (30) days from Landlord's billing of same to Tenant. Tenant may, at Tenant's sole cost and expense, cause an audit of Landlord's books and records to determine the accuracy of Landlord's billings for Property Operating Expenses under this Lease, provided Tenant completes (and delivers to Landlord the written results of) such audit within sixty (60) days after Tenant's receipt of the year-end statement described above setting forth the annual reconciliation of the Property Operating Expenses, and provided further that the person or entity performing such audit is not compensated on any type of contingent basis. If such audit reveals that the actual Property Operating Expenses for any given year were less than the amount that Tenant paid for Property Operating Expenses for any such year, then unless Landlord contests such audit results as provided below, Landlord shall credit the excess to Tenant's next payment of Additional Rent and Landlord shall pay the cost of Tenant's audit. If such audit reveals that the actual Property Operating Expenses for any given year were

more than the amount that Tenant paid for Property Operating Expenses for any such year, Tenant shall pay such amount to Landlord within thirty (30) days after completion of the audit. Landlord shall have the right to contest the results of Tenant's audit and thereafter promptly have an audit performed ("Landlord's Audit") by a certified public accounting firm selected by Landlord and acceptable to Tenant in Tenant's reasonable discretion. In such case, the results of Landlord's audit shall be binding and conclusive on Landlord and Tenant, and any resulting overpayment or underpayment shall be handled as provided above. Tenant shall pay the cost of Landlord's Audit unless Landlord's Audit confirms the accuracy of the audit performed by Tenant, in which case Landlord shall pay the cost of Landlord's Audit. The provisions of this Paragraph shall survive the expiration or sooner termination of this Lease.

3.4 **Late Charge, And Interest On Rent In Default**. Tenant acknowledges that the late payment by Tenant of any monthly installment of Base Monthly Rent or any Additional Rent will cause Landlord to incur certain costs and expenses not contemplated under this Lease, the exact amounts of which are extremely difficult or impractical to fix. Such costs and expenses will include without limitation, administration and collection costs and processing and accounting expenses. Therefore, if any installment of Base Monthly Rent is not received by Landlord from Tenant within five (5) calendar days after the same becomes due, Tenant shall immediately pay to Landlord a late charge in an amount equal to the amount set forth in Article 1 as the "Late Charge Amount," and if any Additional Rent is not received by Landlord when the same becomes due, Tenant shall immediately pay to Landlord a late charge in an amount equal to 5% of the Additional Rent not so paid. Landlord and Tenant agree that this late charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for the anticipated loss Landlord would suffer by reason of Tenant's failure to make timely payment. In no event shall this provision for a late charge be deemed to grant to Tenant a grace period or extension of time within which to pay any rental installment or prevent Landlord from exercising any right or remedy available to Landlord upon Tenant's failure to pay each rental installment due under this Lease when due, including the right to terminate this Lease. If any rent remains delinquent for a period in excess of five (5) calendar days, then, in addition to such late charge, Tenant shall pay to Landlord interest on any rent that is not so paid from said fifth day at the then maximum rate of interest not prohibited or made usurious by Law until paid.

3.5 **Payment Of Rent**. Except as specifically provided otherwise in this Lease, all rent shall be paid in lawful money of the United States, without any abatement, reduction or offset for any reason whatsoever, to Landlord at such address as Landlord may designate from time to time. Tenant's obligation to pay Base Monthly Rent and all Additional Rent shall be appropriately prorated at the commencement and expiration of the Lease Term. The failure by Tenant to pay any Additional Rent as required pursuant to this Lease when due shall be treated the same as a failure by Tenant to pay Base Monthly Rent when due, and Landlord shall have the same rights and remedies against Tenant as Landlord would have had Tenant failed to pay the Base Monthly Rent when due.

3.6 **Prepaid Rent**. Tenant shall, upon execution of this Lease, pay to Landlord the amount set forth in Article 1 as "First Month's Prepaid Rent" as prepayment of rent for credit against the first payment of Base Monthly Rent and Additional Rent due hereunder.

3.7 **Security Deposit**. Tenant shall deposit concurrently with Tenant's execution of this Lease, with Landlord the amount set forth in Article 1 as the "***Security Deposit***" as security for the performance by Tenant of the terms of this Lease to be performed by Tenant, and not as prepayment of rent. Tenant hereby grants to Landlord a security interest in the Security Deposit, including but not limited to replenishments thereof. Landlord may apply such portion or portions of the Security Deposit as are reasonably necessary for the following purposes: (i) to remedy any default by Tenant in the payment of Base Monthly Rent or Additional Rent or a late charge or interest on defaulted rent, or any other monetary payment obligation of Tenant under this Lease; (ii) to repair damage to the Leased Premises, the Building or the Outside Areas caused or permitted to occur by Tenant; (iii) to clean and restore and repair the Leased Premises, the Building or the Outside Areas following their surrender to Landlord if not surrendered in the condition required pursuant to the provisions of Article 2, (iv) to remedy any other default of Tenant including, without limitation, paying in full on Tenant's behalf any sums claimed by materialmen or contractors of Tenant to be owing to them by Tenant for work done or improvements made at Tenant's request to the Leased Premises, and (v) to cover any other expense, loss or damage which Landlord may at any time suffer due to Tenant's default. In this regard, Tenant hereby waives any restriction on the uses to which the Security Deposit may be applied as contained in Section 1950.7(c) of the California Civil Code and/or any successor statute. In the event the Security Deposit or any portion thereof is so used, Tenant shall pay to Landlord, promptly upon demand, an amount in cash sufficient to restore the Security Deposit to the full original sum. Landlord shall not be deemed a trustee of the Security Deposit. Landlord may use the Security Deposit in Landlord's ordinary business and shall not be required to segregate it from Landlord's general accounts. Tenant shall not be entitled to any interest on the Security Deposit. If Landlord transfers the Building or the Property during the Lease Term, Landlord may pay the Security Deposit to any subsequent owner in conformity with the provisions of Section 1950.7 of the California Civil Code and/or any successor statute, in which event the transferring landlord shall be released from all liability for the return of the Security Deposit. Tenant specifically grants to Landlord (and Tenant hereby waives the provisions of California Civil Code Section 1950.7 to the contrary) a period of thirty days following a surrender of the Leased Premises by Tenant to Landlord within which to inspect the Leased Premises, make required restorations and repairs, receive and verify workmen's billings therefor, cure any other defaults, deduct any damages, and prepare a final accounting with respect to the Security Deposit. In no event shall the Security Deposit or any portion thereof, be considered prepaid rent.

ARTICLE 4
USE OF LEASED PREMISES AND OUTSIDE AREA

4.1 **Permitted Use**. Tenant shall be entitled to use the Leased Premises solely for the "Permitted Use" as set forth in Article 1 and for no other purpose whatsoever. Tenant shall continuously and without interruption occupy the Leased Premises for such purpose for the entire Lease Term. Any discontinuance of such use for a period of sixty consecutive calendar days shall be, at Landlord's election, a default by Tenant under the terms of this Lease provided that no discontinuance shall exist during any period in which Tenant is actively attempting to sublet or assign the Premises. Tenant shall have the right to use the Outside Areas in conjunction with its Permitted Use of the Leased Premises solely for the purposes for which they were designed and intended and for no other purposes whatsoever.

4.2 **General Limitations On Use**. Tenant shall not do or permit anything to be done in or about the Leased Premises, the Building, the Outside Areas or the Property which does or could (i) jeopardize the structural integrity of the Building or (ii) cause damage to any part of the Leased Premises, the Building, the Outside Areas or the Property. Tenant shall not operate any equipment within the Leased Premises which does or could (A) injure, vibrate or shake the Leased Premises or the Building, (B) damage, overload or impair the efficient operation of any electrical, plumbing, heating, ventilating or air conditioning systems within or servicing the Leased Premises or the Building, or (C) damage or impair the efficient operation of the sprinkler system (if any) within or servicing the Leased Premises or the Building. Tenant shall not install any equipment or antennas on or make any penetrations of the exterior walls or roof of the Building. Tenant shall not affix any equipment to or make any penetrations or cuts in the floor, ceiling, walls or roof of the Leased Premises. Tenant shall not place any loads upon the floors, walls, ceiling or roof systems which could endanger the structural integrity of the Building or damage its floors, foundations or supporting structural components. Tenant shall not place any explosive, flammable or harmful fluids or other waste materials in the drainage systems of the Leased Premises, the Building, the Outside Areas or the Property. Tenant shall not drain or discharge any fluids in the landscaped areas or across the paved areas of the Property. Tenant shall not use any of the Outside Areas for the storage of its materials, supplies, inventory or equipment and all such materials, supplies, inventory or equipment shall at all times be stored within the Leased Premises. Tenant shall not commit nor permit to be committed any waste in or about the Leased Premises, the Building, the Outside Areas or the Property.

4.3 **Noise And Emissions**. All noise generated by Tenant in its use of the Leased Premises shall be confined or muffled so that it does not interfere with the businesses of the occupants and/or users of adjacent properties. All dust, fumes, odors and other emissions generated by Tenant's use of the Leased Premises shall be sufficiently dissipated in accordance with sound environmental practice and

exhausted from the Leased Premises in such a manner so as not to interfere with the businesses of or annoy the occupants and/or users of adjacent properties, or cause any damage to the Leased Premises, the Building, the Outside Areas or the Property or any component part thereof or the property of adjacent property owners.

4.4 **Trash Disposal**. Tenant shall provide trash bins or other adequate garbage disposal facilities within the trash enclosure areas provided or permitted by Landlord outside the Leased Premises sufficient for the interim disposal of all of its trash, garbage and waste. All such trash, garbage and waste temporarily stored in such areas shall be stored in such a manner so that it is not visible from outside of such areas, and Tenant shall cause such trash, garbage and waste to be regularly removed from the Property. Tenant shall keep the Leased Premises and the Outside Areas in a clean, safe and neat condition free and clear of all of Tenant's trash, garbage, waste and/or boxes, pallets and containers containing same at all times.

4.5 **Parking**. Tenant shall not, at any time, park or permit to be parked any recreational vehicles, inoperative vehicles or equipment in the Outside Areas or on any portion of the Property. Tenant agrees to assume responsibility for compliance by its employees and invitees with the parking provisions contained herein. If Tenant or its employees park any vehicle within the Property in violation of these provisions, then Landlord may, upon prior written notice to Tenant giving Tenant one (1) day (or any applicable statutory notice period, if longer than one (1) day) to remove such vehicle(s), in addition to any other remedies Landlord may have under this Lease, charge Tenant, as Additional Rent, and Tenant agrees to pay, as Additional Rent, One Hundred Dollars ($100) per day for each day or partial day that each such vehicle is so parked within the Property. Landlord reserves the right to grant easements and access rights to others for use of the parking areas on the Property, provided that such grants do not materially interfere with Tenant's use of the parking areas.

4.6 **Signs**. Tenant shall not place or install on or within any portion of the Leased Premises, the exterior of the Building, the Outside Areas or the Property any sign, advertisement, banner, placard, or picture which is visible from the exterior of the Leased Premises. Tenant shall not place or install on or within any portion of the Leased Premises, the exterior of the Building, the Outside Areas or the Property any business identification sign which is visible from the exterior of the Leased Premises until Landlord shall have approved in writing and in its sole discretion the location, size, content, design, method of attachment and material to be used in the making of such sign; *provided*, *however*, that so long as such signs are normal and customary business directional or identification signs within the Building, Tenant shall not be required to obtain Landlord's approval. Any sign, once approved by Landlord, shall be installed at Tenant's sole cost and expense and only in strict compliance with Landlord's approval and any applicable Laws and Restrictions, using a person

approved by Landlord to install same. Landlord may remove any signs (which have not been approved in writing by Landlord), advertisements, banners, placards or pictures so placed by Tenant on or within the Leased Premises, the exterior of the Building, the Outside Areas or the Property and charge to Tenant the cost of such removal, together with any costs incurred by Landlord to repair any damage caused thereby, including any cost incurred to restore the surface (upon which such sign was so affixed) to its original condition. Tenant shall remove all of Tenant's signs, repair any damage caused thereby, and restore the surface upon which the sign was affixed to its original condition, all to Landlord's reasonable satisfaction, upon the termination of this Lease.

4.7 **Compliance With Laws And Restrictions**. Tenant shall abide by and shall promptly observe and comply with, at its sole cost and expense, all Laws and Restrictions respecting the use and occupancy of the Leased Premises, the Building, the Outside Areas or the Property including, without limitation, Title 24, building codes, the Americans with Disabilities Act and the rules and regulations promulgated thereunder, and all Laws governing the use and/or disposal of hazardous materials, and shall defend with competent counsel, indemnify and hold Landlord harmless from any claims, damages or liability resulting from Tenant's failure to so abide, observe, or comply. Tenant's obligations hereunder shall survive the expiration or sooner termination of this Lease. Notwithstanding anything contained in this Lease to the contrary (except for Paragraph 6.3 and the balance of this Paragraph 4.7, which shall control with respect to the matters set forth therein), Tenant shall not be liable or responsible financially for, and shall not be required to correct, any violations of or noncompliance with such Laws or Restrictions if such violations or noncompliance either (i) existed upon completion of the Landlord's Work (unless relating to the Tenant Improvements constructed by Tenant or its contractor(s), or (ii) did not arise out of an act or omission by Tenant.

4.8 **Compliance With Insurance Requirements**. With respect to any insurance policies required or permitted to be carried by Landlord in accordance with the provisions of this Lease, Tenant shall not conduct nor permit any other person to conduct any activities nor keep, store or use (or allow any other person to keep, store or use) any item or thing within the Leased Premises, the Building, the Outside Areas or the Property which (i) is prohibited wider the terms of any such policies, (ii) could result in the termination of the coverage afforded under any of such policies, (iii) could give to the insurance carrier the right to cancel any of such policies, or (iv) could cause an increase in the rates (over standard rates) charged for the coverage afforded under any of such policies. Tenant shall comply with all requirements of any insurance company, insurance underwriter, or Board of Fire Underwriters which are necessary to maintain, at standard rates, the insurance coverages carried by either Landlord or Tenant pursuant to this Lease.

4.9 **Landlord's Right To Enter**. Landlord and its agents shall have the right to enter the Leased Premises during normal business hours after giving Tenant reasonable notice and subject to Tenant's reasonable security measures for the purpose of (i) inspecting the same; (ii) showing the Leased Premises to prospective purchasers, mortgagees or tenants; (iii) making necessary alterations, additions or repairs; and (iv) performing any of Tenant's obligations when Tenant has failed to do so. Landlord shall have the right to enter the Leased Premises during normal business hours (or as otherwise agreed), subject to Tenant's reasonable security measures, for purposes of supplying any maintenance or services agreed to be supplied by Landlord. Landlord shall have the right to enter the Outside Areas during normal business hours for purposes of (i) inspecting the exterior of the Building and the Outside Areas; (ii) posting notices of nonresponsibility (and for such purposes Tenant shall provide Landlord at least thirty days' prior written notice of any work to be performed on the Leased Premises); and (iii) supplying any services to be provided by Landlord. Any entry into the Leased Premises or the Outside Areas obtained by Landlord in accordance with this paragraph shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Leased Premises, or an eviction, actual or constructive of Tenant from the Leased Premises or any portion thereof.

4.10 **Use Of Outside Areas**. Tenant, in its use of the Outside Areas, shall at all times keep the Outside Areas in a safe condition free and clear of all materials, equipment, debris, trash (except within existing enclosed trash areas), inoperable vehicles, and other items which are not specifically permitted by Landlord to be stored or located thereon by Tenant. If, in the opinion of Landlord, unauthorized persons are using any of the Outside Areas by reason of, or under claim of, the express or implied authority or consent of Tenant, then Tenant, upon demand of Landlord, shall restrain, to the fullest extent then allowed by Law, such unauthorized use, and shall initiate such appropriate proceedings as may be required to so restrain such use. Landlord reserves the right to grant easements and access rights to others for use of the Outside Areas and shall not be liable to Tenant for any diminution in Tenant's right to use the Outside Areas as a result.

4.11 **Environmental Protection**. Tenant's obligations under this Paragraph 4.11 shall survive the expiration or termination of this Lease.

(a) As used herein, the term "Hazardous Materials" shall mean any toxic or hazardous substance, material or waste or any pollutant or infectious or radioactive material, including but not limited to those substances, materials or wastes regulated now or in the future under any of the following statutes or regulations and any and all of those substances included within the definitions of "hazardous substances," "hazardous materials," "hazardous waste," "hazardous chemical substance or mixture," "imminently hazardous chemical substance or mixture," "toxic substances," "hazardous air pollutant," "toxic pollutant," or "solid waste" in the (a) Comprehensive Environmental Response, Compensation and Liability Act of 1990 ("CERCLA" or "Superfund"), as amended by the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), 42 U.S.C. § 9601 et seq., (b) Resource Conservation and Recovery Act of 1976 ("RCRA"), 42 U.S.C. § 6901 et seq., (c) Federal Water Pollution Control Act ("FSPCA"), 33 U.S.C. § 1251 et seq., (d) Clean Air

Act (“CAA”), 42 U.S.C. § 7401 et seq., (e) Toxic Substances Control Act (“TSCA”), 14 U.S.C. § 2601 et seq., (f) Hazardous Materials Transportation Act, 49 U.S.C. § 1801, et seq., (g) Carpenter-Presley-Tanner Hazardous Substance Account Act (“California Superfund”), Cal. Health & Safety Code § 25300 et seq., (h) California Hazardous Waste Control Act, Cal. Health & Safety code § 25100 et seq., (i) Porter-Cologne Water Quality Control Act (“Porter-Cologne Act”), Cal. Water Code § 13000 et seq., (j) Hazardous Waste Disposal Land Use Law, Cal. Health & Safety codes § 25220 et seq., (k) Safe Drinking Water and Toxic Enforcement Act of 1986 (“Proposition 65”), Cal. Health & Safety code § 25249.5 et seq., (1) Hazardous Substances Underground Storage Tank Law, Cal. Health & Safety code § 25280 et seq., (m) Air Resources Law, Cal. Health & Safety Code § 39000 et seq., and (n) regulations promulgated pursuant to said laws or any replacement thereof, or as similar terms are defined in the federal, state and local laws, statutes, regulations, orders or rules. Hazardous Materials shall also mean any and all other biohazardous wastes and substances, materials and wastes which are, or in the future become, regulated under applicable Laws for the protection of health or the environment, or which are classified as hazardous or toxic substances, materials or wastes, pollutants or contaminants, as defined, listed or regulated by any federal, state or local law, regulation or order or by common law decision, including, without limitation, (i) trichloroethylene, tetrachloroethylene, perchloroethylene and other chlorinated solvents, (ii) any petroleum products or fractions thereof, (iii) asbestos, (iv) polychlorinated biphenyls, (v) flammable explosives, (vi) urea formaldehyde, (vii) radioactive materials and waste, and (viii) materials and wastes that are harmful to or may threaten human health, ecology or the environment.

(b) Notwithstanding anything to the contrary in this Lease, Tenant, at its sole cost shall comply with all Laws relating to the storage, use and disposal of Hazardous Materials; *provided*, *however*, that Tenant shall not be responsible for contamination of the Leased Premises by Hazardous Materials present on, in or under the Leased Premises as of the date the Leased Premises are delivered to Tenant (whether before or after the Lease Commencement Date) unless brought onto the Leased Premises by Tenant. Tenant shall not store, use or dispose of any Hazardous Materials on the Leased Premises except for small quantities of Hazardous Materials typically present in office settings, e.g., copier fluids, cleaning fluids (“Permitted Small Quantities”) or those Hazardous Materials listed in a Hazardous Materials management plan (“I-IMMP”) which Tenant shall deliver to Landlord upon execution of this Lease and update at least annually with Landlord (collectively, “Permitted Materials”) which may be used, stored and disposed of provided (i) such Permitted Materials are used, stored, transported, and disposed of in strict compliance with applicable laws, (ii) such Permitted Materials (other than the Permitted Small Quantities) shall be limited to the materials listed on and may be used only in the quantities specified in the IIMMP, and (iii) Tenant shall provide Landlord with copies of all material safety data sheets and other documentation required under applicable Laws in connection with Tenant’s use of Permitted Materials as and when such documentation is provided to any regulatory authority having jurisdiction. In no event shall Tenant cause or permit to be discharged into the plumbing or sewage system of the Building or onto the land underlying or adjacent to the Building any Hazardous Materials. Tenant shall be solely responsible for and shall defend, indemnify, and hold Landlord and its agents harmless from and against all claims, costs and liabilities, including attorneys’ fees and costs, arising out of or in connection with Tenant’s storage, use and/or disposal of Hazardous Materials. If the presence of Hazardous Materials on the Leased Premises caused or permitted by Tenant results in contamination

or deterioration of water or soil, then Tenant shall promptly take any and all action necessary to remediate such contamination, but the foregOing shall in no event be deemed to constitute permission by Landlord to allow the presence of such Hazardous Materials. At any time prior to the expiration of the Lease Term if Tenant has a reasonable basis to suspect that there has been any release or the presence of Hazardous Materials in the ground or ground water on the Leased Premises which did not exist upon commencement of the Lease Term, Tenant shall have the right to conduct appropriate tests of water and soil and to deliver to Landlord the results of such tests to demonstrate that no contamination in excess of actionable levels has occurred as a result of Tenant's use of the Leased Premises. Tenant shall further be solely responsible for, and shall defend, indemnify, and hold Landlord and its agents harmless from and against all claims, costs and liabilities, including attorneys' fees and costs, arising out of or in connection with any remediation, removal, and restoration work and materials required by applicable Laws as the result of Hazardous Materials brought onto or permitted to enter the Premises by Tenant in order to remediate the Leased Premises and any other property of whatever nature so as to be in compliance with applicable Laws.

(c) Upon termination or expiration of the Lease Term, Tenant at its sole expense shall cause all Hazardous Materials placed in or about the Leased Premises, the Building and/or the Property by Tenant, its agents, contractors, or invitees, and all installations (whether interior or exterior) made by or on behalf of Tenant relating to the storage, use, disposal or transportation of Hazardous Materials to be remediated in accordance and compliance with all Laws and Restrictions respecting Hazardous Materials used or permitted to be used by Tenant. Tenant shall apply for and shall obtain from all appropriate regulatory authorities (including any applicable fire department or regional water quality control board) all permits, approvals and clearances necessary for the closure of the Property as the result of Hazardous Materials brought onto or permitted to enter the Leased Premises by Tenant and shall take all other actions as may be required to complete the closure of the Building and the Property as the result of Hazardous Materials brought onto or permitted to enter the Leased Premises by Tenant. In addition, if Landlord then has a reasonable basis to believe that Tenant may have liability under this Article, then prior to vacating the Leased Premises, Tenant shall undertake and submit to Landlord an environmental site assessment from an environmental consulting company reasonably acceptable to Landlord which site assessment shall evidence Tenant's compliance with this Paragraph 4.11.

(d) At any time prior to expiration of the Lease Term, subject to reasonable prior notice (not less than forty-eight (48) hours) and Tenant's reasonable security requirements and provided such activities do not unreasonably interfere with the conduct of Tenant's business at the Leased Premises, Landlord shall have the right to enter in and upon the Property, Building and Leased Premises in order to conduct appropriate tests of water and soil to determine whether levels of any Hazardous Materials in excess of legally permissible levels has occurred as a result of Tenant's use thereof. Landlord shall furnish copies of all such test results and reports to Tenant and, at Tenant's option and cost, shall permit split sampling for testing and analysis by Tenant. Such testing shall be at Tenant's expense if Landlord has a reasonable basis for suspecting and confirms the presence of Hazardous Materials in the soil or surface or ground water in, on, under, or about the Property, the Building or the Leased Premises, which has been caused by or resulted from the activities of Tenant, its agents, contractors, or invitees.

(e) Landlord may voluntarily cooperate in a reasonable manner with the efforts of all governmental agencies in reducing actual or potential environmental damage. Tenant shall not be entitled to terminate this Lease or to any reduction in or abatement of rent by reason of such voluntary cooperation, nor for any required compliance. Tenant agrees at all times to cooperate fully with the requirements and recommendations of governmental agencies regulating, or otherwise involved in, the protection of the environment.

4.12 **Rules And Regulations**. In the event Palo Alto Networks is no longer the sole tenant of the Leased Premises, Landlord shall have the right from time to time to establish reasonable rules and regulations and/or amendments or additions thereto respecting the use of the Leased Premises and the Outside Areas for the care and orderly management of the Property. Upon delivery to Tenant of a copy of such rules and regulations or any amendments or additions thereto, Tenant shall comply with such rules and regulations. A violation by Tenant of any of such rules and regulations shall constitute a default by Tenant under this Lease. If there is a conflict between the rules and regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail. Landlord shall not be responsible or liable to Tenant for the violation of such rules and regulations by any other tenant of the Property.

4.13 **Reservations**. Landlord reserves the right from time to time to grant, without the consent or joinder of Tenant, such easements, rights of way and dedications that Landlord deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way and dedications do not unreasonably interfere with the use of the Leased Premises by Tenant. Tenant agrees to execute any documents reasonably requested by Landlord to effectuate any such easement rights, dedications, maps or restrictions.

ARTICLE 5
REPAIRS, MAINTENANCE, SERVICES AND UTILITIES

5.1 **Repair And Maintenance**. Except in the case of damage to or destruction of the Leased Premises, the Building, the Outside Areas or the Property caused by an act of God or other peril, in which case the provisions of Article 10 shall control, the parties shall have the following obligations and responsibilities with respect to the repair and maintenance of the Leased Premises, the Building, the Outside Areas, and the Property.

(a) **Tenant's Obligations**. Tenant shall, at all times during the Lease Term and at its sole cost and expense, regularly clean and continuously keep and maintain in good order, condition and repair the Leased Premises and every part thereof including, without limiting the generality of the foregoing, (i) all interior walls, floors and ceilings, (ii) all windows, doors and skylights, (iii) all electrical wiring, conduits, connectors and fixtures, (iv) all plumbing, pipes, sinks, toilets, faucets and drains, (v) all lighting fixtures, bulbs and lamps, elevators, and all heating,

ventilating and air conditioning equipment, and (vi) all entranceways to the Leased Premises. Tenant, if requested to do so by Landlord, shall hire, at Tenant's sole cost and expense, a licensed heating, ventilating and air conditioning contractor to regularly and periodically (not less frequently than every three months) inspect and perform required maintenance on the heating, ventilating and air conditioning equipment and systems serving the Leased Premises, or alternatively, Landlord may, at its election, contract in its own name for such regular and periodic inspections of and maintenance on such heating, ventilating and air conditioning equipment and systems and charge to Tenant, as Additional Rent, the cost thereof. Tenant shall, at all times during the Lease Term, keep in a clean and safe condition the Outside Areas. Tenant shall regularly and periodically sweep and clean the driveways and parking areas. Tenant shall, at its sole cost and expense, repair all damage to the Leased Premises, the Building, the Outside Areas or the Property caused by the activities of Tenant, its employees, invitees or contractors promptly following written notice from Landlord to so repair such damages. If Tenant shall fail to perform the required maintenance or fail to make repairs required of it pursuant to this paragraph within a reasonable period of time following notice from Landlord to do so, then Landlord may, at its election and without waiving any other remedy it may otherwise have under this Lease or at law, perform such maintenance or make such repairs and charge to Tenant, as Additional Rent, the costs so incurred by Landlord for same. All glass within or a part of the Leased Premises, both interior and exterior, is at the sole risk of Tenant and any broken glass shall promptly be replaced by Tenant at Tenant's expense with glass of the same kind, size and quality.

(b) **Landlord's Obligation**. Landlord shall, at all times during the Lease Term, maintain in good condition and repair the foundation, roof structure, load-bearing and exterior walls of the Building (excluding paint), and main underground utilities (if any) beneath the Building slab. In addition, Landlord shall hire a licensed roofing contractor to regularly and periodically inspect and perform required maintenance on the roof of the Leased Premises. The provisions of this subparagraph (b) shall in no way limit the right of Landlord to charge to Tenant, as Additional Rent pursuant to Article 3 (to the extent permitted pursuant to Article 3), the costs incurred by Landlord in performing such maintenance and/or making such repairs.

5.2 **Utilities**. Tenant shall arrange at its sole cost and expense and in its own name, for the supply of gas and electricity to the Leased Premises. In the event that such services are not separately metered, Tenant shall, at its sole expense, cause such meters to be installed. Landlord shall maintain the water meter(s) in its own name; provided, however, that if at any time during the Lease Term Landlord shall require Tenant to put the water service in Tenant's name, Tenant shall do so at Tenant's sole cost. Tenant shall be responsible for determining if the local supplier of water, gas and electricity can supply the needs of Tenant and whether or not the existing water, gas and electrical distribution systems within the Building and the Leased Premises are adequate for Tenant's needs. Tenant shall be responsible for determining if the existing sanitary and storm sewer systems now servicing the Leased Premises and the Property are adequate for Tenant's needs. Tenant shall pay all charges for water, gas, electricity and storm and sanitary sewer services as so supplied to the Leased Premises, irrespective of whether or not the services are maintained in Landlord's or Tenant's name.

5.3 **Security**. Tenant acknowledges that Landlord has not undertaken any duty whatsoever to provide security for the Leased Premises, the Building, the Outside Areas or the Property and, accordingly, Landlord is not responsible for the security of same or the protection of Tenant's property or Tenant's employees, invitees, or contractors from any cause whatsoever, including but not limited to criminal and/or terrorist acts. To the extent Tenant determines that such security or protection services are advisable or necessary, Tenant shall arrange for and pay the costs of providing same. In the event Landlord in its sole and absolute discretion agrees to provide any security services, whether it be guard service or access systems or otherwise, Landlord shall do so strictly as an accommodation to Tenant and Landlord shall have no liability whatsoever in connection therewith, whether it be for failure to maintain the secure access system, or for failure of the guard service to provide adequate security, or otherwise. Without limitation, Paragraph 8.1 below is intended by Tenant and Landlord to apply to this Paragraph 5.3.

5.4 **Energy And Resource Consumption**. Landlord may voluntarily cooperate in a reasonable manner with the efforts of governmental agencies and/or utility suppliers in reducing energy or other resource consumption within the Property. Landlord shall make reasonable commercial efforts to minimize negative impact of any such cooperation on Tenant's conduct of its business. Tenant shall not be entitled to terminate this Lease or to any reduction in or abatement of rent by reason of such reasonable cooperation unless a knowledgeable commercially experienced person familiar with Tenant's customary business would conclude that such negative impact made the Premises unsuitable for the commercially reasonable conduct of Tenant's customary business. Tenant agrees at all times to cooperate fully with Landlord and to abide by all reasonable rules established by Landlord (i) in order to maximize the efficient operation of the electrical, heating, ventilating and air conditioning systems and all other energy or other resource consumption systems with the Property and/or (ii) in order to comply with the recommendations of utility suppliers and governmental agencies regulating the consumption of energy and/or other resources.

5.5 **Limitation Of Landlord's Liability**. Landlord shall not be liable to Tenant for injury to Tenant, its employees, agents, invitees or contractors, damage to Tenant's property or loss of Tenant's business or profits, nor shall Tenant be entitled to terminate this Lease or to any reduction in or abatement of rent by reason of (i) Landlord's failure to provide security services or systems within the Property for the protection of the Leased Premises, the Building or the Outside Areas, or the protection of Tenant's property or Tenant's employees, invitees, agents or contractors, or (ii) Landlord's failure to perform any maintenance or repairs to the Leased Premises, the Building, the Outside Areas or the Property until Tenant shall have first notified Landlord, in writing, of the need for such maintenance or repairs, and then only after Landlord shall have had a reasonable period of time following its receipt of such notice within which to perform such maintenance or repairs, or (iii) any failure, interruption, rationing or other curtailment in the supply of water, electric current, gas or other utility service to the Leased Premises, the Building, the Outside Areas or the Property from whatever cause (other than Landlord's gross negligence or willful misconduct), or. (iv) the unauthorized intrusion or entry into the Leased Premises by third parties (other than Landlord).

ARTICLE 6
ALTERATIONS AND IMPROVEMENTS

6.1 **By Tenant**. Tenant shall not make any alterations to or modifications of the Leased Premises or construct any improvements within the Leased Premises until Landlord shall have first approved, in writing, the plans and specifications therefor, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant's written request shall also contain a request for Landlord to elect whether or not it will require Tenant to remove the subject alterations, modifications or improvements at the expiration or earlier termination of this Lease and Landlord's removal/no removal decision shall be delivered to Tenant simultaneously with its approval of such alternations or modifications. If such additional request is not included, Landlord may make such election at the expiration or earlier termination of this Lease (and for purposes of Tenant's removal obligations set forth in Paragraph 2.6 above, Landlord shall be deemed to have made the election at the time the alterations, modifications or improvements were completed). All such modifications, alterations or improvements, once so approved, shall be made, constructed or installed by Tenant at Tenant's expense (including all permit fees and governmental charges related thereto), using a licensed contractor first approved by Landlord, in substantial compliance with the Landlord-approved plans and specifications therefor. All work undertaken by Tenant shall be done in accordance with all Laws and Restrictions and in a good and workmanlike manner using new materials of good quality. Tenant shall not commence the making of any such modifications or alterations or the construction of any such improvements until (i) all required governmental approvals and permits shall have been obtained, (ii) all requirements regarding insurance imposed by this Lease have been satisfied, (iii) Tenant shall have given Landlord at least five (5) business days prior written notice of its intention to commence such work so that Landlord may post and file notices of non-responsibility, and (iv) if requested by Landlord, Tenant shall have obtained contingent liability and broad form builder's risk insurance in an amount satisfactory to Landlord in its reasonable discretion to cover any perils relating to the proposed work not covered by insurance carried by Tenant pursuant to Article 9. In no event shall Tenant make any modification, alterations or improvements whatsoever to the Outside Areas or the exterior or structural components of the Building including, without limitation, any cuts or penetrations in the floor, roof or exterior walls of the Leased Premises. As used in this Article, the term "modifications, alterations and/or improvements" shall include, without limitation, the installation of additional electrical outlets, overhead lighting fixtures, drains, sinks, partitions, doorways, or the like.

6.2 **Ownership Of Improvements**. All modifications, alterations and improvements made or added to the Leased Premises by Tenant (other than Tenant's inventory, equipment, movable furniture, wall decorations and trade fixtures) shall be deemed real property and a part of the Leased Premises, but shall remain the property of Tenant during the Lease, and Tenant hereby covenants and agrees not to grant a security interest in any such items to any party other than Landlord. Any such modifications, alterations or improvements, once completed, shall not be altered or removed from the Leased Premises during the Lease Term without Landlord's written approval first obtained in accordance with the provisions of Paragraph 6.1 above. At the expiration or sooner termination of this Lease, all such modifications, alterations and improvements other than Tenant's inventory, equipment, movable furniture, wall decorations and trade fixtures, shall automatically become the property of Landlord and shall be surrendered to Landlord as part of the Leased Premises as required pursuant to Article 2, unless Landlord shall require Tenant to remove any of such modifications, alterations or improvements in accordance with the provisions of Article 2, in which case Tenant shall so remove same. Landlord shall have no obligations to reimburse Tenant for all or any portion of the cost or value of any such modifications, alterations or improvements so surrendered to Landlord. All modifications, alterations or improvements which are installed or constructed on or attached to the Leased Premises by Landlord and/or at Landlord's expense shall be deemed real property and a part of the Leased Premises and shall be property of Landlord. All lighting, plumbing, electrical, heating, ventilating and air conditioning fixtures, partitioning, window coverings, wall coverings and floor coverings installed by Tenant shall be deemed improvements to the Leased Premises and not trade fixtures of Tenant.

6.3 **Alterations Required By Law**. Tenant shall make all modifications, alterations and improvements to the Leased Premises, at its sole cost, that are required by any Law because of (i) Tenant's particular use of the Leased Premises, the Building, the Outside Areas or the Property, (ii) Tenant's application for any permit or governmental approval, or (iii) Tenant's making of any modifications, alterations or improvements to or within the Leased Premises. If Landlord shall, at any time during the Lease Term, be required by any governmental authority to make any modifications, alterations or improvements to the Building or the Property, the cost incurred by Landlord in making such modifications, alterations or improvements, including interest at a rate equal to the greater of (a) 8% per annum, or (b) the sum of that rate per annum quoted by Wells Fargo Bank, N.T. & S. A., from time to time as its prime rate, plus two percent (2%) ("Wells Prime Plus Two") (but in no event more than the maximum rate of interest not prohibited or made usurious), shall be amortized by Landlord over the useful life of such modifications, alterations or improvements, as determined in accordance with generally accepted accounting principles, and the monthly amortized cost of such modifications, alterations and improvements as so amortized shall be considered a Property Maintenance Cost.

6.4 **Liens**. Tenant shall keep the Property and every part thereof free from any lien, and shall pay when due all bills arising out of any work performed, materials furnished, or obligations incurred by Tenant, its agents, employees or contractors relating to the Property. If any such claim of lien is recorded against Tenant's interest in this Lease, the Property or any part thereof, Tenant shall bond against, discharge or otherwise cause such lien to be entirely released within ten days after the same has been recorded. Tenant's failure to do so shall be conclusively deemed a material default under the terms of this Lease.

ARTICLE 7
ASSIGNMENT AND SUBLETTING BY TENANT

7.1 **By Tenant**. Tenant shall not sublet the Leased Premises or any portion thereof or assign its interest in this Lease, or permit the occupancy of the Premises by other than Tenant, whether voluntarily or by operation of Law, without Landlord's prior written consent which shall not be unreasonably withheld, conditioned, or delayed. Any attempted subletting or assignment, or occupancy of the Leased Premises by other than Tenant, without Landlord's prior written consent, at Landlord's election, shall constitute a default by Tenant under the terms of this Lease. The acceptance of rent by Landlord from any person or entity other than Tenant, or the acceptance of rent by Landlord from Tenant with knowledge of a violation of the provisions of this paragraph, shall not be deemed to be a waiver by Landlord of any provision of this Article or this Lease or to be a consent to any subletting by Tenant or any assignment of Tenant's interest in this Lease. Without limiting the circumstances in which it may be reasonable for Landlord to withhold its consent to an assignment or subletting, Landlord and Tenant acknowledge that it shall be reasonable for Landlord to withhold its consent in the following instances:

(a) the proposed assignee or sublessee is a governmental agency;

(b) in Landlord's reasonable judgment, the use of the Leased Premises by the proposed assignee or sublessee would involve occupancy other than for a Permitted Use, would entail any alterations which would lessen the value of the leasehold improvements in the Leased Premises, or would require increased services by Landlord;

(c) in Landlord's reasonable judgment, the credit-worthiness of the proposed assignee is less than that of Tenant or does not meet the credit standards applied by Landlord;

(d) the proposed assignee or sublessee (or any of its affiliates) has been in material default under a lease, has been in litigation with a previous landlord, or in the ten years prior to the assignment or sublease has filed for bankruptcy protection, has been the subject of an involuntary bankruptcy, or has been adjudged insolvent;

(e) Landlord (or any of its affiliates) has experienced a previous default by or is in litigation with the proposed assignee or sublessee (or any of their affiliates);

(f) in Landlord's reasonable judgment, the Leased Premises, or the relevant part thereof, will be used in a manner that will violate any negative covenant as to use contained in this Lease;

(g) the use of the Leased Premises by the proposed assignee or sublessee will violate any Law or Restriction;

(h) the proposed assignment or sublease fails to include all of the terms and provisions required to be included therein pursuant to this Article 7;

(i) an Event of Default exists under this Lease, or Tenant has materially defaulte under this Lease on three or more occasions during the 12 months preceding the date that Tenant shall request consent; or

(j) in the case of a subletting of less than the entire Leased Premises, if the subletting would result in the division of the Leased Premises into more than two subparcels or would require improvements to be made outside of the Leased Premises.

7.2 **Merger, Reorganization, or Sale of Assets**. Any dissolution, merger, consolidation or other reorganization of Tenant, or the sale or other transfer in the aggregate over the Lease Term of a controlling percentage of the capital stock of or other equity interests in Tenant (excluding original issuances of equity interests to venture capitalists and original issuances of equity interests to other financing parties), or the sale or transfer of all or a substantial portion of the assets of Tenant, shall be deemed a voluntary assignment of Tenant's interest in this Lease. The phrase "controlling percentage" means the direct or indirect ownership of or right to vote (i) stock possessing more than fifty percent of the total combined voting power of all classes of Tenant's capital stock issued, outstanding and entitled to vote for the election of directors, or (ii) equity interests possessing the ability to direct the management of Tenant. If Tenant is a partnership, a withdrawal or change, voluntary, involuntary or by operation of Law, of any general partner, or the dissolution of the partnership, shall be deemed a voluntary assignment of Tenant's interest in this Lease. Upon Landlord's request from time to time, Tenant shall promptly provide Landlord with a statement certified by the Tenant's chief executive officer or chief financial officer, which shall provide the following information: (a) the names of all of Tenant's shareholders and their ownership interests at the time thereof, provided Tenant's shares are not publicly traded; (b) the state in which Tenant is incorporated; (c) the location of Tenant's principal place of business; (d) information regarding a material change in the corporate structure of Tenant, including, without limitation, a merger or consolidation; and (e) any other information regarding Tenant's ownership that Landlord reasonably requests. In the event of an acquisition by one entity of the controlling percentage of the capital stock of Tenant where this Lease is not assigned to and assumed in full by such entity, it shall be a condition to Landlord's consent to such change in control that such entity acquiring the controlling percentage assume, as a primary obligor, all rights and obligations of Tenant under this Lease (and such entity shall execute all documents reasonably required to effectuate such assumption). All information received by Landlord pursuant to this Paragraph 7.2 shall be held by Landlord as confidential information and shall not be disclosed by Landlord to any third party without Tenant's prior written consent; provided, however, that Landlord may disclose such information to its current and prospective lenders, investors, purchasers of its assets, attorneys, and accountants, so long as it informs such persons that the information is not to be further disclosed.

7.3 **Landlord's Election**. If Tenant shall desire to assign its interest under the Lease or to sublet the Leased Premises, Tenant must first notify Landlord, in writing, of its intent to so assign or sublet, at least thirty (30) days in advance of taking any action with respect thereto. Once Tenant (or Landlord or both pursuant to the joint marketing election described below) has identified a potential assignee or sublessee, Tenant shall notify Landlord, in writing, of its intent to so assign or sublet, at least thirty (30) days in advance of the date it intends to so assign its interest in this Lease or sublet the Leased Premises but not sooner than one hundred eighty days in advance of such date, specifying in detail the terms of such proposed assignment or subletting, including the name of the proposed assignee or sublessee, the proposed assignee's or sublessee's intended use of the Leased Premises, current financial statements (including a balance sheet, income statement and statement of cash flow, all prepared in accordance with generally accepted accounting principles) of such proposed assignee or sublessee, the form of documents to be used in effectuating such assignment or subletting and such other information as Landlord may reasonably request. Landlord shall have a period of ten (10) business days following receipt of such notice and the required information within which to do one of the following: (i) consent to such requested assignment or subletting subject to Tenant's compliance with the conditions set forth in Paragraph 7.4 below, or (ii) refuse to so consent to such requested assignment or subletting, provided that such consent shall not be unreasonably refused, or (iii) terminate this Lease as to the portion of the Leased Premises as is the subject of the proposed assignment or subletting (such termination to be effective either (A) on the date specified in Tenant's notice as the intended effective date of the assignment or subletting, or (B) on such tenth (10th) business day after receipt of Tenant's notice, at Landlord's option). During such ten (10) business day period, Tenant covenants and agrees to supply to Landlord, upon request, all necessary or relevant information which Landlord may reasonably request respecting such proposed assignment or subletting and/or the proposed assignee or sublessee. In the event of an election by Landlord under clause (iii) above, Landlord shall have the right to enter into a direct lease with the proposed assignee or sublessee without payment of any consideration to Tenant. In addition, in the event Tenant desires to sublease all or a portion of the Leased Premises, Landlord shall have the right to elect to jointly market with Tenant the applicable portion (including all) of the Leased Premises for subleasing and/or direct leasing, such joint marketing election to be made, if at all, in writing and delivered to Tenant during the thirty (30) day period described in the first sentence of this Paragraph 7.3.

7.4 **Conditions To Landlord's Consent**. If Landlord elects to consent, or shall have been ordered to so consent by a court of competent jurisdiction, to such requested assignment or subletting, such consent shall be expressly conditioned upon the occurrence of each of the conditions below set forth, and any purported assignment or subletting made or ordered prior to the full and complete satisfaction of each of the following conditions shall be void and, at the election of Landlord, which election may be exercised

at any time following such a purported assignment or subletting but prior to the satisfaction of each of the stated conditions, shall constitute a material default by Tenant under this Lease until cured by satisfying in full each such condition by the assignee or sublessee. The conditions are as follows:

(a) Landlord having approved in form and substance the assignment or sublease agreement and any ancillary documents, which approval shall not be unreasonably withheld by Landlord if the requirements of this Article 7 are otherwise complied with.

(b) Each such sublessee or assignee having agreed, in writing satisfactory to Landlord and its counsel and for the benefit of Landlord, in the case of an assignee to assume, to be bound by, and to perform the obligations of this Lease to be performed by Tenant and in the case of a sublease to be bound by and to perform the obligations of the sublease, which relate to space being subleased.

(c) Tenant having fully and completely performed all of its obligations under the terms of this Lease through and including the date of such assignment or subletting.

(d) Tenant having reimbursed to Landlord all reasonable costs and reasonable attorneys' fees incurred by Landlord in conjunction with the processing and documentation of any such requested subletting or assignment. Tenant shall be obligated to so reimburse Landlord whether or not such subletting or assignment is completed.

(e) Tenant having delivered to Landlord a complete and fully-executed duplicate original of such sublease agreement or assignment agreement (as applicable) and all related agreements.

(f) Tenant having paid, or having agreed in writing to pay as to future payments, to Landlord fifty percent (50%) of all assignment consideration or excess rentals to be paid to Tenant or to any other on Tenant's behalf or for Tenant's benefit for such assignment or subletting as follows:

(i) If Tenant assigns its interest under this Lease and if all or a portion of the consideration for such assignment is to be paid by the assignee at the time of the assignment, that Tenant shall have paid to Landlord and Landlord shall have received an amount equal to fifty percent (50%) of the assignment consideration so paid or to be paid (whichever is the greater) at the time of the assignment by the assignee; or

(ii) If Tenant assigns its interest under this Lease and if Tenant is to receive all or a portion of the consideration for such assignment in future installments, that Tenant and Tenant's assignee shall have entered into a written agreement with and for the benefit of Landlord satisfactory to Landlord and its counsel whereby Tenant and Tenant's assignee jointly agree to pay to Landlord an amount equal to fifty percent (50%) of all such future assignment consideration installments to be paid by such assignee as and when such assignment consideration is so paid; or

(iii) If Tenant subleases the Leased Premises, that Tenant and Tenant's sublessee shall have entered into a written agreement with and for the benefit of Landlord satisfactory to Landlord and its counsel whereby Tenant and Tenant's sublessee jointly agree to pay to Landlord fifty percent (50%) of all excess rentals to be paid by such sublessee.

7.5 **Assignment Consideration And Excess Rentals Defined**. For purposes of this Article, including any amendment to this Article by way of addendum or other writing, the term "assignment consideration" shall mean all consideration to be paid by the assignee to Tenant or to any other party on Tenant's behalf or for Tenant's benefit as consideration for such assignment, after deduction for market rate, third party leasing commissions, tenant improvements made for the purpose of inducing the assignee, and reasonable attorneys' fees incurred by Tenant in connection with such assignment, and the tem. "excess rentals" shall mean all consideration to be paid by the sublessee to Tenant or to any other party on Tenant's behalf or for Tenant's benefit for the sublease of all or any portion of the Leased Premises in excess of the rent due to Landlord under the terms of this Lease for the portion so subleased for the same period, after deduction for market rate, third party leasing commissions, tenant improvements made for the purpose of inducing the sublessee, and reasonable attorneys' fees incurred by Tenant in connection with such sublease. Tenant agrees that the portion of any assignment consideration and/or excess rentals arising from any assignment or subletting by Tenant which is to be paid to Landlord pursuant to this Article now is and shall then be the property of Landlord and not the property of Tenant.

7.6 **Payments**. All payments required by this Article to be made to Landlord shall be made in cash in full as and when they become due. At the time Tenant, Tenant's assignee or sublessee makes each such payment to Landlord, Tenant or Tenant's assignee or sublessee, as the case may be, shall deliver to Landlord an itemized statement in reasonable detail showing the method by which the amount due Landlord was calculated and certified by the party making such payment as true and correct.

7.7 **Good Faith**. The rights granted to Tenant by this Article are granted in consideration of Tenant's express covenant, which Tenant hereby makes, that all pertinent allocations which are made by Tenant between the rental value of the Leased Premises and the value of any of Tenant's personal property which may be conveyed or leased (or services provided) generally concurrently with and which may reasonably be considered a part of the same transaction as the permitted assignment or subletting shall be made fairly, honestly and in good faith. If Tenant shall breach this covenant, Landlord may immediately declare Tenant to be in default under the terms of this Lease and terminate this Lease and/or exercise any other rights and remedies Landlord would have under the terms of this Lease in the case of a material default by Tenant under this Lease.

7.8 **Effect Of Landlord's Consent**. No subletting or assignment, even with the consent of Landlord, shall relieve Tenant of its personal and primary obligation to pay rent and to perform all of the other obligations to be performed by Tenant hereunder. Consent by Landlord to one or more assignments of Tenant's interest in this Lease or to one or more sublettings of the Leased Premises shall not be deemed to be a consent to any subsequent assignment or subletting. No subtenant shall have any right to assign its sublease or to further sublet any portion of the sublet premises or to permit any portion of the sublet premises to be used or occupied by any other party. No sublease may be terminated or modified without Landlord's prior written consent. If Landlord shall have been ordered by a court of competent jurisdiction to consent to a requested assignment or subletting, or such an assignment or subletting shall have been ordered by a court of competent jurisdiction over the objection of Landlord, such assignment or subletting shall not be binding between the assignee (or sublessee) and Landlord until such time as all conditions set forth in Paragraph 7.4 above have been fully satisfied (to the extent not then satisfied) by the assignee or sublessee, including, without limitation, the payment to Landlord of all agreed assignment considerations and/or excess rentals then due Landlord. Upon a default while a sublease is in effect, Landlord may collect directly from the sublessee all sums becoming due to Tenant under the sublease and apply this amount against any sums due Landlord by Tenant, and Tenant authorizes and directs any sublessee to make payments directly to Landlord upon notice from Landlord. No direct collection by Landlord from any sublessee shall constitute a novation or release of Tenant or any guarantor, a consent to the sublease or a waiver of the covenant prohibiting subleases. Landlord, as Tenant's agent, may endorse any check, draft or other instrument payable to Tenant for sums due under a sublease, and apply the proceeds in accordance with this Lease; this agency is coupled with an interest and is irrevocable.

ARTICLE 8
LIMITATION ON LANDLORD'S LIABILITY AND INDEMNITY

8.1 **Limitation On Landlord's Liability And Release**. Landlord shall not be liable to Tenant for, and Tenant hereby releases and waives all claims and rights of recovery against Landlord and its partners, principals, members, managers, officers, agents, employees, lenders, attorneys, contractors, invitees, consultants, predecessors, successors and assigns (including without limitation prior and subsequent owners of the Property or portions thereof) (collectively, the "Landlord Indemnitees") from, any and all liability, whether in contract, tort or on any other basis, for any injury to or any damage sustained by Tenant, Tenant's agents, employees, contractors or invitees, any damage to Tenant's property, or any loss to Tenant's business, loss of Tenant's profits or other financial loss of Tenant resulting from or attributable to the condition of, the management of, the repair or maintenance of, the protection of, the supply of services or utilities to, the damage in or destruction of the Leased Premises, the Building, the Property or the Outside Areas, including without limitation (i) the failure, interruption, rationing or other curtailment or cessation in the supply of electricity, water, gas or other utility service to the Property, the Building or the Leased Premises; (ii) the vandalism or forcible entry into the Building or the Leased Premises; (iii) the penetration of water into or onto any portion of the Leased Premises; (iv) the failure to provide security and/or adequate lighting in or about the Property, the Building or the Leased Premises, (v) the existence of any design or construction defects within the

Property, the Building or the Leased Premises; (vi) the failure of any mechanical systems to function properly (such as the HVAC systems); (vii) the blockage of access to any portion of the Property, the Building or the Leased Premises, except that Tenant does not so release Landlord from such liability to the extent such damage was proximately caused by Landlord's gross negligence, willful misconduct, or Landlord's failure to perform an obligation expressly required to be performed by Landlord pursuant to this Lease after a reasonable period of time shall have lapsed following receipt of written notice from Tenant to so perform such obligation. In this regard, Tenant acknowledges that it is fully apprised of the provisions of Law relating to releases, and particularly to those provisions contained in Section 1542 of the California Civil Code which reads as follows:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Notwithstanding such statutory provision, and for the purpose of implementing a full and complete release and discharge, Tenant hereby (i) waives the benefit of such statutory provision and (ii) acknowledges that, subject to the exceptions specifically set forth herein, the release and discharge set forth in this paragraph is a full and complete settlement and release and discharge of all claims and is intended to include in its effect, without limitation, all claims which Tenant, as of the date hereof, does not know of or suspect to exist in its favor.

8.2 **Tenant's Indemnification Of Landlord**. Tenant shall defend with competent counsel satisfactory to Landlord any claims made or legal actions filed or threatened against the Landlord Indemnitees with respect to (a) the violation of any Law by Tenant or its partners, principals, members, managers, officers, agents, employees, lenders, attorneys, contractors, invitees, consultants, predecessors, successors and assigns (collectively, the "Tenant Indemnitees"), or the death, bodily injury, personal injury, property damage, or interference with contractual or property rights suffered by any third party occurring within the Leased Premises or resulting from Tenant's or Tenant's Indemnitees' use or occupancy of the Leased Premises, the Building or the Outside Areas, or resulting from Tenant's or Tenant's Indemnitees' activities in or about the Leased Premises, the Building, the Outside Areas or the Property, and Tenant shall indemnify and hold the Landlord Indemnitees harmless from any loss liability, penalties, or expense whatsoever (including any loss attributable to vacant space which otherwise would have been leased, but for such activities) resulting therefrom, except to the extent proximately caused by the negligence or willful misconduct of Landlord. This indemnity agreement shall survive the expiration or sooner termination of this Lease.

8.3 **Landlord's Indemnification Of Tenant**. Landlord shall indemnify and hold Tenant harmless from any loss liability, penalties, or expense whatsoever resulting from the gross negligence or willful misconduct of Landlord at or with respect to the Property. This indemnity agreement shall survive the expiration or sooner termination of this Lease.

ARTICLE 9
INSURANCE

9.1 **Tenant's Insurance**. Tenant shall maintain insurance complying with all of the following:

(a) Tenant shall procure, pay for and keep in full force and effect, at all times during the Lease Term, the following:

(i) Commercial general liability insurance insuring Tenant against liability for personal injury, bodily injury, death and damage to property occurring within the Leased Premises, or resulting from Tenant's use or occupancy of the Leased Premises, the Building, the Outside Areas or the Property, or resulting from Tenant's activities in or about the Leased Premises or the Property, with coverage in an amount equal to Tenant's Required Liability Coverage (as set forth in Article 1), which insurance shall contain "blanket contractual liability" and "broad form property damage" endorsements insuring Tenant's performance of Tenant's obligations to indemnify Landlord as contained in this Lease.

(ii) Fire and property damage insurance in "special form" coverage insuring Tenant against loss from physical damage to Tenant's personal property, inventory, trade fixtures and improvements within the Leased Premises with coverage for the full actual replacement cost thereof;

(iii) Business income/extra expense insurance sufficient to pay Base Monthly Rent and Additional Rent for a period of not less than twelve (12) months;

(iv) Plate glass insurance, at actual replacement cost;

(v) Boiler and machinery insurance, to limits sufficient to restore the Building;

(vi) Product liability insurance (including, without limitation, if food and/or beverages are distributed, sold and/or consumed within the Leased Premises, to the extent obtainable, coverage for liability arising out of the distribution, sale, use or consumption of food and/or beverages (including alcoholic beverages, if applicable) at the Leased Premises for not less than Tenant's Required Liability Coverage (as set forth in Article 1);

(vii) Workers' compensation insurance (statutory coverage) with employer's liability in amounts not less than $1,000,000 insurance sufficient to comply with all laws; and

(viii) With respect to making of any alterations or modifications or the construction of improvements or the like undertaken by Tenant, course of construction, commercial general liability, automobile liability and workers' compensation (to be carried by Tenant's contractor), in an amount and with coverage reasonably satisfactory to Landlord.

(b) Each policy of liability insurance required to be carried by Tenant pursuant to this paragraph or actually carried by Tenant with respect to the Leased Premises or the Property: (i) shall, except with respect to insurance required by subparagraphs (a)(ii) and (a)(viii) above, name Landlord, and such others as are designated by Landlord, as additional insureds; (ii) shall, with respect to insurance required by subparagraph (a)(ii) above, name Landlord, and such others as are designated by Landlord, as loss payees; (iii) shall be primary insurance providing that the insurer shall be liable for the full amount of the loss, up to and including the total amount of liability set forth in the declaration of coverage, without the right of contribution from or prior payment by any other insurance coverage of Landlord; (iv) shall be in a form satisfactory to Landlord; (v) shall be carried with companies reasonably acceptable to Landlord with Best's ratings of at least A and XI; (vi) shall provide that such policy shall not be subject to cancellation, lapse or change except after at least thirty (30) days prior written notice to Landlord, and (vii) shall contain a so-called "severability" or "cross liability" endorsement. Each policy of property insurance maintained by Tenant with respect to the Leased Premises or the Property or any property therein (i) shall provide that such policy shall not be subject to cancellation, lapse or change except after at least thirty (30) days prior written notice to Landlord and (ii) shall contain a waiver and/or a permission to waive by the insurer of any right of subrogation against Landlord, its partners, principals, members, managers, officers, employees, agents and contractors, which might arise by reason of any payment under such policy or by reason of any act or omission of Landlord, its partners, principals, members, managers, officers, employees, agents and contractors.

(c) Prior to the time Tenant or any of its contractors enters the Leased Premises, Tenant shall deliver to Landlord, with respect to each policy of insurance required to be carried by Tenant pursuant to this Article, a copy of such policy (appropriately authenticated by the insurer as having been issued, premium paid) or a certificate of the insurer certifying in form satisfactory to Landlord that a policy has been issued, premium paid, providing the coverage required by this Paragraph and containing the provisions specified herein. With respect to each renewal or replacement of any such insurance, the requirements of this Paragraph must be complied with not less than thirty days prior to the expiration or cancellation of the policies being renewed or replaced. Landlord may, at any time and from time to time, inspect and/or copy any and all insurance policies required to be carried by Tenant pursuant to this Article. If Landlord's Lender, insurance broker, advisor or counsel reasonably determines at any time that the amount of coverage set forth in Paragraph 9.1(a) for any policy of insurance Tenant is required to cany pursuant to this Article is not adequate, then Tenant shall increase the amount of coverage for such insurance to such greater amount as Landlord's Lender, insurance broker, advisor or counsel reasonably deems adequate. In the event Tenant does not maintain said insurance, Landlord may, in its sole discretion and without waiving any other remedies hereunder, procure said insurance and Tenant shall pay to Landlord as additional rent the cost of said insurance plus a ten percent (10%) administrative fee.

9.2 **Landlord's Insurance**. With respect to insurance maintained by Landlord:

(a) Landlord shall maintain, as the minimum coverage required of it by this Lease, fire and property damage insurance in so-called special form coverage insuring Landlord (and such others as Landlord may designate) against loss from physical damage to the Building with coverage of not less than one hundred percent (100%) of the full actual replacement cost thereof and against loss of rents for a period of not less than six months. Such fire and property damage insurance, at Landlord's election but without any requirements on Landlord's behalf to do so, (i) may be written in so-called "all risk" form, excluding only those perils commonly excluded from such coverage by Landlord's then property damage insurer; (ii) may provide coverage for physical damage to the improvements so insured for up to the entire full actual replacement cost thereof; (iii) may be endorsed to cover loss or damage caused by any additional perils against which Landlord may elect to insure, including earthquake and/or flood; and/or (iv) may provide coverage for loss of rents for a period of up to twelve months. Landlord shall not be required to cause such insurance to cover any of Tenant's personal property, inventory, and trade fixtures, or any modifications, alterations or improvements made or constructed by Tenant to or within the Leased Premises. Landlord shall use commercially reasonable efforts to obtain such insurance at competitive rates.

(b) Landlord shall maintain commercial general liability insurance insuring Landlord (and such others as are designated by Landlord) against liability for personal injury, bodily injury, death, and damage to property occurring in, on or about, or resulting from the use or occupancy of the Property, or any portion thereof, with combined single limit coverage of at least Ten Million Dollars ($10,000,000). Landlord may carry such greater coverage as Landlord or Landlord's Lender, insurance broker, advisor or counsel may from time to time determine is reasonably necessary for the adequate protection of Landlord and the Property.

(c) Landlord may maintain any other insurance which in the opinion of its insurance broker, advisor or legal counsel is prudent to carry under the given circumstances, provided such insurance is commonly carried by owners of property similarly situated and operating under similar circumstances.

9.3 **Mutual Waiver Of Subrogation**. Landlord hereby releases Tenant, and Tenant hereby releases Landlord and its respective partners, principals, members, officers, agents, employees and servants, from any and all liability for loss, damage or injury to the property of the other in or about the Leased Premises or the Property which is caused by or results from a peril or event or happening which is covered by insurance actually carried and in force at the time of the loss by the party sustaining such loss; provided, however, that such waiver shall be effective only to the extent permitted by the insurance covering such loss and to the extent such insurance is not prejudiced thereby.

ARTICLE 10
DAMAGE TO LEASED PREMISES

10.1 **Landlord's Duty To Restore**. If the Leased Premises, the Building or the Outside Area are damaged by any peril after the Effective Date of this Lease, Landlord shall restore the same, as and when required by this paragraph, unless this Lease is terminated by Landlord pursuant to Paragraph 10.3 or by Tenant pursuant to Paragraph 10.4. If this Lease is not so terminated, then upon the issuance of all necessary governmental permits, Landlord shall commence and diligently prosecute to completion the restoration of the Leased Premises, the Building or the Outside Area, as the case may be, to the extent then allowed by law, to substantially the same condition in which it existed as of the Lease Commencement Date. Landlord's obligation to restore shall be limited to the improvements constructed by Landlord. Landlord shall have no obligation to restore any alterations, modifications or improvements made by Tenant to the Leased Premises or any of Tenant's personal property, inventory or trade fixtures. Upon completion of the restoration by Landlord, Tenant shall forthwith replace or fully repair all of Tenant's personal property, inventory, trade fixtures and other improvements constructed by Tenant to like or similar conditions as existed at the time immediately prior to such damage or destruction.

10.2 **Insurance Proceeds**. All insurance proceeds available from the fire and property damage insurance carried by Landlord shall be paid to and become the property of Landlord. If this Lease is terminated pursuant to either Paragraph 10.3 or 10.4, all insurance proceeds available from insurance carried by Tenant which cover loss of property that is Landlord's property or would become Landlord's property on termination of this Lease shall be paid to and become the property of Landlord, and the remainder of such proceeds shall be paid to and become the property of Tenant. If this Lease is not terminated pursuant to either Paragraph 10.3 or 10.4, all insurance proceeds available from insurance carried by Tenant which cover loss to property that is Landlord's property shall be paid to and become the property of Landlord, and all proceeds available from such insurance which cover loss to property which would only become the property of Landlord upon the termination of this Lease shall be paid to and remain the property of Tenant. The determination of Landlord's property and Tenant's property shall be made pursuant to Paragraph 6.2.

10.3 **Landlord's Right To Terminate**. Landlord shall have the option to terminate this Lease in the event any of the following occurs, which option may be exercised only by delivery to Tenant of a written notice of election to terminate within thirty days after the date of such damage or destruction:

(a) The Building is damaged by any peril covered by valid and collectible insurance actually carried by Landlord and in force at the time of such damage or destruction (an "insured peril") to such an extent that the estimated cost to restore the Building exceeds the lesser of (i) the insurance proceeds available from insurance actually carried by Landlord, or (ii) fifty percent of the then actual replacement cost thereof;

(b) The Building is damaged by an uninsured peril, which peril Landlord was not required to insure against pursuant to the provisions of Article 9 of this Lease.

(c) The Building is damaged by any peril and, because of the Laws or Restrictions then in force, the Building (i) cannot be restored at reasonable cost or (ii) if restored, cannot be used for the same use being made thereof before such damage.

10.4 **Tenant's Right To Terminate**. If the Leased Premises, the Building or the Outside Area are damaged by any peril and Landlord does not elect to terminate this Lease or is not entitled to terminate this Lease pursuant to this Article, then as soon as reasonably practicable, Landlord shall furnish Tenant with the written opinion of Landlord's architect or construction consultant as to when the restoration work required of Landlord may be complete. Tenant shall have the option to terminate this Lease (if Tenant is not then in default) in the event any of the following occurs, which option may be exercised only by delivery to Landlord of a written notice of election to terminate within seven days after Tenant receives from Landlord the estimate of the time needed to complete such restoration:

(a) If the time estimated to substantially complete the restoration exceeds six (6) months from and after the commencement of construction; or

(b) If the damage occurred within twelve months of the last day of the Lease Term and the time estimated to substantially complete the restoration exceeds ninety (90) days from and after the date such restoration is commenced.

10.5 **Tenant's Waiver**. Landlord and Tenant agree that the provisions of Paragraph 10.4 above, captioned "Tenant's Right To Terminate", are intended to supersede and replace the provisions contained in California Civil Code, Section 1932, Subdivision 2, and California Civil Code, Section 1933, and accordingly, Tenant hereby waives the provisions of such Civil Code Sections and the provisions of any successor Civil Code Sections or similar laws hereinafter enacted.

10.6 **Abatement Of Rent**. In the event of damage to the Leased Premises which does not result in the termination of this Lease, then effective upon and after the expiration of the period insured by any applicable rental or business interruption insurance (the "Insured Period"), the Base Monthly Rent (and any Additional Rent) shall be temporarily abated during the period (after the Insured Period) of Landlord's and/or Tenant's (as applicable) restoration, in proportion in the degree to which Tenant's use of the Leased Premises (during the restoration period but after the Insured Period) is impaired by such damage.

ARTICLE 11
CONDEMNATION

11.1 **Tenant's Right To Terminate**. Except as otherwise provided in Paragraph 11.4 below regarding temporary takings, Tenant shall have the option to terminate this Lease if, as a result of any taking, (1) all of the Leased Premises is taken, or (ii) twenty-five percent (25%) or more of the Leased Premises is taken and the part of the Leased Premises that remains cannot, within a reasonable period of time, be made reasonably suitable for the continued operation of Tenant's business. Tenant must exercise such option within a reasonable period of time, to be effective on the later to occur of (i) the date that possession of that portion of the Leased Premises that is condemned is taken by the condemnor or (ii) the date Tenant vacated the Leased Premises.

11.2 **Landlord's Right To Terminate**. Except as otherwise provided in Paragraph 11.4 below regarding temporary takings, Landlord shall have the option to terminate this Lease if, as a result of any taking, (i) all of the Leased Premises is taken, (ii) twenty-five percent (25%) or more of the Leased Premises is taken and the part of the Leased Premises that remains cannot, within a reasonable period of time, be made reasonably suitable for the continued operation of Tenant's business, or (iii) because of the Laws or Restrictions then in force, the Leased Premises may not be used for the same use being made before such taking, whether or not restored as required by Paragraph 11.3 below. Any such option to terminate by Landlord must be exercised within a reasonable period of time, to be effective as of the date possession is taken by the condemnor.

11.3 **Restoration**. If any part of the Leased Premises or the Building is taken and this Lease is not terminated, then Landlord shall, to the extent not prohibited by Laws or Restrictions then in force, repair any damage occasioned thereby to the remainder thereof to a condition reasonably suitable for Tenant's continued operations and otherwise, to the extent practicable, in the manner and to the extent provided in Paragraph 10.1.

11.4 **Temporary Taking**. If a material portion of the Leased Premises is temporarily taken for a period of one year or less and such period does not extend beyond the Lease Expiration Date, this Lease shall remain in effect. If any material portion of the Leased Premises is temporarily taken for a period which exceeds one year or which extends beyond the Lease Expiration Date, then the rights of Landlord and Tenant shall be determined in accordance with Paragraphs 11.1 and 11.2 above.

11.5 **Division Of Condemnation Award**. Any award made for any taking of the Property, the Building, or the Leased Premises, or any portion thereof, shall belong to and be paid to Landlord, and Tenant hereby assigns to Landlord all of its right, title and interest in any such award; provided, however, that Tenant shall be entitled to receive any portion of the award that is made specifically (i) for the taking of personal property, inventory or trade fixtures belonging to Tenant, (ii) for the interruption of Tenant's business or its moving costs, or (iii) for the value of any leasehold improvements installed and paid for by Tenant. The rights of Landlord and Tenant regarding any condemnation shall be determined as provided in this Article, and each party hereby waives the provisions of Section 1265.130 of the California Code of Civil Procedure, and the provisions of any similar law hereinafter enacted, allowing either party to petition the Supreme Court to terminate this Lease and/or otherwise allocate condemnation awards between Landlord and Tenant in the event of a taking of the Leased Premises.

11.6 **Abatement Of Rent**. In the event of a taking of the Leased Premises which does not result in a termination of this Lease (other than a temporary taking), then, as of the date possession is taken by the condemning authority, the Base Monthly Rent shall be reduced in the same proportion that the area of that part of the Leased Premises so taken (less any addition to the area of the Leased Premises by reason of any reconstruction) bears to the area of the Leased Premises immediately prior to such taking.

11.7 **Taking Defined**. The term "taking" or "taken" as used in this Article I I shall mean any transfer or conveyance of all or any portion of the Property to a public or quasi-public agency or other entity having the power of eminent domain pursuant to or as a result of the exercise of such power by such an agency, including any inverse condemnation and/or any sale or transfer by Landlord of all or any portion of the Property to such an agency under threat of condemnation or the exercise of such power.

ARTICLE 12
DEFAULT AND REMEDIES

12.1 **Events Of Tenant's Default**. An event of default by Tenant (an "Event of Default") shall exist if any of the following events occurs:

(a) Tenant shall have failed to pay Base Monthly Rent or any Additional Rent when due; *provided* that Tenant shall be entitled to receive written notice of late payment one time during each year of the Lease Term, and with respect to that one late payment, Tenant shall not be in default under this Paragraph 12.1(a) unless Tenant has failed to make the required payment within three (3) business days after such notice from Landlord. After the notice has been given, Landlord shall not be required to provide any further notices to Tenant. Each such notice shall be concurrent with, and not in addition to, any notice required by applicable Laws; or

(b) Tenant shall have failed to perform any term, covenant, or condition of this Lease (except those requiring the Payment of Base Monthly Rent or Additional Rent, which failures shall be governed by subparagraph (a) above) and such default is not cured within thirty (30) days after written notice from Landlord to Tenant specifying the nature of such default and requesting Tenant to cure the same, or within such longer period as is reasonably required in the event such default is curable but not within such thirty (30) day period, *provided* such cure is promptly commenced within such thirty (30) day period and is thereafter diligently prosecuted to completion; or

(c) (i) Tenant shall have sublet the Leased Premises or assigned or encumbered its interest in this Lease in violation of the provisions contained in Article 7, or (ii) any guarantor shall have assigned or delegated its rights or obligations under the applicable guaranty without first obtaining Landlord's written consent if and as required by the terms of the applicable guaranty, in either case (i) or (ii), whether voluntarily or by operation of law; or

(d) Tenant shall have abandoned the Leased Premises; or

(e) Tenant or any guarantor of this Lease shall have permitted or suffered the sequestration or attachment of, or execution on, or the appointment of a custodian or receiver with respect to, all or any substantial part of the property or assets of Tenant (or such guarantor) or any property or asset essential to the conduct of Tenant's (or such guarantor's) business, and Tenant (or such guarantor) shall have failed to obtain a return or release of the same within thirty days thereafter, or prior to sale pursuant to such sequestration, attachment or levy, whichever is earlier; or

(f) Tenant or any guarantor of this Lease shall have made a general assignment of all or a substantial part of its assets for the benefit of its creditors; or

(g) Tenant or any guarantor of this Lease shall have allowed (or sought) to have entered against it a decree or order which: (i) grants or constitutes an order for relief, appointment of a trustee, or condemnation or a reorganization plan under the bankruptcy laws of the United States; (ii) approves as properly filed a petition seeking liquidation or reorganization under said bankruptcy laws or any other debtor's relief law or similar statute of the United States or any state thereof; or (iii) otherwise directs the winding up or liquidation of Tenant; provided, however, if any decree or order was entered without Tenant's consent or over Tenant's objection, Landlord may not terminate this Lease pursuant to this Subparagraph if such decree or order is rescinded or reversed within thirty days after its original entry; or

(h) Tenant or any guarantor of this Lease shall have availed itself of the protection of any debtor's relief law, moratorium law or other similar law which does not require the prior entry of a decree or order.

12.2 **Landlord's Remedies**. In the event of any default by Tenant, and without limiting Landlord's right to indemnification as provided in Article 8.2, Landlord shall have the following remedies, in addition to all other rights and remedies provided by law or otherwise provided in this Lease, to which Landlord may resort cumulatively, or in the alternative:

(a) Landlord may, at Landlord's election, keep this Lease in effect and enforce, by an action at law or in equity, all of its rights and remedies under this Lease including, without limitation, (i) the right to recover the rent and other sums as they become due by appropriate legal action, (ii) the right to make payments required by Tenant, or perform Tenant's obligations and be reimbursed by Tenant for the cost thereof with interest at the then maximum rate of interest not prohibited by law from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant, and (iii) the remedies of injunctive relief and specific performance to prevent Tenant from violating the terms of this Lease and/or to compel Tenant to perform its obligations under this Lease, as the case may be.

(b) Landlord may, at Landlord's election, terminate this Lease by giving Tenant written notice of termination, in which event this Lease shall terminate on the date set forth for termination in such notice, in which event Tenant shall immediately surrender the Leased Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Leased Premises and expel or remove Tenant and any other person who may be occupying the Leased Premises or any part thereof, without being liable for prosecution or any claim for damages therefor. Any termination under this subparagraph shall not relieve Tenant from its obligation to pay to Landlord all Base Monthly Rent and Additional Rent then or thereafter due, or any other sums due or thereafter accruing to Landlord, or from any claim against Tenant for damages previously accrued or then or thereafter accruing. In no event shall any one or more of the following actions by Landlord, in the absence of a written election by Landlord to terminate this Lease constitute a termination of this Lease:

(i) Appointment of a receiver or keeper in order to protect Landlord's interest hereunder;

(ii) Consent to any subletting of the Leased Premises or assignment of this Lease by Tenant, whether pursuant to the provisions hereof or otherwise; or

(iii) Any action taken by Landlord or its partners, principals, members, officers, agents, employees, or servants, which is intended to mitigate the adverse effects of any breach of this Lease by Tenant, including, without limitation, any action taken to maintain and preserve the Leased Premises on any action taken to relet the Leased Premises or any portion thereof for the account at Tenant and in the name of Tenant.

(c) In the event Tenant breaches this Lease and abandons the Leased Premises, Landlord may terminate this Lease, but this Lease shall not terminate unless Landlord gives Tenant written notice of termination. If Landlord does not terminate this Lease by giving written notice of termination, Landlord may enforce all its rights and remedies under this Lease, including the right and remedies provided by California Civil Code Section 1951.4 ("lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations"), as in effect on the Effective Date of this Lease.

(d) In the event Landlord terminates this Lease, Landlord shall be entitled, at Landlord's election, to the rights and remedies provided in California Civil Code Section 1951.2, as in effect on the Effective Date of this Lease. For purposes of computing damages pursuant to Section 1951.2, an interest rate equal to the maximum rate of interest then not prohibited by law shall be used where permitted. Such damages shall include, without limitation:

(i) The worth at the time of the award of the unpaid rent which had been earned at the time of termination; plus

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided, computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco, at the time of award plus one percent; plus

(iv) Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom, including without limitation, the following: (i) expenses for cleaning, repairing or restoring the Leased Premises, (ii) expenses for altering, remodeling or otherwise improving the Leased Premises for the purpose of reletting, including removal of existing leasehold improvements and/or installation of additional leasehold improvements (regardless of how the same is funded, including reduction of rent, a direct payment or allowance to a new tenant, or otherwise), (iii) broker's fees allocable to the remainder of the term of this Lease, advertising costs and other expenses of reletting the Leased Premises; (iv) costs of carrying and maintaining the Leased Premises, such as taxes, insurance premiums, utility charges and security precautions (although the foregoing shall not in any way modify Paragraph 5.3 above), (v) expenses incurred in removing, disposing of and/or storing any of Tenant's personal property, inventory or trade fixtures remaining therein; (vi) reasonable attorney's fees, expert witness fees, court costs and other reasonable expenses incurred by Landlord (but not limited to taxable costs) in retaking possession of the Leased Premises, establishing damages hereunder, and releasing the Leased Premises; and (vii) any other expenses, costs or damages otherwise incurred or suffered as a result of Tenant's default; plus

(e) The unamortized amount of any tenant improvement or similar allowance paid or credited by Landlord to Tenant pursuant to this Lease or the Work Letter.

(f) In addition, Tenant acknowledges that an event of default under this Lease may cause Landlord to incur damages under its mortgage and related financing documents, including, but not limited to, the payment of default interest, legal fees, late charges, collection costs, and sums necessary to maintain Lender's yield on the loaned amounts. Accordingly, Tenant agrees that Landlord has the right to add such loan-related damages to the damages for which Tenant is responsible hereunder as a result of an event of default.

(g) Pursuant to California Code of Civil Procedure Section 1161.1, Landlord may accept a partial payment of Rent after serving a notice pursuant to California Code of Civil Procedure Section 1161, and may without further notice to the Tenant, commence and pursue an action to recover the difference between the amount demanded in that notice and the payment actually received. This acceptance of such a partial payment of Rent does not constitute a waiver of any rights, including any right the Landlord may have to recover possession of the Leased Premises. Further, Tenant agrees that any notice given by Landlord pursuant to Paragraph 12.1 of the Lease shall satisfy the requirements for notice under California Code of Civil Procedure Section 1161, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding.

12.3 **Landlord's Default And Tenant's Remedies**. In the event Landlord fails to perform its obligations under this Lease, Landlord shall nevertheless not be in default under the terms of this Lease until such time as Tenant shall have first given Landlord written notice specifying the nature of such failure to perform its obligations, and then only after Landlord shall have had thirty (30) days following its receipt of such notice within which to perform such obligations; provided that, if longer than thirty (30) days is reasonably required in order to perform such obligations, Landlord shall have such longer period. In the event of Landlord's default as above set forth, then, and only then, Tenant may then proceed in equity or at law to compel Landlord to perform its obligations and/or to recover damages proximately caused by such failure to perform (except as and to the extent Tenant has waived its right to damages as provided in this Lease).

12.4 **Limitation Of Tenant's Recourse**. Tenant's sole recourse against Landlord shall be to Landlord's interest in the Building and the Outside Areas. If Landlord is a corporation, trust, partnership, joint venture, limited liability company, unincorporated association, or other form of business entity, Tenant agrees that (i) the obligations of Landlord under this Lease shall not constitute personal obligations of the officers, directors, trustees, partners, joint venturers, members, managers, owners, stockholders, or other principals of such business entity, and (ii) Tenant shall have recourse only to the interest of such corporation, trust, partnership, joint venture, limited liability company, unincorporated association, or other form of business entity in the Building and the Outside Areas for the satisfaction of such obligations and not against the assets of such officers, directors, trustees, partners, joint venturers, members, managers, owners, stockholders or principals. Additionally, if Landlord is a partnership or limited liability company, then Tenant covenants and agrees:

(a) No partner, manager, or member of Landlord shall be sued or named as a party in any suit or action brought by Tenant with respect to any alleged breach of this Lease (except to the extent necessary to secure jurisdiction over the partnership or limited liability company and then only for that sole purpose);

(b) No service of process shall be made against any partner, manager, or member of Landlord except for the sole purpose of securing jurisdiction over the partnership; and

(c) No writ of execution will ever be levied against the assets of any partner, manager, or member of Landlord other than to the extent of his or her interest in the assets of the partnership or limited liability company constituting Landlord.

Tenant further agrees that each of the foregoing covenants and agreements shall be enforceable by Landlord and by any partner or manager or member of Landlord and shall be applicable to any actual or alleged misrepresentation or nondisclosure made regarding this Lease or the Leased Premises or any actual or alleged failure, default or breach of any covenant or agreement either expressly or implicitly contained in this Lease or imposed by statute or at common law.

12.5 **Tenant's Waiver**. Landlord and Tenant agree that the provisions of Paragraph 12.3 above are intended to supersede and replace the provisions of California Civil Code Sections 1932(1), 1941 and 1942, and accordingly, Tenant hereby waives the provisions of California Civil Code Sections 1932(1), 1941 and 1942 and/or any similar or successor law regarding Tenant's right to terminate this Lease or to make repairs and deduct the expenses of such repairs from the rent due under this Lease.

ARTICLE 13
GENERAL PROVISIONS

13.1 **Taxes On Tenant's Property**. Tenant shall pay before delinquency any and all taxes, assessments, license fees, use fees, permit fees and public charges of whatever nature or description levied, assessed or imposed against Tenant or Landlord by a governmental agency arising out of, caused by reason of or based upon Tenant's estate in this Lease, Tenant's ownership of property, improvements made by Tenant to the Leased Premises or the Outside Areas, improvements made by Landlord for Tenant's use within the Leased Premises or the Outside Areas, Tenant's use (or estimated use) of public facilities or services or Tenant's consumption (or estimated consumption) of public utilities, energy, water or other resources (collectively, "Tenant's Interest"). Upon demand by Landlord, Tenant shall furnish Landlord with satisfactory evidence of these payments. If any such taxes, assessments, fees or public charges are levied against Landlord, Landlord's property, the Building or the Property, or if the assessed value of the Building or the Property is increased by the inclusion therein of a value placed upon Tenant's Interest, regardless of the validity thereof, Landlord shall have the right to require Tenant to pay such taxes, and if not paid and satisfactory evidence of payment delivered to Landlord at least ten days prior to delinquency, then Landlord shall have the right to pay such taxes

on Tenant's behalf and to invoice Tenant for the same, in either case whether before or after the expiration or earlier termination of the Lease Term. Tenant shall, within the earlier to occur of (a) thirty (30) days of the date it receives an invoice from Landlord setting forth the amount of such taxes, assessments, fees, or public charge so levied, or (b) the due date of such invoice, pay to Landlord, as Additional Rent, the amount set forth in such invoice. Failure by Tenant to pay the amount so invoiced within such time period shall be conclusively deemed a default by Tenant under this Lease. Tenant shall have the right to bring suit in any court of competent jurisdiction to recover from the taxing authority the amount of any such taxes, assessments, fees or public charges so paid.

13.2 **Holding Over**. This Lease shall terminate without further notice on the Lease Expiration Date (as set forth in Article 1). Any holding over by Tenant after expiration of the Lease Term shall neither constitute a renewal nor extension of this Lease nor give Tenant any rights in or to the Leased Premises except as expressly provided in this Paragraph. Any such holding over to which Landlord has consented shall be construed to be a tenancy from month to month, on the same terms and conditions herein specified insofar as applicable, except that the Base Monthly Rent shall be increased to an amount equal to one hundred fifty percent (150%) of the Base Monthly Rent payable during the last full month immediately preceding such holding over. Without limiting the foregoing, in the event of a holding over to which Landlord has consented, any rights of Landlord or obligations of Tenant set forth in this Lease and purporting to apply during the term of this Lease, shall nonetheless also be deemed to apply during any such hold over period. Tenant acknowledges that if Tenant holds over without Landlord's consent, such holding over may compromise or otherwise affect Landlord's ability to enter into new leases with prospective tenants regarding the Leased Premises. Therefore, if Tenant fails to surrender the Leased Premises upon the expiration or termination of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from and against all claims resulting from such failure, including, without limiting the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender, and any losses suffered by Landlord, including lost profits, resulting from such failure to surrender.

13.3 **Subordination To Mortgages**. On or before the Effective Date of this Lease, Landlord shall obtain a subordination and non-disturbance agreement from each existing beneficiary of a deed of trust in the form attached to this Lease as **Exhibit C**. This Lease is subject to and subordinate to all ground leases, mortgages and deeds of trust which affect the Building or the Property and which are of public record as of the Effective Date of this Lease, and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding the foregoing, if requested by Landlord, Tenant agrees, within ten days after Landlord's written request therefor, to execute, acknowledge and deliver to Landlord any and all documents or instruments requested by Landlord or by the existing lessor or lender to assure the subordination of this Lease to such ground lease, mortgage or deed of trust, including but not limited to a subordination agreement in the form attached to this Lease as **Exhibit C** or such other form as any such lessor or lender may require. However, if the lessor under any such ground

lease or any lender holding any such mortgage or deed of trust shall advise Landlord that it desires or requires this Lease to be made prior and superior thereto, then, upon written request of Landlord to Tenant, Tenant shall promptly execute, acknowledge and deliver any and all customary or reasonable documents or instruments which Landlord and such lessor or lender deems necessary or desirable to make this Lease prior thereto. Tenant hereby consents to Landlord's ground leasing the land underlying the Building or the Property and/or encumbering the Building or the Property as security for future loans on such terms as Landlord shall desire, all of which future ground leases, mortgages or deeds of trust shall be subject to and subordinate to this Lease. However, if any lessor under any such future ground lease or any lender holding such future mortgage or deed of trust shall desire or require that this Lease be made subject to and subordinate to such future ground lease, mortgage or deed of trust, then Tenant agrees, within ten days after Landlord's written request therefor, to execute, acknowledge and deliver to Landlord any and all documents or instruments requested by Landlord or by such lessor or lender to assure the subordination of this Lease to such future ground lease, mortgage or deed of trust, but only if such lessor or lender agrees not to disturb Tenant's quiet possession of the Leased Premises so long as no Event of Default then exists under this Lease. Tenant's failure to execute and deliver such documents or instruments within ten business days after Landlord's request therefor shall be a material default by Tenant under this Lease, and no further notice shall be required under Paragraph 12.1(c) or any other provision of this Lease, and Landlord shall have all of the rights and remedies available to Landlord as Landlord would otherwise have in the case of any other material default by Tenant, it being agreed and understood by Tenant that Tenant's failure to so deliver such documents or instruments in a timely manner could result in Landlord being unable to perform committed obligations to other third parties which were made by Landlord in reliance upon this covenant of Tenant. If Landlord assigns the Lease as security for a loan, Tenant agrees to execute such documents as are reasonably requested by the lender and to provide reasonable provisions in the Lease protecting such lender's security interest which are customarily required by institutional lenders making loans secured by a deed of trust.

13.4 **Tenant's Attornment Upon Foreclosure**. Tenant shall, upon request, attorn (i) to any purchaser of the Building or the Property at any foreclosure sale or private sale conducted pursuant to any security instruments encumbering the Building or the Property, (ii) to any grantee or transferee designated in any deed given in lieu of foreclosure of any security interest encumbering the Building or the Property, or (iii) to the lessor under an underlying ground lease of the land underlying the Building or the Property, should such ground lease be terminated; provided that such purchaser, grantee or lessor recognizes Tenant's rights under this Lease.

13.5 **Mortgagee Protection**. In the event of any default on the part of Landlord, Tenant will give notice by registered mail to any Lender or lessor under any underlying ground lease who shall have requested, in writing, to Tenant that it be provided with such notice, and Tenant shall offer such Lender or lessor a reasonable opportunity to cure the default, including time to obtain possession of the Leased Premises by power of sale or judicial foreclosure or other appropriate legal proceedings if reasonably necessary to effect a cure.

13.6 **Estoppel Certificate**. Tenant will, following any request by Landlord, promptly execute and deliver to Landlord an estoppel certificate substantially in form attached as **Exhibit D**, (i) certifying that this Lease is unmodified and in full force and effect, or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect, (ii) stating the date to which the rent and other charges are paid in advance, if any, (iii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed, and (iv) certifying such other information about this Lease as may be reasonably requested by Landlord, its Lender or prospective lenders, investors or purchasers of the Building or the Property. Tenant's failure to execute and deliver such estoppel certificate within ten business days after Landlord's request therefor shall be a material default by Tenant under this Lease, and no further notice shall be required under Paragraph 12.1(c) or any other provision of this Lease, and Landlord shall have all of the rights and remedies available to Landlord as Landlord would otherwise have in the case of any other material default by Tenant, it being agreed and understood by Tenant that Tenant's failure to so deliver such estoppel certificate in a timely manner could result in Landlord being unable to perform committed obligations to other third parties which were made by Landlord in reliance upon this covenant of Tenant. Landlord and Tenant intend that any statement delivered pursuant to this paragraph may be relied upon by any Lender or purchaser or prospective Lender or purchaser of the Building, the Property, or any interest in them.

13.7 **Tenant's Financial Information**. Tenant shall, within ten business days after Landlord's request therefor, deliver to Landlord a copy of Tenant's (and any guarantor's) current financial statements (including a balance sheet, income statement and statement of cash flow, all prepared in accordance with generally accepted accounting principles), a list of all of Tenant's creditors with current contact information, and any such other information reasonably requested by Landlord regarding Tenant's financial condition; provided, however, that as long as the common stock of Tenant (or its assigns permitted pursuant to this Lease or otherwise approved by Landlord in writing) is publicly-traded on a United States national stock exchange, and such information is available as part of Tenant's or such Permitted Transferee's 10-K or 10-Q report filings on the SEC's Edgar website, and such materials are current per SEC filing requirements, then such requirement shall be fulfilled by such filings. Landlord shall be entitled to disclose such financial statements or other information to its Lender, to any present or prospective principal of or investor in Landlord, or to any prospective Lender or purchaser of the Building, the Property, or any portion thereof or interest therein. Any such financial statement or other information which is marked "confidential" or "company secrets" (or is otherwise similarly marked by Tenant) shall be confidential and shall not be disclosed by Landlord to any third party except as specifically provided in this paragraph, unless the same becomes a part of the public domain without the fault of Landlord.

13.8 **Transfer By Landlord**. Landlord and its successors in interest shall have the right to transfer their interest in the Building, the Property, or any portion thereof at any time and to any person or entity. In the event of any such transfer, the Landlord originally named herein (and in the case of any subsequent transfer, the transferor), from the date of such transfer, shall be automatically relieved, without any further act by any person or entity, of all liability for (i) the performance of the obligations of the Landlord hereunder which may accrue after the date of such transfer, and (ii) repayment of any unapplied portion of the Security Deposit (upon transferring or crediting the same to the transferee), and (iii) the performance of the obligations of the Landlord hereunder which have accrued before the date of transfer if its transferee agrees to assume and perform all such prior obligations of the Landlord hereunder. Tenant shall attorn to any such transferee. After the date of any such transfer, the term "Landlord" as used herein shall mean the transferee of such interest in the Building or the Property.

13.9 **Force Majeure**. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, acts of war, terrorist acts, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease (collectively, a "Force Majeure"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

13.10 **Notices**. Any notice required or permitted to be given under this Lease other than statutory notices shall be in writing and (i) personally delivered, (ii) sent by United States mail, registered or certified mail, postage prepaid, return receipt requested, (iii) sent by Federal Express or similar nationally recognized overnight courier service, or (iv) transmitted by facsimile with a hard copy sent within one (1) business day by any of the foregoing means, and in all cases addressed as follows, and such notice shall be deemed to have been given upon the date of actual receipt or delivery (or refusal to accept delivery) at the address specified below (or such other addresses as may be specified by notice in the foregoing manner) as indicated on the return receipt or air bill:

If to Landlord: Santa Clara Office Partners LLC
c/o Menlo Equities LLC
[Address]
Attention: Henry Bullock/Richard Holmstrom
[Fax Number]

With a copy to:	GoodwinIProcter LLP [Address] Attention: Paul Churchill [Fax Number]
If to Tenant:	
Prior to the Lease Commencement Date:	Palo Alto Networks, Inc. [Address] Attention: Michael Lehman [Fax Number]
After the Lease Commencement Date:	Palo Alto Networks, Inc. 3300 Olcott Street Santa Clara, California 95054 Attention: Michael Lehman Facsimile: [to be provided by Tenant prior to the Lease Commencement Date]
In each case with a copy to:	Fenwick & West LLP [Address] Attention: Blake Stafford [Fax Number]

Any notice given in accordance with the foregoing shall be deemed received upon actual receipt or refusal to accept delivery. Any notice required by statute and not waived in this Lease shall be given and deemed received in accordance with the applicable statute or as otherwise provided by law.

13.11 **Attorneys' Fees and Costs**. In the event any party shall bring any action, arbitration, or other proceeding alleging a breach of any provision of this Lease, or a right to recover rent, to terminate this Lease, or to enforce, protect, interpret, determine, or establish any provision of this Lease or the rights or duties hereunder of either party, the prevailing party shall be entitled to recover from the non-prevailing party as a part of such action or proceeding, or in a separate action for that purpose brought within one year from the determination of such proceeding, reasonable attorneys' fees, expert witness fees, court costs and reasonable disbursements, made or incurred by the prevailing party.

13.12 **Definitions**. Any term that is given a special meaning by any provision in this Lease shall, unless otherwise specifically stated, have such meaning wherever used in this Lease or in any Addenda or amendment hereto. In addition to the terms defined in Article 1, the following terms shall have the following meanings:

(a) **Real Property Taxes**. The term "Real Property Tax" or "Real Property Taxes" shall each mean Tenant's Expense Share of the following (to the extent applicable to any portion of the Lease Term, regardless of when the same are imposed, assessed, levied, or otherwise charged): (i) all taxes, assessments, levies and other charges of any kind or nature whatsoever, general and special, foreseen and unforeseen (including all installments of principal and interest required to pay any general or special assessments for public improvements and any increases resulting from reassessments caused by any change in ownership or new construction), now or hereafter imposed by any governmental or quasi-governmental authority or special district having the direct or indirect power to tax or levy assessments, which are levied or assessed for whatever reason against the Property or any portion thereof, or Landlord's interest herein, or the fixtures, equipment and other property of Landlord that is an integral part of the Property and located thereon, or Landlord's business of owning, leasing or managing the Property or the gross receipts, income or rentals from the Property, (ii) all charges, levies or fees imposed by any governmental authority against Landlord by reason of or based upon the use of or number of parking spaces within the Property, the amount of public services or public utilities used or consumed (e.g. water, gas, electricity, sewage or waste water disposal) at the Property, the number of persons employed by tenants of the Property, the size (whether measured in area, volume, number of tenants or whatever) or the value of the Property, or the type of use or uses conducted within the Property, and all costs and fees (including attorneys' fees) reasonably incurred by Landlord in contesting any Real Property Tax and in negotiating with public authorities as to any Real Property Tax. If, at any time during the Lease Term, the taxation or assessment of the Property prevailing as of the Effective Date of this Lease shall be altered so that in lieu of or in addition to any the Real Property Tax described above there shall be levied, awarded or imposed (whether by reason of a change in the method of taxation or assessment, creation of a new tax or charge, or any other cause) an alternate, substitute, or additional use or charge (i) on the value, size, use or occupancy of the Property or Landlord's interest therein or (ii) on or measured by the gross receipts, income or rentals from the Property, or on Landlord's business of owning, leasing or managing the Property or (iii) computed in any manner with respect to the operation of the Property, then any such tax or charge, however designated, shall be included within the meaning of the terms "Real Property Tax" or "Real Property Taxes" for purposes of this Lease. If any Real Property Tax is partly based upon property or rents unrelated to the Property, then only that part of such Real Property Tax that is fairly allocable to the Property shall be included within the meaning of the terms "Real Property Tax" or "Real Property Taxes." Notwithstanding the foregoing, the terms "Real Property Tax" or "Real Property Taxes" shall not include estate, inheritance, transfer, gift or franchise taxes of Landlord or the federal or state income tax imposed on Landlord's income from all sources.

(b) **Landlord's Insurance Costs**. The term "Landlord's Insurance Costs" shall mean Tenant's Expense Share of the following (to the extent applicable to any portion of the Lease Term, regardless of when the same are incurred): the costs to Landlord to carry and maintain the

policies of fire and property damage insurance for the Building and the Property and general liability and any other insurance required or permitted to be carried by Landlord pursuant to Article 9, together with any deductible amounts paid by Landlord upon the occurrence of any insured casualty or loss.

(c) **Property Maintenance Costs**. The term "Property Maintenance Costs" shall mean Tenant's Expense Share of all costs and expenses (except Landlord's Insurance Costs and Real Property Taxes) paid or incurred by Landlord in protecting, operating, maintaining, repairing and preserving the Property and all parts thereof, including without limitation, (i) monthly professional management fees equal to $3,720 per month for the first twelve (12) months of the Lease Term, and thereafter three percent (3%) of Base Monthly Rent, (ii) the amortizing portion of any costs incurred by Landlord in the making of any modifications, alterations or improvements required by any governmental authority as set forth in Article 6, which are so amortized during the Lease Term, and (iii) such other costs as may be paid or incurred with respect to operating, maintaining, and preserving the Property, such as repairing and resurfacing the exterior surfaces of the Building (including roofs), repairing and resurfacing paved areas, repairing and replacing structural parts of the Building, and repairing and replacing, when necessary, electrical, plumbing, heating, ventilating and air conditioning systems serving the Building. To the extent any of the foregoing items described in clause (iii) constitute capital repairs or replacements under generally accepted accounting principles, consistently applied, have a useful life of more than one year, and are not necessitated due to Tenant's misuse of or failure to maintain the Leased Premises as required by this Lease, then only the amortizing portion of such capital repairs or replacements shall constitute Property Maintenance Costs; such amortization shall be over the useful life of the applicable repair or replacement, and shall employ an interest rate equal to the greater of (a) 8% per annum, or (b) Wells Prime Plus Two (but in no event more than the maximum rate of interest not prohibited or made usurious).

Notwithstanding the foregoing provisions of this Paragraph 13.12(c), the following are specifically excluded from the definition of Property Maintenance Costs and Tenant shall have no obligation to pay directly or reimburse Landlord for all or any portion of the following except to the extent any of the following are caused by the actions or inactions of Tenant, or result from the failure of Tenant to comply with the terms of this Lease: (i) costs incurred because Landlord actually violated the terms and conditions of this Lease or any other lease for premises within the Building, if any; (ii) legal and auditing fees (other than those fees reasonably incurred in connection with the maintenance and operation of all or any portion the Building), leasing commissions, advertising expenses, and other costs incurred in connection with the original leasing of the Property or future re-leasing of any portion of the Building; (iii) depreciation of the Building or any other improvements situated within the Property; (iv) any items for which Landlord is actually reimbursed by insurance or by direct reimbursement by Tenant or any other party; (v) costs of repairs or other work necessitated by fire, windstorm or other casualty (excluding any deductibles) and/or costs of repair or other work necessitated by the exercise of the right of eminent domain to the extent insurance proceeds or a condemnation award, as applicable, is actually received by Landlord for such purposes; (vi) other than any interest charges for capital improvements referred to in Paragraph 6.3 of this Lease, any interest or payments on any financing for the Building, interest and penalties

incurred as a result of Landlord's late payment of any invoice (provided that Tenant pays Tenant's Expense Share of Property Operating Expenses and Real Property Taxes to Landlord when due as set forth herein), and any bad debt loss, rent loss or reserves for same; (vii) overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Property to the extent the same exceeds the costs of such by unaffiliated third parties on a competitive basis; or any costs included in Property Operating Expenses representing an amount paid to a person, firm, corporation or other entity related to Landlord which is in excess of the amount which would have been paid in the absence of such relationship; (viii) any payments under a ground lease or master lease; and (ix) costs incurred in the investigation and/or remediation of Hazardous Materials which either existed on the Property on the Delivery Date or were brought onto the Property by Landlord, its agents, employee or contractors.

(d) Property Operating Expenses. The term "Property Operating Expenses" shall mean and include all Real Property Taxes, plus all Landlord's Insurance Costs, plus all Property Maintenance Costs.

(e) **Law**. The term "Law" or "Laws" shall mean any judicial decisions and any statute, constitution, ordinance, resolution, regulation, rule, code, administrative order, condition of approval, or other requirements of any municipal, county, state, federal, or other governmental agency or authority having jurisdiction over the parties to this Lease, the Leased Premises, the Building or the Property, or any of them, in effect either at the Effective Date of this Lease or at any time during the Lease Term, including, without limitation, any regulation, order, or policy of any quasi-official entity or body (e.g. a board of fire examiners or a public utility or special district). Except to the extent otherwise expressly provided in this Lease, to the extent any Law or Restriction places limits on the Building or any portion thereof, or on the Property or any portion thereof, such limits shall be equitably allocated to the Leased Premises pro rata in the same proportion that the rentable square footage of the Leased Premises bears to the rentable square footage of the applicable Building or portion thereof, or the Property or portion thereof, as applicable.

(f) **Lender**. The term "Lender" shall mean the holder of any promissory note or other evidence of indebtedness secured by the Property or any portion thereof.

(g) **Rent**. The term "Rent" shall mean collectively Base Monthly Rent and all Additional Rent.

(h) **Restrictions**. The term "Restrictions" shall mean (as they may exist from time to time) any and all covenants, conditions and restrictions, private agreements, easements, and any other recorded documents or instruments affecting the use of the Property, the Building, the Leased Premises, or the Outside Areas.

13.13 **General Waivers**. One party's consent to or approval of any act by the other party requiring the first party's consent or approval shall not be deemed to waive or render unnecessary the first party's consent to or approval of any subsequent similar act by the other party. No waiver of any provision hereof, or any waiver of any breach of any provision hereof, shall be effective unless in writing and signed by the waiving party. The receipt by Landlord of any rent or payment with or without knowledge of the breach of any other provision hereof shall not be deemed a waiver of any such breach. No waiver of any provision of this Lease shall be deemed a continuing waiver unless such waiver specifically states so in writing and is signed by both Landlord and Tenant. No delay or omission in the exercise of any right or remedy accruing to either party upon any breach by the other party under this Lease shall impair such right or remedy or be construed as a waiver of any such breach theretofore or thereafter occurring. The waiver by either party of any breach of any provision of this Lease shall not be deemed to be a waiver of any subsequent breach of the same or any other provisions herein contained.

13.14 **Miscellaneous**. Should any provisions of this Lease prove to be invalid or illegal, such invalidity or illegality shall in no way affect, impair or invalidate any other provisions hereof, and such remaining provisions shall remain in full force and effect. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor. Any copy of this Lease which is executed by the parties shall be deemed an original for all purposes. This Lease shall, subject to the provisions regarding assignment, apply to and bind the respective heirs, successors, executors, administrators and assigns of Landlord and Tenant. The benefit of each indemnity obligation of Tenant under this Lease is assignable in whole or in part by Landlord. The term "party" shall mean Landlord or Tenant as the context implies. If Tenant consists of more than one person or entity, then all members of Tenant shall be jointly and severally liable hereunder. If this Lease is signed by an individual "doing business as " or "dba" another person or entity or entity name, the individual who signs this Lease will be deemed to be the Tenant hereunder.for all purposes. Submission of this Lease for review, examination or signature by Tenant does not constitute an offer to lease, a reservation of or an option for lease, or a binding agreement of any kind, and notwithstanding any inconsistent language contained in any other document, this Lease is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant, and prior to such mutual execution and delivery, neither party shall have any obligation to negotiate and may discontinue discussions and negotiations at any time for any reason or no reason. This Lease shall be construed and enforced in accordance with the Laws of the State in which the Leased Premises are located. The headings and captions in this Lease are for convenience only and shall not be construed in the construction or interpretation of any provision hereof. When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership, corporation, limited liability company, joint venture, or other form of business entity, and the singular includes the plural. The terms "must," "shall," "will," and "agree" are mandatory. The term "may" is permissive. The term "governmental agency" or "governmental authority" or similar terms shall include, without limitation, all federal, state, city, local and other governmental and quasi-governmental agencies, authorities, bodies, boards, etc., and any party or parties having enforcement rights under any Restrictions. When a party is required to do something by this Lease, it shall do so at its sole cost and expense without right of reimbursement from the other party unless specific provision is made therefor. Where Landlord's consent is required hereunder, the consent of any

Lender shall also be required. Landlord and Tenant shall both be deemed to have drafted this Lease, and the rule of construction that a document is to be construed against the drafting party shall not be employed in the construction or interpretation of this Lease. Where Tenant is obligated not to perform any act or is not permitted to perform any act, Tenant is also obligated to restrain any others reasonably within its control, including agents, invitees, contractors, subcontractors and employees, from performing such act. Landlord shall not become or be deemed a partner or a joint venturer with Tenant by reason of any of the provisions of this Lease.

13.15 **Patriot Act Compliance**.

(a) Tenant will use its good faith and commercially reasonable efforts to comply with the Patriot Act (as defined below) and all applicable requirements of governmental authorities having jurisdiction over Tenant or the Property, including those relating to money laundering and terrorism. Landlord shall have the right to audit Tenant's compliance with the Patriot Act and all applicable requirements of governmental authorities having jurisdiction over Tenant or the Property, including those relating to money laundering and terrorism. In the event that Tenant fails to comply with the Patriot Act or any such requirements of governmental authorities, then Landlord may, at its option, cause Tenant to comply therewith and any and all reasonable costs and expenses incurred by Landlord in connection therewith shall be deemed Additional Charges and Rent and shall be immediately due and payable. For purposes hereof, the term "***Patriot Act***" means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as the same may be amended from time to time, and corresponding provisions of future laws.

(b) Neither Tenant nor any partner in Tenant or member of such partner nor any owner of a direct or indirect interest in Tenant (a) is listed on any Government Lists (as defined below), (b) is a person who has been determined by competent authority to be subject to the prohibitions contained in Presidential Executive Order No. 13224 (Sept. 23, 2001) or any other similar prohibitions contained in the rules and regulations of OFAC (as defined below) or in any enabling legislation or other Presidential Executive Orders in respect thereof, (c) has been previously indicted for or convicted of any felony involving a crime or crimes of moral turpitude or for any Patriot Act Offense (as defined below), or (d) is currently under investigation by any governmental authority for alleged criminal activity. For purposes hereof, the term "Patriot Act Offense" means any violation of the criminal laws of the United States of America or of any of the several states, or that would be a criminal violation if committed within the jurisdiction of the United States of America or any of the several states, relating to terrorism or the laundering of monetary instruments, including any offense under (a) the criminal laws against terrorism; (b) the criminal laws against money laundering, (c) the Bank Secrecy Act, as amended, (d) the Money Laundering Control Act of 1986, as amended, or the (e) Patriot Act. "***Patriot Act Offense***" also includes the crimes of conspiracy to commit, or aiding and abetting another to commit, a Patriot Act Offense. For purposes hereof, the term "***Government Lists***" means (i) the Specially Designated Nationals and Blocked Persons Lists maintained by Office of Foreign Assets Control ("***OFAC'***), (ii) any other list of

terrorists, terrorist organizations or narcotics traffickers maintained pursuant to any of the Rules and Regulations of OFAC that Landlord notified Tenant in writing is now included in "Governmental Lists", or (iii) any similar lists maintained by the United States Department of State, the United States Department of Commerce or any other government authority or pursuant to any Executive Order of the President of the United States of America that Landlord notified Tenant in writing is now included in "Governmental Lists".

ARTICLE 14
LEGAL AUTHORITY
BROKERS AND ENTIRE AGREEMENT

14.1 **Legal Authority**. If Tenant or any entity constituting Tenant is a corporation, limited partnership, limited liability company, or other legal entity, each individual executing this'Lease on behalf of such corporation, limited partnership, limited liability company, or other legal entity, represents and warrants that Tenant is validly formed and duly authorized and existing, that Tenant is qualified to do business in the State in which the Leased Premises are located, that Tenant has the full right and legal authority to enter into this Lease, and that he or she is duly authorized to execute and deliver this Lease on behalf of Tenant in accordance with its terms. Tenant shall, within four (4) business days after the Effective Date of this Lease, deliver to Landlord a certified copy of the resolution of its board of directors (if a corporation), members and manager(s) (if a limited liability company), or partners (if a limited partnership), authorizing or ratifying the execution of this Lease, as well as a certified copy of binding resolutions of any guarantor in form reasonably acceptable to Landlord, authorizing or ratifying the execution of the applicable guaranty, and if Tenant or any entity constituting Tenant fails to do so, the same shall be a material default on the part of Tenant permitting Landlord at its sole election to terminate this Lease.

14.2 **Brokerage Commissions**. Tenant represents, warrants and agrees that it has not had any dealings with any real estate broker(s), leasing agent(s), finder(s) or salesmen, other than the Brokers (as named in Article 1) with respect to the lease by it of the Leased Premises pursuant to this Lease, and that it will indemnify, defend with competent counsel, and hold Landlord harmless from any liability for the payment of any real estate brokerage commissions, leasing commissions or finder's fees claimed by any other real estate broker(s), leasing agent(s), finder(s), or salesmen to be earned or due and payable by reason of Tenant's agreement or promise (implied or otherwise) to pay (or to have Landlord pay) such a commission or finder's fee by reason of its leasing the Leased Premises pursuant to this Lease. Notwithstanding any provision of this Lease to the contrary, Landlord shall not pay any leasing commission or compensation of any kind or type in connection with an extension of the term of this Lease, an expansion of the Leased Premises, a lease or sublease of any other premises leased by Tenant pursuant to any right of first offer or right of first refusal or other similar right granted to Tenant.

14.3 **Entire Agreement**. This Lease and the Exhibits (as described in Article 1), which Exhibits are by this reference incorporated herein, constitute the entire agreement between the parties, and there are no other agreements, understandings or representations between the parties relating to the lease by Landlord of the Leased Premises to Tenant, except as expressed herein. No subsequent changes, modifications or additions to this Lease shall be binding upon the parties unless in writing and signed by both Landlord and Tenant.

14.4 **Landlord's Representations**. Tenant acknowledges that neither Landlord nor any of its agents made any representations or warranties respecting the Property, the Building or the Leased Premises, upon which Tenant relied in entering into the Lease, which are not expressly set forth in this Lease. Tenant further acknowledges that neither Landlord nor any of its agents made any representations as to (i) whether the Leased Premises may be used for Tenant's intended use under existing Law, or (ii) the suitability of the Leased Premises for the conduct of Tenant's business, or (iii) the exact square footage of the Leased Premises or the Building, and that Tenant relies solely upon its own investigations with respect to such matters. Tenant expressly waives any and all claims for damage by reason of any statement, representation, warranty, promise or other agreement of Landlord or Landlord's agent(s), if any, not contained in this Lease or in any Exhibit attached hereto.

ARTICLE 15
OPTIONS TO EXTEND

15.1 **Option to Extend**. So long as Palo Alto Networks, Inc. is the Tenant hereunder and occupies the entirety of the Leased Premises on the dale the option is exercised, and subject to the condition set forth in clause (b) below, Tenant shall have two options to extend the term of this Lease with respect to the entirety of the Leased Premises, the first for a period of five (5) years from the expiration of the seventh (7U) year of the Lease Term (the "***First Extension Period***"), and the second (the "***Second Extension Period***") for a period of five (5) years from the expiration of the First Extension Period, subject to the following conditions:

(a) Each option to extend shall be exercised, if at all, by notice of exercise given to Landlord by Tenant not more than twelve (12) months nor less than six (6) months prior to the expiration of the eighty-fourth (84th) month of the Lease Term or the expiration of the First Extension Period, as applicable;

(b) Anything herein to the contrary notwithstanding, if an Event of Default exists under this Lease at the time Tenant exercises either extension option, Landlord shall have, in addition to all of Landlord's other rights and remedies provided in this Lease, the right to terminate such option(s) to extend upon notice to Tenant.

15.2 **Fair Market Rent**. In the event the applicable option is exercised in a timely fashion, the Lease shall be extended for the term of the applicable extension period upon all of the terms and conditions of this Lease, provided that the Base Monthly Rent for the First Extension Period shall be 95% of the "Fair Market Rent" for the Leased Premises, and the Base Monthly Rent for the Second Extension Period shall be 100% of the "Fair Market Rent" for the Leased Premises, in each case increased as set forth below. For purposes hereof, "Fair Market Rent" shall mean the Base Monthly Rent determined pursuant to the process described below. At the end of the first 12 month period of the extension Period, Base Monthly Rent shall be increased to reflect the change in the Consumer Price Index for the San Francisco Metropolitan Area, All Items (the "CPI"), for the 12-month period ending 11 months after the Lease Commencement Date, but in no event shall Base Monthly Rent be increased less than 3% per annum compounded annually nor more than 6% per annum compounded annually for such 12 month period. Base Monthly Rent shall be so adjusted at the end of each subsequent I2-month period during the Extension Period. No leasing commissions shall be due or payable to any broker retained by Tenant with regard to this Lease for any Extension Period.

15.3 **Tenant's Election**. Within thirty (30) days after receipt of Tenant's notice of exercise, Landlord shall notify Tenant in writing of Landlord's estimate of the Base Monthly Rent for the applicable extension period, based on the provisions of Paragraph 15.2 above. Within thirty (30) days after receipt of such notice from Landlord, Tenant shall have the right either to (i) accept Landlord's statement of Base Monthly Rent as the Base Monthly Rent for the applicable extension period; or (ii) elect to arbitrate Landlord's estimate of Fair Market Rent, such arbitration to be conducted pursuant to the provisions hereof. Failure on the part of Tenant to require arbitration of Fair Market Rent within such 30 day period shall constitute acceptance of the Base Monthly Rent for the applicable extension period as calculated by Landlord. If Tenant elects arbitration, the arbitration shall be concluded within 90 days after the date of Tenant's election, subject to extension for an additional 30 day period if a third arbitrator is required and does not act in a timely manner. To the extent that arbitration has not been completed prior to the expiration of any preceding period for which Base Monthly Rent has been determined, Tenant shall pay Base Monthly Rent at the rate calculated by Landlord, with the potential for an adjustment to be made once Fair Market Rent is ultimately determined by arbitration.

15.4 **Rent Arbitration**. In the event of arbitration, the judgment or the award rendered in any such arbitration may be entered in any court having jurisdiction and shall be final and binding between the parties. The arbitration shall be conducted and determined in the City and County of San Francisco in accordance with the then prevailing rules of the American Arbitration Association or its successor for arbitration of commercial disputes except to the extent that the procedures mandated by such rules shall be modified as follows:

(a) Tenant shall make demand for arbitration in writing within thirty (30) days after service of Landlord's determination of Fair Market Rent given under Paragraph 15.3 above, specifying therein the name and address of the person to act as the arbitrator on its behalf. The arbitrator shall be qualified as a real estate appraiser familiar with the Fair Market Rent of similar industrial, research and development, or office space in the City of Santa Clara area who would qualify as an expert witness over objection to give opinion testimony addressed to the issue in a court of competent jurisdiction. Failure on the part of Tenant to make a proper demand in a timely manner for such arbitration shall constitute a waiver of the right thereto. Within fifteen (15) days after the service of the demand for arbitration, Landlord shall give notice to Tenant, specifying the name and address of the person designated by Landlord to act as arbitrator on its behalf who shall be similarly qualified. If Landlord fails to notify Tenant of the appointment of its arbitrator, within or by the time above specified, then the arbitrator appointed by Tenant shall be the arbitrator to determine the issue.

(b) In the event that two arbitrators are chosen pursuant to Paragraph 15.4(a) above, the arbitrators so chosen shall, within fifteen (15) days after the second arbitrator is appointed determine the Fair Market Rent. If the two arbitrators shall be unable to agree upon a determination of Fair Market Rent within such 15 day period, they, themselves, shall appoint a third arbitrator, who shall be a competent and impartial person with qualifications similar to those required of the first two arbitrators pursuant to Paragraph 15.4(a). In the event they are unable to agree upon such appointment within seven days after expiration of such 15 day period, the third arbitrator shall be selected by the parties themselves, if they can agree thereon, within a further period of fifteen (15) days. If the parties do not so agree, then either party, on behalf of both, may request appointment of such a qualified person by the then Presiding Judge of the California Superior Court having jurisdiction over the County of Santa Clara, acting in his or her private and not in his or her official capacity, and the other party shall not raise any question as to such Judge's full power and jurisdiction to entertain the application for and make the appointment. The three arbitrators shall decide the dispute if it has not previously been resolved by following the procedure set forth below.

(c) Where an issue cannot be resolved by agreement between the two arbitrators selected by Landlord and Tenant or settlement between the parties during the course of arbitration, the issue shall be resolved by the three arbitrators within 15 days of the appointment of the third arbitrator in accordance with the following procedure. The arbitrator selected by each of the parties shall state in writing his determination of the Fair Market Rent supported by the reasons therefor with counterpart copies to each party. The arbitrators shall arrange for a simultaneous exchange of such proposed resolutions. The role of the third arbitrator shall be to select which of the two proposed resolutions most closely approximates his determination of Fair Market Rent. The third arbitrator shall have no right to propose a middle ground or any modification of either of the two proposed resolutions. The resolution he chooses as most closely approximating his determination shall constitute the decision of the arbitrators and be final and binding upon the parties.

(d) In the event of a failure, refusal or inability of any arbitrator to act, his successor shall be appointed by him, but in the case of the third arbitrator, his successor shall be appointed in the same manner as provided for appointment of the third arbitrator. The arbitrators

shall decide the issue within fifteen (15) days after the appointment of the third arbitrator. Any decision in which the arbitrator appointed by Landlord and the arbitrator appointed by Tenant concur shall be binding and conclusive upon the parties. Each party shall pay the fee and expenses of its respective arbitrator and both shall share the fee and expenses of the third arbitrator, if any, and the attorneys' fees and expenses of counsel for the respective parties and of witnesses shall be paid by the respective party engaging such counsel or calling such witnesses.

(e) The arbitrators shall have the right to consult experts and competent authorities to obtain factual information or evidence pertaining to a determination of Fair Market Rent, but any such consultation shall be made in the presence of both parties with full right on their part to cross examine. The arbitrators shall render their decision and award in writing with counterpart copies to each party. The arbitrators shall have no power to modify the provisions of this Lease.

ARTICLE 16
TELEPHONE SERVICE

Notwithstanding any other provision of this Lease to the contrary:

(a) So long as the entirety of the Leased Premises is leased to Tenant:

(i) Landlord shall have no responsibility for providing to Tenant any telephone equipment, including wiring, within the Leased Premises or for providing telephone service or connections from the utility to the Leased Premises; and

(ii) Landlord makes no warranty as to the quality, continuity or availability of the telecommunications services in the Building, and Tenant hereby waives any claim against Landlord for any actual or consequential damages (including damages for loss of business) in the event Tenant's telecommunications services in any way are interrupted, damaged or rendered less effective, except to the extent caused by the gross negligence or willful misconduct of Landlord, its agents or employees. Tenant accepts the telephone equipment (including, without limitation, the INC, as defined below) in its "AS-IS" condition, and Tenant shall be solely responsible for contracting with a reliable third party vendor to assume responsibility for the maintenance and repair thereof (which contract shall contain provisions requiring such vendor to inspect the INC periodically (the frequency of such inspections to be determined by such vendor based on its experience and professional judgment), and requiring such vendor to meet local and federal requirements for telecommunications material and workmanship). Landlord shall not be liable to Tenant and Tenant waives all claims against Landlord whatsoever, whether for personal injury, property damage, loss of use of the Leased Premises, or otherwise, due to the interruption or failure of telephone services to the Leased Premises. Tenant hereby holds Landlord harmless and agrees to indemnify, protect and defend Landlord from and against any liability for any damage, loss or expense due to any failure or interruption of telephone service to the Leased Premises for any reason. Tenant agrees to obtain loss of rental insurance adequate to cover any damage, loss or expense occasioned by the interruption of telephone service.

(b) At such time as the entirety of the Leased Premises is no longer leased to Tenant, Landlord shall in its sole discretion have the right, by written notice to Tenant, to elect to assume limited responsibility for INC, as provided below, and upon such assumption of responsibility by Landlord, this subparagraph (b) shall apply prospectively.

(i) Landlord shall provide Tenant access to such quantity of pairs in the Building intra-building network cable ("INC") as is determined to be available by Landlord in its reasonable discretion. Tenant's access to the INC shall be solely by arrangements made by Tenant, as Tenant may elect, directly with AT&T or Landlord (or such vendor as Landlord may designate), and Tenant shall pay all reasonable charges as may be imposed in connection therewith. AT&T's charges shall be deemed to be reasonable. Subject to the foregoing, Landlord shall have no responsibility for providing to Tenant any telephone equipment, including wiring, within the Leased Premises or for providing telephone service or connections from the utility to the Leased Premises, except as required by law.

(ii) Tenant shall not alter, modify, add to or disturb any telephone wiring in the Leased Premises or elsewhere in the Building without the Landlord's prior written consent. Tenant shall be liable to Landlord for any damage to the telephone wiring in the Building due to the act, negligent or otherwise, of Tenant or any employee, contractor or other agent of Tenant. Tenant shall have no access to the telephone closets within the Building, except in the manner and under procedures established by Landlord. Tenant shall promptly notify Landlord of any actual or suspected failure of telephone service to the Leased Premises.

(iii) All costs incurred by Landlord for the installation, maintenance, repair and replacement of telephone wiring in the Building shall be a Property Maintenance Cost.

(iv) Landlord makes no warranty as to the quality, continuity or availability of the telecommunications services in the Building, and Tenant hereby waives any claim against Landlord for any actual or consequential damages (including damages for loss of business) in the event Tenant's telecommunications services in any way are interrupted, damaged or rendered less effective, except to the extent caused by the gross negligence or willful misconduct of Landlord, its agents or employees. Tenant acknowledges that Landlord meets its duty of care to Tenant with respect to the Building INC by contracting with a reliable third party vendor to assume responsibility for the maintenance and repair thereof (which contract shall contain provisions requiring such vendor to inspect the INC periodically (the frequency of such inspections to be determined by such vendor based on its experience and professional judgment), and requiring such vendor to meet local and federal requirements for telecommunications material and workmanship). Subject to the foregoing, Landlord shall not be liable to Tenant and Tenant waives all claims against Landlord whatsoever, whether for personal injury, property damage, loss of use of the Leased Premises, or otherwise, due to the interruption or failure of telephone services to the Leased Premises. Tenant hereby holds Landlord harmless and agrees to indemnify, protect and defend Landlord from and against any liability for any damage, loss or expense due to any failure or interruption of telephone service to the Leased Premises for any reason. Tenant agrees to obtain loss of rental insurance adequate to cover any damage, loss or expense occasioned by the interruption of telephone service.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the respective dates below set forth with the intent to be legally bound thereby as of the Effective Date of this Lease first above set forth.

LANDLORD:

SANTA CLARA OFFICE PARTNERS, LLC, a Delaware limited liability company

By: Menlo Equities III LLC
Its: Managing Member

By: Menlo Equities LLC
Its: Managing Member

By: Menlo Equities, Inc.
Its: Managing Member

By: /s/ Henry Bullock
Henry Bullock, President

Dated October 20, 2010

TENANT:

PALO ALTO NETWORKS, INC.,
a Delaware corporation

Dated October 15, 2010

By: /s/ Michael Lehman
Printed Name: Michael Lehman
Title: Chief Financial Officer

EXHIBIT A

SITE PLAN

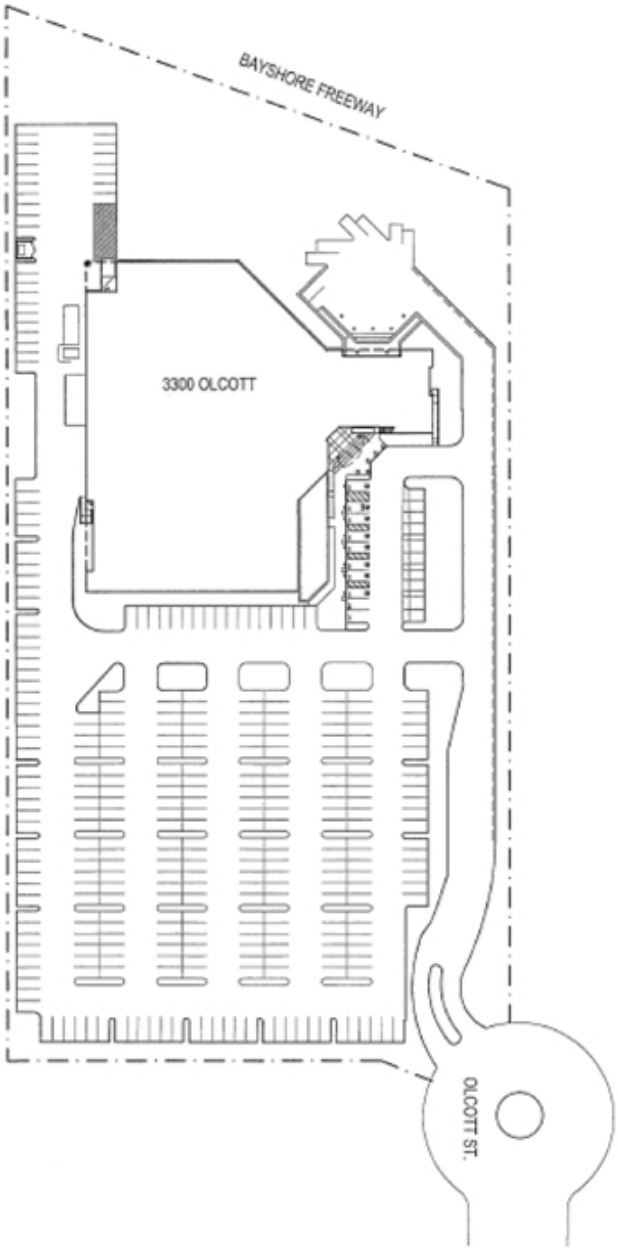

EXHIBIT B

WORK LETTER

THIS TENANT WORK LETTER ("Work Letter") sets forth the agreement of Landlord and Tenant with respect to the improvements to be constructed in the Leased Premises, as defined in the Lease to which this Work Letter is attached as an exhibit. In the event of any inconsistency between the terms of this Work Letter and the terms of the Lease, the terms of the Lease shall control. All defined terms used herein shall have the meanings set forth in the Lease, unless otherwise defined in this Work Letter.

1. **Landlord's Work**. Landlord will commence (and prosecute to completion employing commercially reasonable efforts) the work described on **Schedule 1** attached to this Work Letter (the "Landlord's Work") as soon as reasonably practicable after the Effective Date of the Lease at Landlord's sole cost and expense, and not as Additional Rent or other charge-through to Tenant.

2. **Tenant Improvement Work**. Tenant shall construct, furnish or install all improvements, equipment or fixtures, that are necessary for Tenant's use and occupancy of the entirety of the Leased Premises (the "Tenant Improvements"). Tenant shall complete construction of the Tenant Improvements for the entirety of the Leased Premises no later than seven (7) months after the Delivery Date, subject to delays caused by Force Majeure. Tenant shall also be responsible for the cost of any alterations to the Building required as a result of the Tenant Improvements. The Tenant Improvements shall be in conformity with drawings and specifications submitted to and approved by Landlord and shall be performed in accordance with the following provisions:

(a) Tenant shall prepare and submit to Landlord for its approval two sets of fully dimensioned scale drawings (suitable for submission with a building permit application) for the Tenant Improvements (including plans, elevations, critical sections and details) and a specification of Tenant's utility requirements. Such drawings shall not deviate materially from the Space Plan described in Paragraph 3(a)(ii) below. Tenant shall cause all drawings and specifications for the Tenant Improvements to be prepared by licensed architects and where appropriate, mechanical, electrical and structural engineers.

(b) Within 10 days after receipt of Tenant's drawings Landlord shall return one set of prints thereof with Landlord's reasonable approval and/or suggested modifications noted thereon. If Landlord has approved Tenant's drawings subject to modifications, such modifications shall be deemed to be acceptable to and approved by Tenant unless Tenant shall prepare and resubmit revised drawings for further consideration by Landlord. If Landlord has suggested modifications without approving Tenant's drawings Tenant shall prepare and resubmit revised drawings within seven days for consideration by Landlord. All revised drawings shall be submitted, with changes highlighted, to Landlord within seven days following Landlord's return to Tenant of the drawings originally submitted, and Landlord shall approve or disapprove such revised drawings, in Landlord's reasonable discretion within seven days following receipt of the same.

(c) Tenant shall exercise diligent efforts to obtain all building and other permits necessary in connection with the Tenant Improvements prior to the commencement of such work, and in any event no later than January 1, 2011. The Tenant Improvements shall (i) be constructed in compliance with all of the terms and conditions of the Lease and with all applicable Laws and regulations, (ii) not involve changes to structural components of the Building nor involve any floor, roof, or wall penetrations unless approved by Landlord in its sole but good faith discretion, and (iii) not require any material modifications of the Building's mechanical or electrical systems unless approved by Landlord in its sole but good faith discretion.

(d) Prior to commencing construction, Tenant shall deliver to Landlord the following:

(i) The address of Tenant's general contractor, and the names of the primary subcontractors Tenant's contractor intends to engage for the construction of the Leased Premises.

(ii) The actual commencement date of construction and the estimated date of completion of the work, including fixturization.

(iii) Evidence of insurance as called for hereinbelow.

(iv) An executed copy of the applicable building permit for such work.

(e) After the later to occur of (i) the Delivery Date, and (ii) final approval of Tenant's drawings by Landlord, Tenant shall proceed promptly to commence construction of the Tenant Improvements. Tenant's contractors and subcontractors shall be acceptable to and approved in writing by Landlord, which approval shall not be unreasonably withheld or delayed, and shall, at Landlord's option, be subject to administrative supervision by Landlord in their use of the Building. Tenant shall furnish to Landlord a copy of the executed contract between Tenant and Tenant's general contractor (the "Tenant Improvement Construction Contract") covering all of Tenant's obligations under this Work Letter. Tenant shall use commercially reasonable efforts to cause such work to be performed in as efficient a manner as is commercially reasonable. Tenant shall reimburse Landlord on demand for the cost of repairing any damage to the Building caused by Tenant or its contractors during construction of the Tenant Improvements. Tenant's contractors shall conduct their work and employ labor in such manner as to maintain harmonious labor relations. Tenant's general contractor ("Tenant's Contractor") shall obtain a builder's risk policy of insurance in an amount and form and issued by a carrier reasonably satisfactory to Landlord, and Tenant's Contractor and subcontractors shall carry worker's compensation insurance for their employees as required by law. The builder's risk policy of insurance shall name Landlord as an additional insured and shall not be cancellable without at least 30 days' prior written notice to Landlord (10 days' prior written notice to Landlord for non-payment of premiums).

(f) Any changes in the Tenant Improvements from the final drawings approved by Landlord shall be subject to Landlord's prior written approval, which shall not be unreasonably withheld, conditioned, or delayed, and shall be given or withheld within five (5) business days of Landlord's receipt of a written request for the change(s) accompanied by revised drawings showing the requested change(s) . Any deviation in construction from the design specifications and criteria set forth herein or from Tenant's plans and specifications as approved by Landlord shall constitute a default for which Landlord may, within ten (10) days after giving written notice to Tenant, elect to exercise the remedies available in the event of default under the provisions of this Lease, unless such default is cured within such ten (10) day period, or, if the cure reasonably requires more than ten (10) days and Tenant is diligently prosecuting such cure, unless such default is cured as soon as reasonably practicable but in no event later than sixty (60) days after Landlord's notice to Tenant. Only new materials shall be used in the construction of the Tenant Improvements, except with the written consent of Landlord.

(g) During the construction of the Tenant Improvements, Tenant shall provide and pay for temporary connections for all utilities brought to the Building. Trash removal will be done continually at Tenant's sole cost and expense. No trash, or other debris, or other waste may be deposited at any time outside the Building. If so, Landlord may remove it at Tenant's expense, which expense shall equal the cost of removal plus twenty five percent (25%) of such costs as a management fee.

(h) Storage of Tenant's Contractor's (and all subcontractors') construction materials, tools and equipment shall, where reasonably practicable, be confined within the Building and in not outside the Building.

(i) Tenant acknowledges that it has engaged its architects, engineers, contractors, owner's representatives, and other consultants, and shall be solely responsible for the actions and omissions of such persons and for any loss, liability, claim, cost, damage or expense suffered by Landlord or any other entity or person as a result of the acts or omissions of such persons or for delays caused by such persons except to the extent attributable to the gross negligence or willful misconduct of Landlord or any of such persons. Landlord's approval of any of Tenant's architects or engineers and of any documents prepared by any of them shall not be for the benefit of Tenant or any third party, and Landlord shall have no duty to Tenant or to any third parties for the actions or omissions of Tenant's architects or engineers. Tenant shall indemnify and hold harmless Landlord against any and all losses, costs, damages, claims and liabilities arising from the actions or omissions of Tenant's architects, engineers, contractors, owner's representatives, and other consultants.

(j) Landlord shall have the right to post in a conspicuous location on the Building or the Leased Premises, as well as record with the County of Santa Clara, a Notice of Nonresponsibility.

(k) Without limiting the generality of the foregoing, any work to be performed by Tenant shall be coordinated with Landlord, and shall be subject to reasonable scheduling requirements of Landlord.

(l) Tenant shall, upon completion of its work, submit to Landlord two (2) complete sets of plans (one (1) reproducible) and specifications covering all of the Tenant Improvements, including architectural, electrical, and plumbing, as built.

3. **Payment of Costs of the Tenant Improvements**.

(a) Unless specified otherwise herein, Tenant shall bear and pay the cost of the Tenant Improvements (which cost shall include, without limitation, the costs of construction, the cost of permits and permit expediting, and all architectural and engineering services obtained by Landlord in connection with the Tenant Improvements, the Tenant's Contractor's fees, Landlord's third party costs incurred for document review and coordination.

(i) Provided that and so long as Tenant in not in default under the Lease, Landlord shall contribute a maximum of $4,500,000 (the "Tenant Improvement Allowance"). The Tenant Improvement Allowance may be utilized for all hard and soft construction costs incurred by Tenant to move into the Leased Premises, including architecture, engineering, and project management fees, permits, materials, labor and improvements to the Leased Premises. Tenant shall bear and pay the cost of the Tenant Improvements (including but not limited to all of the foregoing fees and costs) in excess of the Tenant Improvement Allowance, if any. A reasonable portion of the Tenant Improvement Allowance may be utilized for Tenant's furniture costs and network cabling costs, provided that (A) all such items for which any portion of the Tenant Improvement Allowance is utilized shall be listed on a schedule delivered to Landlord promptly upon the acquisition thereof, which schedule permits Landlord to identify such items in the Leased Premises, and (B) any such items shall be the property of Landlord to the extent purchased with the Tenant Improvement Allowance. Tenant shall bear and pay the cost of the Tenant Improvements (including but not limited to all of the foregoing fees and costs) in excess of the Tenant Improvement Allowance, if any. The cost of the Tenant Improvements shall exclude the cost of inventory. Based upon applications for payment prepared, certified and submitted by Tenant, Landlord shall make progress payments from the Tenant Improvement Allowance to Tenant in accordance with the provisions of this paragraph 3.

(ii) In addition to the Tenant Improvement Allowance, Landlord shall provide Tenant with a test fit allowance of up to $0.10 per rentable square foot of the Leased Premises. Tenant's initial space plan for the Leased Premises (the "Space Plan") is attached hereto as Schedule 2.

(b) The Tenant Improvement Allowance shall be utilized only for the items described in Paragraph 3(a)(i) above. Tenant shall bear and pay the cost of the Tenant Improvements (including but not limited to all of the foregoing fees and costs) in excess of the Tenant Improvement Allowance, if any.

(c) Not later than the 25th day of each month Tenant shall submit applications for payment to Landlord in a form reasonably acceptable to Landlord, certified as correct by an officer of Tenant and by Tenant's project management firm, for payment of that portion of the cost of the

Tenant Improvements allocable to labor, materials and equipment incorporated in the Building during the period from the first day of the same month projected through the last day of the month. Each application for payment shall set forth such information and shall be accompanied by such supporting documentation as shall be reasonably requested by Landlord, including the following:

(i) Invoices and canceled checks.

(ii) Fully executed conditional lien releases in the form prescribed by law from the Contractor and all subcontractors and suppliers furnishing labor or materials during such period and fully executed unconditional lien releases from all such entities covering the prior payment period.

(iii) Contractor's worksheets showing percentages of completion.

(iv) Contractor's certification as follows:

"There are no known mechanics' or materialmen's liens outstanding at the date of this application for payment, all due and payable bills with respect to the Building have been paid to date or shall be paid from the proceeds of this application for payment, and there is no known basis for the filing of any mechanics' or materialmen's liens against the Building or the Property, and, to the best of our knowledge, waivers from all subcontractors are valid and constitute an effective waiver of lien under applicable law to the extent of payments that have been made or shall be made concurrently herewith."

(d) Tenant shall submit with each application for payment all documents necessary to effect and perfect the transfer of title to the materials or equipment for which application for payment is made.

(e) On or before the 15th day of the month following submission of the application for payment, Landlord shall pay a share of such payment determined by multiplying the amount of such payment by a fraction, the numerator of which is the amount of the Tenant Improvement Allowance, and the denominator of which is the sum of (i) estimated construction cost of all Tenant Improvements for the entire Leased Premises, and (ii) the estimated cost of all professional services, fees and permits, furniture, fixtures, and equipment in connection therewith. Tenant shall pay the balance of such payment, provided that at such time as Landlord has paid the entire Tenant Improvement Allowance on account of such Tenant Improvements, all billings shall be paid entirely by Tenant. If upon completion of the Tenant Improvements and payment in full to the Contractor, the architect and engineer, and payment in full of all fees and permits, the portion of the cost of the Tenant Improvements, architects' and engineers' fees, permits and fees theretofore paid by Landlord is less than the Tenant Improvement Allowance, Landlord shall reimburse Tenant for costs expended by Tenant for Tenant Improvements up to the amount by which the Tenant

Improvement Allowance exceeds the portion of such cost theretofore paid by Landlord. Landlord shall have no obligation to advance the Tenant Improvement Allowance to the extent it exceeds the total cost of the Tenant Improvements. In no event shall Landlord have any responsibility for the cost of the Tenant Improvements in excess of the Tenant Improvement Allowance. Landlord shall have no obligation to make any payments to Contractor's material suppliers or subcontractors or to determine whether amounts due them from Contractor in connection with the Tenant Improvements have, in fact, been paid.

4. **Evidence of Completion of Tenant Improvements**. Upon the completion of the Tenant Improvements, Tenant shall:

(a) Submit to Landlord a detailed breakdown of Tenant's final and total construction costs, together with receipted evidence showing payment thereof, satisfactory to Landlord.

(b) Submit to Landlord all evidence reasonably available from governmental authorities showing compliance with any and all other Laws, orders and regulations of any and all governmental authorities having jurisdiction over the Building, including, without limitation, authorization for physical occupancy of the Building.

(c) Submit to Landlord the as built plans and specifications referred to above.

5. **Assignment of Rights Against Architect and Contractor**. Tenant hereby assigns to Landlord on a non-exclusive basis any and all rights Tenant may have against Tenant's architects and contractors relating to the Tenant Improvements, without in any way obligating Landlord to pursue or prosecute such rights.

SCHEDULE 1 TO WORK LETTER

3300 OLCOTT STREET, SANTA CLARA, CALIFORNIA

LANDLORD'S WORK

1. Repair all failed window gaskets as identified on that certain Property Condition Report For Menlo Equities Associates LLC relating to the Property, dated March 12, 2008, Comm. No. 2008-00327-0001, prepared by Eckland Consultants. Perform cosmetic reconditioning of the Building's exterior window glazing.

2. Return the computer access flooring in the Leased Premises to carpet ready condition.

3. Repair, seal, and stripe the parking lot and driveways.

4. Install one passenger elevator at the main lobby, subject to mutual agreement between Landlord and Tenant as to the precise location of same, and receipt of approval from the City of Santa Clara.

5. Complete two restroom cores per floor. Tenant may elect to add one set of male/female showers, which Landlord will then include in Landlord's Work; provided, however, that the cost of such showers shall be borne solely by Tenant.

6. Remove the non-functioning rooftop HVAC equipment identified on **Attachment A** to this **Schedule 1** and then patch and repair the roof to the extent necessitated by such removal.

ATTACHMENT A TO SCHEDULE 1

Non-functioning Rooftop HVAC Equipment to be removed

SCHEDULE 1 TO WORK LETTER

3300 OLCOTT STREET, SANTA CLARA, CALIFORNIA

SPACE PLAN

EXHIBIT C

SUBORDINATION, NONDISTURBANCE AND ATTORNMENT PROVISIONS

RECORDING REQUESTED BY)
AND WHEN RECORDED MAIL TO)
Bank of America, N.A.))
Commercial Real Estate Banking)
Mail Code: _____)
_____)
_____)
Attn.: _____)
_____ _____

Space above for Recorder's Use

SUBORDINATION, NONDISTURBANCE AND ATTORNMENT AGREEMENT

NOTICE: THIS SUBORDINATION, NONDISTURBANCE AND ATTORNMENT AGREEMENT RESULTS IN YOUR LEASEHOLD ESTATE BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

This Subordination, Nondisturbance and Attornment Agreement (this "Agreement") dated _____, ____, is made among _____ ("Tenant"), _____ ("Landlord"), and Bank of America, N.A., a national banking association ("Lender").

WHEREAS, Lender is the owner of a promissory or deed of trust note (herein, as it may have been or may be from time to time renewed, extended, amended, supplemented or restated, called the "Note") dated _____, executed by Landlord payable to the order of Lender, in the face principal amount of $_____, bearing interest and payable as therein provided, secured by, among other things, a [**Construction**] Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing (herein, as it may have been or may be from time to time renewed, extended, amended or supplemented, called the "Deed of Trust"), recorded or to be recorded in the real property records of _____ County, _____, covering, among other property, the land (the "Land") described in Exhibit "A" which is attached hereto and incorporated herein by reference, and the improvements ("Improvements") thereon (such Land and Improvements being herein together called the "Property");

WHEREAS, Tenant is the tenant under a lease from Landlord dated _____, as amended on _____, _____ (herein, as it may from time to time be renewed, extended, amended or supplemented, called the "Lease"), covering a portion of the Property (said portion being herein referred to as the "Premises"); and

WHEREAS, the term "Landlord" as used herein means the present landlord under the Lease or, if the landlord's interest is transferred in any manner, the successor(s) or assign(s) occupying the position of landlord under the Lease at the time in question.

NOW, THEREFORE, in consideration of the mutual agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Subordination. Tenant agrees and covenants that the Lease and the rights of Tenant thereunder, all of Tenant's right, title and interest in and to the property covered by the Lease, and any lease thereafter executed by Tenant covering any part of the Property, are and shall be subject, subordinate and inferior to (a) the Deed of Trust and the rights of Lender thereunder, and all right, title and interest of Lender in the Property, and (b) all other security documents now or hereafter securing payment of any indebtedness of Landlord (or any prior landlord) to Lender which cover or affect the Property (the "Security Documents"). This Agreement is not intended and shall not be construed to subordinate the Lease to any mortgage, deed of trust or other security document other than those referred to in the preceding sentence, securing the indebtedness to Lender.

2. Nondisturbance. Lender agrees that so long as the Lease is in full force and effect and Tenant is not in default in the payment of rent, additional rent or other payments or in the performance of any of the other terms, covenants or conditions of the Lease on Tenant's part to be performed (beyond the period, if any, specified in the Lease within which Tenant may cure such default),

(a) Tenant's possession of the Premises under the Lease shall not be disturbed or interfered with by Lender in the exercise of any of its foreclosure rights under the Deed of Trust or in connection with any conveyance in lieu of foreclosure, and

(b) Lender will not join Tenant as a party defendant for the purpose of terminating Tenant's interest and estate under the Lease in any proceeding for foreclosure of the Deed of Trust.

3. Attornment.

(a) Tenant covenants and agrees that in the event of foreclosure of the Deed of Trust, whether by power of sale or by court action, or upon a transfer of the Property by conveyance in lieu of foreclosure (the purchaser at foreclosure or the transferee in lieu of foreclosure, including Lender if it is such purchaser or transferee, being herein called "New Owner"), Tenant shall attorn to New Owner as Tenant's new landlord, and agrees that the Lease shall continue in full force and effect as a direct lease between Tenant and New Owner upon all of the terms, covenants, conditions and agreements set forth in the Lease and this Agreement, except for provisions which are impossible for New Owner to perform; provided, however, that in no event shall New Owner be:

(i) liable for any act, omission, default, misrepresentation or breach of warranty of any previous landlord (including Landlord) or obligations accruing prior to New Owner's actual ownership of the Property;

(ii) subject to any offset, defense, claim or counterclaim which Tenant might be entitled to assert against any previous landlord (including Landlord);

(iii) bound by any payment of rent, additional rent or other payments made by Tenant to any previous landlord (including Landlord) for more than one (1) month in advance;

(iv) bound by any amendment or modification of the Lease hereafter made, or consent or acquiescence by any previous landlord (including Landlord) under the Lease to any assignment or sublease hereafter granted, without the written consent of Lender; or

(v) liable for any deposit that Tenant may have given to any previous landlord (including Landlord) which has not, as such, been transferred to New Owner.

(b) The provisions of this Agreement regarding attornment by Tenant shall be self operative and effective without the necessity of execution of any new lease or other document on the part of any party hereto or the respective heirs, legal representatives, successors or assigns of any such party. Tenant agrees, however, to execute and deliver upon the request of New Owner, any instrument or certificate which in the reasonable judgment of New Owner may be necessary or appropriate to evidence such attornment, including a new lease of the Premises on the same terms and conditions as the Lease for the unexpired term of the Lease.

(c) Upon foreclosure of the Deed of Trust or transfer in lieu of foreclosure, the Lease shall be modified as follows: _____

4. Estoppel Certificate. Tenant agrees to execute and deliver from time to time, upon the request of Landlord or of any holder(s) of any of the indebtedness or obligations secured by the Deed of Trust, a certificate regarding the status of the Lease, certifying (a) that the Lease is in full force and effect, (b) the date through which rentals have been paid, (c) the date of the commencement of the term of the Lease, (d) the nature of any amendments or modifications of the Lease, (e) that to the best of Tenant's knowledge no default, or state of facts which with the passage of time or notice (or both) would constitute a default, exists under the Lease, (f) that to the best of Tenant's knowledge, no setoffs, recoupments, estoppels, claims or counterclaims exist against Landlord, and (g) such other matters as may be reasonably requested. If any of the foregoing statements are untrue, Tenant's certificate shall state the reasons therefor.

5. Acknowledgment and Agreement by Tenant. Tenant acknowledges and agrees as follows:

(a) Tenant acknowledges that in connection with the financing of the Property, Landlord is executing and delivering to Lender the Deed of Trust which contains an assignment of leases and rents. Tenant hereby expressly consents to such assignment and agrees that such

assignment shall, in all respects, be superior to any interest Tenant has in the Lease or the Property, subject to the provisions of this Agreement. Tenant will not amend, alter or waive any provision of, or consent to the amendment, alteration or waiver of, any provision of the Lease without the prior written consent of Lender. Tenant shall not prepay any rents or other sums due under the Lease for more than one (I) month in advance of the due date therefor. Tenant acknowledges that Lender will rely upon this instrument in connection with such financing.

(b) Lender, in making any disbursements to Landlord, is under no obligation or duty to oversee or direct the application of the proceeds of such disbursements, and such proceeds may be used by Landlord for purposes other than improvement-of the Property.

(c) From and after the date hereof, in the event of any act or omission by Landlord which would give Tenant the right, either immediately or after the lapse of time, to terminate the Lease or to claim a partial or total eviction, Tenant will not exercise any such right (i) until it has given written notice of such act or omission to Lender, and (ii) until the same period of time as is given to Landlord under the Lease to cure such act or omission shall have elapsed following such giving of notice to Lender and following the time when Lender shall have become entitled under the Deed of Trust to remedy the same. In no event will Tenant exercise any such right less than 30 days after receipt of such notice or prior to the passage of such longer period of time as may be necessary to cure or remedy such default, act or omission including such period of time necessary to obtain possession of the Property and thereafter cure such default, act or omission, during which period of time Lender shall be permitted to cure or remedy such default, act or omission. Notwithstanding the foregoing, Lender shall have no duty or obligation to cure or remedy any breach or default. It is specifically agreed that Tenant shall not, as to Lender, require cure of any such default which is personal to Landlord and therefore not susceptible to cure by Lender.

(d) In the event that Lender notifies Tenant of a default under the Deed of Trust, Note or Security Documents and demands that Tenant pay its rent and all other sums due under the Lease directly to Lender, Tenant shall honor such demand and pay the full amount of its rent and all other sums due under the Lease directly to Lender, without offset, or as otherwise required pursuant to such notice beginning with the payment next due after such notice of default, without inquiry as to whether a default actually exists under the Deed of Trust, Security Documents or otherwise in connection with the Note, and notwithstanding any contrary instructions of or demands from Landlord.

(e) Tenant shall send a copy of any notice or statement under the Lease to Lender at the same time such notice or statement is sent to Landlord if such notice or statement has a material impact on the economic terms, operating covenants or duration of the Lease.

(f) Tenant has no right or option of any nature whatsoever, whether pursuant to the Lease or otherwise, to purchase the Premises or the Property, or any portion thereof or any interest therein, and to the extent that Tenant has had, or hereafter acquires, any such right or option, the same is hereby acknowledged to be subject and subordinate to the Deed of Trust and is hereby waived and released as against Lender and New Owner.

(g) This Agreement satisfies any condition or requirement in the Lease relating to the granting of a nondisturbance agreement and Tenant waives any requirement to the contrary in the Lease.

(h) Lender and any New Owner shall have no liability to Tenant or any other party for any conflict between the provisions of the Lease and the provisions of any other lease affecting the Property, including any provisions relating to exclusive or non-conforming uses or rights, renewal options and options to expand, and in the event of such a conflict, Tenant shall have no right to cancel the Lease or take any other remedial action against Lender, New Owner or any other party.

(i) Notwithstanding anything to the contrary in the Lease or the Security Documents, neither Lender nor any New Owner shall be liable for or bound by any Construction-Related Obligation under the Lease. As used herein, a "Construction-Related Obligation" means any obligation of Landlord under the Lease to make, pay for, or reimburse Tenant for any alterations, demolition, or other improvements or work at the Property, including the Premises.

(j) Lender and any New Owner shall have no obligation nor shall they incur any liability with respect to any warranties of any nature whatsoever, whether pursuant to the Lease or otherwise, including any warranties respecting use, compliance with zoning, Landlord's title, Landlord's authority, habitability, fitness for purpose or possession.

(k) In the event that Lender or any New Owner shall acquire title to the Premises or the Property, Lender or such New Owner shall have no obligation, nor shall it incur any liability, beyond Lender's or New Owner's then-equity interest, if any, in the Property or the Premises, and Tenant shall look exclusively to such equity interest of Lender or New Owner, if any, for the payment and discharge of any obligations imposed upon Lender or New Owner hereunder or under the Lease or for recovery of any judgment from Lender or New Owner, and in no event shall Lender, New Owner, or any of their respective officers, directors, shareholders, agents, representatives, servants, employees or partners ever be personally liable for such judgment.

(l) Tenant has never permitted, and will not permit, the generation, treatment, storage or disposal of any hazardous substance as defined under federal, state, or local law, on the Premises or Property except for such substances of a type and only in a quantity normally used in connection with the occupancy or operation of buildings (such as non-flammable cleaning fluids and supplies normally used in the day-to-day operation of first class establishments similar to the Improvements), which substances are being held, stored, and used in strict compliance with federal, state, and local laws. Tenant shall be solely responsible for and shall reimburse and indemnify Landlord, New Owner or Lender, as applicable, for any loss, liability, claim or expense, including cleanup and all other expenses, including legal fees that Landlord, New Owner or Lender, as applicable, may incur by reason of Tenant's violation of the requirements of this Section 5(1).

6. Acknowledgment and Agreement by Landlord. Landlord, as landlord under the Lease and trustor under the Deed of Trust, acknowledges and agrees for itself and its heirs, representatives, successors and assigns, that: (a) this Agreement does not constitute a waiver by Lender of any of its rights under the Deed of Trust, Note or Security Documents, nor does this Agreement in any way release Landlord from its obligations to comply with the terms, provisions, conditions, covenants, agreements and clauses of the Deed of Trust, Note and Security Documents; (b) the provisions of the Deed of Trust, Note and Security Documents remain in full force and effect and must be complied with by Landlord; and (c) Tenant is hereby authorized to pay its rent and all other sums due under the Lease directly to Lender upon receipt of a notice as set forth in Section 5(d) above from Lender and that Tenant is not obligated to inquire as to whether a default actually exists under the Deed of Trust or the Security Documents or otherwise in connection with the Note. Landlord hereby releases and discharges Tenant of and from any liability to Landlord resulting from Tenant's payment to Lender in accordance with this Agreement. Landlord represents and warrants to Lender that a true and complete copy of the Lease has been delivered by Landlord to Lender.

7. Lease Status. Landlord and Tenant certify to Lender that neither Landlord nor Tenant has knowledge of any default on the part of the other under the Lease, that the Lease is bona fide and contains all of the agreements of the parties thereto with respect to the letting of the Premises and that all of the agreements and provisions therein contained are in full force and effect.

8. Notices. All notices, requests, consents, demands and other communications required or which any party desires to give hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, by telegram, telex, or facsimile, by expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at the addresses specified at the end of this Agreement (unless changed by similar notice in writing given by the particular party whose address is to be changed). Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein, or, in the case of telegram, telex or facsimile, upon receipt. Notwithstanding the foregoing, no notice of change of address shall be effective except upon receipt. This Section 8 shall not be construed in any way to affect or impair any waiver of notice or demand provided in this Agreement or in the Lease or in any document evidencing, securing or pertaining to the loan evidenced by the Note or to require giving of notice or demand to or upon any person in any situation or for any reason.

9. Miscellaneous.

(a) This Agreement supersedes any inconsistent provision of the Lease.

(b) Nothing contained in this Agreement shall be construed to derogate from or in any way impair or affect the lien, security interest or provisions of the Deed of Trust, Note or Security Documents.

(c) This Agreement shall inure to the benefit of the parties hereto, their respective successors and permitted assigns, and any New Owner, and its heirs, personal representatives, successors and assigns; provided, however, that in the event of the assignment or transfer of the interest of Lender, all obligations and liabilities of the assigning Lender under this Agreement shall terminate, and thereupon all such obligations and liabilities shall be the responsibility of the party to whom Lender's interest is assigned or transferred; and provided further that the interest of Tenant under this Agreement may not be assigned or transferred without the prior written consent of Lender.

(d) THIS AGREEMENT AND ITS VALIDITY, ENFORCEMENT AND INTERPRETATION SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA AND APPLICABLE UNITED STATES FEDERAL LAW EXCEPT ONLY TO THE EXTENT, IF ANY, THAT THE LAWS OF THE STATE IN WHICH THE PROPERTY IS LOCATED NECESSARILY CONTROL.

(e) The words "herein," "hereof," "hereunder" and other similar compounds of the word "here" as used in this Agreement refer to this entire Agreement and not to any particular section or provision. The terms "include" and "including" shall be interpreted as if followed by the words "without limitation."

(f) This Agreement may not be modified orally or in any manner other than by an agreement in writing signed by the parties hereto or their respective successors in interest.

(g) If any provision of this Agreement shall be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not apply to or affect any other provision hereof, but this Agreement shall be construed as if such invalidity, illegality or unenforceability did not exist.

(h) [This Agreement will be recorded in the real property records of _____ County, _____.]

[Signatures appear on the following page]

NOTICE: THIS AGREEMENT CONTAINS A PROVISION WHICH ALLOWS THE PERSON OBLIGATED ON YOUR LEASE TO OBTAIN A LOAN, A PORTION OF WHICH MAY BE EXPENDED FOR PURPOSES OTHER THAN IMPROVEMENT OF THE PROPERTY.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

ADDRESS OF LENDER:

_____
_____
_____

Attention: _____

LENDER:

BANK OF AMERICA, N.A., a national banking association

By: _____
Name: _____
Title: _____

ADDRESS OF TENANT:

Attention: _____

TENANT:

By: _____
Name: _____
Title: _____

ADDRESS OF LANDLORD:

Attention: _____

LANDLORD:

By: _____
Name: _____
Title: _____

GUARANTOR'S CONSENT

_____, guarantor of the Lease, signs below to express its consent to the foregoing Agreement and its agreement that its guaranty of the Lease is and shall remain in full force and effect.

Dated: _____

_____

By: _____

Name: _____

Title: _____

[*Add Appropriate Acknowledgments*]

EXHIBIT “A”

LEGAL DESCRIPTION OF THE LAND

ACKNOWLEDGMENT

STATE OF CALIFORNIA

COUNTY OF _____

On _____, before me, _____, a notary public, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____
Notary Public

My Commission Expires:

_____ [Notarial Seal]

ACKNOWLEDGMENT

STATE OF CALIFORNIA

COUNTY OF _____

On _____, before me, _____, a notary public, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____
Notary Public

My Commission Expires:

_____ [Notarial Seal]

ACKNOWLEDGMENT

STATE OF CALIFORNIA

COUNTY OF _____

On _____, before me, _____, a notary public, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

_____
Notary Public

My Commission Expires:

_____ [Notarial Seal]

EXHIBIT D

FORM OF ESTOPPEL CERTIFICATE

_____ , 20____

_____
_____
_____
_____

Re _____
_____ , California

Ladies and Gentlemen:

Reference is made to that certain Lease, dated as of _____, 20____, between _____ LLC, a Delaware limited liability company ("Landlord"), and the undersigned (herein referred to as the "Lease"). A copy of the Lease [_____ and all amendment thereto] is[are] attached hereto as **Exhibit A**. At the request of Landlord in connection with [State reasons for request for estoppel certificate _____], the undersigned hereby certifies to Landlord and to [state names of other parties requiring certification (e.g., lender, purchaser, investor)] ("Lender"/ "Purchaser"/ "Investor") and each of your respective successors and assigns as follows:

I. The undersigned is the tenant under the Lease.

1. The Lease is in full force and effect and has not been amended, modified, supplemented or superseded except as indicated in Exhibit A.

2. To the undersigned's knowledge, there is no defense, offset, claim or counterclaim by or in favor of the undersigned against Landlord under the Lease or against the obligations of the undersigned under the Lease. The undersigned has no renewal, extension or expansion option, no right of first offer or right of first refusal and no other similar right to renew or extend the term of the Lease or expand the property demised thereunder except as may be expressly set forth in the Lease.

3. The undersigned is not aware of any default now existing of the undersigned or of Landlord under the Lease, nor of any event which with notice or the passage of time or both would constitute a default of the undersigned or of Landlord under the Lease.

4. The undersigned has not received notice of a prior transfer, assignment, hypothecation or pledge by Landlord of any of Landlord's interest in the Lease.

5. The monthly rent due under the Lease is $_____ and has been paid through _____ and all additional rent due and payable under the Lease has been paid through _____.

6. The term of the Lease commenced on _____ , and expires on _____ , unless sooner terminated pursuant to the provisions of the Lease. Landlord has performed all work required by the Lease for the undersigned's initial occupancy of the demised property.

7. The undersigned has deposited the sum of $_____ with Landlord as security for the performance of its obligations as tenant under the Lease, and no portion of such deposit has been applied by Landlord to any obligation under the Lease.

8. There is no free rent period pending, nor is Tenant entitled to any Landlord's contribution.

The above certifications are made to Landlord and [Lender/ Purchaser/ Investor] knowing that Landlord and [Lender/ Purchaser/ Investor] will rely thereon in [making a loan secured in part by an assignment of the Lease/ accepting an assignment of the Lease/ investing in Landlord/other].

Very truly yours,

_____

By:
Name:
Title:

AMENDMENT NO.1 TO LEASE

This AMENDMENT NO.1 TO LEASE (this "Amendment") is entered into as of March __, 2011, by and between SANTA CLARA OFFICE PARTNERS LLC, a Delaware limited liability company ("Landlord"), on the one hand, and PALO ALTO NETWORKS, INC., a Delaware corporation ("Tenant"), on the other hand, with reference to the following facts:

RECITALS

A. Landlord and Tenant are parties to that certain Lease dated as of October 20, 2010 (the "Lease").

B. Landlord and Tenant, directly and/or through their agents, have had numerous discussions and have corresponded in writing regarding certain work relating to two sets of internal stairs in the Leased Premises (the "Stair Work"), certain repairs or replacements with respect to certain HVAC mechanical units (the "HVAC Work"), certain repairs or replacements with respect to certain leaking and/or scratched or opaque windows (the "Window Work"), a requirement by the City of Santa Clara that three backflow prevention devices be installed (the "Backflow Work"), and an easement associated therewith be granted (the "Backflow Easement"). The Stair Work, the HVAC Work, the Window Work, and the Backflow Work are defined collectively in this Amendment as the "Total Work").

C. Landlord and Tenant disagree on who is responsible under the Lease for the Total Work.

D. In order to resolve this disagreement and to ensure there is no further misunderstanding as to whether Landlord or Tenant is responsible for the Total Work or other work, maintenance, repairs, or replacements, etc., under the Lease, Landlord is willing to pay to Tenant (as described below) a total of $193,000.00 on account of the Total Work (the "Agreed Reimbursement"), and to grant to the City of Santa Clara the Backflow Easement, on the condition that Landlord and Tenant enter into this Amendment.

NOW, THEREFORE, in consideration of the foregoing Recitals, the mutual covenants and agreements contained herein, and further good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

AGREEMENT

1. Plan Approvals.

Landlord and Tenant acknowledge the plan approvals dated November 17, 2010, November 24, 2010, and December 23, 2010, which are set forth on **Exhibit A** attached to this Amendment.

2. Construction Budget Approvals.

Landlord acknowledges receipt of and hereby approves Tenant's construction budget attached hereto as **Exhibit B** (the "Approved Budget") for items 4 (elevator) and item 5 (restroom cores) of Schedule 1 to the Work Letter (the "Remaining Landlord Work"). Landlord and Tenant hereby agree that: (a) Tenant will cause its general contractor to perform the Remaining Landlord Work, (b) Landlord will pay to Tenant the amount of $318,688 (i.e., $480,321.00 as set forth in the Approved Budget (in the column entitled "RR / SHR 1st Flr RR 2nd flr & Elev") minus $161,633 previously paid to Tenant), upon completion of the Remaining Landlord Work by Tenant's general contractor to Tenant's satisfaction, and (c) except for making such payment, Landlord shall have no responsibility of any kind relating to the Remaining Landlord Work. Tenant hereby agrees that in no event shall the performance of the Remaining Landlord Work by Tenant's general contractor: (i) be deemed to have delayed Tenant's completion of the Tenant Improvements, or (ii) result in a modification of the Lease Commencement Date or the April 1, 2012 date on which Tenant must commence payment of Base Monthly Rent.

3. Agreed Reimbursement.

Landlord and Tenant hereby agree that: (a) Tenant will cause its general contractor to perform the Total Work, (b) Landlord will pay to Tenant the Agreed Reimbursement by crediting $124,000 against the Base Monthly Rent payment due on April 1, 2012, and by paying to Tenant the balance of the Agreed Reimbursement in the amount of $69,000 within five (5) business days after mutual execution and delivery of this Amendment, and (c) except for making such payment, Landlord shall have no responsibility of any kind relating to the Total Work.

4. Backflow Easement.

Landlord and Tenant hereby agree that Landlord will grant the Backflow Easement to the City of Santa Clara, and Tenant will execute and permit the recordation of a reasonable subordination of the Lease to the Backflow Easement.

5. Acknowledgement and Agreement.

Tenant acknowledges and agrees that:

(a) as provided in Paragraph 2.4 of the Lease, Tenant accepted possession of the Leased Premises on October 22, 2010 in their then "AS IS" condition, with all faults, subject only to clauses (a) and (b) of such Paragraph 2.4;

(b) the Landlord's Work referred to in clause (a) of such Paragraph 2.4 other than the Remaining Landlord Work, has been completed to Tenant's satisfaction;

(c) the Remaining Landlord Work is now the responsibility of and will be completed by Tenant pursuant to Paragraph 2 above;

(d) the Total Work is now the responsibility of and will be completed by Tenant pursuant to Paragraph 3 above;

(e) neither the performance of the Total Work or the Remaining Landlord Work by Tenant's general contractor, nor the granting of the Backflow Easement by Landlord shall: (i) be deemed to have delayed Tenant's completion of the Tenant Improvements, or (ii) result in a modification of the Lease Commencement Date or the April 1, 2012 date on which Tenant must commence payment of Base Monthly Rent.

(f) Landlord's only maintenance, repair, and/or replacement responsibilities under the Lease are those set forth in Paragraph 5.1(b) of the Lease, and Landlord has no further obligation to perform any other work of any kind, and Tenant will not hereafter claim otherwise.

6. Condition Precedent To Lease Amendment.

The effectiveness of this Amendment and Landlord's and Tenant's obligations hereunder are subject to the receipt by Landlord, no later than fifteen (15) business days after the date hereof, of the Lender's Consent. Landlord hereby agrees to use diligent efforts to obtain the Lender's Consent by such date; however, if Landlord does not receive the Lender's Consent by such date, this Amendment shall, at either Landlord's or Tenant's option by written notice to the other party delivered prior to receipt of Lender's Consent (if received after such 15-business-day period), thereupon be deemed terminated and of no further force or effect, and neither party shall have any further rights, obligations, or liabilities hereunder. As used herein, the term "Lender's Consent" means a written consent to this Amendment in form reasonably satisfactory to Landlord and Tenant, executed by the holder of the promissory note secured by that certain Construction Deed of Trust, Assignment of Rents and Leases, Security Agreement and Fixture Filing (encumbering the fee interest in the real property of which the Premises are a part), recorded on April 9, 2008 in the Official Records of Santa Clara, California, at Series No. 19806764, as amended.

7. Successors and Assigns.

This Amendment shall be binding upon any and all of the administrators, executors, successors, trustors, beneficiaries and assigns of each of the parties without regard to the time at which said persons first assumed such status. Landlord's interest in this Amendment shall be freely assignable by Landlord in its sole discretion.

8. Multiple Counterparts.

This Amendment may be executed in multiple counterparts, each of which shall constitute an original. The parties contemplate that the executed counterparts of this Amendment may be transmitted by facsimile and agree and intend that a signature sent by facsimile machine shall bind the party so signing with the same effect as though the signature were an original signature.

9. Advice of Counsel.

The parties acknowledge that they have been represented in the negotiations for and in the performance of this Amendment by counsel of their own choice; that they have read this Amendment; that they have had this Amendment fully explained to them by such counsel or have had such opportunity; and that they are fully aware of the contents of this Amendment and of its legal effect.

10. Attorneys' Fees.

In the event of any dispute, claim or litigation based upon, arising out of, or relating to, the breach or enforcement of any of the provisions of this Amendment, the prevailing party in such dispute, claim or litigation shall be entitled to recover attorneys' fees, costs and expenses from the non-prevailing party.

11. Choice of Law.

This Amendment shall be construed and enforced in accordance with California law.

12. Construction.

The Amendment shall not be construed as if drafted by only one party, but shall be construed as if drafted by both parties.

13. Authority.

Each party represents to the other that it has the right to enter into this Amendment, and that it is not violating the terms or conditions of any other agreement to which it is a party or by which it is bound by entering into this Amendment. It is further represented and agreed that the individuals signing this Amendment on behalf of the respective parties do have actual authority to execute this Amendment and, by doing so, bind the party on whose behalf this Amendment has been signed.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have executed this Amendment effective as of the date first set forth above.

LANDLORD:

LANDLORD:

SANTA CLARA OFFICE PARTNERS, LLC,
a Delaware limited liability company

By: Menlo Equities III LLC
a California limited liability company
Its: Managing Member

By: Menlo Equities LLC
a California limited liability company
Its: Managing Member

By: Menlo Equities, Inc.
a California limited liability company
Its: Managing Member

By: _____
Henry Bullock, President

TENANT:

PALO ALTO NETWORKS, INC.,
a Delaware corporation

By: _____
Printed Name: Michael Lehman

EXHIBIT A

PLAN APPROVALS DATED
NOVEMBER 17, 2010, NOVEMBER 24, 2010, AND DECEMBER 23, 2010

[FOLLOWING THIS PAGE]

Santa Clara Office Partners LLC
490 South California Avenue
Fourth Floor
Palo Alto, California 94306

November 17, 2010

VIA E-MAIL
Cresa Partners
550 S. Winchester Blvd., Suite 600
San Jose, CA 95128
Attention: Douglas Schmitt

Re: Review and approval of floor plans concerning 3300 Olcott Street, Santa Clara, California (the "Property") submitted by Cresa Partners on behalf of Palo Alto Networks, Inc. ("Tenant") via email on November 10, 2010.

Doug,

Santa Clara Office Partners LLC ("Landlord") acknowledges receipt of Tenant's architectural floor plans received via e-mail on November 11, 2010 and dated November 8, 2010 ("Space Plan"). These Space Plans are attached herein. Landlord approves the Space Plans, with the following clarification:

- At Landlord's option, upon termination or expiration of the fully executed lease dated October 20, 2010 ("Lease"), Tenant may be required to restore the front entryway door to its original location upon execution of the Lease including restoration of any other related items affected by this work. The cost of this restoration shall be paid for by the Tenant.

Landlord will await to review and approve: (i) fully dimensioned scale drawings referenced in Section 2(a) of Exhibit B - Work Letter of the Lease (suitable for submission with a building permit application) and (ii) estimated costs for Landlord Work now anticipated to be conducted by Tenant's General Contractor, South Bay Construction.

Sincerely,

Richard Holmstrom
Authorized Representative
Santa Clara Office Partners LLC

Santa Clara Office Partners LLC
490 South California Avenue
Fourth Floor
Palo Alto, California 94306

November 24, 2010

VIA E-MAIL
Cresa Partners
550 S. Winchester Blvd., Suite 600
San Jose, CA 95128
Attention: Douglas Schmitt

Re: Review and approval of reflected ceiling plans concerning 3300 Olcott Street, Santa Clara, California (the "Property") submitted by Cresa Partners on behalf of Palo Alto Networks, Inc. ("Tenant") via e-mail on November 20, 2010.

Doug,

Santa Clara Office Partners LLC ("Landlord") acknowledges receipt of Tenant's reflected ceiling plans received via e-mail on November 20, 2010 and dated November 12, 2010 ("Reflected Ceiling Plans"). These Reflected Ceiling Plans are attached herein. Landlord approves the Reflected Ceiling Plans, with the following clarification:

- At Landlord's option, upon termination or sooner expiration of the executed lease dated October 20, 2010 ("Lease"), Tenant shall be required on the areas highlighted in yellow on the attached Reflected Ceiling Plans to remove the partitions and suspended acoustical ceiling and restore these areas to the condition substantially matching the open office condition that existed on the ground floor of the Property prior to the commencement of the lease. This means that the carpet shall be replaced, the ceiling grid shall be aligned in one uniform direction, and HVAC, lighting, and sprinkler heads shall be re-worked to create an open space office environment.

Landlord will await to review and approve: (i) fully dimensioned scale drawings referenced in Section 2(a) of Exhibit B—Work Letter of the Lease (suitable for submission with a building permit application) and (ii) estimated costs for Landlord Work now anticipated to be conducted by Tenant's General Contractor, South Bay Construction.

Sincerely,

Richard Holmstrom
Authorized Representative
Santa Clara Office Partners LLC

Santa Clara Office Partners LLC
490 South California Avenue
Fourth Floor
Palo Alto, California 94306

December 23, 2010

VIA E-MAIL
CresaPartners
550 S. Winchester Blvd., Suite 600
San Jose, California 95128
Attention: Douglas Schmitt

Re: Lease (the "Lease") by and between Santa Clara Office Partners LLC ("Landlord") and Palo Alto Networks, Inc. ("Tenant"), relating to Property located at 3300 Olcott Street, Santa Clara, California (the "Property"). Capitalized terms used but not defined in this letter shall have the meanings assigned to them in the Lease.

Dear Doug:

Landlord acknowledges receipt of one set of Tenants' construction drawings per Exhibit A attached, received on December 16, 2010 (the "Construction Drawings"). Please note that the Work Letter, Paragraph 2(a), requires submittal to Landlord of two sets of the Construction Drawings. Please comply with the requirements set forth in the Work Letter going forward.

Landlord hereby approves the Construction Drawings, subject to the following:

1. At Landlord's option, upon termination or sooner expiration of the executed Lease dated October 20, 2010, Tenant shall be required to remove the partitions and suspended acoustical ceiling and restore these areas to the condition substantially matching the conditions that existed on the ground floor of the Property prior to the execution of the lease. For the areas on the second floor, the spaces shall be re-built to match the Open Office 245 finishes. This means that the carpet shall be replaced, the ceiling grid shall be aligned in one uniform direction, and HVAC, lighting, and sprinkler heads shall be re-worked to create an open space office environment.

   The areas requiring restoration are: Fitness 145, Mktg Green Room 142, Conf 134, Mktg. File 141, Ops Lab 133, Environ. Chamber 132, Eng' g 135A, IT 135, Engineering Lab 250, Hardware Lab 230, Eng Storage 220, Conf 215-218, Conf 275, 276, 277, Storage 251 and 219, Off 253 and 254, and Phone 254.

2. Pursuant to Tenant's request initially made during our first construction meeting on October 21, 2010, Landlord has permitted Tenant, and Tenant has agreed, to assume responsibility for performing Landlord's Work. Therefore, Landlord and Tenant have been proceeding on the assumption that Tenant will perform the Landlord's Work, and Landlord will reimburse Tenant for the cost thereof, subject to Landlord's approval of a budget for such costs.

Landlord has received a construction budget dated December 14, 2010 outlining anticipated work to be conducted by Tenant's general contractor, South Bay Construction.

Unfortunately, Landlord is unable to approve these costs at this time due to a lack of backup information. The backup information required should include quantities and unit pricing which will enable Landlord to verify such costs are in line with the market and Landlord's recent experience at the project. Please re-submit for budget approval with appropriate supporting materials as previously requested. Landlord requests that Tenant provide finish board, revised drawings if changed, subcontractor quotes with unit prices and quantities for Landlord Work only.

In the event that the backup information and resulting budget numbers provided to Landlord are unacceptable to Landlord, Landlord reserves the right to re-assume responsibility for performing Landlord's Work, in which event the Construction Drawings would need to be modified to delete Landlord's Work.

Sincerely,

Kenneth Wong
Authorized Representative
Santa Clara Office Partners LLC

Cc: Michael Lehman (Palo Alto Networks, Inc.)
Blake Stafford (Fenwick & West LLP)

EXHIBIT A

Palo Alto Networks — Olcott Street TI Dated 10/05/10 and revised 12/7/10

ARCHITECTURAL

CVR	COVER SHEET
A1.0	REFERENCE SITE PLAN
A1.	FORM-4 REFERENCE - SITE PLAN / DETAILS
A1.	LINE OF SITE / EXTERIOR ELEVATIONS
A2.0.0	CODE ANALYSIS
A2.0.	FIRST FLOOR - EXITING / OCCUPANCY PLAN
A2.0.	FIRST FLOOR - EXITING / OCCUPANCY PLAN
A2.1.1.	FIRST FLOOR PLAN - AREA 1
A2.1.1.	FIRST FLOOR PLAN - AREAS 2 & 3
A2.1.2.	SECOND FLOOR PLAN - AREA 1
A2.1.2.	SECOND FLOOR PLAN - AREAS 2 & 3
A2.2.1.	FIRST FLOOR - REFLECTED CEILING PLAN - AREA 1
A2.2.1.	FIRST FLOOR - REFLECTED CEILING PLAN - AREAS 2 & 3
A2.2.2.	SECOND FLOOR - REFLECTED CEILING PLAN - AREA 1
A2.2.2.	SECOND FLOOR - REFLECTED CEILING PLAN - AREAS 2 & 3
A2.3.1.	FIRST FLOOR - FINISH PLAN - AREA 1
A2.3.1.	FIRST FLOOR - FINISH PLAN - AREAS 2 & 3
A2.3.2.	SECOND FLOOR - FINISH PLAN - AREA 1
A2.3.2.	SECOND FLOOR - FINISH PLAN - AREAS 2 & 3
A2.5.	REFERENCE FIRST FLOOR - FURNITURE / EQUIPMENT PLAN
A2.5.	REFERENCE SECOND FLOOR - FURNITURE / EQUIPMENT PLAN
A2.	ROOF PLAN
A3.0	TOILET CORE PLANS
A3.	TOILET CORE ELEVATIONS
A3.	TOILET CORE DETAILS
A3.	ENLARGED EBC PLAN
A4.0	FIRST FLOOR - INTERIOR ELEVATIONS
A4.	SECOND FLOOR - INTERIOR ELEVATIONS
A5.0	ENLARGED ADA ELEVATOR / DETAILS
A6.0	DOOR / WINDOW DETAILS
A8.0	CASEWORK / EQUIPMENT / CONNECTION DETAILS
A9.0	WALL DETAILS
A9.	WALL DETAILS
A9.	CEILING DETAILS
A9.	ROOF DETAILS
A10.0	SPECIFICATIONS
A10.	SPECIFICATIONS
A10.	SPECIFICATIONS
A10.	SPECIFICATIONS

SEI Structural Calculations prepared by SEI dated December 2010

EXHIBIT B

APPROVED BUDGET

[FOLLOWING THIS PAGE]

SUMMARY

SOUTH BAY CONSTRUCTION

Date	1.26.11		Start date	0	
Client	CRESA		Pre-Construction	0	Wks
Property Address	PA		Construction	18	Wks
Suite #	0		Project Duration	18	Wks
Tenant	PAN				
SQFT of space	100983 SF		Est #	22	
Architect/Space Planner	0		Est By	JB	
Arch. Plan Date	1/0/1900		SBCI Job #	0	
MEP Plan Date	1/0/1900		File Name	0	
Building Owner	0				
Construction Manager	0				

COST CODE	TASK	RR / SHR 1st Flr RR 2nd flr & Elev	PAN COST	(2) Internal Stairs COST	TOTAL COST	COST /SF	DESCRIPTION
0202	FINAL JANITORIAL	1,900	13,600	0	15,500	0.15	Allowance for final janiterial clean throughout.
0205	INTERIOR DEMOLITION - SUB	6,470	46,950	7,500	60,920	0.60	Demo and protection of existing finishes
0208	CONCRETE SAWCUT	7,500	11,255	2,050	20,805	0.21	New plumbing & electrical
0209	ASBESTOS REMOVAL	0	0	0	0	0.00	NIC
0251	AC PAVING	0	0	0	0	0.00	NIC
0252	SITE CONCRETE	0	0	0	0	0.00	NIC
0255	SITE UTILITIES	0	0	0	0	0.00	NIC
0256	OFFSITE UTILITIES	0	0	0	0	0.00	NIC
0260	PAVING & SURFACING	0	0	0	0	0.00	NIC
0270	SITE IMPROVEMENTS	0	0	0	0	0.00	NIC
0275	IRRIGATION SYSTEM	0	0	0	0	0.00	NIC
0283	FENCING	0	3,030	0	3,030	0.03	Server room
0284	BUMPERS & STRIPING	0	0	0	0	0.00	NIC
0285	SIGNAGE	0	0	0	0	0.00	NIC
0290	LANDSCAPING	0	0	0	0	0.00	NIC
0333	CONCRETE-SLAB ON GRADE	19,840	32,747	8,208	60,795	0.60	Slab infill at 1st floor, elevator pit, footings & rebar
0512	STRUCTURAL STEEL	18,502	30,872	0	49,374	0.49	Elevator rails, hoist, wide flange beams, supports HVAC pad etc.
0550	MISC. METAL	1,902	0	0	1,902	0.02	Low wall / angle supports
0551	METAL STAIRS	0	0	23,055	23,055	0.23	Stairs and misc
0552	HANDRAILS & RAILINGS	0	6,400	0	6,400	0.06	Ramp rails and exterior stair allowance detail TBD
0610	ROUGH CARPENTRY	22,500	14,850	3,410	40,760	0.40	Elevator dog house, HVAC, sleepers, structural for pad and hand rail backing.
0622	MILLWORK	16,565	127,385	645	144,595	1.43	Uppers lowers, lavy tops, corrian tops, Lumicor panels, copy rooms and break rooms & handrail.
0710	WATERPROOFING	2,802	0	0	2,802	0.03	Additional H2O proofing for elevator pit
0720	INSULATION	3,050	25,440	0	28,490	0.28	New full height in wall, below grid in wall and above t-bar as noted on the drawings.
0723	ROOF/DECK INSULATION	0	0	0	0	0.00	NIC
0747	ROOF SCREEN	0	0	0	0	0.00	NIC
0749	ROOF PATCH	1,700	4,124	0	5,824	0.06	At dog house and HVAC equipment / pad.
0760	FLASHING & SHEET METAL	1,800	1,850	0	3,650	0.04	At dog house & HVAC pad support legs.
0820	WOOD & PLASTIC DOORS	5,311	168,528	7,260	181,099	1.79	New doors and frames and sidelight and glass frames as noted.
0833	ROLL UP DOORS	0	0	0	0	0.00	NIC
0881	GLASS	0	78,245	0	78,245	0.77	Interior glass per plans.
0883	MIRROR GLASS	4,247	0	0	4,247	0.04	Rest Rooms
0920	LATH & PLASTER	0	3,624	0	3,624	0.04	Patch at the exterior hand rail
0925	GYPSUM WALLBOARD	24,677	200,448	4,658	229,783	2.28	Allowance
0931	CERAMIC TILE	43,274	5,857	0	49,131	0.49	Match 1x1 flr tile on 1st flr and 2x2 flr tile on the 2nd flr INC patch at lobby
0950	ACOUSTICAL CEILINGS	2,250	183,135	0	185,385	1.84	Allowance
0951	ACOUSTICAL TREATMENT	0	0	0	0	0.00	NIC
0952	ACOUSTICAL WALL TREATMENT	0	0	0	0	0.00	NIC
0966	VCT/SHEET VINYL	0	117,705	0	117,705	1.17	Per plans and specs includes moisture protection
0968	CARPETING	0	201,528	9,060	210,588	2.09	Per plans and specs includes floor prep at brick
0970	SPECIAL FLOORING	0	0	0	0	0.00	NIC
0990	PAINTING	4,990	44,540	4,840	54,370	0.54	Paint the interiors complete.
0995	WALLCOVERING	0	20,300	0	20,300	0.20	WC 1, 2 & 3 per plans
1010	WHITEBOARDS	0	20,000	0	20,000	0.20	ALLOWANCE
1016	TOILET & SHOWER PARTITIONS	17,740	0	0	17,740	0.18	Per plans
1050	LOCKERS	0	3,060	0	3,060	0.03	Per plans
1052	FIRE EXTINGUISHERS	0	8,250	0	8,250	0.08	Allowance
1080	TOILET/BATH ACCESSORIES	12,357	750	0	13,107	0.13	Per plans
1081	MARLITE	0	1,600	0	1,600	0.02	Janitors closet
1113	AUDIO VISUAL EQUIPMENT	0	0	0	0	0.00	NIC
1140	FOOD SERVICE EQUIPMENT	0	0	0	0	0.00	NIC
1145	APPLIANCES	0	37,500	0	37,500	0.37	Allowance for kitchenette & break room
1251	MINI BLINDS	0	51,136	0	51,136	0.51	Exterior and interior sidelights
1260	ROLLER SHADES	0	67,846	0	67,846	0.67	Mooo Shades and black out shades @ all hands
1420	ELEVATORS	55,830	0	0	55,830	0.55	Elevator
1530	FIRE SPRINKLER	9,480	130,325	1,995	141,800	1.40	Add / relocate heads seismic for 2nd floor
1531	PRE-ACTION SYSTEM	0	0	0	0	0.00	NIC
1532	FM200	0	0	0	0	0.00	NIC
1533	HALON	0	0	0	0	0.00	NIC
1535	FIRE SUPPRESSION SYSTEM	0	0	0	0	0.00	NIC
1538	FIRE ALARM	0	46,495	0	46,495	0.46	FLS System complete.
1540	PLUMBING	58,425	63,522	0	121,947	1.21	Per plans
1550	HVAC	19,500	1,009,500	0	1,028,000	10.18	Reconfigure the existing and add units for the lab / server room and office area.
1555	UNIT REPLACEMENT	0	149,438	0	149,438	1.48	HVAC repairs to existing
1595	ENERGY MANAGEMENT SYSTEM	0	192,435	0	192,435	1.91	New DDC controls per CRESA's request

COST CODE	TASK	RR / SHR 1st Flr RR 2nd flr & Elev	PAN COST	(3) Internal Stairs COST	TOTAL COST	COST /SF	DESCRIPTION
1600	**ELECTRICAL**	25,500	742,685	0	768,185	7.61	Per plans. Elec requirements in the labs / server rooms per Arf.
1612	**50 KW UPS 30 min**	0	60,000	0	60,000	0.59	Per Arf's requirements
1690	DATA CABLING	0	0	0	0	0.00	NIC
1693	OWNER	55,000	0	(55,000)	0	0.00	Owner amount to be paid per CRESA
	SUB-TOTAL	$442,112	$3,926,956	$17,681	$4,386,748	43.45	
0100	**GENERAL CONDITIONS**	6,500	75,650	850	85,000	0.84	SBC
0120	OVERTIME	0	0	0	0	0.00	NIC
0150	**EQUIPMENT**	520	4,628	52	5,200	0.05	SBC
0167	**CLEAN-UP / TRASH**	0	26,840	0	26,840	0.27	SBC
0166	**ABATEMENT / TESTING / BLUEPRINTS**	200	1,780	20	2,000	0.02	SBC
0175	DESIGN FEES	0	0	0	0	0.00	NIC
0188	**CITY PERMIT FEES**	3,171	25,370	288	28,829	0.29	Per city of Santa Clara
0194	**SAFETY**	1,405	10,178	336	11,919	0.12	SDC
0195	FURNITURE	0	0	0	0	0.00	NIC
0196	**COURSE OF CONSTRUCTION INSURANCE**	223	1,985	22	2,230	0.02	Per Owner's request
0197	**CONTRACTORS INSURANCE FEE**	4,243	30,628	1,027	35,898	0.36	SBC
0198	**CONSTRUCTION CONTINGENCY**	0	97,067	0	97,067	0.96	Allowance
0199	**FEE**	19,947	147,401	4,829	172,177	1.71	SBC
	SUB-TOTAL	$38,209	$421,527	$7,424	$467,161	$4.63	
	TOTAL	$480,321	$4,348,482	$25,105	$4,853,909	$48.08	

Exhibit 10.15

Confidential Treatment Requested by Palo Alto Networks, Inc.

FLEXTRONICS AND PALO ALTO NETWORKS CONFIDENTIAL

Flextronics Manufacturing Services Agreement

This Flextronics Manufacturing Services Agreement ("**Agreement**") is entered into this 20 day of September 2010 by and between Palo Alto Networks, Inc, having its place of business at 232 East Java Drive, Sunnyvale, CA 94089 ("**Customer**") and Flextronics Telecom Systems Ltd., having its registered office at Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius ("**Flextronics**").

Customer desires to engage Flextronics to perform manufacturing services as further set forth in this Agreement. The parties agree as follows:

1. DEFINITIONS

Flextronics and Customer agree that capitalized terms shall have the meanings set forth in this Agreement and Exhibit 1 attached hereto and incorporated herein by reference.

2. MANUFACTURING SERVICES

2.1 **Work**. Customer hereby engages Flextronics to perform the work (hereinafter "**Work**"). "**Work**" shall mean to procure Materials and to manufacture, assemble, and test products (hereinafter "**Product(s)**") pursuant to detailed written Specifications. Except as otherwise agreed to in writing by Customer, all Work will be performed at the Flextronics facility identified in Exhibit 2.1(a). The "**Specifications**" for each Product or revision thereof, shall include but are not limited to bill of materials, designs, schematics, assembly drawings, process documentation, test specifications, current revision number, and Approved Vendor List. The Specifications as provided by Customer and included in Flextronics's production document management system and maintained in accordance with the terms of this Agreement are incorporated herein by reference as Exhibit 2.1. This Agreement does not include any new product introduction (NPI) or product prototype services related to the Products. In the event that Customer requires any such services, the parties will enter into a separate agreement. In case of any conflict between the Specifications and this Agreement, this Agreement shall prevail.

2.2 **Engineering Changes**. Customer may request that Flextronics incorporate engineering changes into the Product by providing Flextronics with a description of the proposed engineering change sufficient to permit Flextronics to evaluate its feasibility and cost. Flextronics will proceed with engineering changes when the parties have agreed upon the changes to the Specifications, delivery schedule and Product pricing and Customer has agreed to the implementation costs.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

2.3 **Tooling; Non-Recurring Expenses; Software**. Customer shall pay for or obtain and consign to Flextronics any Product-specific tooling, equipment or software and other reasonably necessary non-recurring expenses, to be set forth in Flextronics's quotation. All software that Customer provides to Flextronics, if any, is and shall remain the property of Customer.

2.4 **Cost Reduction Projects**. Flextronics agrees to seek ways to reduce the cost of manufacturing Products by methods such as elimination of Materials, redefinition of Specifications, and re-design of assembly or test methods. Upon implementation of such ways that have been initiated by Flextronics and approved by Customer, Flextronics will receive 50% of the demonstrated cost reduction for three (3) months. Customer will receive 100% of the demonstrated cost reduction upon implementation of such ways initiated by Customer. The parties agree to apply reasonable resources to cost management, with the understanding that the periodic fee discussions that the parties will conduct pursuant to Section 3.5(c) will include without limitation discussions regarding mutually-agreed cost reduction strategies.

3. **FORECASTS; ORDERS; FEES; PAYMENT**

3.1 **Forecast**. Customer shall provide Flextronics, on a monthly basis, a rolling [***] forecast indicating Customer's monthly Product requirements (each, a "**Forecast**"). The first three (3) months of each Forecast will constitute Customer's written purchase order for all Work to be completed within the first three (3) month period. Such purchase orders will be issued in accordance with Section 3.2 below.

3.2 **Purchase Orders; Precedence**. Customer may use its standard purchase order form for any notice provided for hereunder; provided that all purchase orders must reference this Agreement and the applicable Specifications. The parties agree that the terms and conditions contained in this Agreement shall prevail over any terms and conditions of any such purchase order, acknowledgment form or other instrument.

3.3 **Purchase Order Acceptance**. Purchase orders shall be deemed accepted upon receipt by Flextronics unless Flextronics provides Customer with written notice of rejection, including specific reasons for such rejection, within five (5) days of receipt of any purchase order, provided however that Flextronics may reject any purchase order: (a) that is an amended order in accordance with Section 5.2 below because the purchase order is outside the parameters of the Flexibility Table; (b) if the fees reflected in the purchase order are inconsistent with the parties' agreement with respect to the fees; (c) if the purchase order represents a significant deviation from the Forecast for the same period, unless such deviation is within the parameters of the Flexibility Table; or (d) if a purchase order would extend Flextronics's liability beyond Customer's approved credit line.

3.4 **Finished Products Buffer Stock**. Flextronics will, from time to time, at additional cost and fees to Customer, as set forth herein, store finished Products in Flextronics's storage facilities in order to increase Customer's sourcing flexibility (such finished Products, "**Buffer Stock**"). Customer hereby authorizes Flextronics to transfer Buffer Stock to a storage facility operated by Flextronics or by a third party, on behalf of Flextronics. The portion of the storage facility at which the Buffer Stock is stored shall be assigned to Customer for its exclusive use. Beginning on the [***] after the transfer of any Buffer Stock into such a storage facility, Customer agrees to pay a carrying charge of [***] on any Buffer Stock that has remained in storage for at least [***]. Such carrying charges shall cease to accrue as of the date any such Buffer Stock is removed from storage for any reason. Any Buffer Stock that remains in storage for [***] will be deemed purchased by Customer as of such [***], and Flextronics will have the right to invoice Customer for such Buffer Stock. Title to and risk of loss for any such Buffer Stock shall transfer from Flextronics to Customer as of the date Flextronics ships such Buffer Stock to Customer (or its designated recipient) in accordance with Section 5.1 or the date Customer removes such Buffer Stock from the storage facility, whichever is earlier.

3.5 **Fees; Changes; Taxes**.

(a) The fees will be agreed by the parties and will be indicated on the purchase orders issued by Customer and accepted by Flextronics. The initial fees shall be as set forth on the Fee List attached hereto and incorporated herein as Exhibit 3.5 (the "**Fee List**"). If a Fee List is not attached or completed, then the initial fees shall be as set forth in purchase orders issued by Customer and accepted by Flextronics in accordance with the terms of this Agreement

(b) Customer is responsible for additional fees and costs due to: (a) changes to the Specifications; (b) failure of Customer or its subcontractor to timely provide sufficient quantities or a reasonable quality level of Customer Controlled Materials where applicable to sustain the production schedule; and (c) any pre-approved expediting charges reasonably necessary because of a change in Customer's requirements.

(c) The fees will be reviewed periodically by the parties. Any changes and timing of changes shall be agreed by the parties, such agreement not to be unreasonably withheld or delayed. By way of example only, the fees may be increased if the market price of fuels, Materials, equipment, labor and other production costs increase beyond normal variations in pricing.

(d) All fees are exclusive of federal state and-local excise, sales, use, VAT, and-similar-transfer taxes, and any duties, and Customer shall be responsible for all such items. This subsection (d) does not apply to taxes on Flextronics's net income.

3.6 **Payment**. Customer agrees to pay all properly and accurately prepared invoices in U.S. Dollars within thirty (30) days of the date of the invoice. Notwithstanding the foregoing, upon written notice to Flextronics, Customer may withhold payment for any invoice (or portion thereof) that Customer disputes in good faith. Pending settlement or resolution of the invoice (or portion thereof), Customer's non-payment of such an invoice (or portion thereof) shall not be considered late, shall not constitute a default by Customer, and shall not entitle Flextronics to suspend or delay any Work.

3.7 **Late Payment**. Customer agrees to pay interest calculated at the rate of one and one-half percent (1.5%) per month or the maximum rate permitted by law, whichever is less, on all late payments. Furthermore, if Customer is late with payments, or Flextronics has reasonable cause to believe Customer may not be able to pay, Flextronics may (a) stop all Work under this Agreement until assurances of payment satisfactory to Flextronics are received or payment is received; (b) demand prepayment for purchase orders; (c) delay shipments; and (d) to the extent that Flextronics's personnel cannot be reassigned to other billable work during such stoppage and/or in the event restart cost are incurred, invoice Customer for additional fees before the Work can resume. Customer agrees to provide all necessary financial information required by Flextronics from time to time in order to make a proper assessment of the creditworthiness of Customer.

4. **MATERIALS PROCUREMENT; CUSTOMER RESPONSIBILITY FOR MATERIALS**

4.1 **Authorization to Procure Materials, Inventory and Special Inventory**. Customer's accepted purchase orders and Forecast will constitute authorization for Flextronics to procure, without Customer's prior approval, (a) Inventory to manufacture the Products covered by such purchase orders based on the Lead Time and (b) certain Special Inventory based on Customer's purchase orders and Forecast as follows: Long Lead-Time Materials as required based on the Lead Time when such purchase orders are placed and Minimum Order Inventory as required by the supplier. Flextronics will only purchase Economic Order Inventory with the prior approval of Customer.

4.2 **Customer Controlled Materials**. Customer may direct Flextronics to purchase Customer Controlled Materials in accordance with the Customer Controlled Materials Terms. Customer acknowledges that the Customer Controlled Materials Terms will directly impact Flextronics's ability to perform under this Agreement and to provide Customer with the flexibility Customer is requiring pursuant to the terms of this Agreement. In the event that Flextronics reasonably believes that Customer Controlled Materials Terms will create an additional cost that is not covered by this Agreement, then Flextronics will notify Customer and the parties will agree to

either (a) compensate Flextronics for such additional costs, (b) amend this Agreement to conform to the Customer Controlled Materials Terms or (c) amend the Customer Controlled Materials Terms to conform to this Agreement, in each case at no additional charge to Flextronics. Customer agrees to provide copies to Flextronics of all Customer Controlled Materials Terms upon the execution of this Agreement and promptly upon execution of any new agreements with suppliers. Customer agrees not to make any modifications or additions to the Customer Controlled Materials Terms or enter into new Customer Controlled Materials Terms with suppliers that will negatively impact Flextronics's procurement activities.

4.3 **Preferred Supplier**. Customer shall provide to Flextronics and maintain an Approved Vendor List. Flextronics shall purchase from vendors on a current AVL the Materials required to manufacture the Product. Customer shall give Flextronics every reasonable opportunity to be included on AVL's for Materials that Flextronics can supply, and, if Flextronics is competitive with other vendors with respect to reasonable and unbiased criteria for acceptance established by Customer, Flextronics shall be included on such AVL's. If Flextronics is on such an AVL and its terms of sale, including without limitation, prices, quality, ordering terms, lead time, delivery terms and warranty are competitive with other vendors on an AVL for the same Materials, Customer will raise no objection to Flextronics sourcing such Materials from itself. For purposes of this Section 4.3 only, the term "**Flextronics**" includes any Affiliate (defined herein) of Flextronics. "**Affiliate**" means, with respect to a party, any entity that controls, or is controlled by, or is under common control with a party. For the purposes of this definition, 'control' shall mean direct or indirect ownership of greater than fifty percent (50%) of the voting power, capital or other securities.

4.4 **Customer Responsibility for Inventory and Special Inventory**. Customer is responsible under the conditions provided in this Agreement for all Materials, Inventory and Special Inventory purchased by Flextronics pursuant to Flextronics's performance of this Agreement in accordance with its terms.

4.5 **Materials Warranties**. Flextronics shall endeavor to obtain and pass through to Customer all vendors' and manufacturers' warranties with regard to the Materials (other than the Production Materials) to the extent that they are transferable, including without limitation: (i) conformance of the Materials with the vendors' or manufacturers' specifications and/or with the Specifications; (ii) that the Materials will be free from defects in workmanship; (iii) that the Materials will comply with Environmental Regulations; and (iv) that the Materials will not infringe the intellectual property rights of third parties. For the avoidance of doubt, the foregoing applies to any Materials that Flextronics sources from itself pursuant to Section 4.3.

5. **SHIPMENTS, SCHEDULE CHANGE, CANCELLATION, STORAGE**

5.1 **Shipments**.

(a) All Products delivered pursuant to the terms of this Agreement shall be suitably packed for shipment in accordance with the Specifications and marked for shipment to Customer's (or its customer's) destination as specified in the applicable purchase order. Shipments will be made EXW (Ex works, Incoterms 2000) Flextronics's facility, at which time risk of loss and title will pass to Customer. All freight, insurance and other shipping expenses, as well as any special packing expenses not included in the original quotation for the Products, will be paid by Customer. In the event Customer designates a freight carrier to be utilized by Flextronics, Customer agrees to designate only freight carriers that are currently in compliance with all applicable laws relating to anti-terrorism security measures and to adhere to the C-TPAT (Customs-Trade Partnership Against Terrorism) security recommendations and guidelines as outlined by the United States Bureau of Customs and Border Protection and to prohibit the freight carriage to be subcontracted to any carrier that is not in compliance with the C-TPAT guidelines. Flextronics shall use commercially reasonable efforts to deliver the Products on the agreed-upon delivery dates and notify Customer of any anticipated delays. For the avoidance of doubt, Customer will be responsible for any Products that Flextronics manufactures under the then-current purchase orders and Forecast and ships to Customer in accordance with the provisions of this Section 5.1(a), whether or not Customer (or its designated freight carrier) actually takes physical possession of such Products. Customer's responsibility will include reimbursing Flextronics for any reasonable costs or fees that Flextronics necessarily occurs to protect such Products from loss, theft or damage.

(b) If any Products are delivered subject to liens, encumbrances, claims from secured creditors or the like, and such are attributable to claims arising from Flextronics's (not Customer's) failure to pay vendors, suppliers, contractors, creditors or tax authorities ("**Flextronics Liens**"), then, provided that Customer is materially in compliance with its payment of all amounts due and owing to Flextronics hereunder, Flextronics will be responsible for clearing such Flextronics Liens.

5.2 **Quantity Increases and Shipment Schedule Chang**.

(a) For any accepted purchase order, Customer may (i) increase the quantity of Products or (ii) reschedule the quantity of Products and /or their shipment date as provided in the flexibility table below (the "**Flexibility Table**"):

FLEXTRONICS AND PALO ALTO NETWORKS CONFIDENTIAL

Maximum Allowable Variance From Accepted Purchase Order Quantities/Shipment Dates

# of days before Shipment Date on Purchase Order	Allowable Quantity Increases	Maximum Quantity Reschedule	Maximum Shipment Date Reschedule Period
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]*	[***]	[***]	[***]
[***]**	[***]	[***]	[***]
[***]	[***]	[***]	[***]

* — For reschedules within [***]. By way of example only: If on [***], Customer wants to reschedule Products that are scheduled for delivery on [***] (i.e., within [***]), then Customer may reschedule in accordance with this row of the Flexibility Table.

** — For reschedules outside [***]. By way of example only: If on [***], Customer wants to reschedule Products that are scheduled for delivery on [***] (i.e., in the [***]), then Customer may reschedule in accordance with this row of the Flexibility Table.

Any decrease in quantity is considered a cancellation (a "**Quantity Cancellation**"), unless the decreased quantity is rescheduled for delivery at a later date in accordance with the Flexibility Table. Quantity Cancellations are governed by the terms of Section 5.3 below. Any purchase order quantities increased or rescheduled pursuant to this Section 5.2(a) may not be subsequently increased or rescheduled.

(b) Any shipment date reschedule proposed by Customer that would push out the shipment date for a period longer than the applicable maximum reschedule period specified under "Maximum Shipment Date Reschedule Period" of the Flexibility Table requires Flextronics's prior written approval, which, in its sole discretion, may or may not be granted; any such attempted or purported reschedule not approved by Flextronics shall not be valid and Customer shall remain

liable for shipment pursuant to the original schedule. No reschedule, even if approved by Flextronics, shall relive Customer from any obligations for any Excess Inventory, Obsolete Inventory or Aged Inventory in accordance with Section 5.3 below. In no event shall Flextronics have any obligation to hold any Inventory after it becomes either (or any combination of) Excess Inventory, Obsolete Inventory or Aged Inventory that Customer is required to purchase pursuant to any provisions of Section 5.3(d) below, and Customer shall purchase such Inventory in accordance with the applicable provisions of such section.

(c) Notwithstanding anything herein to the contrary, to the extent Flextronics requires any Inventory and/or Special Inventory to manufacture Products for Customer, Flextronics agrees to use reasonable efforts to repurchase its requirements of such Inventory and/or Special Inventory from Customer prior to purchasing such Inventory and/or Special Inventory from any vendor or supplier thereof

(d) Flextronics will use reasonable commercial efforts to meet any quantity increases, which are subject to Materials and capacity availability. All reschedules or quantity increases that exceed the applicable maximum allowable quantity increase specified under "Allowable Quantity Increases" of the Flexibility Table require Flextronics's approval, which, in its sole discretion, may or may not be granted. If Flextronics agrees to accept a reschedule to pull in a delivery date or a quantity increase that exceeds the maximum allowable quantity increase specified under "Allowable Quantity Increases" of the Flexibility Table and if Flextronics would incur additional costs to meet such reschedule or quantity increase, Flextronics will inform Customer for its acceptance and approval in advance.

(e) Any delays in the normal production or interruption in the workflow process caused by Customer's changes to the Specifications or failure to provide sufficient quantities or a reasonable quality level of Customer Controlled Materials where applicable to sustain the production schedule, will be considered a reschedule of any affected purchase orders for purposes of this Section 5.2 for the period of such delay.

(f) For purposes of calculating the amount of Inventory and Special Inventory subject to subsection (b), the "**Lead Time**" shall be calculated as the Lead Time at the time of procurement of the Inventory and Special Inventory.

5.3 **Cancellation of Orders and Customer Responsibility for Inventory**.

(a) Customer may not cancel all or any portion of Product quantity of an accepted purchase order without Flextronics's prior written approval, which, in its sole discretion, may or may not be granted. No reschedule, even if approved by Flextronics, shall relive Customer

from any obligations for any Excess Inventory, Obsolete Inventory or Aged Inventory in accordance with this Section 5.3. In no event shall Flextronics have any obligation to hold any Inventory after it becomes either (or any combination of) Excess Inventory, Obsolete Inventory or Aged Inventory that Customer is required to purchase pursuant to any provisions of Section 5.3(d) below, and Customer shall purchase such Inventory in accordance with the applicable provisions of such section.

(b) If the Forecast provided by Customer for any period is less than the previous Forecast supplied by Customer that covers the same period, that amount will be considered canceled and Customer will be responsible for any Special Inventory purchased or ordered by Flextronics to support the previous Forecast.

(c) For purposes of calculating the amount of Inventory and Special Inventory subject to subsection (a), the "**Lead Time**" shall be calculated as the Lead Time at the time of (i) procurement of the Inventory and Special Inventory-cancellation of the purchase order (iii) termination-of-this-Agreement whichever is longer

(d) Notwithstanding anything to the contrary in this Agreement Customer shall be responsible for the following:

(i) Excess Inventory.

A. *Carrying Charges*. At the end of every calendar month, Flextronics shall report the Excess Inventory to Customer. After a validation period, which shall not exceed 15 days, Customer shall pay Flextronics Monthly Charges for the Excess Inventory.

B. *Purchase of Excess*. On a monthly basis, Customer shall purchase Excess Inventory that has been Excess Inventory for at least 180 days, as identified by Flextronics in each monthly report, at a price equal to the Affected Inventory Costs.

(ii) Obsolete Inventory. At the end of every calendar month, Flextronics shall report the Obsolete Inventory to Customer. After a validation period, which shall not exceed 15 days, Customer shall purchase the Obsolete Inventory at a price equal to the Affected Inventory Costs.

(iii) Aged Inventory. At the end of every calendar month, Flextronics shall report the Aged Inventory to Customer. After a validation period, which shall not exceed 15 days, Customer shall purchase the Aged Inventory at a price equal to the Affected Inventory Costs.

5.4 **Mitigation of Inventory and Special Inventory**. Prior to invoicing Customer for the amounts due pursuant to Sections 5.2 or 5.3, Flextronics will use reasonable commercial efforts for a period of thirty (30) days to return unused Inventory and Special Inventory and to cancel pending orders for such inventory, and to otherwise mitigate the amounts payable by Customer. Customer shall pay amounts due under this Section 5 within thirty (30) days of receipt of an invoice. Flextronics will ship the Inventory, Special Inventory, Excess Inventory, Obsolete Inventory and/or Aged Inventory purchased by Customer pursuant to this Section 5 to Customer promptly upon said payment by Customer. In the event Customer does not pay within thirty (30) days, Flextronics will be entitled to dispose of such Inventory, Special Inventory, Excess Inventory, Obsolete Inventory and/or Aged Inventory in a commercially reasonable manner and credit to Customer any monies received from third parties. Flextronics shall then submit an invoice for the balance amount due and Customer agrees to pay said amount within ten (10) days of its receipt of the invoice.

5.5 **No Waiver**. For the avoidance of doubt, Flextronics's failure to invoice Customer for any of the charges set forth in this Section 5 does not constitute a waiver of Flextronics's right to charge Customer for the same event or other similar events in the future.

6. **PRODUCT ACCEPTANCE AND EXPRESS LIMITED WARRANTY**

6.1 **Product Acceptance**. The Products delivered by Flextronics will be inspected and tested as required by Customer within thirty (30) days of receipt at the "ship to" location on the applicable purchase order. If Products do not comply with the express limited warranty set forth in Section 6.2 below, Customer has the right to reject such Products during such thirty (30) day period. Products not rejected during such thirty (30) day period will be deemed accepted; provided, that acceptance of the Products does not diminish in any way Customer's rights or remedies under Section 6.2. Customer may return defective Products, freight collect, after obtaining a return material authorization number from Flextronics to be displayed on the shipping container and completing a failure report. Rejected Products will be promptly repaired or replaced, at Flextronics's option, and returned freight pre-paid. Customer shall bear the risk of loss or damage to, as well as all shipping costs and expenses associated with, rejected Products that have been returned to Flextronics, but for which no defect is found.

6.2 **Express Limited Warranties**.

(a) Flextronics represents and warrants to Customer that:

(i) it will perform the Work in a good, professional and workmanlike manner;

(ii) the Production Materials are in compliance with Environmental Regulations; and

(b) Flextronics represents and warrants to Customer that the Products will have been manufactured in compliance with the applicable Specifications and will be free from defects in workmanship for a period of 1 year from the date of shipment (such l - year period, the "**Warranty Period**"). Upon any failure of a Product to comply with this express limited warranty, Flextronics's sole obligation, and Customer's sole remedy, is for Flextronics, at its option, to promptly repair or replace such Product and return it to Customer freight prepaid. Customer shall return Products covered by this warranty freight prepaid after completing a failure report and obtaining a return material authorization number from Flextronics to be displayed on the shipping container. Repaired or replaced Products supplied by Flextronics under this Section will be warranted for the period of time remaining in the original Warranty Period for the Product, but not less than ninety (90) days. Customer shall bear the risk of loss or damage to, as well as all shipping costs and expenses associated with, Products that have been returned to Flextronics under warranty, but for which no defect is found.

(c) Notwithstanding anything else in this Agreement, this express limited warranty does not apply to, and, except as otherwise set forth in this Agreement, Flextronics makes no representations or warranties whatsoever with respect to: (i) Materials and/or Customer Controlled Materials; (ii) defects resulting from the Specifications (including the design of the Products); (iii) Products that have been abused, damaged, altered or misused by any person or entity other than Flextronics or its subcontractors or agents; (iv) first articles, prototypes, pre-production units, test units or other products not intended for commercial resale; (v) defects resulting from tooling, designs or written instructions produced or supplied by Customer, or (vi) the compliance of Materials or Products with any Environmental Regulations. Customer shall be liable for costs or expenses incurred by Flextronics related to the foregoing exclusions to Flextronics's express limited warranty; provided that, to the extent reasonably feasible, Flextronics provides Customer with prior written notice of any costs, expenses or other amounts that Flextronics (or any Flextronics Affiliate) intends to incur and receives Customer's prior written approval of such costs, expenses or other amounts. In no event shall Customer be responsible for any costs, expenses or other amounts that Flextronics (or any Flextronics Affiliate) incurs pursuant to this Section 6.2(c) if Flextronics (or any Flextronics Affiliate) does not comply with the foregoing conditions as to notice and approval.

(d) Customer will provide its own warranties (if any) directly to any of its end users or other third parties. Customer will not pass through to end users or other third parties the warranties made by Flextronics under this Agreement. Furthermore, Customer will not make any representations to end users or other third parties on behalf of Flextronics, and Customer will expressly disclaim any liability by its suppliers for any warranty claim or other liability concerning the Product.

6.3 **No Representations or Other Warranties**. FLEXTRONICS MAKES NO REPRESENTATIONS AND NO OTHER WARRANTIES OR CONDITIONS ON THE PERFORMANCE OF THE WORK, OR THE PRODUCTS, EXPRESS, IMPLIED, STATUTORY, OR IN ANY OTHER PROVISION OF THIS AGREEMENT OR COMMUNICATION WITH CUSTOMER, AND FLEXTRONICS SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT.

6.4 **Epidemic Failure**.

(a) For the purposes of this Agreement, "**Epidemic Failure**" will be deemed to have occurred if during a period of [***] months from the date of shipment (the "**Epidemic Period**"), more than [***] of any lot, batch or other separately distinguishable manufacturing run of Products manufactured by Flextronics hereunder fail in a manner attributable to the same "root cause".

(b) Upon the occurrence of an Epidemic Failure, Customer shall, with Flextronics's assistance if deemed necessary by Customer, determine in an expeditious manner if such defect can be proven to arise from the same root cause and identify the nature and origin of the root cause. The parties shall cooperate and work together to determine the "root cause". As reasonably required in connection with such analysis, Customer shall: (i) promptly notify Flextronics and provide, if known and as may then exist, a description of the failure, and the suspected lot numbers, serial numbers or other identifiers, and delivery dates of the affected Products; and (ii) deliver or make available to Flextronics samples of the affected Products for testing and analysis.

(c) To the extent an Epidemic Failure is determined by the parties in good faith to be directly attributable to a breach of Flextronics's express warranties as set forth in this Section that would have been detected by the applicable of the test procedures provided by Customer in the Specifications (a "**Flextronics Root Cause**"), then Flextronics shall, with Customer's reasonable assistance, advice and consent: (i) promptly develop a plan to eliminate the root cause of the Epidemic Defect in all continuing production (a "**Corrective Plan**"), and (ii) if deemed commercially reasonable and necessary by the parties, promptly develop a plan (the "**Response Plan**") to correct the problem in all units of the specific Product line that were previously sold and delivered to Customer by Flextronics during the Epidemic Period (the "**Covered Units**"). Flextronics shall submit the proposed Corrective Plan and (if applicable) Response Plan to Customer for Customer's acceptance. The Response Plan may include, without limitation, a mutually-agreed

upon logistics process for the return of, repair or replacement of, and return delivery of the Covered Units, which may include, without limitation, conducting the repair and/or replacement activity at or nearby the location of the affected Product, as well as a proposed allocation of costs for the undertakings associated with the Response Plan. Upon receiving Customer's approval of the Corrective Plan and (if applicable) Response Plan, Flextronics shall implement the corrective action(s) described in the Corrective Plan or Response Plan, as applicable.

(d) The parties shall bear the costs and expenses of the Corrective Plan and Response plan, as applicable, as allocated to each party respective in such Corrective Plan and Response Plan. Notwithstanding the foregoing, Customer shall bear all costs and expenses of the Corrective Plan and Response Plan if the Epidemic Failure is not attributable to a Flextronics Root Cause.

7. **INTELLECTUAL PROPERTY LICENSES**

7.1 **Licenses**. Customer hereby grants Flextronics and its Affiliates a non-exclusive, non-transferable license, during the term of this Agreement, without right to sublicense, under Customer's patents, trade secrets and other intellectual property, solely for the purpose of performing its obligations pursuant to this Agreement for Customer and solely to the extent necessary for such purpose. Customer is granted no rights under Customer's patents, trade secrets or other intellectual property rights for any other purpose.

7.2 **No Other Licenses**. Except as otherwise specifically provided in this Agreement, each party acknowledges and agrees that no licenses or rights under any of the intellectual property rights of the other party are granted or intended to be granted to such other party.

8. **TERM AND TERMINATION**

8.1 **Term**. The term of this Agreement shall commence on the date hereof above and shall continue for an initial term of three (3) years thereafter unless earlier terminated as provided in Section 8.2 (Termination) or Section 10.8 (Force Majeure). After the expiration of the initial term hereunder, this Agreement shall be automatically renewed for separate but successive one-year terms unless either party provides written notice to the other party that it does not intend to renew this Agreement 180 days or more prior to the end of any term.

8.2 **Termination**. This Agreement may be terminated by either party (a) for convenience upon 180 days written notice to the other party, or (b) if the other party defaults in any payment to the terminating party and such default continues without a cure for a period of fifteen

(15) days after the delivery of written notice thereof by the terminating party to the other party, (c) if the other party defaults in the performance of any other material term or condition of this Agreement and such default continues unremedied for a period of thirty (30) days after the delivery of written notice thereof by the terminating party to the other party, or (d) pursuant to Section 10.8 (Force Majeure).

8.3 **Effect of Expiration or Termination**. Expiration or termination of this Agreement under any of the foregoing provisions: (a) shall not affect the amounts due under this Agreement by either party that exist as of the date of expiration or termination, and (b) as of such date, the provisions of Sections 5.2, 5.3, and 5.4 shall apply with respect to payment and shipment to Customer of finished Products, Inventory, and Special Inventory in existence as of such date, and (c) shall not affect Flextronics's express limited warranty in Section 6.2 above. Termination of this Agreement, settling of accounts in the manner set forth in the foregoing sentence shall be the exclusive remedy of the parties for breach of this Agreement, except for obligations under Sections 6.2, 9.1, 9.2, or 10.1. Sections 1, 3.5, 3.6, 3.7, 4.4, 4.5, 5.3, 5.4, 6.2, 6.3, 6.4, 7.2, 8.3, 9, and 10 shall be the only terms that shall survive any termination or expiration of this Agreement.

9. **INDEMNIFICATION; LIABILITY LIMITATION**

9.1 **Indemnification by Flextronics**. Flextronics agrees to defend, indemnify and hold harmless, Customer and its affiliates, and all directors, officers, employees, and agents (each, a "**Customer Indemnitee**") from and against all claims, actions, losses, expenses, damages or other liabilities, including reasonable attorneys' fees (collectively, "**Damages**") incurred by or assessed against any of the foregoing, but solely to the extent the same arise out of are in connection with, are caused by or are related to a third-party claim relating to:

(a) any actual or threatened injury to any person (or death) or damage to property caused, or alleged to be caused, by a Product sold by Flextronics to Customer hereunder, but solely to the extent such injury or damage has been caused by the breach by Flextronics of its express limited warranties related to Flextronics's workmanship and manufacture in accordance with the Specifications only as further set forth in Section 6.2;

(b) any actual or alleged infringement or misappropriation of any patent, copyright, mask work, trade secret or other intellectual property rights of any third party but solely to the extent that such infringement is caused by a process that Flextronics uses to manufacture, assemble and/or test the Products; provided that, Flextronics shall not have any obligation to indemnify Customer if such claim would not have arisen but for Flextronics's manufacture, assembly or test of the Product in accordance with the Specifications; or

(c) noncompliance with any Environmental Regulations but solely to the extent that such non-compliance is caused by a process or Production Materials that Flextronics uses to manufacture the Products; provided that, Flextronics shall not have any obligation to indemnify Customer under this Section 9.1(c) if such claim would not have arisen but for Flextronics's manufacture, assembly or test of the Product in accordance with the Specifications.

9.2 **Indemnification by Customer**. Customer agrees to defend, indemnify and hold harmless, Flextronics and its affiliates, and all directors, officers, employees and agents (each, a "**Flextronics Indemnitee**") from and against all Damages incurred by or assessed against any of the foregoing, but solely to the extent the same arise out of, are in connection with, are caused by or are related to a third-party claim relating to:

(a) the noncompliance of any Product (and Materials contained therein) sold by Flextronics hereunder to comply with any safety standards and/or Environmental Regulations, except to the extent any such claim is the responsibility of Flextronics under Section 9.1(c) above;

(b) any actual or threatened injury to any person (or death) or damage to any property caused, or alleged to be caused, by any Product manufactured by Flextronics under this Agreement, except to the extent any such Claim is the responsibility of Flextronics under Section 9.1(a) above; or

(c) any actual or alleged infringement or misappropriation of any patent, copyright, mask work, trade secret or other intellectual property rights of any third party by any Product, except to the extent any such claim is the responsibility of Flextronics pursuant to Section 9.1(b) above.

9.3 **Procedures for Indemnification**. With respect to any third-party claims, either party shall give the other party prompt notice of any third-party claim and cooperate with the indemnifying party at its expense. The indemnifying party shall have the right to assume the defense (at its own expense) of any such claim through counsel of its own choosing by so notifying the party seeking indemnification within thirty (30) calendar days of the first receipt of such notice. The party seeking indemnification shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the indemnifying party. The indemnifying party shall not, without the prior written consent of the indemnified party, agree to the settlement, compromise or discharge of such third-party claim.

9.4 **Sale of Products Enjoined**. Should the use of any Products be enjoined for a cause stated in Section 9.1(b) or 9.2(c) above, or in the event the indemnifying party desires to minimize its liabilities under this Section 9, in addition to its indemnification obligations set forth in this Section 9, the indemnifying party's sole responsibility is to either substitute a fully equivalent Product or process (as applicable) not subject to such injunction, modify such Product or process (as applicable) so that it no longer is subject to such injunction, or obtain the right to continue using the enjoined Product or process (as applicable). In the event that any of the foregoing remedies cannot be effected on commercially reasonable terms, then, all accepted purchase orders and the current Forecast will be considered cancelled and Customer shall purchase all Products, Inventory and Special Inventory as provided in Sections 5.3 and 5.4 hereof. Any changes to any Products or process must be made in accordance with Section 2.2 above. Notwithstanding the foregoing, in the event that a third party makes an infringement claim, but does not obtain an injunction, the indemnifying party shall not be required to substitute a fully equivalent Product or process (as applicable) or modify the Product or process (as applicable) if the indemnifying party obtains an opinion from competent patent counsel reasonably acceptable to the other party, or otherwise provides reasonable assurance to the other party, that such Product or process is not infringing or that the patents alleged to have been infringed are invalid.

9.5 **No Other Liability**. **EXCEPT WITH REGARD TO A PARTY'S OBLIGATIONS UNDER SECTION 9.1 OR 9.2 ABOVE, AS APPLICABLE, OR A PARTY'S BREACH OF SECTION 10.1 BELOW, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY "COVER" DAMAGES (INCLUDING INTERNAL COVER DAMAGES WHICH THE PARTIES AGREE MAY NOT BE CONSIDERED "DIRECT" DAMAGES), OR ANY INCIDENTAL, CONSEQUENTIAL, SPECIAL OR PUNITIVE-DAMAGES OF ANY KIND OR NATURE ARISING OUT OF THIS-AGREEMENT-OR-THE SALE OF PRODUCTS, WHETHER SUCH LIABILITY IS ASSERTED ON THE BASIS OF CONTRACT, TORT (INCLUDING THE POSSIBILITY OF NEGLIGENCE OR STRICT LIABILITY), OR OTHERWISE, EVEN IF THE PARTY HAS BEEN WARNED OF THE POSSIBILITY OF ANY SUCH LOSS OR DAMAGE, AND EVEN IF ANY OF THE LIMITED REMEDIES IN THIS AGREEMENT FAIL OF THEIR ESSENTIAL PURPOSE.**

THE FOREGOING SECTION 9 STATES THE ENTIRE LIABILITY OF THE PARTIES TO EACH OTHER CONCERNING INFRINGEMENT OF PATENT, COPYRIGHT, TRADE SECRET OR OTHER INTELLECTUAL PROPERTY RIGHTS.

10. **MISCELLANEOUS**

10.1 **Confidentiality**. Each party shall refrain from using any and all Confidential Information of the other party for any purposes or activities other than those specifically authorized in this Agreement. Except as otherwise specifically permitted herein or pursuant to written permission of the other party, neither party shall disclose or facilitate the disclosure of any Confidential Information of the other party to anyone, except to its employees and consultants and employees and consultants of its Affiliates who need to know such information for the performance of this Agreement and who have agreed in writing to confidentiality terms that are no less restrictive than the requirements of this Section. Each party shall use all reasonable efforts to maintain the confidentiality of all of the other party's Confidential Information in its possession or control, but in no event less than the efforts that it ordinarily uses with respect to its own confidential information of similar nature and importance. Notwithstanding the foregoing, the receiving party may disclose Confidential Information of the other party or the existence and/or the trims and conditions of this Agreement pursuant to a subpoena or other court process only (i) after having given the disclosing party prompt notice of the receiving party's receipt of such subpoena or other process and (ii) after the receiving party has given the disclosing party a reasonable opportunity to oppose such subpoena or other process or to obtain a protective order. Confidential Information of the disclosing party in the custody or control of the receiving party shall be promptly returned or destroyed upon the earlier of (i) the disclosing party's written request or (ii) termination of this Agreement. Notwithstanding the foregoing, either party may disclose the existence and/or the terms and conditions of this Agreement: (i) on a confidential basis to its legal or financial advisors; (ii) as required under applicable securities regulations; or (iii) on a confidential basis to present or future providers of venture capital and/or potential private investors in or acquirers of such party. The terms and conditions of this Section 10.1 shall apply during the term of this Agreement and for three (3) years after the expiration of any termination of this Agreement.

10.2 **Use of Flextronics Name is Prohibited**. Customer may not use Flextronics's name or identity or any other Confidential Information in any advertising, promotion or other public announcement without the prior express written consent of Flextronics.

10.3 **Entire Agreement; Severability**. This Agreement constitutes the entire agreement between the Parties with respect to the transactions contemplated hereby and supersedes all prior agreements and understandings between the parties relating to such transactions. If for any reason a court of competent jurisdiction finds any provision of this Agreement invalid or unenforceable, that provision of the Agreement will be enforced to the maximum extent permissible and the other provisions of this Agreement will remain in full force and effect.

10.4 **Amendments; Waiver**. This Agreement may be amended only by written consent of both parties. The failure by either party to enforce any provision of this Agreement will not constitute a waiver of future enforcement of that or any other provision. Neither party will be deemed to have waived any rights or remedies hereunder unless such waiver is in writing and signed by a duly authorized representative of the party against which such waiver is asserted.

10.5 **Independent Contractor**. Neither party shall, for any purpose, be deemed to be an agent of the other party, and the relationship between the parties shall only be that of independent contractors. Neither party shall have any right or authority to assume or create any obligations or to make any representations or warranties on behalf of any other party, whether express or implied, or to bind the other party in any respect whatsoever.

10.6 **Expenses**. Each party shall pay their own expenses in connection with the negotiation of this Agreement. All fees and expenses incurred in connection with the resolution of Disputes shall be allocated as further provided in Section10.11 below.

10.7 **Insurance**. Flextronics and Customer agree to maintain appropriate insurance to cover their respective risks under this Agreement with coverage amounts commensurate with levels in their respective markets.

10.8 **Force Majeure**. In the event that either party is prevented from performing or is unable to perform any of its obligations under this Agreement (other than a payment obligation) due to any act of God, acts or decrees of governmental or military bodies, fire, casualty, flood, earthquake, war, strike, lockout, epidemic, destruction of production facilities, riot, insurrection, Materials unavailability, or any other cause beyond the reasonable control of the party invoking this section (collectively, a "**Force Majeure**"), and if such party shall have used its commercially reasonable efforts to mitigate its effects, such party shall give prompt written notice to the other party, its performance shall be excused, and the time for the performance shall be extended for the period of delay or inability to perform due to such occurrences. Regardless of the excuse of Force Majeure, if such party is not able to perform within ninety (90) days after such event, the other party may terminate the Agreement

10.9 **Successors, Assignment**. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives. Neither party shall have the right to assign or otherwise transfer its rights or obligations under this Agreement except with the prior written consent of the other party, not to be unreasonably withheld. Notwithstanding the foregoing, Flextronics may assign some or all of its rights and obligations under this Agreement to an Affiliate of Flextronics.

10.10 **Notices**. All notices required or permitted under this Agreement will be in writing and will be deemed received (a) when delivered personally; (b) when sent by confirmed facsimile; (c) five (5) days after having been sent by registered or certified mail, return receipt

requested, postage prepaid; or (d) one (1) day after deposit with a commercial overnight carrier. All communications will be sent to the addresses set forth above or to such other address as may be designated by a party by giving written notice to the other party pursuant to this section.

10.11 **Disputes Resolution; Waiver of Jury Trial**.

(a) Except as expressly set forth in this Agreement, the exercise by either party of any of its remedies under this Agreement will be without prejudice to its other remedies under this Agreement or otherwise.

(b) The parties acknowledge agree that it is their mutual desire to resolve all Disputes through processes that minimize the impact of Disputes (the resolution thereof) on the successful performance of this Agreement as well as the time, cost and resources (financial and otherwise) that each party may be required to allocate to resolve Disputes. Accordingly, notwithstanding anything contained in this Section 10.11 to the contrary, in the event of a Dispute, prior to referring such Dispute to arbitration pursuant to Subsection (d) of this Section 10.11, Customer and Flextronics shall attempt in good faith to resolve any and all controversies or claims relating to such Dispute promptly by negotiation commencing within ten (10) calendar days of the written notice of such Dispute by either party, including referring such matter to Customer's then-current President and Flextronics's then current executive in charge of manufacturing operations in the region in which the primary activities of this Agreement are performed by Flextronics. The representatives of the parties shall meet at a mutually acceptable time and place and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the Dispute for a period of four (4) weeks. In the event that the parties are unable to resolve such Dispute pursuant to this Subsection (b), then, subject to the provisions of Subsection (c) of this Section 10.11, the provisions of Subsections (d) through (p) of this Section 10.11, inclusive, shall apply.

(c) Except as otherwise provided in this Agreement, the following binding dispute resolution procedures shall be the exclusive means used by the parties to resolve Disputes. Either party may, by written notice to the other party, refer any Disputes for resolution in the manner set forth below.

(d) Any and all Disputes shall be referred to arbitration under the rules and procedures of the American Arbitration Association ("**AAA**"), which shall act as the arbitration administrator (the "**Arbitration Administrator**").

(e) The parties shall agree on a single arbitrator (the "**Arbitrator**"). The Arbitrator shall be a retired judge selected by the parties from a roster of arbitrators provided by the Arbitration Administrator; provided, that the roster will be limited to judges who have had a minimum of ten (10) years of experience either negotiating or serving as an arbitrator to resolve disputes regarding contract manufacturing services agreements or similar agreements. If the parties cannot agree on an Arbitrator within seven (7) days of delivery of the demand for arbitration ("**Demand**") (or such other time period as the parties may agree), the Arbitration Administrator will select an independent Arbitrator in accordance with its rules, but subject to the qualification requirements specified herein.

(f) Unless otherwise mutually agreed to by the parties, the place of arbitration shall be San Jose, California, although, for the avoidance of doubt, the arbitrators may be selected from any rosters maintained by the Arbitration Administrator.

(g) The Federal Arbitration Act shall govern the arbitrability of all Disputes. The Federal Rules of Civil Procedure and the Federal Rules of Evidence (the "**Federal Rules**"), to the extent not inconsistent with this Agreement, govern the conduct of the arbitration. To the extent that the Federal Arbitration Act and Federal Rules do not provide an applicable procedure, New York law shall govern the procedures for arbitration and enforcement of an award, and then only to the extent not inconsistent with the terms of this Section. Disputes between the parties shall be subject to arbitration notwithstanding that a party to this Agreement is also a party to a pending court action or special proceeding with a third party, arising out of the same transaction or series of related transactions and there is a possibility of conflicting rulings on a common issue of law or fact.

(h) Unless otherwise mutually agreed to by the parties, each party shall allow and participate in discovery as follows:

(i) Non-Expert Discovery. Each party may (1) conduct three (3) non-expert depositions of no more than five (5) hours of testimony each, with any deponents employed by any party to appear for deposition in New York City; (2) propound a single set of requests for production of documents containing no more than twenty (20) individual requests; (3) propound up to twenty written interrogatories; and (4) propound up to ten (10) requests for admission.

(ii) Expert Discovery. Each party may select a witness who is retained or specially employed to provide expert testimony and an additional expert witness to testify with respect to damages issues, if any. The parties shall exchange expert reports and documents under the same requirements as Federal Rules of Civil Procedure 26(a)(2) & (4).

(iii) Additional Discovery. The Arbitrator may, on application by either party, authorize additional discovery only if deemed essential to avoid injustice. In the event that remote witnesses might otherwise be unable to attend the arbitration, arrangements shall be made to allow their live testimony by video conference during the arbitration hearing.

(i) The Arbitrator shall render an award within six (6) months after the date of appointment, unless the parties agree to extend such time. The award shall be accompanied by a written opinion setting forth the findings of fact and conclusions of law. The Arbitrator shall have authority to award compensatory damages only, and shall not award any punitive, exemplary, or multiple damages. The award (subject to clarification or correction by the arbitrator as allowed by statute and/or the Federal Rules) shall be final and binding upon the parties, subject solely to the review procedures provided in this Section.

(j) Either party may seek arbitral review of the award. Arbitral review may be had as to any element of the award.

(k) Any judicial proceeding arising out of or relating to this Agreement or the relationship of the parties, including without limitation any proceeding to enforce this Section, to review or confirm the award in arbitration, or for preliminary injunctive relief, shall be brought exclusively in a court of competent jurisdiction in the city of New York, New York (the "**Enforcing Court**"). By execution and delivery of this Agreement, each party accepts the jurisdiction of the Enforcing Court.

(l) Each party shall pay their own expenses in connection with the resolution of Disputes pursuant to this Section. The prevailing party in a Dispute will be entitled to recover all reasonable attorneys' fees, costs and expenses that it incurs in connection with such Dispute in proportion to the amount of recovery of the total claims by both parties that were awarded in the prevailing party's favor.

(m) The parties agree that the existence, conduct and content of any arbitration pursuant to this Section 10.11 shall be kept confidential and no party shall disclose to any person any information about such arbitration, except: (i) as may be required by law or by any governmental authority or for financial reporting purposes in each party's financial statements; (ii) as required under applicable securities regulations; or (iii) on a confidential basis to present or future providers of venture capital and/or potential private investors in or acquirers of such party.

(n) IN THE EVENT OF ANY DISPUTE BETWEEN THE PARTIES, WHETHER IT RESULTS IN PROCEEDINGS IN ANY COURT IN ANY JURISDICTION OR IN ARBITRATION, THE PARTIES HEREBY KNOWINGLY AND VOLUNTARILY, AND

HAVING HAD AN OPPORTUNITY TO CONSULT WITH COUNSEL, WANE ALL RIGHTS TO TRIAL BY JURY, AND AGREE THAT ANY AND ALL MATTERS SHALL BE DECIDED BY A JUDGE OR ARBITRATOR WITHOUT A JURY TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW.

(o) In the event of any lawsuit between the parties arising out of or related to this Agreement, the parties agree to prepare and to timely file in the applicable court a mutual consent to waive any statutory or other requirements for a trial by jury.

(p) Notwithstanding the foregoing provisions of this Section 10.11, each party reserves the right to seek injunctive or other equitable relief in a court of competent jurisdiction with respect to any Dispute related to the actual or threatened infringement, misappropriation or violation of a party's intellectual property rights or breach of Section 10.1 (Confidentiality) hereof.

10.12 **Even-Handed Construction**. The terms and conditions as set forth in this Agreement have been arrived at after mutual negotiation, and it is the intention of the parties that its terms and conditions not be construed against any party merely because it was prepared by one of the parties.

10.13 **Controlling Language**. This Agreement is in English only, which language shall be controlling in all respects. All documents exchanged under this Agreement shall be in English.

10.14 **Controlling Law**. This Agreement shall be governed and construed in all respects in accordance with the domestic laws and regulations of the State of New York without regard to its conflicts of laws provisions; except to the extent there may be any conflict between the law of the State of New York and the Incoterms of the International Chamber of Commerce, 2000 edition, in which case the Incoterms shall be controlling. The parties specifically agree that the 1980 United Nations Convention on Contracts for the International Sale of Goods, as may be amended from time to time, shall not apply to this Agreement.

10.15 **Counterparts**. This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their duly authorized representatives as of the Effective Date.

PALO ALTO NETWORKS:		FLEXTRONICS TELECOM SYSTEMS, LTD:	
By:	/s/ Michael Lehman	By:	/s/ Manny Marimuthu
Print Name:	Michael Lehman	Print Name:	Manny Marimuthu
Title:	CFO	Title:	Director

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

Exhibit 1

Definitions

"Affected Inventory Costs"	shall mean: (i) 110% of the Cost of all affected Inventory and Special Inventory in Flextronics's possession and not returnable to the vendor or reasonably usable for other customers, whether in raw form or work in process, less the salvage value thereof, (ii) 105% of the Cost of all affected Inventory and Special Inventory on order and not cancelable, (iii) any vendor cancellation charges incurred with respect to the affected Inventory and Special Inventory accepted for cancellation or return by the vendor, (iv) the then current fees for any affected Product, and (v) expenses incurred by Flextronics related to labor and equipment specifically put in place to support the purchase orders and Forecasts that are affected by such reschedule or cancellation (as applicable).
"Aged Inventory"	shall mean any Inventory and/or Special Inventory for which there has been zero or insignificant consumption for such Inventory and/or Special Inventory during the prior 180 days.
"Approved Vendor List" or "AVL"	shall mean the list of suppliers currently approved to provide the Materials specified in the bill of materials for a Product
"Confidential Information"	shall mean (a) the existence and terms of this Agreement and all information concerning the unit number and fees for Products and Inventory/Special Inventory; (b) the Specifications; and (c) any other information that is marked "Confidential" or the like or, if delivered verbally, confirmed in writing to be "Confidential" within 30 days of the initial disclosure. Confidential Information does not include information that (i) the receiving party can prove it already rightfully knew at the time of receipt from the disclosing party without restrictions on use or disclosure; (ii) has come into the public domain without breach of this Agreement by or other fault of the receiving party; (iii) was received by the receiving party from a third party that had the right to disclose such information and discloses it without restrictions on its use of disclosure; (iv) the receiving party can prove it independently developed without use of or reference to the disclosing party's Confidential Information; or (v) is disclosed with the prior written consent of the disclosing party.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

"Cost"	shall mean the cost represented on the bill of materials supporting the most current fees for Products at the time of cancellation, expiration or termination, as applicable.
"Customer Controlled Materials"	shall mean those Materials provided by Customer or by suppliers with whom Customer has a commercial contractual or non-contractual relationship.
"Customer Controlled Materials Terms"	shall mean the terms and conditions that Customer has negotiated with its suppliers for the purchase of Customer Controlled Materials.
"Customer Indemnitees"	shall have the meaning set forth in Section 9.1.
"Damages"	shall have the meaning set forth in Section 9.1.
"Disputes"	shall mean any disputes, differences, controversies and claims arising out of or relating to the Agreement.
"Economic Order Inventory"	shall mean Materials purchased in quantities, above the required amount for purchase orders, in order to achieve price targets for such Materials.
"Excess Inventory"	shall mean all Inventory and Special Inventory possessed or owned by Flextronics that is not required for consumption to satisfy the next 90 days of demand for Products under the then-current purchase order(s) and Forecast.

"Environmental Regulations"	shall mean any hazardous substance content laws and regulations including, without limitation, those related to the EU Directive 2002/95/EC about the Restriction of Use of Hazardous Substances (RoHS).
"Fee List"	shall have the meaning set forth in Section 3.4.
"Flexibility Table"	shall have the meaning set forth in Section 5.2.
"Flextronics Indemnitee"	shall have the meaning set forth in Section 9.2.
"Force Majeure"	shall have the meaning set forth in Section 10.8.
"Inventory"	shall mean any Materials that are used to manufacture Products that are ordered pursuant to a purchase order from Customer.
"Lead Time(s)"	shall mean the Materials Procurement Lead Time plus the manufacturing cycle time required from the delivery of the Materials at Flextronics's facility to the completion of the manufacture, assembly and test processes.
"Long Lead Time Materials"	shall mean Materials with Lead Times exceeding the period covered by the accepted purchase orders for the Products.
"Materials"	shall mean components, parts and subassemblies that comprise the Product and that appear on the bill of materials for the Product.
"Materials Procurement Lead"	shall mean with respect to any particular item of Materials, the Time" longer of (a) lead time to obtain such Materials as recorded on Flextronics's MRP system or (b) the actual lead time, if a supplier has increased the lead time but Flextronics has not yet updated its MRP system.
"Minimum Order Inventory"	shall mean Materials purchased in excess of requirements for purchase orders because of minimum lot sizes available from the supplier.

"Monthly Charges"	shall mean a total aggregate 1.0% monthly charge for finance carrying costs and storage and handling charges, in each case measured as a percentage of the Cost of the Inventory and/or Special Inventory and/or of the fees for the Product affected subject to the charge per month until such Inventory and/or Special Inventory and/or Product is returned to the vendor, used to manufacture Product or is otherwise purchased by Customer.
"Obsolete Inventory"	shall mean Inventory or Special Inventory that is any of the following: (a) removed from the bill of materials for a Product by an engineering change; (b) no longer on an active bill of material for any of Customer's Products; or (c) on-hand Inventory and Special Inventory that are not required for consumption to satisfy the next 180 days of demand for Products under the then-current purchase order(s) and Forecast.
"Product"	shall have the meaning set forth in Section 2.1.
"Production Materials"	shall mean Materials that are consumed in the production processes to manufacture Products including without limitation, solder, epoxy, cleaner solvent, labels, flux, and glue. Production Materials do not include any such production materials that have been specified by the Customer or any Customer Controlled Materials.
"Special Inventory"	shall mean any Long Lead Time Materials and/or Minimum Order Inventory and/or Economic Order Inventory.
"Specifications"	shall have the meaning set forth in Section 2.1.
"Work"	shall have the meaning set forth in Section 2.1.

FLEXTRONICS AND PALO ALTO NETWORKS CONFIDENTIAL

EXHIBIT 2.1(a)

FLEXTRONICS FACILITY

Insert name and address of Flextronics facility

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

FLEXTRONICS AND PALO ALTO NETWORKS CONFIDENTIAL

EXHIBIT 2.1(b)

SPECIFICATIONS

Incorporated by reference only

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

EXHIBIT 3.5

FEES LIST

To be attached or incorporated by reference

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

Exhibit 21.1

LIST OF SUBSIDIARIES

OF

PALO ALTO NETWORKS, INC.

Name of Subsidiary	Jurisdiction of Incorporation
Palo Alto Networks Belgium B.V.B.A.	Belgium
Palo Alto Networks (Malaysia), LLC	Delaware
Palo Alto Networks Godo Kaisha	Japan
Palo Alto Networks International Inc.	Delaware
Palo Alto Networks (UK) Limited	United Kingdom
Palo Alto Networks Korea, Ltd.	Korea
Palo Alto Networks L.L.C.	Delaware
Palo Alto Networks Singapore Pte. Ltd.	Singapore
PAN LLC	Delaware
Palo Alto Networks (Mexico) S. de R. de C.V.	Mexico
Palo Alto Networks (Netherlands) B.V.	Netherlands
Palo Alto Networks (Norway) AS.	Norway

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption “Experts” and to the use of our report dated April 6, 2012 in the Registration Statement (Form S-1) and related Prospectus of Palo Alto Networks, Inc. for the registration of shares of its common stock.

/s/ Ernst & Young LLP

San Francisco, California
April 6, 2012