

Non-GAAP Financial Measures and Other Key Metrics

This supplemental financial information contains financial statements that have not been prepared in accordance with generally accepted accounting principles in the United States (GAAP). We use these non-GAAP financial measures and key metrics internally in analyzing our financial results and believe that the use of these non-GAAP financial measures and key metrics is useful to investors as an additional tool to evaluate ongoing operating results and trends and in comparing our financial results with other companies in our industry, many of which present similar non-GAAP financial measures or key metrics.

Non-GAAP financial measures and key metrics are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. A reconciliation of our non-GAAP financial measures and key metrics to the most directly comparable GAAP measures has been provided in the financial statement tables included in this supplemental financial information, and investors are encouraged to review these reconciliations. We have not provided a reconciliation of forward-looking non-GAAP measures to the corresponding GAAP measures as they are not available without unreasonable effort.

Palo Alto Networks, Inc.
Condensed Consolidated Statements of Operations - Fiscal Quarters
(In millions, except percentages)

	Q316	Q416	Q117 ⁽¹⁾	Q217	Q317	Q417	Q118	Q218
Revenue:								
Product	\$ 162.1	\$ 191.1	\$ 163.8	\$ 168.8	\$ 164.2	\$ 212.3	\$ 186.5	\$ 202.2
Subscription and support	183.7	209.7	234.3	253.8	267.6	296.8	319.0	340.2
Total revenue	345.8	400.8	398.1	422.6	431.8	509.1	505.5	542.4
Cost of revenue:								
Product	43.2	48.5	42.2	45.8	49.7	63.7	57.6	63.9
Subscription and support	51.7	53.2	59.0	67.4	74.0	74.8	83.8	95.4
Total cost of revenue	94.9	101.7	101.2	113.2	123.7	138.5	141.4	159.3
Total gross profit	250.9	299.1	296.9	309.4	308.1	370.6	364.1	383.1
<i>Product gross margin</i>	73.4 %	74.6 %	74.2 %	72.9 %	69.7 %	70.0 %	69.1 %	68.4 %
<i>Subscription and support gross margin</i>	71.9 %	74.6 %	74.8 %	73.4 %	72.3 %	74.8 %	73.7 %	72.0 %
<i>Total gross margin</i>	72.6 %	74.6 %	74.6 %	73.2 %	71.4 %	72.8 %	72.0 %	70.6 %
Operating expenses:								
Research and development	74.0	76.5	84.2	89.9	86.0	87.3	94.2	96.6
Sales and marketing	195.9	205.4	220.1	226.7	226.9	245.4	258.5	265.0
General and administrative	33.5	39.9	41.6	47.2	44.3	65.2	65.7	53.3
Total operating expenses	303.4	321.8	345.9	363.8	357.2	397.9	418.4	414.9
Operating loss	(52.5)	(22.7)	(49.0)	(54.4)	(49.1)	(27.3)	(54.3)	(31.8)
Interest expense	(5.8)	(6.0)	(6.0)	(6.1)	(6.2)	(6.2)	(6.3)	(6.4)
Other income, net	1.0	2.7	2.5	2.7	2.1	2.9	4.8	4.9
Loss before income taxes	(57.3)	(26.0)	(52.5)	(57.8)	(53.2)	(30.6)	(55.8)	(33.3)
Provision for income taxes	6.8	5.4	4.4	2.8	7.7	7.6	8.2	1.6
Net loss	\$ (64.1)	\$ (31.4)	\$ (56.9)	\$ (60.6)	\$ (60.9)	\$ (38.2)	\$ (64.0)	\$ (34.9)

(1) In Q2'17, we early adopted new share-based payment accounting guidance. As a result, certain amounts for Q1'17 have been adjusted to reflect the adoption of the guidance.

Palo Alto Networks, Inc.
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(In millions, except percentages)

	Q316	Q416	Q117	Q217	Q317	Q417	Q118	Q218
Revenue:								
Product	\$ 162.1	\$ 191.1	\$ 163.8	\$ 168.8	\$ 164.2	\$ 212.3	\$ 186.5	\$ 202.2
Subscription and support	183.7	209.7	234.3	253.8	267.6	296.8	319.0	340.2
Total revenue	345.8	400.8	398.1	422.6	431.8	509.1	505.5	542.4
Cost of revenue:								
Product	38.5	43.6	37.3	40.7	44.9	58.7	52.6	58.8
Subscription and support	37.8	39.1	44.6	49.8	56.8	56.9	64.7	72.1
Total cost of revenue	76.3	82.7	81.9	90.5	101.7	115.6	117.3	130.9
Total gross profit	269.5	318.1	316.2	332.1	330.1	393.5	388.2	411.5
<i>Product gross margin</i>	76.3 %	77.2 %	77.2 %	75.9 %	72.7 %	72.4 %	71.8 %	70.9 %
<i>Subscription and support gross margin</i>	79.4 %	81.4 %	81.0 %	80.4 %	78.8 %	80.8 %	79.7 %	78.8 %
<i>Total gross margin</i>	77.9 %	79.4 %	79.4 %	78.6 %	76.4 %	77.3 %	76.8 %	75.9 %
Operating expenses:								
Research and development	36.7	38.5	45.4	47.3	47.7	50.4	56.0	59.7
Sales and marketing	150.5	162.2	175.3	175.0	178.9	197.1	205.9	209.4
General and administrative	16.9	22.3	23.7	26.7	24.2	25.5	30.5	31.0
Total operating expenses	204.1	223.0	244.4	249.0	250.8	273.0	292.4	300.1
Operating income	65.4	95.1	71.8	83.1	79.3	120.5	95.8	111.4
Interest expense	0.1	-	-	-	-	-	-	-
Other income, net	2.8	2.1	2.3	3.3	3.5	3.5	5.3	5.9
Income before income taxes	68.3	97.2	74.1	86.4	82.8	124.0	101.1	117.3
Provision for income taxes	26.0	36.9	22.9	26.8	25.7	38.5	31.3	25.8
Net income	\$ 42.3	\$ 60.3	\$ 51.2	\$ 59.6	\$ 57.1	\$ 85.5	\$ 69.8	\$ 91.5

Palo Alto Networks, Inc.

**GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Quarters
(In millions, except percentages and per share amounts)**

	Q316	Q416	Q117 ⁽²⁾	Q217	Q317	Q417	Q118	Q218
GAAP to Non-GAAP Reconciliations								
GAAP product gross profit	\$ 118.9	\$ 142.6	\$ 121.6	\$ 123.0	\$ 114.5	\$ 148.6	\$ 128.9	\$ 138.3
Share-based compensation related charges	1.6	1.8	1.8	2.1	1.7	1.9	1.9	2.1
Litigation related charges ⁽¹⁾	3.1	3.1	3.1	3.0	3.1	3.1	3.1	3.0
Non-GAAP product gross profit	\$ 123.6	\$ 147.5	\$ 126.5	\$ 128.1	\$ 119.3	\$ 153.6	\$ 133.9	\$ 143.4
Non-GAAP product gross margin	76.3%	77.2%	77.2%	75.9%	72.7%	72.4%	71.8%	70.9%
GAAP subscription and support gross profit	\$ 132.0	\$ 156.5	\$ 175.3	\$ 186.4	\$ 193.6	\$ 222.0	\$ 235.2	\$ 244.8
Share-based compensation related charges	12.0	12.3	12.5	15.7	15.0	15.5	16.7	20.9
Amortization expense of acquired intangible assets	1.9	1.8	1.9	1.9	2.2	2.4	2.4	2.4
Non-GAAP subscription and support gross profit	\$ 145.9	\$ 170.6	\$ 189.7	\$ 204.0	\$ 210.8	\$ 239.9	\$ 254.3	\$ 268.1
Non-GAAP subscription and support gross margin	79.4%	81.4%	81.0%	80.4%	78.8%	80.8%	79.7%	78.8%
GAAP total gross profit	\$ 250.9	\$ 299.1	\$ 296.9	\$ 309.4	\$ 308.1	\$ 370.6	\$ 364.1	\$ 383.1
Share-based compensation related charges	13.6	14.1	14.3	17.8	16.7	17.4	18.6	23.0
Amortization expense of acquired intangible assets	1.9	1.8	1.9	1.9	2.2	2.4	2.4	2.4
Litigation related charges ⁽¹⁾	3.1	3.1	3.1	3.0	3.1	3.1	3.1	3.0
Non-GAAP total gross profit	\$ 269.5	\$ 318.1	\$ 316.2	\$ 332.1	\$ 330.1	\$ 393.5	\$ 388.2	\$ 411.5
Non-GAAP gross margin	77.9%	79.4%	79.4%	78.6%	76.4%	77.3%	76.8%	75.9%
GAAP research and development expense	\$ 74.0	\$ 76.5	\$ 84.2	\$ 89.9	\$ 86.0	\$ 87.3	\$ 94.2	\$ 96.6
Share-based compensation related charges	37.2	37.8	38.6	42.5	38.3	36.9	38.2	36.9
Amortization expense of acquired intangible assets	0.1	0.2	0.2	0.1	-	-	-	-
Non-GAAP research and development expense	\$ 36.7	\$ 38.5	\$ 45.4	\$ 47.3	\$ 47.7	\$ 50.4	\$ 56.0	\$ 59.7
Non-GAAP research and development expense as a percentage of revenue	10.6%	9.6%	11.4%	11.2%	11.0%	9.9%	11.1%	11.0%
GAAP sales and marketing expense	\$ 195.9	\$ 205.4	\$ 220.1	\$ 226.7	\$ 226.9	\$ 245.4	\$ 258.5	\$ 265.0
Share-based compensation related charges	45.3	43.2	44.8	51.7	47.9	48.2	52.5	55.5
Amortization expense of acquired intangible assets	0.1	-	-	-	0.1	0.1	0.1	0.1
Non-GAAP sales and marketing expense	\$ 150.5	\$ 162.2	\$ 175.3	\$ 175.0	\$ 178.9	\$ 197.1	\$ 205.9	\$ 209.4
Non-GAAP sales and marketing expense as a percentage of revenue	43.5%	40.5%	44.0%	41.4%	41.4%	38.7%	40.7%	38.7%
GAAP general and administrative expense	\$ 33.5	\$ 39.9	\$ 41.6	\$ 47.2	\$ 44.3	\$ 65.2	\$ 65.7	\$ 53.3
Share-based compensation related charges	16.6	17.6	17.9	19.8	17.7	18.4	19.6	20.9
Acquisition related costs	-	-	-	0.7	2.4	-	-	-
Facility exit costs ⁽³⁾	-	-	-	-	-	21.3	15.6	1.4
Non-GAAP general and administrative expense	\$ 16.9	\$ 22.3	\$ 23.7	\$ 26.7	\$ 24.2	\$ 25.5	\$ 30.5	\$ 31.0
Non-GAAP general and administrative expense as a percentage of revenue	4.9%	5.6%	6.0%	6.3%	5.6%	5.0%	6.0%	5.7%
GAAP total operating expense	\$ 303.4	\$ 321.8	\$ 345.9	\$ 363.8	\$ 357.2	\$ 397.9	\$ 418.4	\$ 414.9
Share-based compensation related charges	99.1	98.6	101.3	114.0	103.9	103.5	110.3	113.3
Acquisition related costs	-	-	-	0.7	2.4	-	-	-
Amortization expense of acquired intangible assets	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Facility exit costs ⁽³⁾	-	-	-	-	-	21.3	15.6	1.4
Non-GAAP total operating expense	\$ 204.1	\$ 223.0	\$ 244.4	\$ 249.0	\$ 250.8	\$ 273.0	\$ 292.4	\$ 300.1
Non-GAAP total operating expense as a percentage of revenue	59.0%	55.7%	61.4%	58.9%	58.0%	53.6%	57.8%	55.4%
GAAP operating loss	\$ (52.5)	\$ (22.7)	\$ (49.0)	\$ (54.4)	\$ (49.1)	\$ (27.3)	\$ (54.3)	\$ (31.8)
Share-based compensation related charges	112.7	112.7	115.6	131.8	120.6	120.9	128.9	136.3
Acquisition related costs	-	-	-	0.7	2.4	-	-	-
Amortization expense of acquired intangible assets	2.1	2.0	2.1	2.0	2.3	2.5	2.5	2.5
Litigation related charges ⁽¹⁾	3.1	3.1	3.1	3.0	3.1	3.1	3.1	3.0
Facility exit costs ⁽³⁾	-	-	-	-	-	21.3	15.6	1.4
Non-GAAP operating income	\$ 65.4	\$ 95.1	\$ 71.8	\$ 83.1	\$ 79.3	\$ 120.5	\$ 95.8	\$ 111.4
Non-GAAP operating margin	18.9%	23.7%	18.0%	19.7%	18.4%	23.7%	19.0%	20.5%
GAAP interest expense	\$ (5.8)	\$ (6.0)	\$ (6.0)	\$ (6.1)	\$ (6.2)	\$ (6.2)	\$ (6.3)	\$ (6.4)
Non-cash interest expense related to convertible notes	5.9	6.0	6.0	6.1	6.2	6.2	6.3	6.4
Non-GAAP interest expense	\$ 0.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-GAAP interest expense as a percentage of revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
GAAP other income, net	\$ 1.0	\$ 2.7	\$ 2.5	\$ 2.7	\$ 2.1	\$ 2.9	\$ 4.8	\$ 4.9
Foreign currency (gain) loss associated with non-GAAP adjustments	1.8	(0.6)	(0.2)	0.6	1.4	0.6	0.5	1.0
Non-GAAP other income, net	\$ 2.8	\$ 2.1	\$ 2.3	\$ 3.3	\$ 3.5	\$ 3.5	\$ 5.3	\$ 5.9
Non-GAAP other income, net as a percentage of revenue	0.8%	0.5%	0.6%	0.8%	0.8%	0.7%	1.0%	1.1%
GAAP loss before income taxes	\$ (57.3)	\$ (26.0)	\$ (52.5)	\$ (57.8)	\$ (53.2)	\$ (30.6)	\$ (55.8)	\$ (33.3)
Share-based compensation related charges	112.7	112.7	115.6	131.8	120.6	120.9	128.9	136.3
Acquisition related costs	-	-	-	0.7	2.4	-	-	-
Amortization expense of acquired intangible assets	2.1	2.0	2.1	2.0	2.3	2.5	2.5	2.5
Litigation related charges ⁽¹⁾	3.1	3.1	3.1	3.0	3.1	3.1	3.1	3.0
Facility exit costs ⁽³⁾	-	-	-	-	-	21.3	15.6	1.4
Non-cash interest expense related to convertible notes	5.9	6.0	6.0	6.1	6.2	6.2	6.3	6.4
Foreign currency (gain) loss associated with non-GAAP adjustments	1.8	(0.6)	(0.2)	0.6	1.4	0.6	0.5	1.0
Non-GAAP income before income taxes	\$ 68.3	\$ 97.2	\$ 74.1	\$ 86.4	\$ 82.8	\$ 124.0	\$ 101.1	\$ 117.3
GAAP provision for income taxes	\$ 6.8	\$ 5.4	\$ 4.4	\$ 2.8	\$ 7.7	\$ 7.6	\$ 8.2	\$ 1.6
Income tax and other tax adjustments related to the above	19.2	31.5	18.5	24.0	18.0	30.9	23.1	24.2
Non-GAAP provision for income taxes	\$ 26.0	\$ 36.9	\$ 22.9	\$ 26.8	\$ 25.7	\$ 38.5	\$ 31.3	\$ 25.8
Non-GAAP effective tax rate ⁽⁴⁾	38.0%	38.0%	31.0%	31.0%	31.0%	31.0%	31.0%	22.0%
GAAP net loss	\$ (64.1)	\$ (31.4)	\$ (56.9)	\$ (60.6)	\$ (60.9)	\$ (38.2)	\$ (64.0)	\$ (34.9)
Share-based compensation related charges	112.7	112.7	115.6	131.8	120.6	120.9	128.9	136.3
Acquisition related costs	-	-	-	0.7	2.4	-	-	-
Amortization expense of acquired intangible assets	2.1	2.0	2.1	2.0	2.3	2.5	2.5	2.5
Litigation related charges ⁽¹⁾	3.1	3.1	3.1	3.0	3.1	3.1	3.1	3.0
Facility exit costs ⁽³⁾	-	-	-	-	-	21.3	15.6	1.4
Non-cash interest expense related to convertible notes	5.9	6.0	6.0	6.1	6.2	6.2	6.3	6.4
Foreign currency (gain) loss associated with non-GAAP adjustments	1.8	(0.6)	(0.2)	0.6	1.4	0.6	0.5	1.0
Income tax and other tax adjustments related to the above	(19.2)	(31.5)	(18.5)	(24.0)	(18.0)	(30.9)	(23.1)	(24.2)
Non-GAAP net income	\$ 42.3	\$ 60.3	\$ 51.2	\$ 59.6	\$ 57.1	\$ 85.5	\$ 69.8	\$ 91.5
Income tax benefit from Tax Cuts and Jobs Act ⁽⁴⁾	-	-	-	-	-	-	-	(10.6)
Non-GAAP net income, excluding impact of Tax Cuts and Jobs Act ⁽⁴⁾	\$ 42.3	\$ 60.3	\$ 51.2	\$ 59.6	\$ 57.1	\$ 85.5	\$ 69.8	\$ 80.9

(1) Consists of the amortization of intellectual property licenses.

(2) In Q2'17, we early adopted new share-based payment accounting guidance. As a result, certain amounts for Q1'17 have been adjusted to reflect the adoption of the guidance. Additionally, we elected to adopt the guidance related to the presentation of excess tax benefits in the statement of cash flows on a retrospective basis and, as a result, certain cash flow amounts for periods prior to fiscal 2017 have been adjusted.

(3) Consists of charges related to the relocation of our corporate headquarters, which includes an impairment loss of \$20.9 million and accelerated depreciation in Q4'17 and a cease-use loss of \$15.4 million and accelerated depreciation in Q1'18, and charges related to the relocation of our research and development center in Israel, which includes a cease-use loss of \$1.3 million and accelerated depreciation in Q2'18.

(4) Effective Q1'17, our non-GAAP effective tax rate changed from 38% to 31%. Effective Q2'18, our non-GAAP effective tax rate changed from 31% to 22% due to the reduction of the U.S. federal corporate income tax rate under the U.S. Tax Cuts and Jobs Act, which was enacted into law on December 22, 2017.

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Quarters
(In millions, except percentages and per share amounts)

	Q316	Q416	Q117 ⁽³⁾	Q217	Q317	Q417	Q118	Q218
GAAP net loss per share, diluted	\$ (0.73)	\$ (0.35)	\$ (0.63)	\$ (0.67)	\$ (0.67)	\$ (0.42)	\$ (0.70)	\$ (0.38)
Share-based compensation related charges	1.27	1.25	1.27	1.42	1.30	1.31	1.38	1.46
Acquisition related costs	0.00	0.00	0.00	0.01	0.03	0.00	0.00	0.00
Amortization expense of acquired intangible assets	0.02	0.02	0.02	0.02	0.03	0.03	0.03	0.03
Litigation related charges ⁽¹⁾	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Facility exit costs ⁽³⁾	0.00	0.00	0.00	0.00	0.00	0.23	0.17	0.02
Non-cash interest expense related to convertible notes	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Foreign currency (gain) loss associated with non-GAAP adjustments	0.02	(0.01)	0.00	0.01	0.02	0.01	0.01	0.01
Income tax and other tax adjustments related to the above	(0.22)	(0.35)	(0.21)	(0.26)	(0.20)	(0.34)	(0.25)	(0.27)
Non-GAAP net income per share, diluted	\$ 0.46	\$ 0.66	\$ 0.55	\$ 0.63	\$ 0.61	\$ 0.92	\$ 0.74	\$ 0.97
Income tax benefit from Tax Cuts and Jobs Act ⁽⁴⁾	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.11)
Non-GAAP net income per share, diluted, excluding impact of Tax Cuts and Jobs Act ⁽⁴⁾	\$ 0.46	\$ 0.66	\$ 0.55	\$ 0.63	\$ 0.61	\$ 0.92	\$ 0.74	\$ 0.86
GAAP weighted-average shares used to compute net loss per share, diluted	87.8	88.9	89.8	90.7	91.0	90.9	90.9	91.1
Weighted-average effect of potentially dilutive securities ⁽⁵⁾	3.5	2.8	3.9	3.2	2.3	2.4	2.8	2.8
Non-GAAP weighted-average shares used to compute net income per share, diluted	91.3	91.7	93.7	93.9	93.3	93.3	93.7	93.9
Net cash provided by operating activities ⁽²⁾⁽⁶⁾	\$ 170.3	\$ 187.3	\$ 203.5	\$ 214.3	\$ 211.2	\$ 239.5	\$ 274.1	\$ 243.7
Less: purchases of property, equipment, and other assets	19.3	16.3	20.9	44.7	48.6	49.2	32.2	25.6
Free cash flow (non-GAAP) ⁽²⁾⁽⁶⁾	\$ 151.0	\$ 171.0	\$ 182.6	\$ 169.6	\$ 162.6	\$ 190.3	\$ 241.9	\$ 218.1
Net cash provided by (used in) investing activities	\$ (54.6)	\$ 0.4	\$ (71.2)	\$ (173.1)	\$ (166.8)	\$ (61.5)	\$ (52.4)	\$ (36.1)
Net cash provided by (used in) financing activities ⁽²⁾	\$ 21.1	\$ (3.3)	\$ (27.3)	\$ (119.2)	\$ (113.8)	\$ (125.7)	\$ (123.4)	\$ (135.2)
Free cash flow margin (non-GAAP) ⁽²⁾⁽⁶⁾	43.7 %	42.7 %	45.9 %	40.1 %	37.7 %	37.4 %	47.9 %	40.2 %
Other Key Metrics - Calculation of Billings								
Total revenue	\$ 345.8	\$ 400.8	\$ 398.1	\$ 422.6	\$ 431.8	\$ 509.1	\$ 505.5	\$ 542.4
Add: change in total deferred revenue, net of acquired deferred revenue	140.4	171.6	118.8	139.0	112.3	161.7	91.0	132.2
Billings	\$ 486.2	\$ 572.4	\$ 516.9	\$ 561.6	\$ 544.1	\$ 670.8	\$ 596.5	\$ 674.6

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(3) Consists of charges related to the relocation of our corporate headquarters, which includes an impairment loss of \$20.9 million and accelerated depreciation in Q4'17 and a cease-use loss of \$15.4 million and accelerated depreciation in Q1'18, and charges related to the relocation of our research and development center in Israel, which includes a cease-use loss of \$1.3 million and accelerated depreciation in Q2'18.

(4) Effective Q1'17, our non-GAAP effective tax rate changed from 38% to 31%. Effective Q2'18, our non-GAAP effective tax rate changed from 31% to 22% due to the reduction of the U.S. federal corporate income tax rate under the U.S. Tax Cuts and Jobs Act, which was enacted into law on December 22, 2017.

(5) Our potentially dilutive securities include the potentially dilutive effect of employee equity incentive plan awards and our convertible senior notes outstanding and related warrant agreements, partially offset by the anti-dilutive impact of our note hedge agreements.

(6) Cash provided by operating activities during Q1'18 includes the receipt of an upfront cash reimbursement of \$38.2 million from our landlords in connection with the exercise of their option to amend the lease payment schedules and eliminate the rent holiday periods under certain of our lease agreements. The upfront cash reimbursement will be applied against rental payments due in fiscal years 2018 through 2020 under the amended lease agreements.

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations - Earnings per Share - Fiscal Years

(In millions, except percentages and per share amounts)

	FY15	FY16	FY17
GAAP net loss per share, diluted	\$ (1.61)	\$ (2.21)	\$ (2.39)
Share-based compensation related charges	2.79	4.58	5.30
Acquisition related costs	0.01	0.00	0.03
Amortization expense of acquired intangible assets	0.09	0.10	0.10
Litigation related charges ⁽¹⁾	0.15	0.14	0.14
Non-cash interest expense related to convertible notes	0.27	0.27	0.27
Facility exit costs ⁽²⁾	0.00	0.00	0.24
Foreign currency (gain) loss associated with non-GAAP adjustments	0.02	0.00	0.03
Income tax and other tax adjustments related to the above	(0.62)	(0.99)	(1.01)
Non-GAAP net income per share, diluted	<u>\$ 1.10</u>	<u>\$ 1.89</u>	<u>\$ 2.71</u>

(1) Consists of the amortization of intellectual property licenses.

(2) Consists of charges related to the relocation of our corporate headquarters, including an impairment loss of \$20.9 million and accelerated depreciation.

Palo Alto Networks, Inc.
Other Key Metrics - Calculation of Billings - First Half Fiscal Year
(In millions)

	1H FY17	1H FY18
Revenue	\$ 820.7	\$ 1,047.9
Add: change in total deferred revenue	257.8	223.2
Billings	<u>\$ 1,078.5</u>	<u>\$ 1,271.1</u>
Product revenue	\$ 332.6	\$ 388.7
Add: change in product deferred revenue	1.7	(1.5)
Product billings	<u>\$ 334.3</u>	<u>\$ 387.2</u>
Support revenue	\$ 232.6	\$ 306.6
Add: change in support deferred revenue	115.7	84.7
Support billings	<u>\$ 348.3</u>	<u>\$ 391.3</u>
Subscription revenue	\$ 255.5	\$ 352.6
Add: change in subscription deferred revenue	140.4	140.0
Subscription billings	<u>\$ 395.9</u>	<u>\$ 492.6</u>

Palo Alto Networks, Inc.
Condensed Consolidated Balance Sheets - Fiscal Quarters
(In millions)

	Q316	Q416	Q117⁽¹⁾	Q217	Q317	Q417	Q118	Q218
Assets								
Current assets:								
Cash and cash equivalents	\$ 550.0	\$ 734.4	\$ 839.4	\$ 761.4	\$ 692.0	\$ 744.3	\$ 842.6	\$ 915.0
Short-term investments	537.5	551.2	550.6	593.0	680.0	630.7	660.6	720.7
Accounts receivable, net	267.6	348.7	346.5	386.1	364.1	432.1	350.8	365.1
Prepaid expenses and other current assets	126.9	139.7	129.4	139.9	159.1	169.2	185.5	209.4
Total current assets	1,482.0	1,774.0	1,865.9	1,880.4	1,895.2	1,976.3	2,039.5	2,210.2
Property and equipment, net	100.5	117.2	125.0	154.1	192.3	211.1	256.9	264.7
Long-term investments	682.9	652.8	708.4	790.5	719.1	789.3	777.4	722.3
Goodwill	163.5	163.5	163.5	163.5	238.8	238.8	238.8	238.8
Intangible assets, net	46.4	44.0	41.7	39.5	56.5	53.7	51.0	48.3
Other assets	105.0	106.7	103.7	146.6	148.2	169.1	122.9	143.2
Total assets	\$ 2,580.3	\$ 2,858.2	\$ 3,008.2	\$ 3,174.6	\$ 3,250.1	\$ 3,438.3	\$ 3,486.5	\$ 3,627.5
Liabilities, temporary equity, and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 24.3	\$ 30.2	\$ 29.2	\$ 28.0	\$ 33.2	\$ 35.5	\$ 38.8	\$ 33.4
Accrued compensation	56.4	73.5	59.0	78.8	76.4	117.5	74.5	113.2
Accrued and other liabilities	45.1	39.2	48.4	58.8	60.1	79.9	80.8	83.6
Deferred revenue	610.4	703.9	758.1	828.0	885.0	968.4	1,017.9	1,088.8
Convertible senior notes, net	494.2	-	506.2	-	-	-	531.0	537.4
Total current liabilities	1,230.4	846.8	1,400.9	993.6	1,054.7	1,201.3	1,743.0	1,856.4
Convertible senior notes, net	-	500.2	-	512.3	518.4	524.7	-	-
Long-term deferred revenue	458.8	536.9	601.5	670.6	726.8	805.1	846.6	907.9
Other long-term liabilities	78.0	79.4	80.2	127.5	137.1	147.6	192.2	196.6
Temporary equity	72.2	-	61.4	-	-	-	39.2	33.5
Stockholders' equity:								
Preferred stock	-	-	-	-	-	-	-	-
Common stock and additional paid-in capital	1,330.5	1,515.5	1,543.1	1,613.3	1,615.8	1,599.7	1,573.2	1,575.9
Accumulated other comprehensive income (loss)	0.6	1.0	(1.9)	(5.1)	(4.2)	(3.4)	(7.0)	(7.2)
Accumulated deficit	(590.2)	(621.6)	(677.0)	(737.6)	(798.5)	(836.7)	(900.7)	(935.6)
Total stockholders' equity	740.9	894.9	864.2	870.6	813.1	759.6	665.5	633.1
Total liabilities, temporary equity, and stockholders' equity	\$ 2,580.3	\$ 2,858.2	\$ 3,008.2	\$ 3,174.6	\$ 3,250.1	\$ 3,438.3	\$ 3,486.5	\$ 3,627.5

(1) In Q2'17, we early adopted new share-based payment accounting guidance. As a result, certain amounts for Q1'17 have been adjusted to reflect the adoption of the guidance.

Palo Alto Networks, Inc.
Condensed Consolidated Statements of Cash Flows - Fiscal Quarters
(In millions)

	Q316	Q416	Q117 ⁽¹⁾	Q217	Q317	Q417	Q118	Q218
Cash flows from operating activities								
Net loss	\$ (64.1)	\$ (31.4)	\$ (56.9)	\$ (60.6)	\$ (60.9)	\$ (38.2)	\$ (64.0)	\$ (34.9)
Adjustments to reconcile net loss to net cash provided by operating activities:								
Share-based compensation for equity based awards	108.4	109.6	113.3	127.3	116.2	117.7	125.7	130.8
Depreciation and amortization	11.2	12.1	13.6	14.4	15.1	16.7	21.3	22.1
Asset impairment related to facility exit	-	-	-	-	-	20.9	-	-
Cease-use loss related to facility exit	-	-	-	-	-	-	15.4	1.3
Amortization of debt discount and debt issuance costs	5.9	6.0	6.0	6.1	6.2	6.2	6.3	6.4
Amortization of investment premiums, net of accretion of purchase discounts	0.8	0.6	0.7	0.7	0.7	0.6	0.5	0.1
Changes in operating assets and liabilities, net of effects of acquisitions:								
Accounts receivable, net	(13.3)	(81.1)	2.2	(39.5)	22.4	(68.0)	81.3	(14.3)
Prepaid expenses and other assets	(4.9)	(13.4)	10.1	(13.9)	(8.0)	(36.3)	(6.4)	(32.6)
Accounts payable	(1.9)	3.4	1.8	(1.6)	2.6	3.1	4.2	(10.6)
Accrued compensation	(14.8)	17.1	(14.5)	19.8	(3.6)	41.1	(43.0)	38.7
Accrued and other liabilities	2.6	(7.2)	8.4	22.6	8.2	14.0	41.8	4.5
Deferred revenue	140.4	171.6	118.8	139.0	112.3	161.7	91.0	132.2
Net cash provided by operating activities ⁽¹⁾⁽²⁾	170.3	187.3	203.5	214.3	211.2	239.5	274.1	243.7
Cash flows from investing activities								
Purchases of investments	(219.9)	(206.9)	(285.7)	(277.0)	(164.2)	(269.0)	(226.8)	(145.7)
Proceeds from sales of investments	3.0	4.5	-	-	-	-	-	-
Proceeds from maturities of investments	181.6	219.1	235.4	148.6	136.7	256.7	206.6	135.2
Business acquisitions, net of cash acquired	-	-	-	-	(90.7)	-	-	-
Purchases of property, equipment, and other assets	(19.3)	(16.3)	(20.9)	(44.7)	(48.6)	(49.2)	(32.2)	(25.6)
Net cash provided by (used in) investing activities	(54.6)	0.4	(71.2)	(173.1)	(166.8)	(61.5)	(52.4)	(36.1)
Cash flows from financing activities								
Repurchases of common stock	-	-	(50.0)	(120.1)	(125.0)	(115.9)	(134.1)	(125.0)
Proceeds from sales of shares through employee equity incentive plans	21.1	3.1	22.7	0.9	22.2	0.6	22.1	1.3
Payments for taxes related to net share settlement of equity awards	-	-	-	-	(11.0)	(10.4)	(11.4)	(11.5)
Payment of deferred consideration related to prior year business acquisition	-	(6.4)	-	-	-	-	-	-
Net cash provided by (used in) financing activities ⁽¹⁾	21.1	(3.3)	(27.3)	(119.2)	(113.8)	(125.7)	(123.4)	(135.2)
Net increase (decrease) in cash and cash equivalents	136.8	184.4	105.0	(78.0)	(69.4)	52.3	98.3	72.4
Cash and cash equivalents - beginning of period	413.2	550.0	734.4	839.4	761.4	692.0	744.3	842.6
Cash and cash equivalents - end of period	\$ 550.0	\$ 734.4	\$ 839.4	\$ 761.4	\$ 692.0	\$ 744.3	\$ 842.6	\$ 915.0

(1) In Q2'17, we early adopted new share-based payment accounting guidance. As a result, certain amounts for Q1'17 have been adjusted to reflect the adoption of the guidance. Additionally, we elected to adopt the guidance related to the presentation of excess tax benefits in the statement of cash flows on a retrospective basis and, as a result, certain amounts for periods prior to fiscal 2017 have been adjusted.

(2) Cash provided by operating activities during Q1'18 includes the receipt of an upfront cash reimbursement of \$38.2 million from our landlords in connection with the exercise of their option to amend the lease payment schedules and eliminate the rent holiday periods under certain of our lease agreements. The upfront cash reimbursement will be applied against rental payments due in fiscal years 2018 through 2020 under the amended lease agreements.