



2021 ANNUAL REPORT & PROXY STATEMENT

**NOTICE OF ANNUAL
MEETING OF STOCKHOLDERS**



Cybersecurity
Partner of Choice

WHAT WE DO

Everyday, Palo Alto Networks provides the visibility, trusted intelligence, automation and flexibility that help complex organizations advance securely.

By delivering a comprehensive portfolio and empowering a growing ecosystem of partners, we are at the forefront of protecting tens of thousands of organizations across clouds, networks, and mobile devices.

Your cybersecurity partner, for today and tomorrow

OUR MISSION

Our mission is to be the cybersecurity partner of choice, protecting our digital way of life.

OUR VISION

Our vision is a world where each day is safer and more secure than the one before



Letter from the Chair and the Lead Independent Director

At Palo Alto Networks, our mission is to be the cybersecurity partner of choice, protecting our digital way of life. Our mantra, “We’ve Got Next,” expresses our commitment to relentless innovation so work can be done securely anywhere, the future can be built safely in the cloud, unforeseen threats can be detected and stopped, and each day is safer than the one before.



Dear Fellow Stockholders:

Fiscal 2021 was a year like no other in our sixteen-year history given the continued global impact of the COVID-19 pandemic. As a company, we rose to the challenge and delivered solutions to our 85,000+ customers as they managed remote and hybrid workforces amid a worsening cybersecurity attack landscape. While doing so, we prioritized the health and safety of our 10,000+ employees through our FLEXWORK people strategy, an employee-centric way of working that provides our employees with choice regarding their location, learning approaches and paths and, in part, their benefits. We also worked in conjunction with our employees to determine our giving strategy and recipients and supported communities through enhanced charitable donations, employee giving and volunteer programs.

While successfully managing the effects of the COVID-19 pandemic on our global operations, we remained focused on the strategic priorities that we developed under Nikesh’s leadership: transforming network security, delivering comprehensive cloud native security and revolutionizing security operations. Today, we believe that we have three best-of-breed platforms in network security, cloud security and SOC security that will continue to drive our long-term growth. The robust implementation of these strategic pillars showed in our results, with revenue of \$4.3 billion and billings of \$5.5 billion in fiscal 2021.

We introduced 29 major product releases in fiscal 2021, with the momentum continuing into fiscal 2022 with the introduction of Okyo Garde on September 10, 2021, an enterprise-grade cybersecurity solution for work-from-home employees and small businesses, delivered through a premium mesh-enabled Wi-Fi 6 system. We achieved these results and deployed world-class technology innovation while maintaining a disciplined approach to capital allocation and continuing to invest in our future.

The unflagging determination, perseverance and creativity of our people – the company’s greatest asset – ensured the impressive execution of our strategy for the benefit of our stockholders, customers and communities.

We trust that this Annual Report and Proxy Statement embodies our constant efforts to innovate and improve. It will look different to you than our proxy statements from years past – and that fresh presentation is purposeful. It was prepared with one overarching goal in mind: to maximize clarity and understanding about the company’s strategies, successes and challenges. In doing so, we describe in detail several key initiatives we undertook this past year that are worth summarizing here.

Stockholder Engagement. We are guided by, and appreciative of, the perspectives of our stockholders as expressed through their engagement with us. Throughout fiscal 2021, we executed an extensive stockholder outreach program. In total, we engaged in outreach activities with stockholders holding approximately 55% of our outstanding shares as of June 30, 2021. John, as our Lead Independent Director, played a critical role in our engagement efforts and participated in discussions with stockholders holding approximately 38% of our outstanding shares as of June 30, 2021. In addition to our financial outlook, our stockholders conversed with us about our executive compensation practices and ESG programs, as well as our efforts around inclusion and diversity. This feedback helped inform our evaluation of all these areas. We will continue this valuable dialogue with our investors in the coming year.

Executive Compensation. As a direct result of the feedback that we received from our stockholders, the Compensation and People Committee of your Board of Directors redesigned our executive compensation program and, in doing so, made extensive changes to the way we compensate our executives. Some of these changes were implemented in fiscal 2021 and numerous more take effect for

Letter from the Chair and the Lead Independent Director

the current fiscal year. For fiscal 2021, all equity grants to our named executive officers (NEOs), except for new hire grants, were 100% performance-based stock units, the target value of the equity grants to our NEOs were 18% in total lower than grants made for fiscal 2020, and the target value of the grants made for fiscal 2022 are 47% in total lower than grants made for fiscal 2020. We also increased Nikesh's stock ownership guideline to 10 times his annual salary to further align his incentives with the long-term value of our stock. In addition, we are submitting a new and redesigned equity incentive plan for stockholder approval, and we believe this new plan demonstrates best practices.

For fiscal 2022, we are making numerous additional changes to align our practices with the feedback we received from our stockholders. The Compensation and People Committee set targets for our executives' attainment of payouts for performance stock units and the cash incentive plan at levels above the guidance provided in our earnings release on August 23, 2021. We also eliminated duplicative performance metrics in our annual incentive and performance stock unit plans. We also adopted both a one-year minimum vesting requirement to all NEO equity grants, and a one-year holding requirement, after vesting, on all equity grants held by our NEOs. In addition, in fiscal 2022, we added an ESG modifier to our NEOs' cash incentive plan to ensure a linkage between compensation and our ESG goals.

We are also enhancing the disclosures around our compensation practices, as reflected in the compensation, discussion and analysis (CD&A) contained in this proxy statement, as well as in a new feature - a letter from our Compensation and People Committee. We encourage you to read this letter, as well as the entire CD&A. We believe that you will conclude that our Compensation and People Committee has taken to heart the feedback we have received from our stockholders and designed an executive compensation program deserving of your support.

Our Commitment to Society. We take seriously our commitment to environmental sustainability, social responsibility, and corporate governance (ESG). In fiscal 2021, we were proud to announce the appointments of Dr. Helene Gayle and Aparna Bawa to our Board of Directors, further demonstrating our commitment to gender, racial and experiential diversity, as well as refreshing and lowering the average tenure of members of our Board. Elsewhere in this proxy statement, we discuss our ESG successes in fiscal 2021 and provide an overview of our ESG programs and commitments.

You are cordially invited to attend the 2021 Annual Meeting of Stockholders, or Annual Meeting, of Palo Alto Networks, Inc. to be held on Tuesday, December 14, 2021, at 12:30 P.M., Pacific Time.

This year's Annual Meeting will again be a virtual meeting conducted via a live webcast. You will be able to listen to the Annual Meeting, submit your questions, and vote during the live webcast of the meeting by visiting www.virtualshareholdermeeting.com/PANW2021 and entering the 16-digit control number included in our Notice of Internet Availability of Proxy Materials, on your proxy card, or in the instructions that accompanied your proxy materials. If you did not receive a 16-digit control number, please reach out to your broker for further instructions.

On behalf of our Board, we thank you for your investment in Palo Alto Networks and for continuing to entrust us to help lead our company. We look forward to the Annual Meeting on December 14, 2021.

Thank you,



Nikesh Arora
Chair and
Chief Executive Officer



John M. Donovan
Lead Independent
Director



STRATA

Best-in-class Firewall
Platform across
hardware, software
and aaS



PRISMA

Comprehensive
platform to secure
everything that runs
in the cloud



CORTEX

A new approach
to SOC with data,
analytics and
automation

Notice of 2021 Annual Meeting of Stockholders



DATE AND TIME

Tuesday, December 14, 2021
12:30 PM Pacific Time



VIRTUAL MEETING SITE





www.virtualshareholdermeeting.com/PANW2021



WHO CAN VOTE

Stockholders of record as of October 18, 2021 are entitled to vote

Voting Items

Proposals	Board Vote Recommendation	For Further Details
1. To elect four Class I directors named in the accompanying proxy statement to serve until our 2024 annual meeting of stockholders and until their successors are duly elected and qualified.	 "FOR" each director nominee	Page 16
2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending July 31, 2022.	 "FOR"	Page 51
3. To approve, on an advisory basis, the compensation of our named executive officers.	 "FOR"	Page 54
4. To approve the 2021 Palo Alto Networks, Inc. Equity Incentive Plan.	 "FOR"	Page 93

Stockholders will also act on such other business that may properly come before the Annual Meeting or any adjournments or postponements thereof.

YOUR VOTE IS IMPORTANT. Please act as soon as possible to vote your shares, even if you plan to attend the annual meeting online. On or about October 29, 2021, we expect to mail to our stockholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy statement and our annual report and how to vote. If you are a beneficial stockholder, your broker will NOT be able to vote your shares with respect to the election of directors and most of the other matters presented during the meeting unless you have given your broker specific instructions to do so. For more information, see "About the Annual Meeting" on page 109.

We appreciate your continued support of Palo Alto Networks and look forward to receiving your proxy.

By Order of the Board of Directors,



Bruce Byrd

Executive Vice President, General Counsel and Corporate Secretary
October 29, 2021

HOW TO VOTE

ONLINE	BY PHONE	BY MAIL
Visit www.proxyvote.com . prior to the Annual Meeting, 24 hours a day, seven days a week	Call the phone number located on your proxy card or voting instruction form.	Complete, sign, date and return your proxy card or voting instruction form in the envelope provided.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING TO BE HELD ON DECEMBER 14, 2021: THE NOTICE OF 2021 ANNUAL STOCKHOLDERS' MEETING AND PROXY STATEMENT AND THE 2021 ANNUAL REPORT ON FORM 10-K, ARE AVAILABLE AT WWW.PROXYVOTE.COM.

Proxy Roadmap



ABOUT US

Read about our fiscal 2021 financial and business highlights, stockholder engagement efforts, corporate responsibility and recognitions, corporate values and COVID-19 response.

CORPORATE GOVERNANCE

We describe the key pillars of our corporate governance, including the composition of our board committees, our responses to stockholder feedback, governance initiatives over time, board leadership and board risk oversight.



PROPOSAL NO. 1

Find out more about John Donovan, Rt Hon Sir John Key, Mary Pat McCarthy and Nir Zuk, our nominees for election to the board and about our board members' tenure, diversity and skill sets.

ENVIRONMENTAL AND SOCIAL

Learn more about our approach to environmental, social and governance (ESG) practices.



PROPOSAL NO. 2

Read about our proposal to ratify Ernst & Young as our independent registered public accounting firm for fiscal 2022.



COMPENSATION DISCUSSION AND ANALYSIS

Read the letter from our Compensation and People Committee and our disclosure to learn about our executive compensation programs, and the improvements we made in fiscal 2021 and further improvements in place for fiscal 2022.



PROPOSAL NO. 3

Find out about our "Say-on-Pay" proposal to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement.

EXECUTIVE COMPENSATION

Find out more about the components of each of our named executive officer's compensation, including salary, annual cash incentive, equity grants and read about our CEO pay ratio.



PROPOSAL NO. 4

Read about our proposal to approve our new 2021 Equity Incentive Plan, including the important terms of the new plan, and improvements from our current plan.

About Us

Our Company

Palo Alto Networks, Inc. is a global cybersecurity provider with a vision of a world where each day is safer and more secure than the one before. We were incorporated in Delaware in 2005 and are headquartered in Santa Clara, California.

We empower enterprises, service providers, and government entities to secure all users, applications, data, networks, clouds and devices with comprehensive visibility and context continuously across all locations. We deliver cybersecurity products covering a broad range of use cases, enabling our end-customers to secure their networks, remote and hybrid workforces, branch locations, and public and private clouds, and to advance their security operations centers. We believe our portfolio offers advanced prevention and security, while reducing the total cost of ownership for organizations by improving operational efficiency and eliminating the need for siloed point products. We do this with solutions focused on delivering value in five fundamental areas: Zero Trust Network Security, Cloud Security, Secure Access Service Edge, Security Analytics and Automation, and Threat Intelligence and Security Consulting.

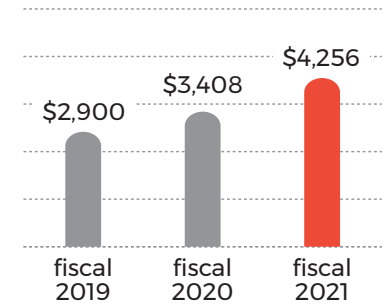
2021 Financial and Business Highlights

In fiscal 2021, we achieved record total revenue and billings, and our efforts resulted in the following accomplishments:

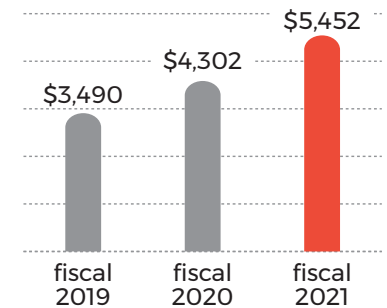
- Total revenue increased to approximately \$4.3 billion, or by approximately 25% compared to fiscal 2020.
- Total billings increased to approximately \$5.5 billion, or by approximately 27% compared to fiscal 2020.¹
- Delivered revenue and billings growth in our network security platform, cloud security platform and Cortex® platform.
- Significantly expanded the capabilities of our Unit 42, our premier threat intelligence and cybersecurity organization.
- Accelerated our product innovation efforts, with 29 major product releases.²
- Continued to return capital to our stockholders through our stock repurchase program, totaling approximately \$1.2 billion for fiscal 2021, for a total of approximately \$3 billion from fiscal 2018 through fiscal 2021.

On August 10, 2021, we announced that BJ Jenkins joined us in the role of President. We believe that BJ has the cybersecurity experience, customer understanding and business acumen to lead our world-class go-to-market organization.

TOTAL REVENUE (\$ in millions)



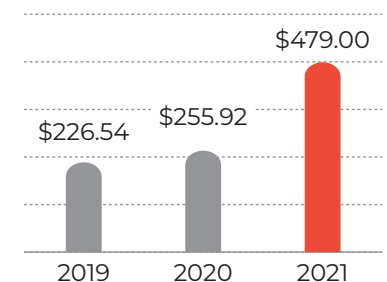
TOTAL BILLINGS (\$ in millions)



RETURN OF CAPITAL

Fiscal 2021	Fiscal 2018-2021
\$1.2 Billion	\$3 Billion

TRADING PRICE OF COMMON STOCK³



¹ Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue. Appendix A includes a calculation of total billings.

² Major product release is defined as full or dot release with significant new capability, new or add-on modules, or subscription services, new software or hardware appliance models, significant PAN-OS, acquired capabilities and significant new platform support.

³ As of the close of trading on July 31 for the years of 2019 and 2020, and as of the close of trading on September 30 for the year of 2021.

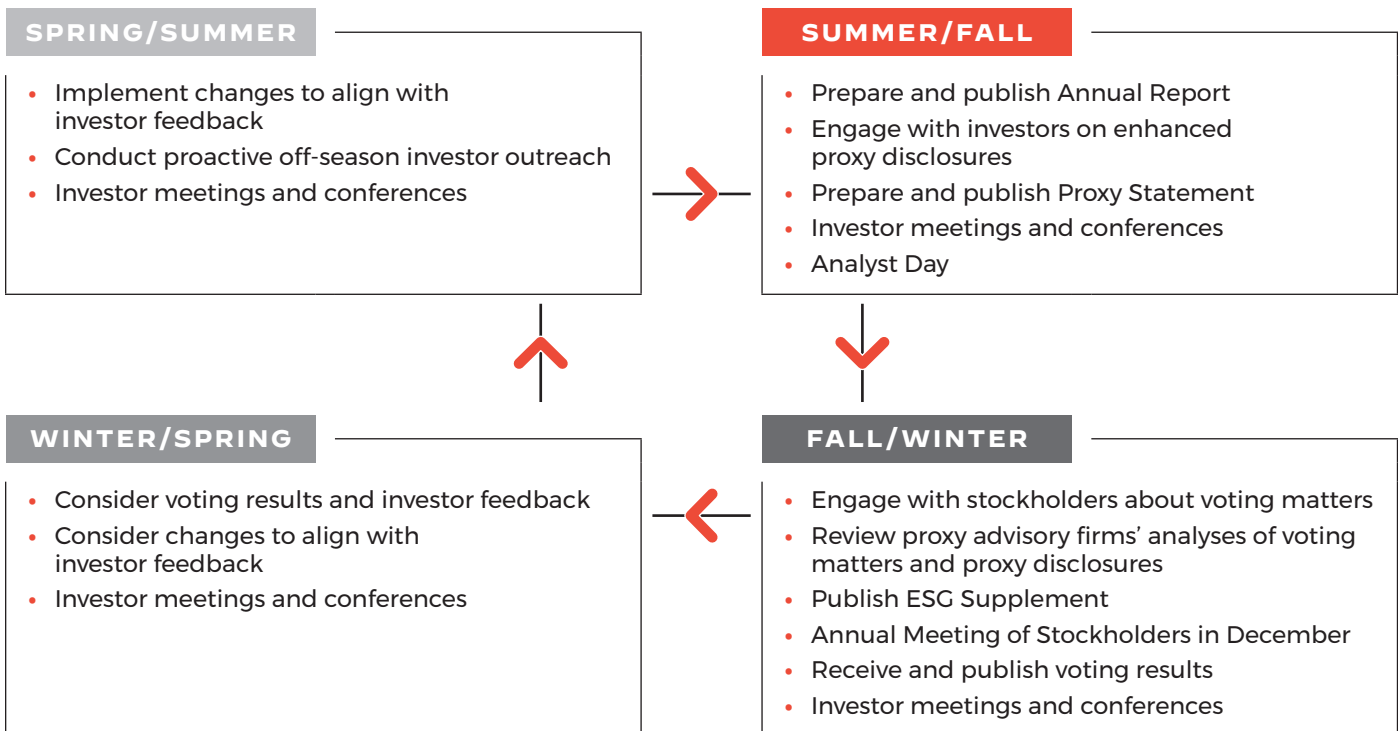
Stockholder Engagement

We are proud of our investor engagement program. Our relationship with our stockholders is an important part of our company’s success. Following a disappointing “Say on Pay” vote in 2020, we retooled our approach to stockholder engagement to ensure enhanced outreach, with a focus on executive compensation and other matters of particular import to our stockholders. Our Lead Independent Director played a central role in developing and implementing our new approach and played an active role in our stockholder engagement efforts in fiscal 2021. The feedback that we received from our stockholders shaped the redesign of the executive compensation practices implemented by our Compensation and People Committee, as described in detail in this proxy statement.

We believe that our approach to engaging directly and openly with our investors on topics such as executive compensation, corporate governance and corporate responsibility drives increased corporate accountability, improves decision making, and ultimately creates long-term value. All percentages below are based on share ownership, to our knowledge, as of June 30, 2021.



Below are some of the fiscal 2021 and fiscal 2022 stockholder engagement program elements:



Corporate Responsibility

Our corporate responsibilities play a critical role in achieving our vision of a world where each day is safer and more secure than the one before. Together with our employees, partners, stockholders and customers, we have been able to prosper as a company while staying true to our values.

Our ESG Framework

At Palo Alto Networks, our ESG Framework reinforces our commitment to respecting our planet, building an employee-centric culture and uplifting our communities, and operating with integrity. Within each of these focus areas, we prioritize the ESG issues that are most relevant to our business and stakeholder interests.



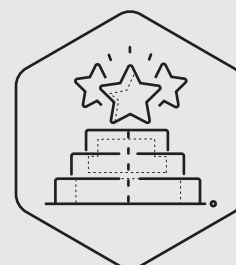
ENVIRONMENTAL Respecting Our Planet

- Driving sustainable operations, a sustainable value chain and a sustainable business ecosystem
- Priorities include decarbonization and renewable energy deployment, collaboration with suppliers, customers, and the communities where we work and live and climate and clean energy policy advocacy



SOCIAL Building an Employee-centric Culture Uplifting Our Communities

- Motivating and developing our people and reinforcing inclusion in all we do through FLEXWORK
- Priorities include talent development, inclusion and diversity, employee engagement, wellbeing and employee health and safety
- Helping people protect their digital way of life; enabling communities to thrive
- Priorities include cybersecurity education, employee volunteering and giving and charitable investments



GOVERNANCE Operating with Integrity

- Underpinning our strategies on the foundational value of integrity
- Priorities include our corporate governance, codes of conduct, ethics, and integrity and ESG transparency

Our Corporate Values

Our corporate decisions are guided by our corporate values, which were co-created by our employees. Foremost among these is integrity, which is the foundation of everything we do and every decision we make. We believe that collaboration enhances our ability to disrupt entrenched beliefs, which we think ultimately leads to innovation. Our ability to execute on our innovations and deliver products and services that address the cybersecurity needs of our customers is critical to our long-term success. Finally, we are intentional about including diverse points of view, perspectives, experiences, backgrounds and ideas in our decision-making process. True inclusion and diversity exists when we have representation of all ethnicities, orientations and identities, and cultures in our workforce. We believe that our core values make us a better company.

DISRUPTION




- We challenge entrenched belief and look to the future
- We take risks, fearlessly
- We fail early, fail fast and move forward
- We solve real problems with new ideas

COLLABORATION




- When we work together, we win together
- We can rely on each other
- We ensure individual and company goals are aligned
- We seek to empower
- We open ourselves to accountability

EXECUTION




- We're committed to quality
- Our technology just works as promised, always
- We strive tirelessly for simplicity and usability

INTEGRITY



- We are self-aware
- We take pride in our work because we do it the right way
- We respect our customers, partners, employees, and stockholders
- We're transparent and share with our teams
- We inspire trust and we live up to it

INCLUSION



- We believe diversity strengthens our ideas and our business
- We support the communities where we live, work and operate
- We care about our employees
- We strive to reflect the diversity of our customers in the diversity of our company

Our focus on our workplace environment and a strong company culture has led to third-party recognition in various areas, as evidenced by the following recognitions:



Best Places to Work
#10 in September 2021

“...Palo Alto is **#10** in our list of the **50 best companies to work for women**; list created from millions of anonymous employer ratings and reviews by working women”

Sep, 2021 (InHerSight)



BEST PLACES TO WORK
2021 for LGBTQ Equality
WITH CORPORATE EQUALITY INDEX

“...for the second consecutive year, received a **perfect score on the Human Rights Campaign Foundation’s 2021 Corporate Equality Index (CEI)** and achieved **designation as a Best Place to Work for LGBTQ Equality**”


Jan, 2021 (Human Rights Campaign Foundation)



TOP 10% DIVERSITY

“...Palo Alto Networks in the **top 10%** of companies on **Comparably in it’s diversity score**. [which] provides insights into how diverse employees feel and rate their work experience across various culture dimensions”


Sep, 2021 (Comparably)



JUST capital

“...recognized **among Top 100 companies supporting families and communities** (in part due to PANW’s **response to the COVID-19 pandemic**)”

Jun, 2021 (JUST capital)



CRN WOMEN IN CHANNEL AWARDS 2021
Diversity Employer of the Year
WINNER: Palo Alto Networks

“...The **challenge of increasing diversity in tech** is now firmly on the agenda **across the UK**, but it is far from a solved problem (...) CRN recognized **PANW as Diversity Employer of the Year...**”

Oct, 2020 (CRN)

Responding to COVID-19

The COVID-19 pandemic has challenged all of us in ways few of us could have imagined. As the pandemic spread globally, we swiftly took action to support our employees, customers, partners and communities.

HIGHLIGHTS TO OUR RESPONSE TO THE COVID-19 PANDEMIC IN FY2020 AND FY 2021

- We co-founded an initiative, with four other leading companies to share research, trends and develop working practices to urge us into the future of work. From this effort, we created our FLEXWORK people strategy that aims to disrupt the nature of work by placing employee-choice at the center of all that we do, recognizing the unique needs and interests of each and every employee. We have learned how to collaborate in a distributed work model and create opportunities for employees to maintain a sense of belonging and focus on wellbeing, while still delivering successful business results. We committed our Company to bold strategies that we believe enable our 10,000+ employees to do the best work of their careers. FLEXWORK is woven into every element of the employee lifecycle.
- We established a \$4 million funding source to fund a special employee donation matching program to support colleagues and communities impacted by COVID-19 pandemic. The \$4 million fund consisted of our Chief Executive Officer generously foregoing his annual salary beginning in April 2020 to donate \$1 million, our broader management team and our Board followed suit by contributing in the aggregate over \$1 million, and the Company contributing \$2 million. Employee donations are matched 4 to 1 (up to \$5,000 in donations per employee) from this \$4 million in funding (e.g., if an employee donates \$1,000, the Company will match that donation with a \$4,000 donation). In April 2021, we offered an additional 2 to 1 matching to support organizations addressing the COVID-19 surge in India (after the initial \$4 million funding source had been fully utilized).
- We formed the Palo Alto Networks Workforce Family Fund from which employees, hourly contractors and our campus services employees, could apply for financial assistance to address hardships and medical needs resulting from the COVID-19 pandemic.
- In addition to the Workforce Family Fund, we created 22 fundraising efforts to support multiple organizations and causes around the world who are working tirelessly to help communities impacted by the pandemic.
- In total, as of July 31, 2021, approximately \$6 million has been donated to these efforts through employee donations and the matching funds.
- We did not have any COVID-19 related layoffs.

Executive Compensation

Our Compensation Best Practices

In fiscal 2021, our Compensation and People Committee extensively redesigned our executive compensation program, consistent with the feedback that we received from our stockholders and our independent compensation consultants. And, we have already implemented numerous additional changes in fiscal 2022. With these changes, our executive compensation program represents recognized best practices, reflects principles that align the compensation of our named executive officers with the long-term interests of our stockholders and is fully supported by market benchmarks.

NEW FOR 2021 AND 2022

- ✓ 100% of equity compensation is performance-based (**fiscal 2021 and fiscal 2022**)
- ✓ Increase in Chief Executive Officer stock ownership guidelines to 10x base salary (**fiscal 2021**)
- ✓ Addition of ESG modifier to cash incentive plan (**fiscal 2022**)
- ✓ Reduction in the total target compensation of our Chief Executive Officer (**fiscal 2021 and fiscal 2022**)
- ✓ One-year post-vesting holding period for all NEOs, including our Chief Executive Officer (**fiscal 2022**)
- ✓ Additional independent compensation consultants for **fiscal 2022** decisions
- ✓ Newly configured Compensation and People Committee (**fiscal 2021**), changing the entire composition of the committee over the past two years

ROBUST AND INDEPENDENT COMPENSATION DECISION-MAKING, ALIGNED WITH OUR CORPORATE VALUES

- ✓ 100% independent Compensation and People Committee
- ✓ Independent compensation consultants
- ✓ Annual review of compensation strategy
- ✓ Consideration of annual say-on-pay vote

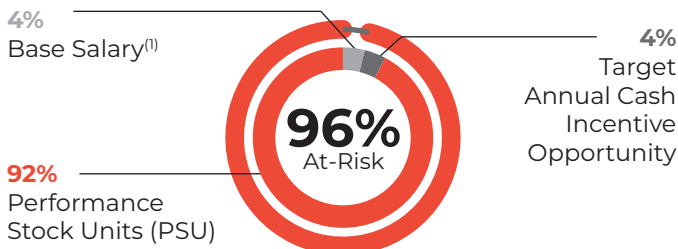
COMPENSATION BEST PRACTICES

- ✓ Majority of compensation is performance-based and at-risk
- ✓ 100% short-term incentive cash compensation is performance-based and at-risk
- ✓ No single trigger vesting of equity awards on occurrence of a change in control
- ✓ No dividends paid on unvested equity
- ✓ Robust stock ownership guidelines
- ✓ No hedging or pledging
- ✓ Meaningful clawback policy
- ✓ Limited perquisites and personal benefits
- ✓ No defined benefit plans or SERPs
- ✓ No tax gross-ups
- ✓ Implementing the advice of independent compensation consultants

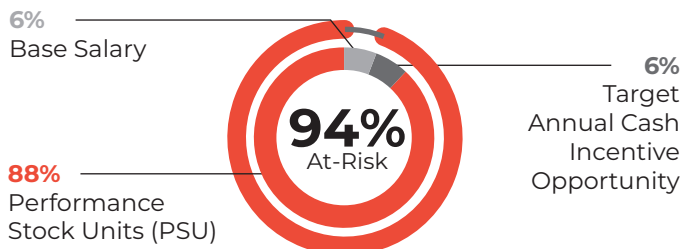
Significant At-Risk Compensation

Our executive compensation program is tied to our financial and operational performance. The graphs below illustrate the predominance of at-risk and performance-based components of our fiscal 2021 compensation program for our Chief Executive Officer and other named executive officers.

CEO



OTHER NEOs



⁽¹⁾ Graph reflects Mr. Arora's target base salary of \$1 million, a significant portion of which he elected to forego to help fund our efforts to support colleagues and communities impacted by the COVID-19 pandemic.

Table of Contents

3	Letter from the Chair and the Lead Independent Director	
5	Notice of 2021 Annual Meeting of Stockholders	
6	Proxy Roadmap	
7	About Us	
15	Voting Roadmap	
16	Board of Directors	
16	✓ Proposal No. 1 Election of Directors	
18	Board Skills and Experience Matrix	20 Board Committees and Responsibilities
19	Director Tenure and Refreshment	22 Directors
19	Board Diversity	28 Director Compensation
30	Corporate Governance	
30	Board of Directors Corporate Governance Highlights	40 Director Attendance
31	Board Responsiveness to Investors in FY2021	41 Communications with the Board of Directors
35	Leadership Structure	41 Corporate Governance Guidelines and Code of Business Conduct and Ethics
37	Identification and Evaluation of Director Nominees	42 Board's Role in Risk Oversight
39	Compensation and People Committee Interlocks and Insider Participation	43 Succession Planning
39	Director Independence and Related-Party Transactions Considered in Independence Determinations	43 Director Stock Ownership Guidelines
		44 Our Approach to Environmental, Social & Governance (ESG) Practices
51	Audit Matters	
51	✓ Proposal No. 2 Ratification of Appointment of Independent Registered Public Accounting Firm	
51	Fees Paid to the Independent Registered Public Accounting Firm	53 Report of the Audit Committee
52	Auditor Independence	
52	Audit Committee Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm	
54	Executive Compensation	
54	✓ Proposal No. 3 Advisory Vote on the Compensation of our Named Executive Officers	
55	Letter from our Compensation and People Committee	83 Executive Compensation Tables
57	Compensation Discussion and Analysis	84 CEO Pay Ratio
82	Report of the Compensation Committee	88 Executive Employment Agreements
		92 Equity Compensation Plan Information
93	✓ Proposal No. 4 Approval of 2021 Equity Incentive Plan	
93	Why Should Stockholders Vote to Approve the 2021 Plan?	96 Summary of the 2021 Plan
105	Security Ownership of Certain Beneficial Owners and Management	
107	Related Person Transactions	
109	About the Annual Meeting	
114	Other Matters	
115	Appendix A	
117	Appendix B	

HIGHLIGHTS

16	Board Snapshot
18	Board Skills and Experience Matrix
44	Our Approach to Environmental, Social & Governance (ESG) Practices
55	Letter from our Compensation and People Committee
57	Compensation Discussion and Analysis
93	Our 2021 Equity Incentive Plan

This document includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical or current facts, including statements regarding our social, environmental and sustainability plans and goals, and executive compensation plans, made in this document are forward-looking. We use words such as anticipates, plan, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons. Risks and uncertainties that could cause our actual results to differ significantly from management's expectations are described in our 2021 Annual Report on Form 10-K. Unless otherwise provided herein, all statements in this proxy statement are as of October 29, 2021.

References to our website in this proxy statement are not intended to function as a hyperlink and the information contained on our website is not intended to be part of this proxy statement.

In this proxy statement, the terms "the Company", "we," and "our" refer to Palo Alto Network, Inc. and the term "Board" refers to the Board of Directors of Palo Alto Networks, Inc.

To the extent that this proxy statement has been or will be specifically incorporated by reference into any other filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, the sections of this proxy statement titled "Report of the Audit Committee" (to the extent permitted by the rules of the U.S. Securities and Exchange Commission (SEC) and "Report of the Compensation Committee" shall not be deemed to be so incorporated, unless specifically stated otherwise in such filing.

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Voting Roadmap

PROPOSAL 1

Election of Directors

✓ The Board of Directors recommends a vote **“FOR”** each of the nominees named below.

Our Board is 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.

The following Class I directors have been nominated for election to the Board at the 2021 annual meeting of stockholders:

- John M. Donovan
- Right Honorable Sir John Key
- Mary Pat McCarthy
- Nir Zuk

➔ See page 16.

PROPOSAL 2

Ratification of Appointment of Independent Registered Public Accounting Firm

✓ The Board of Directors recommends a vote **“FOR”** the ratification of the appointment of Ernst & Young LLP.

Our Audit Committee has appointed Ernst & Young LLP (“EY”), independent registered public accountants, to audit our financial statements for our fiscal year ending July 31, 2022. EY has served as our independent registered public accounting firm since 2009.

➔ See page 51.

PROPOSAL 3

Advisory Vote on the Compensation of our Named Executive Officers

✓ The Board of Directors recommends a vote **“FOR”** the approval, on an advisory basis, of the compensation of our named executive officers.

We are providing our stockholders with the opportunity to vote to approve, on an advisory or non-binding basis, the compensation of our named executive officers as disclosed in the “Executive Compensation” section of this proxy statement.

➔ See page 54.

PROPOSAL 4

Approve Palo Alto Networks, Inc. 2021 Equity Incentive Plan

✓ The Board of Directors recommends a vote **“FOR”** the approval of our 2021 Equity Incentive Plan.

We are asking stockholders to approve a new equity incentive plan. The ability to grant equity awards is crucial to recruiting and retaining the best personnel. If stockholders do not approve the 2021 Equity Incentive Plan at our Annual Meeting, we may be unable to continue our equity incentive program after our 2012 Equity incentive Plan expires in June 2022, which could prevent us from successfully attracting and retaining the highly skilled talent we need.

➔ See page 93.

Board of Directors

PROPOSAL NO. 1

Election of Directors

Our Board consists of a diverse group of highly qualified leaders in their respective fields who bring unique perspectives to the Board. All directors have either held senior leadership positions at large companies, or otherwise gained significant and wide-ranging management experience in their respective fields (including strategic, financial, public company financial reporting, compliance, risk management, and leadership development). Many of our directors also have public company experience (serving as chief executive officer, chief operating officer, or chief financial officer, or on boards of directors and board committees), and as a result have a deep understanding of corporate governance practices, including risk and management oversight.

The names and certain other information as of October 15, 2021, for each of the nominees for election as a director, and for each of the continuing and non-continuing members of the Board are set forth below. Tenure data is as of December 15, 2021, the day following the Annual Meeting and assumes the election of each director nominee.

Lorraine Twohill, 50

INDEPENDENT

Chief Marketing Officer, Google
 Director Since: 2019
 Other Current Public Company Boards: None
CC, NCGC



Carl Eschenbach, 54

INDEPENDENT

General Partner, Sequoia Capital Operations
 Director Since: 2013
 Other Current Public Company Boards:
 Zoom Video Communications, Workday, Inc.,
 Snowflake Inc., UiPath, Inc.



Aparna Bawa, 43

INDEPENDENT

Chief Operating Officer and
 Interim Chief Legal Officer, Zoom
 Director Since: 2021
 Other Current Public Company Boards:
 None
AC



Nikesh Arora, 53

Chair and Chief Executive Officer,
 Palo Alto Networks
 Director Since: 2018
 Other Current Public Company Boards:
 Compagnie Financière Richemont S.A.



Mark D. McLaughlin, 55

Vice Chair and Former President and Chief
 Executive Officer, Palo Alto Networks
 Director Since: 2011
 Other Current Public Company Boards:
 Qualcomm, Inc.



James J. Goetz, 55

INDEPENDENT

Managing Member, Sequoia Capital
 Director Since: 2005
 Other Current Public Company Boards:
 Intel Corporation
AC



BOARD SNAPSHOT

TENURE

Average

7.8 years



AGE

Average

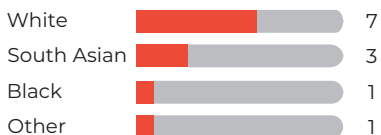
56.3 years



GENDER DIVERSITY



ETHNIC DIVERSITY



- AC** Audit Committee
- CC** Compensation and People Committee
- NCGC** Nominating and Corporate Governance Committee
- (Chair)** Chair

CONTINUING DIRECTORS

Our Board is 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. Each director's term continues until the election and qualification of his or her successor, or such director's 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 our directors. This classification of our Board may have the effect of delaying or preventing changes in control of our company.

The following Class I directors have been nominated for election to the Board at the Annual Meeting:

- John M. Donovan
- Right Honorable Sir John Key
- Mary Pat McCarthy
- Nir Zuk

 **The Board of Directors recommends that you vote “FOR” each of the nominees named above.**

John M. Donovan, 61

LEAD INDEPENDENT DIRECTOR

Former Chief Executive Officer, AT&T Communications, AT&T Inc.
Director Since: 2012
Other Current Public Company Boards: Lockheed Martin Corporation
Chair - NCGC, CC

Right Honorable Sir John Key, 60

INDEPENDENT

Former Prime Minister of New Zealand
Director Since: 2019
Other Current Public Company Boards: ANZ Bank New Zealand Ltd, Australia & New Zealand Banking Group Ltd
Chair - CC, AC

Mary Pat McCarthy, 66

INDEPENDENT

Former Vice Chair, KPMG LLP
Director Since: 2016
Other Current Public Company Boards: Micron Technologies, Inc.
Chair- AC

Nir Zuk, 50

Founder and Chief Technology Officer, Palo Alto Networks
Director Since: 2005
Other Current Public Company Boards: None

Asheem Chandna, 57

INDEPENDENT

Partner, Greylock Partners
Director Since: 2005
Other Current Public Company Boards: None
NCGC

Dr. Helene D. Gayle, 66

INDEPENDENT









CEO of The Chicago Community Trust
Director Since: 2021
Other Current Public Company Boards: GoHealth, Organon, The Coca-Cola Company
NCGC

If you are a stockholder of record and you sign your proxy card or vote by telephone or over the Internet but do not give instructions with respect to the voting of directors, your shares will be voted “FOR” the re-election of Ms. McCarthy, Messrs. Donovan and Zuk, and Sir John Key. We expect that each of Ms. McCarthy, Messrs. Donovan and Zuk, and Sir John Key will accept such nomination; however, in the event that a director nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by our board of directors to fill such vacancy. If you wish to give specific instructions with respect to the voting of directors, you may do so by indicating your instructions on your proxy card or when you vote by telephone or over the Internet. If you are a street name stockholder and you do not give voting instructions to your broker or nominee, your shares will not be voted on this matter.

**NOMINEE
DIRECTORS**

Board Skills and Experience Matrix

Our Board has taken a thoughtful approach to board composition to ensure that our directors have backgrounds that collectively add significant value to the strategic decisions made by the Company and that enable them to provide oversight of management to ensure accountability to our stockholders. The Board and the Nominating and Corporate Governance Committee believe the skills, qualities, attributes, experience and diversity of backgrounds of our directors provide us with a diverse range of perspectives to effectively address our evolving needs and represent the best interests of our stockholders.

	Arora	Bawa	Chandna	Donovan	Eschenbach	Gayle	Goetz	Key	McCarthy	McLaughlin	Twohill	Zuk
 Industry and IT/Technical Expertise Deep insight in the cybersecurity and IT technology industry to oversee our business and the risks we face.	✓	✓	✓	✓	✓		✓			✓		✓
 Senior Leadership Experience Experience in senior leadership positions to analyze, advise and oversee management in decision making, operations and policies.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 Financial Knowledge and Expertise Knowledge of financial markets, financing and accounting and financial reporting processes.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
 Diverse Backgrounds and Experiences Diverse backgrounds and experiences provide unique perspectives and enhance decision-making.	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
 Sales, Marketing and Brand Management Experience Sales, marketing, and brand management experience to provide expertise and guidance to grow sales and enhance our brand.	✓		✓	✓	✓					✓	✓	✓
 Global/International Experience Experience and knowledge of global operations, business conditions and culture to advise and oversee our global business.	✓	✓		✓		✓		✓	✓	✓	✓	✓
 Governance, Risk Oversight and Compliance Experience in public company corporate governance, risk oversight and management, privacy, compliance, policy, and creating long term sustainable value.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 Emerging Technologies and Business Models Experience Experience identifying and developing emerging technologies and business models to advise, analyze and strategize regarding emerging technologies, business models and potential acquisitions disrupting our industry, business and company.	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓
 Human Capital Management Experience attracting and retaining top talent to advise and oversee our people and compensation policies in our extremely competitive environment. In addition, evolving our culture is critical to delivering on our growth strategy and for continuing to attract and retain top talent.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
 Public Company Board Experience Experience to understand the dynamics and operation of a public company and the applicable legal and regulatory landscape and risks.	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Director Tenure and Refreshment

The Board generally believes that a mix of long- and shorter-tenured directors promotes an appropriate balance of views and insights and allows the Board as a whole to benefit from the historical and institutional knowledge that longer-tenured directors possess and the fresh perspectives contributed by newer directors. With the additions of Aparna Bawa, Dr. Helene Gayle, Lorraine Twohill and Rt Hon Sir John Key in fiscal 2019 through fiscal 2021, we added directors who have brought their experiences and fresh perspectives to our Board's deliberations.

If each independent director nominee is elected to the Board, after the Annual Meeting, our independent directors will have served an average of 7.0 years on the Board. Overall, our Board, including both independent and non-independent directors, will have an average tenure of 7.8 years. We believe that this mix of tenure on the Board represents a collection of individuals with both new perspectives and deep institutional knowledge.

Board Diversity

Our Corporate Governance Guidelines embody our Board's commitment to actively seek out women and minority candidates as well as candidates with diverse backgrounds, experiences and skills. Our Board believes representation of gender, race, ethnic, geographic, cultural or other diverse perspectives expands the Board's understanding of the needs and viewpoints of our customers, partners, employees and other stakeholders worldwide.

Our directors reflect diverse perspectives, including a complementary mix of skills, experience and backgrounds that we believe are paramount to our ability to represent your interests as stockholders. As part of our ongoing commitment to creating a balanced Board with diverse viewpoints and deep industry expertise, we added four new independent directors in fiscal 2019 through fiscal 2021 to infuse new ideas and fresh perspectives in the boardroom, two of whom were women of color. If each director nominee is elected to the Board, after the Annual Meeting, 67% of our independent directors and 67% of our full Board would be diverse based on directors' gender, race, ethnicity or nationality and 33% of our Board members self-identify as women.

DIRECTOR TENURE

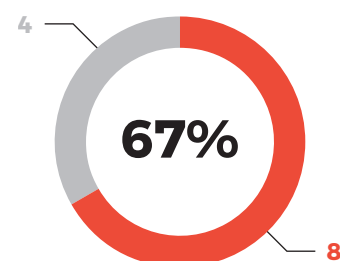
7.0 years
(independent directors)

7.8 years
(all directors)

Since 2019:

4
new independent directors

BOARD DIVERSITY



of directors are diverse based on gender, race, ethnicity or nationality

- Diverse directors
- Non-diverse directors

Board Committees and Responsibilities

Our Board has a standing Audit Committee, Compensation and People Committee and Nominating and Corporate Governance Committee, each of which has the composition and responsibilities described below. Directors serve on these committees until their resignation or until otherwise determined by our Board. All directors serving on the standing committees of our Board are independent, and each of these committees is led by a committee chairperson.

Audit Committee

Chair:

Mary Pat McCarthy

Members:

Aparna Bawa

James J. Goetz

Right Honorable

Sir John Key

Number of meetings in fiscal 2021: **10**

Our Audit Committee is responsible for, among other things:

- selecting and hiring our independent registered public accounting firm, including leading the review and selection of the lead audit engagement partner;
- evaluating the performance and independence of our independent registered public accounting firm;
- approving the audit and pre-approving any non-audit services to be performed by our independent 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;
- reviewing and participating in the selection of our chief audit executive and periodically reviewing the activities and reports of the internal audit function and any major issues encountered in the course of the internal audit function's work;
- 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 periodic reports;
- reviewing and approving or ratifying any proposed related person transactions; and
- preparing the Audit Committee report that the SEC requires in our annual proxy statement.

The composition of our Audit Committee meets the requirements for independence for audit committee members under the listing standards of Nasdaq Stock Market ("Nasdaq") and the rules and regulations of the SEC. Each member of our Audit Committee also meets the financial literacy and sophistication requirements of the listing standards of Nasdaq. In addition, our Board has determined that Ms. McCarthy is an "audit committee financial expert" within the meaning of the rules and regulations of the SEC.

Our Audit Committee operates under a written charter that was adopted by our Board and satisfies the applicable rules and regulations of the SEC and the listing standards of Nasdaq. A copy of the charter of our Audit Committee is available on our website at <http://investors.paloaltonetworks.com>.

Compensation and People Committee

Chair:

**Right Honorable
Sir John Key**

Members:

**John M. Donovan
Lorraine Twohill**

Number of meetings in
fiscal 2021: **8**

Our Compensation and People Committee is responsible for, among other things:

- reviewing and approving our Chief Executive Officer's and other executive officers' annual base salaries, incentive compensation arrangements, 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 and compensation plans;
- preparing the Compensation and People Committee report that the SEC requires to accompany the Compensation Discussion and Analysis contained in this proxy statement; and
- overseeing our talent management and people management, including the Company's inclusion and diversity initiatives and results, the Company's pay equity reviews and results, and the Company's FLEXLearning, FLEXBenefits and FLEXWORK initiatives.

The composition of our Compensation and People Committee meets the requirements for independence for Compensation Committee members under the listing standards of Nasdaq and the rules and regulations of the SEC. Each member of our Compensation and People Committee is also a "non-employee director," as defined pursuant to Rule 16b-3 promulgated under the Exchange Act, and an "outside director," as defined pursuant to Section 162(m) of the Internal Revenue Code.

Our Compensation and People Committee operates under a written charter that was adopted by our Board and satisfies the applicable rules and regulations of the SEC and the listing standards of Nasdaq. A copy of the charter of our Compensation and People Committee is available on our website at <http://investors.paloaltonetworks.com>.

Our Compensation and People Committee may form subcommittees for any purpose and may delegate to such subcommittees such power and authority as our Compensation and People Committee deems appropriate, except such power or authority required by law, regulation or listing standard to be exercised by our Compensation and People Committee as a whole.

Nominating and Corporate Governance Committee

Chair:

John M. Donovan

Members:

**Asheem Chandna
Dr. Helene D. Gayle
Lorraine Twohill**

Number of meetings in
fiscal 2021: **4**

Our 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;
- reviewing and approving conflicts of interest of our directors and corporate officers, other than related person transactions reviewed by our Audit Committee;
- oversees our annual board of director and committee self-assessment process; and
- overseeing our ESG efforts and related policies and programs.

The composition of our Nominating and Corporate Governance Committee meets the requirements for independence under the listing standards of Nasdaq and the rules and regulations of the SEC.

Our Nominating and Corporate Governance Committee operates under a written charter that was adopted by our Board and satisfies the applicable listing standards of Nasdaq. A copy of the charter of our Nominating and Corporate Governance Committee is available on our website at <http://investors.paloaltonetworks.com>.

Directors

Director Nominees

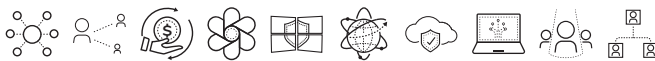
John M. Donovan **LEAD INDEPENDENT DIRECTOR**

Former Chief Executive Officer, AT&T Communications, AT&T Inc.

Age: 61

Director Since: 2012

Skills and Experience:



Committee Membership:
 Compensation and People Committee, Nominating and Corporate Governance Committee (Chair)

Other Current Public Company Boards:
 Lockheed Martin Corporation



BACKGROUND

John M. Donovan has served as a member of our Board since September 2012. Mr. Donovan, now retired, worked at AT&T Inc., a provider of telecommunication services, since April 2008, first as Chief Technology Officer and subsequently as Chief Executive Officer—AT&T Communications until his resignation, effective October 1, 2019. From November 2006 to April 2008, Mr. Donovan was Executive Vice President of Product, Sales, Marketing and Operations at Verisign. From November 2000 to November 2006, Mr. Donovan served as Chair and CEO of inCode Telecom Group Inc., a provider of strategy and consulting services to the telecommunications industry. Prior to joining inCode, Mr. Donovan was a Partner with Deloitte Consulting where he was the Americas industry practice director for telecommunications. Mr. Donovan serves on the board of directors of Lockheed Martin Corporation, an aerospace, defense and technology company. Mr. Donovan holds a B.S. in Electrical Engineering from the University of Notre Dame and an M.B.A. from the University of Minnesota.

QUALIFICATIONS AND EXPERIENCE

Mr. Donovan was selected to serve on our Board because of his extensive experience in the telecommunications industry.

Right Honorable Sir John Key **INDEPENDENT**

Former Prime Minister of New Zealand

Age: 60

Director Since: 2019

Skills and Experience:



Committee Membership:

Audit Committee, Compensation Committee (Chair)

Other Current Public

Company Boards:

ANZ Bank New Zealand Ltd,
Australia & New Zealand Banking
Group Ltd



BACKGROUND

Right Honorable Sir John Key has served as a member of our Board since April 2019. Sir John was a Member of Parliament for Helensville in New Zealand until April 2017. Sir John served as Prime Minister of New Zealand from November 2008 to December 2016 having commenced his political career as a Member of Parliament for Helensville in July 2002. Prior to his political career, he had a nearly twenty-year career in international finance, primarily for Bankers Trust of New Zealand and Merrill Lynch in Singapore, London and Sydney. Sir John serves as the chair and member of the board of directors of ANZ Bank New Zealand Ltd and is a member of the board of directors of the parent Australia & New Zealand Banking Group Ltd, a public bank that provides various banking and financial products and services and also serves on the board of directors of several privately held companies. He previously served on the board of directors of Air New Zealand Limited, a public airline, from 2017 to 2020. Sir John has a Bachelor of Commerce in Accounting from the University of Canterbury.

QUALIFICATIONS AND EXPERIENCE

Sir John was selected to serve on our Board due, in part, to his extensive background in foreign affairs and his career in investment banking and finance.

Mary Pat McCarthy **INDEPENDENT**

Former Vice Chair, KPMG LLP

Age: 66

Director Since: 2016

Skills and Experience:



Committee Membership:

Audit Committee (Chair)

Other Current Public Company Boards:

Micron Technology, Inc.



BACKGROUND

Mary Pat McCarthy has served as a member of our Board since October 2016. Ms. McCarthy, now retired, served as Vice Chair of KPMG LLP, the U.S. member firm of the global audit, tax and advisory services firm, until 2011 after attaining such position in 1998. She joined KPMG LLP in 1977 and became a partner in 1987. She held numerous senior leadership positions in the firm, including Executive Director of the KPMG Audit Committee Institute from 2008 to 2011, Leader of the KPMG Client Care Program from 2007 to 2008, U.S. Leader, Industries and Markets from 2005 to 2006, and Global Leader, Information, Communication and Entertainment Practice from 1998 to 2004. Ms. McCarthy also served on KPMG's Management and Operations Committees. Ms. McCarthy earned a Bachelor of Science degree in Business Administration from Creighton University and completed the University of Pennsylvania Wharton School's KPMG International Development Program. Ms. McCarthy serves as a director of Micron Technology, Inc., a producer of semiconductor devices and previously served on the board of directors of Mutual of Omaha, an insurance company, from 2012 to 2018 and Andeavor Corporation (formerly Tesoro Corporation), a global energy corporation from 2012 to 2018.

QUALIFICATIONS AND EXPERIENCE

Ms. McCarthy was selected to serve on our Board due, in part, to her background as the former chairperson of the Audit Committee of each of Andeavor Corporation and Mutual of Omaha and her financial and accounting expertise from her prior extensive experience as the Vice Chair of KPMG LLP.

Nir Zuk

Founder and Chief Technology Officer, Palo Alto Networks

Age: 50

Director Since: 2005

Skills and Experience:



Committee Membership:

None

Other Current Public

Company Boards:

None



BACKGROUND

Nir Zuk is one of our founders and has served as our Chief Technology Officer and as a member of our Board since March 2005. From April 2004 to March 2005, Mr. Zuk was Chief Security Technologist at Juniper Networks, Inc., a supplier of network infrastructure products and services. From September 2002 until its acquisition by Juniper in April 2004, Mr. Zuk was Chief Technology Officer at NetScreen Technologies, Inc., a provider of ASIC-based Internet security systems. In December 1999, Mr. Zuk co-founded OneSecure, Inc., a provider of prevention and detection appliances, and was Chief Technical Officer until its acquisition by NetScreen in September 2002. From 1994 to 1999, Mr. Zuk served in several technical roles, including Principal Engineer at Check Point Software Technologies Ltd., an enterprise software security company. Mr. Zuk attended Tel Aviv University where he studied Mathematics.

QUALIFICATIONS AND EXPERIENCE

Mr. Zuk was selected to serve on our Board 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.

Continuing Directors

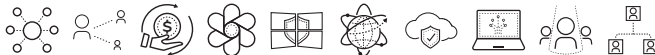
Nikesh Arora

Chair and Chief Executive Officer, Palo Alto Networks

Age: 53

Director Since: 2018

Skills and Experience:



Committee Membership:

None

Other Current Public

Company Boards:

Compagnie Financière RicheMont



BACKGROUND

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

QUALIFICATIONS AND EXPERIENCE

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

Aparna Bawa **INDEPENDENT**

Chief Operating Officer and Interim Chief Legal Officer, Zoom

Age: 43

Director Since: 2021

Skills and Experience:



Committee Membership:

Audit Committee

Other Current Public

Company Boards:

None



BACKGROUND

Aparna Bawa has served as a member of our Board since May 2021. Ms. Bawa, age 43, has served as the Chief Operating Officer and Interim Chief Legal Officer of Zoom Video Communications, Inc., a video communications company, since May 2020. Ms. Bawa served as Zoom's Chief Legal Officer from August 2019 to May 2020, its General Counsel from September 2018 to May 2020 and its Secretary from December 2018 to November 2020. Prior to Zoom Video Communications, Ms. Bawa served as Senior Vice President and General Counsel of Magento, Inc., an e-commerce platform company, from June 2017 until its acquisition by Adobe Inc. in June 2018. From November 2012 to May 2017, Ms. Bawa served as Vice President, General Counsel and Secretary of Nimble Storage, Inc., an enterprise flash storage company, which was acquired by Hewlett Packard Enterprise in April 2017. Ms. Bawa holds a B.Sc. in Accounting from Marquette University and a J.D. from Harvard Law School.

QUALIFICATIONS AND EXPERIENCE

Ms. Bawa was selected to serve on our Board due to her extensive experience in technology companies.

Asheem Chandna **INDEPENDENT**

Partner, Greylock Partners

Age: 57

Director Since: 2005

Skills and Experience:



Committee Membership:

Nominating and Corporate Governance Committee

Other Current Public

Company Boards:

None



BACKGROUND

Asheem Chandna has served as a member of our Board 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 June 2013, Mr. Chandna was a director of Imperva, Inc., a provider of cyber security solutions. 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 a number of privately held companies. Mr. Chandna holds a B.S. in Electrical Engineering and an M.S. in Computer Engineering from Case Western Reserve University.

QUALIFICATIONS AND EXPERIENCE

Mr. Chandna was selected to serve on our Board 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.

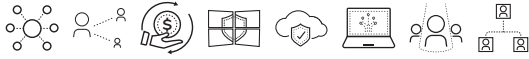
Carl Eschenbach **INDEPENDENT**

General Partner, Sequoia Capital Operations

Age: 54

Director Since: 2013

Skills and Experience:



Committee Membership: None

Other Current

Public Company Boards:

Zoom Video Communications, Workday, Inc., Snowflake Inc., UiPath, Inc.



BACKGROUND

Carl Eschenbach has served as a member of our Board since May 2013. Mr. Eschenbach has been a general partner at Sequoia Capital Operations, LLC, a venture capital firm, since April 2016. Prior to joining Sequoia Capital Operations, LLC, Mr. Eschenbach served as Chief Operating Officer and President of VMware, Inc., a provider of cloud and virtualization software and services, a role he held from December 2012 to February 2016. Mr. Eschenbach previously served as VMware's President and Chief Operating Officer from April 2012 to December 2012, as VMware's Co-President, Customer Operations from January 2011 to April 2012 and as VMware's Executive Vice President of Worldwide Field Operations from May 2005 to January 2011. Prior to joining VMware in 2002, he was Vice President of North America Sales at Inktomi from 2000 to 2002. Mr. Eschenbach also held various sales management positions with 3Com Corporation, Lucent Technologies Inc. and EMC. Mr. Eschenbach also serves on the board of directors of Zoom Video Communications, Inc., a video communications company, Workday, Inc., an on-demand financial management and human capital management software vendor, UiPath, Inc., a robotic process automation software company, and Snowflake Inc., a cloud data platform company. Mr. Eschenbach received an electronics technician diploma from DeVry University.

QUALIFICATIONS AND EXPERIENCE

Mr. Eschenbach was selected to serve on our Board because of his extensive experience in the technology industry and his previous public company management experience.

Dr. Helene D. Gayle **INDEPENDENT**

CEO of The Chicago Community Trust

Age: 66

Director Since: 2021

Skills and Experience:



Committee Membership:

Nominating and Corporate Governance Committee

Other Current Public Company Boards:

GoHealth, Organon, The Coca-Cola Company



BACKGROUND

Dr. Helene D. Gayle has served as a member of our Board since May 2021. Dr. Gayle, age 65, has served as President and Chief Executive Officer of The Chicago Community Trust, a community foundation dedicated to improving the Chicago region through strategic grant making, civic engagement and inspiring philanthropy, since 2017. Dr. Gayle previously served as Chief Executive Officer of McKinsey Social Initiative, an independent non-profit organization, from 2015 to 2017 and as President and Chief Executive Officer of CARE USA, a leading international humanitarian organization, from 2006 to 2015. From 2001 to 2006, she was an executive in the Global Health program at the Bill & Melinda Gates Foundation. Dr. Gayle began her career in public health at the U.S. Centers for Disease Control in 1984, and held positions of increasing responsibility over her 20-year tenure there, ultimately becoming the director of the National Center for HIV, STD and TB Prevention and achieving the rank of Assistant Surgeon General and Rear Admiral in the United States Public Health Service. Dr. Gayle earned a Bachelor of Arts degree in Psychology from Barnard College of Columbia University, an M.D. from University of Pennsylvania and a Masters in Public Health from Johns Hopkins University. She currently serves as a member of the board of directors of GoHealth, a health insurance marketplace, The Coca-Cola Company, a beverage company, and Organon & Co., a pharmaceutical company.

QUALIFICATIONS AND EXPERIENCE

Dr. Gayle was selected to serve on our Board due to her extensive leadership experience with complex, domestic and international organizations, and her risk oversight and strong governance experience having served as a director of private and public companies.

James J. Goetz **INDEPENDENT**

Managing Member, Sequoia Capital

Age: 55

Director Since: 2005

Skills and Experience:



Committee Membership:

Audit Committee

Other Current Public

Company Boards:

Intel Corporation



BACKGROUND

James J. Goetz has served as a member of our Board since April 2005. Mr. Goetz has been a managing member of Sequoia Capital Operations, LLC, 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 Intel Corporation and several privately held companies. Mr. Goetz has previously served on the boards of directors of Barracuda Networks, Inc., a data security and storage company from 2009 to 2017, Nimble Storage, Inc., a data storage company, from 2007 to 2017, Jive Software, Inc., a provider of social business software, from 2007 until 2015, and Ruckus Wireless, Inc., a manufacturer of wireless (Wi-Fi) networking equipment, from 2012 until 2015. Mr. Goetz holds an M.S. in Electrical Engineering with a concentration in Computer Networking from Stanford University and a B.S. in Electrical Engineering with a concentration in Computer Engineering from the University of Cincinnati.

QUALIFICATIONS AND EXPERIENCE

Mr. Goetz was selected to serve on our Board because of his deep experience with the venture capital industry and providing guidance and counsel to a wide variety of Internet and technology companies.

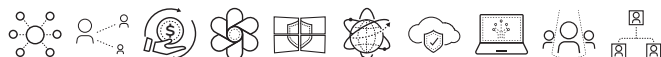
Mark D. McLaughlin

Vice Chair and Former President and Chief Executive Officer, Palo Alto Networks

Age: 55

Director Since: 2011

Skills and Experience:



Committee Membership:

None

Other Current Public

Company Boards:

Qualcomm, Inc.



BACKGROUND

Mark D. McLaughlin has served as our Vice Chair since June 2018, and has been a member of our board of directors since August 2011. During that period, from April 2012 until June 2018 he served as Chair of our board of directors. Mr. McLaughlin served as our Chief Executive Officer from August 2011 until June 2018 and also served as President from August 2011 through August 2016. From August 2009 through July 2011, Mr. McLaughlin served as President and Chief Executive Officer and as a director at VeriSign, Inc., a provider of Internet infrastructure services, and from January 2009 to August 2009, Mr. McLaughlin served as President and Chief Operating Officer at VeriSign. From February 2000 through November 2007, Mr. McLaughlin served in several roles at VeriSign, including as Executive Vice President, Products and Marketing. Prior to joining VeriSign, Mr. McLaughlin was Vice President, Sales and Business Development at Signio Inc., an Internet payments company acquired by VeriSign in February 2000. In January 2011, President Barack Obama appointed Mr. McLaughlin to serve on the President's National Security Telecommunications Advisory Committee. Mr. McLaughlin currently serves on, and is the Chair of, the board of directors of Qualcomm, Inc., a global semiconductor company that designs and markets wireless telecommunications products and services, and previously served on the board of directors of Opower, Inc., a provider of cloud based software to the utility industry, from 2013 to 2016. Mr. McLaughlin holds a B.S. from the U.S. Military Academy at West Point and a J.D. from Seattle University School of Law.

QUALIFICATIONS AND EXPERIENCE

Mr. McLaughlin was selected to serve on our Board because of the perspective and experience he brings as our former Chief Executive Officer and his extensive background in the technology industry.

Lorraine Twohill **INDEPENDENT**

Chief Marketing Officer, Google

Age: 50

Director Since: 2019

Skills and Experience:



Committee Membership:
Compensation and People Committee, Nominating and Corporate Governance Committee

Other Current Public Company Boards:
None

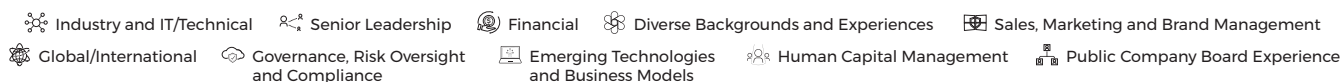


BACKGROUND

Lorraine Twohill has served as a member of our Board of directors since April 2019. Ms. Twohill currently serves as Google LLC's (formerly Google, Inc.) Chief Marketing Officer, a position she has held since June 2009. From July 2003 until June 2009, Ms. Twohill served as Google's Head of Marketing Europe, Middle East and Africa. Ms. Twohill previously served on the board of directors of Williams-Sonoma, Inc., a consumer retail company that sells kitchenwares and home furnishings, from January 2012 until May 2017. Ms. Twohill holds joint honors degrees in International Marketing and Languages from Dublin City University.

QUALIFICATIONS AND EXPERIENCE

Ms. Twohill was selected to serve on our Board due to her extensive marketing knowledge, with over 25 years of experience, and her strong insight into brand management and global issues.



Director Compensation

Our Nominating and Corporate Governance Committee has approved a policy for the compensation of the non-employee members of our Board (the "Director Compensation Policy") to attract, retain and reward these individuals and align their financial interests with those of our stockholders. Only non-employee directors who are not affiliated with investment funds that hold shares of our common stock are eligible for compensation under the Director Compensation Policy. There is no cash compensation paid under the Director Compensation Policy.

Initial Award. Under the Director Compensation Policy, when an eligible director initially joins our Board, the eligible director receives an initial award of restricted stock units having a value of \$1 million (as determined based on the average closing price of our common stock on Nasdaq during the 30 calendar days prior to the date of grant). This initial award will vest as to one third of the shares covered by the restricted stock unit award on the first anniversary of the date the eligible director joined our board of directors, and the remaining shares will vest quarterly over the following two years, subject to the director's continued service as of each such date.

Annual Award. Under the Director Compensation Policy, at each annual meeting of stockholders, each eligible director receives an annual restricted stock unit award having a value equal to \$300,000 (as determined based on the average closing price of our common stock on Nasdaq during the 30 calendar days prior to the date of grant). In addition, at each annual meeting of stockholders, our Lead Independent Director receives an additional annual restricted stock unit award having a value equal to \$50,000 (as determined based on the average closing price of our common stock on Nasdaq during the 30 calendar days prior to the fifteenth day of the month in which the grant is made). All annual awards, including the annual awards to the Lead Independent Director, will vest quarterly over a period of one year, subject to the director's continued service as of each such date.

Committee Awards. At each annual meeting of stockholders, the chairpersons and members of the three standing committees of our board of directors will receive additional annual restricted stock unit awards for committee service having the following values (as determined based on the average closing price of our common stock on Nasdaq during the 30 calendar days prior to the date of grant):

Board Committee	Chairperson Retainer (\$)	Member Retainer (\$)
Audit Committee	35,000	20,000
Compensation and People Committee	25,000	15,000
Nominating and Corporate Governance Committee	15,000	10,000

Any eligible director who serves as chairperson of a committee is not entitled to a member retainer for the same committee. The committee awards will vest quarterly over a period of one year, subject to the director's continued service as of each such date.

Fiscal 2021 Director Compensation Table

The following table presents summary information regarding the compensation paid to our non-employee directors for our fiscal year ended July 31, 2021.

Director	Stock Awards (\$)⁽¹⁾	Total (\$)
Aparna Bawa⁽²⁾	976,382	976,382
Asheem Chandna⁽³⁾	326,020	326,020
John M. Donovan⁽⁴⁾	420,593	420,593
Carl Eschenbach⁽⁵⁾	331,459	331,459
Dr. Helene D. Gayle⁽⁶⁾	1,055,081	1,055,081
James J. Goetz⁽⁷⁾	—	—
Rt Hon Sir John Key⁽⁸⁾	362,882	362,882
Mary Pat McCarthy⁽⁹⁾	352,609	352,609
Lorraine Twohill⁽¹⁰⁾	341,732	341,732

⁽¹⁾ The amounts reported in this column represent the aggregate grant date fair value of these restricted stock units ("RSUs") as computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation, or ASC Topic 718. The assumptions used in the valuation of these awards are set forth in the notes to our consolidated financial statements, which are included in our Annual Report on Form 10-K for our fiscal year ended July 31, 2021, filed with the SEC on September 3, 2021. These amounts do not necessarily correspond to the actual value that may be recognized by the director upon the vesting of such awards.

⁽²⁾ As of July 31, 2021, Ms. Bawa held 2,850 RSUs.

⁽³⁾ As of July 31, 2021, Mr. Chandna held 539 RSUs.

⁽⁴⁾ As of July 31, 2021, Mr. Donovan held 696 RSUs.

⁽⁵⁾ As of July 31, 2021, Mr. Eschenbach held 548 RSUs.

⁽⁶⁾ As of July 31, 2021, Dr. Gayle held 2,890 RSUs.

⁽⁷⁾ Mr. Goetz receives no compensation under the Director Compensation Policy.

⁽⁸⁾ As of July 31, 2021, Rt Hon Sir John Key held 1,632 RSUs.

⁽⁹⁾ As of July 31, 2021, Ms. McCarthy held 583 RSUs.

⁽¹⁰⁾ As of July 31, 2021, Ms. Twohill held 1,597 RSUs.

Corporate Governance

Board of Directors Corporate Governance Highlights

Our Board is governed by our Corporate Governance Guidelines, which are amended from time to time to incorporate certain current best practices in corporate governance. Our Corporate Governance Guidelines may be found on our website at <https://investors.paloaltonetworks.com>.

In addition to a strong, independent Board, we are committed to corporate governance structures that promote long-term stockholder value creation through a sound leadership structure and by providing our stockholders with both the opportunity to provide direct feedback, and substantive rights and policies to ensure accountability.

THE BOARD'S CORPORATE GOVERNANCE PRACTICES AND STOCKHOLDER RIGHTS INCLUDE THE FOLLOWING:

- ✓ Strong Lead Independent Director
- ✓ Board Composed of 75% Independent Directors
- ✓ 100% Independent Standing Committees
- ✓ Board Refreshment
- ✓ Director Changes in Circumstances Actively Evaluated
- ✓ Board and Committee Access to Management
- ✓ Annual Board and Committee Evaluations
- ✓ Independent Compensation and People Committee Consultant
- ✓ Board Authority to Retain Outside Advisors
- ✓ Board and Committee Risk Oversight
- ✓ Board Continuing Education Program
- ✓ Annual Review of Committee Charters and Governance Policies
- ✓ Fair Director Compensation Practices
- ✓ Active Management Succession Oversight
- ✓ Active Management of Director Conflicts of Interest
- ✓ Annual Say-on-Pay Vote
- ✓ Continuous Stockholder Engagement Program
- ✓ Stock Ownership Guidelines for Directors and Executive Officers
- ✓ Code of Business Conduct and Ethics for Directors, Officers and Employee
- ✓ Anti-Hedging and Anti-Pledging Policy
- ✓ Clawback Policy
- ✓ Regular Meetings of Independent Directors Without Management Present
- ✓ Proxy Access Bylaws
- ✓ No Poison Pill
- ✓ Single Class of Shares

Board Responsiveness to Investors in FY2021

Our Board is committed to actively engaging with our stockholders. Through year-round engagement and outreach, we regularly provide stockholders with opportunities to deliver feedback on our corporate governance, executive and director compensation and environmental and sustainability practices. We regularly meet with investors, prospective investors, and investment analysts. These meetings can include participation by our Chair and Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Products Officer, General Counsel and Corporate Secretary or other business leaders, and are often focused on company strategy, financial performance, product strategy and ESG philosophy. Members of our Investor Relations team also participate in meetings with our stockholders and, on occasion, members of the Board participate as appropriate. In fiscal 2021, our Lead Independent Director participated in 27 meetings with our stockholders.

Following our 2020 annual meeting of stockholders, we reinvigorated our approach and practices to stockholder engagement and implemented a strategy that focused on extensive engagement on wide range of topics. Our Lead Independent Director played an active and central role in our stockholder engagement efforts in fiscal 2021, and our management team regularly communicated topics discussed and stockholder feedback to the Board and our Board committees for consideration in their decision-making.



Who we met with

- Investors holding **55%** of shares outstanding engaged with in discussions
- Investors holding **38%** of shares outstanding engaged by Lead Independent Director






Our Primary engagement team



- Lead Independent Director (participated in **27** meetings)
- Investor Relations team
- General Counsel & Corporate Secretary
- People Team (human resources)
- Corporate responsibility team



What we discussed







- Executive compensation
- Board composition and governance, including Board refreshment and diversity
- Stockholder engagement
- ESG initiatives
- ESG disclosure and governance

WHAT WE HEARD	HOW WE RESPONDED
 <p>Board governance, refreshment, entrenchment and diversity The duration of Board service by certain long-standing directors, add directors to the Board to maintain balance and diversity of background and experience of directors, focus on recruiting diverse director candidates, rotate committee assignments, dual role of CEO and Chairman and annual election of all Board members.</p>	<ul style="list-style-type: none"> • The Board appointed Ms. Bawa and Dr. Gayle to our Board during fiscal 2021, increasing the gender, racial and ethnic diversity of the Board. Presently, four of our twelve directors are women. • During the period between April 2019 and May 2021, we appointed four new independent directors: Ms. Bawa, Dr. Gayle, Ms. Twohill and Rt Hon Sir John Key. • Changed the composition of our Board committees, including our Compensation and People Committee.
 <p>Stockholder Engagement More robust 1:1 investor outreach on compensation and other governance matters off-cycle.</p>	<ul style="list-style-type: none"> • We conducted extensive stockholder and investor outreach. • We engaged in discussion with stockholders holding 55% of our outstanding shares. • Our Lead Independent Director participated in 27 investor meetings and engaged in discussion with stockholders holding 38% of our outstanding shares.
 <p>ESG Initiatives Would like to see more information about how we develop and manage environmental, social and governance initiatives.</p>	<p>HIGHLIGHTS OF ENVIRONMENTAL AND SOCIAL INITIATIVES</p> <ul style="list-style-type: none"> • We reinforced our commitment to environmental and social initiatives by increasing direct dedicated staff. • We adopted a set of Climate Commitments that summarize our strategies to be carbon neutral by 2030, including 100% renewable energy, reducing emissions aligned to Science Based Targets, investing in offsets and advocating for climate action. • We increased our social impact programs, to leverage our core competency in cybersecurity and aligning those efforts to help develop a diverse talent pipeline while uplifting communities.

WHAT WE HEARD	HOW WE RESPONDED
<p>(ESG Initiatives continued)</p>	<p>COVID-19 INITIATIVES</p> <ul style="list-style-type: none"> • We established a \$4 million funding source to fund a special employee donation matching program to support colleagues and communities impacted by COVID-19. The \$4 million fund consists of our Chief Executive Officer generously foregoing his annual salary beginning in April 2020 to donate \$1 million, our broader management team and our board of directors followed suit by contributing in the aggregate over \$1 million, and the Company contributing \$2 million. Employee donations are matched 4-1 (up to \$5,000 in donations per employee) from this \$4 million in funding (e.g., if an employee donates \$1,000, the Company will match that donation with a \$4,000 donation). In April 2021 we offered an additional 2-1 matching to support organizations addressing the COVID-19 surge in India (after the initial \$4 million funding source had been fully utilized). • We formed the Palo Alto Networks Workforce Family Fund from which employees, hourly contractors and our campus services employees, could apply for financial assistance to address hardships and medical needs resulting from COVID-19. • In addition to the Workforce Family Fund, we created 22 fundraising efforts to support multiple organizations and causes around the world who are working tirelessly to help communities impacted by the pandemic. • In total, as of July 31, 2020, over \$6 million has been donated to these efforts through employee donations and the matching funds. • We instituted a global work-from-home policy beginning in March 2020. • We committed to no layoffs due to COVID-19.
 <p>ESG Disclosure and Governance More disclosure around how our board oversees ESG, including with respect to human capital management.</p>	<ul style="list-style-type: none"> • We have added more disclosure in our annual report on our Form 10-K and this proxy statement describing our ESG initiatives. • We will release an ESG supplement summarizing our programs and key initiatives in the fourth quarter of calendar 2021. • We have included enhanced disclosures in this proxy statement on governance matters. • We added disclosure of the role of our Board committees regarding ESG oversight. • We added disclosure in our Annual Report on Form 10-K relating to human capital management.
 <p>Executive Compensation Modifications to the structure of our executive compensation program and enhanced disclosure.</p>	<p>See “Summary of Feedback from Investors and Our Response” on page 59 of this proxy statement for a detailed review of how we responded.</p>

Overview of Corporate Governance Initiatives

Over the past several years, in response to stockholder feedback, and as part of our ongoing evaluation of best practices, the Board has incorporated enhancements to our executive compensation program and corporate governance practices, as shown in the timeline below. These discussions have helped ensure that our Board's decisions are informed by stockholder objectives.

<p>FY2021</p> 	<ul style="list-style-type: none"> • Appointed two new independent board members, including our third and fourth women board members, one of whom is our first black board member. • Added human capital oversight responsibility to Compensation and People Committee, including oversight of the Company's inclusion and diversity initiatives and results, the Company's pay equity reviews and results, and the Company's FLEXLearning, FLEXBenefits and FLEXWORK initiatives. • Reappointed our Lead Independent Director and changed the composition of our Compensation and People Committee. • Enhanced the role of our Lead Independent Director. • Enhanced proxy disclosures of our ESG programs. • Enhanced proxy disclosure relating to our Board leadership structure, including the rationale for our structure. • Robust stockholder and investor engagement, including significant oversight and participation by our Lead Independent Director.
<p>FY2020</p> 	<ul style="list-style-type: none"> • Enhanced proxy disclosures of our ESG programs. • Expanded and enhanced stockholder outreach program by adding two additional Stockholder Outreach cycles in the spring and summer. • Changed Lead Independent Director and composition of Board committees. • Added ESG oversight responsibility to Nominating and Corporate Governance Committee Charter.
<p>FY2019</p> 	<ul style="list-style-type: none"> • Implemented proxy access Bylaws. • Appointed two new independent board members, including our second woman board member. • Adopted Board Candidate Selection Process Policy. • Granted performance-based equity to NEOs.
<p>FY2018</p> 	<ul style="list-style-type: none"> • Granted Performance-based Stock Options to NEOs. • Enhanced Inclusion and Diversity section of our website by adding our EEO-1 Report. • Adopted Clawback Policy.
<p>FY2017</p> 	<ul style="list-style-type: none"> • Inaugural grants of Performance-based Stock Awards to NEOs. • Appointed our first woman board member. • Adopted Stock Ownership Guidelines for Directors and Executive Officers. • Added Director Overboarding Guidelines to Corporate Governance Guidelines. • Amended Code of Business Conduct and Ethics broadening protected categories of employees.
<p>FY2016</p> 	<ul style="list-style-type: none"> • Amended Nominating and Corporate Governance Committee Charter and Corporate Governance Guidelines to clarify director nominee criteria to include diversity. • Amended Code of Business Conduct and Ethics regarding contracting with business partners. • Adopted Conflict Minerals Policy.

Leadership Structure

Our Corporate Governance Guidelines provide that our Board is free to choose its chairperson (the “Chair”) based on our Board’s view of what is in the best interest of the Company and our stockholders. The Chair and the Chief Executive Officer may, but need not be, the same person. In June 2018, Nikesh Arora was appointed our Chief Executive Officer and was unanimously appointed as our Chair.

The Board has currently determined that it is in the best interests of the Company and our stockholders to have Mr. Arora continue to serve as Chair, coupled with an active Lead Independent Director. As a result, Mr. Arora holds the position of Chair and Chief Executive Officer. John Donovan was appointed as our Lead Independent Director during fiscal 2020 and was re-appointed by our Board in August 2021 to continue to serve as Lead Independent Director subject to his re-election to the Board by our stockholders at the Annual Meeting.

The Board believes our corporate governance structure, with its strong emphasis on Board independence and diversity of backgrounds, experience and viewpoints, when coupled with our leadership structure that includes an active Lead Independent Director and strong Board and committee involvement, provides sound and robust oversight of management.

Annual Evaluation of Leadership Structure and Annual Election of Lead Independent Director

The Board considers and discusses the leadership structure every year. As part of this annual evaluation process, the Board reviews its leadership structure and whether combining or separating the roles of Chair and Chief Executive Officer is in the best interests of the Company and our stockholders. The Board also considers:

- The effectiveness of the policies, practices, and people in place at the Company to help ensure strong, independent Board oversight.
- The importance of consistent, unified leadership to execute and oversee the Company’s strategy.
- The strength of Mr. Arora’s vision for the Company and the quality of his leadership.
- Our performance and the effect the leadership structure could have on our performance.
- The Board’s performance and the effect the leadership structure could have on the Board’s performance.
- The meaningful and robust responsibilities and the performance of our Lead Independent Director.
- The views of our stockholders through our ongoing engagement efforts.
- The practices at other companies and trends in governance.

In the circumstance that the Board determines that it remains in the best interests of the Company and its stockholders that our Chief Executive Officer serve as our Chair, the independent members of the Board then elect a Lead Independent Director as provided in our Corporate Governance Guidelines.

OVERVIEW OF LEAD INDEPENDENT DIRECTOR RESPONSIBILITIES

The responsibilities of the Lead Independent Director are well-defined. The Lead Independent Director engages in regular communication between the independent directors and Mr. Arora, keeping Mr. Arora apprised of any concerns, issues, or determinations made during the independent sessions, and consults with Mr. Arora on other matters pertinent to the Company and the Board. As part of the Board's annual review and evaluation, the Board further defined the role and responsibilities of our Lead Independent Director to include:

- Presiding at meetings of the Board at which the Chair is not present, including executive sessions of the independent directors.
- Serving as liaison between the Chair and the independent directors.
- In collaboration with the Chair, developing agendas for Board meetings, and communicate with independent Board members to ensure that matters of interest are being included on agendas for Board meetings.
- Communicating with independent Board members and with management to affirm that appropriate briefing materials are being provided to Board members sufficiently in advance of Board meetings to allow for proper preparation and participation at meetings.
- Having the authority to call meetings of the independent directors.
- Preparing agendas for meetings of the independent directors.
- Organizing and leading the Board's evaluation of the Chief Executive Officer.
- Leading the Board's annual self-evaluation.
- If requested by major stockholders, ensuring that he is available, as necessary after discussions with the Chair and Chief Executive Officer, for consultation and direct communication.

In addition to the responsibilities outlined above, our Lead Independent Director also:

- Has biennial one-on-one discussions with each independent director, as part of the Board's annual evaluation process.
- Has access to all committee materials.
- Has the authority to engage independent consultants.
- Interviews Board candidates.
- Spends time with senior management outside of Board meetings (as necessary) to ensure a deep understanding of the business and strategy of the Company.
- Participates in stockholder engagement.

Independent Directors Sessions

A meeting of the independent directors is scheduled at every regular Board meeting and the independent directors meet in an executive session. These independent sessions are organized and chaired by our Lead Independent Director and our Lead Independent Director provides direct feedback to Mr. Arora after these executive sessions.

Independent Committee Leadership

The Audit, Compensation and People, and Nominating and Corporate Governance Committees are each composed solely of, and led by, independent directors and provide independent oversight of management. In addition:

- Each committee chair meets with management in advance of meetings to review and refine agendas, add topics of interest, and review and comment on materials to be delivered to the committee.
- Every independent director has access to all committee materials.
- Each committee chair provides a report summarizing committee meetings to the full Board at each regular meeting of the Board.
- Each committee meeting includes adequate time for executive session and the committees meet in executive session on a regular basis with no members of management present (unless otherwise requested by the committee).

- Each committee effectively manages its Board-delegated duties and communicates regularly with the Chair, Lead Independent Director, the Board, and members of management.

Furthermore, the Compensation and People Committee has an effective process for monitoring and evaluating Mr. Arora's compensation and performance, as well as succession planning.

Benefits of Combined Leadership Structure

The Board strongly believes that its leadership structure strikes the right balance of allowing our Chair and Chief Executive Officer to promote a clear, unified vision of the Company's strategy, providing the leadership critical for effectively and efficiently implementing the actions needed to ensure strong performance over the long term, while ensuring robust, independent oversight by the Board and our Lead Independent Director. Accordingly, the Board believes that the Company and our stockholders have been best served by having Mr. Arora in the roles of Chair and Chief Executive Officer for the following reasons:

- Mr. Arora is most familiar with our business and the unique challenges we face.
- Mr. Arora's day-to-day insight into our challenges facilitates a timely deliberation by the Board of important matters.
- Mr. Arora's knowledge and extensive experience regarding our operations and the markets in which we compete position him to identify and prioritize matters for Board review and deliberation.
- As Chair and Chief Executive Officer, Mr. Arora serves as an important bridge between the Board and management and provides critical leadership for carrying out our strategic initiatives and confronting our challenges.
- The Board believes that Mr. Arora brings a unique, stockholder-focused insight to assist the Company to most effectively execute its strategy and business plans to maximize stockholder value.
- The strength and effectiveness of the communications between Mr. Arora as our Chair and Mr. Donovan as our lead independent director result in comprehensive Board oversight of the issues, plans and prospects of Palo Alto Networks.
- This leadership structure provides the Board with more complete and timely information about the Company, a unified structure and consistent leadership direction internally and externally and provides a collaborative and collegial environment for Board decision making.

Identification and Evaluation of Director Nominees

Our Nominating and Corporate Governance Committee uses a variety of methods for identifying and evaluating director nominees. The Nominating and Corporate Governance Committee regularly assess the appropriate size, composition and needs of our Board and its respective committees, and the qualification of candidates considering these needs. Some of the qualifications that our Nominating and Corporate Governance Committee considers include issues of character, integrity, judgment, diversity (including gender and race), experience of relevance to us and the Board, independence, age, area of expertise, potential conflicts of interest and other commitments. These factors may be weighted differently depending on the individual being considered or the needs of the Board at the time.

Nominees must also be able to offer advice and guidance to our Chief Executive Officer based on past experience in positions with a high degree of responsibility and be leaders in the companies or institutions with which they are affiliated. Director candidates must have sufficient time available in the judgment of our Nominating and Corporate Governance Committee to perform all Board and committee responsibilities. Members of our Board are expected to prepare for, attend, and actively participate in all Board and applicable committee meetings. Given the significant time commitment that Board membership requires, our Board generally believes that no director should be a member of more than three public company boards unless approved by the Nominating and Corporate Governance Committee. The Board approved Mr. Eschenbach's services on the board of directors of four other public companies.

Other than the foregoing, there are no stated minimum criteria for director nominees, although our Nominating and Corporate Governance Committee may also consider such other factors as it may deem, from time to time, are in our and our stockholders' best interests. Our Nominating and Corporate Governance Committee will also seek appropriate input from our Chief Executive Officer, from time to time, in assessing the needs of our Board for relevant background, experience, diversity and skills of its members.

Our Nominating and Corporate Governance Committee considers diversity (whether based on broader principles such as diversity of perspective, experiences, and expertise, as well as factors commonly associated with diversity such as gender, race or national origin) in connection with its evaluation of director candidates, including the evaluation and determination of whether to re-nominate incumbent directors. The committee also considers these and other factors as it oversees the annual Board and committee evaluations. The committee seeks qualified and diverse director candidates, including women and individuals from minority groups, to include in the pool from which director candidates are chosen. Any search firm retained by the committee to find director candidates would be instructed to account for these considerations, including diversity.

Stockholder Recommendations for Nominations to the Board of Directors

Our Nominating and Corporate Governance Committee will consider candidates for director recommended by stockholders, so long as such recommendations comply with our certificate of incorporation and amended and restated bylaws and applicable laws, rules and regulations, including those promulgated by the SEC. The Nominating and Corporate Governance Committee will evaluate the recommendations in accordance with its charter, our amended and restated bylaws, our policies and procedures for director candidates, as well as the regular director nominee criteria described above. This process is designed to ensure that our Board includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to our business. Eligible stockholders wishing to recommend a candidate for nomination should contact our Corporate Secretary in writing. Such recommendations must include information about the candidate, a statement of support by the recommending stockholder, evidence of the recommending stockholder's ownership of our common stock and a signed letter from the candidate confirming willingness to serve on our Board. Our Nominating and Corporate Governance Committee has discretion to decide which individuals to recommend for nomination as directors.

Stockholder Nominations to the Board of Directors

Under our amended and restated bylaws, a stockholder may nominate one or more persons for our Board for inclusion in the stockholder's proxy materials. Any such nomination must comply with the requirements set forth in our amended and restated bylaws and recommendations should be sent in writing to our Corporate Secretary at Palo Alto Networks, Inc., 3000 Tannery Way, Santa Clara, California 95054.

Under our amended and restated bylaws, eligible stockholders may also nominate persons for our Board for inclusion in our proxy statement. This is commonly known as "proxy access." To be eligible, a single stockholder, or group of up to 20 stockholders, must own 3% of our outstanding stock for at least three years consecutively. The individual stockholder, or group of stockholders, may submit that number of director nominations not exceeding the greater of (a) two or (b) 20% of the number of directors in office.

To nominate a director, the stockholder must give timely notice to our Corporate Secretary in accordance with our amended and restated bylaws which, in general, require that the notice be received by our Corporate Secretary at our principal executive offices:

- Not earlier than the close of business on June 1, 2022 and
- Not later than the close of business on July 1, 2022.

Any such nomination must comply with the requirements set forth in our amended and restated bylaws and recommendations should be sent in writing to our Corporate Secretary at Palo Alto Networks, Inc., 3000 Tannery Way, Santa Clara, California 95054.

Proxy Access Process



1 a single stockholder, or group of up to 20 stockholders owning **3%** outstanding stock for at least **3 years** consecutively



2 the individual or group may submit the greater of **2 or 20%** of the directors then in office



3 stockholders and nominees who satisfy the requirements specified by our bylaws are included in the proxy statement

Compensation and People Committee Interlocks and Insider Participation

None of the members of our Compensation and People 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 board or compensation committee (or other board committee performing equivalent functions) of any entity that has one or more of its executive officers serving on our Board or Compensation and People Committee.

Director Independence and Related-Party Transactions Considered in Independence Determinations

Director Independence

Our common stock is listed on Nasdaq. Under Nasdaq listing standards, independent directors must comprise a majority of a listed company's board of directors. In addition, the listing standards of Nasdaq require that, subject to specified exceptions, each member of a listed company's audit and compensation committees be independent, and that the nomination of all directors be by either a majority of its independent directors or a committee comprised solely of independent directors. Under Nasdaq regulations, a director will only qualify as an "independent director" if, in the opinion of that listed company's board of directors, that director does not have a relationship with the listed company, either directly or indirectly, that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Audit committee members must also satisfy the additional independence criteria set forth in Rule 10A-3 under the Exchange Act and Nasdaq listing standards. In order to be considered independent for purposes of Rule 10A-3, a member of a listed company's audit committee 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.

Compensation committee members must also satisfy the additional independence criteria set forth in Rule 10C-1 under the Exchange Act and Nasdaq listing standards. In order for a member of a listed company's compensation committee to be considered independent for purposes of Nasdaq listing standards, the listed company's board of directors must consider all factors specifically relevant to determining whether a director has a relationship to the listed company that is material to that director's ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to: (1) the source of compensation of such director, including any consulting, advisory, or other compensatory fee paid by the listed company to such director; and (2) whether such director is affiliated with the listed company, a subsidiary of the listed company, or an affiliate of a subsidiary of the listed company.

Our Board has undertaken a review of the independence of each of our directors. Based on information provided by each director concerning his or her background, employment, and affiliations, our Board has determined that each of Mmes. Bawa, McCarthy and Twohill, Dr. Gayle and each of Messrs. Chandna, Donovan, Eschenbach, Goetz, and the Rt Hon Sir John Key do not have a material relationship with our company, either directly or indirectly, that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is “independent” as that term is defined under the applicable rules and regulations of the SEC and Nasdaq listing standards. In making these determinations, our Board considered the current and prior relationships that each non-employee director has with our company and all other facts and circumstances our Board deemed relevant in determining their independence, including the beneficial ownership of our common stock by each non-employee director and the transactions involving them described in the section titled “Related Party Transactions.” There are no family relationships among any of the Company’s directors or executive officers.

Related Party Transactions

Since the beginning of our last fiscal year through September 30, 2021, we have sold, both directly and through our channel partners, an aggregate of approximately \$26.8 million, \$125.0 million, and \$0.1 million of products and services to Zoom Video Communications Inc. (“Zoom”), Alphabet Inc. (Google’s parent company), and Sequoia Capital Operations, LLC (“Sequoia”), respectively, in arm’s length transactions. Sales to Alphabet included approximately \$19.9 million directly to Alphabet and \$105.1 million to end-customers through Google. In addition, since the beginning of our last fiscal year through September 30, 2021, we have purchased an aggregate of approximately \$1.9 million and \$180.4 million of Zoom and Google, Inc. products and services respectively, in arm’s length transactions.

We entered into these commercial dealings in the ordinary course of our business. In making the determinations as to which members of our Board are independent, our Board considered the fact that (1) Ms. Twohill is an executive at Google, (2) Ms. Bawa is an executive at Zoom and (3) Mr. Eschenbach is a partner and Mr. Goetz is a member at Sequoia. In reviewing these relationships, our board of directors determined these relationships do not impede the ability of Messrs. Eschenbach or Goetz or Mmes. Bawa or Twohill to act independently on our behalf and on behalf of our stockholders.

Additionally, none of Mmes. Bawa or Twohill or Messrs. Eschenbach or Goetz take or took part in the discussions of transactions with Google, Sequoia or Zoom, as applicable, when such transactions were reviewed by our Audit Committee or board of directors. Google’s and Zoom’s purchases of our products and services, both directly and through our channel partners, which totaled \$125.0 million and \$26.8 million since the beginning of our last fiscal year through September 30, 2021, are not material to either us or Google and Zoom. All transactions with Google, Zoom and Sequoia are subject to our rigorous related party transactions review process and policy.

Director Attendance

During our fiscal year ended July 31, 2021, the Board held eight meetings (including regularly scheduled and special meetings), and no director attended fewer than 75% of the total number of meetings of the Board and the committees of which he or she was a member.

Although we do not have a formal policy regarding attendance by members of our Board at annual meetings of stockholders, we encourage, but do not require, our directors to attend. Ten of our eleven directors at that time attended our 2020 Annual Meeting of Stockholders, either telephonically or by video conference.

Communications with the Board of Directors

Interested parties wishing to communicate with our Board or with an individual member or members of our Board may do so by writing to the Board or to the particular member or members of our Board, and mailing the correspondence to our General Counsel or our Legal Department, at Palo Alto Networks, Inc., 3000 Tannery Way, Santa Clara, California 95054. Our General Counsel or our Legal Department, in consultation with appropriate members of our Board, as necessary, will review all incoming communications and, if appropriate, all such communications will be forwarded to the appropriate member or members of our Board, or if none is specified, to the Chair.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

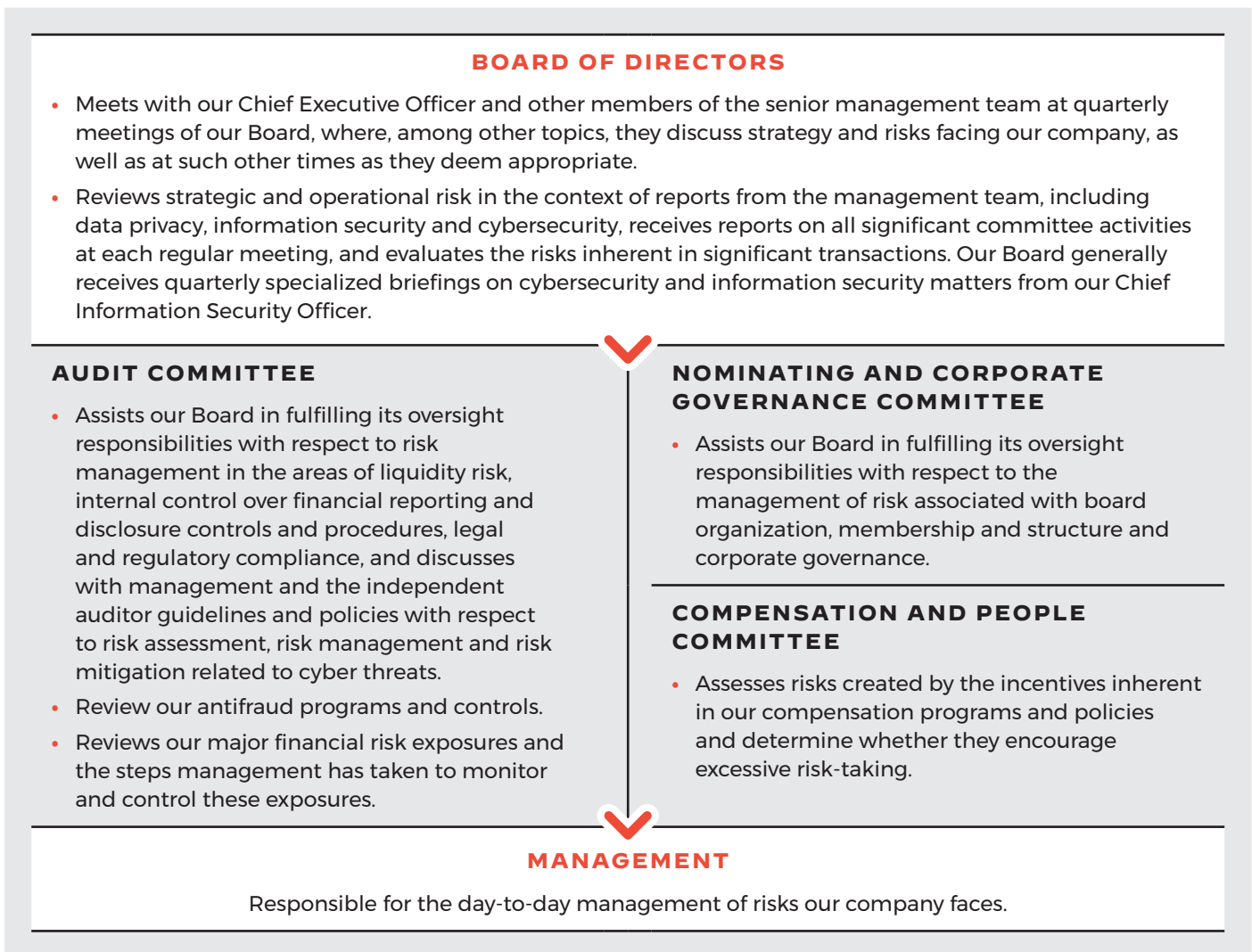
Our Board has adopted Corporate Governance Guidelines. These guidelines address items such as the qualifications and responsibilities of our directors and director candidates and corporate governance policies and standards applicable to us in general. In addition, our Board has adopted a Code of Business Conduct and Ethics that applies to all our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. The full text of our Corporate Governance Guidelines and our Code of Business Conduct and Ethics is posted on the Investor Information portion of our website at investors.paloaltonetworks.com. We will post amendments to our Code of Business Conduct and Ethics or waivers of our Code of Business Conduct and Ethics for directors and executive officers on the same website.

Board’s Role in Risk Oversight

Risk is inherent with every business, including strategic, financial, business and operational, legal and compliance, and reputational. We have designed and implemented processes to manage risk in our operations. Management is responsible for the day-to-day management of risks our company faces, while our Board, as a whole and assisted by its committees, has responsibility for the oversight of risk management. In its risk oversight role, our Board has the responsibility to satisfy itself that the risk management processes designed and implemented by management are appropriate and functioning as designed.

Our Board believes that open communication between management and our Board is essential for effective risk management and oversight.

While our Board is ultimately responsible for risk oversight, our Board committees assist our Board in fulfilling its oversight responsibilities in certain areas of risk.



Succession Planning

Our Board and management team recognize the importance of continually developing our talented employee base. Accordingly, our management team conducts an annual talent review of the current senior leadership positions. In addition, our Chief Executive Officer annually reviews a succession plan for the Chief Executive Officer position, using formal criteria to evaluate potential internal and external successors and interim candidates in the event of an emergency situation. In conducting its evaluation, our Board considers organizational needs, competitive challenges, leadership/ management potential and development and emergency situations. As a result of succession planning, Dipak Golechha became Executive Vice President and Chief Financial Officer in March 2021, following the departure of our prior Chief Financial Officer.

Director Stock Ownership Guidelines

Our Board believes that our directors should hold a meaningful financial stake in our company in order to further align their interests with those of our stockholders and therefore adopted stock ownership guidelines in fiscal 2017. Under the guidelines, each non-employee director must own the lesser of (i) Company stock with a value of three times the annual retainer for board service or (ii) 6,875 shares within five years of such director's initial appointment or election date. All of our non-employee directors comply with our stock ownership guidelines.

See the section titled *"Compensation, Discussion and Analysis—Other Aspects of Our Executive Compensation Programs—Stock Ownership Policy"* for additional details on our executive ownership guidelines.

Our Approach to Environmental, Social & Governance (ESG) Practices

From our efforts to reduce our energy use and greenhouse gas emissions to our advocacy for climate action, to our FLEXWORK people strategy focused on employee-choice, and to our enduring focus on building a diverse and inclusive workforce, we recognize our duty to execute meaningful Environmental, Social and Governance practices. Our ESG initiatives align with our vision of a world that is safe, secure, and sustainable.

Our platform of products and services are protecting our digital way of life but that's only part of being an industry-leading company. As a leader, we recognize that how we conduct our business and operate is as important as the solutions we offer.

We aim to be the best company to work for, procure from, partner with and invest in. That means our ESG strategies should meet those expectations and scale as we strive for even higher aims. Since our founding in 2005, aspects of ESG have been instilled in our operating models and culture and over time we have refined our strategies in each area and continue to make progress.

Stakeholder engagement and input has influenced our approach to ESG. Investors, customers, suppliers, business leaders and employees, candidates, regulatory agencies, local, state and federal entities, governmental and international communities, non-governmental/non-profit organizations and the communities in which we operate have helped us prioritize and measure of our efforts. Some of the ESG factors we have been addressing during fiscal 2021 include: reducing our environmental impact; increasing the inclusion and diversity of our workforce and supply chain; expanding human capital strategies; ensuring we and our suppliers provide a healthy and safe workplace; using our cybersecurity talents to help youth protect themselves; supporting individuals and communities impacted by the COVID-19 pandemic; adhering to governance best-practices and increasing transparency of ESG initiatives and progress.

At Palo Alto Networks, we frame ESG concepts in core corporate responsibility themes:



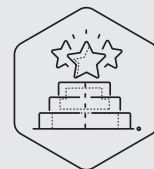
PLANET

- To respect our planet by developing sustainable operations, a sustainable value chain and a sustainable ecosystem



PEOPLE

- To build the most employee-centric company through our FLEXWORK people strategy
- To uplift our communities so that everyone can thrive, so that individuals have skills to protect their digital way of life and that we have a diverse future workforce



PASSION

- To advance our industry through our relentless pursuit to be *the best* by living our values of description, execution, collaboration, inclusion and diversity in all that we do

Fiscal 2021 ESG Highlights

Highlights of our fiscal 2021 ESG progress are summarized in the below table and is further detailed in the discussion that follows.

ENVIRONMENTAL

- ✓ Committed to be carbon neutral by 2030
- ✓ Purchased renewable energy certificates to match 100% of anticipated energy use (in U.S.)
- ✓ Invested in high-quality carbon offset projects
- ✓ Earned LEED certification for 85% of real estate portfolio

SOCIAL

- ✓ Delivered personalized learning, benefits and location through our FLEXWORK people strategy
- ✓ Secured a 92% response rate of employee survey; attained an 81% positive sentiment score - with no meaningful diversity differential
- ✓ Achieved equity in pay, promotion, performance and mobility
- ✓ Increased diverse representation to 24.7% women (global) and 14.5% underrepresented minorities (in U.S.)
- ✓ Expanded diversity of leadership (vice president and above) to 21.2% women (global) and 11.4% underrepresented minorities (in U.S.)

GOVERNANCE

- ✓ Grew gender diversity of the Board from 9% (in fiscal year 2018) to 33% (by the end of fiscal year 2021)
- ✓ Completed Code of Business Conduct & Ethics training at a rate of 99.5%

- ✓ Submitted environmental disclosures to the Carbon Disclosure Project, earning a score of “C” for our inaugural report

- ✓ Expanded our Green Teams across each of our major regions

- ✓ Reached approximately 90% diverse representation in candidate slates and interview panels

- ✓ Raised approximately \$6 million for COVID-19 pandemic relief, social injustice, racial inequity and natural disasters

- ✓ Deployed Cybersecurity Academy curriculum to 1,500 partners in 75 countries

- ✓ Scaled Cyber A.C.E.S. (Activities in Cybersecurity Education for Students) in multiple countries

- ✓ Distributed 260,000+ cybersecurity badges to young girls through our partnership with Girl Scouts USA

- ✓ Earned recognition for ESG performance from third parties

- ✓ Recognized by multiple organizations for strong employer brands and demonstration of values

Fiscal 2021 Environmental Performance

Our environmental efforts focus on three core pillars: sustainable operations (our business footprint), sustainable value chain (our footprint inclusive of suppliers and customers) and sustainable ecosystem (our extended reach through coalitions, partnerships and advocacy).

Sustainable Operations

- In February 2021, we established a set of climate commitments. Aligned to the Paris Agreement, we outlined three strategies to reach an overarching 2030 environmental goal: purchase 100% renewable energy, reduce our greenhouse gas (GHG) emissions using guidance established by the Science Based Targets initiative and to offset remaining emissions by investing in quality carbon offset programs. Our progress during fiscal 2021 includes the following:
 - We deployed 100% renewable energy at our Santa Clara headquarters, supporting our local Community Choice Energy (CCE) program and strengthening our commitment to decarbonize the electrical grids where we work and live.
 - We invested in wind and solar projects in the U.S. to match the energy consumption at sites across the country with renewable energy.
 - We continue to work with landlords at sites across the globe to support their purchase of renewable energy to power our leased sites.
 - We invested in high-quality programs to offset carbon emissions related to business travel and shipping over fiscals 2020 and 2021.
- We committed to being transparent about our progress through annual reporting. We participated in the CDP (formerly Carbon Disclosure Project) in 2020 and 2021.
- We expanded our corporate responsibility team to include a dedicated sustainability strategist.
- We expanded our environmental ambassadors—our Green Teams, and now have active groups of employees in the U.S., Costa Rica, across EMEA and JAPAC regions. Green Teams were integral to our annual Earth Day activities and our Cycle Through September challenge which encouraged physical activity and wellbeing.

Sustainable Value Chain

- Through our deployment of our Global Supplier Code of Conduct, we inform our suppliers of our expectations that they develop, implement, and maintain environmentally responsible business practices and take measures to ensure in manufacturing operations, adverse effects on the community, environment and natural resources are to be minimized while safeguarding the health and safety to the public.

Sustainable Ecosystem

- We recognize climate change is a global crisis and have engaged with impactful NGO working groups like We Mean Business, the Climate Pledge and the World Economic Forum's Alliance for CEO Climate Leaders to collaborate and advocate for action.
- We engaged in the Climate Task Group of the Information Technology Industry Council to increase our advocacy on climate action.

Fiscal 2021 Social Performance

Our social efforts focus on three core pillars: our people (workforce strategies ranging from safety and security to diversity, development, engagement and rewards), our supply chain (strategies that ensure our suppliers align to our expectations and standards) and our communities (social impact initiatives).

Our People

FLEXWORK

Our FLEXWORK people strategy aims to disrupt the nature of work by placing employee-choice at the center of all that we do, recognizing the unique needs and interests of each employee. We have learned how to collaborate in a distributed work model and create opportunities for employees to maintain a sense of belonging and focus on wellbeing, while still delivering successful business results. We are committed to bold strategies that we believe enable our 10,000+ employees to do the best work of their careers. FLEXWORK is woven into every element of the employee lifecycle.

INCLUSION & DIVERSITY

We are intentional about including diverse points of view, perspectives, experiences, backgrounds and ideas in our decision-making processes. True inclusion and diversity exists when we have representation of all genders, ethnicities, orientations and identities, and cultures in our workforce. Our inclusion and diversity practices are embedded in our talent acquisition, learning and development and rewards and recognition programs. We have eight employee network groups (“ENGs”), many with several chapters. Our Women’s Networking Community, Ujima (Black Employee Network), Juntos (Latinx Employee Network), Salam (Muslim Employee Network), LGBTQIA+, Early-in-Career, VetsNet and InnovASIAN ENG all play a vital role in building understanding and awareness. 25% of our global workforce is involved with at least one ENG.

PAY EQUITY

We are committed to executing a pay-for-performance compensation philosophy that is fair and equitable across our global employee base. We conduct an annual analysis through external independent compensation consultants and review total compensation, which includes salary, bonus and equity. We are making continuous improvements in our processes to reduce the likelihood of inequity, through, among others, an offer generator tool and regular reviews of pay bands. If we find unexplained gaps in our analysis, we take action to correct it. Our fairness and equity analysis includes both gender for all global employees and race and ethnicity for employees in the U.S. As a result of these measures and corrections, our employees are paid fairly and equitably regardless of race or ethnicity (in the U.S.) or gender (worldwide).

In addition to competitive base pay, all employees participate in one of two variable cash incentive programs: sales incentive / commission or variable incentive program. Our benefit plans include a variety of health, time-off, wellness and voluntary options. FLEXBenefits is a leading initiative that puts choice in the hands of the individual—\$1,000 in annual benefit to use as each employee chooses. All employees are eligible to participate in our stock-based offerings which include an employee stock purchase plan and an equity incentive plan.

SOURCE & HIRE

Our People Strategy starts by sourcing and hiring the greatest diverse talent and motivating them to do the best work of their careers. Our talent acquisition team utilizes several core approaches to finding subject experts in their respective fields, including use of a variety of channels that focus on reaching diverse communities.

Our university relations team also partners with hundreds of academic institutions, including colleges and universities that focus on serving underrepresented populations, to provide career pathways for early-in-career candidates.

We encourage career growth and expansion through a robust approach to internal mobility. And current employees refer qualified candidates to help fill our talent pipeline.

Through our License-to-Hire program, we aim to ensure that hiring managers and interview panels are equipped with tools and resources to deliver a quality interview experience to candidates. We are also committed to diverse representation in our interview panels and candidate slates.

ONBOARD & INTEGRATE

We believe a positive onboarding experience is a foundational element to employee satisfaction and motivation. During the COVID-19 pandemic, we have been able to utilize virtual deployment methods to provide new employees with an inspirational experience to mark the beginning of their career at Palo Alto Networks and, that extends well beyond onboarding and through their first year.

As part of our merger and acquisition strategy, we have also established a robust integration program with the goal to enable individuals joining our teams to maximize the value they bring to our culture and business strategy.

DEVELOP & MOTIVATE

FLEXLearn is our unique approach to personalized employee development; a multi-faceted platform that provides employees with a learning path based on their needs, interests and career journey.

Development information about core business elements and curriculum designed for specific job functions as well as required compliance training, such as Code of Conduct, data privacy and security anti-discrimination, anti-harassment and anti-bribery training is deployed through the FLEXLearn platform. On average, employees had completed 12 hours of development through the FLEXLearn platform during fiscal 2021. We provide annual information security and compliance training to all employees.

FLEXLearn also provides employees with events and activities that motivate and spark critical thinking, on topics ranging from inclusion, to well-being and collaboration. Our work with the NeuroLeadership Institute and Main Stage speaker series are just two examples.

FLEXLead is another component of development focused in three primary areas: raise the bar of leadership effectiveness by setting clear expectations for leaders, accelerate personalized learning across our leadership population, and foster dynamic leadership development that builds community and engagement. FLEXLead includes a curriculum designed specifically for leaders to strategize, mobilize and deliver exceptional team performance, including 360 tools and other shared learning experiences.

ENGAGE & REWARD

During fiscal 2021, we conducted multiple executive listening sessions and pulse surveys to assess employee engagement, well-being and agility to transition to a distributed work model. Employee sentiment from these activities was positive and informed our holistic People Strategy through programs like FLEXWORK, Inclusion and Diversity and Internal Mobility. Employees valued the access to leadership and the actions that resulted from their input.

In February 2021, we conducted an anonymous global employee engagement survey. Ninety-two percent of our workforce responded to the survey indicating 81% positive sentiment, with no meaningful diversity differential. Employees indicated a strong sense of belonging, confidence in leadership and an understanding of how their work contributes to the Company's goals. Outcomes from the survey are being used to develop company-wide and function specific action plans.

We believe in an always-on feedback and rewards philosophy. From recurring one-on-one sessions and ongoing performance feedback to our formal semi-annual performance elevation review cycles, employees get continuous input about the value they bring to the organization and ways in which they can improve.

In the spirit of always-on, we have a high adoption rate of our peer recognition program, Cheers for Peers. Individuals and teams receive acknowledgement from their peers for ways in which they have demonstrated our values in action. The recognition, displayed on a platform for all to see, includes points that can be accumulated and redeemed for a variety of gift cards or converted to donations to select causes.

Our Supply Chain

- Through the deployment of our Global Supplier Code of Conduct, we continue to reach across our supply chain to communicate our expectations regarding labor standards, business practices and workplace health and safety conditions.
- During fiscal 2021, we became affiliate members of the Responsible Business Alliance.
- During fiscal 2021, we also published a Supplier Diversity statement to increase our awareness of and engagement with women- and minority-owned businesses.

Our Communities

- We scaled our social impact programs in fiscal 2021 focusing on helping colleagues and communities impacted by the COVID-19 pandemic through charitable donations, employee giving and volunteer programs.
- We realigned corporate responsibility team roles and responsibilities to increase our focus on the intersection of social impact and inclusion and diversity.
- We invested in social efforts to help address systemic racial injustices impacting the black and Asian communities.
- We partnered closely with our ENGs to distribute charitable investments to organizations committed to address the causes relevant to each ENG.
- We leveraged our expertise in cybersecurity to expand our reach in programs that help youth protect their digital way of life and consider careers in technology through our Cyber A.C.E.S., Cyber Stars and Girl Scouts of the USA programs.
- Employees volunteered as individuals and in groups for causes important to them. We expanded volunteer projects to include opportunities for virtual engagement, including multiple company-wide activities. We launched a “Dollars-for-Doers” program that provides funding to eligible non-profits based on recorded volunteer time.
- Our Cybersecurity Academy program continued to scale the deployment of educational curriculum to high schools, community colleges, colleges and universities around the world.

Fiscal 2021 Governance Performance

Our governance efforts focus on three core pillars: corporate governance (board strategies addressing stockholder interests), corporate behavior (internal business and compliance practices) and overall ESG transparency (communication and reporting practices).

Corporate Governance

- Our Nominating and Governance Committee has oversight of ESG strategies. Initiatives, including our climate commitment and inclusion and diversity, were regularly communicated to the full Board and multiple committees.
- Our Compensation and People Committee oversees our talent management and people management, including the Company’s inclusion and diversity initiatives and results, the Company’s pay equity reviews and results, and the Company’s FLEXLearning, FLEXBenefits and FLEXWORK initiatives.
- Executive leadership is actively involved in setting strategic objectives and executing outcomes, ESG topics, including our People Strategies and inclusion and diversity

Corporate Behavior

- Employees and suppliers are informed about our governance expectations through our codes of conduct and compliance training programs. We regularly communicate our expectations regarding conduct through multiple internal communications channels. Integrity is one of our core values and a component of our Cheers-for-Peers recognition program. Employees routinely recognize their peers for displaying integrity in day-to-day behavior. Our Ethics Hotline is publicly available.

ESG Transparency

- We refreshed our corporate responsibility and inclusion and diversity collateral on our website to increase awareness and transparency of these initiatives and our broader ESG strategies.
- We committed to report our ESG progress using the Stakeholder Capitalism Metrics established by the International Business Council of the World Economic Forum as well as aligning our reporting to frameworks of the Global Reporting Initiative and the Sustainability Accounting Standards Board.
- We committed to transparently reporting our environmental progress through participation in the CDP (formerly Carbon Disclosure Project) in 2020 and 2021 and 2022 and aligned to the Task Force on Climate Related Financial Disclosures.

Corporate Governance

- We conducted a review of ESG frameworks and third party assessment practices and collected benchmark information, best practices and ultimately recognition platforms on themes within those ESG frameworks (i.e., diversity, inclusion and equity, “best” lists, etc.). We developed internal initiatives to utilize these instruments to measure our strengths and understand our areas of improvement—using them to refine and scale our strategies. We are pleased with the progress we have made, and we recognize that we have opportunities for continuous improvement.

Fiscal 2022 ESG Roadmap

ESG is a journey. In that spirit, we share our key aspirational goals to advance our ESG strategies during fiscal 2022 and beyond.

Environmental

- Set greenhouse gas (GHG) emissions reduction goals aligned to the Science Based Targets initiative.
- Aim to increase our supply chain adoption of Science Based Target initiative (SBTi) emission target by 25%.

Social

- Set aspirational inclusion and diversity goals: 40% global gender diversity and 20% underrepresented minorities in the U.S. by 2025.
- Aim to rank among Best Places to Work.

Governance

- Our fiscal 2022 executive cash incentive plan includes an incentive modifier based on the achievement of ESG goals, focused on environmental performance, aspirational diversity goals and employee engagement.
- Strive to be widely recognized for our progress in ESG performance, advancing to the top of ESG rankings and assessments.

Audit Matters

PROPOSAL NO. 2

Ratification of Appointment of Independent Registered Public Accounting Firm

Our Audit Committee has appointed Ernst & Young LLP (“EY”), independent registered public accountants, to audit our financial statements for our fiscal year ending July 31, 2022. EY has served as our independent registered public accounting firm since 2009.

At the Annual Meeting, our stockholders are being asked to ratify the appointment of EY as our independent registered public accounting firm for our fiscal year ending July 31, 2022. Our Audit Committee is submitting the selection of EY to our stockholders because we value our stockholders’ views on our independent registered public accounting firm and as a matter of good corporate governance. Representatives of EY will be present at the Annual Meeting, and they will have an opportunity to make statements and will be available to respond to appropriate questions from our stockholders.

Notwithstanding the selection of EY and even if our stockholders ratify the selection, our Audit Committee, in its discretion, may appoint another independent registered public accounting firm at any time during our fiscal year if our Audit Committee believes that such a change would be in the best interests of Palo Alto Networks and its stockholders. If our stockholders do not ratify the appointment of EY, our Board may reconsider the appointment.

Fees Paid to the Independent Registered Public Accounting Firm

The following table presents fees for professional audit services and other services rendered to our Company by EY for our fiscal years ended July 31, 2020 and 2021.

	2020	2021
Audit Fees ⁽¹⁾	\$6,318,000	\$6,757,000
Audit-Related Fees ⁽²⁾	97,000	688,000
Tax Fees ⁽³⁾	2,067,000	1,020,000
All Other Fees ⁽⁴⁾	7,000	4,000
	\$8,489,000	\$8,469,000

⁽¹⁾ Audit fees consist of professional services rendered in connection with (a) the audit of our annual consolidated financial statements, including audited financial statements presented in our Annual Report on Form 10-K, (b) review of our quarterly consolidated financial statements presented in our Quarterly Reports on Form 10-Q, (c) professional services provided for new and existing statutory audits of subsidiaries or affiliates of the Company, and (d) other regulatory filings.

⁽²⁾ Audit-Related fees consist of fees for professional services for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under “Audit Fees.” These services include acquisition due diligence services, technical accounting guidance and other attestation services.

⁽³⁾ Tax Fees consist of fees for professional services for federal, state and international tax compliance and tax planning.

⁽⁴⁾ All Other Fees includes fees for professional services other than these services reported above. These services specifically relate to subscriptions to an accounting regulatory database.

Auditor Independence

In our fiscal year ended July 31, 2021, there were no other professional services provided by EY that would have required our Audit Committee to consider their compatibility with maintaining the independence of EY.

Audit Committee Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Consistent with requirements of the SEC and the Public Company Accounting Oversight Board (the “PCAOB”) regarding auditor independence, our Audit Committee is responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm. In recognition of this responsibility, our Audit Committee has established a policy for the pre-approval of all audit and permissible non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services.

Before engagement of the independent registered public accounting firm for the next year’s audit, the independent registered public accounting firm submits a detailed description of services expected to be rendered during that year for each of the following categories of services to our Audit Committee for approval:

- **Audit services.** Audit services include work performed for the audit of our financial statements and the review of financial statements included in our quarterly reports, as well as work that is normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings.
- **Audit related services.** Audit related services are for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not covered above under “audit services.”
- **Tax services.** Tax services include all services performed by the independent registered public accounting firm’s tax personnel for tax compliance, tax advice and tax planning.
- **Other services.** Other services are those services not described in the other categories.

Our Audit Committee pre-approves particular services or categories of services on a case-by-case basis. The fees are budgeted, and our Audit Committee requires our independent registered public accounting firm and management to report actual fees versus budgeted fees periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval. In those instances, before our independent registered public accounting firm is engaged, the services must be pre-approved by our Audit Committee or approved by the chair of the Audit Committee and later ratified by the Audit Committee. Any proposed services exceeding these levels or amounts require specific pre-approval by our Audit Committee. All fees paid to EY for our fiscal year ended July 31, 2021, were pre-approved by our Audit Committee.

Recommendation of the Board

The Board recommends that you vote “FOR” the ratification of the appointment of Ernst & Young LLP.

Report of the Audit Committee

The Audit Committee consists of Mmes. Bawa and McCarthy, Mr. Goetz and the Rt Hon Sir John Key. Each member of the committee is an independent director as required by the listing standards of Nasdaq and rules and regulations of the SEC. The Audit Committee operates under a written charter approved by the Board, which is available on the Investor Information portion of our web site at <http://investors.paloaltnetworks.com>. The composition of the Audit Committee, the attributes of its members and the responsibilities of the Audit Committee, as reflected in its charter, are intended to be in accordance with applicable requirements for corporate audit committees. The Audit Committee reviews and assesses the adequacy of its charter and the Audit Committee's performance on an annual basis.

The Audit Committee assists our Board in the Board's oversight and monitoring of:

- our accounting and financial reporting processes and internal controls as well as the audit and integrity of our financial statements;
- the qualifications, independence and performance of our independent registered public accounting firm;
- the performance of our internal audit function;
- our compliance with applicable law; and
- risk assessment and risk management pertaining to financial, accounting and tax matters of the company, including risk mitigation efforts related to cyber threats to the Company and the status of the Company's cyber security posture.

With respect to the Company's financial reporting process, the management of the Company is responsible for (1) establishing and maintaining internal controls and (2) preparing the company's consolidated financial statements. Our independent registered public accounting firm, EY, is responsible for auditing these financial statements. It is the responsibility of the Audit Committee to oversee these activities. It is not the responsibility of the Audit Committee to prepare or certify our financial statements or guarantee the audits or reports of the independent auditors. These are the fundamental responsibilities of management and our independent registered public accounting firm.

The Audit Committee is responsible for the appointment, compensation, retention, and oversight of the work performed by EY. In fulfilling its oversight responsibility, the Audit Committee carefully reviews the policies and procedures for the engagement of the independent registered public accounting firm, including the scope of the audit, audit fees, auditor independence matters, performance of the independent auditors, and the extent to which the independent registered public accounting firm may be retained to perform non-audit services.

In the performance of its oversight function, the Audit Committee has:

- reviewed and discussed the audited financial statements with management and EY;
- discussed with EY the applicable requirements of the PCAOB and the SEC; and
- received the written disclosures and the letter from EY required by applicable requirements of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with EY its independence.

Based on the Audit Committee's review and discussions with management and EY, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended July 31, 2021, for filing with the Securities and Exchange Commission.

Respectfully submitted by the members of the Audit Committee of the Board:

Mary Pat McCarthy (Chair)
Aparna Bawa
James J. Goetz
Rt Hon Sir John Key

Executive Compensation

PROPOSAL NO. 3

Advisory Vote on the Compensation of our Named Executive Officers

We are providing our stockholders with the opportunity to vote to approve, on an advisory or non-binding basis, the compensation of our named executive officers as disclosed in accordance with the rules and regulations of the SEC in the “Executive Compensation” section of this Proxy Statement. This proposal, commonly known as a “say-on-pay” proposal, gives our stockholders the opportunity to express their views on our named executive officers’ compensation as a whole. This vote is not intended to address any specific item of compensation or any specific named executive officer, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this Proxy Statement.

The say-on-pay vote is advisory, and therefore is not binding on us, our Compensation and People Committee or our Board. The say-on-pay vote will, however, provide information to us regarding investor sentiment about our executive compensation philosophy, policies and practices, which our Compensation and People Committee will be able to consider when determining executive compensation for the remainder of the current fiscal year and beyond. Our Board and our Compensation and People Committee value the opinions of our stockholders and to the extent there is any significant vote against the compensation of our named executive officers as disclosed in this proxy statement, we will endeavor to communicate with stockholders to better understand the concerns that influenced the vote and our Compensation and People Committee will evaluate whether any actions are necessary to address those concerns. We currently conduct advisory votes on our named executive officer compensation on an annual basis, and we expect to conduct our next advisory vote at our 2022 annual meeting of stockholders.

As a result of the feedback that we received from our stockholders through our extensive engagement efforts, our Compensation and People Committee made extensive changes to our executive compensation program. We believe that the information we have provided in this “Executive Compensation” section, and in particular the information discussed in the sections titled “Executive Compensation—Letter from our Compensation and People Committee” and “Executive Compensation—Compensation Discussion and Analysis,” which describe these changes in detail, demonstrates that our executive compensation program has been designed appropriately and is working to ensure management’s interests are aligned with our stockholders’ interests to support long-term value creation. Accordingly, we ask our stockholders to vote “FOR” the following resolution at the Annual Meeting:

“RESOLVED, that Palo Alto Networks, Inc.’s stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in Palo Alto Networks, Inc.’s proxy statement for the 2021 Annual Meeting of Stockholders pursuant to the compensation disclosure rules and regulations of the SEC, including the compensation discussion and analysis, the compensation tables and narrative discussion, and other related disclosure.”

Recommendation of the Board

The Board recommends that you vote “FOR” the approval, on an advisory basis, of the compensation of our named executive officers.

Letter from our Compensation and People Committee

October 29, 2021

Dear Fellow Stockholders,

The Compensation and People Committee of the Palo Alto Networks Board of Directors is committed to ensuring that we have the right leadership team in place, and that our compensation programs appropriately compensate our executives, allowing us to retain and attract individuals of outstanding character and ability who are champions of our culture.

In fiscal year 2021, the COVID-19 pandemic continued to create significant global economic and social uncertainty and hardship. Our management embraced these challenges by mobilizing our people and resources to keep our employees healthy, safe and professionally fulfilled, and not laying off a single employee as a result of the pandemic. We co-founded an initiative, the FLEXWORK Coalition, with four other leading companies to share research, trends and develop working practices to urge us into the future of work. Palo Alto Networks created FLEXWORK to help shape a bold new way of working that reimagines the employee experience – putting employee choice and flexibility at the heart of our interactions, touchpoints and milestones.

At our 2020 annual meeting of stockholders, only 40.1% of votes were cast in favor of the advisory resolution to approve our fiscal 2020 executive compensation program, commonly referred to as “Say-on-Pay.” We were disappointed in this outcome and, in response, commenced a comprehensive review of our executive compensation practices to better understand our stockholder perspectives and reshape our executive compensation programs to support the company’s goals and reflect our pay-for-performance philosophy. This review resulted in the following substantial changes:

- **Extensive Stockholder Outreach:** Despite the challenges of the pandemic, in fiscal 2021, we did our most extensive stockholder outreach ever on the topic of executive compensation and engaged in discussion with stockholders holding 55% of our outstanding shares as of June 30, 2021. These discussions provided valuable insights into the concerns that led to the low Say-on-Pay support and provided the foundation of our approach going forward.
- **Engaged Third Party Experts:** We expanded the scope of the advisors from whom we receive compensation advice. We received advice with respect to our fiscal 2022 compensation decisions from the independent compensation consultants Pay Governance and Meridian Compensation Partners, in addition to the advice we received for fiscal 2021 from Compensia, and designed our executive compensation program in line with their advice.
- **Enhanced disclosures:** Stockholders asked for simpler and clearer disclosures, so we redesigned our Compensation Discussion and Analysis to make it easier to understand, added disclosures around key topics, such as the specifics of actual performance compared to performance targets and provided additional detail into the decision-making process of the Compensation and People Committee.
- **Reduced Target Compensation for Our Named Executive Officers:** For fiscal 2021, the target value of equity grants to our Named Executive Officers was 18% lower than grants made for fiscal 2020. Additionally, the target value of the grants made to our Named Executive Officers for fiscal 2022 are 47% lower than grants made for fiscal 2020.
- **New Performance Stock Unit Design:** For fiscal 2022, we have moved to a PSU program that includes multi-year performance periods and adds a relative total stockholder return multiplier in addition to financial metrics that are different from those used in our annual cash incentive plan. This program is aligned with market best practices and responsive to the input of our stockholders. Our executives will only receive above target compensation for delivering sustained financial performance above target and above average stockholder returns.
- **Adopted Other Best Practices:** In addition to the above, we adopted a number of other best practices, including an increased Chief Executive Officer stock ownership guideline, a minimum one year post-vesting holding period for all grants to Named Executive Officers, the elimination of duplicative performance measures between our annual and long-term incentive plans, the addition of an ESG modifier to our Named Executive Officer’s cash incentive plan to ensure linkage between compensation and our ESG goals, and the adoption of our 2021 Equity Incentive Plan which reflects best practices.

Executive Compensation

We are asking for your support of our executive compensation program this year. After gathering extensive feedback from stockholders and engaging two independent consulting firms, we made sweeping changes to our executive compensation programs. We believe that our Compensation and People Committee has implemented a sustainable, best-in-class program that is fully supported by market benchmarks aligned with best practices.

Thank you for your continued support and investment in Palo Alto Networks.

Sincerely,

The Compensation and People Committee

Rt Hon Sir John Key (Chair)

John Donovan

Lorraine Twohill

Compensation Discussion and Analysis

This Compensation Discussion and Analysis (“CD&A”) describes in detail our executive compensation programs and the resulting pay decisions for our Named Executive Officers (“NEOs”).

Named Executive Officers



Nikesh Arora
Chief Executive
Officer, Chair of
the Board



Dipak Golechha
Executive Vice
President, Chief
Financial Officer*



Amit Singh
President in
fiscal 2021, now
Chief Business
Officer



Lee Klarich
Executive Vice
President, Chief
Product Officer



Nir Zuk
Executive Vice
President,
Founder, Chief
Technology
Officer

* Mr. Golechha was promoted to the role of Chief Financial Officer in March 2021. Under the SEC’s proxy disclosure rules, our prior Chief Financial Officer, Luis Felipe Visoso, is also a named executive officer because he was the Company’s principal financial officer for a portion of fiscal 2021. Compensation decisions with respect to Mr. Visoso are described separately at the end of this CD&A.

CD&A HIGHLIGHTS

- Our employees, led by our NEOs, continued to deliver strong financial results for our stockholders in fiscal 2021.
- Our financial performance has led to strong returns on investment, both in terms of increases in the trading price of our common stock and a return of capital through our stock buyback program.
- We engaged in discussions with stockholders holding 55% of our outstanding shares (as of June 30, 2021), with a concentrated focus on our executive compensation program.
- We listened to our stockholders and made significant changes to our executive compensation program in fiscal 2021 and fiscal 2022.
- Our fiscal 2021 and 2022 executive compensation programs align with recognized best practices.

Philosophy and Objectives

As a global cybersecurity provider based in the San Francisco Bay Area, we operate in a highly competitive and rapidly evolving market, and we expect competition among companies in our market to continue to increase. We are also in the midst of a significant strategic shift in our business. Security that was traditionally delivered in hardware form must now be designed and delivered through the cloud. In addition, we have had to deliver results amid the COVID-19 pandemic and trends such as accelerating digital transformation, artificial intelligence, machine learning and automation gaining traction amid the intensifying security landscape.

As a result, our compensation philosophy is designed to establish and maintain a compensation program that attracts and rewards talented individuals who possess the skills necessary to support our near-term objectives and create long-term value for our stockholders, grow our business and assist in the achievement of our strategic goals.

The specific objectives of our executive compensation program are to:



Drive the development of a successful and profitable business through our next phase of growth.



Create sustainable long-term value for our stockholders by aligning the interests of our executive officers with those of our stockholders.



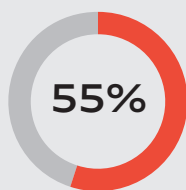
Reward our executive officers for the successful achievement of our financial and strategic growth objectives.



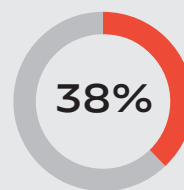
Attract, motivate and retain highly qualified executives who possess the skills and leadership necessary to continue to grow our business, and provide compensation packages that are **comparable to our peers and the overall competitive market** and that are heavily weighted to be based on our performance.

Additional Engagement Following 2020 Say-on-Pay Vote

Following a disappointing “Say-on-Pay” vote in 2020 (approximately 40.1% support), we undertook extensive additional engagement efforts to better understand the reasons for how our investors voted, to obtain their views on key corporate governance and disclosure matters and to determine how best to respond to that feedback.



We engaged in discussions with investors representing 55% of our outstanding shares (which is all stockholders that indicated a willingness to engage with us)



Our Lead Independent Director participated in discussions (27 meetings) with investors holding 38% of our outstanding shares

* Stockholder ownership, to our knowledge, as of June 30, 2021.

Summary of Feedback from Investors and Our Response

In evaluating potential changes to our executive compensation programs' structure and disclosure, the Compensation and People Committee closely examined and aimed to understand further our stockholders' concerns, including the common themes from our stockholders' feedback. The Compensation and People Committee also sought the advice of independent compensation consultants, Compensia, Inc., Pay Governance and Meridian Compensation Partners, with respect to the design of our executive compensation program.

Summarized below is the input we received from our stockholders and the independent compensation consultants and how our Compensation and People Committee addressed these matters in fiscal 2021.



WHAT WE HEARD FROM INVESTORS



CONSULTANT RECOMMENDATIONS



HOW WE RESPONDED

Stockholder Support for Executive Compensation

Low support for certain Compensation and People Committee members at our 2020 Annual Stockholder Meeting

- We changed the membership of our Compensation and People Committee, which resulted in the membership of the Committee changing in its entirety over the past two fiscal years.

Low support for our fiscal 2020 "Say on Pay" vote

- We overhauled our stockholder engagement process
- We engaged two outside independent compensation consultants to conduct a root and branch review of our executive compensation and provide go-forward recommendations

Stockholder Engagement and Disclosures

Desire for additional opportunities to speak to management and our Board

- Improve stockholder outreach and contact stockholders who in the aggregate own more than 50% of the shares outstanding
- We conducted our most extensive stockholder outreach ever and engaged in discussions with stockholders representing 55% of our shares outstanding

Request for more transparent executive compensation disclosures

- Provide more robust CD&A disclosures, including forward-looking disclosure of changes for fiscal 2022
- We redesigned and simplified our CD&A
- We added additional disclosures and explanation of the decision-making process the Compensation and People Committee follows, including decision making related to the compensation of our Chief Executive Officer
- We provided voluntary disclosure of changes for fiscal 2022



WHAT WE HEARD FROM INVESTORS



CONSULTANT RECOMMENDATIONS



HOW WE RESPONDED

Named Executive Officer Target Compensation Levels

Concern around the magnitude of equity awards granted to NEOs

- Voluntarily disclose magnitude of NEO fiscal 2022 performance stock unit (“PSU”) grant date value in the fiscal 2021 CD&A
- For fiscal 2021, the target value of equity grants to our NEOs was 18% in total lower than in fiscal year 2020
- For fiscal 2022, the target value of equity grants made to our NEOs is 47% in total lower than grants made for fiscal 2020
- Increase CEO stock ownership guideline to 8x to 10x base salary
- We increased the CEO stock ownership guideline to 10x base salary effective in fiscal 2022
- Commit to no “one-time” awards to NEOs except for new hire buyouts and performance-based retention grants due to a counteroffer
- We committed to make any one-time awards to NEOs a majority performance based and only make such grants in exceptional circumstances

Long-Term Incentive Design

Performance-based equity awards should represent a majority of the NEOs’ equity awards

- Commit to granting majority PSUs to NEOs over the next 3 years
- Fiscal 2021 and fiscal 2022 equity awards for NEOs are 100% performance-based
- In future years, we intend for annual equity grants to our NEOs to be at least 75% performance-based in line with market best practices
- Increase minimum equity vesting to 1 year for all long-term incentive plan participants
- We will require a one year minimum vesting period for all grants to our Chief Executive Officer and other NEOs going forward and have implemented a policy to require our Chief Executive Officer and other NEOs to hold all net shares for one year after vesting subject to certain exceptions
- Modify the design of future equity awards:
 - Majority of award in PSUs
 - Multiple year performance periods
 - Both financial and relative total stockholder return metrics
- We have adopted a PSU award design that requires sustained performance over multiple years for any payout
- We have added a relative total stockholder return multiplier (“TSR”) to our executive PSU awards going forward


**WHAT WE HEARD
FROM INVESTORS**

**CONSULTANT
RECOMMENDATIONS**

HOW WE RESPONDED

Performance Metrics and Target Setting Process

Short and long term incentive measures should be different with targets that are challenging to achieve, and described with disclosures that provide the details of target and actual performance

- Ensure that ongoing incentive goals are considered “challenging” with targets set at or above management guidance
- Disclose performance targets compared to actual and corresponding payout scale

- For fiscal 2022, we set cash incentive plan and PSU award targets at levels above the guidance provided in our earnings release on August 23, 2021
- We have included disclosure of target and actual performance and the corresponding payout scale

-
- Eliminate duplicate performance metrics in our cash incentive plan and performance stock unit awards

-
- For fiscal 2022, we eliminated duplicate performance metrics in our cash incentive plan and PSU awards

-
- Commit to only applying downward discretion for cash incentive plan awards to determine final payouts

-
- No upward discretion except for extraordinary circumstances (such as the COVID-19 pandemic)

Include ESG metrics in compensation

-
- Incorporate an ESG metric into fiscal 2022 VIP cash incentive plan

-
- For 2022, we added an ESG modifier to our cash incentive plan to ensure linkage between compensation and our ESG goals
-

Our Compensation Best Practices

In line with the feedback that we received from our stockholders and our independent compensation consultants, we implemented extensive changes to our executive compensation program in fiscal 2021. While some of the changes we are making in response to stockholder feedback and the advice of our Independent compensation consultants could not be reflected in compensation decisions made for fiscal 2021 because certain of our fiscal 2021 pay decisions had already been made when that feedback and advice was received, **we have implemented these changes in our fiscal 2022 pay decisions.** Under the heading “Changes for Fiscal 2022” on page 77 below, you will find a table showing these changes in our fiscal 2022 compensation structuring compared to our fiscal 2021 compensation structuring.

With these changes, we believe our executive compensation program represents recognized best practice and reflects principles that align the compensation of our named executive officers with the long-term interests of our stockholders.

NEW FOR 2021 AND 2022

- ✓ 100% of equity compensation is performance-based (**fiscal 2021 and fiscal 2022**)
- ✓ Increase to Chief Executive Officer stock ownership guidelines to 10x base salary (**fiscal 2021**)
- ✓ Addition of ESG modifier to cash incentive plan (**fiscal 2022**)
- ✓ Reduction in the total target compensation of our Chief Executive Officer (**fiscal 2021 and fiscal 2022**)
- ✓ One-year post-vesting holding period for all NEOs, including our Chief Executive Officer (**fiscal 2022**)
- ✓ Additional independent compensation consultants for **fiscal 2022** decisions
- ✓ Newly configured Compensation and People Committee (**fiscal 2021**), changing the entire composition of the committee over the past two fiscal years

ROBUST AND INDEPENDENT COMPENSATION DECISION-MAKING, ALIGNED WITH OUR CORPORATE VALUES

- ✓ 100% independent Compensation and People Committee
- ✓ Independent compensation consultants
- ✓ Annual review of compensation strategy
- ✓ Consideration of annual say-on-pay vote

COMPENSATION BEST PRACTICES

- ✓ Majority of compensation is performance-based and at-risk
- ✓ 100% of annual incentive cash compensation is performance-based and at-risk
- ✓ No single trigger vesting of equity awards on occurrence of a change in control
- ✓ No dividends paid on unvested equity
- ✓ No hedging or pledging
- ✓ Meaningful clawback policy
- ✓ Limited perquisites and personal benefits
- ✓ No defined benefit plans or SERPs
- ✓ No tax gross-ups
- ✓ Robust stock ownership guidelines
- ✓ Implementing the advice of independent compensation consultants

How We Compensate Our Chief Executive Officer

As a result of feedback from our stockholders requesting detailed insights into the compensation of our Chief Executive Officer, we include in this section a summary of the rationale for the decisions reached by our Board and Compensation and People Committee regarding Mr. Arora's compensation since he joined the Company in June 2018.

MR. ARORA'S LEADERSHIP TRANSFORMED OUR COMPANY

After Mr. Arora joined the Company, we set an ambition to become the cybersecurity partner of choice, to innovate and to stay ahead of the curve. To make this a reality, Mr. Arora established three strategic priorities critical to our long-term success: transforming network security, delivering comprehensive cloud native security and revolutionizing security operations. Under Mr. Arora's leadership, our successful implementation of this strategy has led to:

- A \$20.5 billion increase in market capitalization (as measured by our market capitalization as of July 31, 2018 and July 30, 2021).
- \$3 billion returned to our stockholders in fiscal 2018 through fiscal 2021 through our stock repurchase program.
- Compound annual growth rates of 23% and 24% in revenue and billings, respectively, over fiscal 2018 through fiscal 2021, culminating in fiscal year 2021 with record revenue of \$4.3 billion and record billings of \$5.5 billion.
- An unprecedented acceleration of our product development efforts.
- A significant increase in the trading price of our common stock.

Additionally, Mr. Arora successfully steered the Company through the unprecedented global impact of the COVID-19 pandemic, without laying off a single employee, and personally foregoing \$1 million in salary to donate to our COVID-19 pandemic relief fund and he will forego another \$1 million in salary to donate to another worthy cause.

Fundamentally Strengthened the Business

Delivered on our 3 big bets

- Transforming network security - Strata
- Delivering comprehensive cloud native security - Prisma Cloud
- Revolutionizing security operations - Cortex

Became an innovation leader by delivering

- 13 product releases in fiscal 2019
- 22 product releases in fiscal 2020
- 29 product releases in fiscal 2021

Delivered Zero Trust Security



Fiscal 2021

\$4.3 Billion
in annual revenue

\$5.5 Billion
in annual billings

Fiscal 2018

\$2.3 Billion
in annual revenue

\$2.9 Billion
in annual billings

RETURN OF CAPITAL

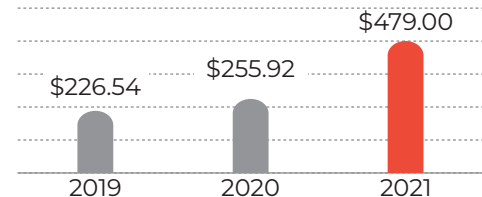
Fiscal 2021

\$1.2 Billion

Fiscal 2018-2021
\$3 Billion

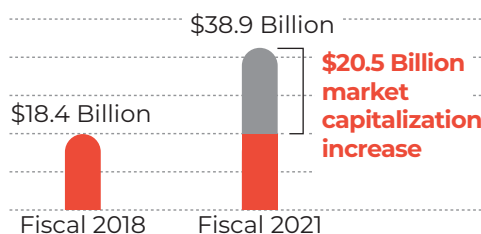
Return to Stockholders

TRADING PRICE OF OUR COMMON STOCK*



* As of the close of trading on July 31 for the years of 2019 and 2020, and as of the close of trading on September 30 for the year of 2021.

MARKET CAPITALIZATION*



* As of the close of trading on July 31, 2018 and July 30, 2021

FISCAL 2018 NEW HIRE OFFER: HIRING A CEO WITH THE EXPERIENCE TO TRANSFORM PALO ALTO NETWORKS INTO THE CYBERSECURITY PARTNER OF CHOICE

After a robust search to identify the best candidate to succeed Mark McLaughlin as our Chief Executive Officer, the Board identified Mr. Arora as the best person to lead the Company through an era of digital and security transformation. Mr. Arora formerly served as President and Chief Operating Officer at SoftBank and as Chief Business Officer at Google, where he gained extensive experience in scaling technology businesses, running very large organizations and operating globally. At Google, Mr. Arora was instrumental in growing Google’s search business from \$2 billion in revenue to over \$60 billion in revenue, led more than 20,000 employees and developed a substantial track record of driving innovation and delivering business success. Based on this experience and other factors, the Board concluded that Mr. Arora was uniquely qualified to lead the transformation of the Company into the cybersecurity partner of choice.

In determining his initial compensation arrangements, our Board sought to provide Mr. Arora with market competitive compensation for similarly skilled individuals who led comparable companies, taking into account compensation data provided by our Compensation and People Committee’s independent compensation consultant at that time. Our Board and Compensation and People Committee also considered Mr. Arora’s compensation during his tenure at SoftBank.

Company	Role	Average Annual Total Compensation
Softbank	President and COO	2015-2016 Avg: \$104,570,500

Sources: Softbank – fiscal 2015 and fiscal 2016 Annual Reports.

Mr. Arora’s employment offer to join the Company included market competitive cash compensation, time-based restricted stock units, investment restricted stock units and performance stock options (“PSOs”). Because of the personal investment associated with his investment restricted stock units and stock price achievement targets of the PSOs, Mr. Arora would only recognize significant value from these awards if the Company delivered significant stockholder returns under his leadership. The below table details each element of Mr. Arora’s new hire compensation and the Board’s rationale in approving this compensation, in addition to its belief that Mr. Arora was uniquely qualified to lead the Company.

	New Hire Offer	Board Rationale															
Market Competitive Offer	Annual Salary	\$1.0M	Competitive with the market														
	Target Bonus	\$1.0M	Competitive with the market														
	Time-Based RSUs	\$40.0M vesting over 7 years (\$5.7M per year)	Competitive with the market with a longer than normal vesting schedule														
	Total Target	\$7.7M annual value	Aligned with market median Target Total Direct Compensation of \$7.7M <small>(source: Compensia April 2018 Report for Compensation Committee)</small>														
Additional Upside only with a Personal Investment and Performance	Investment RSUs	\$20.0M vesting over 4 years contingent on purchase of \$20.0M of stock (\$5.0M per year)	Required Mr. Arora to make a significant personal investment in us														
	Performance Stock Options	\$65.0M vesting over 4 years <u>ONLY</u> if stock price achievement targets are met.	Provide maximum value to Mr. Arora only if all stockholders realized significant value														
	<table border="1"> <thead> <tr> <th>% Eligible to Vest</th> <th>Stock Price Achievement</th> <th>Time Frame To Achieve</th> </tr> </thead> <tbody> <tr> <td>25%</td> <td>+50%</td> <td>4 years</td> </tr> <tr> <td>25%</td> <td>+100%</td> <td>5 years</td> </tr> <tr> <td>25%</td> <td>+150%</td> <td>6 years</td> </tr> <tr> <td>25%</td> <td>+200%</td> <td>7 years</td> </tr> </tbody> </table>	% Eligible to Vest	Stock Price Achievement	Time Frame To Achieve	25%	+50%	4 years	25%	+100%	5 years	25%	+150%	6 years	25%	+200%	7 years	
% Eligible to Vest	Stock Price Achievement	Time Frame To Achieve															
25%	+50%	4 years															
25%	+100%	5 years															
25%	+150%	6 years															
25%	+200%	7 years															

Our Board recognized the significant investment represented by Mr. Arora's new hire compensation. Accordingly, in subsequent years, the Board anticipated decreases in Mr. Arora's compensation to further align with market competitive levels for continuing service with the Company, as opposed to the level of compensation necessary to attract Mr. Arora to join the Company as our Chief Executive Officer.

FISCAL 2019 THROUGH 2022 TRANSFORMATION: MARKET COMPETITIVE PAY LEVELS AND EVOLVING COMPENSATION IN DIRECT RESPONSE TO STOCKHOLDER FEEDBACK

In designing Mr. Arora's compensation packages since he joined the Company in 2018, our Board and Compensation and People Committee sought to deliver market-competitive compensation commensurate with Mr. Arora's capabilities and experience and reflective of the considerable challenge of leading the Company's transformation from a provider of hardware delivered security to a provider of security delivered through the cloud, with multiple products to protect our customers' enterprise, cloud, endpoints, Security Operation Centers and more.

After a disappointing "Say-on-Pay" vote at our 2020 annual meeting of stockholders, we conducted a comprehensive review of our executive compensation practices. Mr. Arora, in his capacity as Chair of the Board, gave his full support to this process and encouraged our Board and Compensation and People Committee to look at all aspects of our executive compensation program and make the necessary changes to respond to stockholder feedback and further align our program with best practices. As a result of this root and branch examination, our Compensation and People Committee significantly reduced the size of the target value of Mr. Arora's annual equity grant to \$15.0 million in fiscal 2022, from \$21.0 million in fiscal 2021 and \$22.0 million in fiscal 2020, and significantly increased the portion of his total compensation that is performance-based. Mr. Arora's fiscal 2022 target direct compensation is at the 75th percentile of Company's compensation peer group.

Our Compensation and People Committee also made other significant changes to Mr. Arora's compensation structure for fiscal 2022:

- A new design for PSUs featuring multi-year financial measures and a relative TSR modifier that requires sustained performance above target, for multiple years, to receive an above target payout.
- 100% performance-based equity.
- An increase in his stock ownership requirement to 10x base salary.
- A one-year post-vesting holding period for equity awards.

CEO COMPENSATION

	FY20 Target⁽²⁾	FY21 Target	FY22 Target
Annual Salary ⁽¹⁾	\$1.0M	\$1.0M	\$1.0M
Target Bonus	\$1.0M	\$1.0M	\$1.0M
Time-Based RSUs	\$11.0M vesting over 3 years		n/a
Performance Stock Units	\$11.0M vesting over 3 years	\$21.0M vesting over 4 years	\$15.0M
Total Target	\$24M	\$23M	\$17.0M
Year-Over-Year Change (total compensation)		-4.2%	-26.1% (-29.2% from FY20)
Performance-Based (total compensation)	50.0%	95.7%	94.1%

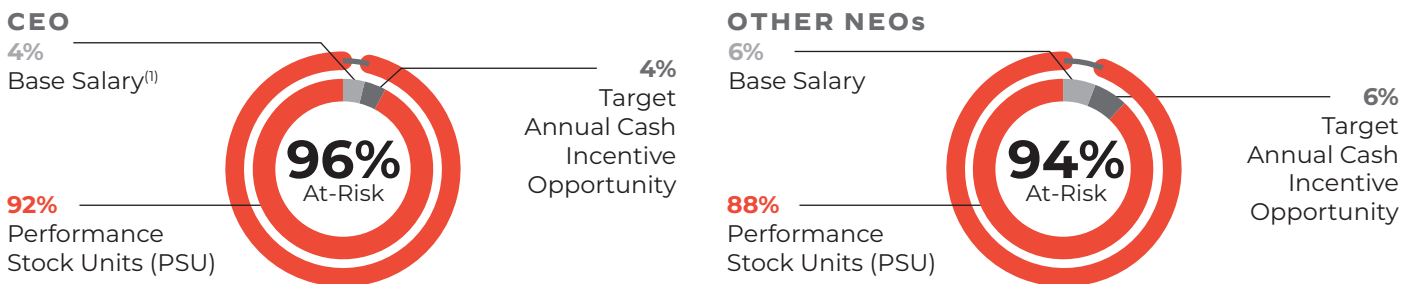
⁽¹⁾ For each of fiscal 2020 and 2021, Mr. Arora forewent a portion of his annual salary in connection with our funding efforts to support colleagues and communities impacted by the COVID-19 pandemic. He opted to receive only approximately \$0.7 million of his salary in fiscal 2020 and approximately \$0.3 million of his salary in fiscal 2021, and has again opted in fiscal 2022 to receive only approximately \$0.3 million.

⁽²⁾ Includes equity awards granted in July 2019 for fiscal 2020, as disclosed in the proxy statement for our 2019 annual meeting of stockholders.

CEO and NEO Pay for Performance Alignment For Fiscal 2021

Pay for performance is a cornerstone of our compensation philosophy. We balance our **strong pay-for-performance compensation philosophy** - where the vast majority of our Chief Executive Officer and other NEO compensation is at-risk and performance-based - with our **need to recruit, incentivize, and retain** talented executives in a highly competitive market. The result is an executive compensation program that is significantly weighted toward at-risk compensation tied to our financial and operational performance.

The graphs below illustrate the predominance of at-risk and performance-based components of our fiscal 2021 compensation program for our Chief Executive Officer and other named executive officers.



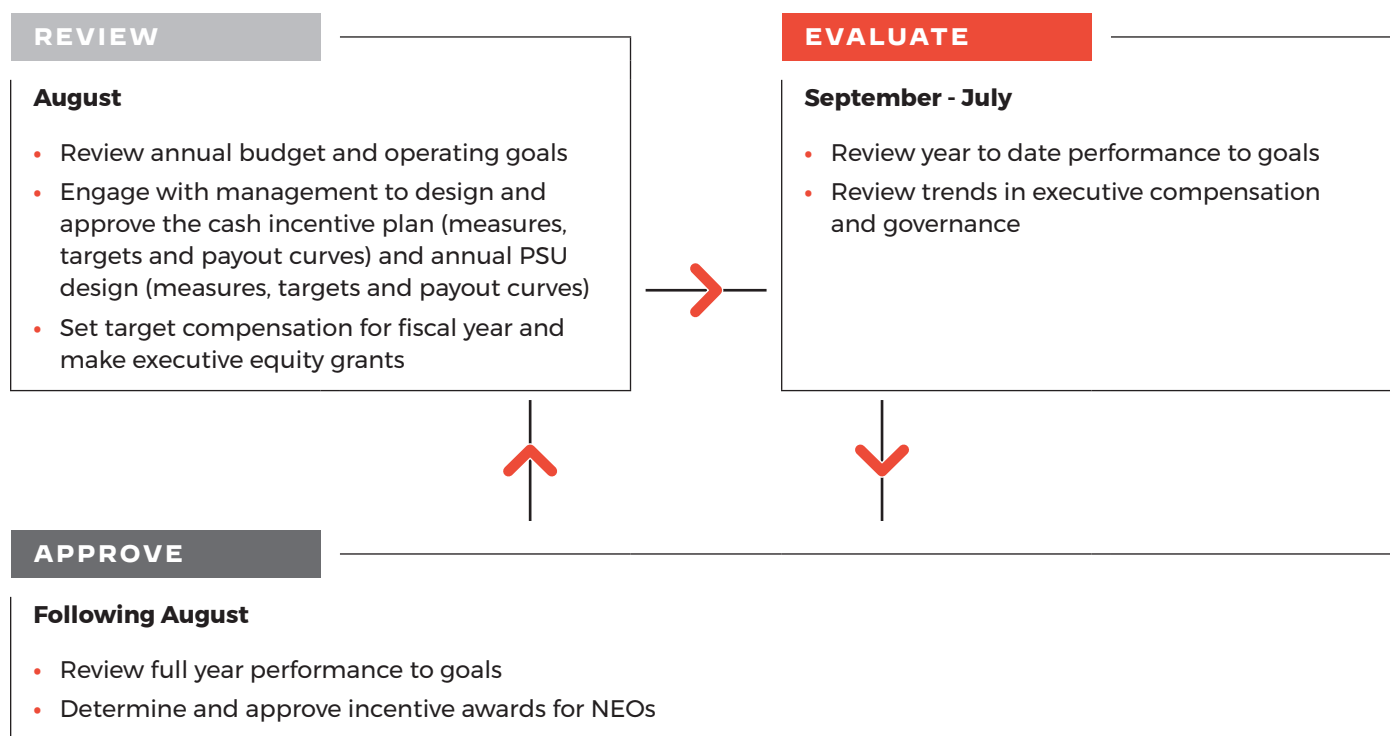
⁽¹⁾ Graph reflects Mr. Arora’s target base salary of \$1 million, a significant portion of which he elected to forego to help fund our efforts to support colleagues and communities impacted by the COVID-19 pandemic.

In line with our pay for performance compensation philosophy, our Compensation and People Committee also focuses on awarding compensation commensurate with the position and responsibilities held by our NEOs. If an NEO’s position or responsibilities change, our Compensation and People Committee undertakes a review of that NEO’s compensation to ensure that it remains commensurate with the new position and responsibilities.

On August 10, 2021, we announced that Willian “BJ” Jenkins joined the Company as our President and Amit Singh would transition to the role of Chief Business Officer. Following this announcement and an assessment of Mr. Singh’s new role and responsibilities compared to his prior role, our Compensation and People Committee approved a forfeiture of a portion of Mr. Singh’s outstanding PSO. As a result, Mr. Singh agreed to forfeit the fourth vesting tranche of the award (108,537 shares), which had not yet vested and had an unvested “in the money” value of approximately \$35.6 million, based on the closing price of our common stock on the date of forfeiture.

Compensation-Setting Process

Compensation Timeline and Process



Our Compensation and People Committee makes compensation decisions after considering factors that include:

- The performance and experience of each executive officer;
- The scope and strategic impact of the executive officer's responsibilities;
- Our past business performance and future expectations;
- Our long-term goals and strategies;
- The performance of our executive team as a whole;
- An analysis of competitive market conditions, with the assistance of its external compensation consultant(s);
- The incentives provided to our executives to remain with the Company and drive the Company's continued growth;
- The value of each executive's unvested equity holdings;
- For each executive officer, other than our CEO, the recommendation of our CEO based on an evaluation of his performance;
- The challenge and cost of replacing high-performing leaders with in-demand skills; and
- The internal parity of compensation among our executive officers.

Our Compensation and People Committee does not apply a formula or assign relative weights to specific compensation elements.

Roles and Responsibilities

PARTICIPANT	ROLE IN COMPENSATION DETERMINATION PROCESS
Compensation and People Committee	<ul style="list-style-type: none"> • Review, evaluate and approve the compensation arrangements, plans, policies, and practices for our NEOs • Oversee and administer cash-based and equity-based compensation plans • Review our executive compensation program from time to time to determine whether they are appropriate, properly coordinated, achieve their intended purposes and to make any modifications to existing plans and arrangements or to adopt new plans or arrangements • Retain the services of external advisors, including compensation consultants, legal counsel and other advisors, from time to time, as it sees fit, in connection with carrying out its duties
Management	<ul style="list-style-type: none"> • Together with our independent compensation consultants, the Chief Executive Officer and the Chief People Officer assist the Compensation and People Committee in the execution of its responsibilities by providing information on corporate and individual performance, market data with respect to compensation and management's perspective and recommendations on compensation matters • Chief Executive Officer makes recommendations to the Compensation and People Committee regarding compensation matters, including the compensation of executive officers (other than himself) • Chief Executive Officer participates in meetings of the Compensation and People Committee (other than portions of meetings that involve discussions of his own compensation) <p>While our Compensation and People Committee solicits the recommendations and proposals of our Chief Executive Officer with respect to compensation-related matters, these recommendations and proposals are only one factor in our Compensation and People Committee's decision-making process.</p>
Independent Compensation Consultants <i>For fiscal 2021 advice, the committee engaged Compensia, Inc., a national compensation consulting firm</i> <i>For fiscal 2022 advice, the committee engaged Pay Governance and Meridian Compensation Partners, national compensation consulting firms</i>	<ul style="list-style-type: none"> • Assist the Compensation and People Committee in executing the executive compensation strategy and guiding principles, assessing the current target total direct compensation opportunities of our executive officers, including comparing them against competitive market practices, developing a compensation peer group and advising on executive compensation decisions • None of Compensia, Pay Governance or Meridian Compensation Partners provided any services to the Company other than the services provided to our Compensation and People Committee • Our Compensation and People Committee assessed the independence of Compensia and Pay Governance taking into account, among other things, the factors set forth in Exchange Act Rule 10C-1 and the listing standards of Nasdaq and has concluded that no conflict of interest exists with respect to the work that Compensia, Pay Governance, Meridian Compensation Partners perform for our Compensation and People Committee

Use of Competitive Data

To assess the competitiveness of our executive compensation program and to assist in setting compensation levels, at the Compensation and People Committee's request, Compensia compiled market data from a compensation peer group approved by our Compensation and People Committee and industry surveys, including the Radford Global Technology Executive Compensation Survey. The Compensation and People Committee, with the assistance of Compensia, then analyzed the market and survey data when making fiscal 2021 compensation decisions.

Competitive Positioning

For fiscal 2021, our Compensation and People Committee continued to compare and analyze our executive compensation program and each component of executive compensation against data from a formal compensation peer group of companies.

In the context of our annual executive compensation review, with assistance from Compensia and input from management, in February 2020, our Compensation and People Committee reviewed the peer group of publicly-traded technology companies used to provide information regarding compensation practices for fiscal 2020 to determine if any changes were appropriate for use for fiscal 2021 pay decisions. In determining which companies to include in the peer group, our Compensation and People Committee considered companies that met some or all of the following criteria: (i) operated in a high-technology industry; (ii) had annual revenue between approximately \$1.5 billion and \$5.0 billion; (iii) had revenue growth greater than 20%; (iv) had a market capitalization between approximately \$10.0 billion and \$35.0 billion; and (v) had a market capitalization that was at least six times annual revenue. Red Hat and Tableau Software were removed from the peer group used for fiscal 2020 compensation decisions due to their acquisitions, and Snap, Inc. and Synopsys, Inc. were added based on the identified criteria. After these changes, the Company was at the 48th percentile of the peer group in terms of revenue and 60th percentile in terms of market capitalization.

The following publicly-traded companies made up our compensation peer group for fiscal 2021:

Akamai Technologies, Inc.	Fortinet Inc.	ServiceNow, Inc.	SS&C Technologies Holdings, Inc.
Arista Networks Inc.	Norton LifeLock	Snap, Inc.	Synopsys, Inc.
Autodesk, Inc.	Okta, Inc.	Splunk Inc.	Twitter, Inc.
Cadence Design Systems	PayChex, Inc.	Square, Inc.	Workday, Inc.
F5 Networks Inc.			

Fiscal 2021 Executive Compensation Program

Our executive compensation programs are tied to the Company's financial and operational performance, support our commitment to good compensation governance and provide market-based opportunities to attract, retain and motivate our executives in an intensely competitive market for qualified talent.

FISCAL 2021 PROGRAM HIGHLIGHTS

- No base salary or annual incentive opportunity increases in fiscal 2021 for continuing NEOs.
- Equity compensation granted in fiscal 2021 was 100% performance-based PSUs.
- Performance measures aligned with business strategy.
- Chief Executive Officer donated 2/3rds of his fiscal 2021 base salary to our COVID-19 relief fund (continuing this practice from the second half of fiscal 2020).
- Mr. Golechha promoted to Chief Financial Officer.
- Outstanding performance resulted in 150% achievement for cash incentive plan and 200% performance for PSUs.

Executive Compensation

The following table lists the pay elements of our fiscal 2021 programs and the purpose they served:

	Pay Element	Purpose	Performance Period	Performance Metric
Fixed Pay	Base Salary	Designed to be market-competitive and attract and retain talent	n/a	n/a
	Annual Cash Incentive Opportunity	Incentivize achievement of near-term financial and operational objectives, consistent with longer-term goals	Annual	Annual normalized billings for fiscal 2021 Annual organic operating margin for fiscal 2021
At Risk Pay	Performance Stock Units (PSU)	Reward long-term profitability and long-term performance relative to peers Create alignment with stockholders Facilitate executive retention	Annual, but vest over four years, subject to performance and continued employment	Annual normalized billings for fiscal 2021 Annual organic operating margin for fiscal 2021

Fiscal 2021 Executive Compensation Program Components

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 fiscal year and to ensure that we remain competitive in attracting and retaining executive talent.

Generally, we establish the initial base salaries of our executive officers through arm's-length negotiation at the time of hire taking into account his or her position, qualifications, experience, prior salary level, and the base salaries of our other executive officers. Thereafter, our Compensation and People Committee reviews the base salaries of each NEO annually and makes adjustments as it determines to be reasonable and necessary in line with the factors described under "Compensation Timeline and Process" above.

NO INCREASE IN BASE SALARY FOR ANY NEO IN FISCAL 2021.

The table below shows the base salary for each NEO for fiscal 2021.

Name	Base Salary End of Fiscal 2020 (\$)	Base Salary End of Fiscal 2021	Percentage Increase
Mr. Arora⁽¹⁾	1,000,000	\$1,000,000	0%
Mr. Golechha⁽²⁾	n/a	\$ 600,000	n/a
Mr. Singh	750,000	\$ 750,000	0%
Mr. Klarich	550,000	\$ 550,000	0%
Mr. Zuk	430,000	₪1,482,000 ⁽³⁾	0%

⁽¹⁾ On March 31, 2020, Mr. Arora announced that he intended to forego his base salary of \$1 million beginning on April 1, 2020 through March 31, 2021, and requested that we donate such amount to our COVID-19 relief fund. As a result, \$666,667 was donated to our COVID-19 relief fund in fiscal 2021. The primary purpose of our Company's COVID-19 relief fund is to support our employees who are paid on an hourly basis and other employees personally impacted by the COVID-19 pandemic.

⁽²⁾ Mr. Golechha's annual base salary for fiscal 2021 was set at \$600,000 in connection with his promotion to Chief Financial Officer in March 2021.

⁽³⁾ Mr. Zuk transferred his employment to our Israel subsidiary in August 2020 and his base salary, expressed in Israeli currency, was set equal to his fiscal 2020 base salary in US dollars.

ANNUAL CASH INCENTIVE COMPENSATION

We use annual cash incentive compensation to motivate our NEOs to achieve our annual financial and operational objectives, while making progress towards our longer-term strategic and growth goals.

FISCAL 2021 INCENTIVE COMPENSATION PLAN

In August 2020, our Compensation and People Committee adopted a cash incentive plan for all employees not paid commissions (including our NEOs) and approved the target levels for the annual financial objectives at levels that were challenging and required substantial skill and effort on the part of senior management. The cash incentive plan included an annual performance period with (i) payouts of up to 100% of the target cash incentive compensation opportunities made on a semi-annual basis based on year to date results and (ii) payouts for over-performance (referred to as accelerator payments and discretionary payments, as described below) made after the end of the fiscal year. See the section titled "Fiscal 2021 Cash Incentive Plan Measure and Curves" below for additional information regarding the target payout and actual payout under our cash incentive plan.

TARGET ANNUAL INCENTIVE COMPENSATION OPPORTUNITIES

As in prior years, the target annual cash incentive compensation opportunities for our NEOs were expressed as a percentage of their respective base salaries.

NO INCREASE IN TARGET ANNUAL CASH INCENTIVE COMPENSATION FOR ANY NEO IN FISCAL 2021.

The table below shows the target annual cash incentive compensation percentage for fiscal 2021 and the corresponding target and maximum dollar values:

Name	Target Annual Incentive Compensation Opportunity (as a % of base salary) at end of Fiscal 2021	Fiscal 2021 Target Annual Incentive Compensation Opportunity (\$)	Fiscal 2021 Maximum Annual Incentive Compensation Opportunity (\$)
Mr. Arora	100%	1,000,000	3,000,000
Mr. Golechha⁽¹⁾	100%	245,605	736,815
Mr. Singh	100%	750,000	2,250,000
Mr. Klarich	100%	550,000	1,650,000
Mr. Zuk	100%	430,000 ⁽²⁾	1,290,000 ⁽²⁾

⁽¹⁾ Mr. Golechha's target annual cash incentive compensation opportunity was set at 100% of his annual base salary in connection with his promotion to Chief Financial Officer, but he was only eligible for the cash incentive plan for the second half of fiscal 2021.

⁽²⁾ Mr. Zuk transferred his employment to our Israel subsidiary in August 2020 and will be paid in Israeli currency.

CORPORATE PERFORMANCE MEASURES

For fiscal 2021, our Compensation and People Committee selected annual normalized billings and annual organic operating margin as the corporate performance measures. Our Compensation and People Committee determined that changing the measures from revenue and earnings per share was an appropriate change to ensure close alignment of compensation strategy with business strategy.

Corporate Performance Metric	What It Is	Why It's Important
Annual normalized billings	Fiscal 2021 billings as reported in our Form 10-K, less billings from entities acquired in fiscal 2021	A billings metrics better reflects in-period organic performance and aligns with the shift in our business model to one focused on annual recurring revenue
Annual organic operating margin	Fiscal 2021 non-GAAP operating margin, excluding the effects of acquisitions and dispositions in fiscal 2021 and bonus payout in excess of 100% of the target cash incentive under our cash incentive plan	This profitability measure is tied to management performance and profit we generate for stockholders

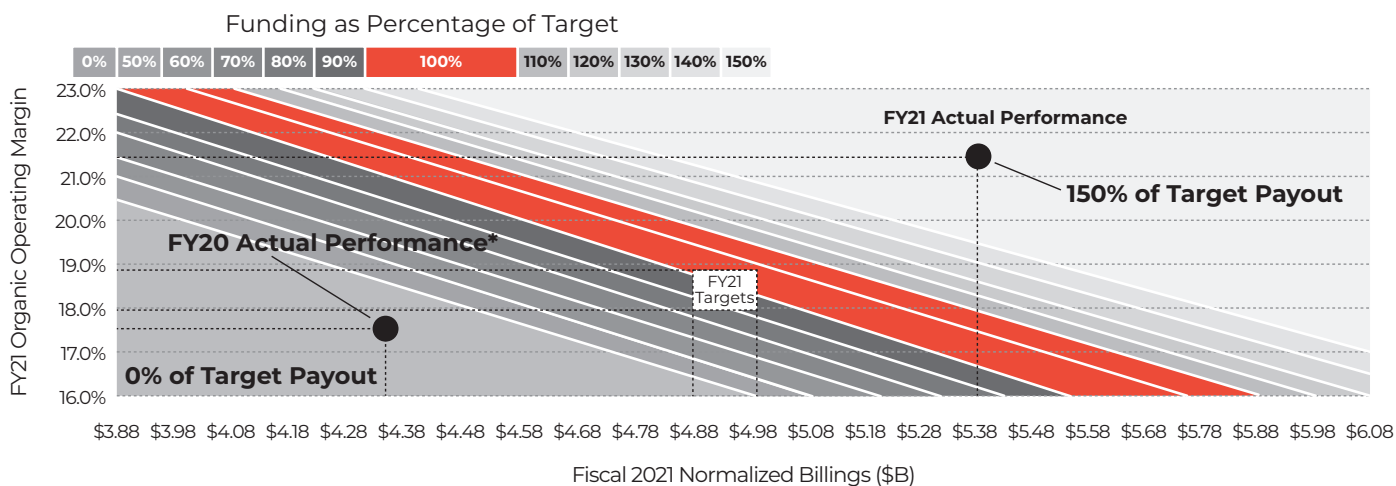
Executive Compensation

Potential payouts under the plan were based on a set of curves representing different levels of organic operating margin and normalized billings performance.

- **Design:** To provide an incentive to management to make appropriate trade off decisions between investments in growth and profitability.
- **Pay and Performance Relationship:** The curves were designed to require significant performance above each curve to move to the next curve so that performance slightly above target would not result in an above target payout. Performance below the minimum curve would result in 0% of target payout and performance above the maximum curve would result in a formulaic payment maximum of 150% regardless of the level of overperformance.
- **Target Setting:** Due to the inherent uncertainty in setting targets as a result of the COVID-19 pandemic, our fiscal 2021 operating plan approved in August 2020, which was used to set the incentive plan targets, provided a range for normalized billings and organic operating margin targets. In addition, we set the performance period for one year because of the difficulty in setting a multi-year performance goals due to the economic uncertainty caused by the COVID-19 pandemic. Performance above the high end of the target range was required for an above 100% payout.
- **Difficulty of Achieving Targets:** Fiscal 2021 targets represented normalized billings growth of 13% to 16% above the prior year and an improvement of organic operating margin of 50bp to 90bp. When we set the targets in August 2020, we decided that these targets were set at an appropriate level of stretch performance based on our internal financial projections and the macro economic environment. We subsequently released fiscal 2021 guidance in November 2020 that was above our fiscal 2021 financial plan. Given our overperformance to this guidance, even if the updated guidance had remained used to set the targets for the fiscal 2021 curves, payouts would have been the same.

The graph below contains the curves used to determine payouts in the fiscal 2021 cash incentive plan.

FISCAL 2021 CASH INCENTIVE PLAN MEASURES AND CURVES



* Represents billings of \$4,302 million and non-GAAP operating margin of 17.6% for fiscal 2020.

	FY21 Targets	FY21 Targets vs. FY20 Actuals ⁽¹⁾	FY21 Actual	FY21 Actuals vs. FY20 Actuals ⁽¹⁾	FY21 Payout
Normalized Billings	\$4,881 to \$4,976M	13% to 16% growth	\$5,379M	25%	150% of Target
Organic Operating Margin	18.1% to 18.5%	50bp to 90bp	21.5%	410bp	

⁽¹⁾ FY20 Actuals represented by billings and non-GAAP operating margin as reported in our earnings release on August 24, 2020.

The calculation of normalized billings and organic operating margin is provided in Appendix A to this Proxy Statement.

PERFORMANCE REQUIREMENTS

Under the cash incentive plan, funding would be made as the organic operating margin target and the normalized billings target are achieved as per the chart above. Achievement above the minimum achievement would increase funding on a non-linear basis, with achievement of 100% of both performance targets resulting in funding at 100% of the target cash incentive compensation opportunity. Payouts of up to 100% of the target cash incentive compensation opportunities are made on a semi-annual basis and any payouts for performance exceeding 100% of the annual targets (referred to as accelerator payments) are paid out as described in the following paragraph.

For achievement in excess of 100%, funding would increase on a non-linear basis, based on overperformance on normalized billings and/or organic operating margin versus the annual targets. In addition, such over-performance could be further rewarded through discretionary payments that would be equal to 200% of each NEO's applicable target annual cash incentive compensation opportunity less any accelerator payments; accordingly for any NEO, the maximum cash incentive opportunity is equal to 300% of their target incentive opportunity.

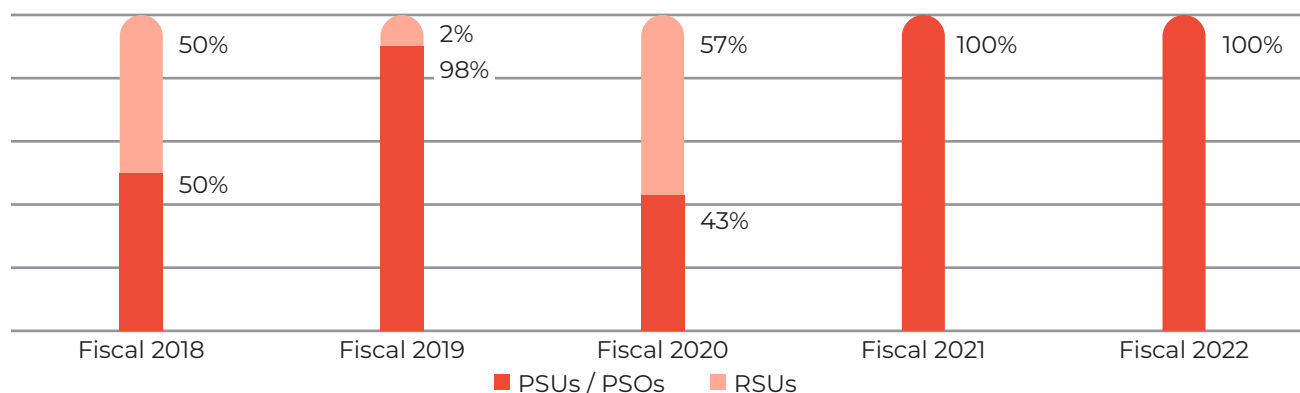
For fiscal 2021, our Compensation and People Committee made no discretionary changes to cash incentive plan payouts.

The total potential payouts under the cash incentive plan to all participants (which includes any accelerator and/or discretionary payments) were capped at 150% of the target amounts.

LONG-TERM EQUITY COMPENSATION

Our long-term equity compensation is designed to encourage executives to achieve stretch goals in key performance metrics selected to drive long-term performance of our Company and value creation for stockholders. As shown in the graph below, in fiscal 2021, 100% of the long-term equity compensation granted to our NEOS was performance-based (aside from new-hire grants, which include a restricted stock unit grant) and the fiscal 2022 grants are also 100% performance-based grants.

RSU VS PSU/PSO MIX⁽¹⁾



⁽¹⁾ Values above represent the target value of annual awards to NEOs. Certain grants that were made in July 2019 represented advanced grants for fiscal year 2020 and are reflected as fiscal year 2020 above. Values exclude any new hire awards.

FISCAL 2021 EQUITY COMPENSATION

100% PERFORMANCE-BASED EQUITY GRANTED TO NEOS IN FISCAL 2021.

In fiscal 2021, 100% of the equity awards granted to our NEOs were in the form of PSUs, resulting in the entirety of the equity awards being at risk and performance based. The Compensation and People Committee determined the size of the awards based on the strong performance, leadership skills and valuable contributions to our company of our NEOs especially in the context of the significant transition in our business to expand to a more cloud-centric platform. For all NEOs (except Mr. Klarich), the size of the fiscal 2021 award represented a decrease from the size of their fiscal 2020 award.

Executive Compensation

The table below shows the targeted value of PSU grants made to our NEOs in fiscal 2021, with the actual target number of shares subject to the PSUs determined based on the 30-day average closing price prior to October 15, 2020.

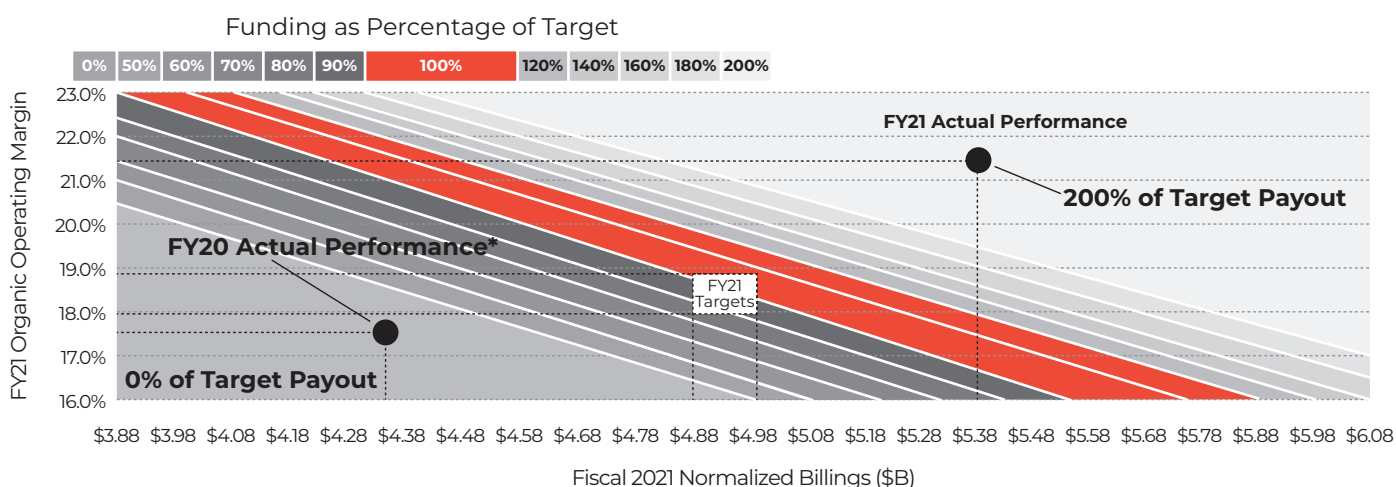
Name	Targeted Value for PSUs Granted for fiscal 2020 (\$)*	Targeted Value for PSUs Granted in fiscal 2021 (\$)	Percentage decrease
Mr. Arora	22,000,000	21,000,000	5%
Mr. Golechha**	n/a	4,000,000	n/a
Mr. Singh	16,800,000	10,000,000	40%
Mr. Klarich	10,000,000	10,000,000	0
Mr. Zuk	5,000,000	3,000,000	40%

* This column aggregates awards made on July 31, 2019 and awards made in October 2020.

** Mr. Golechha received the PSU award upon his promotion to CFO. He also received a targeted value of \$4,000,000 of RSUs upon his hire as SVP, Finance in December 2020.

The graph below contains the curves used to determine performance targets for the fiscal 2021 NEO PSU grants.

FISCAL 2021 EXECUTIVE PSU GRANT PERFORMANCE CURVES



* Represents billings of \$4,302 million and non-GAAP operating margin of 17.6% for fiscal 2020.

The number of PSUs eligible to vest (the “Eligible PSUs”) was determined based on achievement of the FY21 PSU Performance Metrics. Eligible PSUs may be up to 200% of the Target Number of PSUs. Any PSUs that did not become Eligible PSUs due to the minimum FY21 PSU Performance Metrics threshold not being achieved could be forfeited without consideration.

Normalized billings and annual organic operating margin were the PSU Performance Metrics for fiscal 2021. As set forth above in the Corporate Performance Measures section, we set the targets of the PSU Performance Metrics at a level of stretch performance which required significant performance above our internal financial projections. As a result of overachieving our targets by achieving normalized billings of \$5,379 million and organic operating margin of 21.5%, 200% of the PSUs became Eligible PSUs.

Once the number of Eligible PSUs was determined, they vest generally over four years, subject to continued employment. Mr. Arora’s PSU grant schedule is weighted toward vesting in years 3 and 4. See “Fiscal 2021 Outstanding Equity Awards at Fiscal Year-End” table for detail on vesting schedules.

The same performance metrics and performance period were utilized for the PSU grants and the cash incentive plan because billings and operating margin are two of the key metrics to our success and we believe these two metrics are the best metrics to incentivize our management team to perform at a high-level and in a forward-looking manner. In addition, we set the performance period for one year because of the difficulty in setting a multi-year performance goal due to the economic uncertainty caused by COVID-19 pandemic.

Starting in fiscal 2022, based on stockholder feedback and the advice of our independent compensation consultants, we will use different performance targets for PSU grants and the annual cash incentive plan. Additionally, PSUs will have a multi-year performance period going forward.

OUR APPROACH TO ONE-TIME AWARDS TO NAMED EXECUTIVES

The Compensation and People Committee believes it may be necessary from time-to-time to make one-time awards outside of the normal grant cycle in certain circumstances, primarily to attract new executives, internally promote an executive or counter an external competing offer to one of our existing executives for retention purposes.

In considering these awards, the Compensation and People Committee follows the following principles:

- For new hire awards, time vested equity should compensate the executive for a portion of the unvested equity they would forfeit from their current role or forego from a competing offer. Any additional upside should be delivered through performance based equity such that a majority of the total equity value is performance based.
- For promotion and retention awards, the majority of the award should be performance based and any time vested equity granted only if the employee's existing unvested equity is low compared to market benchmarks or internal peers.

In fiscal 2021, all one-time awards to existing executives – to Mr. Golechha upon his promotion to CFO and to Mr. Visoso as a retention award following his receipt of a competing external offer – were made exclusively with performance based awards in line with these principles.

Additionally, in fiscal 2022, the new hire award for BJ Jenkins, our President, was made with a majority of the award in performance based equity and time vested equity was used only to compensate him for a portion of the unvested value that he would forfeit upon resigning his current position.

FISCAL 2021 ACHIEVEMENT WITH RESPECT TO OUTSTANDING REVENUE GROWTH PSUs

In fiscal 2019, Messrs. Arora, Singh, Klarich and Zuk were granted PSUs that had performance criteria based on revenue growth in each of fiscal 2020, fiscal 2021 and fiscal 2022. Based on our annual revenue growth of 24.8% from fiscal 2020 to fiscal 2021, our Compensation and People Committee determined an achievement level of 100% for the portion of the July 2019 PSUs eligible to vest based on fiscal 2021 annual revenue growth.

FISCAL 2021 ACHIEVEMENT WITH RESPECT TO OUTSTANDING PERFORMANCE-BASED STOCK OPTIONS

We granted performance-based stock options (the "PSOs") to Mr. Arora upon his hire in June 2018 and to Messrs. Singh, Klarich and Zuk in fiscal 2019 to further incentivize long-term stockholder value creation. Each of the PSOs had a per share exercise price equal to fair market value on the date of grant and they were only eligible to vest upon achievement of stock price growth against a measurement price of \$198.50. Achievement is determined in four performance tranches, and there is an additional service-based requirement based on service since the grant date. The performance tranches are:

- A 30 trading days average stock price of 150% of the measurement price within 4 years of grant.
- A 30 trading days average stock price of 200% of the measurement price within 5 years of grant.
- A 30 trading days average stock price of 250% of the measurement price within 6 years of grant.
- A 30 trading days average stock price of 300% of the measurement price within 7 years of grant.

The first tranche was achieved in fiscal 2021 on December 22, 2020 and the second tranche was achieved on August 30, 2021 and both tranches will vest in accordance with individual vesting schedules over four years from the initial grant date.

Executive Compensation

The following table shows outstanding performance based grants made to our NEOs with remaining performance targets. This table illustrates that a significant portion of performance-based awards remain outstanding and continue to incentivize our NEOs' performance going forward.

Grant	% of Total Grant ⁽¹⁾	Measure Type	FY22	FY23	FY24	FY25	FY26	
Outstanding PSO Grants								
FY18 CEO New Hire Grant	n/a	Stock Price Appreciation	Stock price of 250% of the measurement price within 6 years of grant					
			Stock price of 300% of the measurement price within 7 years of grant					
FY18 NEO Annual Grant	n/a	Stock Price Appreciation	Stock price of 250% of the measurement price within 6 years of grant					
			Stock price of 300% of the measurement price within 7 years of grant					
Outstanding PSU Grants								
FY19 PSUs	n/a	Financial Metric	FY22 Revenue Growth					
NEW - Executive PSU Program								
FY22 Grant (Made August 2021)	50% (Transition Grant)	Financial Metrics	FY22 Revenue Growth	FY23 Target TBD				
		Relative TSR	2 Year Relative TSR vs. S&P 500					
FY23 Grant (Intention)	50%	Financial Metrics	FY22 Actual vs. Target	FY23 Target TBD	FY24 Target TBD			
		Relative TSR	3 Year Relative TSR vs. S&P 500					
FY23 Grant (Intention)	20%	RSU		1/3 vest @ YE	1/3 vest @ YE	1/3 vest @ YE		
	80%	Financial Metrics		FY23 Target TBD	FY24 Target TBD	FY25 Target TBD		
		Relative TSR	3 Year Relative TSR vs. S&P 500					

Final Payout = Average of Annual Financial Metric Payouts X Relative TSR Modifier

| Start and End of Performance Period |

Fiscal 2022 Compensation Decisions

As discussed above, in connection with the continuing evolution of our compensation programs in response to stockholder feedback and the advice our Compensation and People Committee received from its independent compensation consultants, we made significant changes to our compensation practices for fiscal 2022.

Changes for Fiscal 2022

	Pay Element	Fiscal 2021	Fiscal 2022
Fixed Pay	Base Salary	No change	No change
	Annual Cash Incentive Opportunity	Normalized billings and organic operating margin	<p>Same metrics. Higher results required to achieve 100% performance.</p> <p>Targets set above the level of the guidance issued in earnings call held with respect to fiscal 2021 results.</p> <p>Calculated result will be adjusted up or down by up to 10% based on an ESG scorecard with climate, inclusion and diversity, and human capital metrics.</p>
At Risk Pay	Restricted Stock Units	No RSUs granted to ongoing NEOs	<p>No RSUs granted to NEOs as part of annual grant cycle for fiscal 2022. We plan to reintroduce RSUs as approximately 20% of the target award value for NEO grants beginning in fiscal 2023 in line with best practice and in response to investor feedback.</p> <p>RSUs will be used in connection with new hire awards as appropriate in order to compensate key executives for unvested equity they will forfeit upon joining the Company.</p>
	Performance Stock Units (PSU)	<p>Annual Normalized Billings and Annual Organic Operating Margin for fiscal 2021</p> <p>Vesting occurs over four years with customized vesting schedule for each executive</p>	<p>PSUs will make up 100% of fiscal 2022 equity award.</p> <p>Different metrics used for PSUs than for annual cash incentive.</p> <p>Begin transition to new 3 year performance award design.</p> <ul style="list-style-type: none"> For fiscal 2022 (transition year), PSU awards will be split between a two year performance period for fiscal 2022 to fiscal 2023 (50% of target award value) and a three year performance period for fiscal 2022 through fiscal 2024 (50% of target award value). The first vesting event will be after the completion of the first two year performance period. Each performance period will have achievement determined based on annual revenue growth (0%-200% potential payouts) with a modifier (.75x to 1.5x) based on relative total stockholder return versus the S&P 500. Beginning for fiscal 2023, the same structure will be used, but for a single three year performance period with a financial metric and relative total shareholder return modifier.

Executive Compensation

For fiscal 2022, the following targeted grant values were approved for our NEOs (compared to fiscal 2021 grants).

Name	Targeted Value for Fiscal 2021 PSUs (\$)	Targeted Value for Fiscal 2022 PSUs (\$)
Mr. Arora	21,000,000	15,000,000
Mr. Golechha	4,000,000	4,000,000
Mr. Singh	10,000,000	0*
Mr. Klarich	10,000,000	10,000,000
Mr. Zuk	3,000,000	3,500,000

* Due to transition in role to Chief Business Officer.

BJ Jenkins Compensation Arrangements

On August 10, 2021, we announced that William “BJ” Jenkins joined the Company as the Company’s President. To determine Mr. Jenkins’ compensation, the Compensation and People Committee considered the following factors:

- His qualifications and proven experience, including his most recent role as the President and Chief Executive Officer of Barracuda Networks.
- A review of market data for base salaries, target annual cash incentive compensation opportunities and equity compensation of executives holding similar positions at comparable companies.
- The fiscal 2022 changes to our executive compensation programs and our principle to make the majority of new hire awards performance based.
- Our estimate of Mr. Jenkins’ unvested equity in his current role as Chief Executive Officer of a privately held company.
- The input and advice from outside advisers on the quantum of each component and the design of the equity grant.

The Compensation and People Committee approved an offer letter setting forth the following terms:

- No special sign on benefits, such as a sign on bonus.
- Annual base salary of \$750,000.
- Target annual incentive compensation of 100% of his base salary.
- \$10,000,000 restricted stock unit award to compensate him for a portion of our estimated value of the unvested equity that he forfeited, with 40% vesting on the one-year anniversary of the date of grant, 30% during the second year in equal quarterly increments, 20% during the third year in equal quarterly increments and 10% during the fourth year in equal quarterly increments, subject to his continued employment with the Company on each vesting date.
- \$14,000,000 PSU award to provide upside compensation, but only if the multiple year performance targets are achieved and subject to his continued employment with the Company on each vesting date. The PSUs were granted under the Company’s new fiscal 2022 executive PSU program (with the same achievement targets as the grants made to our NEOs) and vest as follows:
 - 33% of the PSU shares attained will vest on the first anniversary of the grant date based on fiscal year 2022 revenue growth.
 - 33% of the PSU shares attained will vest on the second anniversary of the grant date based on the Company’s financial performance and relative total stockholder return performance for fiscal years 2022 and 2023.
 - 34% of the PSU shares attained will vest on the third anniversary of the grant date based on the Company’s financial performance and relative total stockholder return performance for fiscal years 2022, 2023 and 2024.

Our Board recognizes the significant investment represented by Mr. Jenkins’ new hire compensation. Accordingly, in subsequent years, the Board anticipates decreases in Mr. Jenkins’s compensation to further align with market competitive levels for continuing service with the Company, as opposed to the level of compensation necessary to attract Mr. Jenkins to join the Company as our President. We intend for Mr. Jenkins’ compensation to be awarded based on the principles we discussed in this CD&A, including future annual equity grants to be at least 75% performance-based in line with market best practices and PSU awards designed to include a TSR multiplier and require sustained performance over multiple years for any payout.

Amit Singh's Transition to Chief Business Officer

In connection with Mr. Jenkins joining the Company, Amit Singh transitioned to the role of Chief Business Officer. As part of this transition and following an assessment of Mr. Singh's new role and responsibilities compared to his prior role, our Compensation and People Committee approved a forfeiture of a portion of Mr. Singh's outstanding PSO. As a result, Mr. Singh agreed to forfeit the fourth vesting tranche of the award (108,537 shares), which had not yet vested and had an unvested "in the money" value of approximately \$35.6 million, based on the closing price of our common stock on as of the date of forfeiture.

Other Aspects of Our Executive Compensation Programs

Employment Agreements

Each of our NEOs is a party to an employment arrangement setting forth the material terms of his or her employment. For a summary of the material terms and conditions of these arrangements, see the section titled "*—Executive Employment Agreements.*"

Post-Employment Compensation

The employment arrangement for each of our NEOs provides for payments and/or benefits related to an involuntary termination of employment, including in connection with a change in control of our company, on a "double trigger" basis. We believe that these protections assist us in retaining the services of these individuals. We also believe that these protections serve our business objectives by helping our NEOs 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 our company. The terms of these post-employment compensation arrangements were determined after our board of directors and Compensation and People Committee reviewed our retention goals for each NEO and an analysis of relevant market data.

For a summary of the material terms and conditions of these post-employment compensation arrangements, as well as an estimate of the amounts potentially payable pursuant to such arrangements, see the sections titled "*—Executive Employment Agreements*" and "*—Potential Payments Upon Termination or Change in Control.*"

Stock Ownership Policy

Our board of directors believes that our executive officers and the non-employee members of our board of directors should hold a meaningful financial stake in our company to closely align their interests with those of our stockholders and therefore adopted stock ownership guidelines in fiscal 2017. These guidelines were revised with respect to our Chief Executive Officer in 2021. Under the current guidelines, our Chief Executive Officer and executive officers who report directly to our Chief Executive Officer are required to achieve ownership of our common stock within five years of the later of August 26, 2016 or such executive officer's hire, appointment or election date as applicable, at the following levels:

- Our Chief Executive Officer must own the lesser of (i) common stock with a value of 10 times his or her annual base salary or (ii) 22,000 shares; and
- Each executive officer must own the lesser of (i) common stock with a value of his or her annual base salary or (ii) 3,825 shares.

The base salary multiples above are consistent with current market practices, and the alternative share number thresholds are intended to provide our executive officers with certainty as to whether the guidelines are met, regardless of our then-current stock price. All of our NEOs, except Mr. Golechha, who is not required to comply as a result of the five-year phase in, currently comply with these guidelines.

Risk Assessment and Compensation Practices

Our management assesses and discusses with our Compensation and People Committee our compensation policies and practices as they relate to our risk management. Based upon this assessment, we believe that any risks arising from such policies and practices are not reasonably likely to have a material adverse effect on us. In reaching this conclusion, we have considered, among other things, the following factors:

- our cash incentive plan reflects a "pay for performance philosophy" that rewards our NEOs and other eligible employees for achievement of performance targets;

Executive Compensation

- our equity awards include multi-year vesting schedules requiring long-term employee commitment;
- we regularly monitor short-term and long-term compensation practices to determine whether management's objectives are satisfied; and
- for our Fiscal 2021 Incentive Compensation Plan, we instituted a per person cap of 300% of the target incentive compensation opportunity for each quarter to manage costs and to limit any potential risks related to short-term incentives.

Compensation Recovery Policy

During fiscal 2018, we adopted a Clawback Policy pursuant to which we may seek the recovery of performance-based incentive compensation paid by us under certain circumstances. The Clawback Policy applies to our Chief Executive Officer and to all officers who report directly to the Chief Executive Officer, including our NEOs (the "covered executives"). The Clawback Policy provides that if (i) we restate our financial statements as a result of a material error; (ii) the amount of cash incentive compensation or performance-based equity compensation that was paid or is payable based on achievement of specific financial results paid to a covered executive would have been less if the financial statements had been correct; (iii) no more than two years have elapsed since the original filing date of the financial statements upon which the incentive compensation was determined; and (iv) our Compensation and People Committee unanimously concludes, in its sole discretion, that fraud or intentional misconduct by such covered executive caused the material error and it would be in our best interests to seek from such covered executive recovery of the excess compensation, then our Compensation and People Committee may, in its sole discretion, seek repayment from such covered executive.

Hedging and Pledging Policies

Our insider trading policy prohibits our executive officers and members of our board of directors from engaging in derivative securities transactions, including hedging or other transactions that offset, or are designed to hedge or offset, any decrease in the market value of our equity securities and from pledging company securities as collateral or holding company securities in a margin account.

Tax and Accounting Considerations

Deductibility of Executive Compensation. Section 162(m) of the 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 certain other highly compensated executive officers in any taxable year.

While our Compensation and People Committee is mindful of the benefit of being able to fully deduct the compensation paid to our NEOs, our Compensation and People Committee believes that we should retain the flexibility to provide compensation to our NEOs that is not fully tax deductible when it believes that such payments are appropriate to attract and retain executive talent or meet other business objectives. Our Compensation and People Committee intends to continue to compensate our NEOs in a manner consistent with the best interests of our company and our stockholders even if any portion of such compensation is non-deductible.

TAXATION OF "PARACHUTE" PAYMENTS

Sections 280G and 4999 of the 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 that exceeds certain prescribed limits and that we (or a successor) may forfeit a deduction on the amounts subject to this additional tax. We did not provide any of our NEOs with a "gross-up" or other reimbursement payment for any tax liability that the NEO might owe as a result of the application of Sections 280G or 4999 during fiscal 2019, and we have not agreed and are not otherwise obligated to provide any NEO with such a "gross-up" or other reimbursement in the future.

ACCOUNTING FOR SHARE-BASED COMPENSATION

We follow ASC Topic 718 for our share-based compensation awards. ASC Topic 718 requires companies to measure the compensation expense for all share-based compensation awards made to employees and directors, including stock options and other stock-based awards, 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 NEOs 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.

Perquisites and Other Personal Benefits

Retirement Plans. We have established a U.S. 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 match contributions made to the plan by our employees up to \$1,000, including our NEOs. In fiscal 2021, Messrs. Golechha, Klarich, Singh and Visoso participated in our Section 401(k) retirement plan and each received a matching contribution of \$1,000. We intend for the plan to qualify under Section 401(a) of the Internal Revenue Code, or the 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. We made payments for Mr. Zuk to certain Israeli pension and severance funds available to employees of our Israel subsidiaries.

Health and Welfare Plans. In addition, we provide other benefits to our NEOs 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.

In November 2019, the Company retained a leading global risk management and security consulting firm to analyze and determine if there was a bona-fide business related security concern for Mr. Arora. Based on the results of its investigation (which included a personal security incident involving Mr. Arora), this firm determined that there was a bona-fide, business related security concern for Mr. Arora and credible threat actors existed with both the willingness and resources necessary for conducting an attack on Mr. Arora. Accordingly, the firm recommended that the Company take various steps to ensure the safety of Mr. Arora. In turn our Compensation and People Committee determined that, if any harm occurred to our Chief Executive Officer, our business operations, investor confidence and employee productivity would be severely impacted. As a result, we implemented an overall security program for Mr. Arora that continued in fiscal 2021. Our Compensation and People Committee believes that amounts paid by our company for this security program have been reasonable, necessary and for our company's benefit. We believe that in certain circumstances, personal security services can be a necessary component of an overall executive compensation program, and that any such program should align with the executive's security profile. Our Compensation and People Committee periodically reviews the nature and cost of this program in relation to his security profile. Despite the fact that this security program was put in place for business reasons, the component of the program that includes security at Mr. Arora's residence and during personal travel is a perquisite under the relevant SEC disclosure rules and is included in the "All Other Compensation" column in the Summary Compensation Table. The amount paid in fiscal 2021, \$1,086,706, consists primarily of increased security vendor costs to account for changes in the labor market and one-time costs attributable to Mr. Arora frequently working from home as a result of the COVID-19 pandemic.

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 NEO in the performance of his or her duties, to make our NEOs 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 our Compensation and People Committee.

FORMER CFO COMPENSATION

Until March 17, 2021, when Mr. Golechha was promoted to be our Chief Financial Officer, Luis Felipe Visoso served as our Chief Financial Officer, requiring him to be a named executive officer under the proxy disclosure rules. Mr. Visoso's cash compensation for fiscal 2021 was \$600,000 base salary with a 100% target annual incentive opportunity. On December 7, 2020, in order to retain his services, in light of a competing offer, Mr. Visoso was granted performance-based stock options with a targeted value of \$15,000,000 and vesting based both on achievement of stock price hurdles and continued service. We determined the value of this grant based on the competitive offer that Mr. Visoso received and internal comparisons. The award was based on the principles discussed above in the section titled "Our Approach to One-Time Awards to Named Executives" and was 100% performance based. Mr. Visoso would not vest into the award, or receive any value from it, unless we achieved the stock price hurdles and he met the continued service requirement.

Executive Compensation

In March 2021, Mr. Visoso received a competing offer from another company. The Company determined not to match that offer, or otherwise extend Mr. Visoso additional compensation for retention purposes. Mr. Visoso resigned as of March 17, 2021. Upon his resignation, Mr. Visoso forfeited all such performance-based stock options. None of the shares subject to this performance-based stock option award, or any other equity award granted by us to Mr. Visoso, vested and he received no value from these awards. Additionally, Mr. Visoso was paid no severance in connection with his termination of employment and he repaid to us a pro-rata portion (based on 24 months) of the \$2,000,000 signing bonus he received when he joined us.

Report of the Compensation Committee

Our Compensation and People Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussion, our Compensation Committee has recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

Respectfully submitted by the members of the Compensation and People Committee of our Board:

Rt Hon Sir John Key (Chair)
John Donovan
Lorraine Twohill

Executive Compensation Tables

Fiscal 2021 Summary Compensation Table

The following table presents summary information regarding the compensation paid to, or earned by, our Named Executive Officers for our fiscal year ended July 31, 2021.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) ⁽¹⁾	Option Awards (\$) ⁽¹⁾	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Nikesh Arora Chief Executive Officer	2021	333,333 ⁽²⁾	—	20,355,789	—	1,500,000	1,094,736 ⁽³⁾	23,283,858
	2020	666,667	—	—	—	925,000	615,118	2,206,785
	2019	1,000,000	—	22,374,676	—	500,000	11,163	23,885,839
Dipak Golechha⁽⁴⁾ Chief Financial Officer	2021	325,821	—	8,292,144	—	368,407	3,929 ⁽⁵⁾	8,990,301
Amit Singh President	2021	750,000	—	9,693,233	—	1,125,000	1,957 ⁽⁶⁾	11,570,190
	2020	750,000	—	4,066,804	—	693,750	21,907	5,532,461
	2019	562,500	—	21,920,892	24,503,144	187,500	1,718	47,175,754
Lee Klarich Chief Product Officer	2021	550,000	—	9,693,233	—	825,000	1,957 ⁽⁷⁾	11,070,190
	2020	550,000	—	—	—	508,750	1,957	1,060,707
	2019	550,000	—	10,205,854	40,000,131	220,000	1,957	50,977,942
Nir Zuk⁽⁸⁾ Founder and Chief Technology Officer	2021	444,073	—	2,907,970	—	666,900	63,227 ⁽⁹⁾	4,082,170
	2020	430,000	—	—	—	372,891	144,495	947,386
	2019	430,000	—	5,120,710	30,000,053	134,375	13,996	35,699,134
Luis Felipe Visoso⁽¹⁰⁾ Former Chief Financial Officer	2021	379,167	—	—	14,999,957 ⁽¹¹⁾	300,000	3,838 ⁽¹²⁾	15,682,962
	2020	50,820	2,000,000	12,951,110	—	—	957	15,002,887

⁽¹⁾ The amounts reported in the Stock Awards and Option Awards columns represent the grant date fair value of the restricted stock units and stock options to purchase shares of our common stock and investment restricted stock units granted to our Named Executive Officers as computed in accordance with ASC Topic 718. The assumptions used in calculating the grant date fair value of the restricted stock units and stock options reported in this column are set forth in the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on September 3, 2021. Note that the amounts reported in these columns do not correspond to the actual economic value that may be received by our Named Executive Officers from their restricted stock units or stock options. Mr. Singh agreed to forfeit a portion of the shares (108,537 shares) subject to purchase under this PSO.

⁽²⁾ From April 1, 2020 to March 31, 2021, Mr. Arora elected to forego his salary and donate it to our COVID-19 relief fund.

⁽³⁾ Consists of life insurance premiums of \$220, disability insurance premiums of \$229, personal COVID-19 testing costs and personal security costs of \$1,086,706 based on the invoices provided by the third party security company.

⁽⁴⁾ Mr. Golechha was appointed our Chief Financial Officer effective March 17, 2021. The amounts reported in the Stock Awards column for fiscal 2021 include time-based restricted stock units granted to him in connection with his initial hire as SVP, Finance and performance-based restricted stock units granted to him in connection with his appointment as CFO.

⁽⁵⁾ Consists of life insurance premiums of \$345, disability insurance premiums of \$223, airfare reimbursement of \$2,361 for a cancelled flight and 401(k) plan matching contributions by our company of \$1,000.

⁽⁶⁾ Consists of life insurance premiums of \$600, disability insurance premiums of \$357 and 401(k) plan matching contributions by our company of \$1,000.

⁽⁷⁾ Consists of life insurance premiums of \$600, disability insurance premiums of \$357 and 401(k) plan matching contributions by our company of \$1,000.

⁽⁸⁾ For fiscal 2021, Mr. Zuk's base salary, non-equity incentive compensation and all other compensation was paid in Israeli currency. The amounts set forth in the table reflect the conversion from Israeli currency to U.S. dollars using an average exchange rate of 0.30 for fiscal 2021.

⁽⁹⁾ Consists of life insurance premiums of \$25 and disability insurance premiums of \$15 and \$27,695 contributed for pension benefits and \$35,492 contributed for severance benefits under Israeli government schemes.

⁽¹⁰⁾ Mr. Visoso resigned as our Chief Financial Officer effective March 17, 2021. Upon his resignation, he forfeited all stock awards granted to him in FY2021.

⁽¹¹⁾ All options were forfeited by Mr. Visoso upon his resignation.

⁽¹²⁾ Consists of life insurance premiums of \$400, disability insurance premiums of \$130, 401(k) plan matching contributions by our company of \$1,000 and \$2,308 of waiting time penalty payment under California law.

CEO Pay Ratio

Under SEC rules, we are required to provide information regarding the relationship between the annual total compensation of our Chief Executive Officer and the annual total compensation of our median employee. As permitted by SEC rules, we used the same median employee for fiscal 2021 that we identified for fiscal 2020 because there have been no significant changes to our workforce or pay design for fiscal 2021 that we believe would significantly change our Chief Executive Officer pay ratio results. For our last completed fiscal year, which ended July 31, 2021:

- The median of the annual total compensation of all employees (other than Mr. Arora) of our company and our consolidated subsidiaries in fiscal 2021 was approximately \$269,821. This annual total compensation was calculated in accordance with Item 402(c)(2)(x) of Regulation S-K, and reflects, among other things, salary, all bonuses earned, commissions, other cash payments, PTO payouts, allowance, employer benefit and 401(k) contribution matches, ESPP purchase gain, and the aggregate “grant date fair value” of equity awards granted during fiscal 2021.
- Mr. Arora’s annual total compensation, as reported in the Fiscal 2021 Summary Compensation Table included in this Proxy Statement, was \$23,283,858.
- Based on the above, for fiscal 2021, the ratio of Mr. Arora’s annual total compensation to the median of the annual total compensation of all employees was approximately 86.3 to 1.

This pay ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K under the Securities Act of 1933, as amended, and based upon our reasonable judgment and assumptions. The SEC rules do not specify a single methodology for identification of the median employee or calculation of the pay ratio, and other companies may use assumptions and methodologies that are different from those used by us in calculating their pay ratio. Accordingly, the pay ratio disclosed by other companies may not be comparable to our pay ratio as disclosed above.

Fiscal 2021 Grants of Plan-Based Awards

The following table presents information regarding the amount of equity awards granted to our Named Executive Officers during our fiscal year ended July 31, 2021.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units ⁽²⁾	All Other Option Awards: Number of Securities Underlying Options ^(#)	Exercise or Base Price of Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards ⁽³⁾
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Mr. Arora	—	—	1,000,000	3,000,000	—	—	—	—	—	—	—
	10/20/20	—	—	—	—	85,071 ⁽⁴⁾	170,142	—	—	—	20,355,789
Mr. Golechha	—	—	245,605	736,815	—	—	—	—	—	—	—
	12/20/20	—	—	—	—	—	—	13,447 ⁽⁵⁾	—	—	4,780,812
	3/20/21	—	—	—	—	11,082 ⁽⁶⁾	22,164	—	—	—	3,511,332
Mr. Singh	—	—	750,000	2,250,000	—	—	—	—	—	—	—
	10/20/20	—	—	—	—	40,510 ⁽⁷⁾	81,020	—	—	—	9,693,233
Mr. Klarich	—	—	550,000	1,650,000	—	—	—	—	—	—	—
	10/20/20	—	—	—	—	40,510 ⁽⁸⁾	81,020	—	—	—	9,693,233
Mr. Zuk	—	—	430,000	1,290,000	—	—	—	—	—	—	—
	10/20/20	—	—	—	—	12,153 ⁽⁹⁾	24,306	—	—	—	2,907,970
Mr. Visoso	12/5/20	—	600,000	1,800,000	—	—	—	—	182,659 ⁽¹⁰⁾	304.29	14,999,957

⁽¹⁾ Amounts in the “Estimated Future Payouts Under Non-Equity Incentive Plan Awards” columns relate to target incentive compensation opportunities under the fiscal 2021 cash incentive plan and assumes achievement at target levels for our corporate performance measures. For achievement in excess of target, overperformance could be rewarded with a payout of up to an additional 200% of each NEO’s target (for a maximum payment of 300% each NEO’s target). The actual amounts paid to our NEOs are set forth in the “Fiscal 2021 Summary Compensation Table” above and the calculation of the actual amounts paid is discussed more fully in the section titled “Fiscal 2021 Executive Compensation Program—Fiscal 2021 Executive Compensation Program Components—Annual Cash Incentive Compensation.”

⁽²⁾ Represents performance-based restricted stock unit awards (“PSUs”) and restricted stock unit awards (“RSUs”) which were granted under our Palo Alto Networks, Inc. 2012 Equity Incentive Plan (“2012 Plan”). For more information, see the section titled “Fiscal 2021 Executive Compensation Program—Fiscal 2021 Executive Compensation Program Components—Fiscal 2021 Equity Compensation.”

- ⁽⁵⁾ The amounts reported in the Grant Date Fair Value of Stock and Option Awards column represent the grant date fair value of the restricted stock unit awards granted in fiscal 2021, calculated in accordance with ASC Topic 718. The assumptions used in calculating the grant date fair value of the restricted stock unit awards reported in this column are set forth in the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on September 3, 2021. Note that the amounts reported in this column do not correspond to the actual economic value that may be received by our NEOs from their performance-based restricted stock unit awards.
- ⁽⁴⁾ After achievement of a specified performance metric, this PSU vests over a four-year period with 15% of the shares vesting in equal quarterly increments during year two with the first vesting on January 20, 2022; 42.5% of the shares vesting in equal quarterly increments during year three; and 42.5% of the shares vesting in equal quarterly increments during year four, subject to the executive continuing to be employed with us through each vesting date.
- ⁽⁵⁾ Represents RSUs which were granted upon Mr. Golechha's hiring as SVP, Finance. Vests over a four-year period with one fourth (1/4th) of the RSUs vesting on the one-year anniversary of the grant date; and one-sixteenth (1/16th) of the RSUs vesting quarterly thereafter subject to the executive continuing to be employed with us through each vesting date.
- ⁽⁶⁾ Represents PSUs which were granted upon Mr. Golechha's promotion to Chief Financial Officer. After achievement of a specified performance metric, this PSU vests over a four-year period with one fourth (1/4th) of the shares vesting on the one-year anniversary of the grant date; and one-sixteenth (1/16th) of the shares vesting quarterly thereafter, subject to the executive continuing to be employed with us through each vesting date.
- ⁽⁷⁾ After achievement of a specified performance metric, this PSU vests over a four-year period with 5% of the shares vesting on October 20, 2021; 12.5% of the shares vesting in equal quarterly increments during year two; 55% of the shares vesting in equal quarterly increments during year three; and 27.5% of the shares vesting in equal quarterly increments during year four, subject to the executive continuing to be employed with us through each vesting date.
- ⁽⁸⁾ After achievement of a specified performance metric, this PSU vests over a four-year period with 25% of the shares vesting on October 20, 2021; 25% of the shares vesting in equal quarterly increments during year two; 25% of the shares vesting in equal quarterly increments during year three; and 25% of the shares vesting in equal quarterly increments during year four subject to the executive continuing to be employed with us through each vesting date.
- ⁽⁹⁾ After achievement of a specified performance metric, this PSU vests over a four-year period with 20% of the shares vesting in equal quarterly increments during year two with the first vest on January 20, 2022; 40% of the shares vesting in equal quarterly increments during year three; and 40% of the shares vesting in equal quarterly increments during year four, subject to the executive continuing to be employed with us through each vesting date.
- ⁽¹⁰⁾ All stock options were forfeited due to Mr. Visoso's resignation.

Fiscal 2021 Outstanding Equity Awards at Fiscal Year-End

The following table presents information regarding outstanding stock options and other equity awards held by our Named Executive Officers as of July 31, 2021.

Named Executive Officer	Grant Date	Option Awards—	Option Awards—	Equity Incentive Plan Awards—	Option Awards—	Option Awards—	Stock Awards—	Stock Awards—	Equity Incentive Plan Awards—	Equity Incentive Plan Awards—
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	or Units of Stock That Have Not Vested (#)	Market Value of Units of Stock That Have Not Vested (\$) ⁽¹⁾	Number of Shares, Units or Other Rights That Have Not Vested (#)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Mr. Arora	10/20/2020 ⁽²⁾	—	—	—	—	—	170,142	67,895,165	—	—
	7/31/2019 ⁽³⁾	—	—	—	—	—	20,134	8,034,473	16,186	6,459,023
	7/31/2019 ⁽⁴⁾	—	—	—	—	—	16,186	6,459,023	—	—
	6/7/2018 ⁽⁵⁾	—	—	—	—	—	113,486	45,286,588	—	—
	6/18/2018 ⁽⁶⁾	—	—	—	—	—	23,912	9,542,084	—	—
	6/7/2018 ⁽⁷⁾	217,143	72,382	868,575	198.50	12/6/25	—	—	—	—
	Mr. Golechha	3/17/2021 ⁽⁸⁾	—	—	—	—	—	22,164	8,844,544	—
12/20/2020 ⁽⁹⁾	—	—	—	—	—	—	13,447	5,366,025	—	—
Mr. Singh	10/20/2020 ⁽¹⁰⁾	—	—	—	—	—	81,020	32,331,031	—	—
	10/20/2019 ⁽¹¹⁾	—	—	—	—	—	10,760	4,293,778	—	—
	7/31/2019 ⁽¹²⁾	—	—	—	—	—	14,126	5,636,980	—	—
	7/31/2019 ⁽³⁾	—	—	—	—	—	11,715	4,674,871	9,417	3,757,854
	11/2/2018 ⁽¹³⁾	—	—	—	—	—	9,596	3,829,284	—	—
	11/2/2018 ⁽¹⁴⁾	54,268	54,268	325,609	184.24	5/1/26	—	—	—	—
Mr. Klarich	10/20/2020 ⁽¹⁵⁾	—	—	—	—	—	81,020	32,331,031	—	—
	7/31/2019 ⁽¹⁶⁾	—	—	—	—	—	9,196	3,669,664	—	—
	7/31/2019 ⁽³⁾	—	—	—	—	—	9,152	3,652,106	7,357	2,935,811
	10/20/2018 ⁽¹⁴⁾	83,836	83,837	503,020	193.51	4/19/26	—	—	—	—
	10/20/2017 ⁽¹⁷⁾	—	—	—	—	—	868	346,375	—	—
	10/20/2017 ⁽¹⁸⁾	—	—	—	—	—	915	365,131	—	—
Mr. Zuk	10/20/2020 ⁽¹⁹⁾	—	—	—	—	—	24,306	9,699,309	—	—
	7/31/2019 ⁽¹⁶⁾	—	—	—	—	—	4,598	1,834,832	—	—
	7/31/2019 ⁽³⁾	—	—	—	—	—	4,576	1,826,053	3,679	1,468,105
	10/20/2018 ⁽¹⁴⁾	62,877	62,878	377,265	193.51	4/19/26	—	—	—	—
	10/20/2017 ⁽²⁰⁾	—	—	—	—	—	868	346,375	—	—
	10/20/2017 ⁽²¹⁾	—	—	—	—	—	915	365,131	—	—
1/21/2013	15,000	—	—	55.36	1/20/23	—	—	—	—	
Mr. Visoso⁽²²⁾	—	—	—	—	—	—	—	—	—	—

⁽¹⁾ The market value of unvested shares is calculated by multiplying the number of unvested shares held by the applicable NEO by the closing market price of our common stock on the NYSE on July 30, 2021 (the last trading day of our fiscal year), which was \$399.05 per share. On October 25, 2021, our common stock ceased trading on the NYSE and commenced trading on Nasdaq.

⁽²⁾ Represents performance-based restricted stock unit awards (“PSUs”) which were granted under our Palo Alto Networks, Inc. 2012 Equity Incentive Plan (“2012 Plan”). For more information, see the section titled “Discussion of our Fiscal 2021 Executive Compensation Program—Fiscal 2021 Executive Compensation Program Components—Equity Compensation. A specified performance metric being achieved, this PSU will vest over a four-year period with 15% of the shares vesting in equal quarterly increments during year two with the first vesting on January 20, 2022; 42.5% of the shares vesting in equal quarterly increments during year three; and 42.5% of the shares vesting in equal quarterly increments during year four.

⁽³⁾ After achievement of a specified performance metric, this PSU vested as to one-third of the shares that have become eligible to vest on October 20, 2020, will vest as to one-third of the shares that have become eligible to vest on October 20, 2021 and will vest as to one-third of the shares that have become eligible to vest on October 20, 2022.

⁽⁴⁾ Vested as to 1/12th of the restricted stock units on September 7, 2019 and the remaining restricted stock units vest in equal increments each quarter with full vesting on June 7, 2022.

- ⁽⁵⁾ Vested as to 1/7th of the restricted stock units on June 7, 2019 and the remaining restricted stock units vest in equal increments each quarter thereafter with full vesting occurring on June 7, 2025.
- ⁽⁶⁾ Vested as to 25% of the restricted stock units on June 18, 2019 and the remaining restricted stock units vest in equal increments each quarter thereafter with full vesting occurring on June 18, 2022.
- ⁽⁷⁾ This PSO is subject to performance-based vesting. This PSO has a per share exercise price of \$198.50 (the “Baseline Price”). Shares subject to the PSO become eligible to vest (the “Eligible Option Shares”) upon achievement of certain stock price targets as set forth in the table below. The performance-based vesting requirement will make the PSOs eligible to vest in four tranches once the stock price meets the achievement hurdle for 30 consecutive trading days during the period set forth below. To the extent that Stock Price Achievements for this PSO have been met, one-fourth (1/4th) of the Eligible Option Shares will vest annually on each anniversary of the PSO’s grant date, subject to Mr. Arora’s continued service through each vesting date. Upon a “Change in Control” (as described below in the section entitled “—Executive Employment Agreements” and “—Potential Payments Upon Termination or Change in Control”) the price payable to our stockholders at the closing of the transaction will be the final Stock Price Achievement.

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

- ⁽⁸⁾ A specified performance metric being achieved, this PSU vests over a four-year period with one fourth (1/4th) of the shares vesting on the one-year anniversary of the grant date; and one-sixteenth (1/16th) of the shares vesting quarterly thereafter.
- ⁽⁹⁾ Vests over a four-year period with one fourth (1/4th) of the restricted stock units vesting on the one-year anniversary of the grant date; and one-sixteenth (1/16th) of the restricted stock units vesting quarterly thereafter.
- ⁽¹⁰⁾ A specified performance metric being achieved, this PSU vests over a four-year period with 5% of the shares vesting on October 20, 2021; 12.5% of the shares vesting in equal quarterly increments during year two; 55% of the shares vesting in equal quarterly increments during year three; and 27.5% of the shares vesting in equal quarterly increments during year four.
- ⁽¹¹⁾ Vested as to 1/16th of the restricted stock units on January 20, 2020 and the remaining restricted stock units vest in equal increments each quarter thereafter with full vesting occurring on October 20, 2023.
- ⁽¹²⁾ Vested as to 1/12th of the restricted stock units on February 20, 2020 and the remaining restricted stock units vest in equal increments each quarter thereafter with full vesting occurring on November 20, 2022.
- ⁽¹³⁾ Vested as to 40% of the restricted stock units on November 2, 2019; as to 30% of the restricted stock units in four equal quarterly installments through November 2, 2020; as to 20% of the restricted stock units in four equal quarterly installments through November 2, 2021 and as to 10% of the restricted stock units in four equal quarterly installments through November 2, 2022.
- ⁽¹⁴⁾ This PSO is subject to performance-based vesting. See “—Fiscal 2021 Executive Compensation Program Components—Fiscal 2021 Equity Compensation—Fiscal 2021 Achievement with respect to outstanding performance-base stock options,” for a description of the performance metrics and vesting schedule. Mr. Singh agreed to forfeit a portion of the shares (108,537 shares) subject to purchase under this PSO.
- ⁽¹⁵⁾ A specified performance metric being achieved, this PSU vests over a four-year period with 25% of the shares vesting on October 20, 2021; 25% of the shares vesting in equal quarterly increments during year two; 25% of the shares vesting in equal quarterly increments during year three; and 25% of the shares vesting in equal quarterly increments during year four.
- ⁽¹⁶⁾ Vested as to 1/12th of the restricted stock units on January 20, 2020 and the remaining restricted stock units vest in equal increments each quarter thereafter with full vesting occurring on October 20, 2022.
- ⁽¹⁷⁾ Vested as to 25% of the restricted stock units in equal quarterly increments until October 20, 2018, vested as to 37.5% of the restricted stock units in equal quarterly increments thereafter until October 20, 2019, as to 25% of the restricted stock units in equal quarterly increments thereafter until October 20, 2020, and as to 12.5% of the restricted stock units in equal quarterly increments thereafter with full vesting on October 20, 2021.
- ⁽¹⁸⁾ After achievement of a specified performance metric, this PSU vested as to 25% of the units that have become eligible to vest in equal quarterly increments until October 20, 2018, then vested as to 37.5% of the units that have become eligible to vest in equal quarterly increments thereafter until October 20, 2019, as to 25% of the units that have become eligible to vest in equal quarterly increments thereafter until October 20, 2020, and as to 12.5% of the units that have become eligible to vest in equal quarterly increments thereafter with full vesting on October 20, 2021.
- ⁽¹⁹⁾ A specified performance metric being achieved, this performance-based stock unit award vests over a four-year period with 20% of the shares vesting during year two with the first vest on January 20, 2022; 40% of the shares vesting in equal quarterly increments during year three; and 40% of the shares vesting in equal quarterly increments during year four.
- ⁽²⁰⁾ Vested as to 1/16th of the restricted stock units on January 20, 2018 and the remaining restricted stock units shall vest in equal increments each quarter thereafter with full vesting occurring on October 20, 2021.
- ⁽²¹⁾ After achievement of a specified performance metric, this PSU vested as to 1/16th of the units that have become eligible to vest on January 20, 2018 and the remaining units that have become eligible to vest in equal increments each quarter thereafter with full vesting occurring on October 20, 2021.
- ⁽²²⁾ Mr. Visoso resigned from the Company on March 17, 2021 and all outstanding equity awards were forfeited and are no longer outstanding as of that date.

Fiscal 2021 Option Exercises and Stock Vested

The following table presents information regarding the exercise of stock options and the vesting of stock awards by our NEOs during our fiscal year ended July 31, 2021.

Named Executive Officer	Option Awards— Number of Shares Acquired on Exercise (#)	Option Awards—Value Realized on Exercise (\$)	Stock Awards— Number of Shares Acquired on Vesting (#) *	Stock Awards— Value Realized on Vesting (\$) ⁽¹⁾ *
Mr. Arora	—	—	82,483	24,740,413
Mr. Golechha	—	—	—	—
Mr. Singh	—	—	34,349	9,954,751
Mr. Klarich	—	—	25,500	7,600,223
Mr. Zuk	—	—	15,873	4,916,202
Mr. Visoso	—	—	—	—

⁽¹⁾ Based on the market price of our company's common stock on the vesting date, multiplied by the number of shares vested.

We did not sponsor any defined benefit pension or other actuarial plan for our NEOs during our fiscal year ended July 31, 2021.

Nonqualified Deferred Compensation

We did not maintain any nonqualified defined contribution or other deferred compensation plans or arrangements for our NEOs during our fiscal year ended July 31, 2021.

Executive Employment Agreements

We have entered into employment offer letters with each of our NEOs in connection with his or her commencement of employment with us.

In December 2011, we entered into confirmatory new employment agreements with Messrs. Klarich and Zuk to achieve consistency in the employment terms and conditions of our then-serving executive officers.

Each of our NEOs is eligible to receive certain severance payments and/or benefits in connection with his or her termination of employment under various circumstances, including following a change in control, 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/or benefits payable to our NEOs under these arrangements, see the description below and the section titled “—Potential Payments Upon Termination or Change in Control” below. The estimated potential severance payments and/or benefits payable to each NEO in the event of termination of employment as of July 31, 2021, pursuant to the arrangements under the employment agreements, are described below.

The actual amounts that would be paid or distributed to our NEOs 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/or benefits upon a termination of employment. For example, some of the factors that could affect the amounts payable include the NEO's base salary and the market price of our common stock. Although we have entered into written arrangements to provide severance payments and/or benefits to our NEOs in connection with a termination of employment under particular circumstances, we or an acquirer may mutually agree with the NEOs on severance terms that vary from those provided in these pre-existing arrangements. Finally, in addition to the amounts presented below, each NEO would also be able to exercise any previously-vested stock options that he or she held. For more information about the NEOs outstanding equity awards as of July 31, 2021, see the section titled “—Fiscal 2021 Outstanding Equity Awards at Fiscal Year-End.”

Along with the severance payments and/or benefits described in an NEO's individual severance and change in control arrangement, they 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. ARORA

In the event of an involuntary termination of employment (a termination of employment by us without “cause”), at any time before a “change in control” or more than 12 months following a “change in control,” provided that he executes an appropriate release and waiver of claims, Mr. Arora will be entitled to receive:

- continued payment of his then-current base salary for a period of 12 months and reimbursement of 12 months of COBRA premiums; and
- accelerated vesting of the time-based restricted stock units, investment restricted stock units and eligible option shares for shares that would vest through the date 12 months after termination of employment.

MR. SINGH

In the event of an involuntary termination of employment (a termination of employment by us without “cause”), at any time before a “change in control” or more than 12 months following a “change in control,” provided that he executes an appropriate release and waiver of claims, Mr. Singh will be entitled to receive:

- continued payment of his then-current base salary for a period of nine months, 75% of his target incentive compensation for that fiscal year and reimbursement of nine months of COBRA premiums; and
- accelerated vesting of the time-based restricted stock units, eligible options shares and any other unvested time-based equity awards that would vest through the date nine months after termination of employment.

TERMINATION OF EMPLOYMENT—OTHER NAMED EXECUTIVE OFFICERS

None of the remaining NEOs are eligible to receive any specific payments or benefits in the event of an involuntary termination of employment unrelated to a change in control.

Termination of Employment in Connection with a Change in Control

MR. ARORA

In the event of an involuntary termination of employment (a termination of employment by us or our successor without “cause or a termination of employment for “good reason”) within 12 months following a “change in control,” provided that he executes an appropriate release and waiver of claims, Mr. Arora will be entitled to receive:

- a lump sum payment equal to his then-current annual base salary;
- 100% of his incentive compensation for that fiscal year;
- reimbursement of 12 months of COBRA premiums;
- accelerated vesting of his time-based restricted stock units and investment restricted stock units as to the greater of: (x) 50% of unvested shares or (y) shares that would vest through the date 24 months after termination of employment; and
- accelerated vesting of 100% of his eligible option shares subject to the performance option

MR. SINGH

In the event that there is a “change in control” of us, and we or our successor terminates Mr. Singh’s employment other than for “cause” or Mr. Singh terminates his employment for “good reason”, in either case upon or within 12 months following a “change of control,” provided that he executes an appropriate release and waiver of claims, Mr. Singh will be entitled to receive:

- a lump sum payment equal to his then-current annual base salary, 100% of his incentive compensation for that fiscal year and reimbursement of 12 months of COBRA premiums;
- accelerated vesting of the time-based restricted stock units, and any other then unvested time-based equity awards, equal to the shares that would vest through the date 24 months after termination of employment; and
- accelerated vesting of any unvested eligible option shares subject to the performance option equal to the shares that would vest through the date 24 months after termination of employment.

MESSRS. KLARICH AND ZUK

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,” provided that the executive officer executes an appropriate release and waiver of claims, provided that they each execute an appropriate release and waiver of claims, Messrs. Klarich and Zuk will each be entitled 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 incentive payment for that fiscal year;
- a lump sum cash payment equal to the amount payable for premiums for continued COBRA benefits for a period of 12 months (for Mr. Klarich only); 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.

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 our company is acquired by a person or entity or group of related persons or entities;
- any reorganization, consolidation, or merger of our 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 NEO’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 NEO’s authority, status, obligations, or responsibilities;
- there is a reduction in the NEO’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 NEO’s base salary; or
- 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 NEO’s home than our current location.

A resignation for “good reason” will not be deemed to have occurred unless the NEO 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.

Potential Payments Upon Termination or Change in Control Termination of Employment Unrelated to a Change in Control

Named Executive Officer	Salary Continuation (\$)	Target Annual Cash Bonus (\$)	Value of Accelerated Equity Awards (\$)		Value of Continued Health Care Coverage Premiums (\$)	Total (\$)
			Restricted Stock and Restricted Stock Units ⁽¹⁾	Options		
Mr. Arora	1,000,000	—	38,978,007	14,516,210	30,907	54,525,124
Mr. Singh⁽²⁾	562,500	562,500	8,980,620	5,828,655	23,180	15,957,455

⁽¹⁾ The amounts reported in the table reflect the aggregate market value of the unvested shares of our common stock underlying outstanding restricted stock awards and restricted stock unit awards. The aggregate market value is computed by multiplying (i) the number of unvested shares of our common stock subject to outstanding restricted stock awards or outstanding restricted stock unit awards at July 31, 2021, that would become vested by (ii) \$399.05 (the closing market price of our common stock on the NYSE on July 30, 2021, the last trading day in the fiscal year ended July 31, 2021). On October 25, 2021, our common stock ceased trading on the NYSE and commenced trading on Nasdaq.

⁽²⁾ Mr. Singh agreed to forfeit a portion of the shares (108,537 shares) subject to purchase under a PSO.

Termination of Employment in Connection with a Change in Control

Named Executive Officer	Salary Continuation (\$)	Target Annual Cash Bonus (\$)	Value of Accelerated Equity Awards (\$)		Value of Continued Health Care Coverage Premiums (\$)	Total (\$)
			Restricted Stock and Restricted Stock Units ⁽¹⁾	Options		
Mr. Arora	1,000,000	1,000,000	80,626,456	14,516,210	30,907	97,173,573
Mr. Singh	750,000	750,000	36,952,429	11,657,309	30,907	50,140,645
Mr. Klarich	550,000	550,000	21,639,284	8,615,826	30,907	31,386,017
Mr. Zuk	430,000	430,000	3,092,638	6,461,767	—	10,414,404

⁽¹⁾ The amounts reported in the table reflect the aggregate market value of the unvested shares of our common stock underlying outstanding restricted stock awards and restricted stock unit awards. The aggregate market value is computed by multiplying (i) the number of unvested shares of our common stock subject to outstanding restricted stock awards or outstanding restricted stock unit awards at July 31, 2021, that would become vested by (ii) \$399.05 (the closing market price of our common stock on the NYSE on July 30, 2021, the last trading day in the fiscal year ended July 31, 2021). On October 25, 2021, our common stock ceased trading on the NYSE and commenced trading on Nasdaq.

Equity Compensation Plan Information

The following table provides information as of July 31, 2021, with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (\$) ⁽²⁾	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders ⁽¹⁾	10,630,805	\$189.80	15,891,741
Equity compensation plans not approved by stockholders	374,225	—	—
Total	11,005,030		15,891,741

⁽¹⁾ Includes the following plans: the 2012 Plan, 2005 Equity Incentive Plan and 2012 Employee Stock Purchase Plan ("2012 ESPP"). Our 2012 Plan provides that on the first day of each fiscal year beginning with fiscal year 2014, the number of shares authorized for issuance under the 2012 Plan is automatically increased by a number equal to the lesser of (i) 8,000,000 shares of common stock, (ii) four and one half percent (4.5%) of the aggregate number of shares of common stock outstanding on the last day of the preceding fiscal year, or (iii) such number of shares that may be determined by our board of directors. Our 2012 ESPP provides that on the first day of each fiscal year beginning with fiscal year 2014 the number of shares authorized for issuance under the 2012 ESPP is automatically increased by a number equal to the lesser of (i) 2,000,000 shares of common stock, (ii) one percent (1.0%) of the aggregate number of shares of common stock outstanding on such date, or (iii) an amount determined by our board of directors or a duly authorized committee of our board of directors.

⁽²⁾ The weighted average exercise price does not take into account outstanding restricted stock, PSUs or RSUs, which have no exercise price.

PROPOSAL NO. 4

Approval of 2021 Equity Incentive Plan

We are asking our stockholders to approve a new equity incentive plan, the 2021 Equity Incentive Plan (the “2021 Plan”). Based on our Compensation and People Committee’s recommendation, our Board adopted the 2021 Plan on August 17, 2021, subject to approval from our stockholders at the Annual Meeting. If our stockholders approve the 2021 Plan, the 2021 Plan will replace our 2012 Equity Incentive Plan (the “2012 Plan”) and will continue in effect until terminated, and we will cease granting awards under the 2012 Plan.

Why Should Stockholders Vote to Approve the 2021 Plan?

The 2021 Plan Will Allow Us to Continue Attracting and Retaining the Best Talent

Our 2012 Plan will expire in June 2022, unless it is replaced by the 2021 Plan. Our Board believes that our success depends on the ability to attract and retain the best available personnel for positions of substantial responsibility and that the ability to grant equity awards is crucial to recruiting and retaining the services of these individuals. In addition, our Board believes that equity awards provide additional incentive to our employees, directors and consultants and promote our success. If stockholders do not approve the 2021 Plan at the Annual Meeting, we may be unable to continue our equity incentive program after our 2012 Plan expires in June 2022, which could prevent us from successfully attracting and retaining the highly skilled talent we need.

A Reasonable Number of Shares Will Be Reserved Under the 2021 Plan

If our stockholders approve the 2021 Plan, 4,400,000 new shares of our common stock (“Shares”) will be reserved for issuance under the 2021 Plan. Additionally, any Shares subject to outstanding equity awards granted under our 2012 Plan may be added to the 2021 Plan due to the forfeiture of such awards or as otherwise described in the summary of the 2021 Plan below. We anticipate these Shares will be enough to meet our expected needs for the next one to two years.

- *Number of Shares Remaining under the 2012 Plan.* As of October 22, 2021, outstanding equity awards under the 2012 Plan covered 10,580,021 Shares, and 14,760,073 Shares remained available for issuance under the 2012 Plan.
- *Overhang.* As of October 22, 2021, the 10,580,021 Shares subject to outstanding equity awards under our 2012 Plan represented approximately 11% of our outstanding Shares as of that date.
- *Historical Grant Practices.* In fiscal 2019, 2020 and 2021, we granted equity awards (excluding RSUs assumed in acquisitions) covering 6.2 million, 3.8 million and 4.7 million Shares, respectively, for approximately 14.7 million equity awards over that three-year period.
- *Forecasted Grants.* To determine how long the Shares we have requested approval for in the 2021 Plan will enable us to make grants of equity awards, our Compensation and People Committee and our Board reviewed a forecast that considered these factors: (i) the Shares reserved for grant under the 2021 Plan and (ii) forecasted future grants, with the future grant numbers determined based on assumptions about stock price and the competitive dollar value to be delivered to the grant recipient. Because we generally determine the size of equity awards to be granted based on the value of the award, if the stock price used to determine the number of Shares subject to an award differs significantly from the stock price assumed in the forecast (which was \$350 to \$450 per share), our actual Share usage will deviate significantly from our forecasted Share usage. For example, if our stock price used to determine the number of Shares subject to an award is lower than the stock price assumed in the forecast, we would need a larger number of Shares than anticipated to deliver the same intended value to participants.

We Have Used our 2012 Plan Responsibly and Intend to Use the 2021 Plan Responsibly

We recognize the dilutive impact of our equity compensation on our stockholders and continuously strive to balance this concern with the competition for talent. In the process it used to determine the number of Shares subject to the 2021 Plan, our Compensation and People Committee and Board reviewed analyses prepared by Meridian Compensation Partners, independent compensation consultant, which included analysis of the burn rate and overhang metrics discussed below. If approved, the new Shares reserved under the 2021 Plan would represent approximately 4.5% of our 98,019,530 outstanding Shares as of October 18, 2021. Our Board believes the potential dilution to stockholders is reasonable and sustainable to meet our business goals.

Gross burn rate can be used by some to assess a company’s use of equity compensation. Gross burn rate is defined as the number of shares underlying equity awards granted in a given fiscal year (excluding any RSUs assumed in acquisitions) divided by the number of shares of weighted average common stock outstanding (“CSO”).

Potential actual dilution to stockholders is often measured by analyzing the net burn rate. Net burn rate is defined as (i) the number of shares underlying equity awards granted in a given fiscal year (excluding any RSUs assumed in acquisitions) minus shares subject to outstanding equity awards forfeited during the year and returned to the plan divided by (ii) CSO. This measure indicates the rate at which we actually create potential future stockholder dilution. We have managed our net burn rate to 5.6% in fiscal 2019, 2.0% in fiscal 2020, and 3.7% in fiscal 2021. Our burn rates are higher than they might otherwise be because our share buyback program has decreased the number of shares outstanding.

The following table shows our gross and net burn rate over the past three fiscal years and the average CSO of those three years.

in millions	Fiscal 2019	Fiscal 2020	Fiscal 2021	Average
Performance-based stock options (“PSOs”) granted	2.6	0	0.2	0.9
PSOs earned	0	0	0.4	0.1
Restricted Stock Units (“RSUs”) granted ⁽¹⁾	3.4	3.4	3.7	3.5
Performance-based restricted stock units (“PSUs”) granted	0.2	0.4	0.8	0.5
PSUs earned	0.1	0.1	0.1	0.1
Total awards granted ⁽²⁾	6.2	3.8	4.7	4.9
Weighted average common stock outstanding	94.5	96.9	96.4	95.9
Gross Burn Rate	6.6%	3.9%	4.9%	5.1%
Forfeitures of Options	0	0	0	0
Forfeitures of PSOs	0.1	0.9	0.2	0.4
Forfeitures of RSUs	0.8	1.0	0.9	0.9
Net Burn Rate	5.6%	2.0%	3.7%	3.8%

⁽¹⁾ Excludes RSUs assumed in acquisitions.

⁽²⁾ Includes RSUs granted, PSOs granted and PSUs granted.

The 2021 Plan Is Less Dilutive to Stockholders than the 2012 Plan

- **No Annual “Evergreen” Provision.** The 2021 Plan reserves a fixed number of Shares, which means that stockholder approval is required to increase the maximum number of Shares that can be granted under the 2021 Plan. Unlike the 2012 Plan, the 2021 Plan does not contain an annual “evergreen” to automatically increase the number of Shares available for issuance each year.
- **Certain Shares Are No Longer Returned to the Share Reserve.** Shares used to pay the exercise price of an award granted under the 2021 Plan or to satisfy tax withholding obligations for an award granted under the 2021 Plan will not become available for future grant under the 2021 Plan. Under the 2012 Plan, such Shares could be used for future grants.

The 2021 Plan Includes Compensation and Governance Best Practices

The 2021 Plan includes provisions considered best practices for compensation and corporate governance purposes. These provisions protect our stockholders’ interests:

- **Administration.** The 2021 Plan will be administered by our Compensation and People Committee, which consists entirely of independent non-employee directors.
- **Repricing is Not Allowed without Stockholder Approval.** The 2021 Plan does not permit awards to be repriced or exchanged for other awards unless stockholders approve the repricing or exchange.
- **No Single-Trigger Vesting Acceleration upon a Change in Control for Employees and Consultants.** Awards under the 2021 Plan will be treated in a change in control (as defined in the 2021 Plan) in the manner determined by the administrator, and except for awards granted to our non-employee directors for their service as non-employee directors, the terms of the 2021 Plan provide for no automatic vesting of awards upon a change in control unless the award is not assumed or substituted.
- **Limited transferability.** Awards under the 2021 Plan generally may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner, unless otherwise approved by the administrator (on such terms as the administrator deems appropriate) or required by applicable laws.
- **No Tax Gross-ups.** The 2021 Plan does not provide for any tax gross-ups.
- **Forfeiture Events.** Each award under the 2021 Plan and any other incentive compensation paid to a participant will be subject to our clawback policy that was in effect when the 2021 Plan was adopted and any clawback policy that we establish or amend to comply with applicable laws, and the administrator may require a participant to forfeit, return, or reimburse all or a portion of the award or other compensation and any amounts paid under the award or other compensation to comply with such clawback policy or applicable laws.
- **Reasonable Annual Limits on Non-Employee Director Compensation.** The 2021 Plan sets limits as to the total compensation that non-employee directors may receive (for service as a non-employee director) during each fiscal year.
- **No Dividends on Unvested Awards.** No dividends or other distributions may be paid with respect to any Shares underlying the unvested portion of an Award.

Our executive officers and directors have an interest in the approval of the 2021 Plan because they are eligible to receive equity awards under the 2021 Plan.

Vote Required and Board Recommendation

The 2021 Plan must be approved by a majority of the votes cast, meaning that the 2021 Plan will be approved only if the number of votes “FOR” approval of the 2021 Plan exceeds the number of votes “AGAINST” approval of the 2021 Plan.

Recommendation of the Board

The Board recommends that you vote “FOR” the approval of the 2021 Equity Incentive Plan and the number of shares reserved for issuance under the 2021 plan.

Summary of the 2021 Plan

The following paragraphs summarize the principal features of the 2021 Plan and its operation. However, this summary is not a complete description of the provisions of the 2021 Plan and is qualified in its entirety by the specific language of the 2021 Plan. A copy of the 2021 Plan is provided as Appendix B to this proxy statement.

Purpose of the 2021 Plan

The purpose of the 2021 Plan is to attract and retain the best available personnel for positions of substantial responsibility, provide additional incentive to employees, directors, and consultants, and promote the success of our business. These incentives can be provided through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, and performance shares.

Shares Available for Issuance

Subject to the adjustment provisions in the 2021 Plan, our stockholders are being asked to approve a number of Shares for issuance under the 2021 Plan equal to (a) 4,400,000 new Shares plus (b) any Shares subject to awards previously granted under the 2012 Plan that, on or after the date our stockholders initially approve the 2021 Plan, expire or otherwise terminate without having been exercised or issued in full, are tendered to or withheld by us for payment of an exercise price or for tax withholding obligations, or that are forfeited to or repurchased by us due to failure to vest, with the maximum number of shares to be added under the foregoing clause equal to 10,580,021 shares. If we substitute equity awards for equity awards of acquired entities in connection with mergers, reorganizations, separations, or other transactions as described in the 2021 Plan, the grant of such substituted awards will not decrease the number of Shares available for issuance under the 2021 Plan. Shares may be authorized, but unissued, or reacquired common stock.

If an award granted under the 2021 Plan expires or becomes unexercisable without having been exercised in full or is forfeited to or repurchased by us due to failure to vest, then the expired, unexercised, forfeited, or repurchased Shares subject to that award will become available for future grant or sale under the 2021 Plan. If an award of stock appreciation rights is exercised, the gross number of Shares underlying the portion of a stock appreciation right that is exercised will cease to be available under the 2021 Plan. Shares actually issued under the 2021 Plan under any award will not be returned to the 2021 Plan and will not become available for future grant or sale under the 2021 Plan; provided, however, that if Shares issued under awards of restricted stock, restricted stock units, performance shares or performance units are repurchased by us or are forfeited to us due to failure to vest, such Shares will become available for future grant under the 2021 Plan. Shares used to pay the exercise price of an award or to satisfy tax withholding obligations related to an award will not become available for future grant or sale under the 2021 Plan. If an award is paid in cash rather than Shares, such payment will not reduce the number of Shares available for issuance under the 2021 Plan.

In the event of certain dividends or other distributions (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities or other change in the corporate structure affecting our Shares, the 2021 Plan administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the 2021 Plan, will adjust the number and class of shares that may be delivered under the 2021 Plan, and/or the number, class and price of shares of stock subject to outstanding awards, and the award grant limitations discussed above.

During the term of this Plan, we will at all times reserve and keep available a number of Shares sufficient to satisfy the requirements of the 2021 Plan.

Limitations

The 2021 Plan also provides that no non-employee director may be paid compensation for service as a non-employee director that, in the aggregate, exceeds \$2,000,000 for any fiscal year of ours, increased to \$4,000,000 for the non-employee director for our fiscal year in which he or she joins our board of directors as a non-employee director. For these purposes, compensation includes equity awards (including any awards issued under the 2021 Plan), with the value of such equity awards measured based on their grant date fair value (determined under U.S. generally accepted accounting principles), and any other compensation (such as cash retainers or fees) for director service. Any award granted to a participant while he or she was an employee or a consultant (other than a non-employee director) will not count for this limitation.

Administration

Our board of directors, any committee of individuals satisfying applicable laws appointed by our board of directors, or any duly authorized committee of our Board will be the “administrator” of the 2021 Plan. Different administrators may administer the 2021 Plan with respect to different groups of service providers. Our Board has designated our Compensation and People Committee as an administrator of the 2021 Plan. To make grants to certain officers and key employees, the members of the committee must qualify as “non-employee directors” under Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Subject to the terms of the 2021 Plan, the administrator has the authority to make any determinations and perform any actions that it deems necessary or advisable to administer the 2021 Plan, such as the authority to: determine the fair market value of a Share, select the service providers who will receive awards; determine the number of Shares covered by each award and the terms of each award; approve forms of award agreements for use with the 2021 Plan; interpret, modify or amend each award (subject to the repricing restrictions of the 2021 Plan), including to accelerate vesting or waive forfeiture restrictions; interpret the 2021 Plan; and delegate ministerial duties to any of our employees. The administrator may allow a participant to defer the receipt of payment of cash or delivery of Shares otherwise due to such participant. The administrator may make rules and regulations relating to the 2021 Plan, including rules, regulations, and sub-plans to facilitate compliance with applicable non-U.S. laws, easing the administration of the 2021 Plan, and/or take advantage of tax-favorable treatment of awards granted to service providers outside the U.S., and may make all other determinations deemed necessary or advisable for administering the 2021 Plan.

Eligibility

All types of awards, other than incentive stock options, may be granted to our non-employee directors and to employees and consultants of ours or any parent or subsidiary corporation of ours. Incentive stock options may be granted only to employees of ours or any parent or subsidiary corporation of ours. As of July 31, 2021, we and our parent and subsidiary corporations had approximately 10,473 employees (including one employee director), 9 non-employee directors and approximately 11 consultants.

Stock Options

An option gives a participant the right to purchase a specified number of Shares for a fixed exercise price during a specified period. Each option granted under the 2021 Plan will be evidenced by an award agreement specifying the number of Shares subject to the option and the other terms of the option, consistent with the 2021 Plan.

The exercise price per Share of each option may not be less than the fair market value of a Share on the date of grant (except, in the case of a nonstatutory stock option, as otherwise required by applicable laws). However, any incentive stock option granted to a person who at the time of grant owns stock representing more than 10% of the total combined voting power of all classes of our stock or any parent or subsidiary corporation of ours (a “ten percent stockholder”) must have an exercise price per Share equal to at least 110% of the fair market value of a Share on the date of grant. The aggregate fair market value of the Shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year also may not exceed \$100,000. For this purpose, the fair market value of a Share is generally the closing sales price of our stock, as reported on the primary stock exchange on which it is traded. On October 25, 2021, the closing price of a Share on Nasdaq was \$497.77.

Options will be exercisable at such times or under such conditions as determined by the administrator and set forth in the award agreement. When a participant's service ends, the unvested portion of the participant's option generally expires. The vested portion of the option will remain exercisable for the period following the end of the participant's service that was determined by the administrator and specified in the participant's award agreement, and if no such period was specified in the award agreement, the vested portion of the option will remain exercisable for: (i) 3 months following the end of the participant's service provider status for reasons other than death or disability or (ii) 12 months following the end of the participant's service provider status due to death or disability. In addition, a participant's award agreement may provide for an extension of the post-service exercise period if the participant's service ends for reasons other than his or her death or disability and the exercise of the option following the termination of service would result in liability under Section 16(b) of the Exchange Act or would violate the registration requirements under the Securities Act of 1933, as amended (the "Securities Act").

The term of an option will be specified in the award agreement, but the term of an incentive stock option may not be more than ten years (or five years for an incentive stock option granted to a ten percent stockholder).

The administrator will determine the acceptable form(s) of consideration for exercising an option. An option will be deemed exercised when we receive the notice of exercise and full payment for the Shares to be exercised, together with any amounts necessary to satisfy withholding obligations for tax-related items. At any time after the grant of an option, the administrator has the discretion to accelerate the time at which the option will vest or become exercisable.

Stock Appreciation Rights

A stock appreciation right gives a participant the right to receive the appreciation in the value of a Share between the date an award is granted and the date it is exercised. Upon exercise of a stock appreciation right, the holder of the award will be entitled to receive an amount determined as the product of: (i) the difference between the fair market value of a Share on the date of exercise and the exercise price per Share and (ii) the number of Shares covered by the exercised portion of the stock appreciation right. We may pay that amount in cash, Shares, or a combination of both. Each stock appreciation right granted under the 2021 Plan will be evidenced by an award agreement specifying the exercise price and the other terms of the award.

The exercise price per Share of each stock appreciation right may not be less than the fair market value of a Share on the date of grant, unless otherwise required by applicable laws.

Stock appreciation rights will be exercisable at such times or under such conditions as determined by the administrator and set forth in the award agreement. The terms relating to the period of exercise of stock appreciation rights following the termination of a participant's service are similar to those for options described above. At any time after the grant of a stock appreciation right, the administrator has the discretion to accelerate the time at which the stock appreciation right will vest or become exercisable.

Restricted Stock Awards

Awards of restricted stock are rights to acquire or purchase Shares that vest under the terms established by the administrator in its sole discretion. Unless the administrator provides otherwise, participants holding Shares of restricted stock will have voting rights with respect to such Shares without regard to vesting. After an award of restricted stock has been granted, the administrator has the discretion to reduce or waive any restrictions and to accelerate the time at which any restrictions will lapse or be removed.

Restricted Stock Units

A restricted stock unit represent a right to receive cash or Shares if the performance goals or other vesting criteria set by the administrator are achieved or the restricted stock unit otherwise vests. Each award of restricted stock units granted under the 2021 Plan will be evidenced by an award agreement specifying the number of Shares subject to the award and other terms of the award.

The administrator may set vesting conditions based upon the achievement of company-wide, divisional, business unit or individual goals (such as continued employment or service), applicable U.S. or non-U.S. federal or state securities laws, or any other basis determined by the administrator, in its discretion.

After an award of restricted stock units has been granted, the administrator has the discretion to reduce or waive any restrictions or vesting criteria that must be met to receive a payout or to accelerate the time at which any restrictions will lapse or be removed. A participant will forfeit any unearned restricted stock units on the date specified in the participant's award agreement. The administrator in its sole discretion may pay earned restricted stock units in cash, Shares, or a combination of both.

Performance Units and Performance Shares

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. Performance units will have an initial value established by the administrator on or before the date of grant. Each performance share will have an initial value equal to the fair market value of a Share on the grant date. Performance units and performance shares will result in a payment to a participant only if the performance goals or other vesting criteria set by the administrator are achieved or the awards otherwise vest.

Each award of performance units or performance shares granted under the 2021 Plan will be evidenced by an award agreement specifying the performance period and other terms of the award. The administrator may set vesting criteria based upon the achievement of company-wide, divisional, business unit or individual goals (such as continued employment or service), applicable U.S. or non-U.S. federal or state securities laws, or any other basis determined by the administrator, in its discretion.

After an award of performance units or performance shares has been granted, the administrator has the discretion to accelerate, reduce or waive any performance objectives or other vesting provisions for such performance units or performance shares.

The administrator has the discretion to pay earned performance units or performance shares in the form of cash, Shares (which will have an aggregate fair market value equal to the earned performance units or performance shares at the close of the performance period), or a combination of both.

A participant will forfeit any performance units or performance shares not earned and not vested as of the date specified in the participant's award agreement.

Transferability of Awards

Unless otherwise specified by the administrator or required by applicable laws, awards are not transferable other than by will or by the laws of descent or distribution. The administrator may permit an award to be transferred (i) under a domestic relations order, official marital settlement agreement, or other divorce or separation agreement, or (ii) to the extent permitted by Form S-8 under the Securities Act and any other applicable laws. Any individual or entity to whom an award is transferred will be subject to all of the terms and conditions applicable to the participant who transferred the award, including the terms and conditions in the 2021 Plan and the award agreement. If an award is unvested, then the service of the participant will continue to determine whether the award will vest and when it will terminate.

Dissolution or Liquidation

In the event of our proposed dissolution or liquidation, the administrator will notify each participant as soon as practicable prior to the effective date of such proposed transaction. An award will terminate immediately prior to consummation of such proposed action to the extent the award has not been previously exercised.

Merger or Change in Control

The 2021 Plan provides that, in the event of a merger or change in control, each award will be treated as the administrator determines without a participant's consent. The administrator will not be required to treat all awards, all awards held by a participant, all awards of the same type, or all portions of awards the same in the transaction.

If the successor corporation does not assume or substitute for the award (or portion thereof), the participant will vest in and may exercise all of the participant's outstanding options and stock appreciation rights (or portion thereof) that is not assumed or substituted for, all restrictions on restricted stock and restricted stock units will lapse. With respect to awards with performance-based vesting that are not assumed or substituted for, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels, and all other terms met, in each case, unless specifically provided otherwise under the applicable award agreement. In addition, if an option or stock appreciation right (or its applicable portion) is not assumed or substituted for, the administrator will notify the participant in writing or electronically that the option or stock appreciation right will be exercisable for a period of time determined by the administrator, in its sole discretion, and the option or stock appreciation right (or its applicable portion) will terminate upon the expiration of such period.

For awards granted to each of our non-employee directors, in the event of a change in control, (i) the non-employee director will fully vest in and have the right to exercise all of his or her outstanding options and stock appreciation rights, (ii) all restrictions on the non-employee director's restricted stock and restricted stock units will lapse, and (iii) with respect to the non-employee director's awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions will be deemed met, unless specifically provided otherwise under the applicable award agreement.

Forfeiture Events

Each award under the 2021 Plan and any other compensation paid or payable to a participant (including, but not limited to, equity awards issued outside of the 2021 Plan) will be subject to any clawback policy of ours, and the administrator also may specify in an award agreement that the participant's rights, payments, and benefits regarding an award will be subject to reduction, cancellation, forfeiture, recoupment, reimbursement, or reacquisition upon the occurrence of certain specified events. An award will be subject to the company's clawback policy in effect when the award is granted and any other clawback policy of ours as established and/or amended to comply with applicable laws (such as under the listing standards of any national securities exchange or association on which our securities are listed or as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act). The administrator may require a participant to forfeit, return, or reimburse all or a portion of the award and any amounts paid under the award to comply with such clawback policy or applicable laws.

No recovery of compensation under a clawback policy or otherwise will constitute an event that triggers or contributes to any right of a participant to resign for "good reason" or "constructive termination" (or similar term) under any agreement with us or any of our parent or subsidiary corporations, unless the 2021 Plan provisions described in the prior paragraph specifically are mentioned and waived in an award agreement or other document.

Termination or Amendment

The administrator may amend, alter, suspend, or terminate the 2021 Plan at any time, provided that no amendment may be made without stockholder approval to the extent approval is necessary to comply with any applicable laws. No amendment, alteration, suspension, or termination may materially impair the rights of any participant with respect to his or her outstanding awards unless mutually agreed otherwise between the participant and the administrator. The 2021 Plan will continue until terminated by the administrator, but no incentive stock option may be granted after the tenth anniversary of the 2021 Plan's adoption by our board of directors.

Notwithstanding the prior paragraph, the Administrator may amend the terms of any one or more awards without an affected participant's consent even if it does materially impair the participant's rights, subject to the limitations of applicable laws, if any, if such amendment is done (i) in a manner expressly permitted under the 2021 Plan; (ii) to maintain the qualified status of the award as an incentive stock option under Section 422 of the Code; (iii) to change the terms of an incentive stock option, if such change results in impairment of the award only because it impairs the qualified status of the award as an incentive stock option under Section 422 of the Code; (iv) to clarify the manner of exemption from, or to bring the award into compliance with, Section 409A of the Code; or (v) to comply with other applicable laws.

Summary of U.S. Federal Income Tax Consequences

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the 2021 Plan. The summary is based on existing U.S. laws and regulations, and there can be no assurance that those laws and regulations will not change. The summary is not complete and does not discuss the tax consequences upon a participant's death, or the income tax laws of any municipality, state, or non-U.S. country in which a participant may reside. Tax consequences for any particular participant may vary based on individual circumstances.

Incentive Stock Options

A participant recognizes no taxable income for regular income tax purposes because of the grant or exercise of an option that qualifies as incentive stock option under Section 422 of the Code. If a participant exercises the option and then later sells or otherwise disposes of the Shares acquired through the exercise the option after both the two-year anniversary of the date the option was granted and the one-year anniversary of the exercise, the participant will recognize a capital gain or loss equal to the difference between the sale price of the Shares and the exercise price.

However, if the participant disposes of such Shares either on or before the two-year anniversary of the date of grant or on or before the one-year anniversary of the date of exercise (a "disqualifying disposition"), any gain up to the excess of the fair market value of the Shares on the date of exercise over the exercise price generally will be taxed as ordinary income, unless the Shares are disposed of in a transaction in which the participant would not recognize a loss (such as a gift). Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss.

For purposes of the alternative minimum tax, the difference between the option exercise price and the fair market value of the Shares on the exercise date is treated as an adjustment item in computing the participant's alternative minimum taxable income in the year of exercise. In addition, special alternative minimum tax rules may apply to certain subsequent disqualifying dispositions of the Shares or provide certain basis adjustments or tax credits.

Nonstatutory Stock Options

A participant generally recognizes no taxable income as the result of the grant of a nonstatutory stock option. However, upon exercising the option with respect to any Shares, the participant normally recognizes ordinary income equal to the amount that the fair market value of such Shares on such date exceeds the exercise price for such Shares. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of the Shares acquired by exercising a nonstatutory stock option, any gain or loss (based on the difference between the sale price and the fair market value on the exercise date) will be taxed as capital gain or loss.

Stock Appreciation Rights

A participant generally recognizes no taxable income as the result of the grant of a stock appreciation right. However, upon exercising the stock appreciation right with respect to any Shares, the participant normally recognizes ordinary income equal to the amount that the fair market value of such Shares on such date exceeds the exercise price for such Shares. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of the Shares acquired by exercising a stock appreciation right, any gain or loss (based on the difference between the sale price and the fair market value on the exercise date) will be taxed as capital gain or loss.

Restricted Stock Awards

A participant acquiring Shares of restricted stock generally will recognize ordinary income equal to the amount that the fair market value of the Shares on the vesting date exceeds the purchase price paid by the participant for such Shares (if any). If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. The participant may elect, under Section 83(b) of the Code, to accelerate the ordinary income tax event to the date of acquisition by filing an election with the Internal Revenue Service no later than thirty days after the date the Shares are acquired. Upon the sale of Shares acquired under a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

Restricted Stock Unit Awards

There are no immediate tax consequences of receiving an award of restricted stock units. A participant who is awarded restricted stock units generally will have to recognize ordinary income equal to the fair market value of Shares issued to such participant at the end of the applicable vesting period or, if later, the settlement date elected by the administrator or a participant. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Any additional gain or loss recognized upon any later disposition of any Shares received would be capital gain or loss.

Performance Shares and Performance Unit Awards

A participant generally will recognize no income upon the grant of a performance share or a performance unit award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of receipt in an amount equal to the cash received and the fair market value of any cash or unrestricted Shares received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of any Shares received, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

Section 409A

Section 409A provides certain requirements for non-qualified deferred compensation arrangements with respect to an individual's deferral and distribution elections and permissible distribution events. Awards granted under the 2021 Plan with a deferral feature will be subject to the requirements of Section 409A. If an award is subject to and fails to satisfy the requirements of Section 409A, the recipient of that award may recognize ordinary income on the amounts deferred under the award, when vested, which may be before the compensation is actually or constructively received. Also, if an award subject to Section 409A violates Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income and potentially penalties and interest on such deferred compensation.

Tax Effect for Us

We generally will be entitled to a tax deduction in connection with an award under the 2021 Plan equal to the ordinary income realized by a participant when the participant recognizes such income (for example, the exercise of a nonstatutory stock option or the disqualifying disposition of Shares acquired through the exercise of an incentive stock option) except to the extent such deduction is limited by applicable provisions of the Code. Special rules limit

the deductibility of compensation paid to our chief executive officer and other “covered employees” as determined under Section 162(m) and applicable guidance. Under Section 162(m), the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000.

THE SUMMARY ABOVE IS ONLY A SUMMARY OF THE EFFECT OF U.S. FEDERAL INCOME TAXATION ON PARTICIPANTS AND US WITH RESPECT TO AWARDS UNDER THE 2021 PLAN. IT IS NOT INTENDED TO BE COMPLETE AND MAY NOT DISCUSS THE IMPACT OF EMPLOYMENT OR OTHER TAX REQUIREMENTS, THE TAX CONSEQUENCES OF A PARTICIPANT’S DEATH, OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE, OR NON-U.S. COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

Number of Awards Granted to Employees, Consultants, and Directors

The number of awards that an employee, director, or consultant may receive under the 2021 Plan is in the discretion of the administrator and therefore cannot be determined in advance. The following table sets forth: (i) the aggregate target number of Shares subject to options granted under the 2012 Plan during fiscal 2021 to each of our named executive officers; our executive officers, as a group; our directors who are not executive officers, as a group; and all of our employees who are not executive officers, as a group; (ii) the average per Share exercise price of such options; (iii) time-based restricted stock units (“RSUs”), and performance-based restricted stock units (“PSUs”) granted under the 2012 Plan during fiscal 2021 to each of our named executive officers; our executive officers, as a group; our directors who are not executive officers, as a group; and all of our employees who are not executive officers, as a group; and (iv) the aggregate grant date fair value of such RSUs, and PSUs.

Name of Individual or Group	Number of Shares Subject to Options Granted	Weighted Average Per Share Exercise Price of Option Grants	Number of Shares Subject to RSUs and PSUs Granted ⁽¹⁾	Dollar Value of Shares Subject to RSUs and PSUs Granted ⁽²⁾
Nikesh Arora Chief Executive Officer and Chair of the Board	—	—	85,071	\$20,355,789
Dipak Golechha Executive Vice President, Chief Financial Officer	—	—	24,529 ⁽³⁾	8,292,144
Amit Singh President	—	—	40,510	9,693,233
Lee Klarich Chief Product Officer	—	—	40,510	9,693,233
Nir Zuk Chief Technology Officer	—	—	12,153	2,907,970
Luis Felipe Visoso⁽⁴⁾ Former Chief Financial Officer	182,659 ⁽⁴⁾	\$304.29	—	—
All executive officers, as a group	182,659 ⁽⁴⁾	\$304.29	213,645	53,758,689
All directors who are not executive officers, as a group	—	—	12,807	4,166,757
All employees who are not executive officers, as a group	—	—	4,380,713	1,331,625,678

⁽¹⁾ PSUs granted shown at target value.

⁽²⁾ Reflects the aggregate grant date fair value of awards computed under ASC 718.

⁽³⁾ Includes 13,447 RSUs and 11,082 PSUs.

⁽⁴⁾ Consists of PSOs. Mr. Visoso resigned on March 17, 2021 and forfeited all equity awards. None of these awards are outstanding.

Additional Equity Plan Information

The following table provides certain additional information regarding our equity compensation plans, excluding the Employee Stock Purchase Plan:

	As of 10/22/2021
Total Stock Options (including PSOs) Outstanding	2,713,174
Weighted-Average Exercise Price of Stock Options Outstanding	\$191.17 per share
Weighted-Average Remaining Duration of Stock Options Outstanding	3.83 years
Total Restricted Stock Units (including PSUs) Outstanding	8,193,896
Total Shares Available for Grant under the 2012 Equity Incentive Plan ¹	14,760,073

¹ There are no shares available for grant under other plans.

Any shares available under the 2012 Equity Incentive Plan will be cancelled upon the approval of the 2021 Equity Incentive Plan.

We commit to reduce the new plan share reserve by the number of shares that we grant under our existing 2012 Equity Incentive Plan between October 22, 2021 and December 14, 2021 (the Annual Meeting date), unless the proposal to adopt the 2021 Equity Plan (this Proposal No. 4) is not approved by the stockholders at the Annual meeting.

For more information regarding our equity compensation plans, including the Employee Stock Purchase Plan, please see "Equity Compensation Plan Information."

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of September 30, 2021 for:

- each of our directors and nominees for director;
- each of our NEOs;
- all of our current directors and executive officers as a group; and
- each person or group, who beneficially owned more than 5% of our common stock.

We have determined beneficial ownership in accordance with the rules and regulations 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 98,008,887 shares of our common stock outstanding at September 30, 2021. 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 (or issuable upon vesting of restricted stock units or performance stock unit awards) within 60 days of September 30, 2021. 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., 3000 Tannery Way, Santa Clara, California 95054. The information provided in the table below is based on our records, information filed with the SEC and information provided to us, except where otherwise noted.

	Number of Shares	Percent of Shares Outstanding
5% Stockholders:		
The Vanguard Group ⁽¹⁾	8,376,791	8.5%
BlackRock, Inc. ⁽²⁾	5,935,054	6.1%
Named Executive Officers and Directors:		
Nikesh Arora⁽³⁾	470,554	*
Mark D. McLaughlin⁽⁴⁾	106,831	*
Amit Singh⁽⁵⁾	99,244	*
Dipak Golechha	0	*
Lee Klarich⁽⁶⁾	306,764	*
Nir Zuk⁽⁷⁾	945,757	1.0%
Luis Felipe Visoso⁽⁸⁾	0	*
Aparna Bawa	0	*
Asheem Chandna⁽⁹⁾	114,594	*
John M. Donovan⁽¹⁰⁾	45,622	*
Carl Eschenbach⁽¹¹⁾	6,513	*
Helene D. Gayle	0	*
James J. Goetz⁽¹²⁾	168,259	*
Rt Hon Sir John Key⁽¹³⁾	3,533	*
Mary Pat McCarthy⁽¹⁴⁾	12,919	*
Lorraine Twohill⁽¹⁵⁾	3,881	*
All current directors and executive officers as a group (16 Persons) ⁽¹⁶⁾	2,185,227	2.2%

Security Ownership of Certain Beneficial Owners and Management

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

- (1) According to a Schedule 13G/A filed with the SEC on February 10, 2021, The Vanguard Group, Inc. ("Vanguard"), as investment advisor, has sole voting power with respect to none of the reported shares, shared voting power with respect to 101,503 of the reported shares, sole dispositive power with respect to 8,147,526 of the reported shares and shared dispositive power with respect to 229,265 of the reported shares. The address of Vanguard is 100 Vanguard Blvd., Malvern, PA 19355.
- (2) According to a Schedule 13G/A filed with the SEC on February 5, 2021, BlackRock, Inc. ("BlackRock") has sole voting power with respect to 5,349,491 of the reported shares, and sole dispositive power with respect to 5,935,054 of the reported shares. The address of BlackRock is 55 East 52nd Street, New York, NY 10055.
- (3) Consists of (i) 237,225 shares held of record by Mr. Arora, (ii) 16,185 shares of common stock issuable upon the vesting of performance stock unit awards within 60 days of September 30, 2021 and (iii) 217,144 PSOs exercisable within 60 days of September 30, 2021.
- (4) Consists of (i) 48,600 shares held of record by Mr. McLaughlin; (ii) 48,380 shares held of record by the Mark McLaughlin Revocable Living Trust; (iii) 4,500 shares held of record by McLaughlin in 2020 Dynasty LLC; and (iv) 5,351 shares of common stock issuable upon the vesting of restricted stock units and performance stock unit awards within 60 days of September 30, 2021.
- (5) Consists of (i) 25,558 shares held of record by Mr. Singh, (ii) 19,418 shares of common stock issuable upon the vesting of restricted stock units and performance stock unit awards within 60 days of September 30, 2021 and (iii) 54,268 PSOs exercisable within 60 days of September 30, 2021.
- (6) Consists of (i) 192,679 shares held of record by Mr. Klarich, of which 915 shares were issued pursuant to performance stock awards and remained subject to further vesting within 60 days of September 30, 2021; (ii) 30,249 shares that are issuable upon the vesting of restricted stock units and performance stock unit awards within 60 days of September 30, 2021 and (iii) 83,836 PSOs exercisable within 60 days of September 30, 2021.
- (7) Consists of (i) 770,354 shares held of record by Mr. Zuk, of which 915 shares were issued pursuant to performance stock awards and remained subject to further vesting within 60 days of September 30, 2021; (ii) 91,638 shares held by the Cliff Family Trusts, for which Mr. Zuk serves as a trustee; (iii) 15,000 shares that are issuable pursuant to stock options exercisable within 60 days of September 30, 2021; and (iv) 5,887 shares that are issuable upon the vesting of restricted stock units and performance stock unit awards within 60 days of September 30, 2021 and (v) 62,878 PSOs exercisable within 60 days of September 30, 2021.
- (8) Mr. Visoso is no longer employed by the Company. According to SEC filings and the Company's records at the time of Mr. Visoso's departure, Mr. Visoso holds no shares of the Company.
- (9) Consists of 10,562 shares held of record by Mr. Chandna and (ii) 104,032 shares held of record by the Chandna Family Revocable Trust DTD 4/13/98.
- (10) Consists of (i) 26,134 shares held of record by Mr. Donovan; and (ii) 19,488 shares held of record by SRJ Norway Partners LP, for which Mr. Donovan serves as the general partner.
- (11) Consists of 6,513 shares held of record by Mr. Eschenbach.
- (12) Consists of (i) 153,645 shares held of record by Mr. Goetz; and (ii) 14,614 shares held of record by the Goetz Children's Trust 4/24/1998.
- (13) Consists of (i) 3,189 shares held of record by the Rt Hon Sir John Key; and (ii) 344 shares issuable upon the vesting of restricted stock units within 60 days of September 30, 2021.
- (14) Consists of 12,919 shares held of record by Ms. McCarthy.
- (15) Consists of (i) 3,537 shares held of record by Ms. Twohill; and (ii) 344 shares issuable upon the vesting of restricted stock units within 60 days of September 30, 2021.
- (16) Consists of (i) 1,748,009 shares beneficially owned by the current directors and executive officers, of which 1,830 were issued pursuant to restricted stock awards and performance stock awards and remained subject to further vesting within 60 days of September 30, 2021; (ii) 15,000 shares issuable pursuant to stock options exercisable within 60 days of September 30, 2021; (iii) 58,360 shares of common stock issuable upon the vesting of restricted stock units and performance stock unit awards within 60 days of September 30, 2021 and (iv) 363,858 PSOs exercisable within 60 days of September 30, 2021.

Related Person Transactions

We describe below transactions and series of similar transactions, since the beginning of our last fiscal year, 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, nominees for director, executive officers, or beneficial holders of more than 5% of any class of our outstanding 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.

Employment Arrangements and Indemnification Agreements

We have entered into employment arrangements with certain current and former executive officers. See the section titled *“Discussion of our Fiscal 2021 Executive Compensation Program—Executive Employment Agreements.”*

We have also entered into indemnification agreements with our directors and executive officers. The indemnification agreements and our amended and restated certificate of incorporation and amended and restated bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

Transactions with Google Inc., Sequoia Operations LLC and Zoom Video Communications, Inc.

Ms. Twohill, one of our independent directors, is currently an executive at Google. Since the beginning of our last fiscal year through September 30, 2021, both directly and through our channel partners, we have sold an aggregate of approximately \$125.0 million of products and services to Alphabet Inc., the parent company of Google and have purchased an aggregate of approximately \$180.4 million of Google products and services, all in arm’s length transactions. Messrs. Eschenbach and Goetz, each an independent director, are a member and partner, respectively, of Sequoia. Since the beginning of our last fiscal year through September 30, 2021, both directly or through our channel partners, we have sold an aggregate of approximately \$0.1 million of products and services to Sequoia Capital, all in arm’s length transactions. Mr. Arora, our CEO and Chair of the Board, was an advisor to Zoom Video Communications, Inc. (“Zoom”) during fiscal 2021 and Ms. Bawa, who joined our board in May 2021 is the COO and interim Chief Legal Officer of Zoom. Since the beginning of our last fiscal year through September 30, 2021, both directly and through our channel partners, we have sold an aggregate of approximately \$26.8 million of products and services to Zoom and have purchased an aggregate of \$1.9 million of Zoom products and services, all in arm’s length transactions.

Additionally, none of Mmes. Bawa or Twohill or Messrs. Arora, Eschenbach or Goetz take part in discussion of transactions with us and (a) Google for Ms. Twohill, (b) Zoom for Ms. Bawa or Mr. Arora, or (c) Sequoia for Messrs. Eschenbach and Goetz, when such transactions are reviewed by our Audit Committee or Board. Additionally, the total revenues of Alphabet Inc. (Google’s parent company) for calendar year 2020 were \$182.5 billion. Our purchases of Google’s products and services, which totaled \$180.4 million since the beginning of our last fiscal year through September 30, 2021, are not material to Google. All transactions with Google, Sequoia and Zoom are subject to our rigorous related party transactions review process and policy, as further described below.

Policies and Procedures for Related Party Transactions

Our Audit Committee has the primary responsibility for reviewing and approving or ratifying transactions with related parties.

We have 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 capital 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, director or beneficial owner of less than 10% of that company's shares and the aggregate amount involved does not exceed the greater of \$500,000 or 2% of our company's total annual revenues, 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. In addition, it is our policy that directors interested in a related person transaction will recuse themselves from any discussion or vote on a related person transaction in which they have an interest. Each of the transactions described was approved in compliance with such policy.

About the Annual Meeting

Why are you holding a virtual meeting and how can stockholders attend?

We have adopted a virtual meeting format for our Annual Meeting this year to protect our stockholders and employees in light of the ongoing coronavirus (COVID-19) pandemic. In addition, a virtual meeting format will provide a consistent experience to all stockholders regardless of geographic location and enhance stockholder access and engagement. To participate in our virtual Annual Meeting, including to vote, ask questions and to view the list of registered stockholders as of the record date during the meeting, visit www.virtualshareholdermeeting.com/PANW2021 with your 16-digit control number included in the Notice, on your proxy card, or in the instructions that accompanied your proxy materials. If you did not receive a 16-digit control number please reach out to your broker for instructions. If you are not a stockholder or do not have a control number, you may still access the meeting as a guest, but you will not be able to submit questions or vote at the meeting.

How can I ask questions during the Annual Meeting?

The virtual format allows stockholders to communicate with us during the Annual Meeting so they can ask questions of our board of directors or management. Stockholder questions may be submitted in the field provided in the web portal during the Annual Meeting for consideration. Detailed guidelines for submitting written questions during the Annual Meeting are available at <http://www.virtualshareholdermeeting.com/PANW2021>. You can also submit questions in advance of the Annual Meeting by visiting www.proxyvote.com. We will endeavor to answer as many stockholder-submitted questions as time permits that comply with the meeting rules of conduct. We reserve the right to edit profanity or other inappropriate language and to exclude questions regarding topics that are not pertinent to meeting matters or our business. If we receive substantially similar questions, we may group such questions together and provide a single response to avoid repetition.

How do I vote?

If you are a stockholder of record, there are four ways to vote:

- by Internet, prior to the virtual Annual Meeting at <http://www.proxyvote.com>, 24 hours a day, seven days a week (have your proxy card in hand when you visit the website);
- by toll-free telephone at 1-800-690-6903 until 11:59 p.m. Eastern Standard Time, on December 13, 2021 (have your proxy card in hand when you call);
- by completing and mailing your proxy card so it is received prior to the Annual Meeting (if you received printed proxy materials); or
- by attending and voting during the virtual Annual Meeting by visiting www.virtualshareholdermeeting.com/PANW2021. Please have your 16-digit control number to join the virtual Annual Meeting.

Even if you plan to attend the virtual Annual Meeting, we recommend that you also vote by Internet, telephone, or returning a proxy card so that your vote will be counted if you later decide not to attend the virtual Annual Meeting.

If you are a street name stockholder, you will receive voting instructions from your broker, bank or other nominee. You must follow the voting instructions provided by your broker, bank or other nominee in order to direct your broker, bank or other nominee on how to vote your shares. Street name stockholders should generally be able to vote by returning a voting instruction form, or by telephone or on the Internet. However, the availability of telephone and Internet voting will depend on the voting process of your broker, bank or other nominee. As discussed above, if you are a street name stockholder, you may not vote your shares online at the virtual Annual Meeting unless you obtain a legal proxy from your broker, bank, or other nominee.

Can I change my vote?

Yes. If you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

- entering a new vote by Internet or by telephone on a later date;
- returning a later-dated proxy card;
- notifying the Corporate Secretary of Palo Alto Networks, in writing, at Palo Alto Networks, Inc., 3000 Tannery Way, Santa Clara, CA 95054; or
- attending and voting online during the virtual Annual Meeting by visiting www.virtualshareholdermeeting.com/PANW2021. Please have your 16-digit control number to join the Annual Meeting.

If you are a street name stockholder, your broker, bank or other nominee can provide you with instructions on how to change your vote or revoke your proxy.

How many votes are needed for approval of each proposal?

- **Proposal No. 1:** The election of directors requires a plurality vote of the shares of our common stock present virtually or by proxy at the virtual Annual Meeting and entitled to vote thereon to be approved. "Plurality" means that the nominees who receive the largest number of votes cast "for" such nominees are elected as directors. As a result, any shares not voted "for" a particular nominee (whether as a result of stockholder abstention, a withhold vote, or a broker non-vote) will not be counted in such nominee's favor and will have no effect on the outcome of the election. You may vote "for" or "withhold" on each of the nominees for election as a director.
- **Proposal No. 2:** The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending July 31, 2022 requires the affirmative vote of a majority of the shares of our common stock present virtually or by proxy at the virtual Annual Meeting and entitled to vote thereon to be approved. You may vote "for," "against," or "abstain" with respect to this proposal. Abstentions are considered votes present and entitled to vote on this proposal, and thus will have the same effect as a vote "against" this proposal. Broker non-votes will have no effect on the outcome of this proposal.
- **Proposal No. 3:** The approval, on an advisory basis, of the compensation of our named executive officers requires the affirmative vote of a majority of the shares of our common stock present virtually or by proxy at the virtual Annual Meeting and entitled to vote thereon to be approved. You may vote "for," "against," or "abstain" with respect to this proposal. Abstentions are considered votes present and entitled to vote on this proposal, and thus will have the same effect as votes "against" this proposal. Broker non-votes will have no effect on the outcome of this proposal. Although the advisory vote is non-binding, our board of directors values our stockholders' opinions. The Compensation and People Committee will review the results of the vote and, consistent with our record of stockholder responsiveness, consider stockholders' concerns and take into account the outcome of the vote when considering future decisions concerning our executive compensation program.
- **Proposal No. 4:** The approval of our 2021 Equity Incentive Plan requires the affirmative vote of a majority of the shares of our common stock present virtually or by proxy at the virtual Annual Meeting and entitled to vote thereon to be approved. You may vote "for," "against," or "abstain" with respect to this proposal. Abstentions are considered votes present and entitled to vote on this proposal, and thus will have the same effect as votes "against" this proposal. Broker non-votes will have no effect on the outcome of this proposal.

Who is entitled to vote?

Holders of our common stock as of the close of business on October 18, 2021 (the "Record Date"), may vote at the Annual Meeting. As of the Record Date, 98,019,530 shares of our common stock were outstanding and entitled to vote. For each proposal at the Annual Meeting, each stockholder will be entitled to one vote for each share of our common stock held by them on the Record Date. Stockholders may not cumulate votes in the election of directors.

Registered Stockholders. If shares of our common stock are registered directly in your name with our transfer agent, you are considered the stockholder of record with respect to those shares, and the Notice was provided to you directly by us. As the stockholder of record, you have the right to grant your voting proxy directly to the individuals listed on the proxy card, or to vote online, by telephone or virtually at the virtual Annual Meeting as described above. Throughout this proxy statement, we refer to these registered stockholders as "stockholders of record."

Street Name Stockholders. If shares of our common stock are held on your behalf in a brokerage account or by a bank or other nominee, you are considered to be the beneficial owner of shares that are held in “street name,” and the Notice was forwarded to you by your broker, bank or other nominee, who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank or other nominee as to how to vote your shares. Beneficial owners are also invited to participate in and vote online at the Annual Meeting; however, since a beneficial owner is not the stockholder of record, you may not vote your shares of our common stock virtually at the virtual Annual Meeting unless you follow your broker’s procedures for obtaining a legal proxy. If you request a printed copy of our proxy materials by mail, your broker, bank or other nominee will provide a voting instruction form for you to use. Throughout this proxy statement, we refer to stockholders who hold their shares through a broker, bank or other nominee as “street name stockholders.”

What is the effect of giving a proxy?

Proxies are solicited by and on behalf of our Board. The persons named in the proxy have been designated as proxies by our Board. When a proxy card is properly dated, executed and returned, the shares represented by such proxies will be voted at the virtual Annual Meeting in accordance with the instruction of the stockholder. If a proxy card is signed, but no specific instructions are given, the shares represented by such proxy card will be voted in accordance with the recommendations of our board of directors, as described above. If any matters not described in this proxy statement are properly presented at the Annual Meeting, the proxy holders will use their own judgment to determine how to vote the shares subject to proxies. If the Annual Meeting is adjourned, the proxy holders can vote your shares subject to proxies when the Annual Meeting is rescheduled, unless you have properly revoked your proxy instructions, as described above.

Why did I receive the Notice instead of a full set of proxy materials?

In accordance with the rules of the SEC, we have elected to furnish our proxy materials, including this proxy statement and our annual report, primarily via the Internet. The Notice containing instructions on how to access our proxy materials is first being mailed on or about October 29, 2021 to all stockholders entitled to vote at the virtual Annual Meeting. Stockholders may request to receive all future proxy materials in printed form by mail or electronically by e-mail by following the instructions contained in the Notice. We encourage stockholders to take advantage of the availability of our proxy materials on the Internet to help reduce the environmental impact of our annual meetings of stockholders.

What is a quorum?

A quorum is the minimum number of shares required to be present for the virtual Annual Meeting to be properly held under our amended and restated bylaws and Delaware law. The presence, virtually or by proxy, of a majority of all issued and outstanding shares of our common stock entitled to vote at the virtual Annual Meeting will constitute a quorum at the virtual Annual Meeting. A proxy submitted by a stockholder may indicate that all or a portion of the shares represented by the proxy are not being voted (“stockholder withholding”) with respect to a particular matter. Similarly, a broker may not be permitted to vote shares held in street name on a particular matter in the absence of instructions from the beneficial owner of such shares (“broker non-vote”). See the question below titled “How may my broker, bank or other nominee vote my shares if I fail to timely provide voting instructions?” The shares of our common stock subject to a proxy that are not being voted on a particular matter because of either stockholder withholding or a broker non-vote will count for purposes of determining the presence of a quorum. Abstentions are also counted in the determination of a quorum.

Where can I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting. We will also disclose voting results on a Current Report on Form 8-K that we will file with the SEC within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Current Report on Form 8-K within four business days after the Annual Meeting, we will file a Current Report on Form 8-K to publish preliminary voting results and will provide the final voting results in an amendment to the Current Report on Form 8-K as soon as they become available.

How are proxies solicited for the Annual Meeting?

Our Board is soliciting proxies for use at the Annual Meeting. All expenses associated with this solicitation will be borne by us. We will reimburse brokers, banks or other nominees for reasonable expenses that they incur in sending our proxy materials to you if a broker, bank or other nominee holds your shares of our common stock. In addition to using the internet, our directors, officers and employees may solicit proxies in person and by mail, telephone, facsimile, or electronic transmission, for which they will not receive any additional compensation. We have retained Innisfree M&A Incorporated to assist us in soliciting proxies for a fee of approximately \$30,000, plus reasonable out-of-pocket expenses incurred in the process of soliciting proxies.

How may my broker, bank or other nominee vote my shares if I fail to timely provide voting instructions?

Brokerage firms, banks or other nominees holding shares of our common stock in street name for beneficial owners are generally required to vote such shares in the manner directed by the beneficial owner. In the absence of timely directions, your broker, bank or other nominee will have discretion to vote your shares on our sole “routine” matter, the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending July 31, 2022. Your broker will not have discretion to vote on any other proposals, which are “non-routine” matters, absent direction from you.

I share an address with another stockholder, and we received only one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

We have adopted a procedure called “householding,” which the SEC has approved. Under this procedure, we deliver a single copy of the Notice, and if applicable, our proxy materials, to multiple stockholders who share the same address unless we receive contrary instructions from one or more of the stockholders sharing the same address. This procedure reduces our printing costs, mailing costs, and fees. Stockholders who participate in householding will continue to be able to access and receive separate copies of the Notice, or if applicable, our proxy materials. Upon written or oral request, we will deliver promptly separate copies of the Notice and, if applicable, our proxy materials, to any stockholder at a shared address which we delivered a single copy of any of these materials. To receive a separate copy, or, if a stockholder is receiving multiple copies, to request that we only send a single copy of the Notice or, if applicable, our proxy materials, stockholders may contact us at our principal executive address: Palo Alto Networks, Inc., Attention: Investor Relations, 3000 Tannery Way, Santa Clara, California 95054 or Tel: (408) 753-4000.

Stockholders who hold shares of our common stock in street name may contact their brokerage firm, bank, broker-dealer or other similar organization to request information about householding.

What is the deadline to propose actions for consideration at next year’s annual meeting of stockholders or to nominate individuals to serve as directors?

STOCKHOLDER PROPOSALS

Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at the next annual meeting of stockholders by submitting their proposals in writing to our Corporate Secretary in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for our 2022 annual meeting of stockholders, our Corporate Secretary must receive the written proposal at our principal executive offices not later than June 28, 2022. In addition, stockholder proposals must comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Stockholder proposals should be addressed to:

Palo Alto Networks, Inc., Attention: Corporate Secretary, 3000 Tannery Way, Santa Clara, California 95054.

Our amended and restated bylaws also establish an advance notice procedure for stockholders who wish to present a proposal before an annual meeting of stockholders but do not intend for the proposal to be included in our proxy

statement. Our amended and restated bylaws provide that the only business that may be conducted at an annual meeting is business that is (i) specified in our proxy materials with respect to such annual meeting, (ii) otherwise properly brought before the annual meeting by or at the direction of our board of directors, or (iii) properly brought before the annual meeting by a stockholder of record entitled to vote at the annual meeting who has delivered timely written notice to our Corporate Secretary, which notice must contain the information specified in our amended and restated bylaws. To be timely for our 2021 annual meeting of stockholders, our Corporate Secretary must receive the proper written notice at our principal executive offices:

- not earlier than the close of business on August 15, 2022; and
- not later than the close of business on September 14, 2022.

In the event that we hold our 2022 annual meeting of stockholders more than 30 days before or more than 60 days after the one-year anniversary of the Annual Meeting, then notice of a stockholder proposal that is not intended to be included in our proxy statement must be received no earlier than the close of business on the 120th day before such annual meeting and no later than the close of business on the later of the following two dates:

- the 90th day prior to such annual meeting; or
- the 10th day following the day on which public announcement of the date of such annual meeting is first made.

If a stockholder who has notified us of his, her or its intention to present a proposal at an annual meeting does not appear to present his, her or its proposal at such annual meeting, we are not required to present the proposal for a vote at such annual meeting.

DIRECTOR NOMINATIONS

Stockholders may propose director candidates for consideration by our Nominating and Corporate Governance Committee. Any such recommendations should include the nominee's name and qualifications for membership on our Board of Directors and should be directed to our Corporate Secretary at the address set forth above. For additional information regarding stockholder recommendations for director candidates, see the section titled "Identification and Evaluation of Director Nominees—Stockholder Recommendations for Nominations to the Board of Directors" beginning on page 38 of this proxy statement.

In addition, our amended and restated bylaws permit stockholders to nominate directors for election at an annual meeting of stockholders. To nominate a director, the stockholder must provide the information required by our amended and restated bylaws. In addition, the stockholder must give timely notice to our Secretary in accordance with our amended and restated bylaws, which, in general, require that the notice be received at the address set forth above within the time periods described above under the section titled "Stockholder Proposals" for stockholder proposals that are not intended to be included in a proxy statement.

Furthermore, our amended and restated bylaws permit stockholders or a group of stockholders that wish to nominate one or more directors for election at an annual meeting of stockholders to submit such request pursuant to our company's proxy access bylaw provision. To nominate a director, the stockholder must provide the information required by the proxy access provision of our amended and restated bylaws. In addition, the stockholder must give timely notice to our Corporate Secretary in accordance with our amended and restated bylaws, which, in general, require that the notice be received by our Corporate Secretary at our principal executive offices:

- not earlier than the close of business on August 15, 2022; and
- not later than the close of business on September 14, 2022.

AVAILABILITY OF BYLAWS

A copy of our amended and restated bylaws may be obtained by accessing our public filings on the SEC's website at www.sec.gov. You may also contact our Corporate Secretary at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

Other Matters

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires the Company's officers and directors and persons who beneficially own more than 10% of the Company's common stock (collectively, "Reporting Persons") to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Based solely on our review of filed reports or written representations from certain Reporting Persons relating to fiscal 2021, the Company believes that all reports were filed on a timely basis, except that an acquisition of shares was reported late on a Form 4 filed on behalf of Jean Compeau, our Deputy Chief Financial Officer and a disposition of shares in connection with a vesting of a stock grant was reported late on a Form 4 filed on behalf of Amit Singh.

Fiscal Year 2021 Annual Report and SEC Filings

Our financial statements for our fiscal year ended July 31, 2021, are included in our Annual Report on Form 10-K, which we will make available to stockholders at the same time as this proxy statement. This proxy statement and our annual report are posted on our website at www.paloaltonetworks.com and are available from the SEC at its website at www.sec.gov. You may also obtain a copy of our annual report without charge by sending a written request to Investor Relations, Palo Alto Networks, Inc., 3000 Tannery Way, Santa Clara, California 95054.

* * *

The board of directors does not know of any other matters to be presented at the Annual Meeting. If any additional matters are properly presented at the Annual Meeting, the persons named in the enclosed proxy card will have discretion to vote the shares of our common stock they represent in accordance with their own judgment on such matters.

It is important that your shares of our common stock be represented at the Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to vote by telephone or by using the Internet as instructed on the enclosed proxy card or execute and return, at your earliest convenience, the enclosed proxy card in the envelope that has also been provided.

THE BOARD OF DIRECTORS

Santa Clara, California
October 29, 2021

Appendix A

Calculation of Normalized Billings and Organic Operating Margin

CALCULATION OF NORMALIZED BILLINGS

(in millions):

Billings	FY'21
Total Revenue	\$4,256.1
Add: Change in total deferred revenue, net of acquired revenue	1,196.1
Total billings	\$5,452.2
Less: billings from acquired entities ⁽¹⁾	(73.2)
Normalized billings	\$5,379.0

⁽¹⁾ Consists of billings from the entities acquired in fiscal 2021.

CALCULATION OF ORGANIC OPERATING INCOME AND ORGANIC OPERATING MARGIN

\$ In millions

Organic Operating Income and Operating Margin:	FY'21	
	\$	%
GAAP operating loss	(\$304.1)	-7.1%
Share-based compensation-related charges	936.5	22.0%
Acquisition-related costs ⁽¹⁾	46.1	1.1%
Amortization expense of acquired intangible assets	116.7	2.7%
Litigation-related charges ⁽²⁾	7.1	0.2%
Non-GAAP operating income and operating margin	\$802.3	18.9%
Operating loss from acquired entities ⁽³⁾	30.4	0.7%
Incremental bonus payout ⁽⁴⁾	64.8	1.9%
Organic operating income and operating margin	\$897.5	21.5%

⁽¹⁾ Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, and costs to terminate certain employment, operating lease, and other contracts of the acquired companies.

⁽²⁾ Consists of the amortization of intellectual property licenses and covenant not to sue.

⁽³⁾ Consists of operating loss from the entities acquired in fiscal 2021.

⁽⁴⁾ Consists of bonus payout in excess of 100% of the target cash incentive of the 2021 Incentive Compensation Plan.

Non-GAAP Financial Measures and Other Key Metrics

Palo Alto Networks has provided in this Proxy Statement financial information that has not been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The company uses these non-GAAP financial measures and other key metrics internally to set targets for employee compensation programs.

Non-GAAP Operating Margin. Palo Alto Networks defines non-GAAP operating margin as operating margin plus share-based compensation-related charges, including share-based payroll tax expense, acquisition-related costs, amortization expense of acquired intangible assets, litigation-related charges, including legal settlements, and gains (losses) related to facility exit. The company believes that excluding these items from non-GAAP operating margin provides management and investors with greater visibility into the underlying performance of the company's core business operating results, meaning its operating performance excluding these items and, from time to time, other discrete charges that are infrequent in nature, over multiple periods.

Organic operating margin. Palo Alto Networks defines organic operating margin as non-GAAP operating margin, excluding the effects of acquisitions and dispositions and bonus payout in excess of 100% of the target cash incentive under the 2021 Cash Incentive Compensation Plan.

Billings. Palo Alto Networks defines billings as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. The company considers billings to be a key metric used by management to manage the company's business and believes billings provides investors with an important indicator of the health and visibility of the company's business because it includes subscription and support revenue, which is recognized ratably over the contractual service period, and product revenue, which is recognized at the time of shipment, provided that all other conditions for revenue recognition have been met. The company considers billings to be a useful metric for management and investors, particularly if sales of subscriptions continue to increase and the company experiences strong renewal rates for subscriptions and support.

Normalized billings. Palo Alto Networks defines normalized billings as billings defined above, less billings from entities acquired in fiscal 2021.

Investors are cautioned that there are a number of limitations associated with the use of non-GAAP financial measures and key metrics as analytical tools. In particular, the billings metric reported by the company includes amounts that have not yet been recognized as revenue. Furthermore, these non-GAAP financial measures are not based on any standardized methodology prescribed by GAAP.

Appendix B

2021 Equity Incentive Plan

1. Purpose of the Plan. The purpose of this Plan is to:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. The following definitions are used in this Plan:

- (a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.
- (b) "Applicable Laws" means the legal and regulatory requirements relating to the administration of equity-based awards and issuance of shares of Common Stock, including under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any non-U.S. country or jurisdiction where Awards are, or will be, granted under the Plan. Reference to a specific section of an Applicable Law or regulation related to that section shall include such section or regulation, any valid regulation or other official guidance issued under that section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding that section or regulation.
- (c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.
- (d) "Award Agreement" means the written or electronic agreement between the Company and Participant setting forth the terms and provisions applicable to an Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.
- (e) "Board" means the Board of Directors of the Company.
- (f) "Change in Control" means the occurrence of any of the following events:
 - (i) Change in Ownership of the Company. A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, if any one Person is already considered to own more than 50% of the total voting power of the stock of the Company, the acquisition of additional stock by such Person will not be considered a Change in Control; or
 - (ii) Change in Effective Control of the Company. A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this subsection (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or
 - (iii) Change in Ownership of a Substantial Portion of the Company's Assets. A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's

assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (x) its primary purpose is to change the jurisdiction of the Company's incorporation, or (y) its primary purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

- (g) "Code" means the U.S. Internal Revenue Code of 1986.
- (h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board, or a duly authorized committee of the Board, in accordance with Section 4 hereof.
- (i) "Common Stock" means the common stock of the Company.
- (j) "Company" means Palo Alto Networks, Inc., a Delaware corporation, or any successor thereto.
- (k) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary of the Company to render bona fide services to such entity, provided the services (i) are not in connection with the offer or sale of securities in a capital-raising transaction, and (ii) do not directly promote or maintain a market for the Company's securities, in each case, within the meaning used with respect to Form S-8 promulgated under the Securities Act, and provided, further, that a Consultant will include only those persons to whom the issuance of Shares may be registered under Form S-8 promulgated under the Securities Act.
- (l) "Director" means a member of the Board.
- (m) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.
- (n) "Employee" means any person, including Officers and Inside Directors, providing services as an employee to the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.
- (o) "Exchange Act" means the U.S. Securities Exchange Act of 1934.
- (p) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is reduced. As described in Section 4(i), the Administrator may not institute an Exchange Program.
- (q) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:
 - (i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation Nasdaq Global Select Market, Nasdaq Global Market or Nasdaq

Capital Market of Nasdaq Stock Market or the New York Stock Exchange, its Fair Market Value will be the closing sales price for such stock (or, the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported by such source as the Administrator deems reliable;

- (ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or the closing bid, if no sales were reported), as reported by such source as the Administrator deems reliable; or
- (iii) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

If the Fair Market Value is to be determined under subsection (i) or (ii) above and the determination date for the Fair Market Value occurs on a day other than a Trading Day, the Fair Market Value will be the price as determined under subsection (i) or (ii) above, as applicable, on the immediately preceding Trading Day, unless otherwise determined by the Administrator. In addition, for purposes of determining the fair market value of shares for any reason other than the determination of the exercise price of Options or Stock Appreciation Rights, fair market value will be determined by the Administrator in a manner compliant with Applicable Laws and applied consistently for such purpose. Note that the determination of fair market value for purposes of withholding Tax-Related Items may be made in the Administrator's sole discretion subject to Applicable Laws and is not required to be consistent with the determination of Fair Market Value for other purposes.

- (r) "Fiscal Year" means the fiscal year of the Company.
- (s) "Incentive Stock Option" means an Option that is intended to qualify, and actually qualifies, as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.
- (t) "Inside Director" means a Director who is an Employee.
- (u) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.
- (v) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (w) "Option" means a stock option granted pursuant to the Plan.
- (x) "Outside Director" means a Director who is not an Employee.
- (y) "Parent" means a "parent corporation" of the Company, whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (z) "Participant" means the holder of an outstanding Award.
- (aa) "Performance Share" means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 10.
- (bb) "Performance Unit" means an Award denominated in Shares or cash, which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.
- (cc) "Period of Restriction" means the period (if any) during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.
- (dd) "Plan" means this Palo Alto Networks, Inc. 2021 Equity Incentive Plan.
- (ee) "Restricted Stock" means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.
- (ff) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

Appendix B

- (gg) “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.
- (hh) “Section 16(b)” means Section 16(b) of the Exchange Act.
- (ii) “Section 409A” means Section 409A of the Code.
- (jj) “Securities Act” means the U.S. Securities Act of 1933.
- (kk) “Service Provider” means an Employee, Director or Consultant.
- (ll) “Share” means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.
- (mm) “Stock Appreciation Right” means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.
- (nn) “Subsidiary” means a “subsidiary corporation” of the Company whether now or hereafter existing, as defined in Section 424(f) of the Code.
- (oo) “Substituted Award” means an Award granted in substitution for an equity award of an acquired entity in connection with a merger, reorganization, separation, or other transaction to which Section 424(a) of the Code applies.
- (pp) “Tax-Related Items” means any U.S. and non-U.S. federal, state, or local taxes (including, without limitation, income tax, social insurance, payroll tax, fringe benefits tax, payment on account and any other tax-related items) related to a Participant’s participation in the Plan and legally applicable or deemed applicable to the Participant, or have been transferred to the Participant.
- (qq) “Trading Day” means a day that the primary stock exchange, national market system, or other trading platform, as applicable, upon which the Common Stock is listed is open for trading.

3. Stock Subject to the Plan.

- (a) Stock Subject to the Plan. Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is (i) 4,400,000 Shares, plus (ii) any Shares subject to awards granted under the Company’s 2012 Equity Incentive Plan, as amended, that, on or after the date stockholders initially approve the Plan, expire or otherwise terminate without having been exercised or issued in full, are tendered to or withheld by the Company for payment of an exercise price or for tax withholding obligations, or are forfeited to or repurchased by the Company due to failure to vest, with the maximum number of Shares to be added to the Plan pursuant to clause (ii) equal to 10,580,021 Shares. In addition, Shares may become available for issuance under the Plan pursuant to Section 3(b). The Shares may be authorized, but unissued, or reacquired Common Stock. If the Committee grants Substituted Awards in substitution for equity awards outstanding under a plan maintained by an entity acquired by or consolidated with the Company, the grant of those Substituted Awards will not decrease the number of Shares available for issuance under the Plan.
- (b) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, then the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights, the forfeited or repurchased Shares) that were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, the gross number of Shares underlying the portion of a Stock Appreciation Right that is exercised will cease to be available under the Plan. Shares that actually have been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company due to failure to vest, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price or purchase price of an Award or to satisfy the tax withholding obligations related to an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not reduce the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 14, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal

the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to this Section 3(b).

- (c) Share Reserve. The Company, at all times during the term of this Plan, will reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

- (i) General. The Plan will be administered by (A) the Board or (B) a Committee constituted to satisfy Applicable Laws. The Board or Committee will be the Administrator. Different Administrators may administer the Plan with respect to different groups of Service Providers. The Board may retain the authority to concurrently administer the Plan with a Committee and may, at any time, revoke the delegation of some or all authority previously delegated.
- (ii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

- (b) Powers of the Administrator. Subject to the Plan, any limitations on delegations specified by the Board, and any requirements imposed by Applicable Laws, the Administrator will have the authority, in its sole discretion, to make any determinations and perform any actions deemed necessary or advisable to administer the Plan including to:

- (i) determine the Fair Market Value;
- (ii) select the Service Providers to whom Awards may be granted hereunder;
- (iii) determine the number of Shares to be covered by each Award granted hereunder;
- (iv) approve forms of Award Agreements for use under the Plan;
- (v) determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. The terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating to an Award;
- (vi) establish, amend and rescind rules and regulations and adopt sub-plans relating to the Plan, including rules, regulations, and sub-plans for the purposes of facilitating compliance with non-U.S. laws, easing the administration of the Plan and/or taking advantage of tax-favorable treatment for Awards granted to Service Providers outside the U.S.;
- (vii) interpret the Plan and make any decision necessary to administer the Plan;
- (viii) interpret, modify or amend each Award (subject to Section 17(c) of the Plan), including without limitation the discretionary authority to extend the post-termination exercisability period of Awards;
- (ix) allow Participants to satisfy tax withholding obligations in a manner prescribed in Section 15 of the Plan;
- (x) authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;
- (xi) delegate ministerial duties to any of the Company's employees;
- (xii) temporarily suspend the exercisability of an Award if the Administrator deems such suspension to be necessary or appropriate for administrative purposes;
- (xiii) allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that otherwise would be due to the Participant under an Award; and
- (xiv) make all other determinations deemed necessary or advisable for administering the Plan.

- (c) Grant Date. The grant date of an Award ("Grant Date") will be the date that the Administrator makes the determination granting such Award or may be a later date if such later date is designated by the Administrator on the date of the determination or under an automatic grant policy. Notice of the determination will be provided to each Participant within a reasonable time after the Grant Date.

Appendix B

- (d) Waiver. The Administrator may waive any terms, conditions or restrictions.
 - (e) Fractional Shares. Except as otherwise provided by the Administrator, any fractional Shares that result from the adjustment of Awards will be cancelled. Any fractional Shares that result from vesting percentages will be accumulated and vested on the date that an accumulated full Share is vested.
 - (f) Electronic Delivery. The Company may deliver by e-mail or other electronic means (including posting on a website maintained by the Company or its agent) all documents relating to the Plan or any Award and all other documents that the Company is required to deliver to its security holders (including prospectuses, annual reports and proxy statements).
 - (g) Choice of Law; Choice of Forum. The Plan, all Awards and all determinations made and actions taken under the Plan, to the extent not otherwise governed by the laws of the United States, will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law. For purposes of litigating any dispute that arises under this Plan, a Participant's acceptance of an Award is his or her consent to the jurisdiction of the State of Delaware, and agreement that any such litigation will be conducted in Delaware Court of Chancery, or the federal courts for the United States for the District of Delaware, and no other courts, regardless of where a Participant's services are performed.
 - (h) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards and will be given the maximum deference permitted by Applicable Laws.
 - (i) Exchange Program. The Administrator may not institute an Exchange Program.
5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.
6. Stock Options.
- (a) Grant of Options. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Options to Service Providers in such amounts as the Administrator determines in its sole discretion.
 - (b) Stock Option Agreement. Each Option will be evidenced by an Award Agreement that will specify the exercise price, the number of Shares subject to the Option, the exercise restrictions, if any, applicable to the Option, and such other terms and conditions as the Administrator determines in its sole discretion.
 - (c) Limitations. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary exceeds \$100,000, such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(c), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.
 - (d) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be 10 years from the Grant Date or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be 5 years from the Grant Date or such shorter term as may be provided in the Award Agreement.
 - (e) Option Exercise Price and Consideration.
 - (i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:
 - (1) In the case of an Incentive Stock Option

- (A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the Grant Date.
 - (B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than 100% of the Fair Market Value per Share on the Grant Date.
 - (2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be determined by the Administrator and may no less than 100% of the Fair Market Value per Share on the Grant Date unless otherwise required by Applicable Laws.
 - (3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the Grant Date pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.
 - (ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.
 - (iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check or wire transfer; (3) promissory note, to the extent permitted by Applicable Laws; (4) other Shares, provided that such Shares have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) net exercise, under which Shares are withheld from otherwise deliverable Shares that has been approved by the Board or a Committee; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.
- (f) Exercise of Option.
- (i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. Notwithstanding the foregoing, at any time after the grant of an Option, the Administrator, in its sole discretion, may accelerate the time at which the Option will vest or become exercisable. An Option may not be exercised for a fraction of a Share.
- An Option will be deemed exercised when the Company receives: (i) notice of exercise (in accordance with the procedures that the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with any amounts necessary to satisfy withholding obligations for Tax-Related Items). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant and approved by the Administrator, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

- (ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the cessation of the Participant's Service Provider status as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of cessation of the Participant's Service Provider status (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for 3 months following cessation of the Participant's Service Provider status. Unless otherwise provided by the Administrator, if on the date of cessation of the Participant's Service Provider status the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If, after cessation of the Participant's Service Provider status, the Participant does not exercise his or her Option within the time specified in the Award Agreement or herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.
- (iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of cessation of the Participant's Service Provider status (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for 12 months following cessation of the Participant's Service Provider status. Unless otherwise provided by the Administrator, if on the date of cessation of the Participant's Service Provider status the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If, after cessation of the Participant's Service Provider status, the Participant does not exercise his or her Option within the time specified in the Award Agreement or herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.
- (iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the Option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided the Administrator has permitted the designation of a beneficiary and provided such beneficiary has been designated prior to the Participant's death in a form acceptable to the Administrator. If the Administrator has not permitted the designation of a beneficiary or if no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for 12 months following the Participant's death. Unless otherwise provided by the Administrator, if at the time of death, the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified in the Award Agreement or herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.
- (v) Tolling Expiration. A Participant's Award Agreement may also provide that:
 - (1) if the exercise of the Option following the cessation of the Participant's status as a Service Provider (other than upon the Participant's death or Disability) would result in liability under Section 16(b), then the Option will terminate on the earlier of (A) the expiration of the term of the Option set forth in the Award Agreement, or (B) the 10th day after the last date on which such exercise would result in liability under Section 16(b); or
 - (2) if the exercise of the Option following the cessation of the Participant's status as a Service Provider (other than upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of Shares would violate the registration requirements under the Securities Act, then the Option will terminate on the earlier of (A) the expiration of

the term of the Option or (B) the expiration of a period of 30 days after the cessation of the Participant's status as a Service Provider during which the exercise of the Option would not be in violation of such registration requirements.

7. Restricted Stock.

- (a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator determines in its sole discretion.
- (b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify any Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator determines in its sole discretion. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.
- (c) Transferability. Except as provided in this Section 7 of the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of any applicable Period of Restriction.
- (d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.
- (e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of any applicable Period of Restriction or at such other time as the Administrator may determine. Notwithstanding the foregoing, at any time after the grant of an Option, the Administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed.
- (f) Voting Rights. During any applicable Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.
- (g) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

8. Restricted Stock Units.

- (a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units.
- (b) Restricted Stock Unit Agreement. Each Award of Restricted Stock Units will be evidenced by an Award Agreement that will specify vesting criteria, the number of Restricted Stock Units granted, and such other terms and conditions as the Administrator determines in its sole discretion.
- (c) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable U.S. or non-U.S. federal or state securities laws or any other basis determined by the Administrator in its discretion.
- (d) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.
- (e) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may settle earned Restricted Stock Units only in cash, Shares, or a combination of both.

- (f) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

9. Stock Appreciation Rights.

- (a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.
- (b) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator determines in its sole discretion. Notwithstanding the foregoing, at any time after the grant of a Stock Appreciation Right, the Administrator, in its sole discretion, may accelerate the time at which the Stock Appreciation Right will vest or become exercisable.
- (c) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider.
- (d) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than 100% of the Fair Market Value per Share on the Grant Date. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.
- (e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date as determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the tolling and expiration rules of Section 6(f) relating to exercise also will apply to Stock Appreciation Rights.
- (f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined as the product of:
 - (i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; and
 - (ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.At the discretion of the Administrator, the payment upon exercise of a Stock Appreciation Right may be in cash, in Shares of equivalent value, or in some combination of both.

10. Performance Units and Performance Shares.

- (a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.
- (b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the Grant Date. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the Grant Date.
- (c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator determines in its sole discretion. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service), applicable U.S. or non-U.S. federal or state securities laws, or any other basis determined by the Administrator in its discretion.

- (d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. Notwithstanding the foregoing, at any time after the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.
- (e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.
- (f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

11. Award Limitations.

- (a) Outside Director Award Limitations. No Outside Director may be paid compensation for service as an Outside Director that, in the aggregate, exceeds \$2,000,000, increased to \$4,000,000 for such Outside Director for the Fiscal Year in which he or she joins the Board as an Outside Director. Compensation includes equity awards, including any Awards issued under this Plan, the value of which will be based on their grant date fair value determined in accordance with U.S. generally accepted accounting principles and any other compensation (including without limitation any cash retainers or fees). Any Awards or other compensation paid or provided to an individual for his or her services as an Employee, or for his or her services as a Consultant (other than as an Outside Director), will not count for purposes of the limitation under this Section 11(a).
- (b) Dividends and Other Distributions. No dividends or other distributions shall be paid with respect to any Shares underlying any unvested portion of an Award.

12. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise or Applicable Laws require otherwise, vesting of Awards will be suspended during any unpaid leave of absence. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or the Participant's employer or (ii) transfers between locations of the Company or between the Company, its Parent, or any of its Subsidiaries. For purposes of Incentive Stock Options, no such leave may exceed 3 months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company or the Participant's employer is not so guaranteed, then 6 months following the 1st day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

13. Transferability of Awards.

- (a) General Rule. Unless determined otherwise by the Administrator, or otherwise required by Applicable Laws, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, the Award will be limited by any additional terms and conditions imposed by the Administrator. Any unauthorized transfer of an Award will be void.
- (b) Domestic Relations Orders. If approved by the Administrator, an Award may be transferred pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulations Section 1.421-1(b)(2). An Incentive Stock Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.
- (c) Limited Transfers for the Benefit of Family Members. The Administrator may permit an Award or Share issued under this Plan to be assigned or transferred subject to the applicable limitations, set forth in the General Instructions to Form S-8 Registration Statement under the Securities Act, if applicable, and any other Applicable Laws. For the avoidance of doubt, during the lifetime of the Participant, no Award may be assigned or transferred to a third-party financial institution.

- (d) Permitted Transferees. Any individual or entity to whom an Award is transferred will be subject to all of the terms and conditions applicable to the Participant who transferred the Award, including the terms and conditions in this Plan and the Award Agreement. If an Award is unvested, then the service of the Participant will continue to determine whether the Award will vest and when it will terminate.

14. Adjustments; Dissolution or Liquidation; Merger or Change in Control; Death.

- (a) Adjustments. In the event that any extraordinary dividend or other extraordinary distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, reclassification, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs (other than any ordinary dividends or other ordinary distributions), the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of shares of stock that may be delivered under the Plan and/or the number, class, and price of shares of stock covered by each outstanding Award, and the numerical Share limits in Section 3 of the Plan.
- (b) Dissolution or Liquidation. In the event of a proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.
- (c) Merger or Change in Control. In the event of a merger of the Company with or into another corporation or other entity or a Change in Control, each outstanding Award will be treated as the Administrator determines (subject to the provisions of the following paragraph) without a Participant's consent, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or its Parent. The Administrator will not be obligated to treat all Awards, all Awards held by a Participant, all Awards of the same type, or all portions of Awards, similarly.

In the event that the successor corporation does not assume or substitute for the Award (or portion thereof), the Participant will fully vest in and have the right to exercise the Participant's outstanding Option and Stock Appreciation Right (or portion thereof) that is not assumed or substituted for, including Shares as to which such Award would not otherwise be vested or exercisable, all restrictions on Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units (or portions thereof) not assumed or substituted for will lapse, and, with respect to such Awards with performance-based vesting (or portions thereof) not assumed or substituted for, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions met, in each case, unless specifically provided otherwise under the applicable Award Agreement or other written agreement between the Participant and the Company or any of its Subsidiaries or Parents, as applicable. In addition, if an Option or Stock Appreciation Right (or portion thereof) is not assumed or substituted for in the event of a merger or Change in Control, the Administrator will notify the Participant in writing or electronically that such Option or Stock Appreciation Right (or its applicable portion) will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right (or its applicable portion) will terminate upon the expiration of such period.

For the purposes of this Section 14(c), an Award will be considered assumed if, following the merger or Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the merger or Change in Control, the consideration (whether stock, cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or Change in Control.

Notwithstanding anything in this Section 14(c) to the contrary, and unless otherwise provided in an Award Agreement or other written agreement between the Participant and the Company or any of its Subsidiaries or Parents, as applicable, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

Notwithstanding anything in this Section 14(c) to the contrary, if a payment under an Award Agreement is subject to Section 409A and if the change in control definition contained in the Award Agreement or other written agreement related to the Award does not comply with the definition of "change in control" for purposes of a distribution under Section 409A, then any payment of an amount that otherwise is accelerated under this Section will be delayed until the earliest time that such payment would be permissible under Section 409A without triggering any penalties applicable under Section 409A.

- (d) Outside Director Awards. With respect to Awards granted to Outside Directors for their service as Outside Directors, in the event of a Change in Control, such Participants will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Awards, including those Shares which would not be vested or exercisable, all restrictions on such Participants' Restricted Stock and Restricted Stock Units will lapse, and, with respect to such Participants' Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions met, unless specifically provided otherwise under the applicable Award Agreements or other written agreements between the Participants and the Company or any of its Subsidiaries or Parents, as applicable.

15. Tax Matters.

- (a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof) or such earlier time as any withholding obligations for Tax-Related Items are due, the Company (or any of its Subsidiaries, Parents or affiliates employing or retaining the services of a Participant, as applicable) will have the power and the right to deduct or withhold, or require a Participant to remit to the Company (or any of its Subsidiaries, Parents or affiliates, as applicable), an amount sufficient to satisfy any Tax-Related Items required to be withheld with respect to such Award (or exercise thereof).
- (b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such withholding obligation for Tax-Related Items, in whole or in part by (without limitation) (i) paying cash, check or other cash equivalents, (ii) electing to have the Company withhold otherwise deliverable Shares having a fair market value equal to the minimum statutory amount applicable in a Participant's jurisdiction or such greater amount as the Administrator may determine (including up to a maximum statutory amount) if such amount would not have adverse accounting consequences, as the Administrator determines in its sole discretion, (iii) delivering to the Company already-owned Shares having a fair market value equal to the minimum statutory amount applicable in a Participant's jurisdiction or such greater amount as the Administrator may determine (including up to a maximum statutory amount), in each case, provided the delivery of such Shares will not result in any adverse accounting consequences, as the Administrator determines in its sole discretion, (iv) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) to cover the amount of the withholding obligation for Tax-Related Items, (v) having the Company or a Parent or Subsidiary withhold from wages or any other cash amount due or to become due to the Participant and payable by the Company or any Parent or Subsidiary, (vi) any other method of withholding determined by the Administrator, or (vii) any combination of the foregoing methods of payment. The withholding amount will be deemed to include any amount which the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum statutory rates applicable in a Participant's jurisdiction with respect to the Award on the date that the amount of Tax-Related Items to be withheld is to be determined or such greater amount as the Administrator may determine if such amount would not have adverse accounting consequences, as the Administrator determines in its sole discretion. The fair market value of the Shares to be withheld or delivered will be determined as of the date that the amount of Tax-Related Items to be withheld is calculated.

- (c) Compliance With Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Section 409A. In no event will the Company or any of its Subsidiaries or Parents have any obligation or liability under the terms of this Plan to reimburse, indemnify, or hold harmless any Participant or any other person in respect of Awards, for any taxes, interest or penalties imposed, or other costs incurred, as a result of Section 409A.

16. Miscellaneous.

- (a) Stockholder Approval and Term of Plan. The Plan will become effective upon its approval by the Company's stockholders within 12 months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws. The Plan will continue in effect until terminated earlier under Section 17 of the Plan, but no Incentive Stock Options may be granted after 10 years from the date the Plan is adopted by the Board.
- (b) Legal Compliance. Shares will not be issued pursuant an Award unless the exercise or vesting of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.
- (c) Investment Representations. As a condition to the exercise or vesting of an Award, the Company may require the person exercising or vesting in such Award to represent and warrant at the time of any such exercise or vesting that the Shares are being acquired only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.
- (d) Inability to Obtain Authority. If the Company determines it to be impossible or impracticable to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any registration or other qualification of the Shares under any U.S. state or federal law or non-U.S. law or under the rules and regulations of the U.S. Securities and Exchange Commission, the stock exchange on which Shares of the same class are then listed, or any other governmental or regulatory body, which authority, registration, qualification or rule compliance is deemed by the Company's counsel to be necessary or advisable for the issuance and sale of any Shares hereunder, the Company will be relieved of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority, registration, qualification or rule compliance will not have been obtained.
- (e) No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider, nor interfere in any way with the Participant's right or the right of the Company and its Subsidiaries or Parents, as applicable, to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.
- (f) Forfeiture Events. The Administrator may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture, recoupment, reimbursement, or reacquisition upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Notwithstanding any provisions to the contrary under this Plan, an Award and any other compensation paid or payable to a Participant (including, but not limited to, equity awards issued outside of this Plan) (such compensation, "Other Compensation") will be subject to the Company's clawback policy in effect as of the adoption of this Plan, and will be subject to any other clawback policy of the Company as may be established and/or amended from time to time to comply with Applicable Laws (including without limitation pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as may be required by the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act) (the "Clawback Policy"). The Administrator may require a Participant to

forfeit, return or reimburse the Company all or a portion of the Award or Other Compensation and any amounts paid thereunder pursuant to the terms of the Clawback Policy or as necessary or appropriate to comply with Applicable Laws. Unless this subsection (f) specifically is mentioned and waived in an Award Agreement or other document, no recovery of compensation under a Clawback Policy or otherwise will constitute an event that triggers or contributes to any right of a Participant to resign for “good reason” or “constructive termination” (or similar term) under any agreement with the Company or any Parent or Subsidiary.

17. Amendment and Termination of the Plan.

- (a) Amendment and Termination. The Administrator, at any time, may amend, alter, suspend or terminate the Plan.
- (b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.
- (c) Consent of Participants Generally Required. Subject to Section 17(d) below, no amendment, alteration, suspension or termination of the Plan or an Award under it will materially impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator’s ability to exercise the powers granted to it regarding Awards granted under the Plan prior to such termination.
- (d) Exceptions to Consent Requirement.
 - (i) A Participant’s rights will not be deemed to have been impaired by any amendment, alteration, suspension or termination if the Administrator, in its sole discretion, determines that the amendment, alteration, suspension or termination taken as a whole, does not materially impair the Participant’s rights, and
 - (ii) Subject to the limitations of Applicable Laws, if any, the Administrator may amend the terms of any one or more Awards without the affected Participant’s consent even if it does materially impair the Participant’s right if such amendment is done
 - (1) in a manner expressly permitted under the Plan;
 - (2) to maintain the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code;
 - (3) to change the terms of an Incentive Stock Option, if such change results in impairment of the Award only because it impairs the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code;
 - (4) to clarify the manner of exemption from, or to bring the Award into compliance with, Section 409A; or
 - (5) to comply with other Applicable Laws.

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended July 31, 2021

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 001-35594

Palo Alto Networks, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-2530195
(I.R.S. Employer
Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.0001 par value per share	PANW	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes
No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes
No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant was \$33,296,058,434 as of January 31, 2021, the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales price for the common stock on the New York Stock Exchange on such date). Shares of common stock held by each executive officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

On August 23, 2021, 97,406,113 shares of the registrant's common stock, \$0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Annual Report on Form 10-K is hereby incorporated by reference from the definitive proxy statement for the registrant's 2021 annual meeting of stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended July 31, 2021.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1. Business	5
Item 1A. Risk Factors	15
Item 1B. Unresolved Staff Comments	39
Item 2. Properties	39
Item 3. Legal Proceedings	40
Item 4. Mine Safety Disclosures	40
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	41
Item 6. [Reserved]	43
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	44
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	58
Item 8. Financial Statements and Supplementary Data	60
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	104
Item 9A. Controls and Procedures	104
Item 9B. Other Information	104
Item 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections	104
PART III	
Item 10. Directors, Executive Officers, and Corporate Governance	105
Item 11. Executive Compensation	105
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	105
Item 13. Certain Relationships and Related Transactions, and Director Independence	105
Item 14. Principal Accountant Fees and Services	105
PART IV	
Item 15. Exhibits and Financial Statement Schedules	106
Signatures	110

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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 expectations regarding the impacts on our business, the business of our customers, suppliers and partners, and the economy as a result of the global COVID-19 pandemic and related public health measures;
- expectations regarding drivers of and factors affecting growth in our business;
- the performance advantages of our products and subscription and support offerings and the potential benefits to our customers;
- trends in and expectations regarding billings, revenue (including our revenue mix), costs of revenue, gross margin, cash flows, interest expense, operating expenses (including future share-based compensation expense), income taxes, investment plans and liquidity;
- our ability to and expectation that we will continue to grow our installed end-customer base;
- expected recurring revenues resulting from expected growth in our installed base and increased adoption of our products and cloud-based subscription services;
- our expectations regarding future investments in research and development, customer support, in our employees and in our sales force, including expectations regarding growth in our sales headcount;
- our ability to develop or acquire new product, subscription, and support offerings, improve our existing product, subscription, and support offerings, and increase the value of our product, subscription, and support offerings, including through deployment of new capabilities via security applications developed by third parties;
- our expectation that we will continue to expand internationally;
- our expectation that we will continue to renew existing contracts and increase sales to our existing customer base;
- seasonal trends in our results of operations;
- expected impact of the adoption of certain recent accounting pronouncements and the anticipated timing of adopting such standards;
- our expectation that we will expand our facilities or add new facilities as we add employees and enter new geographic markets and expectations related to charges incurred in connection with exiting our former headquarter facilities;
- our expectations regarding the future results of our People Strategy;
- our expectation that we will increase our customer financing activities;
- the sufficiency of our cash flow from operations with existing cash and cash equivalents to meet our cash needs for the foreseeable future;
- future investments in product development, subscriptions, or technologies, and any related delays in the development or release of new product and subscription offerings;
- our ability to successfully acquire and integrate companies and assets;
- expectations and intentions with respect to the products and technologies that we acquire and introduce;
- our ability to obtain adequate supply of our products from our third-party manufacturing partners;
- the timing and amount of capital expenditures and share repurchases; and
- other statements regarding our future operations, financial condition and prospects, and business strategies.

These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described in “Risk Factors” included in Part I, Item 1A and elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

ITEM 1. BUSINESS

General

Palo Alto Networks, Inc. is a global cybersecurity provider with a vision of a world where each day is safer and more secure than the one before. We were incorporated in 2005 and are headquartered in Santa Clara, California.

We empower enterprises, service providers, and government entities to secure all users, applications, data, networks, clouds and devices with comprehensive visibility and context continuously across all locations. We deliver cybersecurity products covering a broad range of use cases, enabling our end-customers to secure their networks, remote and hybrid workforces, branch locations, and public and private clouds, and to advance their Security Operations Centers (“SOC”). We believe our portfolio offers advanced prevention and security, while reducing the total cost of ownership for organizations by improving operational efficiency and eliminating the need for siloed point products. We do this with solutions focused on delivering value in five fundamental areas:

Zero Trust Network Security:

- Enabling zero trust network security through our ML-Powered Next-Generation Firewalls, available in a number of form factors, including physical, virtual, and containerized appliances, as well as a cloud-delivered service. This also includes our add-on Cloud-Delivered Security Services, such as Threat Prevention, WildFire, URL Filtering, Advanced URL Filtering, DNS Security, IoT Security, GlobalProtect, SD-WAN, Enterprise Data Loss Prevention (“Enterprise DLP”), SaaS Security API and SaaS Security Inline that secure content, applications, users, and devices across our ML-Powered Next-Generation Firewalls, Prisma, and Cortex product lines, to enable best-in-class security across a broad range of applications. Panorama, our network security management solution, available as hardware or virtual machine, can centrally manage all of our firewalls irrespective of their form factor, location, or scale.

Cloud Security:

- Enabling cloud security through our Prisma security offerings. Prisma Cloud, the industry’s most comprehensive Cloud Native Security Platform (“CNSP”), secures multi- and hybrid-cloud environments and cloud native applications, integrating security across the full deployment lifecycle. VM-Series and CN-Series enforce in-line network security in multi- and hybrid-cloud environments.

Secure Access Service Edge:

- Prisma Access, the industry’s most complete cloud-delivered security platform, together with Prisma SD-WAN, SaaS Security API and SaaS Security Inline, provide a comprehensive Secure Access Service Edge (“SASE”) offering that is used to secure remote workforces and enable the cloud-delivered branch.

Security Analytics and Automation:

- Delivering the next generation of endpoint security, security analytics and security automation solutions through our Cortex portfolio. These include our industry-leading extended detection and response platform Cortex XDR to prevent, detect, and respond to complex cybersecurity attacks, Cortex XSOAR for security orchestration, automation, and response (“SOAR”), Cortex Xpanse for attack surface management (“ASM”) and Cortex Data Lake allowing our customers to collect and analyze large amounts of context-rich data across endpoints, networks, and clouds. These products are delivered as software or SaaS subscriptions.

Threat Intelligence and Security Consulting (Unit 42):

- Enabling security teams with up-to-date threat intelligence and deep cybersecurity expertise before, during and after attacks through our Unit 42 threat research and security consulting team. Unit 42 offers incident response, risk management, board advisory and proactive cybersecurity assessment services.

Impact of COVID-19 on Our Business

We are actively monitoring, evaluating, and responding to developments relating to COVID-19, which has resulted in, and is expected to continue to result in significant global, social, and business disruption. While we instituted a global work-from-home policy beginning in March 2020, which has been modified to provide employees with the choice to work in certain of our offices when and as they feel comfortable, we did not incur significant disruptions in our work operations during fiscal 2021. We are conducting business as usual with restrictions to employee travel, and we have transitioned in-person marketing events to virtual formats, among other modifications. We expect these changes will substantially remain in effect in the first quarter of fiscal 2022 and could extend to future quarters. We will continue to actively monitor the situation, including progress made through vaccinations, and we will make further changes to our business operations as may be required by federal, state, or local authorities and that we determine are in the best interests of our employees, end-customers, partners, suppliers, and stockholders. Our focus remains on the safety of our employees, and we strive to protect the health and well-being of the communities in which we operate, in part, by providing technology to our employees, end-customers, and partners to help them do their best work while remote.

Although some end-customers adopted Prisma Access as their secure work-from-home solution for the longer term, COVID-19

has affected our end-customers' spending and could lead them to delay or defer purchasing decisions, and lengthen sales cycles and payment terms, which could materially adversely impact our business, results of operations, and overall financial performance. Also, certain of our end-customers or partners may be or may become credit or cash constrained, making it difficult for them to fulfill their payment obligations to us. The extent of the impact of COVID-19 on our operational and financial performance will depend on developments, including the duration and spread of the virus and its variants, impact on our end-customers' spending, volume of sales and length of our sales cycles, impact on our partners, suppliers, and employees, actions that may be taken by governmental authorities, and other factors identified in Part I, Item 1A "Risk Factors" in this Form 10-K. Given the dynamic nature of these circumstances, the full impact of COVID-19 on our ongoing business, results of operations and overall financial performance cannot be reasonably estimated at this time.

Product, Subscription, and Support Offerings

Our products are available in the form of the product, subscription, and support offerings described below.

Products

Firewall Appliances and Software. All of our firewall appliances and software incorporate our PAN-OS operating system and come with the same rich set of features ensuring consistent operation across our entire product line. These features include: App-ID, User-ID, Content-ID, Device-ID, site-to-site virtual private network ("VPN"), remote access Secure Sockets Layer ("SSL") VPN, and Quality-of-Service ("QoS"). Our appliances and software are designed for different performance requirements throughout an organization and are classified based on throughput, ranging from our PA-410, which is designed for small organizations and remote or branch offices, to our top-of-the-line PA-7080, which is designed for large-scale data centers and service provider use. Our firewall appliances come in a physical form factor, and in a virtual form factor, called VM-Series, that is available for virtualization and cloud environments from companies such as VMware, Inc. ("VMware"), Microsoft Corporation ("Microsoft"), Amazon.com, Inc. ("Amazon"), and Google, Inc. ("Google"), and in Kernel-based Virtual Machine ("KVM")/OpenStack environments, as well as in a containerized form factor, called CN-Series.

Panorama. Panorama is our centralized security management solution for global control of all of our firewall appliances and software deployed on an end-customer's network, as well as in their instances in public or private cloud environments, as a virtual appliance or a physical appliance. Panorama is used for centralized policy management, device management, software licensing and updates, centralized logging and reporting, and log storage. Panorama controls the security, network address translation ("NAT"), QoS, policy-based forwarding, decryption, application override, captive portal, and distributed denial of service/denial of service ("DDoS/DoS") protection aspects of the appliances, software, virtual and containerized systems under management. Panorama centrally manages device software and associated updates, including SSL-VPN clients, SD-WAN, dynamic content updates, and software licenses. Panorama offers network security monitoring through the ability to view logs and run reports from all managed appliances and software in one location without the need to forward the logs and reliably expands log storage for long-term event investigation and analysis.

Virtual System Upgrades. Virtual System Upgrades are available as extensions to the Virtual System capacity that ships with our physical appliances. Virtual Systems provide a mechanism to support multiple distinct security policies and administrative access for tenants on the same hardware device, which is applicable to our large enterprise and service provider end-customers.

Subscriptions

We offer a number of subscriptions as part of our portfolio. Of these subscription offerings, cloud-delivered security services like Threat Prevention, WildFire, URL Filtering, Advanced URL Filtering, DNS Security, IoT Security, SaaS Security Inline, GlobalProtect, SD-WAN and Enterprise DLP are sold as options to our firewall appliances and software, whereas Prisma Cloud (formerly Redlock Inc. ("RedLock"), Twistlock Ltd. ("Twistlock"), PureSec Ltd. ("PureSec"), Aporeto Inc. ("Aporeto")), Prisma Access, Prisma SD-WAN (formerly CloudGenix SD-WAN), SaaS Security API (formerly Prisma SaaS), Cortex XDR (formerly Traps), Cortex XSOAR (formerly Demisto Inc. ("Demisto")), Cortex Xpanse and Cortex Data Lake are sold on a per-user, per-endpoint, or capacity-based basis. Our subscription offerings include:

Zero Trust Network Security:

- **Threat Prevention.** This subscription provides intrusion detection and prevention capabilities and 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, and workflows to manage popular open-source signature formats to extend our leading coverage.
- **WildFire.** This cloud-based or appliance-based subscription provides protection against targeted malware and advanced persistent threats and provides a near real-time analysis engine for detecting previously unseen malware while resisting attacker evasion techniques. The core component of this subscription goes beyond traditional sandbox environments and can operate on an end-customers' local environment, private cloud or our public cloud. WildFire combines dynamic and

static analysis, recursive analysis, and a custom-built analysis environment with network traffic profiling and fileless attack detection to discover even the most sophisticated and evasive threats. A machine learning module derived from the cloud sandbox environment is now delivered in-line on the ML-Powered Next-Generation Firewalls to identify the majority of unknown threats without cloud connectivity. Once identified, whether in the cloud or in-line, preventive measures are automatically generated and delivered in seconds or less across networks, clouds, endpoints, or wherever WildFire-enabled sensors are deployed. By providing this as a cloud-based subscription, all of our end-customers benefit from malware found on any of our end-customers' networks.

- **URL Filtering.** This subscription provides the uniform resource locator (“URL”) filtering capabilities of our portfolio. Our cloud-based URL filtering database consists of millions of URLs across many categories and is designed to analyze web traffic and prevent web-based threats such as phishing, malware, and command-and-control. The curated on-appliance URL database can be augmented to suit the traffic patterns of the local user community with a custom URL database. Native integration with our ML-Powered Next-Generation Firewalls eliminates the need for customers to deploy and manage their web security separately from network security.
- **Advanced URL Filtering.** This subscription builds on all of the capabilities of URL Filtering, adding the industry’s first in-line ML-powered web protection engine. It delivers real-time detection and prevention of unknown, evasive, and targeted web-based threats such as phishing, malware, and command-and-control. While many vendors use machine learning to categorize web content or prevent malware downloads, Advanced URL Filtering is the first offering to protect patient zero from unknown fileless and file-based web attacks in real-time.
- **DNS Security.** This cloud-based subscription uses machine learning to proactively block malicious domains and stops attacks in progress. Unlike other solutions, it does not require endpoint routing configurations to be maintained and therefore cannot be bypassed. It allows firewalls access to DNS signatures that are generated using advanced predictive analysis, machine learning, and malicious domain data from a growing threat intelligence sharing community of which we are a part. Expanded categorization of DNS traffic and comprehensive analytics allow deep insights into threats, empowering security personnel with the context to optimize their security posture. It includes industry-first protections against multiple emerging DNS-based network attacks.
- **IoT Security.** IoT Security is a new subscription on our ML-Powered Next-Generation Firewalls with backward compatibility to older versions of PAN-OS. Using machine learning and our App-ID technology, it can accurately identify and classify various IoT and operational technology (“OT”) devices, including never-been-seen-before devices, mission critical OT devices and unmanaged legacy systems. It uses machine learning to baseline normal behavior, identify anomalous activity, assess risk, and provide policy recommendations to allow trusted behavior with a new Device-ID policy construct on our ML-Powered Next-Generation Firewalls. Our existing subscription-based security services have also been enhanced with IoT context to prevent threats on various devices, including IoT and OT devices.
- **SaaS Security API.** SaaS Security API (formerly Prisma SaaS) is a multi-mode, cloud access security broker service that helps govern sanctioned SaaS application usage across all users and helps prevent breaches and non-compliance. Specifically, the service enables the discovery and classification of data stored across the supported SaaS applications, protects sensitive data from accidental exposure, identifies and protects against known and unknown malware, and performs user activity monitoring to identify potential misuse or data exfiltration. It delivers complete visibility and granular enforcement across all user, folder, and file activity within sanctioned SaaS applications, and can be combined with SaaS Security Inline for a complete integrated cloud access security broker (“CASB”).
- **SaaS Security Inline.** SaaS Security Inline is a new subscription on our ML-Powered Next Generation Firewalls that adds an in-line service to automatically gain visibility and control over the tens of thousands of known and new sanctioned, unsanctioned and tolerated SaaS applications in use within organizations today. It provides enterprise data protection and compliance across all SaaS applications and prevents cloud threats in real time with best-in-class security. The solution is easy to deploy being natively integrated on our range of ML-Powered Next-Generation Firewalls, eliminating the architectural complexity of traditional CASB products, while offering the lowest total cost of ownership. It can be combined with SaaS Security API (formerly Prisma SaaS) as a complete integrated CASB.
- **GlobalProtect.** This appliance-based subscription provides protection for users of both traditional laptop and mobile devices. It expands the boundaries of the end-users’ 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. Regardless of the operating systems, laptops, tablets and phones will stay connected to the corporate network when they are on a network of any kind and, as a result, 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.
- **SD-WAN.** Our SD-WAN subscription is now integrated with PAN-OS, so that our end-customers can get the security features of our PAN-OS ML-Powered Next-Generation Firewall together with SD-WAN functionality. The SD-WAN

overlay supports dynamic, intelligent path selection based on the applications, services and conditions of the links that each application or service is allowed to use, allowing applications to be prioritized based on criteria such as whether the application is mission-critical, latency-sensitive, or meets certain health criteria.

- **Enterprise DLP.** Our data loss prevention service is a cloud service that provides consistent, reliable protection of sensitive data, such as personally identifiable information (“PII”) and intellectual property, for all traffic types, applications, and users. Native integration with our products makes it simple to deploy, and advanced machine learning minimizes management complexity. Enterprise DLP allows organizations to consistently discover, classify, monitor, and protect sensitive data, wherever it may reside. It helps minimize the risk of a data breach both on-premises and in the cloud—such as in Office/Microsoft 365™, Salesforce®, and Box—and assists in meeting stringent data privacy and compliance regulations, including GDPR, CCPA, PCI DSS, HIPAA, and others.

Cloud Security:

- **Prisma Cloud.** Prisma Cloud is the industry’s most comprehensive CNSP, securing public clouds and cloud native applications. Prisma Cloud delivers cloud security posture management, cloud workload protection platform, cloud network security, and cloud infrastructure entitlement management capabilities that provide comprehensive visibility and protection across an organization’s hybrid, multi-cloud infrastructure.

Secure Access Service Edge:

- **Prisma Access.** Prisma Access consolidates more point-products into a single converged cloud-delivered platform than any competing solution, transforming network security and allowing organizations to enable secure hybrid workforces. Unlike competing platforms, only Prisma Access protects all application traffic with complete, best-in-class security while ensuring an exceptional user experience with industry-leading service-level agreements (“SLA”s).
- **Prisma SD-WAN.** Our Prisma SD-WAN solution is a next-generation SD-WAN solution that makes the secure cloud-delivered branch possible. Unlike legacy SD-WAN solutions that introduce cost and complexity, our Prisma SD-WAN ensures exceptional user experience with application-defined policies and simplifies network and security operations using machine learning and automation.

Security Analytics and Automation:

- **Cortex XDR.** This cloud-based subscription enables organizations to collect telemetry from endpoint, network, identity and cloud data sources and apply advanced analytics and machine learning across all data, to quickly find and stop targeted attacks, insider abuse, and compromised endpoints. Cortex XDR has two product tiers: XDR Prevent and XDR Pro. XDR Prevent delivers enterprise-class endpoint security focused on preventing attacks. XDR Pro extends endpoint detection and response (“EDR”) to include cross-data analytics, including network, cloud and identity data. These capabilities build on each other such that a customer can start with XDR Prevent, then upgrade to XDR Pro for EDR or XDR Pro for cross-data analytics.
- **Cortex XSOAR.** Available as a cloud-based subscription or an on-premises appliance, Cortex XSOAR is the industry’s most comprehensive SOAR offering that unifies playbook automation, case management, real-time collaboration, and threat intelligence management to serve security teams across the incident lifecycle. With Cortex XSOAR, security teams can standardize processes, automate repeatable tasks and manage incidents across their security product stack to improve response time and analyst productivity. It learns from the real-life analyst interactions and past investigations to help SOC teams with analyst assignment suggestions, playbook enhancements, and best next steps for investigations.
- **Cortex Xpanse.** This cloud-based subscription provides attack surface management, which is the ability for an organization to identify what an attacker would see amongst all of its sanctioned and unsanctioned Internet-facing assets. In addition, Cortex Xpanse detects risky or out-of-policy communications between Internet-connected assets that can be exploited for data breaches or ransomware attacks. Finally, Cortex Xpanse continuously identifies Internet assets, risky services or misconfigurations in third parties to help secure a supply chain or identify risks for mergers and acquisitions due diligence.
- **Cortex Data Lake.** This cloud-based subscription allows our customers to collect and analyze large amounts of context-rich network security data. This includes collection of enhanced network logs generated by our security offerings, including those of our ML-Powered Next-Generation Firewalls and Prisma Access subscription, eliminating the need to plan for local data storage.

Support

Customer Support. We offer Standard Support, Premium Support, Four-Hour Premium Support and Platinum Support to our end-customers and channel partners. Our channel partners that 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 a service offering called Focused Services that includes Service Account

Management (“SAM”) to provide support for end-customers with unique or complex support requirements. We offer our end-customers ongoing support for hardware, software and certain cloud offerings in order to receive ongoing security updates, PAN-OS upgrades, bug fixes, and repair. End-customers typically purchase these services for a one-year or longer term at the time of the initial product sale and typically renew for successive one-year or longer 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.

Threat Intelligence and Cyber Security Consulting. Unit 42 brings together our world-renowned threat researchers with an elite team of security consultants (formerly Crypsis) to create an intelligence-driven, response-ready organization. The Unit 42 Threat Intelligence team provides threat research that enables security teams to understand adversary intent and attribution, while enhancing protections offered by our products and services to stop advanced attacks. As threats escalate, Unit 42 is available to advise customers on the latest risks, assess their readiness, and help them recover when they are victim of a cybersecurity breach. Unit 42 Security Consultants serve as a trusted partner with state-of-the-art cyber risk expertise and incident response capabilities, helping customers focus on their business before, during, and after a breach.

Professional Services. Professional services are delivered directly by us and through our authorized channel partners to our end-customers and include on-location and remote, hands-on experts who plan, design, and deploy effective security solutions tailored to our end-customers’ specific requirements. These services include architecture design and planning, implementation, configuration, and firewall migrations, as well as Prisma and Cortex deployments. Customers can also purchase on-going technical experts to be part of customer’s security teams to aid in the implementation and operation of their Palo Alto Networks capabilities. Our education services include certifications, as well as online and in-classroom training, which are primarily delivered through our authorized training partners.

Technology

We provide comprehensive and integrated cybersecurity solutions with a portfolio that eliminates the need for siloed security products.

ML-Powered Next-Generation Firewall. Our ML-Powered Next-Generation Firewalls embed machine learning in the core of the firewall, empowering our customers to stay ahead of new emerging threats, see and secure their entire enterprise, including IoT, and support speed and error reduction with automatic policy recommendations. Our ML-Powered Next-Generation Firewalls extend visibility and security to all devices connecting to an end-user’s network, including unmanaged IoT devices without the need to deploy additional sensors. Our ML-Powered Next-Generation Firewalls inspect all traffic defined by the end-users policies, including all applications, threats, and content, and tie that traffic to the user, regardless of location or device type. The user, application, devices and content—the elements that run a business—become integral components of an enterprise’s security policy via our User-ID, App-ID, Device-ID and Content-ID technology. As a result, security aligns with business policies, as well as writes rules that are easy to understand and maintain. Our ML-Powered Next-Generation Firewalls can be deployed in multiple form factors, including hardware, software and cloud service, all managed centrally.

Prisma Access. Prisma Access is a SASE technology that helps organizations deliver consistent security to remote networks and mobile users. Located in more than 100 locations around the world in 77 countries, Prisma Access consistently inspects all traffic across all ports and provides bidirectional networking to enable branch-to-branch and branch-to-headquarter traffic.

Delivering protection at scale, Prisma Access provides global coverage so teams do not have to worry about sizing and deploying hardware firewalls at the branch. Prisma Access uses Cortex Data Lake for centralized analysis, reporting, and forensics.

Prisma SD-WAN. Prisma SD-WAN is the industry’s first next-generation SD-WAN solution that makes the secure cloud-delivered branch possible, delivering an ROI of up to 243%. Unlike legacy SD-WAN solutions that introduce cost and complexity, Prisma SD-WAN ensures exceptional user experience with application-defined policies and simplifies network and security operations using machine learning and AI.

Prisma Cloud. Prisma Cloud is a unified CNSP with broad security and compliance coverage for the entire cloud across hybrid and multi-cloud environments. Prisma Cloud protects cloud native applications spanning hosts, containers, serverless architectures and other platform as a service (“PaaS”) offerings across cloud platforms. It dynamically discovers public cloud resources as they are deployed and correlates data cloud services (resource configurations, flow logs, audit logs, host and container logs, etc.) to provide security and compliance insights for cloud applications. It uses machine learning to profile user, workload, and application behaviors to identify and prevent advanced threats.

Prisma Cloud integrates with continuous integration and continuous development (“CI/CD”) tool chains to provide full lifecycle vulnerability management, compliance, infrastructure-as-code scanning, and runtime defense. With a comprehensive library of compliance frameworks, it vastly simplifies the task of maintaining compliance. Prisma Cloud provides this through deep context-sharing that spans infrastructure, PaaS, users, development platforms, data, and application workloads. Seamless integration with security orchestration tools ensures rapid remediation of vulnerabilities and security issues.

SaaS Security. SaaS Security enables safe cloud adoption by providing visibility, compliance controls, and security for cloud applications and sensitive data. It helps minimize the use of shadow IT, secure access to corporate SaaS applications and mitigate the risk of a data breach in the cloud. SaaS Security is an integrated CASB and includes SaaS Security API and SaaS Security Inline.

Cortex XDR. Cortex XDR is an industry-recognized extended detection and response offering that integrates endpoint, network, and cloud data to stop sophisticated attacks. Going beyond EDR, Cortex XDR detects the most complex threats using analytics across key data sources and reveals the root cause, reducing investigation time by 88% compared to manual processes.

Cortex XSOAR. Cortex XSOAR improves SOC efficiency with an industry-recognized extended SOAR offering. Security leaders can transform every aspect of their operations with a comprehensive, unified approach to case management, automation, real-time collaboration, and threat intelligence management. Cortex XSOAR enables security teams to manage alerts across all sources, standardize any processes with playbooks, take action on threat intelligence, and automate response for every security use case, and use of which has resulted, for many of our customers, in significantly faster SOC response times and a significant reduction in alerts to the SOC which require human intervention.

Cortex Xpanse. Cortex Xpanse is an attack surface management platform that provides an attacker's view of your enterprise. Cortex Xpanse gives a complete and accurate inventory of an organization's global Internet-facing assets and misconfigurations, allowing them to continuously discover, evaluate, and mitigate an external attack surface, flag risky communications, evaluate supplier risk or assess the security of merger and acquisition targets. With Cortex Xpanse, enterprises are armed with complete asset inventories in order to reduce risk from vulnerabilities and improve mean time to discover and respond. Audit and Compliance teams use Cortex Xpanse to improve their audit processes and stay in compliance by assessing their access controls against regulatory frameworks.

Certifications. Many of our products have been awarded Federal Information Processing Standard ("FIPS") 140-2 Level 2, Common Criteria/National Information Assurance Partnership ("NIAP") Evaluation Assurance Level ("EAL") 2, Common Criteria/NIAP EAL4+, Network Equipment-Building System ("NEBS"), and ICSA Firewall certifications.

Research and Development

Our research and development efforts are focused on developing new hardware and software and on enhancing and improving our existing product and subscription offerings. We believe that hardware and software are both critical to expanding our leadership in the enterprise security industry. Our engineering team has deep networking, endpoint, 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 allows us to respond to the rapidly changing application and threat landscape. We supplement our own research and development efforts 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 believe that innovation and timely development of new features and products is essential to meeting the needs of our end-customers and improving our competitive position. During fiscal 2021, we introduced several new offerings, including: Cortex XDR 2.5, Next Generation SD-WAN, Prisma Cloud 2.0, Enterprise DLP, 5G Security, IoT Healthcare Security, Prisma Access 2.0 and Complete Zero Trust Network Security. Additionally, we acquired productive investments that fit well within our long-term strategy. For example, we acquired the Crypsis Group ("Crypsis"), which we expect will expand our incident response capabilities and strengthen our Cortex strategy; we acquired Sinefa Group, Inc. ("Sinefa"), which we expect will extend our Prisma Access offering; we acquired Expanse Inc. ("Expanse"), which we expect will enrich our Cortex offerings and provide organizations an integrated view of the enterprise to combine external, internal, and threat data; and we acquired Bridgecrew Inc. ("Bridgecrew"), which we expect will expand our Prisma Cloud offering to deliver security across the full application lifecycle.

We plan to continue to significantly invest in our research and development efforts as we evolve and extend the capabilities of our portfolio.

Intellectual Property

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 enterprise security industry have extensive patent portfolios and are regularly involved in both offensive and defensive litigation. We continue to grow our patent portfolio and own intellectual property and related intellectual property rights around the world that relate to our products, services, research and development, and other activities, and our success depends in part upon our ability to protect our core technology and intellectual property. We file patent applications to protect our intellectual property and believe that the duration of our issued patents is sufficient when considering the expected lives of our products.

We actively seek to protect our global intellectual property rights and to deter unauthorized use of our intellectual property by controlling 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 intellectual property rights, our rights may not be successfully

asserted in the future or may be invalidated, circumvented or challenged. In addition, the laws of various foreign countries where our offerings are distributed may not protect our intellectual property rights to the same extent as laws in the United States. See “Risk Factors-Claims by others that we infringe their proprietary technology or other rights could harm our business,” “Risk Factors-Our proprietary rights may be difficult to enforce or protect, which could enable others to copy or use aspects of our products or subscriptions without compensating us,” and “Legal Proceedings” below for additional information.

Government Regulation

We are subject to numerous U.S. federal, state, and foreign laws and regulations covering a wide variety of subject matters. Like other companies in the technology industry, we face scrutiny from both U.S. and foreign governments with respect to our compliance with laws and regulations. Our compliance with these laws and regulations may be onerous and could, individually or in the aggregate, increase our cost of doing business, impact our competitive position relative to our peers, and/or otherwise have an adverse impact on our business, reputation, financial condition, and operating results. For additional information about government regulation applicable to our business, see Part I, Item 1A “Risk Factors” in this Form 10-K.

Competition

We operate in the intensely competitive enterprise security industry 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 five categories:

- large companies that incorporate security features in their products, such as Cisco Systems, Inc. (“Cisco”) or those that have acquired, or may acquire, large network and endpoint security vendors and have the technical and financial resources to bring competitive solutions to the market;
- independent security vendors such as Check Point Software Technologies Ltd. (“Check Point”), Fortinet, Inc. (“Fortinet”), and Zscaler, Inc. (“Zscaler”) that offer a mix of network and endpoint security products;
- startups and single-vertical vendors that offer independent or emerging solutions across various areas of security;
- public cloud vendors and startups that offer solutions for cloud security (private, public and hybrid cloud); and
- large and small companies, such as CrowdStrike, Inc (“CrowdStrike”) that offer solutions for security operations and endpoint security.

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, diversity, 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 portfolio, 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, more diversified product lines, and larger and more mature intellectual property portfolios.

Sales, Customer Support and Marketing

Customers. 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, government entities, healthcare, Internet and media, manufacturing, public sector, and telecommunications. Our end-customers deploy our portfolio of products 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. Our end-customer deployments typically involve at least one pair of our products along with one or more of our subscriptions, depending on size, security needs and requirements, and network complexity. No single end-customer accounted for more than 10% of our total revenue in fiscal 2021, 2020, or 2019.

Distribution. We primarily sell our products and subscription and support offerings to end-customers through our channel partners utilizing a two-tier, indirect fulfillment model whereby we sell our products and subscription and support offerings to our distributors, which, in turn, sell to our resellers, which then sell to our end-customers. Sales are generally subject to our standard, non-exclusive distributor agreement, which provides for an initial term of one year, one-year renewal terms, termination by us with 30 to 90 days written notice prior to the renewal date, and payment to us from the channel partner within 30 to 45 calendar days of the date we issue an invoice for such sales. For fiscal 2021, 56.0% of our total revenue was derived from sales to three distributors.

We also sell our VM-Series virtual firewalls directly to end-customers through Amazon’s AWS Marketplace, Microsoft’s Azure Marketplace, and Google’s Cloud Platform Marketplace under a usage-based licensing model.

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 our end-customers and our marketing and product development organizations. We expect to continue to grow our sales headcount to expand our reach in all key growth sectors.

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

Channel Program. Our NextWave Channel Partner program is focused on building in-depth relationships with solutions-oriented distributors and resellers that have strong security expertise. The program rewards these partners based on a number of attainment goals, as well as provides them access to marketing funds, technical and sales training, and support. To promote optimal productivity, we operate a formal accreditation program for our channel partners’ sales and technical professionals. As of July 31, 2021, we had more than 5,900 channel partners.

Customer Support. Our customer support organization is responsible for delivering support, professional, and educational services directly to our channel partners and to end-customers. We leverage the capabilities of our channel partners and train them in the delivery of support, professional, and educational services to enable these services to be locally delivered. We believe that a broad range of support services is essential to the successful customer deployment and ongoing support of our products, and we have hired support engineers with proven experience to provide those services.

Marketing. Our marketing is focused on building our brand reputation and the market awareness of our portfolio and driving pipeline and end-customer demand. Our marketing team consists primarily of product marketing, brand, demand, field, communications, including analyst relations and digital and analytics functions. Marketing activities include pipeline development through demand generation, social media and advertising programs, managing the corporate website and partner portal, trade shows and conferences, analyst relationships, customer advocacy, and customer awareness. Every year we organize our end-customer conference “Ignite.” We also publish threat intelligence research such as the Unit 42 Cloud Threat Report and the Unit 42 IoT Threat Report, which are based on data from our global threat intelligence team, Unit 42. These activities and tools benefit both our direct and indirect channels and are available at no cost to our channel partners.

Backlog. Orders for subscription and support offerings for multiple years are generally billed upfront shortly after fulfillment and are included in deferred revenue. Timing of revenue recognition for subscription and support offerings may vary depending on the contractual period or when the subscription and support offerings are rendered. Products are shipped and billed shortly after receipt of an order. However, insufficient supply and inventory may delay our product shipments. The majority of our product revenue comes from orders that are received and shipped in the same quarter. As such, we do not believe that our product backlog at any particular time is meaningful and it is not necessarily indicative of our future operating results.

Seasonality. Our business is affected by seasonal fluctuations in customer spending patterns. We have begun to see seasonal patterns in our business, which we expect to become more pronounced as we continue to grow, with our strongest sequential revenue growth occurring in our fiscal second and fourth quarters.

Manufacturing

We outsource the manufacturing of our security products to various manufacturing partners, which include our electronics manufacturing services provider (“EMS provider”) 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 EMS provider is Flextronics International, Ltd. (“Flex”), who assembles our products using design specifications, quality assurance programs, and standards that we establish, and 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 manufacturing partners or by various component suppliers. We do not have any long-term manufacturing contracts that guarantee us any fixed capacity or pricing, which could increase our exposure to supply shortages or price fluctuations related to raw materials.

Human Capital

We believe our ongoing success depends on our employees. Development and investment in our people have always been central to who we are, and will continue to be so. Our People Strategy is a comprehensive approach to source, hire, onboard, integrate, develop, engage and reward employees. With a global workforce of 10,473 (as of July 31, 2021), we take our People Strategy seriously and manage it as a critical element of our overall company strategy.

Source & Hire. Sourcing and hiring diverse talent and setting them free to create and execute is central to our approach to our people. Our talent acquisition team utilizes a number of methods to find subject experts in their respective fields, including the use of a variety of channels that focus on reaching diverse and underserved communities. Our university relations team partners with hundreds of academic institutions, including colleges and universities that focus on serving underrepresented populations, to provide career pathways for early-in-career candidates. We also encourage current employees to provide qualified referrals. Through our License-to-Hire program, we ensure that hiring managers are trained to recruit, that they are made aware of potential unconscious biases and interview for the values and competencies that we believe enhance our culture. We have diverse interview panels to deliver a quality interview experience to a diverse slate of candidates.

Onboard & Integrate. We believe that a positive onboarding experience is foundational to positive employee engagement and rapid productivity. During the COVID-19 pandemic, we built and utilized virtual learning platforms and employee communication channels to provide new employees with inspirational, often personalized, onboarding experiences. Onboarding is a journey of integration that extends through the first year at Palo Alto Networks for every employee. In addition, we have built specialist learning tracks for interns and new graduates that have been recognized as best in class externally. As part of our merger and acquisition strategy, we have also established a robust integration program with the goal to enable individuals joining our teams to feel part of our culture at speed.

Develop & Motivate. FLEXLearn is our unique approach to personalized employee development. FLEXLearn is a learning experience platform that provides employees with a path based on their needs, interests, style, and career journey. Development information about core business elements, professional skill sets, working in a distributed environment, as well as required compliance training, such as Code of Conduct, anti-discrimination, anti-harassment, and anti-bribery training, is also deployed through the FLEXLearn platform. In addition, FLEXLearn provides employees with events and activities that motivate and spark critical thinking, on topics ranging from inclusion, to well-being and collaboration. As of July 31, 2021, 99.5% of our employees had completed Code of Conduct and Business Ethics training. On average, employees had completed 12 hours of development through the FLEXLearn platform during fiscal 2021.

Engage & Reward. We conduct weekly executive listening sessions and frequent “pulse surveys” to better understand employee engagement, sentiment well-being, and latterly, the agility to transition to a distributed work model. Many of these sessions have informed our holistic People Strategy through programs like FLEXWORK, Inclusion and Diversity, and Internal Mobility.

Employee sentiment has continued to be highly positive. In February 2021, we conducted an anonymous global employee engagement survey. The response rate was 92% representing all functions and geographies. The overall engagement score was 81%. Employees indicated a strong sense of belonging, confidence in leadership, and an understanding of how their work contributes to the Company’s goals. Outcomes from the survey are being used to develop company-wide and function-specific action plans.

In addition to a comprehensive compensation and diverse benefits program, we believe in an always-on feedback and rewards philosophy. From recurring 1:1 sessions and quarterly performance feedback to use of our Cheers for Peers peer recognition program, employees get continuous input about the value they bring to the organization.

Inclusion & Diversity. We are intentional about including diverse points of view, perspectives, experiences, backgrounds and ideas in our decision-making processes. We deeply believe that true diversity exists when we have representation of all ethnicities, genders, orientations and identities, and cultures in our workforce. Our Inclusion and Diversity (“I&D”) programs continue to advance those visions. The diversity of our board of directors, with women representing 33% of our board (as of July 31, 2021), is an example of that vision in action. We have eight employee network groups (“ENG”s) which are employee-led groups that play a vital role in building understanding and awareness. Over 25% of our global workforce was involved in at least one ENG as of July 31, 2021. Our ENGs are provided with a budget to fund activities for their communities, we involve our ENGs in listening sessions with executive teams and we work in partnership to develop our annual I&D plans, because we believe involvement is critical. Our I&D philosophy is fully embedded in our talent acquisition, learning and development and rewards and recognition programs.

FLEXWORK. Throughout the COVID-19 pandemic, while prioritizing the health and safety of our employees, we have learned how to collaborate in a distributed work reality and to create opportunities for employees to maintain a sense of belonging and focus on well-being. The pivot to a distributed work model presented an opportunity to re-examine how and where we work going forward past the pandemic. Moving into the future we aim to disrupt the nature of work. Our philosophy is simple: place our employees at the center of their working life by providing employees flexibility, personalization, and choice regarding how they work, the benefits they choose, the way they consume learning and, where possible, where they work. We truly believe that the more our

employees have choice, the more engaged they will be. This theory has proven out in both the productivity and positive sentiment achieved across the months of the pandemic.

FLEXWORK adds even more opportunity to scale our efforts to improve Inclusion and Diversity. It further enables us to recognize each individual as unique, with their own priorities and needs, and gives the employee greater agency to personalize their decisions and utilize our programs and initiatives to meet those interests and desires.

The change to the nature of work won't happen in isolation as other organizations must make similar transitions. We created the FLEXWORK Coalition, a group of over 800 companies that have joined discussion sessions about the nature of work. Our company leads these conversations, bringing in expert speakers and case studies to guide other company transformations.

Environmental, Social & Governance

We recognize our duty to address environmental, social and governance (“ESG”) practices. From our Climate Commitment and our social impact programs to our Supplier Responsibility initiatives and Code of Business Conduct and Ethics, we value the opportunity to have meaningful outcomes that reinforce our intention to respect our planet, uplift our communities and advance our industry.

Environmental. We recognize climate change is a global crisis and are committed to doing our part to reduce environmental impacts by setting clear goals, engaging in coalitions and collaborating across our value chain. In February 2021, we declared a set of climate commitments. Aligned to the Paris Agreement, we set a goal to be carbon neutral by 2030 and outlined three strategies to reach that goal: utilize 100% renewable energy, reduce our greenhouse gas (“GHG”) emissions using guidance established by the Science Based Targets initiative and to offset remaining emissions by investing in quality carbon offset programs. We committed to being transparent about our progress over time through annual reporting.

Social. In addition to our FLEXWORK People Strategy described in the section titled “Human Capital” above, we prioritized the health and safety of our employees during the COVID-19 pandemic. Through the deployment of our Global Supplier Code of Conduct, we continued to reach across our supply chain to communicate our expectations regarding labor standards, business practices and workplace health and safety conditions. During fiscal 2021, we became an affiliate member of the Responsible Business Alliance and published a Supplier Diversity statement to advance our supplier responsibility programs. We value our role as a good corporate citizen and scaled our social impact programs in fiscal 2021, focusing on helping colleagues and communities impacted by the COVID-19 pandemic through charitable donations, employee giving and volunteer programs. We also expanded our cybersecurity education programs to help youth protect their digital way of life and to prepare diverse adults for careers in cybersecurity.

Governance. Integrity is one of our core values. Our corporate behavior and leadership practices model ethical decision making. Employees and suppliers are informed about our governance expectations through our Codes of Conduct, compliance training programs and ongoing communications. As of July 31, 2021, 99.5% of our employees had completed Code of Conduct and Business Ethics training. Reinforcing the importance of our ESG performance, the charter of the Nominating and Governance Committee of the board of directors includes the primary oversight of ESG.

Available Information

Our website is located at www.paloaltonetworks.com, and our investor relations website is located at investors.paloaltonetworks.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are available free of charge on the Investors portion of our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). We also provide a link to the section of the SEC’s website at www.sec.gov that has all of our public filings, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, our Proxy Statements, and other ownership-related filings.

We also use our investor relations website as a channel of distribution for important company information. For example, webcasts of our earnings calls and certain events we participate in or host with members of the investment community are on our investor relations website. Additionally, we announce investor information, including news and commentary about our business and financial performance, SEC filings, notices of investor events, and our press and earnings releases, on our investor relations website. Investors and others can receive notifications of new information posted on our investor relations website in real time by signing up for email alerts and RSS feeds. Further corporate governance information, including our corporate governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading “Governance.” The contents of our websites are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties including those described below. 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, also may become important factors that affect us. If any of the following risks or others not specified below materialize, our business, financial condition, and operating results could be materially adversely affected, and the market price of our common stock could decline. In addition, the impacts of COVID-19 and any worsening of the economic environment may exacerbate the risks described below, any of which could have a material impact on us. This situation is changing rapidly, and additional impacts may arise that we are not currently aware of.

RISK FACTOR SUMMARY

Our business is subject to numerous risks and uncertainties. These risks include, but are not limited to, the following:

- The ongoing global COVID-19 outbreak could harm our business and results of operations.
- Our business and operations have experienced growth in recent periods, and if we do not effectively manage any future growth or are unable to improve our systems, processes, and controls, our operating results could be adversely affected.
- Our operating results may vary significantly from period to period and be unpredictable, which could cause the market price of our common stock to decline.
- Ongoing global economic uncertainty could have an adverse effect on our business and operating results.
- 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 or maintain or increase cash flow on a consistent basis, which could cause our business, financial condition, and operating results to suffer.
- If we are unable to sell new and additional product, subscription, and support offerings to our end-customers, our future revenue and operating results will be harmed.
- We face intense competition in our market and we may lack sufficient financial or other resources to maintain or improve our competitive position.
- A network or data security incident may allow unauthorized access to our network or data, harm our reputation, create additional liability, and adversely impact our financial results.
- Reliance on shipments at the end of the quarter could cause our revenue for the applicable period to fall below expected levels.
- Seasonality may cause fluctuations in our revenue.
- If we are unable to hire, integrate, train, retain, and motivate qualified personnel and senior management, our business could suffer.
- If we are not successful in executing our strategy to increase sales of our products, subscriptions and support offerings to new and existing medium and large enterprise end-customers, our operating results may suffer.
- We rely on revenue from subscription and support offerings, and because we recognize revenue from subscription and support over the term of the relevant service period, downturns or upturns in sales of these subscription and support offerings are not immediately reflected in full in our operating results.
- Defects, errors, or vulnerabilities in our products, subscriptions, or support offerings, the failure of our products or subscriptions to block a virus or prevent a security breach or incident, misuse of our products, or risks of product liability claims could harm our reputation and adversely impact our operating results.
- False detection of applications, viruses, spyware, vulnerability exploits, data patterns, or URL categories could adversely affect our business.
- We rely on our channel partners to sell substantially all of our products, including subscriptions and support, and if these channel partners fail to perform, our ability to sell and distribute our products and subscriptions will be limited, and our operating results will be harmed.
- If we do not accurately predict, prepare for, and respond promptly to rapidly evolving technological and market developments and successfully manage product and subscription introductions and transitions to meet changing end-customer needs in the enterprise security industry, our competitive position and prospects will be harmed.
- Our current research and development efforts may not produce successful products, subscriptions, or features that result in significant revenue, cost savings or other benefits in the near future, if at all.

- We may acquire other businesses, which could subject us to adverse claims or liabilities, require significant management attention, disrupt our business, and adversely affect our operating results, may not result in the expected benefits of such acquisitions and may dilute stockholder value.
- Because we depend on manufacturing partners to build and ship our products, we are susceptible to manufacturing and logistics 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 end-customers.
- 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.
- 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 end-customers and may result in the loss of sales and end-customers.
- The sales prices of our products and subscriptions may decrease, which may reduce our gross profits and adversely impact our financial results.
- 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 are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and operating results.
- We are exposed to the credit and liquidity risk of some of our channel partners and end-customers, and to credit exposure in weakened markets, which could result in material losses.
- A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks.
- Our ability to sell our products and subscriptions is dependent on the quality of our technical support services and those of our channel partners, and the failure to offer high-quality technical support services could have a material adverse effect on our end-customers' satisfaction with our products and subscriptions, our sales, and our operating results.
- Claims by others that we infringe their proprietary technology or other rights could harm our business.
- Our proprietary rights may be difficult to enforce or protect, which could enable others to copy or use aspects of our products or subscriptions without compensating us.
- Our use of open source software in our products and subscriptions could negatively affect our ability to sell our products and subscriptions and subject us to possible litigation.
- We license technology from third parties, and our inability to maintain those licenses could harm our business.
- Our failure to adequately protect personal information could have a material adverse effect on our business.
- We face risks associated with having operations and employees located in Israel.
- We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.
- Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products and subscriptions could reduce our ability to compete and could harm our business.
- We have a corporate structure aligned with the international nature of our business activities, and if we do not achieve increased tax benefits as a result of our corporate structure, our financial condition and operating results could be adversely affected.
- We may not have the ability to raise the funds necessary to settle conversions of our Notes, repurchase our Notes upon a fundamental change, or repay our Notes in cash at their maturity, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of our Notes.
- Our charter documents and Delaware law, as well as certain provisions contained in the indentures governing our Notes, could discourage takeover attempts and lead to management entrenchment, which could also reduce the market price of our common stock.

Risks Related to Our Business and Our Industry

The ongoing global COVID-19 outbreak could harm our business and results of operations.

The novel strain of COVID-19 identified in late 2019 has spread globally, including within the United States, and has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns. This outbreak has negatively impacted and will likely continue to have a negative impact on, worldwide economic activity and financial markets and has impacted, and will further impact, our workforce and operations, the operations of our end-customers, and those of our respective channel partners, vendors and suppliers. In light of the uncertain and rapidly evolving situation relating to the spread of this virus and various government restrictions and guidelines, we have taken measures intended to mitigate the spread of the virus and minimize the risk to our employees, channel partners, end-customers, and the communities in which we operate. These measures include transitioning our employee population to work remotely from home beginning in March 2020, which continued through the fiscal year ended July 31, 2021, and may continue into future quarters. Although we continue to monitor the situation and may adjust our current policies as more information and public health guidance become available, including progress made through vaccinations, these precautionary measures that we have adopted could negatively affect our customer success efforts, sales and marketing efforts, delay and lengthen our sales cycles, and create operational or other challenges, any of which could harm our business and results of operations. In addition, COVID-19 may continue to disrupt the operations of our end-customers and channel partners for an indefinite period of time, including as a result of travel restrictions and/or business shutdowns, all of which could negatively impact our business and results of operations, including cash flows.

The ongoing impact of COVID-19 is fluid and uncertain, but it has caused and may continue to cause various negative effects, including an inability to meet with our existing or potential end-customers; our end-customers deciding to delay or abandon their planned purchases; increased requests for delayed payment terms or product discounts by our end-customers and channel partners; us delaying, canceling, or withdrawing from user and industry conferences and other marketing events, including some of our own; changes in the demand for our products, which has caused us to reprioritize our engineering and research and development efforts and make changes to our original offering roadmap; and delays or possible disruptions in our supply chain. As a result, we may experience extended sales cycles; our demand generation activities, and our ability to close transactions with end-customers and partners may be negatively impacted; our ability to provide 24x7 worldwide support and/or replacement parts to our end-customers may be adversely affected; and it has been and, until the COVID-19 outbreak is contained and global economic activity stabilizes, will continue to be more difficult for us to forecast our operating results.

More generally, the outbreak has not only significantly and adversely increased economic and demand uncertainty, but it has caused a global economic slowdown, and continuing global economic uncertainty which could decrease technology spending and adversely affect demand for our offerings and harm our business and results of operations.

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

We have experienced growth and increased demand for our products and subscriptions over the last few years. As a result, our employee headcount has increased significantly, and we expect it to continue to grow over the next year. For example, from the end of fiscal 2020 to the end of fiscal 2021, our headcount increased from 8,014 to 10,473 employees. In addition, as we have grown, our number of end-customers has also increased significantly, and we have increasingly managed more complex deployments of our products and subscriptions with larger end-customers. The growth and expansion of our business and product, subscription, and support offerings places a significant strain on our management, operational, and financial resources. 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, all of which may be more difficult to accomplish the longer that our employees must work remotely from home.

We may not be able to successfully implement or scale improvements to our systems, processes, and controls in an efficient or timely manner. In addition, our existing systems, processes, and controls may not prevent or detect all errors, omissions, or fraud. We may also experience difficulties in managing improvements to our systems, processes, and controls or in connection with third-party software licensed to help us with such improvements. 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, disrupt our existing end-customer relationships, reduce demand for or limit us to smaller deployments of our products, or harm our business performance and operating results.

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

Our operating results, in particular, our revenues, gross margins, operating margins, and operating expenses, have historically varied from period to period, and even though we have experienced growth, we expect variation to 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 or sell additional products and subscriptions to our existing end-customers;
- the budgeting cycles, seasonal buying patterns, and purchasing practices of our end-customers, including the likely slowdown in technology spending due to the global economic downturn;
- changes in end-customer, distributor or reseller requirements, or market needs;
- price competition;
- 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 and strategic partnerships entered into by and between our competitors;
- changes in the mix of our products, subscriptions, and support, including changes in multi-year subscriptions and support;
- our ability to successfully and continuously expand our business domestically and internationally, particularly in the current global economic slowdown;
- changes in the growth rate of the enterprise security industry;
- deferral of orders from end-customers in anticipation of new products or product enhancements announced by us or our competitors;
- the timing and costs related to the development or acquisition of technologies or businesses or strategic partnerships;
- lack of synergy or the inability to realize expected synergies, resulting from acquisitions or strategic partnerships;
- our inability to execute, complete, or integrate efficiently any acquisitions that we may undertake;
- increased expenses, unforeseen liabilities, or write-downs and any impact on our operating results from any acquisitions we consummate;
- our ability to increase the size and productivity of our distribution channel;
- decisions by potential end-customers to purchase security solutions from larger, more established security vendors or from their primary network equipment vendors;
- changes in end-customer penetration or attach and renewal rates for our subscriptions;
- timing of revenue recognition and revenue deferrals;
- our ability to manage production and manufacturing related costs, global customer service organization costs, inventory excess and obsolescence costs, and warranty costs, especially due to potential disruptions in our supply chain as a result of COVID-19;
- our ability to manage cloud hosting service costs and scale the cloud-based subscription offerings;
- insolvency or credit difficulties confronting our end-customers, which could increase due to the effects of COVID-19 and adversely affect their ability to purchase or pay for our products and subscription and support offerings in a timely manner or at all, 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 relationships with important channel partners, including as a result of consolidation among distributors and resellers of security solutions;
- our inability to fulfill our end-customers' orders due to supply chain delays or events that impact our manufacturers or their suppliers, which may be adversely affected by the effects of COVID-19;
- the cost and potential outcomes of 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 amount of our expenses is incurred and paid in currencies other than the U.S. dollar;
- political, economic and social instability caused by the United Kingdom's exit from the European Union ("Brexit"), continued hostilities in the Middle East, terrorist activities, any disruptions from COVID-19 and any disruption these events may cause to the broader global industrial economy; and
- general macroeconomic conditions, both domestically and in our foreign markets that could impact some or all regions where we operate, including the expected global economic slowdown, increased risk of inflation, and potential global recession caused by the COVID-19 pandemic.

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, margin, 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.

Ongoing global economic uncertainty could have an adverse effect on our business and operating results.

We operate globally and as a result our business and revenues are impacted by global macroeconomic conditions. The multinational efforts to contain the spread of COVID-19 have had a significant adverse effect on the global macroeconomic environment that continues to cause economic uncertainty. In addition, the instability in the global credit markets, falling demand for oil and other commodities, uncertainties regarding the effects of Brexit, uncertainties related to the timing of the lifting of governmental restrictions to mitigate the spread of COVID-19, changes in public policies such as domestic and international regulations, taxes, or international trade agreements, international trade disputes, government shutdowns, geopolitical turmoil and other disruptions to global and regional economies and markets continue to add uncertainty to global economic conditions.

These adverse conditions could result in reductions in sales of our products and subscriptions, longer sales cycles, reductions in subscription or contract duration and value, slower adoption of new technologies, and increased price competition. As a result, any continued or further uncertainty, weakness or deterioration in global macroeconomic and market conditions may cause our end-customers to modify spending priorities or delay purchasing decisions, and result in lengthened sales cycles, any of which could harm our business and operating results.

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

We have experienced revenue growth rates of 24.9% and 17.5% in fiscal 2021 and fiscal 2020, respectively. Our revenue for any prior quarterly or annual period should not be relied upon as an indication of our future revenue or revenue growth for any future period. If we are unable to maintain consistent or increasing revenue or revenue growth, the market price of our common stock could be volatile, and it may be difficult for us to achieve and maintain profitability or maintain or increase cash flow on a consistent basis.

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

Other than fiscal 2012, we have incurred losses in all fiscal years since our inception. As a result, we had an accumulated deficit of \$1.7 billion as of July 31, 2021. We anticipate that our operating expenses will continue to increase in the foreseeable future as we continue to grow our business. Our growth efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenues sufficiently, or at all, to offset increasing expenses. Revenue growth may slow or revenue may decline for a number of possible reasons, including the downturn in the global and U.S. economy due to COVID-19, slowing demand for our products or subscriptions, increasing competition, a decrease in the growth of, or a demand shift in, our overall market, or a failure to capitalize on growth opportunities. Any failure to increase our revenue as we grow our business could prevent us from achieving or maintaining profitability or maintaining or increasing cash flow on a consistent basis. In addition, we may have difficulty achieving profitability under U.S. GAAP due to share-based compensation expense and other non-cash charges. If we are unable to navigate these challenges as we encounter them, our business, financial condition, and operating results may suffer.

If we are unable to sell new and additional product, subscription, and support offerings to our end-customers, our future revenue and operating results will be harmed.

Our future success depends, in part, on our ability to expand the deployment of our portfolio with existing end-customers and create demand for our new offerings, including cloud security, AI, and analytics offerings. This may require increasingly sophisticated and costly sales efforts that may not result in additional sales. The rate at which our end-customers purchase additional products, subscriptions, and support depends on a number of factors, including the perceived need for additional security products, including subscription and support offerings, as well as general economic conditions. Further, existing end-customers have no contractual obligation to and may not renew their subscription and support contracts after the completion of their initial contract period. Our end-customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our

subscriptions and our support offerings, the frequency and severity of subscription outages, our product uptime or latency, and the pricing of our, or competing, subscriptions. Additionally, our end-customers may renew their subscription and support agreements for shorter contract lengths or on other terms that are less economically beneficial to us. We also cannot be certain that our end-customers will renew their subscription and support agreements. If our efforts to sell additional products and subscriptions to our end-customers are not successful or our end-customers do not renew their subscription and support agreements or renew them on less favorable terms, our revenues may grow more slowly than expected or decline.

We face intense competition in our market and we may lack sufficient financial or other resources to maintain or improve our competitive position.

The industry for enterprise security products is intensely competitive, and we expect competition to increase in the future from established competitors and new market entrants. Our main competitors fall into five categories:

- large companies that incorporate security features in their products, such as Cisco Systems, Inc. (“Cisco”) or those that have acquired, or may acquire, large network and endpoint security vendors and have the technical and financial resources to bring competitive solutions to the market;
- independent security vendors such as Check Point Software Technologies Ltd. (“Check Point”), Fortinet, Inc. (“Fortinet”), and Zscaler, Inc. (“Zscaler”) that offer a mix of network and endpoint security products;
- startups and single-vertical vendors that offer independent or emerging solutions across various areas of security;
- public cloud vendors and startups that offer solutions for cloud security (private, public and hybrid cloud); and
- large and small companies, such as CrowdStrike, Inc (“CrowdStrike”) that offer solutions for security operations and endpoint security.

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 strategic acquisitions or enter into strategic partnerships;
- lower labor and development costs;
- newer or disruptive products or technologies;
- 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 and more diverse product and services offerings, which may make them less susceptible to downturns in a particular market and allow them to 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 and subscriptions, including through selling at zero or negative margins, offering concessions, product bundling, or a closed technology offering. Many of our smaller competitors that specialize in providing protection from a single type of security threat are often able to deliver these specialized security products to the market more quickly than we can.

Organizations that use legacy products and services may believe that these products and services are sufficient to meet their security needs or that our offerings only serve the needs of a portion of the enterprise security industry. Accordingly, these organizations may continue allocating their information technology budgets for legacy products and services and may not adopt our security offerings. Further, 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 and security products. As a result, these organizations may prefer to purchase from their existing suppliers rather than add or switch to a new supplier such as us, regardless of product performance, features, or greater services offerings or may be more willing to incrementally add solutions to their existing security infrastructure from existing suppliers than to replace it wholesale with our solutions.

Conditions in our market could change rapidly and significantly as a result of technological advancements, partnering or acquisitions 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 subscriptions. Some of our competitors have made or could make acquisitions of businesses that may allow them to offer more directly competitive and comprehensive solutions than they had previously offered and adapt more quickly

to new technologies and end-customer needs. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources.

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.

A network or data security incident may allow unauthorized access to our network or data, harm our reputation, create additional liability and adversely impact our financial results.

Increasingly, companies are subject to a wide variety of attacks on their networks on an ongoing basis. In addition to traditional computer “hackers,” malicious code (such as viruses and worms), phishing attempts, employee theft or misuse, and denial of service attacks, sophisticated nation-state and nation-state supported actors engage in intrusions and attacks (including advanced persistent threat intrusions) and add to the risks to our internal networks, cloud-deployed enterprise and customer-facing environments and the information they store and process. The incidence of cybersecurity breaches have increased. Despite significant efforts to create security barriers to such threats, it is virtually impossible for us to entirely mitigate these risks. We and our third-party service providers may face security threats and attacks from a variety of sources. Our data, corporate systems, third-party systems and security measures may be breached due to the actions of outside parties, employee error, malfeasance, a combination of these, or otherwise, and, as a result, an unauthorized party may obtain access to our data. Furthermore, as a well-known provider of security solutions, we may be a more attractive target for such attacks. A breach in our data security or an attack against our service availability, or that of our third-party service providers, could impact our networks or networks secured by our products and subscriptions, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks or those of our third-party service providers could be accessed, publicly disclosed, altered, lost, or stolen, which could subject us to liability and cause us financial harm. Although we have not yet experienced significant damages from unauthorized access by a third party of our internal network, any actual or perceived breach of network security in our systems or networks, or any other actual or perceived data security incident we or our third-party service providers suffer, could result in damage to our reputation, negative publicity, loss of channel partners, end-customers and sales, loss of competitive advantages over our competitors, increased costs to remedy any problems and otherwise respond to any incident, regulatory investigations and enforcement actions, costly litigation, and other liability. In addition, we may incur significant costs and operational consequences of investigating, remediating, eliminating and putting in place additional tools and devices designed to prevent actual or perceived security breaches and other security incidents, as well as the costs to comply with any notification obligations resulting from any security incidents. While we maintain cybersecurity insurance, our insurance may be insufficient to cover all liabilities incurred by these incidents, and any incidents may result in loss of, or increased costs of, our cybersecurity insurance. Any of these negative outcomes could adversely impact the market perception of our products and subscriptions and end-customer and investor confidence in our company and could seriously harm our business or operating results.

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. If expected revenue at the end of any fiscal quarter is delayed for any reason, including the failure of anticipated purchase orders to materialize (particularly for large enterprise end-customers with lengthy sales cycles), our logistics partners’ inability to ship products prior to fiscal quarter-end to fulfill purchase orders received near the end of a fiscal quarter (including due to the effects of COVID-19), our failure to manage inventory to meet demand, any failure of our systems related to order review and processing, or any delays in shipments based on trade compliance requirements (including new compliance requirements imposed by new or renegotiated trade agreements), revenue could fall below our expectations and the estimates of analysts for that quarter, which could adversely impact our business and operating results and cause a decline in the market price of our common stock.

Seasonality may cause fluctuations in our revenue.

We believe there are significant seasonal factors that may cause our second and fourth fiscal quarters to record greater revenue sequentially than our first and third fiscal quarters. We believe that this seasonality results from a number of factors, including:

- end-customers with a December 31 fiscal year-end choosing to spend remaining unused portions of their discretionary budgets before their fiscal year-end, which potentially results in a positive impact on our revenue in our second fiscal quarter;
- our sales compensation plans, which are typically structured around annual quotas and commission rate accelerators, which potentially results in a positive impact on our revenue in our fourth fiscal quarter;
- seasonal reductions in business activity during August in the United States, Europe and certain other regions, which potentially results in a negative impact on our first fiscal quarter revenue; and

- the timing of end-customer budget planning at the beginning of the calendar year, which can result in a delay in spending at the beginning of the calendar year potentially resulting in a negative impact on our revenue in our third fiscal quarter.

As we continue to grow, seasonal or cyclical variations in our operations may become more pronounced, and our business, operating results and financial position may be adversely affected.

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

Our future success depends, in part, on our ability to continue to hire, integrate, train, and retain qualified and highly skilled personnel. We are substantially dependent on the continued service of our existing engineering personnel because of the complexity of our offerings. Additionally, any failure to hire, integrate, train, and adequately incentivize our sales personnel or the inability of our recently hired sales personnel to effectively ramp to target productivity levels could negatively impact our growth and operating margins. Competition for highly skilled personnel, particularly in engineering, is often intense, especially in the San Francisco Bay Area, where we have a substantial presence and need for such personnel. Additionally, potential changes in U.S. immigration and work authorization laws and regulations, including in reaction to COVID-19, may make it difficult to renew or obtain visas for any highly skilled personnel that we have hired or are actively recruiting.

In addition, the industry in which we operate generally experiences high employee attrition. Although we have entered into employment offer letters with our key personnel, these agreements have no specific duration and constitute at-will employment. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees, and any failure to have in place and execute an effective succession plan for key executives, could seriously harm our business. If we are unable to hire, integrate, train, or retain the qualified and highly skilled personnel required to fulfill our current or future needs, our business, financial condition, and operating results could be harmed.

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, the decrease in the effectiveness of such services due to working remotely from home, or the ineffective management of any leadership transitions, especially within our sales organization, could significantly delay or prevent the achievement of our development and strategic objectives, which could adversely affect our business, financial condition, and operating results.

Further, we believe that a critical contributor to our success and our ability to retain highly skilled personnel has been our corporate culture, which we believe fosters innovation, inclusion, teamwork, passion for end-customers, focus on execution, and the facilitation of 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. While we are taking steps to develop a more inclusive and diverse workforce, there is no guarantee that we will be able to do so. Any failure to preserve our culture as we grow could limit our ability to innovate and could negatively affect our ability to retain and recruit personnel, continue to perform at current levels or execute on our business strategy.

If we are not successful in executing our strategy to increase sales of our products, subscriptions and support offerings 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, services, subscriptions and offerings to new and existing medium and large enterprise end-customers. Sales to these 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 competitors, such as Cisco and Check Point, 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 contracts, including stricter support response times and penalties for any failure to meet support requirements; and
- longer sales cycles, particularly during the current economic slowdown and in some cases over 12 months, 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 subscriptions.

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.

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

Subscription and support revenue accounts for a significant portion of our revenue, comprising 73.7% of total revenue in fiscal 2021, 68.8% of total revenue in fiscal 2020, and 62.2% of total revenue in fiscal 2019. Sales of new or renewal subscription and support contracts may decline and fluctuate as a result of a number of factors, including end-customers' level of satisfaction with our products and subscriptions (including newly integrated products and services), the prices of our products and subscriptions, 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 contracts decline, our total revenue and revenue growth rate may decline, and our business will suffer. In addition, we recognize subscription and support revenue over the term of the relevant service period, which is typically one to five years. As a result, much of the subscription and support revenue we report each fiscal quarter is the recognition of deferred revenue from subscription and support contracts entered into during previous fiscal quarters. Consequently, a decline in new or renewed subscription or support contracts in any one fiscal quarter will not be fully or immediately reflected in revenue in that fiscal quarter but will negatively affect our revenue in future fiscal quarters. Also, it is difficult for us to rapidly increase our subscription and support revenue through additional subscription and support sales in any period, as revenue from new and renewal subscription and support contracts must be recognized over the applicable service period.

Defects, errors, or vulnerabilities in our products, subscriptions, or support offerings, the failure of our products or subscriptions to block a virus or prevent a security breach or incident, misuse of our products, or risks of product liability claims could harm our reputation and adversely impact our operating results.

Because our products and subscriptions are complex, they have contained and may contain design or manufacturing defects or errors that are not detected until after their commercial release and deployment by our end-customers. For example, from time to time, certain of our end-customers have reported defects in our products related to performance, scalability, and compatibility. Additionally, defects may cause our products or subscriptions 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 security solutions, our networks, products, including cloud-based technology, and subscriptions 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 subscriptions to effectively update end-customers' hardware and cloud-based products. 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 installed end-customer base, any of which could temporarily or permanently expose our end-customers' networks, leaving their networks unprotected against the latest security threats. Moreover, 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.

The occurrence of any such problem in our products and subscriptions, whether real or perceived, 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, each of which may be costly and harm our reputation.

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

The limitation of liability provisions in our standard terms and conditions of sale 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 and subscriptions also entails the risk of product liability claims. Although we may be indemnified by our third-party manufacturers for product liability claims arising out of manufacturing defects, because we control the design of our products and subscriptions, 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 and subscriptions, 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.

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, report and act on applications, content, or threats that do not actually exist. This risk is heightened by the inclusion of a "heuristics" feature in our products and subscriptions, 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 may impair the perceived reliability of our products and subscriptions and may therefore adversely impact market acceptance of our products and subscriptions. If our products and subscriptions 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 channel partners, end-customers and sales, increased costs to remedy any problem, and costly litigation.

We rely on our channel partners to sell substantially all of our products, including subscriptions and support, and if these channel partners fail to perform, our ability to sell and distribute our products and subscriptions will be limited, and our operating results will be harmed.

Substantially all of our revenue is generated by sales through our channel partners, including distributors and resellers. We provide our channel partners with specific training and programs to assist them in selling our products, including subscriptions and support offerings, but there can be no assurance that these steps will be utilized or effective. In addition, our channel partners may be unsuccessful in marketing, selling, and supporting our products and subscriptions. We may not be able to incentivize these channel partners to sell our products and subscriptions to end-customers and, in particular, to large enterprises. These channel partners may also have incentives to promote our competitors' products and may devote more resources to the marketing, sales, and support of competitive products. Our channel partners operations may also be negatively impacted by other effects COVID-19 is having on the global economy, such as increased credit risk of end-customers and the uncertain credit markets. 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 be certain that we will retain these channel partners or that we will be able to secure additional or replacement channel partners. In addition, any new 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 subscriptions to end-customers or violate laws or our corporate policies. If we fail to effectively manage our sales channels or channel partners, our ability to sell our products and subscriptions and operating results will be harmed.

If we do not accurately predict, prepare for, and respond promptly to rapidly evolving technological and market developments and successfully manage product and subscription introductions and transitions to meet changing end-customer needs in the enterprise security industry, our competitive position and prospects will be harmed.

The enterprise security industry has grown quickly and 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. We must continually change our products and expand our business strategy in response to changes in network infrastructure requirements, including the expanding use of cloud computing. For example, organizations are moving portions of their data to be managed by third parties, primarily infrastructure, platform and application service providers, and may rely on such providers' internal security measures. In 2019, we announced our new cloud security offerings for securing access to the cloud (Prisma), and our security offerings for securing the future of security operations (Cortex). While we have historically been successful in developing, acquiring, and marketing new products and product enhancements that respond to technological change and evolving industry standards, we may not be able to continue to do so, and there can be no assurance that our new or future offerings will be successful or will achieve widespread market acceptance. If we fail to accurately predict end-customers' changing needs and emerging technological trends in the enterprise security industry, including in the areas of mobility, virtualization, cloud computing, and software defined networks ("SDN"), our business could be harmed. In addition, COVID-19 and the resulting increase in customer demand for work-from-home technologies and other technologies have caused us to reprioritize our engineering and R&D efforts and there can be no assurance that any product enhancements or new features will be successful or address our end-customer needs.

The technology in our portfolio 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 features and related enhancements may require us to develop new hardware architectures that involve complex, expensive, and time-consuming research and development processes. The development of our portfolio 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 features. If we experience

unanticipated delays in the availability of new products, features and subscriptions, and fail to meet customer expectations for such availability, our competitive position and business prospects will be harmed.

Additionally, we must commit significant resources to developing new features and new cloud security, AI/analytics and other offerings before knowing whether our investments will result in products, subscriptions, and features the market will accept. The success of new features depends on several factors, including appropriate new product definition, differentiation of new products, subscriptions, and features from those of our competitors, and market acceptance of these products, services and features. Moreover, successful new product introduction and transition depends on a number of factors, including our ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory, the availability of products in appropriate quantities and costs to meet anticipated demand, and the risk that new products may have quality or other defects or deficiencies, especially in the early stages of introduction. There can be no assurance that we will successfully identify opportunities for new products and subscriptions, develop and bring new products and subscriptions to market in a timely manner, or achieve market acceptance of our products and subscriptions, including our product enhancement efforts in connection with COVID-19, or that products, subscriptions, and technologies developed by others will not render our products, subscriptions, or technologies obsolete or noncompetitive.

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

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

We may acquire other businesses, which could subject us to adverse claims or liabilities, require significant management attention, disrupt our business, adversely affect our operating results, may not result in the expected benefits of such acquisitions and may dilute stockholder value.

As part of our business strategy, we may acquire or make investments in complementary companies, products, or technologies. The identification of suitable acquisition candidates is difficult, and we may not be able to complete such acquisitions on favorable terms, if at all. In addition, we may be subject to claims or liabilities assumed from an acquired company, product, or technology; acquisitions we complete could be viewed negatively by our end-customers, investors, and securities analysts; and we may incur costs and expenses necessary to address an acquired company's failure to comply with laws and governmental rules and regulations. Additionally, we may be subject to litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties, which may differ from or be more significant than the risks our business faces.

If we are unsuccessful at integrating past or future acquisitions in a timely manner, or the technologies and operations associated with such acquisitions, into our company, our revenue and operating results could be adversely affected. Any integration process may require significant time and resources, which may disrupt our ongoing business and divert management's attention, and we may not be able to manage the integration process successfully or in a timely manner. We may not successfully evaluate or utilize the acquired technology or personnel, realize anticipated synergies from the acquisition, or accurately forecast the financial impact of an acquisition transaction and integration of such acquisition, including accounting charges and any potential impairment of goodwill and intangible assets recognized in connection with such acquisitions.

Our completed or future acquisitions may not ultimately strengthen our competitive position or achieve our goals and business strategy. We may find that the acquired businesses, products, or technologies do not further our business strategy as we expected. Our acquisitions may be viewed negatively by our customers, financial markets, or investors. We may experience difficulty integrating the operations and personnel of the acquired business, and we may have difficulty retaining the key personnel of the acquired business. We may have difficulty integrating the acquired technologies or products with our existing product lines and we may have difficulty maintaining uniform standards, controls, procedures, and policies across diverse or expanding geographic locations.

We may have to pay cash, incur debt, or issue equity or equity-linked securities to pay for any future acquisitions, each of which could adversely affect our financial condition or the market price of our common stock. Furthermore, the sale of equity or issuance of equity-linked debt to finance any future acquisitions could result in dilution to our stockholders. See the risk factors entitled "*Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products and subscriptions could reduce our ability to compete and could harm our business.*" and "*The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans, the conversion of our Notes or exercise of the*

related Warrants, or otherwise will dilute all other stockholders.” The occurrence of any of these risks could harm our business, operating results, and financial condition.

Risks Related to our Supply Chain

Because we depend on manufacturing partners to build and ship our products, we are susceptible to manufacturing and logistics 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 end-customers.

We depend on manufacturing partners, primarily our EMS provider, Flex, as our sole source manufacturers for our product lines. Our reliance on these manufacturing partners reduces our control over the manufacturing process and exposes us to risks, including reduced control over quality assurance, product costs, product supply, timing and transportation risk. Our products are manufactured by our manufacturing partners at facilities located in the United States. Some of the components in our products are sourced either through Flex or directly by us from component suppliers outside the United States. The portion of our products that are sourced outside the United States may subject us to additional logistical risks (which may increase due to the global impact of COVID-19) or risks associated with complying with local rules and regulations in foreign countries. Significant changes to existing international trade agreements could lead to sourcing or logistics disruption resulting from import delays or the imposition of increased tariffs on our sourcing partners. For example, the United States and Chinese governments have each enacted, and discussed additional, import tariffs. These tariffs, depending on their ultimate scope and how they are implemented, could negatively impact our business by increasing our costs. For example, some components that we import for final manufacturing in the United States have been impacted by these recent tariffs. As a result, our costs have increased and we have raised, and may be required to further raise, prices on our hardware products. Each of these factors could severely impair our ability to fulfill orders.

In addition, we are subject to requirements under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) to diligence, disclose, and report whether or not our products contain minerals originating from the Democratic Republic of the Congo and adjoining countries, or conflict minerals. Although the SEC has provided guidance with respect to a portion of the conflict minerals filing requirements that may somewhat reduce our reporting practices, we have incurred and expect to incur additional costs to comply with these disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. These requirements could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of semiconductor devices or other components used in our products. We may also encounter end-customers who require that all of the components of our products be certified as conflict free. If we are not able to meet this requirement, such end-customers may choose not to purchase our products.

Our manufacturing partners typically fulfill our supply requirements on the basis of individual purchase orders. We do not have long-term contracts with these 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 and the prices we pay for manufacturing services could be increased on short notice. Our contract with Flex permits them to terminate the agreement for their convenience, subject to prior notice requirements. If we are required to change manufacturing partners, our ability to meet our scheduled product deliveries to our end-customers could be adversely affected, which could cause the loss of sales to existing or potential end-customers, delayed revenue or an increase in our costs which could adversely affect our gross margins. COVID-19 and the global semiconductor shortage have in certain cases caused delays and challenges in obtaining components and inventory, as well as increases to freight and shipping costs, and may result in a material adverse effect on our results of operations. Any production interruptions for any reason, such as a natural disaster, epidemic or pandemic such as COVID-19, 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 manufacturing partners 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 product management organizations, adjusted for overall market conditions. COVID-19 has made forecasting more difficult and we may experience increased challenges to our supply chain due to the unpredictability of the impacts of COVID-19. 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. 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. If our actual component usage and product demand are lower than the forecast we provide to our manufacturing partners, we accrue for losses on manufacturing commitments in excess of forecasted demand. Alternatively, insufficient supply levels, including due to the recent global shortage of semiconductors, may lead to shortages that result in delayed product revenue or loss of sales opportunities

altogether as potential end-customers turn to competitors' products that are readily available. 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 end-customers and may result in the loss of sales and end-customers.

Our products rely on key components, including integrated circuit components, which our manufacturing partners purchase on our behalf from a limited number of component suppliers, including sole source providers. The manufacturing operations of some of our component suppliers are geographically concentrated in Asia and elsewhere, which makes our supply chain vulnerable to regional disruptions, such as natural disasters, fire, political instability, civil unrest, a power outage, or health risks, such as epidemics and pandemics like COVID-19, and as a result have impaired, and could impair in the future, the volume of components that we are able to obtain. Lead times for components have also been adversely impacted by factors outside of our control, including COVID-19 and the recent global shortage of semiconductors. For example, we have experienced, and could continue to experience, increased difficulties in obtaining a sufficient amount of materials in the semiconductor market, which could reduce our flexibility to react to product mix changes and unforecasted orders.

Further, we do not have volume purchase contracts with any of our component suppliers, and they could cease selling to us at any time. 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. Our component suppliers also change their selling prices frequently in response to market trends, including industry-wide increases in demand, and because we do not have volume purchase contracts with these component suppliers, we are susceptible to price fluctuations related to raw materials and components and may not be able to adjust our prices accordingly. Additionally, poor quality in any of the sole-sourced components in our products could result in lost sales or sales opportunities.

If we are unable to obtain a sufficient volume of the necessary components for our products on commercially reasonable terms or the quality of the components do not meet our requirements, we could also be forced to redesign our products and qualify new components from alternate component 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.

Risks Related to Sales of our Products, Subscriptions and Support Offerings

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

The sales prices for our products, subscriptions and support offerings may decline for a variety of reasons, including competitive pricing pressures, discounts, a change in our mix of products, subscriptions and support offerings, anticipation of the introduction of new products, subscriptions or support offerings, or promotional programs or pricing pressures as a result of the economic downturn resulting from COVID-19. 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 subscriptions that compete with ours or may bundle them with other products and subscriptions. Additionally, although we price our products, subscriptions and support offerings worldwide in U.S. dollars, currency fluctuations in certain countries and regions may negatively impact actual prices that channel 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 could decrease over product life cycles. We cannot guarantee that we will be successful in developing and introducing new offerings with enhanced functionality on a timely basis, or that our products, subscriptions and support offerings, if introduced, will enable us to maintain our prices and gross profits at levels that will allow us to achieve and 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, subscriptions and support offerings internationally. We may experience difficulties in recruiting, training, managing, and retaining an international staff, and specifically staff related to sales management and sales personnel. We also may not be able to maintain successful strategic distributor relationships internationally or recruit additional companies to enter into strategic distributor relationships. Business practices in the international markets that we serve may differ from those in the United States and may require us in the future to include terms other than our standard terms related to payment, warranties, or performance obligations in end-customer contracts.

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

- political, economic and social uncertainty around the world, health risks such as epidemics and pandemics like COVID-19, macroeconomic challenges in Europe, terrorist activities, and continued hostilities in the Middle East;
- greater difficulty in enforcing contracts and accounts receivable collection and longer collection periods;

- the uncertainty of protection for intellectual property rights in some countries;
- greater risk of unexpected changes in foreign and domestic regulatory practices, tariffs, and tax laws and treaties, including regulatory and trade policy changes adopted by the current administration or foreign countries in response to regulatory changes adopted by the current administration;
- 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 a failure of foreign employees, channel partners, distributors, and resellers to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, U.S. or foreign sanctions regimes and export or import control laws, and any trade regulations ensuring fair trade practices, which non-compliance could include increased costs;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- management communication and integration problems resulting from cultural and geographic dispersion; and
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business and related impact on sales cycles.

These and other factors could harm our 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.

Further, we are subject to risks associated with changes in economic and political conditions in countries in which we operate or sell our products and subscriptions. For instance, Brexit creates an uncertain political and economic environment in the United Kingdom (“U.K.”) and across European Union (“E.U.”) member states for the foreseeable future. On January 31, 2020 the U.K. left the E.U. The rules governing the new relationship between the E.U. and the U.K. were set out in the E.U.-U.K. Trade and Cooperation Agreement (i.e., the Brexit deal) and came into force on January 1, 2021. At this time, we cannot predict the impact that the Brexit deal and any future agreements will have on our business. Our financial condition and operating results may be impacted by such uncertainty with potential disruptions to our relationships with existing and future customers, suppliers and employees all possibly having a material adverse impact on our business, prospects, financial condition and/or operating results.

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, there has been, and may continue to be, significant volatility in global stock markets and foreign currency exchange rates that result in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The strengthening of the U.S. dollar increases the real cost of our products to our end-customers outside of the United States and may lead to delays in the purchase of our products, subscriptions, and support, and the lengthening of our sales cycle. If the U.S. dollar continues to strengthen, this could adversely affect our financial condition and operating results. In addition, increased international sales in the future, including through our channel partners and other partnerships, may result in greater foreign currency denominated sales, increasing our foreign currency risk.

Our operating expenses incurred outside the United States and denominated in foreign currencies are increasing and are subject to fluctuations due to changes in foreign currency exchange rates. If we are not able to successfully hedge against the risks associated with foreign currency fluctuations, our financial condition and operating results could be adversely affected. We have entered into forward contracts in an effort to reduce our foreign currency exchange exposure related to our foreign currency denominated expenditures. As of July 31, 2021, the total notional amount of our outstanding foreign currency forward contracts was \$531.9 million. For more information on our hedging transactions, refer to Note 6. Derivative Instruments in Part II, Item 8 of this Annual Report on Form 10-K. The effectiveness of our existing hedging transactions and the availability and effectiveness of any hedging transactions we may decide to enter into in the future may be limited and we may not be able to successfully hedge our exposure, which could adversely affect our financial condition and operating results.

We are exposed to the credit and liquidity risk of some of our channel partners and end-customers, and to credit exposure in weakened markets, which could result in material losses.

Most of our sales are made on an open credit basis. Beyond our open credit arrangements, we have also experienced demands for customer financing due to COVID-19 and our competitors’ offerings. The majority of these demands are currently facilitated by leasing and other financing arrangements provided by our distributors and resellers. To respond to this demand, our customer

financing activities may increase in the future. We also provide financings to certain end-customers. We monitor customer payment capability in granting such financing arrangements, seek to limit such open credit to amounts we believe the end-customers can pay and maintain reserves we believe are adequate to cover exposure for doubtful accounts to mitigate credit risks of these end-customers. However, there can be no assurance that these programs will be effective in reducing our credit risks.

We believe customer financing is a competitive factor in obtaining business. The loan financing arrangements provided by our distributors and resellers may include not only financing the acquisition of our products and services but also providing additional funds for other costs associated with network installation and integration of our products and services.

Our exposure to the credit risks relating to the financing activities described above may increase if our customers are adversely affected by a global economic downturn or periods of economic uncertainty. Although we have programs in place with our distributors and resellers that are designed to monitor and mitigate these risks, we cannot guarantee these programs will be effective in reducing the 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.

In the past, we have experienced non-material losses due to bankruptcies among customers. If these losses increase due to COVID-19 or global economic conditions, they could harm our business and financial condition. A material portion of our sales is derived through our distributors.

For fiscal 2021, three distributors individually represented 10% or more of our total revenue, and in the aggregate represented 56.0% of our total revenue. As of July 31, 2021, four distributors individually represented 10% or more of our gross accounts receivable, and in the aggregate represented 56.6% of our gross accounts receivable.

Additionally, to the degree that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

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

Sales to government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. The substantial majority of our sales to date to government entities have been made indirectly through our channel partners. Government certification requirements for products and subscriptions like ours may change, thereby restricting our ability to sell into the federal government sector until we have attained the revised certification. If our products and subscriptions 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, subscriptions and support offerings to such governmental entity, or be at a competitive disadvantage, which would harm our business, operating results, and financial condition. Government demand and payment for our products, subscriptions and support offerings may be impacted by government shutdowns, public sector budgetary cycles, contracting requirements, and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products, subscriptions and support offerings. 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, subscriptions and support offerings, 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. Additionally, the U.S. government may require certain of the products that it purchases 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 such requirements, affecting our ability to sell these products, subscriptions and support offerings to the U.S. government.

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

After our products and subscriptions 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 channel partners often provide similar technical support for third parties' products and may therefore have fewer resources to dedicate to the support of our products and subscriptions. If we or our channel partners do not effectively assist our end-customers in deploying our products and subscriptions, succeed in helping our end-customers quickly resolve post-deployment issues, or provide effective ongoing support, our ability to sell additional products and subscriptions to existing end-customers would be adversely affected and our reputation with potential end-customers could be damaged. While we have been able to meet increased demand for support services in fiscal 2021, failure to do so in the future could have a material adverse effect on our business.

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 or our channel partners fail to meet the requirements of these 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 if the sales of our products exceed our internal forecasts. As a result, our ability, and the ability of our channel partners to provide adequate and timely support to our end-customers will be negatively impacted, and our end-customers' satisfaction with our products and subscriptions 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 or our channel partners' failure to provide and maintain high-quality support services could have a material adverse effect on our business, financial condition, and operating results.

Risks Related to Intellectual Property and Technology Licensing

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

Companies in the enterprise 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. Third parties are currently asserting, have asserted and may in the future assert claims of infringement of intellectual property rights against us. For example, in December 2011, Juniper, one of our competitors, filed a lawsuit against us alleging patent infringement. In September 2013, we filed a lawsuit against Juniper alleging patent infringement. In May 2014, we entered into a Settlement, Release and Cross-License Agreement with Juniper to resolve all pending disputes between Juniper and us, including dismissal of all pending litigation.

Third parties 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 and subscriptions infringe the intellectual property rights of third parties. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited, that they have divulged proprietary or other confidential information, or that their former employers own their inventions or other work product. Furthermore, we may be unaware of the intellectual property rights of others that may cover some or all of our technology or products and subscriptions. 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, litigation has involved and will likely continue to 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 in all of our geographic markets and failure to secure those registrations could adversely affect our ability to enforce and defend our trademark rights. 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. 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 or subscriptions 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 and subscriptions. 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. 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. Additional uncertainty may result from changes to patent-related laws and court rulings in the United States and other jurisdictions. 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 subscriptions or obtain and use information that we regard as proprietary. We generally enter into confidentiality or license agreements with our employees, consultants, vendors, and end-customers, and generally limit access to and distribution of our proprietary information. However, we cannot be certain 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 use of open source software in our products and subscriptions could negatively affect our ability to sell our products and subscriptions and subject us to possible litigation.

Our products and subscriptions contain software modules licensed to us by third-party authors under “open source” licenses. Some open source licenses contain requirements that we make available applicable 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 or subscriptions 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 and subscriptions 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 and subscriptions. From time to time, there have been claims against companies that distribute or use open source software in their products and subscriptions, asserting that open source software infringes the claimants’ intellectual property rights. We could be subject to suits by parties claiming infringement of intellectual property rights in what we believe to be licensed open source software. 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 and subscriptions on terms that are not economically feasible, to reengineer our products and subscriptions, to discontinue the sale of our products and subscriptions if reengineering 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.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or assurance of title or controls on origin of the software. In addition, many of the risks associated with usage of open source software, such as the lack of warranties or assurances of title, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source software, but we cannot be sure that our processes for controlling our use of open source software in our products and subscriptions will be effective.

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 and subscriptions. 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 and subscriptions. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Some of our agreements with our licensors may be terminated for convenience by them. We may also be subject to additional fees or be required to obtain new licenses if any of our licensors allege that we have not properly paid for such licenses or that we have improperly used the technologies under such licenses, and such licenses may not be available on terms acceptable to us or at all. 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 us, or claims against us by our licensors, 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 and subscriptions containing such 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, which we may be unable to do in a commercially feasible manner or at all, and we may be required to use alternative technology of lower quality or performance standards. This would limit and delay our ability to offer new or competitive products and subscriptions and increase our costs of production. As a result, our margins, market share, and operating results could be significantly harmed.

Risks Related to Privacy and Data Protection

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 being tested in courts and may result in ever-increasing regulatory and public scrutiny, as well as escalating levels of enforcement and sanctions. Further, the interpretation and application of foreign laws and regulations in many cases is uncertain, and our legal and regulatory obligations in foreign jurisdictions are subject to frequent and unexpected changes, including the potential for various regulatory or other governmental bodies to enact new or additional laws or regulations, to issue rulings that invalidate prior laws or regulations, or to increase penalties significantly.

For example, the E.U. General Data Protection Regulation (“E.U. GDPR”), which became effective in May 2018, imposes more stringent data protection requirements, provides for greater penalties for noncompliance than E.U. laws that previously applied (up to the greater of €20 million or 4% of the total worldwide annual turnover), and confers a private right of action on data subjects and consumer associations to lodge complaints with supervisory authorities, seek judicial remedies and obtain compensation for damages resulting from violations of the E.U. GDPR. The E.U. GDPR requires, among other things, that personal data only be transferred outside of the E.U. to the United States and other jurisdictions that the European Commission has not yet recognized as having “adequate” data protection laws (a “third country”), unless a data transfer mechanism under the E.U. GDPR has been put in place. Historically, we have relied on the E.U.-U.S. and Swiss-U.S. Privacy Shield programs, and the use of model contractual clauses approved by the E.U. Commission, to legitimize these transfers (also referred to as standard contractual clauses or SCCs). In July 2020, the Court of Justice of the European Union in its “Schrems II” decision invalidated the E.U.-U.S. Privacy Shield for purposes of transfers to the U.S. and imposed a requirement for companies to carry out an assessment of the laws and practices governing access to personal data in the third country to ensure an essentially equivalent level of data protection to that afforded in the E.U. We are dealing with the recent “Schrems II” decision by the Court of Justice of the European Union and its impact on our data transfer mechanisms. The effects of this decision are highly uncertain and difficult to predict. Among other effects, we may experience additional costs associated with increased compliance burdens, putting in place any additional data transfer mechanisms to ensure compliance with the E.U. GDPR and the “Schrems II” decision and new contract negotiations with third parties that aid in processing data on our behalf. We may experience reluctance or refusal by current or prospective European customers to use our products, and we may find it necessary or desirable to make further changes to our handling of personal data of residents of the European Economic Area (“EEA”). The regulatory environment applicable to the handling of EEA residents’ personal data, and our actions taken in response, may cause us to assume additional liabilities or incur additional costs and could result in our business, operating results and financial condition being harmed. Additionally, we and our customers may face a risk of enforcement actions by data protection authorities in the EEA relating to personal data transfers to us and by us from the EEA. Any such enforcement actions could result in substantial costs and diversion of resources, distract management and technical personnel and negatively affect our business, operating results, and financial condition.

Following the withdrawal of the U.K. from the E.U. (i.e., Brexit), and the expiry of the Brexit transition period, which ended on December 31, 2020, the E.U. GDPR has been implemented in the U.K. (as the “U.K. GDPR”). The U.K. GDPR sits alongside the U.K. Data Protection Act 2018, which implements certain derogations in the E.U. GDPR into English law. The requirements of the U.K. GDPR, which are (at this time) largely aligned with those under the E.U. GDPR, may lead to similar compliance and operational costs with potential fines of up to £17.5 million or 4% of total worldwide annual turnover.

In the United States, companies that do business in California are subject to the California Consumer Privacy Act (“CCPA”), which requires, among other things, covered companies to provide new disclosures to California consumers, afford such consumers certain rights regarding their personal information, and also affords a private right of action to individuals affected by a data breach, if the breach was caused by a lack of reasonable security. The enforcement of the CCPA by the California Attorney General commenced on July 1, 2020. The CCPA has been amended on multiple occasions and the California Attorney General has issued initial and revised regulations that also govern the CCPA, which could be subject to additional modifications. It remains unclear what, if any, additional modifications will be made to this legislation or how it will be interpreted and enforced. The effects of the CCPA potentially are significant, however, and may require us to modify our data processing practices and policies and to incur substantial costs and expenses for compliance. Moreover, additional state-based privacy laws have been passed and will require potentially substantial efforts to obtain compliance. This includes the California Privacy Rights Act (“CPRA”) which was approved by California voters, and significantly modifies the CCPA.

We may also from time to time be subject to, or face assertions that we are subject to, additional obligations relating to personal data by contract or due to assertions that self-regulatory obligations or industry standards apply to our practices. Additionally, the Federal Trade Commission and many state attorneys general are interpreting federal and state consumer protection laws to impose standards for the online collection, use, dissemination, and security of data. Further, we may be or become subject to data localization laws mandating that data collected in a foreign country be processed and stored within that country. Each of these privacy, security, and data protection laws and regulations, and any other such changes or new laws or regulations, could impose significant limitations,

or require changes to our business model or practices or growth strategy, which may increase our compliance expenses and make our business more costly or less efficient to conduct.

Our actual or perceived failure to comply with applicable laws and regulations or other obligations to which we are now or which we may be subject relating to personal data, or to protect personal data from unauthorized acquisition, use or other processing, could result in consequences such as enforcement actions and regulatory investigations against us, fines, 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 E.U., the United States, and elsewhere, especially relating to classification of Internet Protocol (“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 or uses of data, and may require significant expenditures and efforts in order to comply. Even the perception of privacy, data protection or information security concerns, whether or not valid, may harm our reputation and inhibit adoption of our products and subscriptions by current and future end-customers.

Risks Related to Operations Outside the United States

We face risks associated with having operations and employees located in Israel.

As a result of various of our acquisitions, including Secdo, PureSec and Twistlock, we have offices and employees located in Israel. Accordingly, political, economic, and military conditions in Israel directly affect our operations. The future of peace efforts between Israel and its Arab neighbors remains uncertain. There has been a significant increase in hostilities and political unrest between Hamas and Israel recently. The effects of these hostilities and violence on the Israeli economy and our operations in Israel are unclear, and we cannot predict the effect on us of further increases in these hostilities or future armed conflict, political instability or violence in the region. Current or future tensions and conflicts in the Middle East could adversely affect our business, operating results, financial condition and cash flows.

In addition, many of our employees in Israel are obligated to perform annual reserve duty in the Israeli military and are subject to being called for active duty under emergency circumstances. We cannot predict the full impact of these conditions on us in the future, particularly if emergency circumstances or an escalation in the political situation occurs. If many of our employees in Israel are called for active duty for a significant period of time, our operations and our business could be disrupted and may not be able to function at full capacity. Any disruption in our operations in Israel could adversely affect our business.

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 United States 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 for us, 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 or delay 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 to or sell our products in international markets would likely adversely affect our business, financial condition, and operating results.

Tax, Accounting, Compliance and Regulatory Risks

We have a corporate structure aligned with the international nature of our business activities, and if we do not achieve increased tax benefits as a result of our corporate structure, our financial condition and operating results could be adversely affected.

We have reorganized our corporate structure and intercompany relationships to more closely align with the international nature of our business activities. This corporate structure may allow us to reduce our overall effective tax rate through changes in how we use

our intellectual property, international procurement, and sales operations. This corporate structure may also allow us to obtain financial and operational efficiencies. These efforts require us to incur expenses in the near term for which we may not realize related benefits. If the structure is not accepted by the applicable tax authorities, if there are any changes in, or interpretations of, domestic and international tax laws that negatively impact the structure, or if we do not operate our business consistent with the structure and applicable tax provisions, we may fail to achieve the reduction in our overall effective tax rate and the other financial and operational efficiencies that we anticipate as a result of the structure and our future financial condition and operating results may be negatively impacted. In addition, we continue to evaluate our corporate structure in light of current and pending tax legislation, and any changes to our corporate structure may require us to incur additional expenses and may impact our overall effective tax rate.

We may have exposure to greater than anticipated tax liabilities.

Our income tax obligations are based in part on our corporate structure and intercompany arrangements, including the manner in which we develop, value, and use our intellectual property and the valuations of our intercompany transactions. The tax laws applicable to our business, including the laws of the United States and other jurisdictions, are subject to interpretation and certain jurisdictions may aggressively interpret their laws in an effort to raise additional tax revenue. The tax authorities of the jurisdictions in which we operate may challenge our methodologies for valuing developed technology or intercompany arrangements, which could increase our worldwide effective tax rate and harm our financial position and operating results. It is possible that tax authorities may disagree with certain positions we have taken, and any adverse outcome of such a review or audit could have a negative effect on our financial position and operating results. Further, the determination of our worldwide provision for or benefit from income taxes and other tax liabilities requires significant judgment by management, and there are transactions where the ultimate tax determination is uncertain. Although we believe that our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made.

In addition, our future income tax obligations could be adversely affected by changes in, or interpretations of, tax laws in the United States or in other jurisdictions in which we operate.

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 our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our 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, 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. For more information, refer to the section entitled “Critical Accounting Estimates” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this Annual Report on Form 10-K. In general, if our estimates, judgments or assumptions relating to our critical accounting policies change or if actual circumstances differ from our estimates, judgments or assumptions, including uncertainty in the current economic environment due to COVID-19, our operating results may be adversely affected and could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

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, privacy and data-protection laws, anti-bribery laws (including the U.S. Foreign Corrupt Practices Act and the U.K. Anti-Bribery Act), 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 resulting from any alleged noncompliance, 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, litigation, and sanctions could harm our business, operating results, and financial condition.

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 E.U. Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (“RoHS”) and the E.U. Waste Electrical and Electronic Equipment Directive (“WEEE Directive”), as well as the implementing

legislation of the E.U. 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 E.U. RoHS and the similar laws of other jurisdictions limit the content of certain hazardous materials such as lead, mercury, and cadmium in the manufacture of electrical equipment, including our products. Our current products comply with the E.U. 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.

We are also subject to environmental laws and regulations governing the management of hazardous materials, which we use in small quantities in our engineering labs. 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 operating results 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.

Risks Related to Our Notes

We may not have the ability to raise the funds necessary to settle conversions of our Notes, repurchase our Notes upon a fundamental change, or repay our Notes in cash at their maturity, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of our Notes.

In July 2018 we issued our 2023 Notes (the “2023 Notes”) and in June 2020 we issued our 2025 Notes (the “2025 Notes,” together with the “2023 Notes,” the “Notes”). We will need to make cash payments (1) if holders of our Notes require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change (e.g., a change of control of Palo Alto Networks, Inc.) before the maturity date, (2) upon conversion of our Notes, (3) to repay our Notes in cash at their maturity, unless earlier converted or repurchased. However, we may not have enough available cash or be able to obtain financing at the time we are required to make payments.

In addition, our ability to repurchase or to pay cash upon conversion of our Notes may be limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase our Notes at a time when the repurchase is required by the applicable indenture governing such Notes or to pay cash upon conversion of such Notes as required by the applicable indenture would constitute a default under the indenture. A default under the applicable indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase our Notes or to pay cash upon conversion of our Notes.

We may still incur substantially more debt or take other actions that would diminish our ability to make payments on our Notes when due.

We and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We are not restricted under the terms of the indenture governing our Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of such indenture governing our Notes that could have the effect of diminishing our ability to make payments on our Notes when due. While the terms of any future indebtedness we may incur could restrict our ability to incur additional indebtedness, any such restrictions will indirectly benefit holders of our Notes only to the extent any such indebtedness or credit facility is not repaid or does not mature while our Notes are outstanding.

Risks Related to Our Common Stock

Our actual operating results may differ significantly from our guidance.

From time to time, we have released, and may continue to release, guidance in our quarterly earnings releases, quarterly earnings conference calls, or otherwise, regarding our future performance that represents our management’s estimates as of the date of release. This guidance, which includes forward-looking statements, has been and will be based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party

compiles or examines the projections. Accordingly, no such person expresses any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond our control, such as COVID-19, and are based upon specific assumptions with respect to future business decisions, some of which will change. The rapidly evolving market in which we operate may make it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We intend to state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed. However, actual results will vary from our guidance and the variations may be material. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook as of the date of release with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons. Investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this “Risk Factors” section in this Annual Report on Form 10-K could result in our actual operating results being different from our guidance, and the differences may be adverse and material.

The market price of our common stock historically has been volatile and the value of your investment could decline.

The market price of our common stock has been volatile since our initial public offering (“IPO”) in July 2012. The reported high and low sales prices of our common stock during the last 12 months have ranged from \$406.92 to \$219.34 per share, as measured through August 23, 2021. The market price of our common stock may fluctuate widely in response to various factors, some of which are beyond our control. These factors include:

- announcements of new products, subscriptions or technologies, commercial relationships, strategic partnerships, acquisitions, or other events by us or our competitors;
- price and volume fluctuations in the overall stock market from time to time;
- news announcements that affect investor perception of our industry, including reports related to the discovery of significant cyberattacks;
- 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 securities analysts or investors, whether as a result of our forward-looking statements, our failure to meet such expectations or otherwise;
- inaccurate or unfavorable research reports about our business and industry published by securities analysts or reduced coverage of our company by securities analysts;
- litigation involving us, our industry, or both;
- actions instituted by activist shareholders or others;
- regulatory developments in the United States, foreign countries or both;
- major catastrophic events, such as COVID-19;
- sales or repurchases of large blocks of our common stock or substantial future sales by our directors, executive officers, employees and significant stockholders;
- sales of our common stock by investors who view our Notes as a more attractive means of equity participation in us;
- hedging or arbitrage trading activity involving our common stock as a result of the existence of our Notes;
- departures of key personnel; or
- economic uncertainty around the world.

The market price of our common stock could decline for reasons unrelated to our business, operating results, or financial condition and as a result of events that 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. 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.

The convertible note hedge and warrant transactions may affect the value of our common stock.

In connection with the sale of our 2023 Notes and 2025 Notes, we entered into convertible note hedge transactions (the "Note Hedges") with certain counterparties. In connection with each such sale of the Notes, we also entered into warrant transactions with the counterparties pursuant to which we sold warrants (the "Warrants") for the purchase of our common stock. The Note Hedges for our 2023 Notes and 2025 Notes are expected generally to reduce the potential dilution to our common stock upon any conversion of our Notes and/or offset any cash payments we are required to make in excess of the principal amount of any such converted Notes. The Warrants could separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the applicable strike price of the Warrants unless, subject to certain conditions, we elect to cash settle such Warrants.

The applicable counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the outstanding Notes (and are likely to do so during any applicable observation period related to a conversion of our Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or our Notes, which could affect a note holder's ability to convert its Notes and, to the extent the activity occurs during any observation period related to a conversion of our Notes, it could affect the amount and value of the consideration that the note holder will receive upon conversion of our Notes.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of our Notes or our common stock. In addition, we do not make any representation that the counterparties or their respective affiliates will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans, the conversion of our Notes or exercise of the related Warrants, or otherwise will dilute all other stockholders.

Our amended and restated certificate of incorporation authorizes us to issue up to 1.0 billion shares of common stock and up to 100.0 million shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue shares of common stock or securities convertible into shares of our common stock from time to time in connection with a financing, acquisition, investment, our stock incentive plans, the conversion of our Notes, the settlement of our Warrants related to each such series of the Notes, or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the market price of our common stock to decline.

We cannot guarantee that our share repurchase program will be fully consummated, or that it will enhance shareholder value, and share repurchases could affect the price of our common stock.

As of July 31, 2021, we had \$323.9 million available under our share repurchase program. On August 17, 2021, our board of directors authorized another \$676.1 million increase to this share repurchase program, bringing the total authorization to \$2.4 billion, with \$1.0 billion remaining, and extended the expiration date to December 31, 2022. Such share repurchase program may be suspended or discontinued by the Company at any time without prior notice. Although our board of directors has authorized a share repurchase program, we are not obligated to repurchase any specific dollar amount or to acquire any specific number of shares under the program. The share repurchase program could affect the price of our common stock, increase volatility and diminish our cash reserves. In addition, the program may be suspended or terminated at any time, which may result in a decrease in the price of our common stock.

We are subject to risks associated with our strategic investments. Impairments in the value of our investments could negatively impact our financial results.

In July 2017, we formed the \$20.0 million Palo Alto Networks Venture Fund. The fund is aimed at seed-, early-, and growth-stage security companies with a cloud-based application approach. We may not realize a return on our capital investments. Many such private companies generate net losses and the market for their products, services or technologies may be slow to develop, and, therefore, are dependent on the availability of later rounds of financing from banks or investors on favorable terms to continue their operations. The financial success of our investment in any company is typically dependent on a liquidity event, such as a public offering, acquisition or other favorable market event reflecting appreciation in the cost of our initial investment. The capital markets for public offerings and acquisitions are dynamic and the likelihood of liquidity events for the companies we have invested in, and intend to invest in, could significantly change. Further, valuations of privately-held companies are inherently complex due to the lack of readily available market data and as such, the basis for these valuations is subject to the timing and accuracy of the data received from these companies. If we determine that any of our investments in such companies have experienced a decline in value, we may be required to record an impairment, which could be material and negatively impact our financial results. All of our investments are subject to a risk of a partial or total loss of investment capital.

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.

Our charter documents and Delaware law, as well as certain provisions contained in the indentures governing our Notes, could discourage takeover attempts and lead to management entrenchment, which could also reduce the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change in control of our company or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with three-year staggered terms;
- authorize 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;
- provide our board of directors with the exclusive right 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;
- prohibit our stockholders from taking action by written consent;
- specify that special meetings of our 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;
- require 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;
- authorize our board of directors to amend our bylaws by majority vote; and
- establish advance notice procedures with which our stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for our stockholders to replace members of our board of directors, which is responsible for appointing the members of management. 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. Additionally, certain provisions contained in the indenture governing our Notes could make it more difficult or more expensive for a third party to acquire us. The application of Section 203 or certain provisions contained in the indenture governing our Notes also could have the effect of delaying or preventing a change in control of us. Any of these provisions could, under certain circumstances, depress the market price of our common stock.

General Risk Factors

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

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, other natural disasters, such as fire or floods, a significant power outage, telecommunications failure, terrorism, an armed conflict, cyberattacks, epidemics and pandemics such as COVID-19, or other geo-political unrest could affect our supply chain, manufacturers, logistics providers, channel partners, or end-customers or the economy as a whole and such disruption could impact our shipments and sales. These 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, the loss of customers, or the delay in the manufacture, deployment, or shipment of our products, our business, financial condition, and operating results would be adversely affected.

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

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features to enhance our portfolio, improve our operating infrastructure, or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure

additional funds. If we raise additional equity or equity-linked financing, our stockholders may experience significant dilution of their ownership interests and the market price of our common stock could decline. Any conversion of the outstanding Notes into common stock will dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of such Notes. See the risk factor entitled “*The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans, the conversion of our Notes or exercise of the related Warrants, or otherwise will dilute all other stockholders.*” The holders of our Notes have priority over holders of our common stock, and if we engage in future debt financings, the holders of such additional debt would also have priority over the holders of our common stock. Current and future indebtedness may also contain terms that, among other things, 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 would require us to maintain specified liquidity or other ratios, any of which could harm our business, operating results, and financial condition. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely affected.

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 are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the New York Stock Exchange (“NYSE”), and other applicable securities rules and regulations. Compliance with these rules and regulations have increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly, and increased 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. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to meet the requirements of 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 related 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 are obligated to maintain proper and effective internal control over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or this internal control 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.

While we were able to determine in our management’s report for fiscal 2021 that our internal control over financial reporting is effective, as well as provide an unqualified attestation report from our independent registered public accounting firm to that effect, we may not be able to complete our evaluation, testing, and any required remediation in a timely fashion, may be unable to assert that our internal controls are effective, or our independent registered public accounting firm may not be able to formally attest to the effectiveness of our internal control over financial reporting in the future. In the event that our chief executive officer, chief financial officer, or independent registered public accounting firm determines in the future that our internal control over financial reporting is not effective as defined under Section 404, we could be subject to one or more investigations or enforcement actions by state or federal regulatory agencies, stockholder lawsuits or other adverse actions requiring us to incur defense costs, pay fines, settlements or judgments and causing investor perceptions to be adversely affected and potentially resulting in a decline in the market price of our stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Santa Clara, California, where we lease approximately 941,000 square feet of space under three lease agreements that expire in July 2028, with options to extend the lease terms through July 2046. We also lease space for personnel in Israel. In addition, we provide our cloud-based subscription offerings through data centers operated under co-location arrangements in the United States, Europe, and Asia. Refer to Note 11. Leases in Part II, Item 8 of this Annual Report on Form 10-K

for more information on our operating leases. Additionally, we own 5.8 acres of land adjacent to our headquarters in Santa Clara, California, which we intend to develop to accommodate future expansion, the speed of which development has been slowed due to the current environment.

We believe that our current facilities are adequate to meet our current needs. We intend to expand our facilities or add new facilities as we add employees and enter new geographic markets, and we believe that suitable additional or alternative space will be available as needed to accommodate ongoing operations and any such growth. However, we expect to incur additional expenses in connection with such new or expanded facilities.

ITEM 3. LEGAL PROCEEDINGS

The information set forth under the “Litigation” subheading in Note 12. Commitments and Contingencies in Part II, Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock, \$0.0001 par value per share, began trading on the NYSE on July 20, 2012, where its prices are quoted under the symbol "PANW."

Holders of Record

As of August 23, 2021, there were 229 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

We have never declared or paid, and do not anticipate declaring or paying in the foreseeable future, any cash dividends on our capital stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors, subject to applicable laws and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant.

Securities Authorized for Issuance under Equity Compensation Plans

See Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Annual Report on Form 10-K for more information regarding securities authorized for issuance.

Recent Sales of Unregistered Equity Securities

In June 2021, we issued a total of 11,114 shares of our unregistered common stock pursuant to post-closing obligations in connection with our previous acquisition of Aporeto, Inc. (the "Aporeto Transaction").

The Aporeto Transaction did not involve any underwriters, any underwriting discounts or commissions, or any public offering. The issuances of the securities pursuant to the Aporeto Transaction were exempt from registration under the Securities Act of 1933, as amended (the "Act") by virtue of Section 4(a)(2) of the Act and Rule 506 of Regulation D promulgated thereunder.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes stock repurchases during the three months ended July 31, 2021 (in millions, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
May 1, 2021 to May 31, 2021 ⁽¹⁾⁽²⁾	0.0	\$ 353.17	0.0	\$ 651.9
June 1, 2021 to June 30, 2021 ⁽¹⁾⁽²⁾	0.0	\$ 361.83	0.0	\$ 651.9
July 1, 2021 to July 31, 2021 ⁽¹⁾⁽²⁾	0.9	\$ 387.98	0.9	\$ 323.9
Total	<u>0.9</u>	<u>\$ 387.63</u>	<u>0.9</u>	

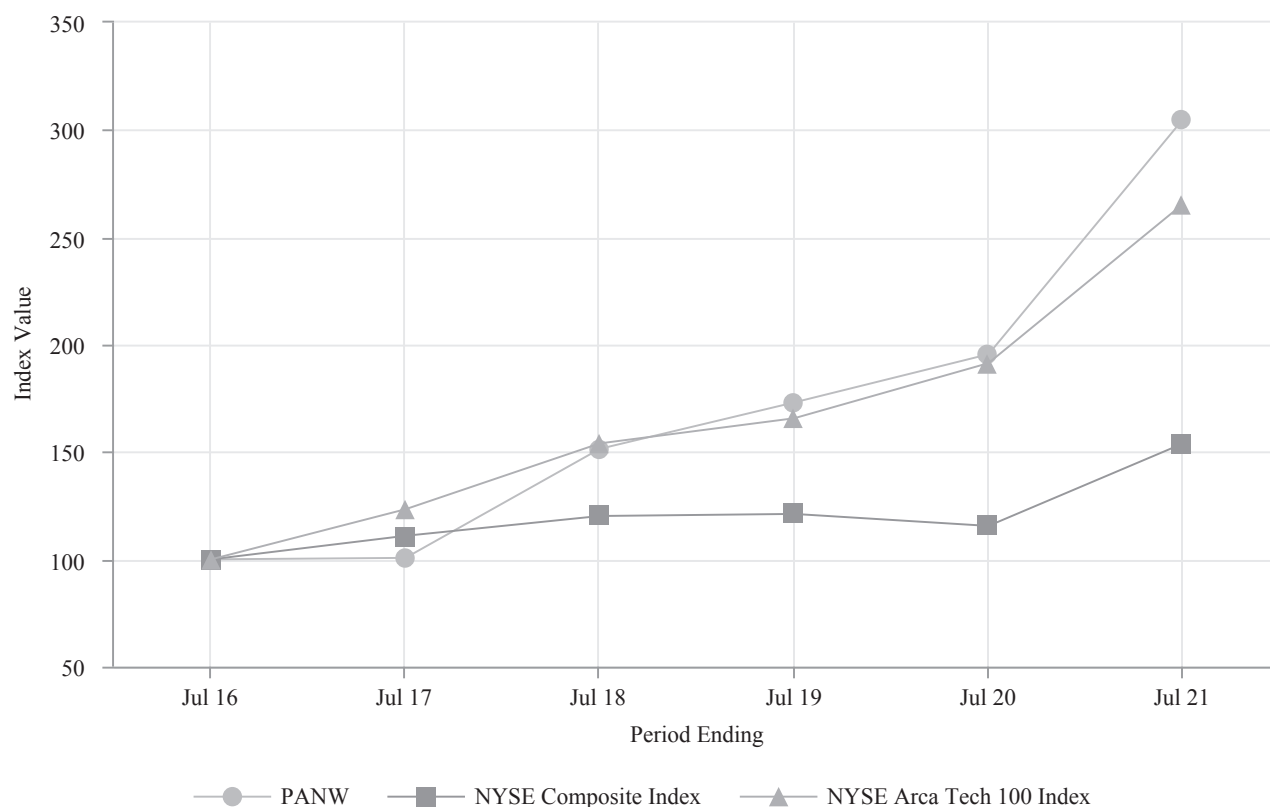
- (1) On February 26, 2019, we announced that our board of directors authorized a \$1.0 billion share repurchase program, which is funded from available working capital. On December 8, 2020, we announced that our board of directors authorized a \$700.0 million increase to our share repurchase program, bringing the total authorization to \$1.7 billion. On August 17, 2021, our board of directors authorized another \$676.1 million increase to this share repurchase program, bringing the total authorization to \$2.4 billion, with \$1.0 billion remaining. The expiration date of this repurchase authorization was extended to December 31, 2022, and our repurchase program may be suspended or discontinued at any time. Repurchases under our program are to be made at management's discretion on the open market, through privately negotiated transactions, transactions structured through investment banking institutions, block purchase techniques, 10b5-1 trading plans, or a combination of the foregoing.
- (2) Includes shares of restricted common stock delivered by certain employees upon vesting of equity awards to satisfy tax withholding requirements. The number of shares delivered by these employees to satisfy tax withholding requirements during the period was not significant.

Stock Price Performance Graph

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference into any filing of Palo Alto Networks, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

This performance graph compares the cumulative total return on our common stock with that of the NYSE Composite Index and the NYSE Arca Tech 100 Index for the five years ended July 31, 2021. This performance graph assumes \$100 was invested on July 31, 2016, in each of the common stock of Palo Alto Networks, Inc., the NYSE Composite Index, and the NYSE Arca Tech 100 Index, and assumes the reinvestment of any dividends. The stock price performance on this performance graph is not necessarily indicative of future stock price performance.

Palo Alto Networks, Inc. Comparison of Total Return Performance



Company/Index	7/31/2016	7/31/2017	7/31/2018	7/31/2019	7/31/2020	7/31/2021
Palo Alto Networks, Inc.	\$ 100.00	\$ 100.68	\$ 151.47	\$ 173.08	\$ 195.52	\$ 304.87
NYSE Composite Index	\$ 100.00	\$ 110.96	\$ 120.19	\$ 121.15	\$ 115.57	\$ 153.93
NYSE Arca Tech 100 Index	\$ 100.00	\$ 123.34	\$ 154.01	\$ 165.71	\$ 191.39	\$ 265.46

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. The following discussion and analysis contains forward-looking statements based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those anticipated or implied by any forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular, the risks discussed under the caption "Risk Factors" in Part I, Item 1A of this report.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is organized as follows:

- **Overview.** A discussion of our business and overall analysis of financial and other highlights in order to provide context for the remainder of MD&A.
- **Key Financial Metrics.** A summary of our GAAP and non-GAAP key financial metrics, which management monitors to evaluate our performance.
- **Results of Operations.** A discussion of the nature and trends in our financial results and an analysis of our financial results comparing fiscal 2021 to fiscal 2020. For discussion and analysis related to our financial results comparing fiscal 2020 to 2019, refer to Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for fiscal 2020, which was filed with the Securities and Exchange Commission on September 4, 2020.
- **Liquidity and Capital Resources.** An analysis of changes in our balance sheets and cash flows, and a discussion of our financial condition and our ability to meet cash needs.
- **Contractual Obligations and Commitments.** An overview of our contractual obligations, contingent liabilities, commitments, and off-balance sheet arrangements outstanding as of July 31, 2021, including expected payment schedules.
- **Critical Accounting Estimates.** A discussion of our accounting policies that require critical estimates, assumptions, and judgments.
- **Recent Accounting Pronouncements.** A discussion of expected impacts of impending accounting changes on financial information to be reported in the future.

Overview

We empower enterprises, service providers, and government entities to secure all users, applications, data, networks, clouds and devices with comprehensive visibility and context continuously across all locations. We deliver cybersecurity products covering a broad range of use cases, enabling our end-customers to secure their networks, remote and hybrid workforces, branch locations, and public and private clouds, and to advance their Security Operations Centers ("SOC"). We believe our portfolio offers advanced prevention and security, while reducing the total cost of ownership for organizations by improving operational efficiency and eliminating the need for siloed point products. We do this with solutions focused on delivering value in five fundamental areas:

Zero Trust Network Security:

- Enabling zero trust network security through our ML-Powered Next-Generation Firewalls, available in a number of form factors, including physical, virtual, and containerized appliances, as well as a cloud-delivered service. This also includes our add-on Cloud-Delivered Security Services, such as Threat Prevention, WildFire, URL Filtering, Advanced URL Filtering, DNS Security, IoT Security, GlobalProtect, SD-WAN, Enterprise Data Loss Prevention ("Enterprise DLP"), SaaS Security API and SaaS Security Inline that secure content, applications, users, and devices across our ML-Powered Next-Generation Firewalls, Prisma, and Cortex product lines, to enable best-in-class security across a broad range of applications. Panorama, our network security management solution, available as hardware or virtual machine, can centrally manage all of our firewalls irrespective of their form factor, location, or scale.

Cloud Security:

- Enabling cloud security through our Prisma security offerings. Prisma Cloud, the industry's most comprehensive Cloud Native Security Platform ("CNSP"), secures multi- and hybrid-cloud environments and cloud native applications, integrating security across the full deployment lifecycle. VM-Series and CN-Series enforce in-line network security in multi- and hybrid-cloud environments.

Secure Access Service Edge:

- Prisma Access, the industry's most complete cloud-delivered security platform, together with Prisma SD-WAN, SaaS Security API and SaaS Security Inline, provide a comprehensive Secure Access Service Edge ("SASE") offering that is used to secure remote workforces and enable the cloud-delivered branch.

Security Analytics and Automation:

- Delivering the next generation of endpoint security, security analytics and security automation solutions through our Cortex portfolio. These include our industry-leading extended detection and response platform Cortex XDR to prevent, detect, and respond to complex cybersecurity attacks, Cortex XSOAR for security orchestration, automation, and response ("SOAR"), Cortex Xpanse for attack surface management ("ASM") and Cortex Data Lake allowing our customers to collect and analyze large amounts of context-rich data across endpoints, networks, and clouds. These products are delivered as software or SaaS subscriptions.

Threat Intelligence and Security Consulting (Unit 42):

- Enabling security teams with up-to-date threat intelligence and deep cybersecurity expertise before, during and after attacks through our Unit 42 threat research and security consulting team. Unit 42 offers incident response, risk management, board advisory and proactive cybersecurity assessment services.

For fiscal 2021 and 2020, total revenue was \$4.3 billion and \$3.4 billion, respectively, representing year-over-year growth of 24.9%. Our growth reflects the increased adoption of our portfolio, which consists of product, subscriptions, and support. We believe our portfolio will enable us to benefit from recurring revenues as we continue to grow our installed end-customer base. As of July 31, 2021, we had end-customers in over 170 countries. Our end-customers represent a broad range of industries including education, energy, financial services, government entities, healthcare, Internet and media, manufacturing, public sector, and telecommunications, and include some of the largest Fortune 100 and Global 2000 companies in the world. We maintain a field sales force that works closely with our channel partners in developing sales opportunities. We primarily use a two-tiered, indirect fulfillment model whereby we sell our products, subscriptions, and support to our distributors, which, in turn, sell to our resellers, which then sell to our end-customers.

Our product revenue was \$1.1 billion or 26.3% of total revenue for fiscal 2021, representing year-over-year growth of 5.3%. Product revenue is generated from sales of our appliances, primarily our ML-Powered Next-Generation Firewall, which is available in a number of form factors, including as physical, virtual, and containerized appliances. Our ML-Powered Next-Generation Firewall incorporates our PAN-OS operating system, which provides a consistent set of capabilities across our entire network security product line. Our products are designed for different performance requirements throughout an organization, ranging from our PA-410, which is designed for small organizations and remote or branch offices, to our top-of-the-line PA-7080, which is designed for large-scale data centers and service provider use. The same firewall functionality that is delivered in our physical appliances is also available in our VM-Series virtual firewalls, which secure virtualized and cloud-based computing environments, and in our CN-Series container firewalls, which secure container environments and traffic.

Our subscription and support revenue grew to \$3.1 billion or 73.7% of total revenue for fiscal 2021, representing year-over-year growth of 33.8%. Our subscriptions provide our end-customers with near real-time access to the latest antivirus, intrusion prevention, web filtering, modern malware prevention, data loss prevention, and cloud access security broker capabilities across the network, endpoints, and the cloud. When end-customers purchase our physical, virtual, or container firewall appliances, or certain cloud offerings, they typically purchase support in order to receive ongoing security updates, upgrades, bug fixes, and repairs. In addition to the subscriptions purchased with these appliances, end-customers may also purchase other subscriptions on a per-user, per-endpoint, or capacity-based basis. We also offer professional services, including incident response, risk management, and digital forensic services.

We continue to invest in innovation and acquire businesses as we evolve and further extend the capabilities of our portfolio, as we believe that innovation and timely development of new features and products is essential to meeting the needs of our end-customers and improving our competitive position. During fiscal 2021, we introduced several new offerings, including: Cortex XDR 2.5, Next Generation SD-WAN, Prisma Cloud 2.0, Enterprise DLP, 5G Security, IoT Healthcare Security, Prisma Access 2.0 and Complete Zero Trust Network Security. Additionally, we acquired productive investments that we believe fit well within our long-term strategy. For example, in September 2020, we acquired Crypsis, which we expect will expand our incident response capabilities and strengthen our Cortex strategy; in November 2020, we acquired Sinefa, which we expect will extend our Prisma Access offering; in December 2020, we acquired Expanse, which we expect will enrich our Cortex offerings and provide organizations an integrated view of the enterprise to combine external, internal, and threat data; and in March 2021, we acquired Bridgecrew, which we expect will expand our Prisma Cloud offering to deliver security across the full application lifecycle.

We believe that the growth of our business and our short-term and long-term success are dependent upon many factors, including our ability to extend our technology leadership, grow our base of end-customers, expand deployment of our portfolio and support offerings within existing end-customers, and focus on end-customer satisfaction. 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. While these areas present significant opportunities for us, they also pose challenges and risks that we must successfully address in order to sustain the growth of our business and improve our operating results. For additional information regarding the challenges and risks we face, see the “Risk Factors” section in Part I, Item 1A of this Annual Report on Form 10-K.

Impact of COVID-19 on Our Business

We are actively monitoring, evaluating, and responding to developments relating to COVID-19, which has resulted in and is expected to continue to result in continued significant global, social, and business disruption. As described in “Impacts of COVID-19 on our Business” included in Part I, Item 1 Business in this Annual Report, we have made some changes to our business including instituting a global work-from-home policy beginning in March 2020 and adopting our FLEXWORK initiative in fiscal 2021, which did not incur significant disruptions in our work operations during fiscal 2020 and fiscal 2021. We will continue to actively monitor the situation, including progress made through vaccinations, and we will make further changes to our business operations as may be required by federal, state, or local authorities or that we determine are in the best interests of our employees, end-customers, partners, suppliers, and stockholders. Our focus remains on the safety of our employees, and we strive to protect the health and well-being of the communities in which we operate, in part, by providing technology to our employees, end-customers, and partners to help them do their best work while remote.

Although some end-customers adopted Prisma Access as their secure work-from-home solution for the longer term, there continues to be uncertainty regarding the business outlook due to COVID-19, which may curtail our end-customers’ spending and could lead them to delay or defer purchasing decisions, and lengthen sales cycles and payment terms, which could materially adversely impact our business, results of operations, and overall financial performance. Also, certain of our end-customers or partners may be or may become credit or cash constrained, making it difficult for them to fulfill their payment obligations to us. The extent of the impact of COVID-19 on our operational and financial performance will depend on developments, including the duration and spread of the virus (including variants), impact on our end-customers’ spending, volume of sales and length of our sales cycles, impact on our partners, suppliers, and employees, actions that may be taken by governmental authorities, and other factors identified in Part I, Item 1A “Risk Factors” in this Form 10-K. Given the dynamic nature of these circumstances, the full impact of COVID-19 on our ongoing business, results of operations, and overall financial performance cannot be reasonably estimated at this time.

Key Financial Metrics

We monitor the key financial metrics set forth in the tables 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 loss and margin below under “Results of Operations.”

	July 31,	
	2021	2020
	(in millions)	
Total deferred revenue	\$ 5,024.0	\$ 3,810.2
Cash, cash equivalents, and investments	\$ 3,789.4	\$ 4,302.2

	Year Ended July 31,		
	2021	2020	2019
	(dollars in millions)		
Total revenue	\$ 4,256.1	\$ 3,408.4	\$ 2,899.6
Total revenue year-over-year percentage increase	24.9 %	17.5 %	27.5 %
Gross margin	70.0 %	70.7 %	72.1 %
Operating loss	\$ (304.1)	\$ (179.0)	\$ (54.1)
Operating margin	(7.1)%	(5.3)%	(1.9)%
Billings	\$ 5,452.2	\$ 4,301.7	\$ 3,489.8
Billings year-over-year percentage increase	26.7 %	23.3 %	22.2 %
Cash flow provided by operating activities	\$ 1,503.0	\$ 1,035.7	\$ 1,055.6
Free cash flow (non-GAAP)	\$ 1,387.0	\$ 821.3	\$ 924.4

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

- Billings.** We define billings as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. We consider billings to be a key metric used by management to manage our business. We believe billings provides investors with an important indicator of the health and visibility of our business because it includes subscription and support revenue, which is recognized ratably over the contractual service period, and product revenue, which is recognized at the time of shipment, provided that all other conditions for revenue recognition have been met. We consider billings to be a useful metric for management and investors, particularly if we continue to experience increased sales of subscriptions and strong renewal rates for subscription and support offerings, and as we monitor our near-term cash flows. While we believe that billings provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management, it is important to note that other companies, including companies in our industry, may not use billings, may calculate billings differently, may have different billing frequencies, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of billings as a comparative measure. We calculate billings in the following manner:

	Year Ended July 31,		
	2021	2020	2019
	(in millions)		
Billings:			
Total revenue	\$ 4,256.1	\$ 3,408.4	\$ 2,899.6
Add: change in total deferred revenue, net of acquired deferred revenue	1,196.1	893.3	590.2
Billings	<u>\$ 5,452.2</u>	<u>\$ 4,301.7</u>	<u>\$ 3,489.8</u>

- Cash Flow Provided by Operating Activities.** We monitor cash flow provided by operating activities as a measure of our overall business performance. Our cash flow provided by operating activities is driven in large part by sales of our products and from up-front payments for subscription and support offerings. Monitoring cash flow provided by 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 (non-GAAP).** We define free cash flow, a non-GAAP financial measure, as cash provided by operating activities less purchases of property, equipment, and other assets. We consider free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after necessary capital expenditures. A limitation of the utility of free cash flow as a measure of our financial performance and liquidity is that it does not represent the total increase or decrease in our cash balance for the period. In addition, it is important to note that other companies, including companies in our industry, may not use free cash flow, may calculate free cash flow in a different manner than we do, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of free cash flow as a comparative measure. A reconciliation of free cash flow to cash flow provided by operating activities, the most directly comparable financial measure calculated and presented in accordance with GAAP, is provided below:

	Year Ended July 31,		
	2021	2020	2019
	(in millions)		
Free cash flow (non-GAAP):			
Net cash provided by operating activities	\$ 1,503.0	\$ 1,035.7	\$ 1,055.6
Less: purchases of property, equipment, and other assets	116.0	214.4	131.2
Free cash flow (non-GAAP)	<u>\$ 1,387.0</u>	<u>\$ 821.3</u>	<u>\$ 924.4</u>
Net cash provided by (used in) investing activities	<u>\$ (1,480.6)</u>	<u>\$ 288.0</u>	<u>\$ (1,825.9)</u>
Net cash provided by (used in) financing activities	<u>\$ (1,104.0)</u>	<u>\$ 673.0</u>	<u>\$ (773.9)</u>

Results of Operations

The following table summarizes our results of operations for the periods presented and as a percentage of our total revenue for those periods based on our consolidated statements of operations data. The period to period comparison of results is not necessarily indicative of results for future periods.

	Year Ended July 31,					
	2021		2020		2019	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
(dollars in millions)						
Revenue:						
Product	\$ 1,120.3	26.3 %	\$ 1,064.2	31.2 %	\$ 1,096.2	37.8 %
Subscription and support	3,135.8	73.7 %	2,344.2	68.8 %	1,803.4	62.2 %
Total revenue	4,256.1	100.0 %	3,408.4	100.0 %	2,899.6	100.0 %
Cost of revenue:						
Product	308.5	7.2 %	294.4	8.6 %	315.9	10.9 %
Subscription and support	966.4	22.8 %	705.1	20.7 %	492.5	17.0 %
Total cost of revenue ⁽¹⁾	1,274.9	30.0 %	999.5	29.3 %	808.4	27.9 %
Total gross profit	2,981.2	70.0 %	2,408.9	70.7 %	2,091.2	72.1 %
Operating expenses:						
Research and development	1,140.4	26.8 %	768.1	22.5 %	539.5	18.6 %
Sales and marketing	1,753.8	41.1 %	1,520.2	44.7 %	1,344.0	46.4 %
General and administrative	391.1	9.2 %	299.6	8.8 %	261.8	9.0 %
Total operating expenses ⁽¹⁾	3,285.3	77.1 %	2,587.9	76.0 %	2,145.3	74.0 %
Operating loss	(304.1)	(7.1)%	(179.0)	(5.3)%	(54.1)	(1.9)%
Interest expense	(163.3)	(3.8)%	(88.7)	(2.6)%	(83.9)	(2.9)%
Other income, net	2.4	0.0 %	35.9	1.1 %	63.4	2.2 %
Loss before income taxes	(465.0)	(10.9)%	(231.8)	(6.8)%	(74.6)	(2.6)%
Provision for income taxes	33.9	0.8 %	35.2	1.0 %	7.3	0.2 %
Net loss	\$ (498.9)	(11.7)%	\$ (267.0)	(7.8)%	\$ (81.9)	(2.8)%

(1) Includes share-based compensation as follows:

	Year Ended July 31,		
	2021	2020	2019
	(in millions)		
Cost of product revenue	\$ 6.2	\$ 5.7	\$ 5.6
Cost of subscription and support revenue	93.0	77.7	71.3
Research and development	428.9	274.6	186.8
Sales and marketing	269.9	214.5	221.9
General and administrative	128.9	92.0	102.1
Total share-based compensation	\$ 926.9	\$ 664.5	\$ 587.7

Revenue

Our revenue consists of product revenue and subscription and support revenue. Revenue is recognized upon transfer of control of the corresponding promised products and subscriptions and support to our customers in an amount that reflects the consideration we expect to be entitled in exchange for those products and subscriptions and support. We expect our revenue to vary from quarter to quarter based on seasonal and cyclical factors.

Product Revenue

Product revenue is derived primarily from sales of our appliances. Product revenue also includes revenue derived from software licenses of Panorama and the VM-Series. Our appliances and software licenses include a broad set of built-in networking and security features and functionalities. We recognize product revenue at the time of hardware shipment or delivery of software license.

	Year Ended July 31,				Year Ended July 31,			
	2021		2020		2020		2019	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
Product	\$ 1,120.3	\$ 1,064.2	\$ 56.1	5.3 %	\$ 1,064.2	\$ 1,096.2	\$ (32.0)	(2.9)%

Product revenue increased for fiscal 2021 compared to fiscal 2020, largely driven by increases in software sales, reflecting increased demand for our products.

Subscription and Support Revenue

Subscription and support revenue is derived primarily from sales of our subscription and support offerings. Our contractual subscription and support contracts are typically one to five years. We recognize revenue from subscriptions and support over time as the services are performed. As a percentage of total revenue, we expect our subscription and support revenue to vary from quarter to quarter and increase over the long term as we introduce new subscriptions, renew existing subscription and support contracts, and expand our installed end-customer base.

	Year Ended July 31,				Year Ended July 31,			
	2021		2020		2020		2019	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
Subscription	\$ 1,898.8	\$ 1,405.3	\$ 493.5	35.1 %	\$ 1,405.3	\$ 1,032.7	\$ 372.6	36.1 %
Support	1,237.0	938.9	298.1	31.7 %	938.9	770.7	168.2	21.8 %
Total subscription and support	\$ 3,135.8	\$ 2,344.2	\$ 791.6	33.8 %	\$ 2,344.2	\$ 1,803.4	\$ 540.8	30.0 %

Subscription and support revenue increased year-over-year for fiscal 2021 due to increased demand for our subscription and support offerings from both new and existing end-customers. The mix between subscription revenue and support revenue will vary over time, depending on the introduction of new subscription offerings, renewals of support services, and our ability to increase sales to new and existing end-customers.

Revenue by Geographic Theater

	Year Ended July 31,				Year Ended July 31,			
	2021		2020		2020		2019	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
Americas	\$ 2,937.5	\$ 2,318.0	\$ 619.5	26.7 %	\$ 2,318.0	\$ 1,977.0	\$ 341.0	17.2 %
EMEA	817.3	671.9	145.4	21.6 %	671.9	568.6	103.3	18.2 %
APAC	501.3	418.5	82.8	19.8 %	418.5	354.0	64.5	18.2 %
Total revenue	\$ 4,256.1	\$ 3,408.4	\$ 847.7	24.9 %	\$ 3,408.4	\$ 2,899.6	\$ 508.8	17.5 %

With respect to geographic theaters, the Americas contributed the largest portion of the year-over-year increases in revenue for fiscal 2021 due to its larger and more established sales force compared to our other theaters. Revenue from both Europe, the Middle East, and Africa (“EMEA”) and Asia Pacific and Japan (“APAC”) increased year-over-year for fiscal 2021 due to our increasing investment in global sales force in order to support our growth and innovation.

Cost of Revenue

Our cost of revenue consists of cost of product revenue and cost of subscription and support revenue.

Cost of Product Revenue

Cost of product revenue primarily includes costs paid to our manufacturing partners. Our cost of product revenue also includes personnel costs, which consist of salaries, benefits, bonuses, share-based compensation, and travel and entertainment associated with our operations organization, amortization of intellectual property licenses, product testing costs, shipping and tariff costs, and allocated costs. Allocated costs consist of certain facilities, depreciation, benefits, recruiting, and information technology costs that we allocate based on headcount. We expect our cost of product revenue to fluctuate with our product revenue.

	Year Ended July 31,				Year Ended July 31,			
	2021		2020		2020		2019	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
Cost of product revenue.....	\$ 308.5	\$ 294.4	\$ 14.1	4.8 %	\$ 294.4	\$ 315.9	\$ (21.5)	(6.8)%
Number of employees at period end.....	127	117	10	8.5 %	117	102	15	14.7 %

Cost of product revenue increased for fiscal 2021 compared to fiscal 2020 primarily due to an increase in the volume of product sold, partially offset by product mix. The remaining increase was largely due to increased overhead costs to support the growth of our product revenue.

Cost of Subscription and Support Revenue

Cost of subscription and support revenue includes personnel costs for our global customer support and technical operations organizations, customer support and repair costs, third-party professional services costs, data center and cloud hosting service costs, amortization of acquired intangible assets and capitalized software development costs, and allocated costs. We expect our cost of subscription and support revenue to increase as our installed end-customer base grows and adoption of our cloud-based subscription offerings increases.

	Year Ended July 31,				Year Ended July 31,			
	2021		2020		2020		2019	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
Cost of subscription and support revenue.....	\$ 966.4	\$ 705.1	\$ 261.3	37.1 %	\$ 705.1	\$ 492.5	\$ 212.6	43.2 %
Number of employees at period end.....	2,108	1,402	706	50.4 %	1,402	1,219	183	15.0 %

Cost of subscription and support revenue increased for fiscal 2021 compared to fiscal 2020 primarily due to increased costs to support the growth of our subscription and support offerings. Personnel costs grew \$97.1 million to \$412.4 million for fiscal 2021 compared to fiscal 2020 primarily due to headcount growth. Cloud hosting service costs, which support the adoption of our cloud-based subscription offerings increased \$45.6 million for fiscal 2021 compared to fiscal 2020. The remaining increase was primarily due to increased outside service costs for global customer support resulting from the expansions of our customer base and product portfolio, as well as the amortization of intangible assets from our recent acquisitions.

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 introduction of new products, manufacturing costs, tariff costs, the average sales price of our products, cloud hosting service costs, personnel costs, the mix of products sold, and the mix of revenue between product and subscription and support offerings. For sales of our products, our higher-end firewall products generally have higher gross margins than our lower-end firewall products within each product series. We expect our gross margins to vary over time depending on the factors described above.

	Year Ended July 31,					
	2021		2020		2019	
	Amount	Gross Margin	Amount	Gross Margin	Amount	Gross Margin
(dollars in millions)						
Product.....	\$ 811.8	72.5 %	\$ 769.8	72.3 %	\$ 780.3	71.2 %
Subscription and support.....	2,169.4	69.2 %	1,639.1	69.9 %	1,310.9	72.7 %
Total gross profit.....	\$ 2,981.2	70.0 %	\$ 2,408.9	70.7 %	\$ 2,091.2	72.1 %

Product gross margin was relatively flat for fiscal 2021 compared to fiscal 2020.

Subscription and support gross margin decreased for fiscal 2021 compared to fiscal 2020, primarily due to increased costs to fulfill professional services arrangements.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, share-based compensation, travel and entertainment, and with regard to sales and marketing expense, sales commissions. Our operating expenses also include allocated costs, which consist of certain facilities, depreciation, benefits, recruiting, and information technology costs that we allocate based on headcount. We expect operating expenses generally to increase in absolute dollars and decrease over the long term as a percentage of revenue as we continue to scale our business. In response to COVID-19, we instituted a global work-from-home policy, which has been modified to provide employees with the choice to work in certain of our offices when and as they feel comfortable, and limited employee travel beginning in March 2020. Further, we have canceled in-person events and either replaced them with virtual events or postponed them to future periods. As of July 31, 2021, we expect to recognize approximately \$2.0 billion of share-based compensation expense over a weighted-average period of approximately 2.6 years, excluding additional share-based compensation expense related to any future grants of share-based awards. Share-based compensation expense is generally recognized on a straight-line basis over the requisite service periods of the awards.

Research and Development

Research and development expense consists primarily of personnel costs. Research and development expense also includes prototype related expenses and allocated 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.

	Year Ended July 31,				Year Ended July 31,			
	2021	2020	Change		2020	2019	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Research and development.....	\$ 1,140.4	\$ 768.1	\$ 372.3	48.5 %	\$ 768.1	\$ 539.5	\$ 228.6	42.4 %
Number of employees at period end.....	2,595	1,821	774	42.5 %	1,821	1,507	314	20.8 %

Research and development expense increased for fiscal 2021 compared to fiscal 2020 due to an increase in personnel costs, which grew \$321.2 million to \$911.0 million for fiscal 2021 compared to fiscal 2020. The increase in personnel costs was primarily due to headcount growth.

Sales and Marketing

Sales and marketing expense consists primarily of personnel costs, including commission expense. Sales and marketing expense also includes costs for market development programs, promotional and other marketing costs, professional services, and allocated costs. We continue to thoughtfully invest in headcount and have substantially grown our international sales presence. 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 global presence, although our sales and marketing expense may fluctuate as a percentage of total revenue.

	Year Ended July 31,				Year Ended July 31,			
	2021	2020	Change		2020	2019	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
	(dollars in millions)							
Sales and marketing.....	\$ 1,753.8	\$ 1,520.2	\$ 233.6	15.4 %	\$ 1,520.2	\$ 1,344.0	\$ 176.2	13.1 %
Number of employees at period end	4,493	3,800	693	18.2 %	3,800	3,382	418	12.4 %

Sales and marketing expense increased for fiscal 2021 compared to fiscal 2020 primarily due to an increase in personnel costs, which grew \$186.9 million to \$1.3 billion for fiscal 2021 compared to fiscal 2020. The increase in personnel costs was largely due to headcount growth, partially offset by decreased travel expenses due to COVID-19. In addition, expenses increased as a result of go-to-market initiatives, including advertising, which were partially offset by a decrease in trade shows and convention expenses as in-person events were replaced with virtual events due to COVID-19.

General and Administrative

General and administrative expense consists primarily of personnel costs for our executive, finance, human resources, legal, and information technology organizations, and professional services costs, which consist primarily of legal, auditing, accounting, and other

consulting costs. General and administrative expense also includes certain non-recurring general expenses and impairment losses. Certain facilities, depreciation, benefits, recruiting, and information technology costs are allocated to other organizations based on headcount. We expect general and administrative expense to increase in absolute dollars due to additional costs associated with accounting, compliance, and insurance, although our general and administrative expense may fluctuate as a percentage of total revenue.

	Year Ended July 31,				Year Ended July 31,			
	2021	2020	Change		2020	2019	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
General and administrative	\$ 391.1	\$ 299.6	\$ 91.5	30.5 %	\$ 299.6	\$ 261.8	\$ 37.8	14.4 %
Number of employees at period end	1,150	874	276	31.6 %	874	804	70	8.7 %

General and administrative expenses increased for fiscal 2021 compared to fiscal 2020 primarily due to personnel costs, which grew \$48.9 million to \$244.0 million for fiscal 2021 compared to fiscal 2020, due primarily to an increase in share-based compensation expense related to accelerated vesting of certain equity awards in connection with our acquisitions and headcount growth. Other increases included increased professional services expense to support our business growth.

Interest Expense

Interest expense primarily consists of non-cash interest expense from the amortization of the debt discount and debt issuance costs related to our 0.0% Convertible Senior Notes due 2019 (the “2019 Notes”), the 0.75% Convertible Senior Notes due 2023 (the “2023 Notes”) and the 0.375% Convertible Senior Notes due 2025 (the “2025 Notes”), and together with “2023 Notes”, the “Notes”), and also includes the contractual interest expense related to our Notes.

	Year Ended July 31,				Year Ended July 31,			
	2021	2020	Change		2020	2019	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
Interest expense	\$ 163.3	\$ 88.7	\$ 74.6	84.1 %	\$ 88.7	\$ 83.9	\$ 4.8	5.7 %

Interest expense increased for fiscal 2021 compared to fiscal 2020 due to the issuance of our 2025 Notes in the fourth quarter of fiscal 2020. Refer to Note 10. Debt in Part II, Item 8 of this Annual Report on Form 10-K for more information on our series of convertible senior notes.

Other Income, Net

Other income, net includes interest income earned on our cash, cash equivalents, and investments, foreign currency remeasurement gains and losses, and foreign currency transaction gains and losses.

	Year Ended July 31,				Year Ended July 31,			
	2021	2020	Change		2020	2019	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
Other income, net	\$ 2.4	\$ 35.9	\$ (33.5)	(93.3)%	\$ 35.9	\$ 63.4	\$ (27.5)	(43.4)%

Other income, net decreased for fiscal 2021 compared to fiscal 2020 primarily due to lower interest income earned on our cash, cash equivalent, and investment balances as a result of lower interest rates for fiscal 2021 compared to fiscal 2020.

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes in foreign jurisdictions in which we conduct business and withholding taxes. We maintain a full valuation allowance for domestic and certain foreign deferred tax assets, including net operating loss carryforwards and certain domestic tax credits. In recent years, we reorganized our corporate structure and intercompany relationships to more closely align with the international nature of our business activities. Our corporate structure has caused, and may continue to cause, disproportionate relationships between our overall effective tax rate and other jurisdictional measures. To the extent

we revisit our corporate structure, it may have an impact on our tax provision.

	Year Ended July 31,				Year Ended July 31,			
	2021	2020	Change		2020	2019	Change	
	Amount	Amount	Amount	%	Amount	Amount	Amount	%
(dollars in millions)								
Provision for income taxes	\$ 33.9	\$ 35.2	\$ (1.3)	(3.7)%	\$ 35.2	\$ 7.3	\$ 27.9	382.2 %
Effective tax rate	(7.3)%	(15.2)%			(15.2)%	(9.8)%		

We recorded an income tax provision for fiscal 2021. The provision for income taxes for fiscal 2021 was primarily due to income taxes in profitable foreign jurisdictions and withholding taxes. Our provision for income taxes slightly decreased for fiscal 2021 compared to fiscal 2020, primarily due to changes in our valuation allowances. Refer to Note 15. Income Taxes in Part II, Item 8 of this Annual Report on Form 10-K for more information.

Liquidity and Capital Resources

	July 31,	
	2021	2020
	(in millions)	
Working capital	\$ (469.4)	\$ 2,437.5
Cash, cash equivalents, and investments:		
Cash and cash equivalents	\$ 1,874.2	\$ 2,958.0
Investments	1,915.2	1,344.2
Total cash, cash equivalents, and investments	<u>\$ 3,789.4</u>	<u>\$ 4,302.2</u>

As of July 31, 2021, our total cash, cash equivalents, and investments of \$3.8 billion were held for general corporate purposes, of which approximately \$942.3 million was held outside of the United States. As of July 31, 2021, we had no unremitted earnings when evaluating our outside basis difference relating to our U.S. investment in foreign subsidiaries. However, there could be local withholding taxes payable due to various foreign countries if certain lower tier earnings are distributed. Withholding taxes that would be payable upon remittance of these lower tier earnings are not expected to be material.

In June 2014, we issued the 2019 Notes with an aggregate principal amount of \$575.0 million. The 2019 Notes were converted prior to or settled on the maturity date of July 1, 2019. During fiscal 2019, we repaid in cash \$575.0 million in aggregate principal amount of the 2019 Notes and issued 2.5 million shares of common stock to the holders for the conversion value in excess of the principal amount of the 2019 Notes converted, which were fully offset by shares received from our exercise of the associated note hedges. In July 2018, we issued the 2023 Notes with an aggregate principal amount of \$1.7 billion. In June 2020, we issued the 2025 Notes with an aggregate principal amount of \$2.0 billion. The 2023 Notes mature on July 1, 2023 and the 2025 Notes mature on June 1, 2025; however, under certain circumstances, holders may surrender their Notes of a series for conversion prior to the applicable maturity date. Upon conversion of the Notes of a series, we will pay cash equal to the aggregate principal amount of the Notes of such series to be converted, and, at our election, will pay or deliver cash and/or shares of our common stock for the amount of our conversion obligation in excess of the aggregate principal amount of the Notes of such series being converted. The sale price condition was met for the 2023 Notes during the fiscal quarter ended July 31, 2021, and as a result, holders may convert their 2023 Notes at any time during the fiscal quarter ending October 31, 2021. We believe that our cash provided by operating activities, together with our existing cash, cash equivalents and investments will be sufficient to meet our anticipated cash needs should the holders choose to convert their 2023 Notes during the fiscal quarter ending October 31, 2021. As of July 31, 2021, substantially all of our 2023 Notes and 2025 Notes remained outstanding. Refer to Note 10. Debt in Part II, Item 8 of this Annual Report on Form 10-K for more information on the Notes.

In September 2018, we entered into a credit agreement (the "Credit Agreement") that provides for a \$400.0 million unsecured revolving credit facility (the "Credit Facility"), with an option to increase the amount of the credit facility by up to an additional \$350.0 million, subject to certain conditions. As of July 31, 2021, there were no amounts outstanding, and we were in compliance with all covenants under the Credit Agreement. Refer to Note 10. Debt in Part II, Item 8 of this Annual Report on Form 10-K for more information on the Credit Agreement.

In February 2019, our board of directors authorized a \$1.0 billion share repurchase program, and, in December 2020, our board of directors authorized a \$700.0 million increase to our share repurchase program, bringing the total authorization to \$1.7 billion (our "current authorization"). As of July 31, 2021, \$323.9 million remained available for future share repurchases under this current authorization. On August 17, 2021, our board of directors authorized another \$676.1 million increase to our current authorization, bringing the total remaining authorization for future share repurchases to \$1.0 billion. Repurchases will be funded from available working capital and may be made at management's discretion from time to time. The expiration date of our current authorization was extended to December 31, 2022, and this program may be suspended or discontinued at any time. In February 2020, our board of directors approved the repurchase of \$1.0 billion of our common stock through an accelerated share repurchase ("ASR") transaction, which was in addition to our current authorization. During fiscal 2020, we completed the ASR transaction with an aggregate of 5.2 million shares of our common stock repurchased and retired. Refer to Note 13. Stockholders' Equity in Part II, Item 8 of this Annual Report on Form 10-K for information on these repurchase programs.

The following table summarizes our cash flows for the years ended July 31, 2021, 2020, and 2019:

	Year Ended July 31,		
	2021	2020	2019
	(in millions)		
Net cash provided by operating activities	\$ 1,503.0	\$ 1,035.7	\$ 1,055.6
Net cash provided by (used in) investing activities	(1,480.6)	288.0	(1,825.9)
Net cash provided by (used in) financing activities	(1,104.0)	673.0	(773.9)
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>\$ (1,081.6)</u>	<u>\$ 1,996.7</u>	<u>\$ (1,544.2)</u>

Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the effects of COVID-19 and other risks detailed in Part I, Item 1A “Risk Factors” in this Form 10-K. We believe that our cash flow from operations with existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months and thereafter for the foreseeable future. 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 subscription and support offerings, the costs to acquire or invest in complementary businesses and technologies, the costs to ensure access to adequate manufacturing capacity, the investments in our infrastructure to support the adoption of our cloud-based subscription offerings, the investments in our new corporate headquarters, the continuing market acceptance of our products and subscription and support offerings and macroeconomic events such as COVID-19. In addition, from time to time we may incur additional tax liability in connection with certain corporate structuring decisions.

We may also choose to seek additional equity or debt financing. 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 may be adversely affected.

Operating Activities

Our operating activities have consisted of net losses adjusted for certain non-cash items and changes in assets and liabilities.

Cash provided by operating activities during fiscal 2021 was \$1.5 billion, an increase of \$467.3 million compared to fiscal 2020. The increase was primarily due to growth of our business as reflected by an increase in billings, and an increase in collections during fiscal 2021, partially offset by higher cash expenditure to support our business growth.

Investing Activities

Our investing activities have consisted of capital expenditures, net investment purchases, sales, and maturities, and business acquisitions. We expect to continue such activities as our business grows.

Cash used in investing activities during fiscal 2021 was \$1.5 billion, a net change of \$1.8 billion compared to cash provided by investing activities of \$288.0 million in fiscal 2020. The change was primarily due to a decrease in proceeds from maturities and sales of investments and higher purchases of investments during fiscal 2021.

Financing Activities

Our financing activities have consisted of proceeds from sales of shares through employee equity incentive plans, cash used to repurchase shares of our common stock, and payments for tax withholding obligations of certain employees related to the net share settlement of equity awards.

Cash used in financing activities during fiscal 2021 was \$1.1 billion, a net change of \$1.8 billion compared to cash provided by financing activities of 673.0 million in fiscal 2020. The change was primarily due to net proceeds of \$1.8 billion from the issuance of our 2025 Notes, issuance of warrants, and purchase of note hedges during fiscal 2020.

Contractual Obligations and Commitments

The following summarizes our contractual obligations and commitments as of July 31, 2021:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(in millions)				
0.75% Convertible Senior Notes due 2023	\$ 1,692.0	\$ —	\$ 1,692.0	\$ —	\$ —
0.375% Convertible Senior Notes due 2025	2,000.0	—	—	2,000.0	—
Operating lease obligations	426.6	78.8	134.2	116.1	97.5
Purchase obligations ⁽¹⁾	1,831.7	251.3	609.0	971.4	—
Total ⁽²⁾	<u>\$ 5,950.3</u>	<u>\$ 330.1</u>	<u>\$ 2,435.2</u>	<u>\$ 3,087.5</u>	<u>\$ 97.5</u>

- (1) Consists of minimum purchase commitments of products and components with our manufacturing partners and component suppliers, as well as minimum or fixed purchase commitments for our use of certain cloud and other services with third-party providers. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.
- (2) No amounts related to income taxes are included. As of July 31, 2021, we had approximately \$80.6 million of tax liabilities recorded related to uncertainty in income tax positions.

Off-Balance Sheet Arrangements

As of July 31, 2021, 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 Estimates

Our consolidated financial statements have been prepared in accordance with GAAP. 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 could differ materially from those estimates due to risks and uncertainties, including uncertainty in the current economic environment due to the global impact of COVID-19. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

We believe that of our significant accounting policies described in Note 1. Description of Business and Summary of Significant Accounting Policies in Part II, Item 8 of this Annual Report on Form 10-K, the critical accounting policies requiring estimates, assumptions, and judgments that have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

The majority of our contracts with our customers include various combinations of our products and subscriptions and support. Our appliances and software licenses have significant standalone functionalities and capabilities and, accordingly, are distinct from our subscriptions and support services, as the customer can benefit from the product without these services and such services are separately identifiable within the contract. We account for multiple agreements with a single customer as a single contract 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 contract. The amount we are due in exchange for delivering on the contract is allocated to each performance obligation based on its relative standalone selling price.

We establish standalone selling price using the prices charged for a deliverable when sold separately. If not observable through past transactions, we estimate the standalone selling price based on our pricing model and our go-to-market strategy, which include factors such as type of sales channel (reseller, distributor, or end-customer), the geographies in which our offerings were sold (domestic or international) and offering type (products, subscriptions, or support). As our business offerings evolve over time, we may be required to modify our estimated standalone selling prices, and as a result the timing and classification of our revenue could be affected.

Deferred Contract Costs

We defer contract costs that are recoverable and incremental to obtaining customer sales contracts. Contract costs, which primarily consist of sales commissions, are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Sales commissions for initial contracts that are not commensurate with renewal

commissions are amortized over a benefit period of five years, consistent with the revenue recognition pattern of the performance obligations in the related contracts including expected renewals. The benefit period is determined by taking into consideration contract length, technology life, and other quantitative and qualitative factors. The expected renewals are estimated based on historical renewal trends. Sales commissions for initial contracts that are commensurate and sales commissions for renewal contracts are amortized over the related contractual period in proportion to the revenue recognized.

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.

Significant judgment is 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.

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 benefit as the largest amount that is more likely than not to be realized upon ultimate settlement.

Significant judgment is also 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.

Manufacturing Partner and Supplier Liabilities

We outsource most of our manufacturing, repair, and supply chain management operations to our EMS provider, which procures components and assembles our products based on our demand forecasts. These forecasts of future demand are based upon historical trends and analysis from our sales and product management functions as adjusted for overall market conditions. We accrue for costs for manufacturing purchase commitments in excess of our forecasted demand, including costs for excess components or for carrying costs incurred by our manufacturing partners and component suppliers. Actual component usage and product demand may be materially different from our forecast and could be caused by factors outside of our control, which could have an adverse impact on our results of operations. To date, we have not accrued significant costs associated with this exposure.

Loss Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We accrue for loss contingencies 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. 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.

Goodwill, Intangibles, and Other Long-Lived Assets

We make significant estimates, assumptions, and judgments when valuing goodwill and other purchased intangible assets in connection with the initial purchase price allocation of an acquired entity, as well as when evaluating impairment of goodwill and other purchased intangible assets on an ongoing basis. These estimates are based upon a number of factors, including historical experience, market conditions, and information obtained from the management of the acquired company. Critical estimates in valuing certain intangible assets include, but are not limited to, cash flows that an asset is expected to generate in the future, discount rates, the time and expense that would be necessary to recreate the assets, and the profit margin a market participant would receive. The amounts and useful lives assigned to identified intangible assets impacts the amount and timing of future amortization expense.

We evaluate goodwill for impairment on an annual basis in our fourth fiscal quarter or more frequently if we believe impairment indicators exist. We have elected to first assess qualitative factors to determine whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount, including goodwill. The qualitative assessment includes our evaluation of relevant events and circumstances affecting our single reporting unit, including macroeconomic, industry, and market conditions, our overall financial performance, and trends in the market price of our common stock. If qualitative factors indicate that it is more likely than not that our reporting unit's fair value is less than its carrying amount, then we will perform the quantitative impairment test by comparing our reporting unit's carrying amount, including goodwill, to its fair value. If the carrying amount of our reporting unit exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess. To date, the results of our qualitative assessment have indicated that the quantitative goodwill impairment test is not necessary.

We evaluate long-lived assets, such as property, equipment, and purchased intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such events or changes in circumstances include, but are not limited to, a significant decrease in the fair value of the underlying asset or asset group, a significant decrease in the benefits realized from the acquired assets, difficulty and delays in integrating the business, or a significant change in the operations of the acquired assets or use of an asset or asset group. A long-lived asset is considered impaired if its carrying amount exceeds the estimated future undiscounted cash flows the asset or asset group is expected to generate. Critical estimates in determining whether a long-lived asset is considered impaired include the amount and timing of future cash flows that the asset or asset group is expected to generate. If a long-lived asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset exceeds the fair value of the asset or asset group, which is estimated using a present value technique. Critical estimates in determining the fair value of an asset or asset group and the amount of impairment to recognize include, but are not limited to, the amount and timing of future cash flows that the asset or asset group is expected to generate and the discount rate. Determining the fair value of an asset or asset group is highly judgmental in nature and involves the use of significant estimates and assumptions for market participants. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

Convertible Senior Notes

In accounting for the issuance of our convertible senior notes, we separate the notes into liability and equity components. The carrying amount of the liability component is calculated by measuring the fair value of a similar liability that does not have an associated convertible feature, using a discounted cash flow model with a risk adjusted yield. The carrying amount of the equity component representing the conversion option is determined by deducting the fair value of the liability component from the par value of the notes as a whole. This difference represents a debt discount that is amortized to interest expense using the effective interest method over the term of the notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the transaction costs related to the issuance of the notes, we allocate the total amount incurred to the liability and equity components using the same proportions as the proceeds from the notes. Transaction costs attributable to the liability component are netted with the liability component and amortized to interest expense using the effective interest method over the term of the notes. Transaction costs attributable to the equity component are netted with the equity component of the notes in additional paid-in capital in the consolidated balance sheets.

Recent Accounting Pronouncements

Refer to "Recently Issued Accounting Pronouncements" in Note 1. Description of Business and Summary of Significant Accounting Policies in Part II, Item 8 of this Annual Report on Form 10-K for a description of recent accounting pronouncements and our expectation of their impact, if any, on our results of operations and financial condition.

ITEM 7A. 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 of 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 euro, Israeli shekel, British pound, Singapore dollar, Australian dollar, and Japanese yen. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. The effect of an immediate 10% adverse change in foreign exchange rates on monetary assets and liabilities at July 31, 2021 would not be material to our financial condition or results of operations. As of July 31, 2021, foreign currency transaction gains and losses and exchange rate fluctuations have not been material to our financial statements. We enter into foreign currency derivative contracts with maturities of 16 months or less which we designate as cash flow hedges to manage the foreign currency exchange rate risk associated with our foreign currency denominated expenditures. The effectiveness of our existing hedging transactions and the availability and effectiveness of any hedging transactions we may decide to enter into in the future may be limited, and we may not be able to successfully hedge our exposure, which could adversely affect our financial condition and operating results. Refer to Note 6. Derivative Instruments in Part II, Item 8 of this Annual Report on Form 10-K for more information.

As our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, a weakening U.S. dollar can increase the costs of our international

expansion and a strengthening U.S. dollar can increase the real cost of our products to our end-customers outside of the United States, leading to delays in the purchase of our products and services. For additional information, see the risk factor entitled “*We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and operating results*” in Part 1, Item 1A of this Annual Report on Form 10-K.

Interest Rate Risk

The primary objectives of our investment activities are to preserve principal, provide liquidity, and maximize income without significantly increasing risk. Some of the securities we invest in are subject to interest risk. To minimize this risk, we maintain our portfolio of cash, cash equivalents, and short-term investments in a variety of securities, including commercial paper, money market funds, U.S. government and agency securities, and corporate debt securities. Due to the short duration and conservative nature of our investment portfolio, a movement of 10% in market interest rates would not have a material impact on our operating results and the total value of the portfolio. The effect of an immediate 10% change in interest rates at July 31, 2021 would not have been material to our operating results and the total value of the portfolio assuming consistent investment levels.

Market Risk and Market Interest Risk

In July 2018, we issued \$1.7 billion aggregate principal amount of 0.75% Convertible Senior Notes due 2023 (the “2023 Notes”) and in June 2020, we issued \$2.0 billion aggregate principal amount of 0.375% Convertible Senior Notes due 2025 (the “2025 Notes”). We carry these instruments at face value less unamortized discount and unamortized issuance costs on our consolidated balance sheets. As these instruments have a fixed annual interest rate, we have no financial and economic interest exposure associated with changes in interest rates. However, the fair value of fixed rate instruments fluctuates when interest rates change, and additionally, in the case of either series of Notes, when the market price of our common stock fluctuates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firm	61
Management's Report on Internal Control Over Financial Reporting	64
Consolidated Balance Sheets	65
Consolidated Statements of Operations	66
Consolidated Statements of Comprehensive Loss	67
Consolidated Statements of Stockholders' Equity	68
Consolidated Statements of Cash Flows	69
Notes to Consolidated Financial Statements	71

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Palo Alto Networks, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Palo Alto Networks, Inc. (the Company) as of July 31, 2021 and 2020, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at July 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended July 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of July 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated September 3, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition

Description of the Matter As described in Note 1 to the consolidated financial statements, the Company's contracts with customers sometimes contain multiple performance obligations, which are accounted for separately if they are distinct. In such cases, the transaction price is then allocated to the distinct performance obligations on a relative standalone selling price basis, and revenue is recognized when control of the distinct performance obligation is transferred. For example, product revenue is recognized at the time of hardware shipment or delivery of software license, and subscription and support revenue is recognized over time as the services are performed.

Auditing the Company's revenue recognition was complex, including the identification and determination of distinct performance obligations and the timing of revenue recognition. For example, there were nonstandard terms and conditions that required judgment to determine the distinct performance obligations and the impact on the timing of revenue recognition.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's process and controls to identify and determine the distinct performance obligations and the timing of revenue recognition.

To test the identification and determination of the distinct performance obligations and the timing of revenue recognition, our audit procedures included, among others, reading the executed contract and purchase order to understand the contract, identifying the performance obligation(s), determining the distinct performance obligations, and evaluating the timing of revenue recognition for a sample of individual sales transactions. We evaluated the accuracy of the Company's contract summary documentation, specifically related to the identification and determination of distinct performance obligations and the timing of revenue recognition.

Business Combinations

Description of the Matter As described in Note 7 to the consolidated financial statements, the Company completed an acquisition of Expanse Inc. for net consideration of \$797.2 million in the year ended July 31, 2021. The Company accounted for this acquisition as a business combination.

Auditing the accounting for the acquisition was complex due to the significant estimation uncertainty in determining the fair values of identified intangible assets, which consisted of developed technology of \$123.4 million and customer relationships of \$36.9 million. The significant estimation uncertainty was primarily due to the sensitivity of the respective fair values to underlying assumptions about future performance of the acquired business and due to the limited historical data on which to base these assumptions. The significant assumptions used to form the basis of the forecasted results included revenue growth rates and technology migration curves. These significant assumptions were forward-looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls over its accounting for the acquisition. This included testing controls over the estimation process supporting the recognition and measurement of identified intangible assets, and management's judgment and evaluation of underlying assumptions and estimates with regards to the fair values of the identified intangible assets.

To test the estimated fair values of the identified intangible assets, our audit procedures included, among others, reading the underlying agreements, testing management's application of the relevant accounting guidance, and involving a specialist to assist us in the evaluation of the Company's valuation methodology and testing of the significant assumptions. For example, we compared the revenue growth rates and technology migration curves to current industry, market and economic trends. Additionally, we tested the completeness and accuracy of the underlying data supporting the significant assumptions and estimates.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2009.

San Jose, California
September 3, 2021

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Palo Alto Networks, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Palo Alto Networks, Inc.'s internal control over financial reporting as of July 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Palo Alto Networks, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of July 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of July 31, 2021 and 2020, the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2021, and the related notes and our report dated September 3, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Jose, California
September 3, 2021

Management’s Report on Internal Control Over Financial Reporting

Management’s Report on Internal Control Over Financial Reporting

The management of Palo Alto Networks, Inc. (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 for the Company. The Company’s internal control over financial reporting is a process designed under the supervision of the Company’s principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company’s internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the Consolidated Financial Statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of July 31, 2021, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control - Integrated Framework (2013 framework). Based on that assessment, management concluded that, as of July 31, 2021, the Company’s internal control over financial reporting was effective.

The effectiveness of the Company’s internal control over financial reporting as of July 31, 2021, has been audited by Ernst & Young LLP, the independent registered public accounting firm that audits the Company’s Consolidated Financial Statements, as stated in their report preceding this report, which expresses an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting as of July 31, 2021.

PALO ALTO NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except per share data)

	July 31,	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,874.2	\$ 2,958.0
Short-term investments	1,026.9	789.8
Accounts receivable, net of allowance for credit losses of \$11.2 and \$2.3 at July 31, 2021 and July 31, 2020, respectively	1,240.4	1,037.1
Short-term deferred contract costs	276.5	206.0
Prepaid expenses and other current assets	229.3	138.3
Total current assets	4,647.3	5,129.2
Property and equipment, net	318.4	348.1
Operating lease right-of-use assets	262.9	258.7
Long-term investments	888.3	554.4
Long-term deferred contract costs	494.6	422.3
Goodwill	2,710.1	1,812.9
Intangible assets, net	498.6	358.2
Other assets	421.4	181.6
Total assets	\$ 10,241.6	\$ 9,065.4
Liabilities, temporary equity and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 56.9	\$ 63.6
Accrued compensation	430.6	322.2
Accrued and other liabilities	329.4	256.8
Deferred revenue	2,741.9	2,049.1
Convertible senior notes, net	1,557.9	—
Total current liabilities	5,116.7	2,691.7
Convertible senior notes, net	1,668.1	3,084.1
Long-term deferred revenue	2,282.1	1,761.1
Long-term operating lease liabilities	313.4	336.6
Other long-term liabilities	97.7	90.1
Commitments and contingencies (Note 12)		
Temporary equity	129.1	—
Stockholders' equity:		
Preferred stock; \$0.0001 par value; 100.0 shares authorized; none issued and outstanding at July 31, 2021 and July 31, 2020	—	—
Common stock and additional paid-in capital; \$0.0001 par value; 1,000.0 shares authorized; 97.3 and 96.3 shares issued and outstanding at July 31, 2021 and July 31, 2020, respectively	2,311.2	2,259.2
Accumulated other comprehensive income (loss)	(9.9)	10.5
Accumulated deficit	(1,666.8)	(1,167.9)
Total stockholders' equity	634.5	1,101.8
Total liabilities, temporary equity and stockholders' equity	\$ 10,241.6	\$ 9,065.4

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Year Ended July 31,		
	2021	2020	2019
Revenue:			
Product	\$ 1,120.3	\$ 1,064.2	\$ 1,096.2
Subscription and support	3,135.8	2,344.2	1,803.4
Total revenue	4,256.1	3,408.4	2,899.6
Cost of revenue:			
Product	308.5	294.4	315.9
Subscription and support	966.4	705.1	492.5
Total cost of revenue	1,274.9	999.5	808.4
Total gross profit	2,981.2	2,408.9	2,091.2
Operating expenses:			
Research and development	1,140.4	768.1	539.5
Sales and marketing	1,753.8	1,520.2	1,344.0
General and administrative	391.1	299.6	261.8
Total operating expenses	3,285.3	2,587.9	2,145.3
Operating loss	(304.1)	(179.0)	(54.1)
Interest expense	(163.3)	(88.7)	(83.9)
Other income, net	2.4	35.9	63.4
Loss before income taxes	(465.0)	(231.8)	(74.6)
Provision for income taxes	33.9	35.2	7.3
Net loss	\$ (498.9)	\$ (267.0)	\$ (81.9)
Net loss per share, basic and diluted	\$ (5.18)	\$ (2.76)	\$ (0.87)
Weighted-average shares used to compute net loss per share, basic and diluted	96.4	96.9	94.5

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In millions)

	Year Ended July 31,		
	2021	2020	2019
Net loss.....	\$ (498.9)	\$ (267.0)	\$ (81.9)
Other comprehensive income (loss), net of tax:			
Change in unrealized gains (losses) on investments.....	(3.0)	1.0	10.4
Change in unrealized gains (losses) on cash flow hedges.....	(17.4)	13.2	2.3
Other comprehensive income (loss).....	(20.4)	14.2	12.7
Comprehensive loss.....	<u>\$ (519.3)</u>	<u>\$ (252.8)</u>	<u>\$ (69.2)</u>

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

	Common Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of July 31, 2018	93.6	\$ 1,967.4	\$ (16.4)	\$ (790.7)	\$ 1,160.3
Cumulative-effect adjustment from adoption of new accounting pronouncement	—	—	—	(28.3)	(28.3)
Net loss	—	—	—	(81.9)	(81.9)
Other comprehensive income	—	—	12.7	—	12.7
Issuance of common stock in connection with employee equity incentive plans	3.8	72.0	—	—	72.0
Taxes paid related to net share settlement of equity awards	—	(33.2)	—	—	(33.2)
Share-based compensation for equity-based awards	—	575.5	—	—	575.5
Repurchase and retirement of common stock	(1.9)	(330.0)	—	—	(330.0)
Temporary equity reclassification	—	21.9	—	—	21.9
Settlement of convertible notes	2.5	(12.2)	—	—	(12.2)
Common stock received from exercise of note hedges	(2.5)	—	—	—	—
Issuance of common and restricted common stock in connection with acquisitions	1.3	229.5	—	—	229.5
Balance as of July 31, 2019	96.8	2,490.9	(3.7)	(900.9)	1,586.3
Net loss	—	—	—	(267.0)	(267.0)
Other comprehensive income	—	—	14.2	—	14.2
Issuance of common stock in connection with employee equity incentive plans	3.6	84.0	—	—	84.0
Taxes paid related to net share settlement of equity awards	—	(22.7)	—	—	(22.7)
Share-based compensation for equity-based awards	—	674.4	—	—	674.4
Repurchase and retirement of common stock	(6.1)	(1,198.1)	—	—	(1,198.1)
Settlement of warrants	2.0	—	—	—	—
Equity component of convertible senior notes, net	—	398.7	—	—	398.7
Issuance of warrants	—	202.8	—	—	202.8
Purchase of note hedges	—	(370.8)	—	—	(370.8)
Balance as of July 31, 2020	96.3	2,259.2	10.5	(1,167.9)	1,101.8
Net loss	—	—	—	(498.9)	(498.9)
Other comprehensive loss	—	—	(20.4)	—	(20.4)
Issuance of common stock in connection with employee equity incentive plans	3.7	104.0	—	—	104.0
Taxes paid related to net share settlement of equity awards	—	(28.9)	—	—	(28.9)
Share-based compensation for equity-based awards	—	943.4	—	—	943.4
Repurchase and retirement of common stock	(4.0)	(1,178.1)	—	—	(1,178.1)
Issuance of common and restricted common stock in connection with acquisitions	1.3	340.7	—	—	340.7
Temporary equity reclassification	—	(129.1)	—	—	(129.1)
Balance as of July 31, 2021	97.3	\$ 2,311.2	\$ (9.9)	\$ (1,666.8)	\$ 634.5

See notes to consolidated financial statements.

PALO ALTO NETWORKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended July 31,		
	2021	2020	2019
Cash flows from operating activities			
Net loss	\$ (498.9)	\$ (267.0)	\$ (81.9)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Share-based compensation for equity-based awards	894.5	658.4	567.7
Depreciation and amortization	260.4	206.1	153.8
(Gain) loss related to facility exit	—	(3.1)	7.0
Amortization of deferred contract costs	298.0	254.4	223.8
Amortization of debt discount and debt issuance costs	142.9	73.9	70.2
Amortization of operating lease right-of-use assets	44.5	47.4	—
Amortization of investment premiums, net of accretion of purchase discounts	13.1	(6.2)	(17.5)
Loss on conversions of convertible senior notes	—	—	2.6
Repayments of convertible senior notes attributable to debt discount	(0.1)	—	(97.6)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(172.4)	(435.6)	(108.7)
Deferred contract costs	(440.8)	(407.4)	(361.1)
Prepaid expenses and other assets	(299.1)	(1.6)	28.6
Accounts payable	(11.8)	(12.8)	32.3
Accrued compensation	105.1	75.7	66.8
Accrued and other liabilities	(28.5)	(39.8)	(20.6)
Deferred revenue	1,196.1	893.3	590.2
Net cash provided by operating activities	1,503.0	1,035.7	1,055.6
Cash flows from investing activities			
Purchases of investments	(1,958.9)	(1,180.8)	(2,984.6)
Proceeds from sales of investments	131.1	314.0	6.5
Proceeds from maturities of investments	1,240.5	1,952.7	2,057.1
Business acquisitions, net of cash acquired	(777.3)	(583.5)	(773.7)
Purchases of property, equipment, and other assets	(116.0)	(214.4)	(131.2)
Net cash provided by (used in) investing activities	(1,480.6)	288.0	(1,825.9)
Cash flows from financing activities			
Repayments of convertible senior notes attributable to principal and equity component	(0.9)	—	(477.4)
Payments for debt issuance costs	(0.2)	—	(3.7)
Proceeds from borrowings on convertible senior notes, net	—	1,979.1	—
Proceeds from issuance of warrants	—	202.8	—
Purchase of note hedges	—	(370.8)	—
Repurchases of common stock	(1,178.1)	(1,198.1)	(330.0)
Proceeds from sales of shares through employee equity incentive plans	104.0	84.0	71.7
Payments for taxes related to net share settlement of equity awards	(28.8)	(22.7)	(33.2)
Payment of deferred consideration related to prior year business acquisition	—	(1.3)	(1.3)
Net cash provided by (used in) financing activities	(1,104.0)	673.0	(773.9)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(1,081.6)	1,996.7	(1,544.2)
Cash, cash equivalents, and restricted cash—beginning of period	2,961.7	965.0	2,509.2
Cash, cash equivalents, and restricted cash—end of period	\$ 1,880.1	\$ 2,961.7	\$ 965.0

	Year Ended July 31,		
	2021	2020	2019
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets			
Cash and cash equivalents	\$ 1,874.2	\$ 2,958.0	\$ 961.4
Restricted cash included in prepaid expenses and other current assets	5.4	2.8	1.9
Restricted cash included in other assets	0.5	0.9	1.7
Total cash, cash equivalents, and restricted cash	<u>\$ 1,880.1</u>	<u>\$ 2,961.7</u>	<u>\$ 965.0</u>
Non-cash investing and financing activities			
Equity consideration for business acquisitions	\$ (365.4)	\$ (11.0)	\$ (229.5)
Supplemental disclosures of cash flow information			
Cash paid for income taxes	\$ 24.9	\$ 17.2	\$ 22.0
Cash paid for contractual interest	\$ 20.0	\$ 13.5	\$ 13.5

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. (the “Company,” “we,” “us,” or “our”), headquartered in Santa Clara, California, was incorporated in March 2005 under the laws of the State of Delaware and commenced operations in April 2005. We empower enterprises, service providers, and government entities to secure all users, applications, data, networks, clouds and devices with comprehensive visibility and context, continuously, across all locations.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”). The consolidated financial statements include all adjustments necessary for a fair presentation of our annual results. All adjustments are of a normal recurring nature.

Principles of Consolidation

The consolidated financial statements include our accounts and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP 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, but are not limited to, the standalone selling price for our products and services, share-based compensation, fair value of assets acquired and liabilities assumed in business combinations, identified intangibles and goodwill, valuation allowance against deferred tax assets, manufacturing partner and supplier liabilities, fair value of debt component of convertible notes, interest rate for operating lease liabilities, deferred contract cost benefit period, and loss contingencies. We base our estimates on historical experience and also on assumptions that we believe are reasonable. Actual results could differ materially from those estimates due to risks and uncertainties, including uncertainty in the current economic environment due to the global impact of COVID-19.

Concentrations

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments, derivative contracts, accounts receivable and financing receivables.

We invest only in high-quality credit instruments and maintain our cash and cash equivalents and available-for-sale investments in fixed income securities. 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 derivative contracts expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the arrangement. We mitigate this credit risk by transacting with major financial institutions with high credit ratings and also enter into master netting arrangements, which permit net settlement of transactions with the same counterparty. We are not required to pledge, and are not entitled to receive, cash collateral related to these derivative instruments. We do not enter into derivative contracts for trading or speculative purposes.

Our accounts receivable are primarily derived from our distributors in various geographical locations. Our financing receivables are with certain qualified end-customers. We perform ongoing credit evaluations and generally do not require collateral on accounts receivable or financing receivables.

As of July 31, 2021, four distributors individually represented 10% or more of our gross accounts receivable, and in the aggregate represented 56.6% of our gross accounts receivable. As of July 31, 2021, four end-customers represented 10% or more of our gross financing receivables, and in aggregate represented 67.0% of our gross financing receivables.

For fiscal 2021, three distributors represented 10% or more of our total revenue, representing 33.2%, 12.2%, and 10.6%, respectively. No single end-customer accounted for more than 10% of our total revenue in fiscal 2021, 2020, or 2019.

We rely on an electronics manufacturing services provider (“EMS provider”) to assemble most of our products and sole source component suppliers for a certain number of our components.

Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Our other comprehensive income (loss) includes unrealized gains and losses on available-for-sale investments and unrealized gains and losses on cash flow hedges.

Foreign Currency Transactions

The functional currency of our foreign subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies have been remeasured into U.S. dollars using the exchange rates in effect at the balance sheet dates. Foreign currency remeasurement gains and losses and foreign currency transaction gains and losses are not significant to the financial statements.

Fair Value

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. Goodwill, intangible assets, and other long-lived assets are measured at fair value on a nonrecurring basis, only if impairment is indicated. 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.

Cash, Cash Equivalents, and Investments

We consider all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. Investments not considered cash equivalents, and with maturities of one year or less from the consolidated balance sheet date, are classified as short-term investments. Investments with maturities greater than one year from the consolidated balance sheet date are classified as long-term investments.

We classify our investments in marketable debt securities as available-for-sale at the time of purchase. When the fair value of a security is below its amortized cost, the amortized cost will be reduced to its fair value if it is more likely than not that we are required to sell the impaired security before recovery of its amortized cost basis, or we have the intention to sell the security. If neither of these conditions are met, we determine whether the impairment is due to credit losses by comparing the present value of the expected cash flows of the security with its amortized cost basis. The amount of impairment recognized is limited to the excess of the amortized cost over the fair value of the security. An allowance for credit losses for the excess of amortized cost over the expected cash flows is recorded in other income, net in our consolidated statements of operations. Impairment losses that are not credit-related are included in accumulated other comprehensive income (loss) ("AOCI") in stockholders' equity.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount, net of allowances for credit losses for any potential uncollectible amounts. The allowance for credit losses is based on our assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for credit losses on a collective basis by considering the age of each outstanding invoice, each customer's expected ability to pay and collection history, current market conditions, and reasonable and supportable forecasts of future economic conditions to determine whether the allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for credit losses when identified. For the years ended July 31, 2021 and 2020, the allowance for credit losses activity was not significant.

Financing Receivables

We provide financing arrangements, primarily loans, for certain qualified end-user customers to purchase our products and services. Payment terms on these financing arrangements are up to five years. We evaluate our allowance for credit losses by assessing the risks and losses inherent in our financing receivables on either an individual or a collective basis. Our assessment considers various factors, including lifetime expected losses determined using customer risk profile, current economic conditions that may affect a customer's ability to pay, and forward-looking economic considerations. Financing receivables are written off when they are considered uncollectible, and related outstanding balances are reversed and charged against the allowance for credit losses. Short-term financing receivables are included in prepaid expenses and other current assets, and long-term financing receivables are included in other assets on our consolidated balance sheets. For the years ended July 31, 2021 and 2020, the allowance for credit losses activity was not significant. Refer to Note 5. Financing Receivables for additional information.

Derivatives

As a global business, we are exposed to currency exchange rate risk. Substantially all of our revenue is transacted in U.S. dollars, however, a portion of our operating expenditures are incurred outside of the United States and are denominated in foreign currencies, making them subject to fluctuations in foreign currency exchange rates. We enter into foreign currency derivative contracts with maturities of 16 months or less, which we designate as cash flow hedges, to manage the foreign currency exchange rate risk associated with these expenditures.

Our derivative financial instruments are recorded at fair value, on a gross basis, as either assets or liabilities in our consolidated balance sheets. Gains or losses related to our cash flow hedges are recorded as a component of AOCI in our consolidated balance sheets and are reclassified into the financial statement line item associated with the underlying hedged transaction in our consolidated

statements of operations when the underlying hedged transaction is recognized in earnings. If it becomes probable that the hedged transaction will not occur, the cumulative unrealized gain or loss is reclassified immediately from AOCI into the financial statement line item associated with the underlying hedged transaction in our consolidated statements of operations. Gains or losses related to non-designated derivative instruments are recognized in other income, net in our consolidated statements of operations for each period until the instrument matures, is terminated, is re-designated as a qualified cash flow hedge, or is sold. Derivatives designated as cash flow hedges are classified in our consolidated statements of cash flows in the same manner as the underlying hedged transaction, primarily within cash flows from operating activities.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to ten years. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the improvements or the remaining lease term. Land is not depreciated.

Business Combinations

We include the results of operations of the businesses that we acquire as of the respective dates of acquisition. We allocate the fair value of the purchase price of our acquisitions to the tangible assets acquired, liabilities assumed, and intangible assets acquired, based on their estimated fair values. The excess of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill. Additional information existing as of the acquisition date but unknown to us may become known during the remainder of the measurement period, not to exceed 12 months from the acquisition date, which may result in changes to the amounts and allocations recorded.

Intangible Assets

Purchased intangible assets with finite lives are carried at cost, less accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets.

Impairment of Goodwill, Intangible Assets, and Other Long-Lived Assets

Goodwill is evaluated for impairment on an annual basis in the fourth quarter of our fiscal year, and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. We have elected to first assess qualitative factors to determine whether it is more likely than not that the fair value of our single reporting unit is less than its carrying amount, including goodwill. If we determine that it is more likely than not that the fair value of our single reporting unit is less than its carrying amount, then the quantitative impairment test will be performed. Under the quantitative impairment test, if the carrying amount of our single reporting unit exceeds its fair value, we will recognize an impairment loss in an amount equal to that excess but limited to the total amount of goodwill.

We evaluate events and changes in circumstances that could indicate carrying amounts of purchased intangible assets and other long-lived assets may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of these assets by determining whether or not the carrying amount 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 loss for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

We did not recognize any impairment losses on our goodwill, intangible assets, or other long-lived assets during the years ended July 31, 2021, 2020, and 2019.

Manufacturing Partner and Supplier Liabilities

We outsource most of our manufacturing, repair, and supply chain management operations to our EMS provider and payments to it are a significant portion of our cost of product revenue. Although we could be contractually obligated to purchase manufactured products and components, we generally do not own the manufactured products and components. Product title transfers from our EMS provider to us and immediately to our customers upon shipment. Our EMS provider 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 record a liability for manufacturing purchase commitments in excess of our forecasted demand including costs for excess components or for carrying costs incurred by our manufacturing partners and component suppliers. Through July 31, 2021, we have not accrued any significant costs associated with this exposure.

Convertible Senior Notes

In accounting for the issuance of our convertible senior notes, we separate the notes into liability and equity components. The carrying amount of the liability component is calculated by measuring the fair value of a similar liability that does not have an associated convertible feature, using a discounted cash flow model with a risk adjusted yield. The carrying amount of the equity component representing the conversion option is determined by deducting the fair value of the liability component from the par value of the notes as a whole. This difference represents a debt discount that is amortized to interest expense using the effective interest

method over the term of the notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the transaction costs related to the issuance of the notes, we allocate the total amount incurred to the liability and equity components using the same proportions as the proceeds from the notes. Transaction costs attributable to the liability component are netted with the liability component and amortized to interest expense using the effective interest method over the term of the notes. Transaction costs attributable to the equity component are netted with the equity component of the notes in additional paid-in capital in the consolidated balance sheets. When the notes are convertible, the net carrying amount of the notes is classified as a current liability and a portion of the equity component representing the conversion option is reclassified to temporary equity in our consolidated balance sheets. The portion of the equity component classified as temporary equity is measured as the difference between the principal and net carrying amount of the notes, excluding debt issuance costs.

Revenue Recognition

Our revenue consists of product revenue and subscription and support revenue. Revenue is recognized when control of promised products, subscriptions and support services are transferred to customers, in an amount that reflects the expected consideration in exchange for those products and services.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer.
- Identification of the performance obligations in the contract.
- Determination of the transaction price.
- Allocation of the transaction price to the performance obligations in the contract.
- Recognition of revenue when, or as, we satisfy a performance obligation.

Revenues are reported net of sales taxes. Shipping charges billed to channel partners are included in revenues and related costs are included in cost of revenue.

Product Revenue

Product revenue is derived primarily from sales of our appliances. Product revenue also includes revenue derived from software licenses of Panorama and the VM-Series. Our appliances and software licenses include a broad set of built-in networking and security features and functionalities. We recognize product revenue at the time of hardware shipment or delivery of software license.

Subscription and Support Revenue

Subscription and support revenue is derived primarily from sales of our subscription and support offerings. We recognize subscription and support revenue over time as the services are performed. Our contractual subscription and support contracts are typically one to five years.

Contracts with Multiple Performance Obligations

The majority of our contracts with our customers include various combinations of our products and subscriptions and support. Our appliances and software licenses have significant standalone functionalities and capabilities. Accordingly, these appliances and software licenses are distinct from our subscriptions and support services as the customer can benefit from the product without these services and such services are separately identifiable within the contract. We account for multiple agreements with a single customer as a single contract 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 contract. The amount of consideration we expect to receive in exchange for delivering on the contract is allocated to each performance obligation based on its relative standalone selling price. If a contract contains a single performance obligation, no allocation is required.

We establish standalone selling price using the prices charged for a deliverable when sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price based on our pricing model and our go-to-market strategy, which include factors such as type of sales channel (reseller, distributor, or end-customer), the geographies in which our offerings were sold (domestic or international), and offering type (products, subscriptions, or support).

Deferred Revenue

We record deferred revenue when cash payments are received or due in advance of our performance. Our payment terms typically require payment within 30 to 45 days of the date we issue an invoice. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the consolidated balance sheet date.

Deferred Contract Costs

We defer contract costs that are recoverable and incremental to obtaining customer sales contracts. Contract costs, which primarily consist of sales commissions, are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Sales commissions paid for initial contracts are generally not commensurate with the

commissions paid for renewal contracts, given the substantive difference in commission rates in proportion to their respective contract values. Sales commissions for initial contracts that are not commensurate are amortized over a benefit period of five years, consistent with the revenue recognition pattern of the performance obligations in the related contracts including expected renewals. The benefit period is determined by taking into consideration contract length, technology life, and other quantitative and qualitative factors. The expected renewals are estimated based on historical renewal trends. Sales commissions for initial contracts that are commensurate and sales commissions for renewal contracts are amortized over the related contractual period in proportion to the revenue recognized.

We classify deferred contract costs as short-term or long-term based on when we expect to recognize the expense. The amortization of deferred contract costs is included in sales and marketing expense in our consolidated statements of operations. Deferred contract costs are periodically reviewed for impairment. We did not recognize any impairment losses on our deferred contract costs during the years ended July 31, 2021, 2020, or 2019.

Software Development Costs

Internally developed software includes security software developed to meet our internal needs to provide cloud-based subscription offerings to our end-customers and business software that we customize to meet our specific operational needs. These capitalized costs consist of internal compensation related costs and external direct costs incurred during the application development stage and will be amortized over a useful life of three to five years. As of July 31, 2021 and 2020, we capitalized as other assets on our consolidated balance sheets \$114.8 million and \$90.1 million in costs, respectively, net of accumulated amortization, for security software developed to meet our internal needs to provide our cloud-based subscription offerings. We recognized amortization expense of \$47.8 million, \$31.3 million, and \$12.9 million related to these capitalized costs as cost of subscription and support revenue in our consolidated statements of operations during the years ended July 31, 2021, 2020, and 2019, respectively.

The costs to develop software that is marketed externally 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 related software development costs are expensed as incurred and included in research and development expense in our 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 on the grant date. We recognize share-based compensation expense for awards with only service conditions on a straight-line basis over the requisite service period of the related award. We recognize share-based compensation expense for awards with market conditions and awards with performance conditions on a straight-line basis over the requisite service period for each separately vesting portion of the award and, for awards with performance conditions, when it is probable that the performance condition will be achieved. We account for forfeitures of all share-based payment awards when they occur.

Leases

We determine if an arrangement is a lease at inception. We evaluate the classification of leases at commencement and, as necessary, at modification. Operating leases are included in operating lease right-of-use assets, accrued and other liabilities, and long-term operating lease liabilities on our consolidated balance sheets. We did not have any material finance leases in any of the periods presented.

Operating lease right-of-use assets represent our right to use an underlying asset for the lease term. Operating lease liabilities represent our obligation to make payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is our incremental borrowing rate, because the interest rates implicit in most of our leases are not readily determinable. Our incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Operating lease right-of-use assets also include adjustments related to lease incentives, prepaid or accrued rent and initial direct lease costs. Operating lease right-of-use assets are subject to evaluation for impairment or disposal on a basis consistent with other long-lived assets.

Our lease terms may include periods under options to extend or terminate the lease when it is reasonably certain that we will exercise that option. We generally use the base, non-cancelable lease term when determining the lease assets and liabilities. Operating lease cost is recognized on a straight-line basis over the lease term.

We account for lease and non-lease components as a single lease component and do not recognize right-of-use assets and lease liabilities for leases with a term of 12 months or less. Payments under our lease arrangements are primarily fixed, however, certain lease agreements contain variable payments, which are expensed as incurred and not included in the operating lease right-of-use assets and liabilities. Variable lease payments are primarily comprised of real estate taxes, common area maintenance, and insurance.

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.

Significant judgment is 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.

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 benefit as the largest amount that is more likely than not to be realized upon ultimate settlement.

Loss Contingencies

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. In determining loss contingencies, 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. 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.

Recently Adopted Accounting Pronouncements

Credit Losses

In June 2016, the Financial Accounting Standards Board (“FASB”) issued new authoritative guidance on the accounting for credit losses on most financial assets and certain financial instruments. The standard replaces the incurred loss model with an expected credit loss model for off-balance sheet credit exposures and financial assets measured at amortized cost, including trade accounts receivables and financing receivables. Credit losses on available-for-sale debt securities are required to be recorded through an allowance rather than as a write-down.

We adopted this standard in our first quarter of fiscal 2021 using the modified-retrospective approach. The adoption of this standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

Debt with Conversion Options

In August 2020, the FASB issued new authoritative guidance to simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. The standard reduces the number of models used to account for convertible instruments and simplifies both the classification of debt on the balance sheet and the earnings per share calculation.

We intend to early adopt this standard in our first quarter of fiscal 2022 using the modified-retrospective approach, under which, financial results reported in periods prior to fiscal 2022 will not be adjusted. We expect the adoption of this standard to result in a decrease to accumulated deficit of \$266.6 million, a decrease to additional paid-in capital of \$711.0 million, and an increase to convertible senior notes, net of \$444.4 million. Interest expense recognized in future periods will be reduced as a result of accounting for our convertible debt instrument as a single liability measured at its amortized cost.

2. Revenue

Disaggregation of Revenue

The following table presents revenue by geographic theater (in millions):

	Year Ended July 31,		
	2021	2020	2019
Revenue:			
Americas			
United States	\$ 2,747.8	\$ 2,157.6	\$ 1,824.2
Other Americas	189.7	160.4	152.8
Total Americas	2,937.5	2,318.0	1,977.0
Europe, the Middle East, and Africa (“EMEA”)	817.3	671.9	568.6
Asia Pacific and Japan (“APAC”)	501.3	418.5	354.0
Total revenue	<u>\$ 4,256.1</u>	<u>\$ 3,408.4</u>	<u>\$ 2,899.6</u>

The following table presents revenue for groups of similar products and services (in millions):

	Year Ended July 31,		
	2021	2020	2019
Revenue:			
Product	\$ 1,120.3	\$ 1,064.2	\$ 1,096.2
Subscription and support			
Subscription	1,898.8	1,405.3	1032.7
Support	1,237.0	938.9	770.7
Total subscription and support	3,135.8	2,344.2	1,803.4
Total revenue	<u>\$ 4,256.1</u>	<u>\$ 3,408.4</u>	<u>\$ 2,899.6</u>

Deferred Revenue

During the years ended July 31, 2021 and July 31, 2020, we recognized approximately \$2.0 billion and \$1.5 billion of revenue pertaining to amounts that were deferred as of July 31, 2020 and July 31, 2019, respectively.

Remaining Performance Obligations

Revenue expected to be recognized from remaining performance obligations was \$5.9 billion as of July 31, 2021, of which we expect to recognize approximately \$3.1 billion over the next 12 months and the remainder thereafter.

3. Fair Value Measurements

We categorize assets and liabilities recorded or disclosed 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 measured at fair value on a recurring basis using the above input categories as of July 31, 2021 and July 31, 2020 (in millions):

	July 31, 2021				July 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents:								
Money market funds	\$ 124.2	\$ —	\$ —	\$ 124.2	\$ 1,589.5	\$ —	\$ —	\$ 1,589.5
Certificates of deposit	—	150.4	—	150.4	—	—	—	—
Corporate debt securities	—	1.0	—	1.0	—	—	—	—
U.S. government and agency securities	—	116.3	—	116.3	—	342.0	—	342.0
Total cash equivalents	124.2	267.7	—	391.9	1,589.5	342.0	—	1,931.5
Short-term investments:								
Certificates of deposit	—	12.4	—	12.4	—	26.9	—	26.9
Corporate debt securities	—	208.9	—	208.9	—	100.2	—	100.2
U.S. government and agency securities	—	762.1	—	762.1	—	645.6	—	645.6
Non-U.S. government and agency securities	—	43.5	—	43.5	—	17.1	—	17.1
Total short-term investments	—	1,026.9	—	1,026.9	—	789.8	—	789.8
Long-term investments:								
Certificates of deposit	—	5.0	—	5.0	—	5.0	—	5.0
Corporate debt securities	—	180.7	—	180.7	—	91.7	—	91.7
U.S. government and agency securities	—	674.1	—	674.1	—	447.4	—	447.4
Non-U.S. government and agency securities	—	28.5	—	28.5	—	10.3	—	10.3
Total long-term investments	—	888.3	—	888.3	—	554.4	—	554.4
Prepaid expenses and other current assets:								
Foreign currency forward contracts	—	4.1	—	4.1	—	13.6	—	13.6
Total prepaid expenses and other current assets	—	4.1	—	4.1	—	13.6	—	13.6
Other assets:								
Foreign currency forward contracts	—	0.1	—	0.1	—	1.4	—	1.4
Total other assets	—	0.1	—	0.1	—	1.4	—	1.4
Total assets measured at fair value	<u>\$ 124.2</u>	<u>\$ 2,187.1</u>	<u>\$ —</u>	<u>\$ 2,311.3</u>	<u>\$ 1,589.5</u>	<u>\$ 1,701.2</u>	<u>\$ —</u>	<u>\$ 3,290.7</u>
Accrued and other liabilities:								
Foreign currency forward contracts	\$ —	\$ 6.4	\$ —	\$ 6.4	\$ —	\$ —	\$ —	\$ —
Total accrued and other liabilities	—	6.4	—	6.4	—	—	—	—
Other long-term liabilities:								
Foreign currency forward contracts	—	0.5	—	0.5	—	—	—	—
Total other long-term liabilities	—	0.5	—	0.5	—	—	—	—
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 6.9</u>	<u>\$ —</u>	<u>\$ 6.9</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Refer to Note 10. Debt, for the carrying amount and estimated fair value of our convertible senior notes as of July 31, 2021 and July 31, 2020.

4. Cash Equivalents and Investments

Available-for-sale Debt Securities

The following tables summarize the amortized cost, unrealized gains and losses, and fair value of our available-for-sale debt securities as of July 31, 2021 and July 31, 2020 (in millions):

	July 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents:				
Certificates of deposit	\$ 150.4	\$ —	\$ —	\$ 150.4
Corporate debt securities	1.0	—	—	1.0
U.S. government and agency securities	116.3	—	—	116.3
Total available-for-sale cash equivalents	\$ 267.7	\$ —	\$ —	\$ 267.7
Investments:				
Certificates of deposit	\$ 17.4	\$ —	\$ —	\$ 17.4
Corporate debt securities	389.2	0.5	(0.1)	389.6
U.S. government and agency securities	1,435.1	1.1	—	1,436.2
Non-U.S. government and agency securities	72.0	—	—	72.0
Total available-for-sale investments	\$ 1,913.7	\$ 1.6	\$ (0.1)	\$ 1,915.2

	July 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash equivalents:				
U.S. government and agency securities	\$ 342.0	\$ —	\$ —	\$ 342.0
Total available-for-sale cash equivalents	\$ 342.0	\$ —	\$ —	\$ 342.0
Investments:				
Certificates of deposit	\$ 31.9	\$ —	\$ —	\$ 31.9
Corporate debt securities	190.1	1.8	—	191.9
U.S. government and agency securities	1,090.3	2.8	(0.1)	1,093.0
Non-U.S. government and agent securities	27.4	—	—	27.4
Total available-for-sale investments	\$ 1,339.7	\$ 4.6	\$ (0.1)	\$ 1,344.2

We do not intend to sell any of the securities in an unrealized loss position and it is not likely that we would be required to sell these securities before recovery of their amortized cost basis, which may be at maturity. We did not recognize any credit losses related to our available-for-sale debt securities during the year ended July 31, 2021, and there were no other-than-temporary impairments for these securities during the year ended July 31, 2020.

The following table summarizes the amortized cost and fair value of our available-for-sale debt securities as of July 31, 2021, by contractual years-to-maturity (in millions):

	Amortized Cost	Fair Value
Due within one year	\$ 1,293.3	\$ 1,294.6
Due between one and three years	888.1	888.3
Total	\$ 2,181.4	\$ 2,182.9

Marketable Equity Securities

Marketable equity securities consist of money market funds and are included in cash and cash equivalents in our consolidated balance sheets. As of July 31, 2021 and 2020, the carrying value of our marketable equity securities were \$124.2 million and \$1.6 billion, respectively. There were no unrealized gains or losses recognized for these securities during the years ended July 31, 2021, 2020, and 2019.

5. Financing Receivables

The following table summarizes our short-term and long-term financing receivables as of July 31, 2021 (in millions):

	Amount
Short-term financing receivables, gross	\$ 80.0
Allowance for credit losses	(1.0)
Short-term financing receivables, net	<u>\$ 79.0</u>
Long-term financing receivables, gross	\$ 198.6
Allowance for credit losses	(4.3)
Long-term financing receivables, net	<u>\$ 194.3</u>

There was no significant activity in allowance for credit losses during the year ended July 31, 2021. Past due amounts on financing receivables were immaterial as of July 31, 2021. Through July 31, 2020, financing receivables were not significant to our consolidated balance sheet.

6. Derivative Instruments

As of July 31, 2021 and 2020, the total notional amount of our outstanding foreign currency forward contracts was \$531.9 million and \$443.6 million, respectively. Refer to Note 3. Fair Value Measurements for the fair value of our derivative instruments as reported on our consolidated balance sheets as of July 31, 2021.

During the years ended July 31, 2021, 2020, and 2019, both unrealized gains and losses recognized in AOCI related to our cash flow hedges and amounts reclassified into earnings were not material. Unrealized gains and losses in AOCI related to our cash flow hedges as of July 31, 2021 and July 31, 2020 were not material.

7. Acquisitions

Fiscal 2021

Bridgecrew Inc.

On March 2, 2021, we completed our acquisition of Bridgecrew Inc. (“Bridgecrew”), a privately-held cloud security company. We expect the acquisition will expand our Prisma Cloud offering to deliver security across the full application lifecycle. The total purchase consideration for the acquisition of Bridgecrew was \$156.9 million, which consisted of the following (in millions):

	Amount
Cash	\$ 155.9
Fair value of replacement awards	1.0
Total	<u>\$ 156.9</u>

As part of the acquisition, we issued \$42.5 million of replacement awards, of which the portion attributable to services performed prior to the acquisition date was allocated to purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on preliminary estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 129.6
Identified intangible assets	21.6
Cash	9.0
Net liabilities assumed	(3.3)
Total	<u>\$ 156.9</u>

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Bridgecrew technology into our platforms. The goodwill is not deductible for income tax purposes.

The following table presents details of the identified intangible asset acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 21.6	6 years

Expanse Inc.

On December 15, 2020, we completed our acquisition of Expanse Inc. (“Expanse”), a privately-held company specializing in attack surface management. We expect the acquisition will enrich our Cortex offerings and provide organizations an integrated view of the enterprise to combine external, internal, and threat data. The total purchase consideration for the acquisition of Expanse was \$797.2 million, which consisted of the following (in millions):

	Amount
Cash	\$ 434.9
Common stock (1.1 million shares)	340.7
Fair value of replacement awards	21.6
Total	\$ 797.2

As part of the acquisition, we issued replacement equity awards, which included 0.2 million shares of our restricted common stock. The total fair value of the replacement equity awards was \$160.0 million, of which the portion attributable to services performed prior to the acquisition date was allocated to purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on preliminary estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 598.2
Identified intangible assets	160.3
Cash	51.1
Net liabilities assumed	(12.4)
Total	\$ 797.2

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Expanse technology into our platforms. The goodwill is not deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 123.4	6 years
Customer relationships	36.9	10 years
Total	\$ 160.3	

Sinefa Group, Inc.

On November 24, 2020, we completed our acquisition of Sinefa Group, Inc. and its wholly owned subsidiaries (“Sinefa”), a privately-held digital experience monitoring company. We expect the acquisition will extend our Prisma Access offering. The total purchase consideration for the acquisition of Sinefa was \$27.0 million, which consisted of the following (in millions):

	Amount
Cash	\$ 26.9
Fair value of replacement awards	0.1
Total	\$ 27.0

As part of the acquisition, we issued \$11.5 million of replacement equity awards, of which the portion attributable to services performed prior to the acquisition date was allocated to purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on preliminary estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 13.7
Identified intangible assets	20.4
Net liabilities assumed	(7.1)
Total	<u>\$ 27.0</u>

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Sinefa technology into our platforms. The goodwill is deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 18.6	6 years
Customer relationships	1.8	8 years
Total	<u>\$ 20.4</u>	

The Crypsis Group

On September 17, 2020, we completed our acquisition of The Crypsis Group (“Crypsis”), an incident response, risk management, and digital forensics consulting firm. We expect the acquisition will expand our capabilities and strengthen our Cortex strategy. The total purchase consideration for the acquisition of Crypsis was \$227.7 million, which consisted of the following (in millions):

	Amount
Cash	\$ 225.7
Fair value of replacement awards	2.0
Total	<u>\$ 227.7</u>

As part of the acquisition, we issued \$27.1 million of replacement awards, of which the portion attributable to services performed prior to the acquisition date was allocated to purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on preliminary estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 157.6
Identified intangible assets	54.4
Net assets acquired	15.7
Total	<u>\$ 227.7</u>

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Crypsis technology into our platforms. The goodwill is deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 6.9	3 years
Customer relationships	47.5	7 years
Total	<u>\$ 54.4</u>	

Fiscal 2020*CloudGenix Inc.*

On April 21, 2020, we completed our acquisition of CloudGenix, Inc. (“CloudGenix”), a privately-held company. We believe the acquisition will strengthen our secure access service edge (“SASE”) offering. The total purchase consideration for the acquisition of CloudGenix was \$402.7 million, which consisted of the following (in millions):

	Amount
Cash	\$ 396.1
Fair value of replacement awards	6.6
Total	\$ 402.7

As part of the acquisition, we issued \$30.3 million of replacement awards, of which the portion attributable to services performed prior to the acquisition date was allocated to purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 301.2
Identified intangible assets	109.9
Cash	8.3
Net liabilities assumed	(16.7)
Total	\$ 402.7

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating CloudGenix technology into our portfolio. The goodwill is not deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 67.2	5 years
Customer relationships	42.7	10 years
Total	\$ 109.9	

Aporeto, Inc.

On December 23, 2019, we completed our acquisition of Aporeto, Inc. (“Aporeto”), a privately-held machine identity-based microsegmentation company. We believe the acquisition will strengthen our cloud-native security platform capabilities delivered by Prisma Cloud. The total purchase consideration for the acquisition of Aporeto was \$144.1 million, which consisted of the following (in millions):

	Amount
Cash	\$ 139.8
Fair value of replacement awards	4.3
Total	\$ 144.1

As part of the acquisition, we issued \$16.4 million of replacement awards, of which the portion attributable to services performed prior to the acquisition date was allocated to purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 111.3
Identified intangible assets	23.8
Cash	10.5
Net liabilities assumed	(1.5)
Total	\$ 144.1

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Aporeto’s technology into our platform. The goodwill is not deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 20.5	7 years
Customer relationships	3.3	4 years
Total	\$ 23.8	

Zingbox, Inc.

On September 20, 2019, we completed our acquisition of Zingbox, Inc. (“Zingbox”), a privately-held Internet of Things (“IoT”) security company. We believe the acquisition will accelerate our delivery of IoT security through our ML-Powered Next-Generation Firewall and Cortex offerings. The total purchase consideration for the acquisition of Zingbox was \$66.4 million in cash.

As part of the acquisition, we issued replacement equity awards with a total fair value of \$5.7 million, which will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 48.1
Identified intangible assets	20.4
Net liabilities assumed	(2.1)
Total	\$ 66.4

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Zingbox’s technology into our portfolio. The goodwill is not deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 18.6	5 years
Customer relationships	1.8	8 years
Total	\$ 20.4	

Fiscal 2019

Twistlock Ltd.

On July 9, 2019, we completed our acquisition of Twistlock Ltd. (“Twistlock”), a privately-held company specializing in container security. The acquisition extends our cloud security strategy with the addition of Twistlock to our Prisma cloud security offerings. The total purchase consideration for the acquisition of Twistlock was \$378.1 million, which consisted of the following (in

millions):

	Amount
Cash	\$ 375.4
Fair value of replacement equity awards	2.7
Total purchase consideration	\$ 378.1

As part of the acquisition, we issued replacement equity awards, which included 0.1 million shares of our restricted common stock. The total fair value of the replacement equity awards was \$51.8 million, of which the portion attributable to services performed prior to the acquisition date was allocated to the purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 300.6
Identified intangible assets	54.1
Cash and cash equivalents	14.0
Net assets acquired	9.4
Total	\$ 378.1

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Twistlock's product into our platform. The goodwill is deductible for U.S. income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 51.5	7 years
Customer relationships	2.6	8 years
Total	\$ 54.1	

PureSec Ltd.

On June 12, 2019, we completed our acquisition of PureSec Ltd. ("PureSec"), a privately-held company specializing in cybersecurity solutions for serverless architectures. The acquisition extends our cloud security strategy with the addition of PureSec to our Prisma cloud security offerings. The total purchase consideration for the acquisition of PureSec was \$36.8 million, which consisted of the following (in millions):

	Amount
Cash	\$ 35.9
Fair value of replacement equity awards	0.9
Total purchase consideration	\$ 36.8

As part of the acquisition, we issued replacement equity awards. The total fair value of the replacement equity awards was \$9.1 million, of which the portion attributable to services performed prior to the acquisition date was allocated to the purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 24.4
Identified intangible assets	7.4
Cash	4.0
Net assets acquired	1.0
Total	\$ 36.8

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-

acquisition synergies from integrating PureSec’s product into our platform. The goodwill is deductible for U.S. income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 7.4	5 years

Demisto, Inc.

On March 28, 2019, we completed our acquisition of Demisto, Inc. (“Demisto”), a privately-held security company specializing in security orchestration, automation and response (“SOAR”). The acquisition expands the functionality of our portfolio with the addition of Demisto’s SOAR product. The total purchase consideration for the acquisition of Demisto was \$474.2 million, which consisted of the following (in millions):

	Amount
Cash	\$ 250.0
Common stock (0.9 million shares)	214.7
Fair value of replacement equity awards	9.5
Total purchase consideration	<u>\$ 474.2</u>

As part of the acquisition, we issued replacement equity awards, which included 0.3 million shares of our restricted common stock. The total fair value of the replacement equity awards was \$105.2 million, of which the portion attributable to services performed prior to the acquisition date was allocated to the purchase consideration. The remaining fair value was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 387.8
Identified intangible assets	76.3
Cash	25.9
Net liabilities assumed	(15.8)
Total	<u>\$ 474.2</u>

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating Demisto’s product into our portfolio. The goodwill is not deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 56.6	6 years
Customer relationships	19.7	6 years
Total	<u>\$ 76.3</u>	

RedLock Inc.

On October 12, 2018, we completed our acquisition of RedLock Inc. (“RedLock”), a privately-held cloud security company. The acquisition expands our security capabilities for the public cloud with the addition of RedLock’s cloud security analytics technology. The total purchase consideration for the acquisition of RedLock was \$158.2 million, which consisted of \$155.0 million in cash paid upon closing and \$3.2 million in fair value of unvested equity awards attributable to services performed prior to the acquisition date.

As part of the acquisition, we assumed RedLock equity awards with a total fair value of \$57.4 million. Of the total fair value, a portion was allocated to the purchase consideration and the remainder was allocated to future services and will be expensed over the remaining service periods as share-based compensation.

We have accounted for this transaction as a business combination and allocated the purchase consideration to assets acquired and liabilities assumed based on estimated fair values, as presented in the following table (in millions):

	Amount
Goodwill	\$ 113.6
Identified intangible assets	54.8
Net liabilities assumed	(10.2)
Total	<u>\$ 158.2</u>

Goodwill generated from this business combination is primarily attributable to the assembled workforce and expected post-acquisition synergies from integrating RedLock's technology into our platform. The goodwill is not deductible for income tax purposes.

The following table presents details of the identified intangible assets acquired (in millions, except years):

	Fair Value	Estimated Useful Life
Developed technology	\$ 48.6	4 years
Customer relationships	5.3	8 years
Trade name and trademarks	0.9	6 months
Total	<u>\$ 54.8</u>	

Additional Acquisition-Related Information

The operating results of the acquired companies are included in our consolidated statements of operations from the respective dates of acquisition. Pro forma results of operations have not been presented because the effects of the acquisitions were not material to our consolidated statements of operations.

Additional information related to our acquisitions completed in fiscal 2021, such as that related to income tax and other contingencies, existing as of the acquisition date but unknown to us may become known during the remainder of the measurement period, not to exceed 12 months from the respective acquisition date, which may result in changes to the amounts and allocations recorded.

8. Goodwill and Intangible Assets

Goodwill

The following table presents details of our goodwill during the year ended July 31, 2021 (in millions):

	Amount
Balance as of July 31, 2020	\$ 1,812.9
Goodwill acquired	899.1
Measurement period adjustment	(1.9)
Balance as of July 31, 2021	<u>\$ 2,710.1</u>

Purchased Intangible Assets

The following table presents details of our purchased intangible assets as of July 31, 2021 and July 31, 2020 (in millions):

	July 31,					
	2021			2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Developed technology	\$ 596.2	\$ (243.8)	\$ 352.4	\$ 425.9	\$ (146.6)	\$ 279.3
Customer relationships	172.7	(30.6)	142.1	87.6	(12.4)	75.2
Acquired intellectual property	7.9	(3.8)	4.1	6.3	(3.2)	3.1
Trade name and trademarks	9.4	(9.4)	—	9.4	(9.4)	—
Other	1.8	(1.8)	—	3.1	(2.5)	0.6
Total purchased intangible assets	<u>\$ 788.0</u>	<u>\$ (289.4)</u>	<u>\$ 498.6</u>	<u>\$ 532.3</u>	<u>\$ (174.1)</u>	<u>\$ 358.2</u>

We recognized amortization expense of \$117.8 million, \$77.3 million, and \$53.6 million for the years ended July 31, 2021, 2020, and 2019, respectively.

The following table summarizes estimated future amortization expense of our intangible assets as of July 31, 2021 (in millions):

	Fiscal years ending July 31,						
	Total	2022	2023	2024	2025	2026	2027 and Thereafter
Future amortization expense	\$ 498.6	\$ 125.7	\$ 99.6	\$ 89.6	\$ 75.9	\$ 54.3	\$ 53.5

9. Property and Equipment

The following table presents details of our property and equipment, net as of July 31, 2021 and July 31, 2020 (in millions):

	July 31,	
	2021	2020
Computers, equipment, and software	\$ 352.1	\$ 306.8
Leasehold improvements	231.6	229.5
Land	49.6	49.6
Demonstration units	43.8	43.3
Furniture and fixtures	40.3	39.9
Total property and equipment, gross	717.4	669.1
Less: accumulated depreciation	(399.0)	(321.0)
Total property and equipment, net	<u>\$ 318.4</u>	<u>\$ 348.1</u>

We recognized depreciation expense of \$94.2 million, \$96.0 million, and \$86.2 million related to property and equipment during the years ended July 31, 2021, 2020, and 2019, respectively.

10. Debt

Convertible Senior Notes

In June 2014, we issued \$575.0 million aggregate principal amount of 0.0% Convertible Senior Notes due 2019 (the “2019 Notes”), in July 2018, we issued \$1.7 billion aggregate principal amount of 0.75% Convertible Senior Notes due 2023 (the “2023 Notes”) and, in June 2020, we issued \$2.0 billion aggregate principal amount of 0.375% Convertible Senior Notes due 2025 (the “2025 Notes,” and together with the 2023 Notes, the “Notes”). The 2019 Notes were converted prior to or settled on the maturity date of July 1, 2019, in accordance with their terms. The 2023 Notes bear interest at a fixed rate of 0.75% per year, payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2019. The 2025 Notes bear interest at a fixed rate of 0.375% per year, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. Each series of the convertible notes is governed by an indenture between us, as the issuer, and U.S. Bank National Association, as Trustee (individually, each an “Indenture,” and together, the “Indentures”). The Notes of each series are unsecured, unsubordinated obligations and the applicable Indenture governing each series of Notes does not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness, or the issuance or repurchase of securities by us or any of our subsidiaries. The 2023 Notes and the 2025 Notes mature on July 1, 2023 and June 1, 2025, respectively. We cannot redeem the 2023 Notes prior to maturity. We may redeem for cash all or any portion of the 2025 Notes, at our option, on or after June 5, 2023, and prior to the 31st scheduled trading day immediately preceding the maturity date if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period ending on and including the trading day preceding the date on which we provide notice of redemption. The redemption will be at a price equal to 100% of the principal amount of the 2025 Notes and adjusted for interest. If we call any or all of the 2025 Notes for redemption, holders may convert such 2025 Notes called for redemption at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date.

The following table presents details of our Notes (number of shares in millions):

	Conversion Rate per \$1,000 Principal	Initial Conversion Price	Convertible Date	Initial Number of Shares
2023 Notes	3.7545	\$ 266.35	April 1, 2023	6.4
2025 Notes	3.3602	\$ 297.60	March 1, 2025	6.7

Holders of the Notes may surrender their Notes for conversion at their option at any time prior to the close of business on the business day immediately preceding their respective convertible dates only under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarters ending on October 31, 2018 and October 31, 2020 for the 2023 Notes and the 2025 Notes, respectively (and only during such fiscal quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price for the respective Notes on each applicable trading day (the “sale price condition”);
- during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of the applicable series of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate for the respective Notes on each such trading day; or
- upon the occurrence of specified corporate events.

On or after the respective convertible date, holders may surrender all or any portion of their Notes for conversion at any time prior to the close of business on the second scheduled trading day immediately preceding the applicable maturity date regardless of the foregoing conditions, and such conversions will be settled upon the applicable maturity date. Upon conversion, holders of the Notes of a series will receive cash equal to the aggregate principal amount of the Notes of such series to be converted, and, at our election, cash and/or shares of our common stock for any amounts in excess of the aggregate principal amount of the Notes of such series being converted.

The conversion price will be subject to adjustment in some events. Holders of the Notes of a series who convert their Notes of such series in connection with certain corporate events that constitute a “make-whole fundamental change” under the applicable Indenture are, under certain circumstances, entitled to an increase in the conversion rate for such series of Notes. Additionally, upon the occurrence of a corporate event that constitutes a “fundamental change” under the applicable Indenture, holders of the Notes of such series may require us to repurchase for cash all or a portion of the Notes of such series at a repurchase price equal to 100% of the principal amount of the Notes of such series plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The sale price condition was met for the 2023 Notes during the fiscal quarter ended July 31, 2021, and as a result, holders may convert their 2023 Notes at any time during the fiscal quarter ending October 31, 2021. Accordingly, the net carrying amount of the 2023 Notes was reclassified into current liabilities and the portion of the equity component representing the conversion option was reclassified into temporary equity in our consolidated balance sheet as of July 31, 2021.

The sale price condition was not met for the 2025 Notes during the fiscal quarters ended July 31, 2021 or July 31, 2020, and was not met for the 2023 Notes during the fiscal quarter ended July 31, 2020. Since the 2025 Notes for both periods and the 2023 Notes as of July 31, 2020 were not convertible, the associated net carrying amount was classified as a long-term liability and the equity component was included in additional paid-in capital in our consolidated balance sheets.

During the year ended July 31, 2019, we repaid \$575.0 million in aggregate principal amount of the 2019 Notes and issued 2.5 million shares of common stock to the holders of the 2019 Notes for the conversion value in excess of the principal amount. These shares were fully offset by shares received from the corresponding exercise of the associated note hedges.

The following table sets forth the components of the Notes as of July 31, 2021 and July 31, 2020 (in millions):

	July 31, 2021			July 31, 2020		
	2023 Notes	2025 Notes	Total	2023 Notes	2025 Notes	Total
Liability component:						
Principal	\$ 1,692.0	\$ 2,000.0	\$ 3,692.0	\$ 1,693.0	\$ 2,000.0	\$ 3,693.0
Less: debt discount and debt issuance costs, net of amortization	(134.1)	(331.9)	(466.0)	(200.0)	(408.9)	(608.9)
Net carrying amount	<u>\$ 1,557.9</u>	<u>\$ 1,668.1</u>	<u>\$ 3,226.0</u>	<u>\$ 1,493.0</u>	<u>\$ 1,591.1</u>	<u>\$ 3,084.1</u>
Equity component (including amounts classified as temporary equity)	<u>\$ 315.0</u>	<u>\$ 403.0</u>	<u>\$ 718.0</u>	<u>\$ 315.0</u>	<u>\$ 403.0</u>	<u>\$ 718.0</u>

The total estimated fair value of the Notes was \$5.5 billion and \$4.1 billion at July 31, 2021 and July 31, 2020, respectively. The fair value was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the period. We consider the fair value of the Notes at July 31, 2021 and July 31, 2020 to be a Level 2 measurement. The fair value of the Notes is primarily affected by the trading price of our common stock and market interest rates. Based on the closing price of our common stock on July 31, 2021, the if-converted values of the 2023 Notes and 2025 Notes exceeded their principal amounts by \$754.4 million and \$587.8 million, respectively.

The following table sets forth interest expense recognized related to our convertible senior notes (dollars in millions):

	Year Ended July 31, 2021			Year Ended July 31, 2020			Year Ended July 31, 2019		
	2023 Notes	2025 Notes	Total	2023 Notes	2025 Notes	Total	2019 Notes	2023 Notes	Total
Contractual interest expense	\$ 12.7	\$ 7.5	\$ 20.2	\$ 12.7	\$ 1.1	\$ 13.8	\$ —	\$ 12.7	\$ 12.7
Amortization of debt discount	63.5	74.3	137.8	60.9	10.5	71.4	8.7	58.5	67.2
Amortization of debt issuance costs	2.3	2.8	5.1	2.1	0.4	2.5	1.1	1.9	3.0
Total interest expense recognized	<u>\$ 78.5</u>	<u>\$ 84.6</u>	<u>\$ 163.1</u>	<u>\$ 75.7</u>	<u>\$ 12.0</u>	<u>\$ 87.7</u>	<u>\$ 9.8</u>	<u>\$ 73.1</u>	<u>\$ 82.9</u>
Effective interest rate of the liability component	<u>5.2 %</u>	<u>5.4 %</u>		<u>5.2 %</u>	<u>5.4 %</u>		<u>4.8 %</u>	<u>5.2 %</u>	

Note Hedges

To minimize the impact of potential economic dilution upon conversion of our convertible senior notes, we entered into separate convertible note hedge transactions (the “2019 Note Hedges,” with respect to the 2019 Notes, the “2023 Note Hedges,” with respect to the 2023 Notes, the “2025 Note Hedges,” with respect to the 2025 Notes and the 2023 Notes Hedgers together with 2025 Note Hedges, the “Note Hedges”) with respect to our common stock concurrent with the issuance of each series of our convertible senior notes. Upon the settlement of the 2019 Notes, we exercised the corresponding portion of our 2019 Note Hedges during the year ended July 31, 2019 and received shares of our common stock that fully offset the shares issued in excess of the principal amount of the converted 2019 Notes. The 2019 Note Hedges expired upon maturity of the 2019 Notes.

The following table presents details of our Note Hedges (in millions):

	Initial Number of Shares	Aggregate Purchase
2023 Note Hedges	6.4	\$ 332.0
2025 Note Hedges	6.7	\$ 370.8

The Note Hedges cover shares of our common stock at a strike price per share that corresponds to the initial applicable conversion price of the applicable series of Notes, which are also subject to adjustment, and are exercisable upon conversion of the applicable series of the Notes. The Note Hedges will expire upon maturity of the applicable series of Notes. The Note Hedges are separate transactions and are not part of the terms of the applicable series of the Notes. Holders of the Notes of either series will not have any rights with respect to the Note Hedges. Any shares of our common stock receivable by us under the Note Hedges are

excluded from the calculation of diluted earnings per share as they are antidilutive. The aggregate amounts paid for the Note Hedges are included in additional paid-in capital in our consolidated balance sheets.

Warrants

Separately, but concurrently with the issuance of each series of our convertible senior notes, we entered into transactions whereby we sold warrants (the “2019 Warrants,” with respect to the 2019 Notes, the “2023 Warrants,” with respect to the 2023 Notes, the “2025 Warrants,” with respect to the 2025 Notes, and the 2023 Warrants together with the 2025 Warrants, the “Warrants”) to acquire shares of our common stock, subject to anti-dilution adjustments. During the year ended July 31, 2020, we net settled all 2019 Warrants with 2.0 million shares or \$462.0 million in fair value of our common stock. The 2023 Warrants and 2025 Warrants are exercisable beginning October 2023 and September 2025, respectively.

The following table presents details of our Warrants (in millions, except per share data):

	Initial Number of Shares	Strike Price per Share	Aggregate Proceeds
2023 Warrants	6.4	\$ 417.80	\$ 145.4
2025 Warrants	6.7	\$ 408.47	\$ 202.8

The shares issuable under the Warrants will be included in the calculation of diluted earnings per share when the average market value per share of our common stock for the reporting period exceeds the applicable strike price for such series of Warrants. The Warrants are separate transactions and are not part of either series of Notes or Note Hedges and are not remeasured through earnings each reporting period. Holders of the Notes of either series will not have any rights with respect to the Warrants. The aggregate proceeds received from the sale of the Warrants are included in additional paid-in capital in our consolidated balance sheets.

Revolving Credit Facility

On September 4, 2018, we entered into a credit agreement (the “Credit Agreement”) with certain institutional lenders that provides for a \$400.0 million unsecured revolving credit facility (the “Credit Facility”), with an option to increase the amount of the Credit Facility by up to an additional \$350.0 million, subject to certain conditions. The Credit Facility matures on the earlier of (i) September 4, 2023 and (ii) the date that is 91 days prior to the stated maturity of our 2023 Notes if (a) any of the 2023 Notes are still outstanding and (b) our unrestricted cash and cash equivalents are less than the then outstanding principal amount of our 2023 Notes plus \$400.0 million.

The borrowings under the Credit Facility currently bear interest, at our option, at a base rate plus a spread of 0.00% to 0.75%, or an adjusted LIBO Rate plus a spread of 1.00% to 1.75%, in each case with such spread being determined based on our leverage ratio. We are obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.125% to 0.250%, depending on our leverage ratio. Regulatory authorities that oversee financial markets have announced that after the end of 2021, they would no longer compel banks currently reporting information used to set the LIBO Rate to continue to make rate submissions. As a result, it is possible that beginning in 2022, the LIBO Rate will no longer be available as a reference rate. Under the terms of our Credit Facility, in the event of the discontinuance of the LIBO Rate, a mutually agreed-upon alternative benchmark rate will be established to replace the LIBO Rate, which may include the Secured Overnight Financing Rate (“SOFR”). We do not anticipate that the discontinuance of the LIBO Rate will materially impact our liquidity or financial position.

As of July 31, 2021, there were no amounts outstanding, and we were in compliance with all covenants under the Credit Agreement.

11. Leases

We have entered into various non-cancelable operating leases primarily for our facilities with original lease periods expiring through the year ending July 31, 2028, with the most significant leases relating to corporate headquarters in Santa Clara.

In May 2015 and October 2015, we entered into a total of three lease agreements for approximately 941,000 square feet of corporate office space in Santa Clara, California, which serves as our current corporate headquarters. The leases contain rent holiday periods, scheduled rent increases, lease incentives, and renewal options which allow the lease terms to be extended beyond their expiration dates of July 2028 through July 2046. Rental payments under the three lease agreements are approximately \$412.0 million over the lease term.

In September 2012, we entered into two lease agreements for a total of approximately 300,000 square feet of space in Santa Clara, California, which served as our previous corporate headquarters through August 2017, when we relocated to our current corporate campus. The leases contain rent holiday periods and two separate five-year options to extend the lease term beyond their expiration dates of July 2023. Rental payments under these lease agreements are approximately \$94.3 million over the lease term. In August 2017, we exited our previous corporate headquarter facilities and relocated to our new corporate campus, which resulted in the recognition of a cease-use loss of \$39.2 million during the year ended July 31, 2018. Due to changes in market conditions, and the resulting changes to the amount and timing of estimated cash flows from sublease rentals that could be reasonably obtained, we recognized an additional cease-use loss of \$7.0 million as general and administrative expense in our consolidated statements of operations during the year ended July 31, 2019. In December 2019, we terminated these leases prior to their expiration date. The early

termination fee is \$25.0 million, payable in equal quarterly installments from April 2020 through July 2023. Upon termination, we recorded a decrease of \$13.6 million in operating lease liabilities based on the payment schedule of the early termination fee discounted by the incremental borrowing rate for the remaining payment term. We also decreased right-of-use assets by \$8.7 million upon surrendering possession of the properties. As a result, during the year ended July 31, 2020, we recorded a gain of \$3.1 million net of other related fees of \$1.8 million in general and administrative expense in our consolidated statements of operations.

During the years ended July 31, 2021 and July 31, 2020, our net cost for operating leases was \$75.2 million and \$80.4 million, respectively, primarily consisting of operating lease costs of \$59.3 million and \$63.5 million, respectively. Our net cost for operating leases also included variable lease costs, short-term lease costs and sublease income in both periods. We recognized rent expense of \$43.0 million for the year ended July 31, 2019, prior to our adoption of the new lease guidance.

The following tables present additional information for our operating leases (in millions, except for years and percentages):

	Year Ended July 31,	
	2021	2020
Operating cash flows used in payments of operating lease liabilities	\$ 81.7	\$ 78.3
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 48.6	\$ 28.4

	July 31, 2021	July 31, 2020
Weighted-average remaining lease term	6.1 years	7.0 years
Weighted-average discount rate	3.8 %	3.9 %

The following table presents maturities of operating lease liabilities as of July 31, 2021 (in millions):

	Amount
Fiscal years ending July 31:	
2022	\$ 78.8
2023	72.6
2024	61.6
2025	58.7
2026	57.4
2027 and thereafter	97.5
Total operating lease payments	426.6
Less: imputed interest	(47.4)
Present value of operating lease liabilities	\$ 379.2
Current portion of operating lease liabilities ⁽¹⁾	\$ 65.8
Long-term operating lease liabilities	\$ 313.4

(1) Current portion of operating lease liabilities is included in accrued and other liabilities on our consolidated balance sheet.

12. Commitments and Contingencies

Manufacturing Purchase Commitments

In order to reduce manufacturing lead times and plan for adequate supply, we enter into agreements with manufacturing partners and component suppliers to procure inventory based on our demand forecasts. We are committed to minimum or fixed purchases through the year ending July 31, 2026. The following table presents details of the aggregate future purchase commitments under these arrangements excluding obligations under contracts that we can cancel without a significant penalty as of July 31, 2021 (in millions):

	Total	Fiscal years ending July 31,				
		2022	2023	2024	2025	2026
Manufacturing purchase commitments.....	\$ 359.9	\$ 219.3	\$ 35.6	\$ 30.0	\$ 35.0	\$ 40.0

Other Purchase Commitments

We have entered into various non-cancelable agreements with certain service providers, under which we are committed to minimum or fixed purchases through the year ending July 31, 2026. The following table presents details of the aggregate future non-cancelable purchase commitments under these agreements as of July 31, 2021 (in millions):

	Total	Fiscal years ending July 31,				
		2022	2023	2024	2025	2026
Other purchase commitments	\$ 1,471.8	\$ 32.0	\$ 241.3	\$ 302.1	\$ 345.3	\$ 551.1

Mutual Covenant Not to Sue and Release Agreement

In January 2020, we executed a Mutual Covenant Not to Sue and Release Agreement for \$50.0 million to extend an existing covenant not to sue for seven years. As the primary benefit of the arrangement was attributable to future use, the amount was recorded in other assets on our consolidated balance sheets and is amortized to cost of product revenue in our consolidated statements of operations over the estimated period of benefit of seven years.

Litigation

We are subject to legal proceedings, claims, and litigation arising in the ordinary course of business, including intellectual property litigation. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. We accrue for contingencies when we believe that a loss is probable and that we can reasonably estimate the amount of any such loss.

To the extent there is a reasonable possibility that a loss exceeding amounts already recognized may be incurred and the amount of such additional loss would be material, we will either disclose the estimated additional loss or state that such an estimate cannot be made. As of July 31, 2021, we have not recorded any significant accruals for loss contingencies associated with such legal proceedings, determined that an unfavorable outcome is probable or reasonably possible, or determined that the amount or range of any possible loss is reasonably estimable.

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 payments made to us for the alleged infringing products over the preceding twelve months under the agreement. However, certain agreements include indemnification provisions that could potentially expose us to losses in excess of these payments. In addition, we indemnify our officers, directors, and certain key employees while they are serving in good faith in their company capacities. To date, we have not recorded any accruals for loss contingencies associated with indemnification claims or determined that an unfavorable outcome is probable or reasonably possible.

13. Stockholders' Equity

Share Repurchase Program

In August 2016, our board of directors authorized a \$500.0 million share repurchase program and in February 2017 authorized a \$500.0 million increase to the repurchase program, bringing the total authorization to \$1.0 billion (our "original authorization"). This repurchase program expired on December 31, 2018. In February 2019, our board of directors authorized a \$1.0 billion share repurchase program and in December 2020 authorized a \$700.0 million increase to this share repurchase program, bringing the total authorization to \$1.7 billion (our "current authorization"). The expiration date of our current authorization was extended to December 31, 2021, and our repurchase program may be suspended or discontinued at any time. Repurchases may be made at management's discretion from time to time on the open market, through privately negotiated transactions, transactions structured through investment banking institutions, block purchase techniques, 10b5-1 trading plans, or a combination of the foregoing.

During the year ended July 31, 2019, we repurchased and retired 1.9 million shares of our common stock under our original authorization for an aggregate purchase price of \$330.0 million and an average price per share of \$177.64, including transaction costs.

During the years ended July 31, 2021 and 2020, we repurchased and retired 4.0 million shares and 0.9 million shares of our common stock under our current authorization for an aggregate purchase price of \$1.2 billion and \$198.1 million, and an average price per share of \$294.87 and \$209.12, respectively, including transaction costs. As of July 31, 2021, we have \$323.9 million remaining for future share repurchases under our current repurchase authorization. The total price of the shares repurchased and related transaction costs are reflected as a reduction to common stock and additional paid-in capital on our consolidated balance sheets.

Accelerated Stock Repurchase

In February 2020, our board of directors approved the repurchase of \$1.0 billion of our common stock through an accelerated share repurchase ("ASR") transaction with a financial institution. This ASR transaction was in addition to our share repurchase program.

During the fiscal year ended July 31, 2020, we completed the ASR transaction with an aggregate of 5.2 million shares of our common stock repurchased and retired. The total price of the ASR transaction is reflected as a reduction to common stock and additional paid-in capital on our consolidated balance sheet.

14. Equity Award Plans

Share-Based Compensation Plans

2012 Equity Incentive Plan

Our 2012 Equity Incentive Plan (our “2012 Plan”) was adopted by our board of directors and approved by the stockholders on June 5, 2012 and was effective one business day prior to the effectiveness of our registration statement for our initial public offering (“IPO”). Our 2012 Plan replaced our 2005 Equity Incentive Plan (our “2005 Plan”), which terminated upon the completion of our IPO, however, awards that were outstanding upon termination remained outstanding pursuant to their original terms. Our 2012 Plan provides for the granting of stock options, restricted stock award (“RSA”), restricted stock unit (“RSU”), stock appreciation rights, performance shares (“PSAs”), performance-based stock units (“PSUs”) and performance stock options (“PSOs”) to our employees, directors, and consultants.

Awards granted under our 2012 Plan vest over the periods determined by the board of directors, generally three to four years from the date of grant, and our options expire no more than ten years after the date of grant. Since our IPO in 2012, awards granted under our 2012 Plan consist primarily of RSUs. Until vested, RSUs do not have the voting and dividend participation rights of common stock and the shares underlying the awards are not considered issued and outstanding.

We grant awards with performance conditions (PSAs and PSUs) to certain employees, which vest over a period of one to four years from the date of grant. The actual number of PSAs and PSUs earned and eligible to vest is determined based on the level of achievement against revenue growth, pre-established billings and operating margin goals, or pre-defined individual performance targets for the fiscal year.

We have also granted PSOs with both a market condition and a service condition to certain executives. The market condition for PSOs granted in the fiscal years 2018 and 2019 requires the price of our common stock to equal or exceed \$297.75, \$397.00, \$496.25, and \$595.50 based on the average closing price for 30 consecutive trading days during the four-, five-, six-, and seven-and-a-half-year periods following the date of grant in fiscal year 2018 and 2019, respectively. The market condition for PSOs granted in the fiscal year 2021 requires the price of our common stock to equal or exceed \$397.00, \$496.25, \$595.50 and \$700.00 based on the average closing price for 30 consecutive trading days during the three-, four-, five-, and six-and-a-half-year periods following the date of grant. To the extent that the market condition has been met, one-fourth of the PSOs will vest on the anniversary date of the grant date for such PSOs, subject to continued service. Certain outstanding PSOs may be exercised prior to vesting (“early exercise”). Shares of common stock issued upon early exercise of the PSOs will be restricted and, at our option, subject to repurchase if the option holder ceases to be a service provider. The maximum contractual term of our PSOs ranged from six and a half years to seven and a half years from the date of grant, depending on vesting period. During the fiscal year ended July 31, 2021, 0.4 million shares of our PSOs vested as the first stock price target for our PSOs granted in fiscal years 2018 and 2019 was satisfied and the service condition was met.

We net-share settle equity awards held by certain employees by withholding shares upon vesting to satisfy tax withholding obligations. The shares withheld to satisfy employee tax withholding obligations are returned to our 2012 Plan and will be available for future issuance. Payments for employees’ tax obligations to the tax authorities are recognized as a reduction to additional paid-in capital and reflected as financing activities in our consolidated statements of cash flows.

A total of 21.9 million shares of our common stock are reserved for issuance pursuant to our 2012 Plan as of July 31, 2021. This includes shares that are (i) reserved but unissued under our 2005 Plan on the effective date of our 2012 Plan or (ii) returned to our 2005 Plan as a result of expiration or termination of options. On the first day of each fiscal year, the number of shares in the reserve may be increased by the lesser of (i) 8,000,000 shares, (ii) 4.5% of the outstanding shares of common stock on the last day of our immediately preceding fiscal year, or (iii) such other amount as determined by our board of directors.

2012 Employee Stock Purchase Plan

Our 2012 Employee Stock Purchase Plan was adopted by our board of directors and approved by the stockholders on June 5, 2012, and was effective upon completion of our IPO. On August 29, 2017, we amended and restated our 2012 Employee Stock Purchase Plan (our “2012 ESPP”) to extend the length of our offering periods from 6 to 24 months.

Our 2012 ESPP permits eligible employees to acquire shares of our common stock at 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 purchase date. If the fair market value of our common stock on the purchase date is lower than the first trading day of the offering period, the current offering period will be cancelled after purchase and a new 24-month offering period will begin. Under our 2012 ESPP, each 24-month offering period consists of four consecutive 6-month purchase periods, with purchase dates on the first trading day on or after February 28 and August 31 of each year. Participants may purchase shares of common stock through payroll deductions of up to 15% of their eligible compensation, subject to purchase limits of 625 shares per six-month purchase period and \$25,000 worth of stock for each calendar year. Shares

purchased under our 2012 ESPP during the fiscal years ended July 31, 2021, 2020 and 2019 were 0.6 million, 0.6 million and 0.5 million, at an average exercise price of \$161.07 per share, \$146.90 per share and \$128.81 per share respectively.

A total of 4.6 million shares of our common stock are available for sale under our 2012 ESPP as of July 31, 2021. On the first day of each fiscal year, the number of shares in the reserve may be increased by the lesser of (i) 2,000,000 shares, (ii) 1% of the outstanding shares of our common stock on the first day of the fiscal year, or (iii) such other amount as determined by our board of directors.

Acquisition-related Activities

Assumed Share-based Compensation Plans

In connection with our acquisitions of Bridgecrew, Expanse, Sinefa and Crypsis during the year ended July 31, 2021, we assumed the Bridgecrew, Inc. 2019 Stock Incentive Plan, the Expanse Holding Company, Inc. Amended and Restated 2012 Stock Incentive Plan, the Sinefa Group, Inc. 2020 Stock Plan, and the Crypsis Group Holdings, LLC 2017 Equity Incentive Plan (together, the “2021 assumed Plans”). In connection with our acquisitions of CloudGenix, Aporeto, and Zingbox during the year ended July 31, 2020, we assumed CloudGenix’s 2013 Equity Incentive Plan, Aporeto’s Amended and Restated 2015 Stock Option and Grant Plan and Zingbox’s Stock Incentive Plan, as amended and restated (together, the “2020 assumed Plans”). In connection with our acquisitions of RedLock, Demisto, and Twistlock during the year ended July 31, 2019, we assumed RedLock’s 2015 Stock Plan, as amended, Demisto’s 2015 Stock Option Plan, as amended, and Twistlock’s 2015 Share Option Plan, as amended and restated (together, the “2019 assumed Plans”). In aggregate, the 2021 assumed Plans, the 2020 assumed Plans and the 2019 assumed plans are referenced as “the Assumed Plans.”

The equity awards assumed in connection with each acquisition were granted from their respective assumed plans. The assumed equity awards will be settled in shares of our common stock and will retain the terms and conditions under which they were originally granted. No additional equity awards will be granted under and forfeited awards will not be returned to the Assumed Plans. Refer to Note 7. Acquisitions for more information on our acquisitions and the related equity awards assumed.

Restricted Stock Issuances

In connection with our acquisitions of Expanse and Sinefa during the year ended July 31, 2021, we issued a total of 0.3 million shares of restricted common stock as replacement equity awards which are subject to additional time-based vesting requirements and continued service by the award holder.

In connection with our acquisition of Zingbox during the year ended July 31, 2020, we issued a total of 0.1 million shares of restricted common stock as replacement equity awards which are subject to additional time-based vesting requirements and continued service by the award holder.

In connection with our acquisitions of RedLock, Demisto, PureSec, and Twistlock during the year ended July 31, 2019, we issued a total of 0.5 million shares of restricted common stock as replacement equity awards which are subject to additional time-based vesting requirements and continued service by the award holder.

Stock Option Activities

The following table summarizes the stock option and PSO activity under our stock plans during the years ended July 31, 2021, 2020, and 2019 (in millions, except per share amounts):

	Stock Options Outstanding				PSOs Outstanding			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Balance—July 31, 2018.....	1.0	\$ 13.28	3.1	\$ 199.8	1.2	\$ 198.50	7.0	\$ —
Granted.....	—	\$ —			2.6	\$ 191.97		
Exercised.....	(0.7)	\$ 12.61			—	\$ —		
Forfeited.....	0.0	\$ 1.24			(0.1)	\$ 193.51		
Balance—July 31, 2019.....	0.3	\$ 14.53	2.2	\$ 81.4	3.7	\$ 193.99	6.2	\$ 120.1
Exercised.....	(0.2)	\$ 11.46			—	\$ —		
Forfeited.....	—	\$ —			(0.9)	\$ 193.51		
Balance—July 31, 2020.....	0.1	\$ 19.59	1.5	\$ 34.2	2.8	\$ 194.14	5.2	\$ 170.9
Granted.....	—	\$ —			0.2	\$ 304.29		
Exercised.....	0.0	\$ 12.82			—	\$ —		
Forfeited.....	0.0	\$ 7.84			(0.2)	\$ 304.29		
Balance—July 31, 2021.....	0.1	\$ 26.20	0.8	\$ 27.4	2.8	\$ 194.14	4.2	\$ 566.8
Exercisable—July 31, 2021..	0.1	\$ 26.20	0.8	\$ 27.4	2.8	\$ 194.14	4.2	\$ 566.8

The weighted-average grant-date fair value of PSOs granted during the years ended July 31, 2021 and 2019 was \$82.12 and \$59.11, per share, respectively. The intrinsic value of options exercised during the years ended July 31, 2021, 2020, and 2019 was \$22.2 million, \$50.2 million and \$139.5 million, respectively.

RSA and PSA Activities

The following table summarizes the RSA and PSA activity under our stock plans during the years ended July 31, 2021, 2020, and 2019 (in millions, except per share amounts):

	RSAs Outstanding		PSAs Outstanding	
	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
Balance—July 31, 2018	0.2	\$ 163.14	0.1	\$ 148.54
Vested	(0.2)	\$ 166.83	0.0	\$ 148.54
Forfeited	0.0	\$ 152.09	0.0	\$ 148.54
Balance—July 31, 2019	0.0	\$ 148.54	0.1	\$ 148.54
Vested	0.0	\$ 148.54	0.0	\$ 148.54
Forfeited	0.0	\$ 148.54	0.0	\$ 148.54
Balance—July 31, 2020	0.0	\$ 148.54	0.1	\$ 148.54
Vested	0.0	\$ 148.54	(0.1)	\$ 148.54
Forfeited	0.0	\$ 148.54	0.0	\$ 148.54
Balance—July 31, 2021	—	\$ —	—	\$ —

The aggregate fair value, as of respective vesting dates, of RSAs vested during the years ended July 31, 2021, 2020 and 2019, was \$1.6 million, \$7.0 million and \$41.1 million, respectively. The aggregate fair value, as of the respective vesting dates, of PSAs vested during the years ended July 31, 2021, 2020, and 2019 was \$0.8 million, \$3.8 million and \$4.5 million, respectively.

RSU and PSU Activities

The following table summarizes the RSU and PSU activity under our stock plans during the years ended July 31, 2021, 2020, and 2019 (in millions, except per share amounts):

	RSUs Outstanding			PSUs Outstanding		
	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share	Aggregate Intrinsic Value	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share	Aggregate Intrinsic Value
Balance—July 31, 2018	6.5	\$ 160.70	\$ 1,291.4	0.2	\$ 149.73	\$ 43.7
Granted ⁽¹⁾⁽²⁾	3.9	\$ 210.14		0.2	\$ 215.64	
Vested ⁽³⁾	(2.7)	\$ 160.87		(0.1)	\$ 149.73	
Forfeited	(0.8)	\$ 162.73		0.0	\$ 155.38	
Balance—July 31, 2019	6.9	\$ 188.16	\$ 1,554.0	0.3	\$ 197.86	\$ 67.0
Granted ⁽¹⁾⁽²⁾	3.5	\$ 211.38		0.4	\$ 248.55	
Vested ⁽³⁾	(2.8)	\$ 181.19		(0.1)	\$ 166.90	
Forfeited	(1.0)	\$ 188.18		0.0	\$ 175.88	
Balance—July 31, 2020	6.6	\$ 203.30	\$ 1,688.1	0.6	\$ 231.42	\$ 147.2
Granted ⁽¹⁾⁽²⁾	4.1	\$ 297.89		0.8	\$ 321.45	
Vested ⁽³⁾	(2.9)	\$ 200.91		(0.1)	\$ 195.60	
Forfeited	(0.9)	\$ 226.79		0.0	\$ 235.98	
Balance—July 31, 2021	6.9	\$ 257.56	\$ 2,760.2	1.3	\$ 292.93	\$ 498.4

(1) For PSUs, shares granted represent the aggregate maximum number of shares that may be earned and issued with respect to these awards over their full terms.

(2) Includes 0.4 million RSUs assumed in connection with the acquisitions of Crypsis, Sinefa, Expanse and Bridgecrew, with weighted-average grant-date fair value of \$241.43, \$297.17, \$317.45, \$354.66, respectively, for the year ended July 31, 2021 and 0.1 million RSUs assumed in connection with the acquisitions of Zingbox, Aporeto and CloudGenix, with weighted-average grant-date fair value of \$208.25, \$231.30 and \$181.48, respectively, for the year ended July 31, 2020. It also

includes 0.4 million RSUs assumed and 0.1 million replacement RSUs granted in connection with the acquisitions of RedLock, Demisto, PureSec, and Twistlock, with weighted-average grant-date fair values of \$218.69 and \$224.31 per share, respectively, for the year ended July 31, 2019.

(3) Includes time-based vesting for PSUs.

The aggregate fair value, as of the respective vesting dates, of RSUs vested during the years ended July 31, 2021, 2020, and 2019 was \$986.4 million, \$615.7 million, and \$566.4 million, respectively. The aggregate fair value, as of the respective vesting dates, of PSUs vested during the year ended July 31, 2021, 2020 and 2019 was \$20.8 million, \$11.9 million and \$17.2 million, respectively.

Shares Available for Grant

The following table presents the stock activity and the total number of shares available for grant under our stock plans as of July 31, 2021 (in millions):

	Number of shares
Balance—July 31, 2020	10.5
Authorized	4.7
PSOs, RSUs, and PSUs granted	(5.1)
Options, PSOs, RSAs, PSAs, RSUs, and PSUs forfeited	1.1
Shares withheld for taxes	0.1
Balance—July 31, 2021	11.3

Share-Based Compensation

We record share-based compensation awards based on estimated fair value as of the grant date. The fair value of RSUs, PSUs, RSAs, and PSAs is based on the closing market price of our common stock on the date of grant.

The fair value of PSOs is estimated on the grant date using a Monte Carlo simulation model, which predicts settlement of the options midway between the vesting term and the contractual term. No PSOs were granted during the year ended July 31, 2020. The following table summarizes the assumptions used and the resulting grant-date fair values of our PSOs granted during the years ended July 31, 2021 and 2019:

	Year Ended July 31,	
	2021	2019
Volatility	35.9 %	35.6% - 36.5%
Dividend yield	—%	— %
Risk-free interest rate	0.6 %	3.1% - 3.2%
Weighted-average grant-date fair value per share	\$ 82.12	\$ 59.11

The expected volatility is based on a combination of implied volatility from traded options on our common stock and the historical volatility of our common stock. The dividend yield assumption is based on our current expectations about our anticipated dividend policy. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with terms equal to the contractual terms of each tranche.

The fair value of shares issued under our 2012 ESPP are estimated on the grant date using the Black-Scholes option pricing model. The following table summarizes the assumptions used and the resulting grant-date fair values of our ESPP:

	Year Ended July 31,		
	2021	2020	2019
Volatility	34.9% - 42.6%	31.0% - 35.7%	30.0% - 34.5%
Expected term (in years)	0.5 - 2.0	0.5 - 2.0	0.5 - 2.0
Dividend yield	— %	— %	— %
Risk-free interest rate	0.1%	0.9% - 1.9%	2.3% - 2.6%
Grant-date fair value per share	\$69.48 - \$129.05	\$46.75 - \$66.47	\$55.03 - \$87.04

The expected volatility is based on a combination of implied volatility from traded options on our common stock and the historical volatility of our common stock. The expected term represents the term from the first day of the offering period to the purchase dates within each offering period. The dividend yield assumption is based on our expectations about our anticipated dividend

policy. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with maturities that approximate the expected term.

The following table summarizes share-based compensation included in costs and expenses (in millions):

	Year Ended July 31,		
	2021	2020	2019
Cost of product revenue	\$ 6.2	\$ 5.7	\$ 5.6
Cost of subscription and support revenue	93.0	77.7	71.3
Research and development	428.9	274.6	186.8
Sales and marketing	269.9	214.5	221.9
General and administrative	128.9	92.0	102.1
Total share-based compensation	<u>\$ 926.9</u>	<u>\$ 664.5</u>	<u>\$ 587.7</u>

During the year ended July 31, 2021, we accelerated the vesting of certain equity awards in connection with our acquisitions of Bridgecrew, Expanse, Sinefa and Crypsis and recorded \$9.8 million, \$5.7 million, \$9.8 million and \$7.1 million, respectively. During the year ended July 31, 2020, we accelerated the vesting of certain equity awards in connection with our acquisitions of Zingbox, Aporeto and CloudGenix and recorded \$1.3 million, \$4.4 million and \$0.3 million, respectively, and during the year ended July 31, 2019, we accelerated the vesting of certain equity awards in connection with our acquisitions of RedLock and Twistlock and recorded \$14.2 million and \$5.8 million, respectively, of share-based compensation within general and administrative expense.

As of July 31, 2021, total compensation cost related to unvested share-based awards not yet recognized was \$2.0 billion. This cost is expected to be amortized over a weighted-average period of approximately 2.6 years. Future grants will increase the amount of compensation expense to be recorded in these periods.

15. Income Taxes

The following table presents the components of income (loss) before income taxes (in millions):

	Year Ended July 31,		
	2021	2020	2019
United States	\$ (482.2)	\$ (56.1)	\$ (198.1)
Foreign	17.2	(175.7)	123.5
Total	<u>\$ (465.0)</u>	<u>\$ (231.8)</u>	<u>\$ (74.6)</u>

The following table summarizes our provision for income taxes (in millions):

	Year Ended July 31,		
	2021	2020	2019
Federal:			
Current	\$ 3.3	\$ 3.8	\$ (1.3)
Deferred	(5.9)	(1.3)	(11.3)
State:			
Current	1.7	1.3	(0.9)
Deferred	0.1	0.1	(3.0)
Foreign:			
Current	41.3	39.2	27.5
Deferred	(6.6)	(7.9)	(3.7)
Total	<u>\$ 33.9</u>	<u>\$ 35.2</u>	<u>\$ 7.3</u>

For the year ended July 31, 2021, our provision for income taxes decreased slightly compared to the year ended July 31, 2020, primarily due to tax benefits from changes in our valuation allowances.

For the year ended July 31, 2020, our provision for income taxes increased compared to the year ended July 31, 2019, primarily due to an increase in foreign income as a result of increased business operations and withholding taxes from an increase in billings in the relevant jurisdictions. We also had a change in our valuation allowance related to acquisitions completed during fiscal 2019.

The following table presents the items accounting for the difference between income taxes computed at the federal statutory income tax rate and our provision for income taxes:

	Year Ended July 31,		
	2021	2020	2019
Federal statutory rate	21.0 %	21.0 %	21.0 %
Effect of:			
State taxes, net of federal tax benefit	1.3	3.0	7.9
Effects of non-U.S. operations	(3.1)	667.5	89.3
Change in valuation allowance	(40.7)	(714.1)	(196.9)
Effect of U.S. tax law change	—	—	0.6
Share-based compensation	5.0	(5.1)	44.9
Tax credits	9.9	17.9	35.0
Non-deductible expenses	(1.3)	(3.9)	(11.5)
Other, net	0.6	(1.5)	(0.1)
Total	(7.3)%	(15.2)%	(9.8)%

In fiscal 2020, we transferred certain intellectual property rights to a wholly owned United Kingdom subsidiary, primarily to align our legal structure to our evolving operations. The tax benefit from an increase in the tax basis of intellectual property rights resulted in an increase in effects of non-U.S. operations and was fully offset by a full valuation.

The following table presents the components of our deferred tax assets and liabilities as of July 31, 2021 and July 31, 2020 (in millions):

	July 31,	
	2021	2020
Deferred tax assets:		
Accruals and reserves	\$ 125.0	\$ 116.5
Deferred revenue	364.9	272.5
Net operating loss carryforwards	575.9	348.0
Tax credits	230.8	179.6
Share-based compensation	53.9	33.7
Fixed assets and intangible assets	1,789.6	1,458.8
Gross deferred tax assets	3,140.1	2,409.1
Valuation allowance	(2,933.3)	(2,240.4)
Total deferred tax assets	206.8	168.7
Deferred tax liabilities:		
Deferred commissions	(165.4)	(130.8)
Other deferred tax liabilities	(32.3)	(28.9)
Total deferred tax liabilities	(197.7)	(159.7)
Net deferred tax assets	\$ 9.1	\$ 9.0

Our increase in deferred tax assets relating to net operating losses and fixed assets and intangible assets is largely due to an impact from the United Kingdom tax rate increase from 19% to 25% effective April 1, 2023. As of July 31, 2021, it is not more likely than not that our deferred tax assets will be realizable, and therefore, are offset by a full valuation allowance.

A valuation allowance is provided when it is more likely than not that the deferred tax asset will not be realized. Realization of 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, 2021, we have provided a valuation allowance for our federal, state, United Kingdom and certain other foreign deferred tax assets that we believe will, more likely than not, be unrealizable. The net valuation allowance increased by \$0.7 billion from the year

ended July 31, 2020 to the year ended July 31, 2021, primarily due to a change in the United Kingdom tax rate as discussed above and an increase in our operations.

As of July 31, 2021, we had federal, state, and foreign NOL carryforwards of approximately \$1.8 billion, \$0.9 billion, and \$1.1 billion, respectively, as reported on our tax returns, available to reduce future taxable income, if any. If not utilized, our federal and state NOL carryforwards will expire in various amounts at various dates beginning in the years ending July 31, 2034 and July 31, 2022, respectively. Our foreign NOL will carry forward indefinitely.

As of July 31, 2021, we had federal and state research and development tax credit carryforwards of approximately \$172.8 million and \$144.7 million, respectively, as reported on our tax returns. If not utilized, the federal credit carryforwards will expire in various amounts at various dates beginning in the year ending July 31, 2026. The state credit will carry forward indefinitely.

As of July 31, 2021, we had foreign tax credit carryforwards of \$3.6 million as reported on our tax returns. If not utilized, the foreign tax credit carryforwards will expire in various amounts at various dates beginning in the year ending July 31, 2022.

Utilization of the NOL 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 NOLs and credits before utilization.

As of July 31, 2021, we had \$372.9 million of unrecognized tax benefits, \$68.7 million of which would affect income tax expense if recognized, after consideration of our valuation allowance in the United States and other assets. As of July 31, 2020, we had \$326.4 million of unrecognized tax benefits, \$63.9 million of which would affect income tax expense if recognized, after consideration of our valuation allowance in the United States and other assets. As of July 31, 2021, our federal, state, and foreign returns for the tax years 2009 through the current period remain subject to adjustment due to current and future examinations. Fiscal years outside the normal statute of limitation remain open to audit by tax authorities due to tax attributes generated in earlier years, which have been carried forward and may be audited in subsequent years when utilized. We do not expect the amount of unrecognized tax benefits as of July 31, 2021 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. During the years ended July 31, 2021, 2020, and 2019, we recognized income tax expense related to interest and penalties of \$3.5 million, \$1.6 million, and \$2.3 million, respectively. We had accrued interest and penalties on our consolidated balance sheets related to unrecognized tax benefits of \$15.7 million and \$12.2 million as of July 31, 2021 and 2020, respectively. The ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty.

The following table presents a reconciliation of the beginning and ending amount of our gross unrecognized tax benefits (in millions):

	Year Ended July 31,		
	2021	2020	2019
Unrecognized tax benefits at the beginning of the period	\$ 326.4	\$ 314.5	\$ 337.7
Additions for tax positions taken in prior years	26.5	3.2	0.3
Reductions for tax positions taken in prior years	(2.5)	(1.6)	(33.4)
Additions for tax positions taken in the current year	22.5	10.3	9.9
Unrecognized tax benefits at the end of the period	<u>\$ 372.9</u>	<u>\$ 326.4</u>	<u>\$ 314.5</u>

During the year ended July 31, 2021, our additions for tax positions taken in the given year were primarily attributable to uncertain tax positions related to tax credits.

During the year ended July 31, 2020 and July 31, 2019, our additions for tax positions taken in the given year were primarily attributable to intercompany transactions.

As of July 31, 2021, we had no unremitted earnings when evaluating our outside basis difference relating to our U.S. investment in foreign subsidiaries. However, there could be local withholding taxes payable due to various foreign countries if certain lower tier earnings are distributed. Withholding taxes that would be payable upon remittance of these lower tier earnings are not material.

16. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by basic weighted-average shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by diluted weighted-average shares outstanding, including potentially dilutive securities.

The following table presents the computation of basic and diluted net loss per share of common stock (in millions, except per share data):

	Year Ended July 31,		
	2021	2020	2019
Net loss	\$ (498.9)	\$ (267.0)	\$ (81.9)
Weighted-average shares used to compute net loss per share, basic and diluted	96.4	96.9	94.5
Net loss per share, basic and diluted	\$ (5.18)	\$ (2.76)	\$ (0.87)

The following securities were excluded from the computation of diluted net loss per share of common stock for the periods presented as their effect would have been antidilutive (in millions):

	Year Ended July 31,		
	2021	2020	2019
Convertible senior notes	13.1	13.1	6.4
Warrants related to the issuance of convertible senior notes	13.1	13.1	11.6
RSUs and PSUs	8.2	7.2	7.2
Options to purchase common stock, including PSOs	2.9	2.9	4.0
RSAs and PSAs	0.3	0.1	0.1
ESPP shares	0.3	0.3	0.2
Total	37.9	36.7	29.5

17. Other Income, Net

The following table sets forth the components of other income, net (in millions):

	Year Ended July 31,		
	2021	2020	2019
Interest income	\$ 8.5	\$ 41.4	\$ 69.8
Foreign currency exchange gains (losses), net	(5.4)	(6.7)	(3.5)
Other	(0.7)	1.2	(2.9)
Total other income, net	\$ 2.4	\$ 35.9	\$ 63.4

18. Employee Benefit Plan

We have established a 401(k) tax-deferred savings plan which permits participants to make contributions by salary deduction pursuant to Section 401(k) of the Internal Revenue Code. We make matching contributions based upon the amount of employees' contributions, subject to certain limitations. Our matching contributions to the plan were immaterial for the years ended July 31, 2021, 2020, and 2019.

19. 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.

The following table presents our long-lived assets, which consist of property and equipment, net and operating lease right-of-use assets, by geographic region (in millions):

	Year Ended July 31,	
	2021	2020
Long-lived assets:		
United States	\$ 461.1	\$ 502.3
Israel	61.9	52.1
Other countries	58.3	52.4
Total long-lived assets	\$ 581.3	\$ 606.8

Refer to Note 2. Revenue for revenue by geographic theater and revenue for groups of similar products and services for the years ended July 31, 2021, 2020, and 2019.

20. Related Party Transactions

Certain members of our board of directors are affiliated with Greylock Partners (“Greylock”), a venture capital firm. Entities affiliated with Greylock owned a portion of the outstanding shares of Demisto immediately prior to completion of our acquisition of Demisto on March 28, 2019 and, as a result, received purchase consideration valued at \$85.6 million during the year ended July 31, 2019. Refer to Note 7. Acquisitions for more information on our acquisition of Demisto.

21. Subsequent Events

Share Repurchase

On August 17, 2021, our board of directors authorized a \$676.1 million increase to our share repurchase program under the current authorization, bringing the total remaining authorization for future share repurchases to \$1.0 billion. Repurchases may be made at management’s discretion from time to time on the open market, through privately negotiated transactions, transactions structured through investment banking institutions, block purchase techniques, 10b5-1 trading plans, or a combination of the foregoing. The repurchase authorization will expire on December 31, 2022, and may be suspended or discontinued at any time.

Business Combination

On August 11, 2021, we completed our acquisition of Gamma Networks, Inc. (“Gamma”), a privately-held AI powered company, for total consideration of approximately \$36 million, subject to adjustment. We expect the acquisition will expand our data loss prevention offerings. We will complete the initial accounting for the acquisition of Gamma, including the allocation of purchase consideration, during our first quarter of fiscal 2022.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of July 31, 2021, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission (“SEC”) rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

For “Management’s Annual Report on Internal Control Over Financial Reporting” see the report under Part II, Item 8 of this Annual Report on Form 10-K, which report is incorporated herein by reference.

For the “Report of Independent Registered Public Accounting Firm,” see the report under Part II, Item 8 of this Annual Report on Form 10-K, which report is incorporated herein by reference.

Changes in Internal Control over Financial Reporting

As a result of COVID-19, most of our workforce has been working from home since March 2020. However there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended July 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be contained in our definitive proxy statement to be filed with the SEC in connection with our 2021 annual meeting of stockholders (the “Proxy Statement”), which is expected to be filed not later than 120 days after the end of our fiscal year ended July 31, 2021, and is incorporated in this report by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be set forth in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Annual Report on Form 10-K are as follows:

1. Consolidated Financial Statements

Our Consolidated Financial Statements are listed in the “Index to Consolidated Financial Statements” under Part II, Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

Financial statement schedules have been omitted because they are not required, not applicable, not present in amounts sufficient to require submission of the schedule, or the required information is shown in the Consolidated Financial Statements or the notes thereto.

3. Exhibits

The following documents are incorporated by reference or are filed with this Annual Report on Form 10-K, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
<u>3.1</u>	Restated Certificate of Incorporation of the Registrant.	10-K	001-35594	3.1	October 4, 2012
<u>3.2</u>	Amended and Restated Bylaws of the Registrant.	10-Q	001-35594	3.2	February 25, 2020
<u>3.3</u>	Certificate of Change of Location of Registered Agent and/or Registered Office.	8-K	001-35594	3.1	August 30, 2016
<u>4.1</u>	Indenture between the Registrant and U.S. Bank National Association, dated as of July 12, 2018.	8-K	001-35594	4.1	July 13, 2018
<u>4.2</u>	Indenture between the Registrant and U.S. Bank National Association, dated as of June 8, 2020.	8-K	001-35594	4.1	June 8, 2020
<u>4.3</u>	Form of Global 0.75% Convertible Senior Note due 2023 (included in Exhibit 4.1).	8-K	001-35594	4.2	July 13, 2018
<u>4.4</u>	Form of Global 0.375% Convertible Senior Note due 2023 (included in Exhibit 4.1).	8-K	001-35594	4.2	June 8, 2020
<u>4.5</u>	Description of Registrant’s Securities.				
<u>10.1*</u>	Form of Indemnification Agreement between the Registrant and its directors and officers.	S-1/A	333-180620	10.1	July 9, 2012
<u>10.2*</u>	2005 Equity Incentive Plan and related form agreements under 2005 Equity Incentive Plan.	S-1/A	333-180620	10.2	July 9, 2012
<u>10.3*</u>	2012 Equity Incentive Plan and related form agreements under 2012 Equity Incentive Plan, as amended.	10-Q	001-35594	10.2	November 26, 2019
<u>10.4*</u>	2012 Employee Stock Purchase Plan and related form agreements under 2012 Employee Stock Purchase Plan, as amended and restated.	10-K	001-35594	10.4	September 7, 2017
<u>10.5*</u>	RedLock Inc. 2015 Stock Plan, as amended, and related form agreements under RedLock Inc. 2015 Stock Plan, as amended.	S-8	333-227901	99.1	October 19, 2018
<u>10.6*</u>	Demisto, Inc. 2015 Stock Option Plan, as amended.	S-8	333-230663	99.1	April 1, 2019
<u>10.7*</u>	Twistlock Ltd. Amended and Restated 2015 Share Option Plan.	S-8	333-232672	99.1	July 16, 2019
<u>10.8*</u>	Zingbox, Inc. Stock Incentive Plan, as amended and restated.	S-8	333-234059	99.1	October 2, 2019
<u>10.9*</u>	Aporeto, Inc. Amended and Restated 2015 Stock Option and Grant Plan.	S-8	333-235854	99.1	January 8, 2020

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
<u>10.10*</u>	CloudGenix Inc. 2013 Equity Incentive Plan.	S-8	333-238014	99.1	May 5, 2020
<u>10.11*</u>	Crypsis Group Holdings, LLC 2017 Equity Incentive Plan.	S-8	333-249387	99.1	October 8, 2020
<u>10.12*</u>	Sinefa Group, Inc. 2020 Stock Plan.	S-8	333-251423	99.1	December 17, 2020
<u>10.13*</u>	Expanse Holding Company, Inc. Amended and Restated 2012 Stock Incentive Plan.	S-8	333-251425	99.1	December 17, 2020
<u>10.14*</u>	Bridgecrew, Inc. 2019 Stock Incentive Plan.	S-8	333-254042	99.1	March 9, 2021
<u>10.15*</u>	Employee Incentive Compensation Plan, as amended and restated.	10-Q	001-35594	10.2	November 25, 2014
<u>10.16*</u>	Clawback Policy, adopted as of August 29, 2017.	10-Q	001-35594	10.3	November 21, 2017
<u>10.17*</u>	Executive Incentive Plan effective December 8, 2017.	10-Q	001-35594	10.2	February 27, 2018
<u>10.18*</u>	Employment Agreement between Palo Alto Networks (Israel Analytics) Ltd. and Nir Zuk, dated August 18, 2020.	10-Q	001-35594	10.1	November 19, 2020
<u>10.19*</u>	Offer Letter between the Registrant and Jean Compeau, dated February 22, 2018.	8-K	001-35594	10.1	February 26, 2018
<u>10.20*</u>	Addendum to Offer Letter by and between the Registrant and Jean Compeau, dated March 17, 2021.	10-Q	001-35594	10.1	May 21, 2021
<u>10.21*</u>	New Offer Letter between the Registrant and Mark D. McLaughlin, dated May 31, 2018.	8-K	001-35594	10.1	June 4, 2018
<u>10.22*</u>	Offer Letter between the Registrant and Nikesh Arora, dated May 30, 2018.	8-K	001-35594	10.2	June 4, 2018
<u>10.23*</u>	Offer Letter between the Registrant and Amit K. Singh, dated October 11, 2018.	8-K	001-35594	10.1	October 15, 2018
<u>10.24*</u>	Confirmatory Employment Letter between the Registrant and Lee Klarich, dated December 19, 2011.	10-Q	001-35594	10.4	November 30, 2018
<u>10.25*</u>	Addendum to Offer Letter by and between the Registrant and Dipak Golechha, dated March 17, 2021.	8-K	001-35594	10.1	March 19, 2021
<u>10.26*</u>	Offer Letter between the Registrant and William “BJ” Jenkins dated July 27, 2021.	8-K	001-35594	10.1	August 12, 2021
<u>10.27*</u>	Form of Offer Letter between the Registrant and its directors.				
<u>10.28**</u>	Amended and Restated Flextronics Manufacturing Services Agreement, by and between the Registrant and Flextronics Telecom Systems Ltd., dated April 1, 2019.	10-Q	001-35594	10.1	May 30, 2019
<u>10.29</u>	Vendor Information Security Terms between the Registrant and Flextronics Telecom Systems Ltd. dated July 30, 2021				
<u>10.30</u>	Settlement, Release and Cross-License Agreement, dated May 27, 2014, by and between the Registrant and Juniper Networks, Inc.	8-K	001-35594	10.1	May 28, 2014
<u>10.31</u>	Purchase Agreement, dated July 10, 2018, by and among the Registrant and Citigroup Global Markets Inc. and Wells Fargo Securities, LLC, as representatives of the several Initial Purchasers named therein.	8-K	001-35594	10.1	July 13, 2018
<u>10.32</u>	Form of Convertible Note Hedge Confirmation.	8-K	001-35594	10.2	July 13, 2018

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
<u>10.33</u>	Form of Warrant Confirmation.	8-K	001-35594	10.3	July 13, 2018
<u>10.34</u>	Purchase Agreement, dated June 3, 2020, by and among the Registrant and Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., as representatives of the several Initial Purchasers named therein.	8-K	001-35594	10.1	June 8, 2020
<u>10.35</u>	Form of Convertible Note Hedge Confirmation.	8-K	001-35594	10.2	June 8, 2020
<u>10.36</u>	Form of Warrant Confirmation.	8-K	001-35594	10.3	June 8, 2020
<u>10.37</u>	Lease between the Registrant and Santa Clara Campus Property Owner I LLC, dated May 28, 2015.	10-K	001-35594	10.29	September 17, 2015
<u>10.38</u>	Lease between the Registrant and Santa Clara Campus Property Owner I LLC, dated May 28, 2015.	10-K	001-35594	10.30	September 17, 2015
<u>10.39</u>	Lease between the Registrant and Santa Clara Campus Property Owner I LLC, dated May 28, 2015.	10-K	001-35594	10.31	September 17, 2015
<u>10.40</u>	Lease by and between the Registrant and Santa Clara Campus Property Owner I LLC, dated October 7, 2015.	8-K/A	001-35594	10.1	October 19, 2015
<u>10.41</u>	Amendment No. 1 to Lease by and between the Registrant and Santa Clara Phase I Property LLC, dated November 9, 2015.	10-Q	001-35594	10.2	November 24, 2015
<u>10.42</u>	Amendment No. 1 to Lease by and between the Registrant and Santa Clara Campus Property Owner I LLC, dated November 9, 2015.	10-Q	001-35594	10.3	November 24, 2015
<u>10.43</u>	Amendment No. 1 to Lease by and between the Registrant and Santa Clara Campus Property Owner I LLC, dated September 16, 2016.	10-Q	001-35594	10.1	November 22, 2016
<u>10.44</u>	Amendment No. 1 to Lease by and between the Registrant and Santa Clara Campus Property Owner I LLC, dated September 16, 2016.	10-Q	001-35594	10.2	November 22, 2016
<u>10.45</u>	Amendment No. 2 to Lease by and between the Registrant and Santa Clara Campus Property Owner I LLC, dated September 16, 2016.	10-Q	001-35594	10.3	November 22, 2016
<u>10.46</u>	Amendment No. 2 to Lease by and between the Registrant and Santa Clara Campus Property Owner I LLC, dated November 16, 2016.	10-Q	001-35594	10.1	March 1, 2017
<u>10.47</u>	Amendment No. 2 to Lease by and between the Registrant and Santa Clara Campus Property Owner I LLC, dated November 16, 2016.	10-Q	001-35594	10.2	March 1, 2017
<u>10.48</u>	Amendment No. 3 to Lease by and between the Registrant and Santa Clara Campus Property Owner I LLC, dated November 16, 2016.	10-Q	001-35594	10.3	March 1, 2017
<u>10.49</u>	Amendment No. 3 to Lease by and between the Registrant and Santa Clara EFH LLC, dated June 22, 2017.	10-K	001-35594	10.40	September 7, 2017
<u>10.50</u>	Amendment No. 3 to Lease by and between the Registrant and Santa Clara G LLC, dated June 22, 2017.	10-K	001-35594	10.41	September 7, 2017
<u>10.51</u>	Amendment No. 4 to Lease by and between the Registrant and Santa Clara EFH LLC, dated June 22, 2017.	10-K	001-35594	10.42	September 7, 2017
<u>10.52</u>	Amendment No. 4 to Lease by and between the Registrant and Santa Clara Phase III EFH LLC, dated September 29, 2017.	10-Q	001-35594	10.5	November 21, 2017

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
<u>10.53</u>	Amendment No. 4 to Lease by and between the Registrant and Santa Clara Phase III G LLC, dated September 29, 2017.	10-Q	001-35594	10.6	November 21, 2017
<u>10.54</u>	Amendment No. 5 to Lease by and between the Registrant and Santa Clara Phase III EFH LLC, dated September 29, 2017.	10-Q	001-35594	10.7	November 21, 2017
<u>10.55</u>	Credit Agreement, dated as of September 4, 2018, by and among the Registrant, the lenders from time to time party thereto and Citibank, N.A., as administrative agent.	8-K	001-35594	10.1	September 6, 2018
<u>21.1</u>	List of subsidiaries of the Registrant.				
<u>23.1</u>	Consent of Independent Registered Public Accounting Firm.				
<u>24.1</u>	Power of Attorney (contained in the signature page to this Annual Report on Form 10-K).				
<u>31.1</u>	Certification of the Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.				
<u>31.2</u>	Certification of the Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.				
<u>32.1</u> †	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
<u>32.2</u> †	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Schema Linkbase Document.				
101.CAL	XBRL Taxonomy Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Labels Linkbase Document.				
101.PRE	XBRL Taxonomy Presentation Linkbase Document.				
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

* Indicates a management contract or compensatory plan or arrangement.

** Certain portions of this exhibit have been omitted as the Registrant has determined (i) the omitted information is not material and (ii) the omitted information would likely cause harm to the Registrant if publicly disclosed.

† The certifications attached as Exhibit 32.1 and Exhibit 32.2 that accompany this Annual Report on Form 10-K, are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on September 3, 2021.

PALO ALTO NETWORKS, INC.

By: /s/ NIKESH ARORA

Nikesh Arora

Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Nikesh Arora, Dipak Golechha, and Jean Compeau, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, 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 to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their, his or her substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ NIKESH ARORA</u> Nikesh Arora	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	September 3, 2021
<u>/s/ DIPAK GOLECHHA</u> Dipak Golechha	Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)	September 3, 2021
<u>/s/ JEAN COMPEAU</u> Jean Compeau	Deputy Chief Financial Officer and Chief Accounting Officer (Duly Authorized Officer and Principal Accounting Officer)	September 3, 2021
<u>/s/ MARK D. MCLAUGHLIN</u> Mark D. McLaughlin	Vice Chairman and Director	September 3, 2021
<u>/s/ NIR ZUK</u> Nir Zuk	Chief Technology Officer and Director	September 3, 2021
<u>/s/ APARNA BAWA</u> Aparna Bawa	Director	September 3, 2021
<u>/s/ ASHEEM CHANDNA</u> Asheem Chandna	Director	September 3, 2021
<u>/s/ JOHN M. DONOVAN</u> John M. Donovan	Director	September 3, 2021
<u>/s/ CARL ESCHENBACH</u> Carl Eschenbach	Director	September 3, 2021
<u>/s/ DR. HELENE D. GAYLE</u> Dr. Helene D. Gayle	Director	September 3, 2021
<u>/s/ JAMES J. GOETZ</u> James J. Goetz	Director	September 3, 2021
<u>/s/ RT HON SIR JOHN KEY</u> Rt Hon Sir John Key	Director	September 3, 2021
<u>/s/ MARY PAT MCCARTHY</u> Mary Pat McCarthy	Director	September 3, 2021
<u>/s/ LORRAINE TWOHILL</u> Lorraine Twohill	Director	September 3, 2021

BOARD OF DIRECTORS

Nikesh Arora

Chief Executive Officer and
Chair of the Board of Directors

Mark D. McLaughlin

Vice Chair of the Board of Directors

Nir Zuk

Chief Technology Officer and Director

Aparna Bawa

Chief Operating Officer and Interim Chief Legal Officer,
Zoom Video Communications, Inc.

Asheem Chandna

Partner, Greylock Partners

John M. Donovan

Former Chief Executive Officer—AT&T Communications

Carl Eschenbach

General Partner, Sequoia Capital Operations, LLC

Dr. Helene D. Gayle

Chief Executive Officer, The Chicago Community Trust

James J. Goetz

Managing Member, Sequoia Capital

Rt Hon Sir John Key

Former Prime Minister of New Zealand

Mary Pat McCarthy

Former Vice Chair, KPMG LLP

Lorraine Twohill

Chief Marketing Officer, Google

CORPORATE EXECUTIVES

Nikesh Arora

Chief Executive Officer and
Chair of the Board of Directors

Dipak Golechha

Chief Financial Officer

BJ Jenkins

President

Lee Klarich

Chief Product Officer

Nir Zuk

Chief Technology Officer and Director

Josh Paul

Chief Accounting Officer

CORPORATE HEADQUARTERS

Palo Alto Networks, Inc. 3000 Tannery Way
Santa Clara, California 95054

T: (408) 753-4000

F: (408) 753-4001

www.paloaltonetworks.com

VIRTUAL ANNUAL MEETING OF STOCKHOLDERS

Tuesday, December 14, 2021, at 12:30 p.m.

www.virtualshareholdermeeting.com/PANW2021

REGISTRAR AND TRANSFER AGENT

For questions regarding your account, changes of
address or the consolidation of accounts, please
contact the Company's transfer agent:

Computershare Trust Company, N.A.

250 Royall Street
Canton, Massachusetts 02021

T: (877) 373-6374

Foreign Stockholders: (781) 575-2879

www.computershare.com/investor

LEGAL COUNSEL

Wilson Sonsini Goodrich &
Rosati Professional Corporation

Palo Alto, California

INDEPENDENT AUDITORS

Ernst & Young LLP

San Jose, California

INVESTOR RELATIONS

Palo Alto Networks, Inc. Investor Relations

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