Non-GAAP Financial Measures and Other Key Metrics

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

Non-GAAP financial measures and key metrics are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. A reconciliation of our non-GAAP financial measures and key metrics to the most directly comparable GAAP measures has been provided in the financial statement tables included in this supplemental financial information, and investors are encouraged to review these reconciliations. A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis.

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

	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
Revenue:								
Product	$ 115.6	$ 121.5	$ 154.1	$ 147.7	$ 169.9	$ 162.1	$ 191.1	$ 163.8
Subscription and support	102.1	112.7	129.8	149.5	164.8	183.7	209.7	234.3
Total revenue	217.7	234.2	283.9	297.2	334.7	345.8	400.8	398.1
Cost of revenue:								
Product	30.7	32.8	38.5	38.8	44.9	43.2	48.5	42.2
Subscription and support	28.7	31.6	35.8	40.4	49.3	51.7	53.2	59.1
Total cost of revenue	59.4	64.4	74.3	79.2	94.2	94.9	101.7	101.3
Total gross profit	158.3	169.8	209.6	218.0	240.5	250.9	299.1	296.8
Product gross margin	*73.5 %*	*73.0 %*	*75.0 %*	*73.8 %*	*73.5 %*	*73.4 %*	*74.6 %*	*74.2 %*
Subscription and support gross margin	*71.9 %*	*72.0 %*	*72.4 %*	*72.9 %*	*70.2 %*	*71.9 %*	*74.6 %*	*74.8 %*
Total gross margin	*72.7 %*	*72.5 %*	*73.8 %*	*73.3 %*	*71.9 %*	*72.6 %*	*74.6 %*	*74.6 %*
Operating expenses:								
Research and development	47.0	48.4	53.1	59.7	74.0	74.0	76.5	84.6
Sales and marketing[(1)]	118.4	124.4	143.1	159.5	182.4	195.9	205.4	220.3
General and administrative	27.0	27.0	28.6	30.8	34.2	33.5	39.9	41.8
Total operating expenses[(1)]	192.4	199.8	224.8	250.0	290.6	303.4	321.8	346.7
Operating loss[(1)]	(34.1)	(30.0)	(15.2)	(32.0)	(50.1)	(52.5)	(22.7)	(49.9)
Interest expense	(5.5)	(5.7)	(5.6)	(5.8)	(5.8)	(5.8)	(6.0)	(6.0)
Other income (expense), net	0.3	-	(0.5)	2.2	2.5	1.0	2.7	2.5
Loss before income taxes[(1)]	(39.3)	(35.7)	(21.3)	(35.6)	(53.4)	(57.3)	(26.0)	(53.4)
Provision for (benefit from) income taxes[(1)]	(0.7)	3.5	5.4	4.3	3.9	6.8	5.4	8.4
Net loss[(1)]	$ (38.6)	$ (39.2)	$ (26.7)	$ (39.9)	$ (57.3)	$ (64.1)	$ (31.4)	$ (61.8)

(1) Effective Q1'17, we changed our accounting policy for sales commissions. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect the change. Refer to "Adjusted GAAP Financial Statements" for more information.

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

	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
Revenue:								
Product	$ 115.6	$ 121.5	$ 154.1	$ 147.7	$ 169.9	$ 162.1	$ 191.1	$ 163.8
Subscription and support	102.1	112.7	129.8	149.5	164.8	183.7	209.7	234.3
Total revenue	217.7	234.2	283.9	297.2	334.7	345.8	400.8	398.1
Cost of revenue:								
Product	26.5	28.7	34.1	34.4	40.1	38.5	43.6	37.3
Subscription and support	21.8	24.0	27.7	31.4	36.2	37.8	39.1	44.6
Total cost of revenue	48.3	52.7	61.8	65.8	76.3	76.3	82.7	81.9
Total gross profit	169.4	181.5	222.1	231.4	258.4	269.5	318.1	316.2
Product gross margin	*77.1 %*	*76.4 %*	*77.8 %*	*76.7 %*	*76.4 %*	*76.3 %*	*77.2 %*	*77.2 %*
Subscription and support gross margin	*78.7 %*	*78.6 %*	*78.8 %*	*79.0 %*	*78.1 %*	*79.4 %*	*81.4 %*	*81.0 %*
Total gross margin	*77.8 %*	*77.5 %*	*78.3 %*	*77.9 %*	*77.2 %*	*77.9 %*	*79.4 %*	*79.4 %*
Operating expenses:								
Research and development	26.5	27.4	30.1	34.0	37.5	36.7	38.5	45.4
Sales and marketing[(1)]	95.2	100.3	117.5	131.3	140.9	150.5	162.2	175.3
General and administrative	16.4	14.6	15.3	17.7	18.1	16.9	22.3	23.7
Total operating expenses[(1)]	138.1	142.3	162.9	183.0	196.5	204.1	223.0	244.4
Operating income[(1)]	31.3	39.2	59.2	48.4	61.9	65.4	95.1	71.8
Interest expense	-	(0.1)	-	-	(0.1)	0.1	-	-
Other income, net	0.3	0.6	0.4	1.4	1.8	2.8	2.1	2.3
Income before income taxes[(1)]	31.6	39.7	59.6	49.8	63.6	68.3	97.2	74.1
Provision for income taxes[(1)]	12.0	15.1	22.7	19.0	24.1	26.0	36.9	22.9
Net income[(1)]	$ 19.6	$ 24.6	$ 36.9	$ 30.8	$ 39.5	$ 42.3	$ 60.3	$ 51.2

(1) Effective Q1'17, we changed our accounting policy for sales commissions, which impacted our GAAP financial statements. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect the change. Refer to "Adjusted GAAP Financial Statements" for more information.

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

	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
GAAP to Non-GAAP Reconciliations								
GAAP product gross profit	$ 84.9	$ 88.7	$ 115.6	$ 108.9	$ 125.0	$ 118.9	$ 142.6	$ 121.6
Share-based compensation related charges	1.2	1.0	1.3	1.3	1.8	1.6	1.8	1.8
Litigation related charges	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Non-GAAP product gross profit	$ 89.1	$ 92.8	$ 120.0	$ 113.3	$ 129.8	$ 123.6	$ 147.5	$ 126.5
Non-GAAP product gross margin	*77.1%*	*76.4%*	*77.8%*	*76.7%*	*76.4%*	*76.3%*	*77.2%*	*77.2%*
GAAP subscription and support gross profit	$ 73.4	$ 81.1	$ 94.0	$ 109.1	$ 115.5	$ 132.0	$ 156.5	$ 175.2
Share-based compensation related charges	5.4	6.1	6.3	7.1	11.2	12.0	12.3	12.6
Amortization expense of acquired intangible assets	1.5	1.5	1.8	1.9	1.9	1.9	1.8	1.9
Non-GAAP subscription and support gross profit	$ 80.3	$ 88.7	$ 102.1	$ 118.1	$ 128.6	$ 145.9	$ 170.6	$ 189.7
Non-GAAP subscription and support gross margin	*78.7%*	*78.6%*	*78.8%*	*79.0%*	*78.1%*	*79.4%*	*81.4%*	*81.0%*
GAAP total gross profit	$ 158.3	$ 169.8	$ 209.6	$ 218.0	$ 240.5	$ 250.9	$ 299.1	$ 296.8
Share-based compensation related charges	6.6	7.1	7.6	8.4	13.0	13.6	14.1	14.4
Amortization expense of acquired intangible assets	1.5	1.5	1.8	1.9	1.9	1.9	1.8	1.9
Litigation related charges	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Non-GAAP total gross profit	$ 169.4	$ 181.5	$ 222.1	$ 231.4	$ 258.4	$ 269.5	$ 318.1	$ 316.2
Non-GAAP gross margin	*77.8%*	*77.5%*	*78.3%*	*77.9%*	*77.2%*	*77.9%*	*79.4%*	*79.4%*
GAAP research and development expense	$ 47.0	$ 48.4	$ 53.1	$ 59.7	$ 74.0	$ 74.0	$ 76.5	$ 84.6
Share-based compensation related charges	20.3	20.8	22.8	25.5	36.3	37.2	37.8	39.0
Amortization expense of acquired intangible assets	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Non-GAAP research and development expense	$ 26.5	$ 27.4	$ 30.1	$ 34.0	$ 37.5	$ 36.7	$ 38.5	$ 45.4
Non-GAAP research and development expense as a percentage of revenue	*12.2%*	*11.7%*	*10.6%*	*11.4%*	*11.2%*	*10.6%*	*9.6%*	*11.4%*
GAAP sales and marketing expense[1]	$ 118.4	$ 124.4	$ 143.1	$ 159.5	$ 182.4	$ 195.9	$ 205.4	$ 220.3
Share-based compensation related charges	23.1	24.1	25.6	28.2	41.5	45.3	43.2	45.0
Amortization expense of acquired intangible assets	0.1	-	-	-	-	0.1	-	-
Non-GAAP sales and marketing expense	$ 95.2	$ 100.3	$ 117.5	$ 131.3	$ 140.9	$ 150.5	$ 162.2	$ 175.3
Non-GAAP sales and marketing expense as a percentage of revenue	*43.7%*	*42.8%*	*41.4%*	*44.2%*	*42.1%*	*43.5%*	*40.5%*	*44.0%*
GAAP general and administrative expense	$ 27.0	$ 27.0	$ 28.6	$ 30.8	$ 34.2	$ 33.5	$ 39.9	$ 41.8
Share-based compensation related charges	10.6	12.1	12.9	13.1	16.1	16.6	17.6	18.1
Acquisition related costs	-	0.3	0.4	-	-	-	-	-
Non-GAAP general and administrative expense	$ 16.4	$ 14.6	$ 15.3	$ 17.7	$ 18.1	$ 16.9	$ 22.3	$ 23.7
Non-GAAP general and administrative expense as a percentage of revenue	*7.4%*	*6.2%*	*5.4%*	*6.0%*	*5.4%*	*4.9%*	*5.6%*	*6.0%*
GAAP total operating expense[1]	$ 192.4	$ 199.8	$ 224.8	$ 250.0	$ 290.6	$ 303.4	$ 321.8	$ 346.7
Share-based compensation related charges	54.0	57.0	61.3	66.8	93.9	99.1	98.6	102.1
Acquisition related costs	-	0.3	0.4	-	-	-	-	-
Amortization expense of acquired intangible assets	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Non-GAAP total operating expense	$ 138.1	$ 142.3	$ 162.9	$ 183.0	$ 196.5	$ 204.1	$ 223.0	$ 244.4
Non-GAAP total operating expense as a percentage of revenue	*63.3%*	*60.7%*	*57.4%*	*61.6%*	*58.7%*	*59.0%*	*55.7%*	*61.4%*
GAAP operating loss[1]	$ (34.1)	$ (30.0)	$ (15.2)	$ (32.0)	$ (50.1)	$ (52.5)	$ (22.7)	$ (49.9)
Share-based compensation related charges	60.6	64.1	68.9	75.2	106.9	112.7	112.7	116.5
Acquisition related costs	-	0.3	0.4	-	-	-	-	-
Amortization expense of acquired intangible assets	1.8	1.7	2.0	2.1	2.1	2.1	2.0	2.1
Litigation related charges	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Non-GAAP operating income	$ 31.3	$ 39.2	$ 59.2	$ 48.4	$ 61.9	$ 65.4	$ 95.1	$ 71.8
Non-GAAP operating margin	*14.5%*	*16.8%*	*20.9%*	*16.3%*	*18.5%*	*18.9%*	*23.7%*	*18.0%*
GAAP interest expense	$ (5.5)	$ (5.7)	$ (5.6)	$ (5.8)	$ (5.8)	$ (5.8)	$ (6.0)	$ (6.0)
Non-cash interest expense related to convertible notes	5.5	5.6	5.6	5.8	5.7	5.9	6.0	6.0
Non-GAAP interest expense	$ -	$ (0.1)	$ -	$ -	$ (0.1)	$ 0.1	$ -	$ -
Non-GAAP interest expense as a percentage of revenue	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0 %*	*0.0%*
GAAP other income (expense), net	$ 0.3	$ -	$ (0.5)	$ 2.2	$ 2.5	$ 1.0	$ 2.7	$ 2.5
Foreign currency (gain) loss associated with non-GAAP adjustments	-	0.6	0.9	(0.8)	(0.7)	1.8	(0.6)	(0.2)
Non-GAAP other income, net	$ 0.3	$ 0.6	$ 0.4	$ 1.4	$ 1.8	$ 2.8	$ 2.1	$ 2.3
Non-GAAP other income, net as a percentage of revenue	*0.2%*	*0.2%*	*0.1%*	*0.5%*	*0.5%*	*0.8%*	*0.5%*	*0.6%*
GAAP loss before income taxes[1]	$ (39.3)	$ (35.7)	$ (21.3)	$ (35.6)	$ (53.4)	$ (57.3)	$ (26.0)	$ (53.4)
Share-based compensation related charges	60.6	64.1	68.9	75.2	106.9	112.7	112.7	116.5
Acquisition related costs	-	0.3	0.4	-	-	-	-	-
Amortization expense of acquired intangible assets	1.8	1.7	2.0	2.1	2.1	2.1	2.0	2.1
Litigation related charges	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Non-cash interest expense related to convertible notes	5.5	5.6	5.6	5.8	5.7	5.9	6.0	6.0
Foreign currency (gain) loss associated with non-GAAP adjustments	-	0.6	0.9	(0.8)	(0.7)	1.8	(0.6)	(0.2)
Non-GAAP income before income taxes	$ 31.6	$ 39.7	$ 59.6	$ 49.8	$ 63.6	$ 68.3	$ 97.2	$ 74.1
GAAP provision for (benefit from) income taxes[1]	$ (0.7)	$ 3.5	$ 5.4	$ 4.3	$ 3.9	$ 6.8	$ 5.4	$ 8.4
Income tax and other tax adjustments related to the above	12.7	11.6	17.3	14.7	20.2	19.2	31.5	14.5
Non-GAAP provision for income taxes	$ 12.0	$ 15.1	$ 22.7	$ 19.0	$ 24.1	$ 26.0	$ 36.9	$ 22.9
Non-GAAP effective tax rate [2]	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*38.0%*	*31.0%*
GAAP net loss[1]	$ (38.6)	$ (39.2)	$ (26.7)	$ (39.9)	$ (57.3)	$ (64.1)	$ (31.4)	$ (61.8)
Share-based compensation related charges	60.6	64.1	68.9	75.2	106.9	112.7	112.7	116.5
Acquisition related costs	-	0.3	0.4	-	-	-	-	-
Amortization expense of acquired intangible assets	1.8	1.7	2.0	2.1	2.1	2.1	2.0	2.1
Litigation related charges	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Non-cash interest expense related to convertible notes	5.5	5.6	5.6	5.8	5.7	5.9	6.0	6.0
Foreign currency (gain) loss associated with non-GAAP adjustments	-	0.6	0.9	(0.8)	(0.7)	1.8	(0.6)	(0.2)
Income tax and other tax adjustments related to the above	(12.7)	(11.6)	(17.3)	(14.7)	(20.2)	(19.2)	(31.5)	(14.5)
Non-GAAP net income	$ 19.6	$ 24.6	$ 36.9	$ 30.8	$ 39.5	$ 42.3	$ 60.3	$ 51.2
GAAP net loss per share, diluted[1]	$ (0.48)	$ (0.48)	$ (0.32)	$ (0.47)	$ (0.66)	$ (0.73)	$ (0.35)	$ (0.69)
Share-based compensation related charges	0.73	0.76	0.81	0.86	1.21	1.27	1.25	1.28
Acquisition related costs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Amortization expense of acquired intangible assets	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Litigation related charges	0.04	0.04	0.04	0.04	0.04	0.03	0.03	0.03
Non-cash interest expense related to convertible notes	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Foreign currency (gain) loss associated with non-GAAP adjustments	0.00	0.01	0.01	(0.01)	(0.01)	0.02	(0.01)	0.00
Income tax and other tax adjustments related to the above	(0.15)	(0.14)	(0.22)	(0.17)	(0.24)	(0.22)	(0.35)	(0.16)
Non-GAAP net income per share, diluted	$ 0.23	$ 0.28	$ 0.41	$ 0.34	$ 0.43	$ 0.46	$ 0.66	$ 0.55

(1) Effective Q1'17, we changed our accounting policy for sales commissions, which impacted our GAAP financial statements. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect the change. Refer to "Adjusted GAAP Financial Statements" for more information.

(2) Effective Q1'17, our non-GAAP effective tax rate changed from 38% to 31%.

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

	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
GAAP weighted-average shares used to compute net loss per share, diluted	80.8	82.3	84.0	85.1	86.6	87.8	88.9	89.8
Weighted-average effect of potentially dilutive securities[3]	5.8	5.7	6.1	5.6	5.1	3.5	2.8	3.4
Non-GAAP weighted-average shares used to compute net income per share, diluted	86.6	88.0	90.1	90.7	91.7	91.3	91.7	93.2
Net cash provided by operating activities	$ 76.9	$ 87.2	$ 111.3	$ 146.7	$ 153.8	$ 170.1	$ 187.5	$ 203.3
Less: purchases of property, equipment, and other assets	6.2	9.8	11.9	19.5	17.4	19.3	16.3	20.9
Free cash flow (non-GAAP)	$ 70.7	$ 77.4	$ 99.4	$ 127.2	$ 136.4	$ 150.8	$ 171.2	$ 182.4
Net cash provided by (used in) investing activities	$ (286.3)	$ 6.8	$ (198.4)	$ (263.5)	$ (21.2)	$ (54.6)	$ 0.4	$ (71.2)
Net cash provided by (used in) financing activities	$ 8.7	$ 17.1	$ 8.8	$ 16.8	$ 4.8	$ 21.3	$ (3.5)	$ (27.1)
Free cash flow margin (non-GAAP)	*32.5 %*	*33.1 %*	*35.0 %*	*42.8 %*	*40.7 %*	*43.6 %*	*42.7 %*	*45.8 %*
Other Key Metrics - Calculation of Billings								
Total revenue	$ 217.7	$ 234.2	$ 283.9	$ 297.2	$ 334.7	$ 345.8	$ 400.8	$ 398.1
Add: change in total deferred revenue	65.1	68.0	109.7	90.8	124.3	140.4	171.6	118.8
Billings	$ 282.8	$ 302.2	$ 393.6	$ 388.0	$ 459.0	$ 486.2	$ 572.4	$ 516.9

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

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

	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
Assets								
Current assets:								
Cash and cash equivalents	$ 343.0	$ 454.1	$ 375.8	$ 275.8	$ 413.2	$ 550.0	$ 734.4	$ 839.4
Short-term investments	332.1	368.9	413.2	485.5	551.4	537.5	551.2	550.6
Accounts receivable, net	135.3	150.5	212.4	196.4	254.4	267.6	348.7	346.5
Prepaid expenses and other current assets[1]	83.2	94.5	101.8	111.0	121.2	126.9	139.7	129.4
Total current assets	893.6	1,068.0	1,103.2	1,068.7	1,340.2	1,482.0	1,774.0	1,865.9
Property and equipment, net	52.6	59.5	62.9	76.7	92.6	100.5	117.2	125.0
Long-term investments	463.9	408.5	538.8	694.5	631.1	682.9	652.8	708.4
Goodwill	155.4	155.4	163.5	163.5	163.5	163.5	163.5	163.5
Intangible assets, net	45.9	43.9	52.7	51.0	48.7	46.4	44.0	41.7
Other assets[1]	104.6	101.8	105.0	99.2	107.1	105.0	106.7	102.0
Total assets	$ 1,716.0	$ 1,837.1	$ 2,026.1	$ 2,153.6	$ 2,383.2	$ 2,580.3	$ 2,858.2	$ 3,006.5
Liabilities, temporary equity, and stockholders' equity								
Current liabilities:								
Accounts payable	$ 14.0	$ 14.7	$ 13.2	$ 17.5	$ 32.5	$ 24.3	$ 30.2	$ 29.2
Accrued compensation[1]	60.3	64.3	79.8	52.8	71.2	56.4	73.5	59.0
Accrued and other liabilities[1]	25.5	29.5	30.2	38.9	44.0	45.1	39.2	48.4
Deferred revenue	324.5	365.4	423.9	477.3	541.2	610.4	703.9	758.1
Convertible senior notes, net[1]	-	471.2	476.8	482.6	488.3	494.2	-	506.2
Total current liabilities	424.3	945.1	1,023.9	1,069.1	1,177.2	1,230.4	846.8	1,400.9
Convertible senior notes, net[1]	465.5	-	-	-	-	-	500.2	-
Long-term deferred revenue	211.4	238.5	289.8	327.2	387.6	458.8	536.9	601.5
Other long-term liabilities[1]	52.9	53.7	64.8	60.2	72.3	78.0	79.4	85.8
Temporary equity	-	93.0	87.9	82.7	77.5	72.2	-	61.4
Stockholders' equity:								
Preferred stock	-	-	-	-	-	-	-	-
Common stock and additional paid-in capital	924.7	908.9	988.7	1,083.6	1,195.4	1,330.5	1,515.5	1,542.2
Accumulated other comprehensive income (loss)	0.2	0.1	(0.1)	(0.4)	(0.7)	0.6	1.0	(1.9)
Accumulated deficit[1]	(363.0)	(402.2)	(428.9)	(468.8)	(526.1)	(590.2)	(621.6)	(683.4)
Total stockholders' equity	561.9	506.8	559.7	614.4	668.6	740.9	894.9	856.9
Total liabilities, temporary equity, and stockholders' equity	$ 1,716.0	$ 1,837.1	$ 2,026.1	$ 2,153.6	$ 2,383.2	$ 2,580.3	$ 2,858.2	$ 3,006.5

(1) Effective Q1'17, we changed our accounting policy for sales commissions and adopted new accounting guidance related to debt issuance costs. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect these changes. Refer to "Adjusted GAAP Financial Statements" for more information.

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

	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117
Cash flows from operating activities								
Net loss[1]	$ (38.6)	$ (39.2)	$ (26.7)	$ (39.9)	$ (57.3)	$ (64.1)	$ (31.4)	$ (61.8)
Adjustments to reconcile net loss to net cash provided by operating activities:								
Share-based compensation for equity based awards	56.9	60.2	65.8	72.9	101.9	108.4	109.6	114.2
Depreciation and amortization	6.8	7.4	8.6	9.2	10.3	11.2	12.1	13.6
Amortization of investment premiums, net of accretion of purchase discounts	0.8	0.8	0.9	0.8	0.8	0.8	0.6	0.7
Amortization of debt discount and debt issuance costs	5.5	5.6	5.7	5.7	5.8	5.9	6.0	6.0
Excess tax benefit from share-based compensation arrangements	(1.0)	0.8	(2.0)	(0.2)	(0.3)	(0.2)	0.2	(0.2)
Changes in operating assets and liabilities, net of effects of acquisitions:								
Accounts receivable, net	(19.0)	(15.3)	(61.8)	16.0	(58.0)	(13.3)	(81.1)	2.2
Prepaid expenses and other assets[1]	(43.9)	(7.4)	(11.0)	7.3	(20.2)	(4.9)	(13.4)	10.1
Accounts payable	2.6	(2.0)	0.4	5.2	8.4	(1.9)	3.4	1.8
Accrued compensation[1]	18.6	4.1	15.5	(27.0)	18.4	(14.8)	17.1	(14.5)
Accrued and other liabilities[1]	23.1	4.2	6.2	5.9	19.7	2.6	(7.2)	12.4
Deferred revenue	65.1	68.0	109.7	90.8	124.3	140.4	171.6	118.8
Net cash provided by operating activities	76.9	87.2	111.3	146.7	153.8	170.1	187.5	203.3
Cash flows from investing activities								
Purchases of investments	(339.3)	(79.3)	(321.1)	(512.5)	(97.7)	(219.9)	(206.9)	(285.7)
Proceeds from sales of investments	-	5.0	11.5	124.4	10.0	3.0	4.5	-
Proceeds from maturities of investments	59.2	90.9	138.2	144.1	83.9	181.6	219.1	235.4
Business acquisitions, net of cash acquired	-	-	(15.1)	-	-	-	-	-
Purchases of property, equipment, and other assets	(6.2)	(9.8)	(11.9)	(19.5)	(17.4)	(19.3)	(16.3)	(20.9)
Net cash provided by (used in) investing activities	(286.3)	6.8	(198.4)	(263.5)	(21.2)	(54.6)	0.4	(71.2)
Cash flows from financing activities								
Repurchases of common stock	-	-	-	-	-	-	-	(50.0)
Proceeds from sales of shares through employee equity incentive plans	7.7	17.9	6.8	16.6	4.5	21.1	3.1	22.7
Excess tax benefit from share-based compensation arrangements	1.0	(0.8)	2.0	0.2	0.3	0.2	(0.2)	0.2
Payment of deferred consideration related to prior year business acquisition	-	-	-	-	-	-	(6.4)	-
Net cash provided by (used in) financing activities	8.7	17.1	8.8	16.8	4.8	21.3	(3.5)	(27.1)
Net increase (decrease) in cash and cash equivalents	(200.7)	111.1	(78.3)	(100.0)	137.4	136.8	184.4	105.0
Cash and cash equivalents - beginning of period	543.7	343.0	454.1	375.8	275.8	413.2	550.0	734.4
Cash and cash equivalents - end of period	$ 343.0	$ 454.1	$ 375.8	$ 275.8	$ 413.2	$ 550.0	$ 734.4	$ 839.4

(1) Effective Q1'17, we changed our accounting policy for sales commissions. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect the change. The change in accounting policy did not impact our balance of cash and cash equivalents, and as a result, did not change net cash flows from operating, investing, or financing activities in our statements of cash flows. Refer to "Adjusted GAAP Financial Statements" for more information.

Palo Alto Networks, Inc.
Adjusted GAAP Financial Statements
(In millions, except per share amounts)

Effective August 1, 2016 (Q1'17), we voluntarily changed our accounting policy for sales commissions and adopted new accounting guidance related to the presentation of debt issuance costs. Both of these accounting changes were applied retrospectively to our GAAP financial statements included in this supplemental financial information. The tables below present the changes to historical periods for the financial statement line items affected by the accounting changes.

Change in accounting policy for sales commissions - impact on GAAP financial statements

	Q215	Q315	Q415	Q116	Q216	Q316	Q416
Condensed Consolidated Statements of Operations - GAAP							
Sales and marketing expense	$ (4.4)	$ (6.7)	$ (19.3)	$ 1.2	$ (5.2)	$ (6.1)	$ (22.7)
Total operating expense	(4.4)	(6.7)	(19.3)	1.2	(5.2)	(6.1)	(22.7)
Operating loss	4.4	6.7	19.3	(1.2)	5.2	6.1	22.7
Loss before income taxes	4.4	6.7	19.3	(1.2)	5.2	6.1	22.7
Provision for (benefit from) income taxes	-	-	-	-	-	-	(0.4)
Net loss	$ 4.4	$ 6.7	$ 19.3	$ (1.2)	$ 5.2	$ 6.1	$ 23.1
Net loss per share, diluted	$ 0.05	$ 0.08	$ 0.23	$ (0.02)	$ 0.06	$ 0.07	$ 0.26
Condensed Consolidated Balance Sheets							
Prepaid expenses and other current assets	$ 32.1	$ 38.3	$ 39.5	$ 38.5	$ 42.3	$ 44.4	$ 54.9
Other assets	22.5	25.2	31.7	30.4	33.5	37.5	50.1
Accrued compensation	7.1	10.8	-	-	-	-	-
Accrued and other liabilities	2.1	1.1	2.0	0.6	-	-	-
Other long-term liabilities	(0.4)	(0.9)	(2.6)	(2.3)	-	-	-
Accumulated deficit	$ 45.8	$ 52.5	$ 71.8	$ 70.6	$ 75.8	$ 81.9	$ 105.0

Adoption of new accounting guidance for debt issuance costs - impact on GAAP financial statements

	Q215	Q315	Q415	Q116	Q216	Q316	Q416
Condensed Consolidated Balance Sheets							
Prepaid expenses and other current assets	$ -	$ (10.8)	$ (10.3)	$ (9.7)	$ (9.2)	$ (8.6)	$ -
Other assets	(11.4)	-	-	-	-	-	(8.0)
Convertible senior notes, net	$ (11.4)	$ (10.8)	$ (10.3)	$ (9.7)	$ (9.2)	$ (8.6)	$ (8.0)