

Non-GAAP Financial Measures and Other Key Metrics

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

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

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

	FY15	FY16	FY17
Revenue:			
Product	\$ 492.7	\$ 670.8	\$ 709.1
Subscription and support	435.4	707.7	1,052.5
Total revenue	<u>928.1</u>	<u>1,378.5</u>	<u>1,761.6</u>
Cost of revenue:			
Product	131.1	175.4	201.4
Subscription and support	120.4	194.6	275.2
Total cost of revenue	<u>251.5</u>	<u>370.0</u>	<u>476.6</u>
Total gross profit	676.6	1,008.5	1,285.0
<i>Product gross margin</i>	<i>73.4 %</i>	<i>73.9 %</i>	<i>71.6 %</i>
<i>Subscription and support gross margin</i>	<i>72.3 %</i>	<i>72.5 %</i>	<i>73.9 %</i>
<i>Total gross margin</i>	<i>72.9 %</i>	<i>73.2 %</i>	<i>72.9 %</i>
Operating expenses:			
Research and development	185.8	284.2	347.4
Sales and marketing ⁽¹⁾	489.0	743.2	919.1
General and administrative	101.6	138.4	198.3
Total operating expenses ⁽¹⁾	<u>776.4</u>	<u>1,165.8</u>	<u>1,464.8</u>
Operating loss ⁽¹⁾	(99.8)	(157.3)	(179.8)
Interest expense	(22.3)	(23.4)	(24.5)
Other income, net	0.2	8.4	10.2
Loss before income taxes ⁽¹⁾	<u>(121.9)</u>	<u>(172.3)</u>	<u>(194.1)</u>
Provision for income taxes ⁽¹⁾	9.4	20.4	22.5
Net loss ⁽¹⁾	<u>\$ (131.3)</u>	<u>\$ (192.7)</u>	<u>\$ (216.6)</u>

(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 "Change in Accounting Policy for Sales Commissions" on page 14 herein for more information.

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

	Q116	Q216	Q316	Q416	Q117 ⁽²⁾	Q217	Q317	Q417
Revenue:								
Product	\$ 147.7	\$ 169.9	\$ 162.1	\$ 191.1	\$ 163.8	\$ 168.8	\$ 164.2	\$ 212.3
Subscription and support	149.5	164.8	183.7	209.7	234.3	253.8	267.6	296.8
Total revenue	297.2	334.7	345.8	400.8	398.1	422.6	431.8	509.1
Cost of revenue:								
Product	38.8	44.9	43.2	48.5	42.2	45.8	49.7	63.7
Subscription and support	40.4	49.3	51.7	53.2	59.0	67.4	74.0	74.8
Total cost of revenue	79.2	94.2	94.9	101.7	101.2	113.2	123.7	138.5
Total gross profit	218.0	240.5	250.9	299.1	296.9	309.4	308.1	370.6
<i>Product gross margin</i>	73.8 %	73.5 %	73.4 %	74.6 %	74.2 %	72.9 %	69.7 %	70.0 %
<i>Subscription and support gross margin</i>	72.9 %	70.2 %	71.9 %	74.6 %	74.8 %	73.4 %	72.3 %	74.8 %
<i>Total gross margin</i>	73.3 %	71.9 %	72.6 %	74.6 %	74.6 %	73.2 %	71.4 %	72.8 %
Operating expenses:								
Research and development	59.7	74.0	74.0	76.5	84.2	89.9	86.0	87.3
Sales and marketing ⁽¹⁾	159.5	182.4	195.9	205.4	220.1	226.7	226.9	245.4
General and administrative	30.8	34.2	33.5	39.9	41.6	47.2	44.3	65.2
Total operating expenses ⁽¹⁾	250.0	290.6	303.4	321.8	345.9	363.8	357.2	397.9
Operating loss ⁽¹⁾	(32.0)	(50.1)	(52.5)	(22.7)	(49.0)	(54.4)	(49.1)	(27.3)
Interest expense	(5.8)	(5.8)	(5.8)	(6.0)	(6.0)	(6.1)	(6.2)	(6.2)
Other income, net	2.2	2.5	1.0	2.7	2.5	2.7	2.1	2.9
Loss before income taxes ⁽¹⁾	(35.6)	(53.4)	(57.3)	(26.0)	(52.5)	(57.8)	(53.2)	(30.6)
Provision for income taxes ⁽¹⁾	4.3	3.9	6.8	5.4	4.4	2.8	7.7	7.6
Net loss ⁽¹⁾	\$ (39.9)	\$ (57.3)	\$ (64.1)	\$ (31.4)	\$ (56.9)	\$ (60.6)	\$ (60.9)	\$ (38.2)

(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 "Change in Accounting Policy for Sales Commissions" on page 15 herein for more information.

(2) In Q2'17, we early adopted new share-based payment accounting guidance. As a result, certain amounts for Q1'17 have been adjusted to reflect the adoption of the guidance. Refer to "Adoption of New Accounting Guidance" on page 17 herein for more information.

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

	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>
Revenue:			
Product	\$ 492.7	\$ 670.8	\$ 709.1
Subscription and support	435.4	707.7	1,052.5
Total revenue	<u>928.1</u>	<u>1,378.5</u>	<u>1,761.6</u>
Cost of revenue:			
Product	114.6	156.6	181.6
Subscription and support	92.9	144.5	208.1
Total cost of revenue	<u>207.5</u>	<u>301.1</u>	<u>389.7</u>
Total gross profit	720.6	1,077.4	1,371.9
<i>Product gross margin</i>	76.7 %	76.6 %	74.4 %
<i>Subscription and support gross margin</i>	78.7 %	79.6 %	80.2 %
<i>Total gross margin</i>	77.7 %	78.2 %	77.9 %
Operating expenses:			
Research and development	106.8	146.7	190.8
Sales and marketing ⁽¹⁾	399.8	584.9	726.3
General and administrative	60.6	75.0	100.1
Total operating expenses ⁽¹⁾	<u>567.2</u>	<u>806.6</u>	<u>1,017.2</u>
Operating income ⁽¹⁾	153.4	270.8	354.7
Interest expense	(0.1)	-	-
Other income, net	1.6	8.1	12.6
Income before income taxes ⁽¹⁾	<u>154.9</u>	<u>278.9</u>	<u>367.3</u>
Provision for income taxes ⁽¹⁾	58.9	106.0	113.9
Net income ⁽¹⁾	<u>\$ 96.0</u>	<u>\$ 172.9</u>	<u>\$ 253.4</u>

(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 "Change in Accounting Policy for Sales Commissions" on page 14 herein for more information.

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

	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417
Revenue:								
Product	\$ 147.7	\$ 169.9	\$ 162.1	\$ 191.1	\$ 163.8	\$ 168.8	\$ 164.2	\$ 212.3
Subscription and support	149.5	164.8	183.7	209.7	234.3	253.8	267.6	296.8
Total revenue	297.2	334.7	345.8	400.8	398.1	422.6	431.8	509.1
Cost of revenue:								
Product	34.4	40.1	38.5	43.6	37.3	40.7	44.9	58.7
Subscription and support	31.4	36.2	37.8	39.1	44.6	49.8	56.8	56.9
Total cost of revenue	65.8	76.3	76.3	82.7	81.9	90.5	101.7	115.6
Total gross profit	231.4	258.4	269.5	318.1	316.2	332.1	330.1	393.5
<i>Product gross margin</i>	76.7 %	76.4 %	76.3 %	77.2 %	77.2 %	75.9 %	72.7 %	72.4 %
<i>Subscription and support gross margin</i>	79.0 %	78.1 %	79.4 %	81.4 %	81.0 %	80.4 %	78.8 %	80.8 %
<i>Total gross margin</i>	77.9 %	77.2 %	77.9 %	79.4 %	79.4 %	78.6 %	76.4 %	77.3 %
Operating expenses:								
Research and development	34.0	37.5	36.7	38.5	45.4	47.3	47.7	50.4
Sales and marketing ⁽¹⁾	131.3	140.9	150.5	162.2	175.3	175.0	178.9	197.1
General and administrative	17.7	18.1	16.9	22.3	23.7	26.7	24.2	25.5
Total operating expenses ⁽¹⁾	183.0	196.5	204.1	223.0	244.4	249.0	250.8	273.0
Operating income ⁽¹⁾	48.4	61.9	65.4	95.1	71.8	83.1	79.3	120.5
Interest expense	-	(0.1)	0.1	-	-	-	-	-
Other income, net	1.4	1.8	2.8	2.1	2.3	3.3	3.5	3.5
Income before income taxes ⁽¹⁾	49.8	63.6	68.3	97.2	74.1	86.4	82.8	124.0
Provision for income taxes ⁽¹⁾	19.0	24.1	26.0	36.9	22.9	26.8	25.7	38.5
Net income ⁽¹⁾	\$ 30.8	\$ 39.5	\$ 42.3	\$ 60.3	\$ 51.2	\$ 59.6	\$ 57.1	\$ 85.5

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Palo Alto Networks, Inc.

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

	FY15	FY16	FY17
GAAP to Non-GAAP Reconciliations			
GAAP product gross profit	\$ 361.6	\$ 495.4	\$ 507.7
Share-based compensation related charges	4.2	6.5	7.5
Litigation related charges ⁽¹⁾	12.3	12.3	12.3
Non-GAAP product gross profit	\$ 378.1	\$ 514.2	\$ 527.5
Non-GAAP product gross margin	76.7%	76.6%	74.4%
GAAP subscription and support gross profit	\$ 315.0	\$ 513.1	\$ 777.3
Share-based compensation related charges	21.4	42.6	58.7
Amortization expense of acquired intangible assets	6.1	7.5	8.4
Non-GAAP subscription and support gross profit	\$ 342.5	\$ 563.2	\$ 844.4
Non-GAAP subscription and support gross margin	78.7%	79.6%	80.2%
GAAP total gross profit	\$ 676.6	\$ 1,008.5	\$ 1,285.0
Share-based compensation related charges	25.6	49.1	66.2
Amortization expense of acquired intangible assets	6.1	7.5	8.4
Litigation related charges ⁽¹⁾	12.3	12.3	12.3
Non-GAAP total gross profit	\$ 720.6	\$ 1,077.4	\$ 1,371.9
Non-GAAP gross margin	77.7%	78.2%	77.9%
GAAP research and development expense	\$ 185.8	\$ 284.2	\$ 347.4
Share-based compensation related charges	78.2	136.8	156.3
Amortization expense of acquired intangible assets	0.8	0.7	0.3
Non-GAAP research and development expense	\$ 106.8	\$ 146.7	\$ 190.8
Non-GAAP research and development expense as a percentage of revenue	11.5%	10.6%	10.8%
GAAP sales and marketing expense ⁽²⁾	\$ 489.0	\$ 743.2	\$ 919.1
Share-based compensation related charges	89.1	158.2	192.6
Amortization expense of acquired intangible assets	0.1	0.1	0.2
Non-GAAP sales and marketing expense	\$ 399.8	\$ 584.9	\$ 726.3
Non-GAAP sales and marketing expense as a percentage of revenue	43.1%	42.4%	41.2%
GAAP general and administrative expense	\$ 101.6	\$ 138.4	\$ 198.3
Share-based compensation related charges	40.3	63.4	73.8
Acquisition related costs	0.7	-	3.1
Facility exit costs ⁽³⁾	-	-	21.3
Non-GAAP general and administrative expense	\$ 60.6	\$ 75.0	\$ 100.1
Non-GAAP general and administrative expense as a percentage of revenue	6.6%	5.5%	5.8%
GAAP total operating expense ⁽²⁾	\$ 776.4	\$ 1,165.8	\$ 1,464.8
Share-based compensation related charges	207.6	358.4	422.7
Acquisition related costs	0.7	-	3.1
Amortization expense of acquired intangible assets	0.9	0.8	0.5
Facility exit costs ⁽³⁾	-	-	21.3
Non-GAAP total operating expense	\$ 567.2	\$ 806.6	\$ 1,017.2
Non-GAAP total operating expense as a percentage of revenue	61.2%	58.5%	57.8%
GAAP operating loss ⁽²⁾	\$ (99.8)	\$ (157.3)	\$ (179.8)
Share-based compensation related charges	233.2	407.5	488.9
Acquisition related costs	0.7	-	3.1
Amortization expense of acquired intangible assets	7.0	8.3	8.9
Litigation related charges ⁽¹⁾	12.3	12.3	12.3
Facility exit costs ⁽³⁾	-	-	21.3
Non-GAAP operating income	\$ 153.4	\$ 270.8	\$ 354.7
Non-GAAP operating margin	16.5%	19.7%	20.1%
GAAP interest expense	\$ (22.3)	\$ (23.4)	\$ (24.5)
Non-cash interest expense related to convertible notes	22.2	23.4	24.5
Non-GAAP interest expense	\$ (0.1)	\$ -	\$ -
Non-GAAP interest expense as a percentage of revenue	0.0%	0.0%	0.0%
GAAP other income, net	\$ 0.2	\$ 8.4	\$ 10.2
Foreign currency (gain) loss associated with non-GAAP adjustments	1.4	(0.3)	2.4
Non-GAAP other income, net	\$ 1.6	\$ 8.1	\$ 12.6
Non-GAAP other income, net as a percentage of revenue	0.2%	0.6%	0.7%
GAAP loss before income taxes ⁽²⁾	\$ (121.9)	\$ (172.3)	\$ (194.1)
Share-based compensation related charges	233.2	407.5	488.9
Acquisition related costs	0.7	-	3.1
Amortization expense of acquired intangible assets	7.0	8.3	8.9
Litigation related charges ⁽¹⁾	12.3	12.3	12.3
Facility exit costs ⁽³⁾	-	-	21.3
Non-cash interest expense related to convertible notes	22.2	23.4	24.5
Foreign currency (gain) loss associated with non-GAAP adjustments	1.4	(0.3)	2.4
Non-GAAP income before income taxes	\$ 154.9	\$ 278.9	\$ 367.3

(1) Consists of amortization of intellectual property licenses.

(2) 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 "Change in Accounting Policy for Sales Commissions" on page 14 herein for more information.

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

Palo Alto Networks, Inc.

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

	FY15	FY16	FY17
GAAP provision for income taxes ⁽²⁾	\$ 9.4	\$ 20.4	\$ 22.5
Income tax and other tax adjustments related to the above	49.5	85.6	91.4
Non-GAAP provision for income taxes	<u>\$ 58.9</u>	<u>\$ 106.0</u>	<u>\$ 113.9</u>
Non-GAAP effective tax rate ⁽⁴⁾	<u>38.0%</u>	<u>38.0%</u>	<u>31.0%</u>
GAAP net loss ⁽²⁾	\$ (131.3)	\$ (192.7)	\$ (216.6)
Share-based compensation related charges	233.2	407.5	488.9
Acquisition related costs	0.7	-	3.1
Amortization expense of acquired intangible assets	7.0	8.3	8.9
Litigation related charges ⁽¹⁾	12.3	12.3	12.3
Facility exit costs ⁽³⁾	-	-	21.3
Non-cash interest expense related to convertible notes	22.2	23.4	24.5
Foreign currency (gain) loss associated with non-GAAP adjustments	1.4	(0.3)	2.4
Income tax and other tax adjustments related to the above	<u>(49.5)</u>	<u>(85.6)</u>	<u>(91.4)</u>
Non-GAAP net income	<u>\$ 96.0</u>	<u>\$ 172.9</u>	<u>\$ 253.4</u>
GAAP net loss per share, diluted ⁽²⁾	\$ (1.61)	\$ (2.21)	\$ (2.39)
Share-based compensation related charges	2.79	4.58	5.30
Acquisition related costs	0.01	0.00	0.03
Amortization expense of acquired intangible assets	0.09	0.10	0.10
Litigation related charges ⁽¹⁾	0.15	0.14	0.14
Facility exit costs ⁽³⁾	0.00	0.00	0.24
Non-cash interest expense related to convertible notes	0.27	0.27	0.27
Foreign currency (gain) loss associated with non-GAAP adjustments	0.02	0.00	0.03
Income tax and other tax adjustments related to the above	<u>(0.62)</u>	<u>(0.99)</u>	<u>(1.01)</u>
Non-GAAP net income per share, diluted	<u>\$ 1.10</u>	<u>\$ 1.89</u>	<u>\$ 2.71</u>
GAAP weighted-average shares used to compute net loss per share, diluted	81.6	87.1	90.6
Weighted-average effect of potentially dilutive securities ⁽⁵⁾	5.8	4.2	3.0
Non-GAAP weighted-average shares used to compute net income per share, diluted	<u>87.4</u>	<u>91.3</u>	<u>93.6</u>
Net cash provided by operating activities ⁽⁶⁾	\$ 352.8	\$ 658.6	\$ 868.5
Less: purchases of property, equipment, and other assets	33.8	72.5	163.4
Free cash flow (non-GAAP) ⁽⁶⁾	<u>\$ 319.0</u>	<u>\$ 586.1</u>	<u>\$ 705.1</u>
Net cash used in investing activities	\$ (679.0)	\$ (338.9)	\$ (472.6)
Net cash provided by (used in) financing activities ⁽⁶⁾	<u>\$ 48.2</u>	<u>\$ 38.9</u>	<u>\$ (386.0)</u>
Free cash flow margin (non-GAAP) ⁽⁶⁾	<u>34.4%</u>	<u>42.5%</u>	<u>40.0%</u>
Net cash provided by operating activities ⁽⁶⁾	\$ 352.8	\$ 658.6	\$ 868.5
Less: purchases of property, equipment, and other assets	33.8	72.5	163.4
Free cash flow (non-GAAP) ⁽⁶⁾	319.0	586.1	705.1
Add: capital expenditures for new headquarters	-	1.1	92.0
Adjusted free cash flow (non-GAAP)	<u>\$ 319.0</u>	<u>\$ 587.2</u>	<u>\$ 797.1</u>
Adjusted free cash flow margin (non-GAAP)	<u>34.4%</u>	<u>42.6%</u>	<u>45.2%</u>
Other Key Metrics - Calculation of Billings			
Total revenue	\$ 928.1	\$ 1,378.5	\$ 1,761.6
Add: change in total deferred revenue, net of acquired deferred revenue	291.0	527.1	531.8
Billings	<u>\$ 1,219.1</u>	<u>\$ 1,905.6</u>	<u>\$ 2,293.4</u>
Product revenue	\$ 492.7	\$ 670.8	\$ 709.1
Add: change in product deferred revenue	4.0	(0.7)	2.0
Product billings	<u>\$ 496.7</u>	<u>\$ 670.1</u>	<u>\$ 711.1</u>
Support revenue	\$ 222.7	\$ 350.7	\$ 501.7
Add: change in support deferred revenue	119.3	228.9	213.6
Support billings	<u>\$ 342.0</u>	<u>\$ 579.6</u>	<u>\$ 715.3</u>
Subscription revenue	\$ 212.7	\$ 357.0	\$ 550.8
Add: change in subscription deferred revenue, net of acquired subscription deferred revenue	167.7	298.9	316.2
Subscription billings	<u>\$ 380.4</u>	<u>\$ 655.9</u>	<u>\$ 867.0</u>

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

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

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

(6) In Q2'17, we early adopted new share-based payment accounting guidance. As part of the adoption, we elected to adopt the guidance related to the presentation of excess tax benefits in the statement of cash flows on a retrospective basis and, as a result, certain cash flow amounts for periods prior to fiscal 2017 have been adjusted. Refer to "Adoption of New Accounting Guidance" on page 16 herein 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)

	Q116	Q216	Q316	Q416	Q117 ⁽³⁾	Q217	Q317	Q417
GAAP to Non-GAAP Reconciliations								
GAAP product gross profit	\$ 108.9	\$ 125.0	\$ 118.9	\$ 142.6	\$ 121.6	\$ 123.0	\$ 114.5	\$ 148.6
Share-based compensation related charges	1.3	1.8	1.6	1.8	1.8	2.1	1.7	1.9
Litigation related charges ⁽¹⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1
Non-GAAP product gross profit	\$ 113.3	\$ 129.8	\$ 123.6	\$ 147.5	\$ 126.5	\$ 128.1	\$ 119.3	\$ 153.6
Non-GAAP product gross margin	76.7%	76.4%	76.3%	77.2%	77.2%	75.9%	72.7%	72.4%
GAAP subscription and support gross profit	\$ 109.1	\$ 115.5	\$ 132.0	\$ 156.5	\$ 175.3	\$ 186.4	\$ 193.6	\$ 222.0
Share-based compensation related charges	7.1	11.2	12.0	12.3	12.5	15.7	15.0	15.5
Amortization expense of acquired intangible assets	1.9	1.9	1.9	1.8	1.9	1.9	2.2	2.4
Non-GAAP subscription and support gross profit	\$ 118.1	\$ 128.6	\$ 145.9	\$ 170.6	\$ 189.7	\$ 204.0	\$ 210.8	\$ 239.9
Non-GAAP subscription and support gross margin	79.0%	78.1%	79.4%	81.4%	81.0%	80.4%	78.8%	80.8%
GAAP total gross profit	\$ 218.0	\$ 240.5	\$ 250.9	\$ 299.1	\$ 296.9	\$ 309.4	\$ 308.1	\$ 370.6
Share-based compensation related charges	8.4	13.0	13.6	14.1	14.3	17.8	16.7	17.4
Amortization expense of acquired intangible assets	1.9	1.9	1.9	1.8	1.9	1.9	2.2	2.4
Litigation related charges ⁽¹⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1
Non-GAAP total gross profit	\$ 231.4	\$ 258.4	\$ 269.5	\$ 318.1	\$ 316.2	\$ 332.1	\$ 330.1	\$ 393.5
Non-GAAP gross margin	77.9%	77.2%	77.9%	79.4%	79.4%	78.6%	76.4%	77.3%
GAAP research and development expense	\$ 59.7	\$ 74.0	\$ 74.0	\$ 76.5	\$ 84.2	\$ 89.9	\$ 86.0	\$ 87.3
Share-based compensation related charges	25.5	36.3	37.2	37.8	38.6	42.5	38.3	36.9
Amortization expense of acquired intangible assets	0.2	0.2	0.1	0.2	0.2	0.1	-	-
Non-GAAP research and development expense	\$ 34.0	\$ 37.5	\$ 36.7	\$ 38.5	\$ 45.4	\$ 47.3	\$ 47.7	\$ 50.4
Non-GAAP research and development expense as a percentage of revenue	11.4%	11.2%	10.6%	9.6%	11.4%	11.2%	11.0%	9.9%
GAAP sales and marketing expense ⁽²⁾	\$ 159.5	\$ 182.4	\$ 195.9	\$ 205.4	\$ 220.1	\$ 226.7	\$ 226.9	\$ 245.4
Share-based compensation related charges	28.2	41.5	45.3	43.2	44.8	51.7	47.9	48.2
Amortization expense of acquired intangible assets	-	-	0.1	-	-	-	0.1	0.1
Non-GAAP sales and marketing expense	\$ 131.3	\$ 140.9	\$ 150.5	\$ 162.2	\$ 175.3	\$ 175.0	\$ 178.9	\$ 197.1
Non-GAAP sales and marketing expense as a percentage of revenue	44.2%	42.1%	43.5%	40.5%	44.0%	41.4%	41.4%	38.7%
GAAP general and administrative expense	\$ 30.8	\$ 34.2	\$ 33.5	\$ 39.9	\$ 41.6	\$ 47.2	\$ 44.3	\$ 65.2
Share-based compensation related charges	13.1	16.1	16.6	17.6	17.9	19.8	17.7	18.4
Acquisition related costs	-	-	-	-	-	0.7	2.4	-
Facility exit costs ⁽⁴⁾	-	-	-	-	-	-	-	21.3
Non-GAAP general and administrative expense	\$ 17.7	\$ 18.1	\$ 16.9	\$ 22.3	\$ 23.7	\$ 26.7	\$ 24.2	\$ 25.5
Non-GAAP general and administrative expense as a percentage of revenue	6.0%	5.4%	4.9%	5.6%	6.0%	6.3%	5.6%	5.0%
GAAP total operating expense ⁽²⁾	\$ 250.0	\$ 290.6	\$ 303.4	\$ 321.8	\$ 345.9	\$ 363.8	\$ 357.2	\$ 397.9
Share-based compensation related charges	66.8	93.9	99.1	98.6	101.3	114.0	103.9	103.5
Acquisition related costs	-	-	-	-	-	0.7	2.4	-
Amortization expense of acquired intangible assets	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Facility exit costs ⁽⁴⁾	-	-	-	-	-	-	-	21.3
Non-GAAP total operating expense	\$ 183.0	\$ 196.5	\$ 204.1	\$ 223.0	\$ 244.4	\$ 249.0	\$ 250.8	\$ 273.0
Non-GAAP total operating expense as a percentage of revenue	61.6%	58.7%	59.0%	55.7%	61.4%	58.9%	58.0%	53.6%
GAAP operating loss ⁽²⁾	\$ (32.0)	\$ (50.1)	\$ (52.5)	\$ (22.7)	\$ (49.0)	\$ (54.4)	\$ (49.1)	\$ (27.3)
Share-based compensation related charges	75.2	106.9	112.7	112.7	115.6	131.8	120.6	120.9
Acquisition related costs	-	-	-	-	-	0.7	2.4	-
Amortization expense of acquired intangible assets	2.1	2.1	2.1	2.0	2.1	2.0	2.3	2.5
Litigation related charges ⁽¹⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1
Facility exit costs ⁽⁴⁾	-	-	-	-	-	-	-	21.3
Non-GAAP operating income	\$ 48.4	\$ 61.9	\$ 65.4	\$ 95.1	\$ 71.8	\$ 83.1	\$ 79.3	\$ 120.5
Non-GAAP operating margin	16.3%	18.5%	18.9%	23.7%	18.0%	19.7%	18.4%	23.7%
GAAP interest expense	\$ (5.8)	\$ (5.8)	\$ (5.8)	\$ (6.0)	\$ (6.0)	\$ (6.1)	\$ (6.2)	\$ (6.2)
Non-cash interest expense related to convertible notes	5.8	5.7	5.9	6.0	6.0	6.1	6.2	6.2
Non-GAAP interest expense	\$ -	\$ (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, net	\$ 2.2	\$ 2.5	\$ 1.0	\$ 2.7	\$ 2.5	\$ 2.7	\$ 2.1	\$ 2.9
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.8)	(0.7)	1.8	(0.6)	(0.2)	0.6	1.4	0.6
Non-GAAP other income, net	\$ 1.4	\$ 1.8	\$ 2.8	\$ 2.1	\$ 2.3	\$ 3.3	\$ 3.5	\$ 3.5
Non-GAAP other income, net as a percentage of revenue	0.5%	0.5%	0.8%	0.5%	0.6%	0.8%	0.8%	0.7%
GAAP loss before income taxes ⁽²⁾	\$ (35.6)	\$ (53.4)	\$ (57.3)	\$ (26.0)	\$ (52.5)	\$ (57.8)	\$ (53.2)	\$ (30.6)
Share-based compensation related charges	75.2	106.9	112.7	112.7	115.6	131.8	120.6	120.9
Acquisition related costs	-	-	-	-	-	0.7	2.4	-
Amortization expense of acquired intangible assets	2.1	2.1	2.1	2.0	2.1	2.0	2.3	2.5
Litigation related charges ⁽¹⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1
Facility exit costs ⁽⁴⁾	-	-	-	-	-	-	-	21.3
Non-cash interest expense related to convertible notes	5.8	5.7	5.9	6.0	6.0	6.1	6.2	6.2
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.8)	(0.7)	1.8	(0.6)	(0.2)	0.6	1.4	0.6
Non-GAAP income before income taxes	\$ 49.8	\$ 63.6	\$ 68.3	\$ 97.2	\$ 74.1	\$ 86.4	\$ 82.8	\$ 124.0
GAAP provision for income taxes ⁽²⁾	\$ 4.3	\$ 3.9	\$ 6.8	\$ 5.4	\$ 4.4	\$ 2.8	\$ 7.7	\$ 7.6
Income tax and other tax adjustments related to the above	14.7	20.2	19.2	31.5	18.5	24.0	18.0	30.9
Non-GAAP provision for income taxes	\$ 19.0	\$ 24.1	\$ 26.0	\$ 36.9	\$ 22.9	\$ 26.8	\$ 25.7	\$ 38.5
Non-GAAP effective tax rate ⁽⁵⁾	38.0%	38.0%	38.0%	38.0%	31.0%	31.0%	31.0%	31.0%

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

(2) 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 "Change in Accounting Policy for Sales Commissions" on page 15 herein for more information.

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

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

(5) 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)

	Q116	Q216	Q316	Q416	Q117 ⁽³⁾	Q217	Q317	Q417
GAAP net loss ⁽²⁾	\$ (39.9)	\$ (57.3)	\$ (64.1)	\$ (31.4)	\$ (56.9)	\$ (60.6)	\$ (60.9)	\$ (38.2)
Share-based compensation related charges	75.2	106.9	112.7	112.7	115.6	131.8	120.6	120.9
Acquisition related costs	-	-	-	-	-	0.7	2.4	-
Amortization expense of acquired intangible assets	2.1	2.1	2.1	2.0	2.1	2.0	2.3	2.5
Litigation related charges ⁽¹⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1
Facility exit costs ⁽⁴⁾	-	-	-	-	-	-	-	21.3
Non-cash interest expense related to convertible notes	5.8	5.7	5.9	6.0	6.0	6.1	6.2	6.2
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.8)	(0.7)	1.8	(0.6)	(0.2)	0.6	1.4	0.6
Income tax and other tax adjustments related to the above	(14.7)	(20.2)	(19.2)	(31.5)	(18.5)	(24.0)	(18.0)	(30.9)
Non-GAAP net income	\$ 30.8	\$ 39.5	\$ 42.3	\$ 60.3	\$ 51.2	\$ 59.6	\$ 57.1	\$ 85.5
GAAP net loss per share, diluted ⁽²⁾	\$ (0.47)	\$ (0.66)	\$ (0.73)	\$ (0.35)	\$ (0.63)	\$ (0.67)	\$ (0.67)	\$ (0.42)
Share-based compensation related charges	0.86	1.21	1.27	1.25	1.27	1.42	1.30	1.31
Acquisition related costs	0.00	0.00	0.00	0.00	0.00	0.01	0.03	0.00
Amortization expense of acquired intangible assets	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03
Litigation related charges ⁽¹⁾	0.04	0.04	0.03	0.03	0.03	0.03	0.03	0.03
Facility exit costs ⁽⁴⁾	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.23
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	(0.01)	(0.01)	0.02	(0.01)	0.00	0.01	0.02	0.01
Income tax and other tax adjustments related to the above	(0.17)	(0.24)	(0.22)	(0.35)	(0.21)	(0.26)	(0.20)	(0.34)
Non-GAAP net income per share, diluted	\$ 0.34	\$ 0.43	\$ 0.46	\$ 0.66	\$ 0.55	\$ 0.63	\$ 0.61	\$ 0.92
GAAP weighted-average shares used to compute net loss per share, diluted	85.1	86.6	87.8	88.9	89.8	90.7	91.0	90.9
Weighted-average effect of potentially dilutive securities ⁽⁶⁾	5.6	5.1	3.5	2.8	3.9	3.2	2.3	2.4
Non-GAAP weighted-average shares used to compute net income per share, diluted	90.7	91.7	91.3	91.7	93.7	93.9	93.3	93.3
Net cash provided by operating activities ⁽³⁾	\$ 146.9	\$ 154.1	\$ 170.3	\$ 187.3	\$ 203.5	\$ 214.3	\$ 211.2	\$ 239.5
Less: purchases of property, equipment, and other assets	19.5	17.4	19.3	16.3	20.9	44.7	48.6	49.2
Free cash flow (non-GAAP) ⁽³⁾	\$ 127.4	\$ 136.7	\$ 151.0	\$ 171.0	\$ 182.6	\$ 169.6	\$ 162.6	\$ 190.3
Net cash provided by (used in) investing activities	\$ (263.5)	\$ (21.2)	\$ (54.6)	\$ 0.4	\$ (71.2)	\$ (173.1)	\$ (166.8)	\$ (61.5)
Net cash provided by (used in) financing activities ⁽³⁾	\$ 16.6	\$ 4.5	\$ 21.1	\$ (3.3)	\$ (27.3)	\$ (119.2)	\$ (113.8)	\$ (125.7)
Free cash flow margin (non-GAAP) ⁽²⁾	42.9 %	40.8 %	43.7 %	42.7 %	45.9 %	40.1 %	37.7 %	37.4 %
Net cash provided by operating activities ⁽³⁾	\$ 146.9	\$ 154.1	\$ 170.3	\$ 187.3	\$ 203.5	\$ 214.3	\$ 211.2	\$ 239.5
Less: purchases of property, equipment, and other assets	19.5	17.4	19.3	16.3	20.9	44.7	48.6	49.2
Free cash flow (non-GAAP) ⁽³⁾	\$ 127.4	\$ 136.7	\$ 151.0	\$ 171.0	\$ 182.6	\$ 169.6	\$ 162.6	\$ 190.3
Add: capital expenditures for new headquarters	-	0.3	0.2	0.6	2.6	31.1	32.8	25.5
Adjusted free cash flow (non-GAAP)	\$ 127.4	\$ 137.0	\$ 151.2	\$ 171.6	\$ 185.2	\$ 200.7	\$ 195.4	\$ 215.8
Adjusted free cash flow margin (non-GAAP)	42.9%	40.9%	43.7%	42.8%	46.5%	47.5%	45.3%	42.4%
Other Key Metrics - Calculation of Billings								
Total revenue	\$ 297.2	\$ 334.7	\$ 345.8	\$ 400.8	\$ 398.1	\$ 422.6	\$ 431.8	\$ 509.1
Add: change in total deferred revenue, net of acquired deferred revenue	90.8	124.3	140.4	171.6	118.8	139.0	112.3	161.7
Billings	\$ 388.0	\$ 459.0	\$ 486.2	\$ 572.4	\$ 516.9	\$ 561.6	\$ 544.1	\$ 670.8

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

(2) 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 "Change in Accounting Policy for Sales Commissions" on page 15 herein for more information.

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

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

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

(6) 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 Years
(In millions)

	FY15	FY16	FY17
Assets			
Current assets:			
Cash and cash equivalents	\$ 375.8	\$ 734.4	\$ 744.3
Short-term investments	413.2	551.2	630.7
Accounts receivable, net	212.4	348.7	432.1
Prepaid expenses and other current assets ⁽¹⁾⁽²⁾	101.8	139.7	169.2
Total current assets	1,103.2	1,774.0	1,976.3
Property and equipment, net	62.9	117.2	211.1
Long-term investments	538.8	652.8	789.3
Goodwill	163.5	163.5	238.8
Intangible assets, net	52.7	44.0	53.7
Other assets ⁽¹⁾⁽²⁾	105.0	106.7	169.1
Total assets	<u>\$ 2,026.1</u>	<u>\$ 2,858.2</u>	<u>\$ 3,438.3</u>
Liabilities, temporary equity, and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 13.2	\$ 30.2	\$ 35.5
Accrued compensation	79.8	73.5	117.5
Accrued and other liabilities ⁽¹⁾	30.2	39.2	79.9
Deferred revenue	423.9	703.9	968.4
Convertible senior notes, net ⁽²⁾	476.8	-	-
Total current liabilities	1,023.9	846.8	1,201.3
Convertible senior notes, net ⁽²⁾	-	500.2	524.7
Long-term deferred revenue	289.8	536.9	805.1
Other long-term liabilities ⁽¹⁾	64.8	79.4	147.6
Temporary equity	87.9	-	-
Stockholders' equity:			
Preferred stock	-	-	-
Common stock and additional paid-in capital	988.7	1,515.5	1,599.7
Accumulated other comprehensive income (loss)	(0.1)	1.0	(3.4)
Accumulated deficit ⁽¹⁾	(428.9)	(621.6)	(836.7)
Total stockholders' equity	559.7	894.9	759.6
Total liabilities, temporary equity, and stockholders' equity	<u>\$ 2,026.1</u>	<u>\$ 2,858.2</u>	<u>\$ 3,438.3</u>

(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 "Change in Accounting Policy for Sales Commissions" on page 14 herein for more information.

(2) In Q1'17, we adopted new accounting guidance related to the presentation of debt issuance costs. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect the adoption of this guidance. Refer to "Adoption of New Accounting Guidance" on page 16 herein for more information.

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

	Q116	Q216	Q316	Q416	Q117 ⁽³⁾	Q217	Q317	Q417
Assets								
Current assets:								
Cash and cash equivalents	\$ 275.8	\$ 413.2	\$ 550.0	\$ 734.4	\$ 839.4	\$ 761.4	\$ 692.0	\$ 744.3
Short-term investments	485.5	551.4	537.5	551.2	550.6	593.0	680.0	630.7
Accounts receivable, net	196.4	254.4	267.6	348.7	346.5	386.1	364.1	432.1
Prepaid expenses and other current assets ⁽¹⁾⁽²⁾	111.0	121.2	126.9	139.7	129.4	139.9	159.1	169.2
Total current assets	1,068.7	1,340.2	1,482.0	1,774.0	1,865.9	1,880.4	1,895.2	1,976.3
Property and equipment, net	76.7	92.6	100.5	117.2	125.0	154.1	192.3	211.1
Long-term investments	694.5	631.1	682.9	652.8	708.4	790.5	719.1	789.3
Goodwill	163.5	163.5	163.5	163.5	163.5	163.5	238.8	238.8
Intangible assets, net	51.0	48.7	46.4	44.0	41.7	39.5	56.5	53.7
Other assets ⁽¹⁾⁽²⁾	99.2	107.1	105.0	106.7	103.7	146.6	148.2	169.1
Total assets	\$ 2,153.6	\$ 2,383.2	\$ 2,580.3	\$ 2,858.2	\$ 3,008.2	\$ 3,174.6	\$ 3,250.1	\$ 3,438.3
Liabilities, temporary equity, and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 17.5	\$ 32.5	\$ 24.3	\$ 30.2	\$ 29.2	\$ 28.0	\$ 33.2	\$ 35.5
Accrued compensation	52.8	71.2	56.4	73.5	59.0	78.8	76.4	117.5
Accrued and other liabilities ⁽¹⁾	38.9	44.0	45.1	39.2	48.4	58.8	60.1	79.9
Deferred revenue	477.3	541.2	610.4	703.9	758.1	828.0	885.0	968.4
Convertible senior notes, net ⁽²⁾	482.6	488.3	494.2	-	506.2	-	-	-
Total current liabilities	1,069.1	1,177.2	1,230.4	846.8	1,400.9	993.6	1,054.7	1,201.3
Convertible senior notes, net ⁽²⁾	-	-	-	500.2	-	512.3	518.4	524.7
Long-term deferred revenue	327.2	387.6	458.8	536.9	601.5	670.6	726.8	805.1
Other long-term liabilities ⁽¹⁾	60.2	72.3	78.0	79.4	80.2	127.5	137.1	147.6
Temporary equity	82.7	77.5	72.2	-	61.4	-	-	-
Stockholders' equity:								
Preferred stock	-	-	-	-	-	-	-	-
Common stock and additional paid-in capital	1,083.6	1,195.4	1,330.5	1,515.5	1,543.1	1,613.3	1,615.8	1,599.7
Accumulated other comprehensive income (loss)	(0.4)	(0.7)	0.6	1.0	(1.9)	(5.1)	(4.2)	(3.4)
Accumulated deficit ⁽¹⁾	(468.8)	(526.1)	(590.2)	(621.6)	(677.0)	(737.6)	(798.5)	(836.7)
Total stockholders' equity	614.4	668.6	740.9	894.9	864.2	870.6	813.1	759.6
Total liabilities, temporary equity, and stockholders' equity	\$ 2,153.6	\$ 2,383.2	\$ 2,580.3	\$ 2,858.2	\$ 3,008.2	\$ 3,174.6	\$ 3,250.1	\$ 3,438.3

(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 "Change in Accounting Policy for Sales Commissions" on page 15 herein for more information.

(2) In Q1'17, we adopted new accounting guidance related to the presentation of debt issuance costs. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect the adoption of this guidance. Refer to "Adoption of New Accounting Guidance" on page 17 herein for more information.

(3) In Q2'17, we early adopted new share-based payment accounting guidance. As a result, certain amounts for Q1'17 have been adjusted to reflect the adoption of the guidance. Refer to "Adoption of New Accounting Guidance" on page 17 herein for more information.

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

	FY15	FY16	FY17
Cash flows from operating activities			
Net loss ⁽¹⁾	\$ (131.3)	\$ (192.7)	\$ (216.6)
Adjustments to reconcile loss to net cash provided by operating activities:			
Share-based compensation for equity based awards	221.3	392.8	474.5
Depreciation and amortization	28.9	42.8	59.8
Asset impairment related to facility exit	-	-	20.9
Amortization of investment premiums, net of accretion of purchase discounts	3.2	3.0	2.7
Amortization of debt discount and debt issuance costs	22.3	23.4	24.5
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(76.8)	(136.4)	(82.9)
Prepaid expenses and other assets ⁽¹⁾	(69.0)	(31.2)	(48.1)
Accounts payable	(3.5)	15.1	5.9
Accrued compensation	31.1	(6.3)	42.8
Accrued and other liabilities ⁽¹⁾	35.6	21.0	53.2
Deferred revenue	291.0	527.1	531.8
Net cash provided by operating activities ⁽²⁾	<u>352.8</u>	<u>658.6</u>	<u>868.5</u>
Cash flows from investing activities			
Purchases of investments	(987.6)	(1,037.0)	(995.9)
Proceeds from sales of investments	18.5	141.9	-
Proceeds from maturities of investments	339.0	628.7	777.4
Business acquisitions, net of cash acquired	(15.1)	-	(90.7)
Purchases of property, equipment, and other assets	(33.8)	(72.5)	(163.4)
Net cash used in investing activities	<u>(679.0)</u>	<u>(338.9)</u>	<u>(472.6)</u>
Cash flows from financing activities			
Repurchase of common stock	-	-	(411.0)
Proceeds from sales of shares through employee equity incentive plans	48.2	45.3	46.4
Payments for taxes related to net share settlement of equity awards	-	-	(21.4)
Payment of deferred consideration related to prior year business acquisition	-	(6.4)	-
Net cash provided by (used in) financing activities ⁽²⁾	<u>48.2</u>	<u>38.9</u>	<u>(386.0)</u>
Net increase (decrease) in cash and cash equivalents	(278.0)	358.6	9.9
Cash and cash equivalents - beginning of period	653.8	375.8	734.4
Cash and cash equivalents - end of period	<u>\$ 375.8</u>	<u>\$ 734.4</u>	<u>\$ 744.3</u>

(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 "Change in Accounting Policy for Sales Commissions" on page 14 herein for more information.

(2) In Q2'17, we early adopted new share-based payment accounting guidance. As part of the adoption, we elected to adopt the guidance related to the presentation of excess tax benefits in the statement of cash flows on a retrospective basis and, as a result, certain amounts for periods prior to fiscal 2017 have been adjusted. Refer to "Adoption of New Accounting Guidance" on page 16 for more information.

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

	Q116	Q216	Q316	Q416	Q117 ⁽²⁾	Q217	Q317	Q417
Cash flows from operating activities								
Net loss ⁽¹⁾	\$ (39.9)	\$ (57.3)	\$ (64.1)	\$ (31.4)	\$ (56.9)	\$ (60.6)	\$ (60.9)	\$ (38.2)
Adjustments to reconcile net loss to net cash provided by operating activities:								
Share-based compensation for equity based awards	72.9	101.9	108.4	109.6	113.3	127.3	116.2	117.7
Depreciation and amortization	9.2	10.3	11.2	12.1	13.6	14.4	15.1	16.7
Asset impairment related to facility exit	-	-	-	-	-	-	-	20.9
Amortization of investment premiums, net of accretion of purchase discounts	0.8	0.8	0.8	0.6	0.7	0.7	0.7	0.6
Amortization of debt discount and debt issuance costs	5.7	5.8	5.9	6.0	6.0	6.1	6.2	6.2
Changes in operating assets and liabilities, net of effects of acquisitions:								
Accounts receivable, net	16.0	(58.0)	(13.3)	(81.1)	2.2	(39.5)	22.4	(68.0)
Prepaid expenses and other assets ⁽¹⁾	7.3	(20.2)	(4.9)	(13.4)	10.1	(51.7)	(8.0)	1.5
Accounts payable	5.2	8.4	(1.9)	3.4	1.8	(1.6)	2.6	3.1
Accrued compensation	(27.0)	18.4	(14.8)	17.1	(14.5)	19.8	(3.6)	41.1
Accrued and other liabilities ⁽¹⁾	5.9	19.7	2.6	(7.2)	8.4	60.4	8.2	(23.8)
Deferred revenue	90.8	124.3	140.4	171.6	118.8	139.0	112.3	161.7
Net cash provided by operating activities ⁽²⁾	146.9	154.1	170.3	187.3	203.5	214.3	211.2	239.5
Cash flows from investing activities								
Purchases of investments	(512.5)	(97.7)	(219.9)	(206.9)	(285.7)	(277.0)	(164.2)	(269.0)
Proceeds from sales of investments	124.4	10.0	3.0	4.5	-	-	-	-
Proceeds from maturities of investments	144.1	83.9	181.6	219.1	235.4	148.6	136.7	256.7
Business acquisitions, net of cash acquired	-	-	-	-	-	-	(90.7)	-
Purchases of property, equipment, and other assets	(19.5)	(17.4)	(19.3)	(16.3)	(20.9)	(44.7)	(48.6)	(49.2)
Net cash provided by (used in) investing activities	(263.5)	(21.2)	(54.6)	0.4	(71.2)	(173.1)	(166.8)	(61.5)
Cash flows from financing activities								
Repurchases of common stock	-	-	-	-	(50.0)	(120.1)	(125.0)	(115.9)
Proceeds from sales of shares through employee equity incentive plans	16.6	4.5	21.1	3.1	22.7	0.9	22.2	0.6
Payments for taxes related to net share settlement of equity awards	-	-	-	-	-	-	(11.0)	(10.4)
Payment of deferred consideration related to prior year business acquisition	-	-	-	(6.4)	-	-	-	-
Net cash provided by (used in) financing activities ⁽²⁾	16.6	4.5	21.1	(3.3)	(27.3)	(119.2)	(113.8)	(125.7)
Net increase (decrease) in cash and cash equivalents	(100.0)	137.4	136.8	184.4	105.0	(78.0)	(69.4)	52.3
Cash and cash equivalents - beginning of period	375.8	275.8	413.2	550.0	734.4	839.4	761.4	692.0
Cash and cash equivalents - end of period	\$ 275.8	\$ 413.2	\$ 550.0	\$ 734.4	\$ 839.4	\$ 761.4	\$ 692.0	\$ 744.3

(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 "Change in Accounting Policy for Sales Commissions" on page 15 herein for more information.

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

Palo Alto Networks, Inc.
Change in Accounting Policy for Sales Commissions
Impact on GAAP Financial Statements - Fiscal Years
(In millions, except per share amounts)

Effective August 1, 2016 (Q1'17), we voluntarily changed our accounting policy for sales commissions. This accounting change was applied retrospectively to our GAAP financial statements included in this supplemental financial information. The table below presents the changes to historical periods for the financial statement line items affected by this accounting change.

	FY15	FY16
<u>Condensed Consolidated Statements of Operations - GAAP</u>		
Sales and marketing expense	\$ (33.7)	\$ (32.8)
Total operating expense	(33.7)	(32.8)
Operating loss	33.7	32.8
Loss before income taxes	33.7	32.8
Provision for income taxes	-	(0.4)
Net loss	\$ 33.7	\$ 33.2
Net loss per share, diluted	\$ 0.41	\$ 0.38
<u>Condensed Consolidated Balance Sheets</u>		
Prepaid expenses and other current assets	\$ 39.5	\$ 54.9
Other assets	31.7	50.1
Accrued and other liabilities	2.0	-
Other long-term liabilities	(2.6)	-
Accumulated deficit	\$ 71.8	\$ 105.0

Palo Alto Networks, Inc.
Change in Accounting Policy for Sales Commissions
Impact on GAAP Financial Statements - Fiscal Quarters
(In millions, except per share amounts)

Effective August 1, 2016 (Q1'17), we voluntarily changed our accounting policy for sales commissions. This accounting change was applied retrospectively to our GAAP financial statements included in this supplemental financial information. The table below presents the changes to historical periods for the financial statement line items affected by this accounting change.

	Q116	Q216	Q316	Q416
<i><u>Condensed Consolidated Statements of Operations - GAAP</u></i>				
Sales and marketing expense	\$ 1.2	\$ (5.2)	\$ (6.1)	\$ (22.7)
Total operating expenses	1.2	(5.2)	(6.1)	(22.7)
Operating loss	(1.2)	5.2	6.1	22.7
Loss before income taxes	(1.2)	5.2	6.1	22.7
Provision for income taxes	-	-	-	(0.4)
Net loss	\$ (1.2)	\$ 5.2	\$ 6.1	\$ 23.1
Net loss per share, diluted	\$ (0.02)	\$ 0.06	\$ 0.07	\$ 0.26
<i><u>Condensed Consolidated Balance Sheets</u></i>				
Prepaid expenses and other current assets	\$ 38.5	\$ 42.3	\$ 44.4	\$ 54.9
Other assets	30.4	33.5	37.5	50.1
Accrued and other liabilities	0.6	-	-	-
Other long-term liabilities	(2.3)	-	-	-
Accumulated deficit	\$ 70.6	\$ 75.8	\$ 81.9	\$ 105.0

Palo Alto Networks, Inc.

Adoption of New Accounting Guidance

Impact on GAAP Financial Statements and Non-GAAP Financial Measures - Fiscal Years

(In millions, except per share amounts)

In Q1'17, we adopted new accounting guidance related to the presentation of debt issuance costs, which was applied retrospectively to our GAAP financial statements included in this supplemental financial information.

In Q2'17, we elected to early adopt new share-based payment accounting guidance, which required us to reflect any adjustments related to the adoption as of the beginning of fiscal 2017. As part of the adoption, we elected to adopt the guidance related to the presentation of excess tax benefits in the statement of cash flows on a retrospective basis, and, accordingly, have adjusted our condensed consolidated statements of cash flows for periods prior to fiscal 2017 included in this supplemental financial information.

The tables below present the changes to historical periods for the financial statement line items and non-GAAP financial measures affected by the adoption of the accounting guidance discussed above.

Adoption of new accounting guidance for debt issuance costs

	<u>FY15</u>		<u>FY16</u>
<u>Condensed Consolidated Balance Sheets</u>			
Prepaid expenses and other current assets	\$ (10.3)	\$	-
Other assets	-	-	(8.0)
Convertible senior notes, net	\$ (10.3)	\$	(8.0)

Adoption of new accounting guidance for share-based payments

	<u>FY15</u>		<u>FY16</u>
<u>Condensed Consolidated Statement of Cash Flows</u>			
Net cash provided by operating activities	\$ 2.5	\$	0.5
Net cash provided by financing activities	\$ (2.5)	\$	(0.5)
<u>Non-GAAP Financial Measures</u>			
Free cash flow (non-GAAP)	\$ 2.5	\$	0.5
Free cash flow margin (non-GAAP)	0.3%		0.0%

Palo Alto Networks, Inc.
Adoption of New Accounting Guidance
Impact on GAAP Financial Statements and Non-GAAP Financial Measures - Fiscal Quarters
(In millions, except per share amounts)

In Q1'17, we adopted new accounting guidance related to the presentation of debt issuance costs, which was applied retrospectively to our GAAP financial statements included in this supplemental financial information.

In Q2'17, we elected to early adopt new share-based payment accounting guidance, which required us to reflect any adjustments related to the adoption as of the beginning of fiscal 2017. As such, certain amounts for Q1'17 included in this supplemental financial information have been adjusted. Additionally, we elected to adopt the guidance related to the presentation of excess tax benefits in the statement of cash flows on a retrospective basis, and, accordingly, have adjusted our condensed consolidated statements of cash flows for periods prior to fiscal 2017 included in this supplemental financial information.

The tables below present the changes to historical periods for the financial statement line items and non-GAAP financial measures affected by the adoption of the accounting guidance discussed above.

Adoption of new accounting guidance for debt issuance costs

	Q116	Q216	Q316	Q416
<u>Condensed Consolidated Balance Sheets</u>				
Prepaid expenses and other current assets	\$ (9.7)	\$ (9.2)	\$ (8.6)	\$ -
Other assets	-	-	-	(8.0)
Convertible senior notes, net	\$ (9.7)	\$ (9.2)	\$ (8.6)	\$ (8.0)

Adoption of new accounting guidance for share-based payments

	Q116	Q216	Q316	Q416
<u>Condensed Consolidated Statements of Cash Flows</u>				
Net cash provided by operating activities	\$ 0.2	\$ 0.3	\$ 0.2	\$ (0.2)
Net cash provided by (used in) financing activities	\$ (0.2)	\$ (0.3)	\$ (0.2)	\$ 0.2

	Q116	Q216	Q316	Q416
<u>Non-GAAP Financial Measures</u>				
Free cash flow (non-GAAP)	\$ 0.2	\$ 0.3	\$ 0.2	\$ (0.2)
Free cash flow margin (non-GAAP)	0.1%	0.1%	0.1%	0.0%

	Q117
<u>Condensed Consolidated Statements of Operations - GAAP</u>	
Cost of subscription and support revenue	\$ (0.1)
Total cost of revenue	(0.1)
Total gross profit	0.1
Research and development	(0.4)
Sales and marketing	(0.2)
General and administrative	(0.2)
Total operating expenses	(0.8)
Operating loss	0.9
Loss before income taxes	0.9
Provision for income taxes	(4.0)
Net loss	\$ 4.9
Net loss per share, diluted	\$ 0.06
GAAP weighted-average shares used to compute net loss per share, diluted	-

<u>Condensed Consolidated Balance Sheets</u>	
Other assets	\$ 1.7
Other long-term liabilities	(5.6)
Common stock and additional paid-in capital	0.9
Accumulated deficit	\$ 6.4

<u>Condensed Consolidated Statement of Cash Flows</u>	
Net cash provided by operating activities	\$ 0.2
Net cash used in financing activities	\$ (0.2)

<u>Non-GAAP Financial Measures</u>	
Free cash flow (non-GAAP)	\$ 0.2
Free cash flow margin (non-GAAP)	0.1%
Non-GAAP net income	\$ -
Non-GAAP net income per share, diluted	\$ -
Non-GAAP weighted-average shares used to compute net income per share, diluted	0.5