UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 31, 2019

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: 001-37570

Pure Storage, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**27-1069557**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

650 Castro Street, Suite 400
Mountain View, California
94041
(Address of principal executive offices, including zip code)

(800) 379-7873
(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

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

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.0001 par value per share	PSTG	New York Stock Exchange LLC

As of August 26, 2019, the registrant had 256,179,043 shares of its Class A common stock outstanding.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this report, including statements regarding our future results of operations and financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, forward-looking statements may be identified by words such as "anticipate," "believe," "continue," "could," "design," "estimate," "expect," "intend," "may," "plan," "potentially," "predict," "project," "should," "will" or the negative of these terms or other similar expressions.

Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements regarding our ability to sustain or manage our profitability and growth, our expectations that sales prices may decrease or fluctuate over time, our plans to expand and continue to invest internationally, our plans to continue investing in marketing, sales, support and research and development, as well as channel programs, our expectations regarding fluctuations in our revenue and operating results, our expectations that we may continue to experience losses despite revenue growth, our ability to successfully attract, motivate, and retain qualified personnel and maintain our culture, our expectations regarding our technological leadership and market opportunity, our ability to realize benefits from our investments, including development efforts and acquisitions, our ability to innovate and introduce new or enhanced products, our expectations regarding product acceptance and our technologies, products and solutions, our competitive position and the effects of competition and industry dynamics, including new offerings from incumbent and emerging vendors or public cloud vendors, our expectations concerning relationships with third parties, including partners and customers, the adequacy of our intellectual property rights, and expectations concerning potential legal proceedings and related costs.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, and financial needs. These forward-looking statements are subject to a number of known and unknown risks, uncertainties and assumptions, including risks described in the section titled "Risk Factors." These risks are not exhaustive. Other sections of this report include additional factors that could harm our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors 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 from those contained in, or implied by, any forward-looking statements.

Investors should not rely upon forward-looking statements as predictions of future events. We cannot assure investors that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report or to conform these statements to actual results or to changes in our expectations. Investors should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this report with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PURE STORAGE, INC.

Condensed Consolidated Balance Sheets
(in thousands, except per share data, unaudited)

	As of January 31, 2019	As of July 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 447,990	$ 268,938
Marketable securities	749,482	913,521
Accounts receivable, net of allowance of $660 and $614 as of January 31, 2019 and July 31, 2019	378,729	352,617
Inventory	44,687	35,820
Deferred commissions, current	29,244	31,273
Prepaid expenses and other current assets	51,695	47,776
Total current assets	1,701,827	1,649,945
Property and equipment, net	125,353	131,048
Operating lease right-of-use assets	—	114,339
Deferred commissions, non-current	85,729	87,295
Intangible assets, net	20,118	63,659
Goodwill	10,997	36,420
Deferred income taxes, non-current	1,060	939
Restricted cash	15,823	15,425
Other assets, non-current	12,118	16,904
Total assets	$ 1,973,025	$ 2,115,974
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 103,462	$ 64,582
Accrued compensation and benefits	99,910	70,753
Accrued expenses and other liabilities	39,860	44,690
Operating lease liabilities, current	—	26,005
Deferred revenue, current	266,584	308,523
Total current liabilities	509,816	514,553
Convertible senior notes, net	449,828	463,118
Operating lease liabilities, non-current	—	94,941
Deferred revenue, non-current	269,336	298,740
Deferred tax liabilities, non-current	—	5,697
Other liabilities, non-current	6,265	1,386
Total liabilities	1,235,245	1,378,435
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, par value of $0.0001 per share— 20,000 shares authorized as of January 31, 2019 and July 31, 2019; no shares issued and outstanding as of January 31, 2019 and July 31, 2019	—	—
Class A and Class B common stock, par value of $0.0001 per share— 2,250,000 (Class A 2,000,000, Class B 250,000) shares authorized as of January 31, 2019 and July 31, 2019; 243,524 and 255,752 Class A shares issued and outstanding as of January 31, 2019 and July 31, 2019	24	26
Additional paid-in capital	1,820,043	1,982,407
Accumulated other comprehensive income (loss)	(338)	3,409
Accumulated deficit	(1,081,949)	(1,248,303)
Total stockholders' equity	737,780	737,539
Total liabilities and stockholders' equity	$ 1,973,025	$ 2,115,974

See the accompanying notes to condensed consolidated financial statements.

PURE STORAGE, INC.

Condensed Consolidated Statements of Operations
(in thousands, except per share data, unaudited)

	Three Months Ended July 31, 2018	Three Months Ended July 31, 2019	Six Months Ended July 31, 2018	Six Months Ended July 31, 2019
Revenue:				
Product	$ 241,137	$ 300,128	$ 436,586	$ 538,869
Support subscription	67,747	96,199	128,243	184,158
Total revenue	308,884	396,327	564,829	723,027
Cost of revenue:				
Product	78,262	92,870	144,682	169,462
Support subscription	24,457	35,138	47,667	68,859
Total cost of revenue	102,719	128,008	192,349	238,321
Gross profit	206,165	268,319	372,480	484,706
Operating expenses:				
Research and development	84,031	107,020	162,523	212,095
Sales and marketing	143,749	186,188	266,116	352,814
General and administrative	33,591	40,016	60,921	82,126
Total operating expenses	261,371	333,224	489,560	647,035
Loss from operations	(55,206)	(64,905)	(117,080)	(162,329)
Other income (expense), net	(4,032)	(652)	(5,031)	(2,468)
Loss before provision for income taxes	(59,238)	(65,557)	(122,111)	(164,797)
Income tax provision	885	461	2,316	1,557
Net loss	$ (60,123)	$ (66,018)	$ (124,427)	$ (166,354)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.26)	$ (0.26)	$ (0.55)	$ (0.67)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	229,359	251,298	226,609	248,366

See the accompanying notes to condensed consolidated financial statements.

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PURE STORAGE, INC.

Condensed Consolidated Statements of Comprehensive Loss
(in thousands, unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Net loss	$ (60,123)	$ (66,018)	$ (124,427)	$ (166,354)
Other comprehensive income (loss) net of tax:				
Change in unrealized net gain (loss) on available-for-sale securities	(193)	2,120	(909)	3,747
Comprehensive loss	$ (60,316)	$ (63,898)	$ (125,336)	$ (162,607)

See the accompanying notes to condensed consolidated financial statements.

PURE STORAGE, INC.

Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share data, unaudited)

	Three Months Ended July 31, 2018					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of April 30, 2018	229,596	$ 23	$ 1,602,121	$ (2,633)	$ (967,891)	$ 631,620
Issuance of common stock upon exercise of stock options	3,691	1	19,435	—	—	19,436
Stock-based compensation expense	—	—	53,654	—	—	53,654
Vesting of restricted stock units	2,104	—	—	—	—	—
Issuance of restricted stock	21	—	—	—	—	—
Other comprehensive loss	—	—	—	(193)	—	(193)
Net loss	—	—	—	—	(60,123)	(60,123)
Balance as of July 31, 2018	235,412	$ 24	$ 1,675,210	$ (2,826)	$ (1,028,014)	$ 644,394

	Three Months Ended July 31, 2019					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of April 30, 2019	252,853	$ 25	$ 1,924,947	$ 1,289	$ (1,182,285)	$ 743,976
Issuance of common stock upon exercise of stock options	655	—	2,502	—	—	2,502
Stock-based compensation expense	—	—	56,460	—	—	56,460
Vesting of restricted stock units	2,277	1	(1)	—	—	—
Net issuance of restricted stock	(33)	—	—	—	—	—
Tax withholding on vesting of restricted stock	—	—	(1,501)	—	—	(1,501)
Other comprehensive income	—	—	—	2,120	—	2,120
Net loss	—	—	—	—	(66,018)	(66,018)
Balance as of July 31, 2019	255,752	$ 26	$ 1,982,407	$ 3,409	$ (1,248,303)	$ 737,539

See the accompanying notes to condensed consolidated financial statements.

PURE STORAGE, INC.

Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share data, unaudited)

	Six Months Ended July 31, 2018					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 31, 2018	220,979	22	1,479,883	(1,917)	(903,587)	574,401
Issuance of common stock upon exercise of stock options	5,884	1	29,065	—	—	29,066
Stock-based compensation expense	—	—	97,609	—	—	97,609
Vesting of early exercised stock options	—	—	320	—	—	320
Vesting of restricted stock units	4,117	—	—	—	—	—
Common stock issued under employee stock purchase plan	2,111	—	19,698	—	—	19,698
Issuance of restricted stock	3,330	1	—	—	—	1
Repurchase of common stock	(1,009)	—	(20,000)	—	—	(20,000)
Purchase of capped calls	—	—	(64,630)	—	—	(64,630)
Equity component of convertible senior notes, net	—	—	133,265	—	—	133,265
Other comprehensive loss	—	—	—	(909)	—	(909)
Net loss	—	—	—	—	(124,427)	(124,427)
Balance as of July 31, 2018	235,412	$ 24	$ 1,675,210	$ (2,826)	$ (1,028,014)	$ 644,394

	Six Months Ended July 31, 2019					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 31, 2019	243,524	24	1,820,043	(338)	(1,081,949)	737,780
Issuance of common stock upon exercise of stock options	3,863	1	19,290	—	—	19,291
Stock-based compensation expense	—	—	118,206	—	—	118,206
Vesting of restricted stock units	4,327	1	(1)	—	—	—
Net issuance of restricted stock	1,065	—	—	—	—	—
Tax withholding on vesting of restricted stock	—	—	(7,173)	—	—	(7,173)
Common stock issued under employee stock purchase plan	2,973	—	32,042	—	—	32,042
Other comprehensive income	—	—	—	3,747	—	3,747
Net loss	—	—	—	—	(166,354)	(166,354)
Balance as of July 31, 2019	255,752	$ 26	$ 1,982,407	$ 3,409	$ (1,248,303)	$ 737,539

See the accompanying notes to condensed consolidated financial statements.

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PURE STORAGE, INC.

Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Six Months Ended July 31,	
	2018	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (124,427)	$ (166,354)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	33,590	43,591
Amortization of debt discount and debt issuance costs	7,889	13,290
Stock-based compensation expense	97,609	120,561
Other	82	327
Changes in operating assets and liabilities, net of effects of acquisition:		
Accounts receivable, net	707	26,553
Inventory	(8,900)	6,852
Deferred commissions	(4,155)	(3,595)
Prepaid expenses and other assets	11,134	(635)
Operating lease right-of-use assets	—	13,438
Accounts payable	(18,135)	(30,827)
Accrued compensation and other liabilities	(7,458)	(25,704)
Operating lease liabilities	—	(13,083)
Deferred revenue	39,144	71,045
Net cash provided by operating activities	27,080	55,459
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(42,733)	(53,229)
Acquisition, net of cash acquired	—	(47,881)
Purchase of intangible assets	—	(9,000)
Purchases of marketable securities	(494,507)	(488,497)
Sales of marketable securities	13,585	60,368
Maturities of marketable securities	97,793	270,756
Net cash used in investing activities	(425,862)	(267,483)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from exercise of stock options	29,067	19,260
Proceeds from issuance of common stock under employee stock purchase plan	19,698	32,042
Proceeds from issuance of convertible senior notes, net of issuance costs	562,062	—
Payment for purchase of capped calls	(64,630)	—
Repayment of debt assumed from acquisition	—	(11,555)
Tax withholding on vesting of restricted stock	—	(7,173)
Repurchase of common stock	(20,000)	—
Net cash provided by financing activities	526,197	32,574
Net increase (decrease) in cash, cash equivalents and restricted cash	127,415	(179,450)
Cash, cash equivalents and restricted cash, beginning of period	258,820	463,813
Cash, cash equivalents and restricted cash, end of period	$ 386,235	$ 284,363
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD:		
Cash and cash equivalents	$ 370,457	$ 268,938
Restricted cash	15,778	15,425
Cash, cash equivalents and restricted cash, end of period	$ 386,235	$ 284,363
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ 3,023	$ 2,716
Cash paid for interest	$ —	$ 359
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION		

Property and equipment purchased but not yet paid	$ 11,949	$ 5,717
Vesting of early exercised stock options	$ 320	$ —

See the accompanying notes to condensed consolidated financial statements.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Business Overview

Organization and Description of Business

Pure Storage, Inc. (the Company, we, us, or other similar pronouns) was originally incorporated in the state of Delaware in October 2009 under the name OS76, Inc. In January 2010, we changed our name to Pure Storage, Inc. We are headquartered in Mountain View, California and have wholly owned subsidiaries throughout the world.

We help innovators to build a better world with data. Our innovative data platform replaces storage systems designed for mechanical disk with all-flash systems optimized for end-to-end for solid-state memory. Our cloud-based management and support platform helps predictively resolve potential issues and simplify storage administration. We provide a customer first business model that replaces the traditional forklift upgrade cycle with a subscription model built to keep customers on the cutting edge without downtime or performance impact.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Consolidated Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) and applicable rules and regulations of the Securities and Exchange Commission (the SEC) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended January 31, 2019.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year 2020 or any future period.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from these estimates. Such estimates include, but are not limited to, the determination of standalone selling price for revenue arrangements with multiple performance obligations, useful lives of intangible assets, property and equipment, the period of benefit for deferred contract costs for commissions, stock-based compensation, provision for income taxes including related reserves, valuation of intangible assets and goodwill, the incremental borrowing rate we use to determine our operating lease liabilities, and contingent liabilities. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Restricted Cash

Restricted cash is comprised of cash collateral for letters of credit related to our leases and for a vendor credit card program. As of January 31, 2019 and July 31, 2019, we had restricted cash of $15.8 million and $15.4 million.

Marketable Securities

We classify our marketable securities as available-for-sale at the time of purchase and reevaluate such classification at each balance sheet date. We may sell these securities at any time for use in current operations even if they have not yet reached maturity. As a result, we classify our securities, including those with maturities beyond twelve months, as current assets in the accompanying condensed consolidated balance sheets. We carry these securities at fair value and record unrealized gains and losses, in accumulated other comprehensive income (loss), which is reflected as a component of stockholders' equity. We evaluate our securities to assess whether those with unrealized loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses from the sale of marketable securities and declines in value deemed to be other than temporary are determined on the specific identification method. To date, there have been no declines in value deemed to be other than temporary in any of our securities. Realized gains and losses are reported in other income (expense), net in the condensed consolidated statements of operations.

Business Combinations

We allocate the purchase price to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the fair values of the assets acquired and liabilities assumed is recorded as goodwill. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the estimated fair value of the assets acquired and liabilities assumed, with the corresponding offset to goodwill. The results of operations of an acquired business is included in our condensed consolidated financial statements from the date of acquisition. Acquisition-related expenses are expensed as incurred.

Deferred Commissions

Deferred commissions consist of incremental costs paid to our sales force to obtain customer contracts. Deferred commissions related to product revenue are recognized upon transfer of control to customers and deferred commissions related to support subscription revenue are amortized over an expected useful life of six years. We determine the expected useful life based on an estimated benefit period by evaluating our technology development life cycle, expected customer relationship period and other factors. We classify deferred commissions as current and non-current on our condensed consolidated balance sheets based on the timing of when we expect to recognize the expense. Amortization of deferred commissions is included in sales and marketing expense in the condensed consolidated statements of operations.

Changes in total deferred commissions during the periods presented are as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Beginning balance [1]	$ 86,044	$ 113,257	$ 87,313	$ 114,973
Additions	24,582	30,074	40,003	48,310
Recognition of deferred commissions	(19,157)	(24,763)	(35,847)	(44,715)
Ending balance	$ 91,469	$ 118,568	$ 91,469	$ 118,568

[1] Balance as of January 31, 2018 was adjusted to reflect the adoption of ASC 606.

Of the $118.6 million total deferred commissions balance as of July 31, 2019, we expect to recognize approximately 26% as commission expense over the next 12 months and the remainder thereafter.

There was no impairment related to capitalized commissions for the three and six months ended July 31, 2018 and 2019.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Operating Leases

We determine if an arrangement contains a lease at inception. Lease liabilities are recognized at the present value of the future lease payments at commencement date. The interest rate implicit in our operating leases is not readily determinable, and therefore an incremental borrowing rate is estimated to determine the present value of future payments. The estimated incremental borrowing rate factors in a hypothetical interest rate on a collateralized basis with similar terms, payments, and economic environments. The operating lease right-of-use (ROU) asset is determined based on the lease liability initially established and reduced for any prepaid lease payments and any lease incentives. We combine lease and non-lease components for our leases.

Certain of the operating lease agreements contain rent concession, rent escalation, and option to renew provisions. Rent concession and rent escalation provisions are considered in determining the straight-line lease cost to be recorded over the lease term. Lease cost is recognized on a straight-line basis over the lease term commencing on the date we have the right to use the leased property. We generally use the base, non-cancelable, lease term when recognizing the lease assets and liabilities, unless it is reasonably certain that an extension or termination option will be exercised.

In addition, certain of our operating lease agreements contain tenant improvement allowances from our landlords. These allowances are accounted for as lease incentives and decrease our ROU asset and reduce single lease cost over the lease term.

For short-term leases which have a lease term of less than twelve months and do not include an option to purchase the underlying asset that we are reasonably certain to exercise, we recognize rent expense in our condensed consolidated statements of operations on a straight-line basis over the lease term and record variable lease payments as incurred.

Deferred Revenue

Deferred revenue primarily consists of amounts that have been invoiced but that have not yet been recognized as revenue and performance obligations pertaining to support subscription services. The current portion of deferred revenue represents the amounts that are expected to be recognized as revenue within one year of the condensed consolidated balance sheet dates.

Changes in total deferred revenue during the periods presented are as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Beginning balance [1]	$ 388,614	$ 564,230	$ 374,102	$ 535,920
Additions	92,511	140,548	167,782	258,441
Recognition of deferred revenue	(67,878)	(97,515)	(128,637)	(187,098)
Ending balance	$ 413,247	$ 607,263	$ 413,247	$ 607,263

[1] Balance as of January 31, 2018 was adjusted to reflect the adoption of ASC 606.

During the three and six months ended July 31, 2018, we recognized $60.9 million and $106.2 million in revenue pertaining to deferred revenue as of the beginning of each period. During the three and six months ended July 31, 2019, we recognized $88.2 million and $150.2 million in revenue pertaining to deferred revenue as of the beginning of each period.

Total contracted but not recognized revenue was $770.1 million as of July 31, 2019. Contracted but not recognized revenue consists of both deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenue in future periods. Of the $770.1 million contracted but not recognized revenue as of July 31, 2019, we expect to recognize approximately 41% over the next 12 months, and the remainder thereafter.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Revenue Recognition

We derive revenue from two sources: (1) product revenue which includes hardware and embedded software and (2) support subscription revenue which includes customer support, hardware maintenance, and software upgrades on a when-and-if-available basis. Support subscription revenue also includes our *Evergreen Storage Service* (ES2) offering.

Our product revenue is derived from the sale of storage hardware and operating system software that is integrated into the hardware. We typically recognize product revenue upon transfer of control to our customers. Products are typically shipped directly by us to customers, and our channel partners do not stock our inventory.

Our support subscription revenue is derived from the sale of support subscription, which includes the right to receive unspecified software upgrades and enhancements on a when-and-if-available basis, bug fixes, parts replacement services related to the hardware, as well as access to our cloud-based management and support platform. Support subscription revenue is also derived from the sale of our ES2 offering. Revenue related to support revenue is recognized ratably over the contractual term, which generally ranges from one to six years and represents our performance obligations period. The vast majority of our products are sold with support subscription agreements, which typically commence upon transfer of control of the corresponding products to our customers. Costs to service the support subscription are expensed as incurred. In addition, our *Evergreen Storage* program provides our customers who continually maintain active support subscription agreements for three years with an included controller refresh with each additional three year support subscription renewal. In accordance with revenue recognition guidance, the controller refresh represents an additional performance obligation and the allocated revenue is recognized in the period in which these controllers are shipped.

We recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration we expect to be entitled in exchange for those goods or services. This is achieved through applying the following five-step approach:

- *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*

When applying this five-step approach, we apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience and/or published credit and financial information pertaining to the customer. To the extent a customer contract includes multiple promised goods or services, we determine whether promised goods or services are capable of being distinct in the context of the contract to be accounted for as a separate performance obligation. The transaction price is determined based on the consideration which we will be entitled to in exchange for transferring goods or services to the customer. We allocate transaction price to each performance obligation for contracts that contain multiple performance obligations based on a relative standalone selling price which is determined based on the price at which the performance obligation is sold separately, or if not observable through past transactions, is estimated taking into account available information such as market conditions and internally approved pricing guidelines related to performance obligations.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases* (ASC 842) and subsequent amendments to the initial guidance (collectively, Topic 842). ASC 842 requires lessees to generally recognize on its balance sheet operating and financing lease liabilities and corresponding ROU assets at the commencement date, and to recognize the associated lease expenses in the condensed consolidated statement of operations in a manner similar to that required under historical accounting rules.

On February 1, 2019, we adopted ASC 842 using the modified retrospective approach by electing to use the optional transition method which allows us to continue to apply the guidance of ASC 840, including disclosure requirements, in the comparative periods presented. We elected the package of transition expedients, which allowed us to carry forward our historical lease classifications, our assessment of whether any existing leases as of the date of adoption are or contain leases, and our assessment of indirect costs for any leases that existed prior to adoption of the new standard. We elected to take the practical expedient to keep leases with an initial term of 12 months or less off the condensed consolidated balance sheet and recognize the associated lease payments in the consolidated statements of operations on a straight-line basis over the lease term. We recognized operating ROU assets of $124.5 million and lease liabilities of $130.6 million on our condensed consolidated balance sheet as of February 1, 2019, which included reclassifying prepaid rent and deferred rent as a component of the ROU asset. Topic 842 did not have a material impact on our condensed consolidated statements of operations and cash flows. Refer to Note 8 for additional disclosures.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220) - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 and requires certain disclosures about stranded tax effects. We adopted this standard on February 1, 2019 and the adoption had no impact on our condensed consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities to require that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down. The measurement of credit losses for newly recognized financial assets and subsequent changes in the allowance for credit losses are recorded in the statements of operations. The amendments in this update will be effective for us beginning on February 1, 2020 with early adoption permitted on or after February 1, 2019. We are currently evaluating the impact of this standard on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13) which amended its conceptual framework to improve the effectiveness of disclosures in notes to financial statements. ASU 2018-13 eliminates such disclosures around the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. The guidance also adds new disclosure requirements for Level 3 measurements. ASU 2018-13 is effective for us beginning February 1, 2020. Early adoption is permitted. We are currently evaluating the impact of this standard on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15). ASC 2018-15 aligns the requirements for capitalizing implementation costs in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This standard will be effective for us beginning February 1, 2020 and will be applied either retrospectively or prospectively. Early adoption is permitted. We are currently evaluating the impact of this standard on our condensed consolidated financial statements.

Note 3. Financial Instruments

Fair Value Measurements

We measure our cash equivalents, marketable securities, and restricted cash at fair value on a recurring basis. We define fair value as the exchange price that would be received from sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure our financial assets and liabilities at fair value at each reporting period using a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

- *Level 1* - Observable inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- *Level 2* - Observable inputs are quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments; and
- *Level 3* - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs are based on our own assumptions used to measure assets and liabilities at fair value and require significant management judgment or estimation.

We classify our cash equivalents, marketable securities and restricted cash within Level 1 or Level 2 because they are valued using either quoted market prices or inputs other than quoted prices which are directly or indirectly observable in the market, including readily-available pricing sources for the identical underlying security which may not be actively traded. Our fixed income available-for-sale securities consist of high quality, investment grade securities from diverse issuers. The valuation techniques used to measure the fair value of our marketable securities were derived from non-binding market consensus prices that are corroborated by observable market data or quoted market prices for similar instruments.

In addition to our cash equivalents, marketable securities and restricted cash, we measure the fair value of our convertible senior notes (the Notes) on a quarterly basis for disclosure purposes. We consider the fair value of the Notes at July 31, 2019 to be a Level 2 measurement due to its limited trading activity. Refer to Note 6 for the carrying amount and estimated fair value of our Notes as of July 31, 2019.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Cash Equivalents, Marketable Securities and Restricted Cash

The following tables summarize our cash equivalents, marketable securities and restricted cash by significant investment categories as of January 31, 2019 and July 31, 2019 (in thousands):

	As of January 31, 2019						
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Cash Equivalents**	**Marketable Securities**	**Restricted Cash**
Level 1							
Money market accounts	$ —	$ —	$ —	$ 43,038	$ 27,215	$ —	$ 15,823
Level 2							
U.S. government treasury notes	315,329	208	(315)	315,222	34,129	281,093	—
U.S. government agencies	69,114	17	(154)	68,977	9,983	58,994	—
Corporate debt securities	363,860	534	(757)	363,637	—	363,637	—
Foreign government bonds	7,965	36	—	8,001	—	8,001	—
Asset-backed securities	37,664	105	(12)	37,757	—	37,757	—
Total	$ 793,932	$ 900	$ (1,238)	$ 836,632	$ 71,327	$ 749,482	$ 15,823

	As of July 31, 2019						
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Cash Equivalents**	**Marketable Securities**	**Restricted Cash**
Level 1							
Money market accounts	$ —	$ —	$ —	$ 36,659	$ 21,234	$ —	$ 15,425
Level 2							
U.S. government treasury notes	348,463	1,454	(58)	349,859	—	349,859	—
U.S. government agencies	66,153	222	(22)	66,353	—	66,353	—
Corporate debt securities	427,362	2,685	(111)	429,936	1,029	428,907	—
Foreign government bonds	8,480	100	—	8,580	—	8,580	—
Asset-backed securities	59,504	329	(11)	59,822	—	59,822	—
Total	$ 909,962	$ 4,790	$ (202)	$ 951,209	$ 22,263	$ 913,521	$ 15,425

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The amortized cost and estimated fair value of our marketable securities are shown below by contractual maturity (in thousands):

	As of July 31, 2019	
	Amortized Cost	Fair Value
Due within one year	$ 336,156	$ 336,736
Due in one to five years	572,777	576,785
Total	$ 908,933	$ 913,521

Based on our evaluation of available evidence, we concluded that the gross unrealized losses on our investments as of July 31, 2019 were temporary in nature. The following table presents gross unrealized losses and fair values for those investments that were in a continuous unrealized loss position as of July 31, 2019, aggregated by investment category (in thousands):

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government treasury notes	$ 27,887	$ (30)	$ 9,737	$ (28)	$ 37,624	$ (58)
U.S. government agencies	5,215	(7)	9,183	(15)	14,398	(22)
Corporate debt securities	38,856	(28)	43,245	(83)	82,101	(111)
Asset-backed securities	9,399	(11)	—	—	9,399	(11)
Total	$ 81,357	$ (76)	$ 62,165	$ (126)	$ 143,522	$ (202)

Realized gains or losses on sale of marketable securities were not significant for all periods presented.

Note 4. Business Combination

In April 2019, we acquired Compuverde AB (Compuverde), a privately-held developer of file software solutions for enterprises and cloud providers based in Sweden. Acquisition-related costs were $0.5 million and expensed as incurred.

The purchase consideration was $47.9 million in cash (net of cash acquired) after repayment of $11.6 million of debt assumed. The purchase price was allocated as follows: $38.4 million in developed technology which will be amortized over seven years, $25.4 million of goodwill, $10.2 million in net liabilities assumed, and $5.7 million in deferred tax liability. The deferred tax liability was primarily a result of the difference in the book basis and tax basis related to the developed technology. Goodwill is primarily attributable to the assembled workforce and synergies from integrating Compuverde's technology with our data platform to expand our file capabilities and is not expected to be deductible for tax purposes.

In addition, we will make payments to founders of Compuverde totaling $15.9 million in cash payable over a two-year period, subject to continuous employment. As a result, these contingent payments are considered post-acquisition consideration to be recognized over the two-year period as compensation.

Restricted stock units in the amount of $3.0 million were issued to Compuverde employees in June 2019, subject to continuous employment and will be recognized as stock-based compensation over the related vesting period.

The results of Compuverde are included in our condensed consolidated statements of operations since the acquisition date, including revenue and net loss, and are not material. Pro forma results of operations have not been presented because the acquisition is not material to our results of operations.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 5. Balance Sheet Components

Inventory

Inventory consists of the following (in thousands):

	As of January 31, 2019	As of July 31, 2019
Raw materials	$ 3,349	$ 2,623
Finished goods	41,338	33,197
Inventory	$ 44,687	$ 35,820

Property and Equipment, Net

Property and equipment, net consists of the following (in thousands):

	As of January 31, 2019	As of July 31, 2019
Test equipment	$ 170,930	$ 191,846
Computer equipment and software	117,330	135,178
Furniture and fixtures	6,980	7,732
Leasehold improvements	34,286	37,866
Total property and equipment	329,526	372,622
Less: accumulated depreciation and amortization	(204,173)	(241,574)
Property and equipment, net	$ 125,353	$ 131,048

Depreciation and amortization expense was $16.8 million and $19.9 million for the three months ended July 31, 2018 and 2019, and $32.8 million and $39.7 million for the six months ended July 31, 2018 and 2019.

Intangible Assets, Net

Intangible assets, net consist of the following (in thousands):

	As of January 31, 2019			As of July 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount	Gross Carrying Value	Accumulated Amortization	Net Carrying Amount
Technology patents	$ 10,125	$ (6,572)	$ 3,553	$ 19,125	$ (7,538)	$ 11,587
Developed technology	17,700	(1,135)	16,565	56,100	(4,028)	52,072
Intangible assets, net	$ 27,825	$ (7,707)	$ 20,118	$ 75,225	$ (11,566)	$ 63,659

Intangible assets amortization expense was $0.4 million and $2.6 million for the three months ended July 31, 2018 and 2019, and $0.8 million and $3.9 million for the six months ended July 31, 2018 and 2019. As of July 31, 2019, the weighted-average remaining amortization period was 4.2 years for technology patents and 6.5 years for developed technology. Amortization of the technology patents is included in general and administrative expenses due to their defensive nature and amortization of developed technology is included in cost of product revenue in the condensed consolidated statements of operations. During the three months ended July 31, 2019, we acquired a portfolio of technology patents for $9.0 million with a useful life of 7.0 years.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

As of July 31, 2019, future expected amortization expense for intangible assets is as follows (in thousands):

Fiscal Years Ending January 31,	Estimated Future Amortization Expense
Remainder of 2020	$ 5,402
2021	10,804
2022	9,846
2023	9,300
2024	9,300
Thereafter	19,007
Total	$ 63,659

Goodwill

The change in the carrying amount of goodwill is as follows (in thousands):

	Amount
Balance as of January 31, 2019	$ 10,997
Goodwill acquired	25,423
Balance as of July 31, 2019	$ 36,420

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following (in thousands):

	As of January 31, 2019	As of July 31, 2019
Taxes payable	$ 7,146	$ 4,967
Accrued marketing	6,173	11,005
Accrued travel and entertainment expenses	3,570	3,055
Acquisition consideration held back	3,725	3,725
Other accrued liabilities	19,246	21,938
Total accrued expenses and other liabilities	$ 39,860	$ 44,690

Note 6. Convertible Senior Notes

In April 2018, we issued $575.0 million in principal amount of 0.125% convertible senior notes due 2023, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act and received proceeds of $562.1 million, after deducting the underwriters' discounts and commissions. The Notes are governed by an indenture (the Indenture) between us, as the issuer, and U.S. Bank National Association, as trustee. The Notes are our senior unsecured obligations. The Indenture 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 Notes mature on April 15, 2023 unless repurchased or redeemed by us or converted in accordance with their terms prior to the maturity date. Interest is payable semi-annually in arrears on April 15 and October 15 of each year, beginning on October 15, 2018.

The Notes are convertible for up to 21,884,155 shares of our common stock at an initial conversion rate of approximately 38.0594 shares of Class A common stock per $1,000 principal amount, which is equal to an initial conversion price of approximately $26.27 per share of Class A common stock, subject to adjustment. 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 October 15, 2022, only under the following circumstances:

- during any fiscal quarter commencing after the fiscal quarter ended on July 31, 2018 (and only during such fiscal quarter), if the last reported sale price of our Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price for the Notes on each applicable trading day;

- 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 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our Class A common stock and the conversion rate for the Notes on each such trading day;

- if we call any or all of the Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or

- upon the occurrence of specified corporate events.

On or after October 15, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at any time regardless of the foregoing circumstances. Upon conversion, holders will receive cash, shares of our Class A common stock, or a combination of cash and shares of our Class A common stock, at our election. We intend to settle the principal of the Notes in cash.

The conversion price will be subject to adjustment in some events. Following certain corporate events that occur prior to the maturity date or following our issuance of a notice of redemption, we will increase the conversion rate for a holder who elects to convert its Notes in connection with such corporate event or during the related redemption period in certain circumstances. Additionally, upon the occurrence of a corporate event that constitutes a “fundamental change” per the Indenture, holders of the Notes may require us to repurchase for cash all or a portion of the Notes at a purchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid contingent interest.

We may not redeem the Notes prior to April 20, 2021. We may redeem for cash all or any portion of the Notes, at our option, on or after April 20, 2021 if the last reported sale price of our Class A common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending not more than two trading days immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Notes.

In accounting for the issuance of the Notes, we separated the Notes into liability and equity components. The carrying amount of the liability component was determined by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was calculated by deducting the fair value of the liability component from the principal amount of the Notes as a whole. The difference between the principal amount of the Notes and the liability component (the debt discount) is amortized to interest expense in the condensed consolidated statements of operations using the effective interest method over the term of the Notes. The equity component of the Notes is included in additional paid-in capital in the condensed consolidated balance sheets and 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 allocated the total amount incurred to the liability and equity components using the same proportions as the initial carrying value of the Notes. Transaction costs attributable to the liability component were netted with the principal amount of the Notes in the condensed consolidated balance sheets and are being amortized to interest expense in the condensed consolidated statements of operations using the effective interest method over the term of the Notes. Transaction costs attributable to the equity component were netted with the equity component of the Notes in additional paid-in capital in the condensed consolidated balance sheets. Upon the issuance of the Notes, we recorded total debt issuance costs of $12.9 million, of which $9.8 million was allocated to the Notes and $3.1 million was allocated to additional paid-in capital.

The Notes consisted of the following (in thousands):

	As of July 31, 2019
Liability:	
Principal	$ 575,000
Less: debt discount, net of amortization	(104,329)
Less: debt issuance costs, net of amortization	(7,553)
Net carrying amount of the Notes	$ 463,118
Stockholders' equity:	
Allocated value of the conversion feature	$ 136,333
Less: debt issuance costs	(3,068)
Additional paid-in capital	$ 133,265

The total estimated fair value of the Notes as of July 31, 2019 was $558.7 million. 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. 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 Class A common stock of $15.14 on July 31, 2019, the if-converted value of the Notes of $331.3 million was less than its principal amount.

The following table sets forth total interest expense recognized related to the Notes for three and six months ended July 31, 2018 and 2019 (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Amortization of debt discount	$ 6,000	$ 6,341	$ 7,357	$ 12,393
Amortization of debt issuance costs	434	459	532	897
Total amortization of debt discount and debt issuance costs	6,434	6,800	7,889	13,290
Contractual interest expense	181	181	224	358
Total interest expense related to the Notes	$ 6,615	$ 6,981	$ 8,113	$ 13,648
Effective interest rate of the liability component	5.6%	5.6%	5.6%	5.6%

In connection with the offering of the Notes, we paid $64.6 million to enter into capped call transactions with certain of the underwriters and their affiliates (the Capped Calls), whereby we have the option to purchase a total of 21,884,155 shares of our Class A common stock upon any conversion of Notes and/or offset any cash payments we are required to make in excess of the principal amount of the Notes, as the case may be, with such reduction or offset subject to a cap initially equal to $39.66 per share (which represents a premium of 100% over the last reported sales price of our Class A common stock on April 4, 2018), subject to certain adjustments (the Cap Price). The cost of the Capped Calls was accounted for as a reduction to additional paid-in capital on the condensed consolidated balance sheet. The Capped Calls are intended to reduce or offset potential dilution of our common stock upon any conversion of the Notes, subject to a cap based on the Cap Price.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Impact on Earnings Per Share

The Notes will not impact our diluted earnings per share until the average market price of our Class A common stock exceeds the conversion price of $26.27 per share, as we intend to settle the principal amount of the Notes in cash upon conversion. We are required under the treasury stock method to compute the potentially dilutive shares of common stock related to the Notes for periods we report net income. However, upon conversion, there will be no economic dilution from the Notes until the average market price of our Class A common stock exceeds the Cap Price of $39.66 per share, as exercise of the Capped Calls offsets any dilution from the Notes from the conversion price up to the Cap Price. Capped Calls are excluded from the calculation of diluted earnings per share, as they would be anti-dilutive under the treasury stock method.

Note 7. Commitments and Contingencies

Operating Leases

As of July 31, 2019, we have various non-cancelable operating lease commitments for office facilities which as a result of the adoption of ASC 842, have been recorded as operating lease liabilities on our condensed consolidated balance sheet. Refer to Note 8—Leases for additional information regarding lease commitments.

Convertible Notes

The repayment of our Notes with an aggregate principal amount of $575.0 million is due on April 15, 2023. Refer to Note 6 for further information regarding our Notes.

Letters of Credit

In connection with a lease executed in January 2019, we issued a letter of credit of $0.5 million. As of January 31, 2019 and July 31, 2019, we had outstanding letters of credit in the aggregate amount of $10.8 million and $11.6 million, in connection with our facility leases. The letters of credit are collateralized by restricted cash and mature on various dates through August 2029.

Legal Matters

From time to time, we have become involved in claims and other legal matters arising in the normal course of business. We investigate these claims as they arise. Although claims are inherently unpredictable, we currently are not aware of any matters that we expect to have a material adverse effect on our business, financial position, results of operations or cash flows. Accordingly, we have not recorded any loss contingency on our condensed consolidated balance sheet as of July 31, 2019.

Indemnification

Our arrangements generally include certain provisions for indemnifying customers against liabilities if our products or services infringe a third party’s intellectual property rights. Other guarantees or indemnification arrangements include guarantees of product and service performance and standby letters of credit for lease facilities. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, we have not incurred any material costs as a result of such obligations and have not accrued any liabilities related to such obligations in the condensed consolidated financial statements. In addition, we indemnify our officers, directors and certain key employees while they are serving in good faith in their respective capacities. To date, there have been no claims under any indemnification provisions.

Note 8. Leases

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

We lease office facilities under non-cancelable operating lease agreements expiring through October 2028. Our lease agreements do not contain any material residual value guarantees or restrictive covenants. The components of lease costs were as follows (in thousands):

	Three Months Ended July 31, 2019	Six Months Ended July 31, 2019
Fixed operating lease cost	$ 8,228	$ 16,711
Variable lease cost [1]	2,242	4,342
Short-term lease cost (12 months or less)	1,484	2,345
Total lease cost	$ 11,954	$ 23,398

[1] Variable lease cost for the three and six months ended July 31, 2019 predominantly includes common area maintenance charges.

Future lease payments under our non-cancelable operating leases as of July 31, 2019 were as follows (in thousands):

Fiscal Years Ending January 31,	Operating Leases
The remainder of 2020	$ 16,579
2021	33,269
2022	26,781
2023	21,478
2024	15,434
Thereafter	31,236
Total future lease payments	144,777
Less: imputed interest	(23,831)
Present value of lease liabilities	$ 120,946

Supplemental cash flow information related to our operating leases for the six months ended July 31, 2019 as well as the weighted-average remaining lease term and weighted-average discount rate as of July 31, 2019 were as follows:

Cash paid for amounts included in the measurement of lease liabilities (in thousands)	$ 16,167
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	$ 3,449
Weighted-average remaining lease term (years)	5.28
Weighted-average discount rate	6.46%

As previously disclosed in our Annual Report on Form 10-K for the year ended January 31, 2019 and under the previous lease accounting standard, ASC 840, *Leases*, the following table summarizes the future minimum lease payments due under operating leases as of January 31, 2019 (in thousands):

Year Ending January 31,	Operating Leases
2020	$ 31,297
2021	28,573
2022	24,381
2023	20,440
2024	14,780
Thereafter	30,096
Total	$ 149,567

Note 9. Stockholders' Equity

Preferred Stock

We have 20,000,000 authorized shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by our board of directors. As of July 31, 2019, there were no shares of preferred stock issued or outstanding.

Class A and Class B Common Stock

We have two classes of authorized common stock, Class A common stock and Class B common stock. As of July 31, 2019, we had 2,000,000,000 authorized shares of Class A common stock and 250,000,000 authorized shares of Class B common stock, with each class having a par value of $0.0001 per share. As of July 31, 2019, 255,751,711 shares of Class A common stock were issued and outstanding.

Common Stock Repurchase Program

In August 2019, our board of directors approved the repurchase of up to $150.0 million of our Class A common stock. The authorization allows us to repurchase shares of our Class A common stock opportunistically and will be funded from available working capital. 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 program does not obligate us to acquire any of our common stock, has no end date, and may be suspended or discontinued by us at any time without prior notice.

Repurchase of Common Stock

Concurrent with the issuance of the Notes (see Note 6), we repurchased and retired 1,008,573 shares, or $20.0 million, of our Class A common stock at $19.83 per share, which was equal to the closing price per share of our Class A common stock on April 4, 2018, the date of the pricing of the offering of the Notes. The repurchased shares were recorded as a reduction of additional paid-in capital on the condensed consolidated balance sheet.

Note 10. Equity Incentive Plans

Equity Incentive Plans

We maintain two equity incentive plans: the 2009 Equity Incentive Plan (the 2009 Plan) and the 2015 Equity Incentive Plan (the 2015 Plan). The 2015 Plan became effective in connection with our initial public offering (IPO) in October 2015 and serves as the successor to our 2009 Plan. The 2015 Plan provides for grants of incentive stock options to our employees and non-statutory stock options, stock appreciation rights, restricted stock, restricted stock unit awards (RSUs), performance stock awards, performance cash awards, and other forms of stock awards to our employees, directors and consultants. No new awards have been issued under our 2009 Plan after the effective date of our 2015 Plan. Outstanding awards granted under our 2009 Plan will remain subject to the terms of our 2009 Plan and applicable award agreements, until such outstanding awards that are stock options are exercised, terminated or expired by their terms.

Starting in December 2018, 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 2015 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 a financing activity in our condensed consolidated statements of cash flows.

The exercise price of stock options will generally not be less than 100% of the fair market value of our common stock on the date of grant, as determined by our board of directors. Our equity awards generally vest over a two to four year period and expire no later than ten years from the date of grant.

2015 Employee Stock Purchase Plan

Our 2015 Employee Stock Purchase Plan (2015 ESPP) became effective in connection with our IPO.

The 2015 ESPP allows eligible employees to purchase shares of our Class A common stock at a discount through payroll deductions of up to 30% of their eligible compensation, subject to a cap of 3,000 shares on any purchase date or $25,000 in any calendar year (as determined under applicable tax rules). In February 2019, we amended the ESPP on a prospective basis, to include an additional dollar cap of $7,500 per purchase period. The 2015 ESPP provides for a 24-month offering period beginning March 16th and September 16th of each year, and each offering period consists of four 6 months purchase periods, subject to a reset provision. If the closing stock price on the offering date of a new offering falls below the closing stock price on the offering date of an ongoing offering, the ongoing offering would terminate immediately following the purchase of ESPP shares on the purchase date immediately preceding the new offering and participants in the terminated ongoing offering would automatically be enrolled in the new offering (ESPP reset), resulting in a modification. On each purchase date, eligible employees will purchase our Class A common stock at a price per share equal to 85% of the lesser of the fair market value of our Class A common stock (1) on the first trading day of the applicable offering period or (2) the purchase date. There was an ESPP reset in the three months ended April 30, 2019 that resulted in a total modification charge of $2.2 million, which is recognized over the new offering period ending March 15, 2021.

We recognized stock-based compensation expense related to our 2015 ESPP of $7.9 million and $4.2 million during the three months ended July 31, 2018 and 2019 and $14.6 million and $15.7 million during the six months ended July 31, 2018 and 2019. As of July 31, 2019, there was $19.4 million of unrecognized stock-based compensation expense related to our 2015 ESPP, which is expected to be recognized over a weighted-average period of 1.5 years.

Stock Options

A summary of stock option activity under our equity incentive plans and related information is as follows:

	Options Outstanding			
	Number of Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life (In Years)**	**Aggregate Intrinsic Value (in thousands)**
Balance as of January 31, 2019	35,465,543	$ 8.34	5.4	$ 339,591
Options exercised	(3,862,965)	4.99		
Options forfeited/canceled	(343,662)	15.49		
Balance as of July 31, 2019	31,258,916	$ 8.67	3.9	$ 218,450
Vested and exercisable as of July 31, 2019	25,407,263	$ 7.54	4.8	$ 203,215

The aggregate intrinsic value of options vested and exercisable as of July 31, 2019 is calculated based on the difference between the exercise price and the closing price of $15.14 of our Class A common stock on July 31, 2019.

As of July 31, 2019, total unrecognized employee compensation cost related to outstanding options was $20.6 million, which is expected to be recognized over a weighted-average period of 1.6 years.

RSUs

A summary of the RSU activity under our 2015 Plan and related information is as follows:

	Number of RSUs Outstanding	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Unvested balance as of January 31, 2019	21,917,550	$ 17.94	$ 392,515
Granted	8,792,982	19.81	
Vested	(4,352,885)	16.38	
Forfeited	(1,324,694)	18.47	
Unvested balance as of July 31, 2019	25,032,953	$ 18.84	$ 378,999

During the three months ended July 31, 2018 and 2019, we recognized, $29.5 million and $40.4 million in stock-based compensation expense relating to RSUs. During the six months ended July 31, 2018 and 2019, we recognized $55.9 million and $77.7 million in stock-based compensation expense relating to RSUs. As of July 31, 2019, total unrecognized employee compensation cost related to unvested RSUs was $427.8 million, which is expected to be recognized over a weighted-average period of 3.0 years.

Restricted Stock

In January 2019, we issued 183,902 shares of performance restricted stock, at a target percentage of 100%, with both performance and service vesting conditions payable in common shares, from 0% to 160%, of the target number granted, contingent upon the degree to which the performance condition is met. The grant date for these shares was subsequently established when the performance condition was determined in March 2019. Any portion of shares that are not earned will be canceled.

During the three and six months ended July 31, 2019, we issued 60,716 and 1,291,194 shares of performance restricted stock, at a target percentage of 100%, with both performance and service vesting conditions payable in common shares, from 0% to 160%, of the target number granted, contingent upon the degree to which the performance condition is met. Any portion of shares that are not earned will be canceled. During the six months ended July 31, 2019, we also issued 108,494 shares of additional restricted stock earned based on the actual attainment of previously issued performance restricted stock awards.

A summary of the restricted stock activity under our 2015 Plan and related information is as follows:

	Number of Restricted Stock Outstanding	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Unvested balance as of January 31, 2019	2,267,569	$ 18.70	$ 40,612
Granted	1,399,688	20.30	
Vested	(843,321)	19.85	
Unvested balance as of July 31, 2019	2,823,936	$ 19.25	$ 42,754

All unvested restricted shares are subject to cancellation to the extent vesting conditions are not met. During the three months ended July 31, 2018 and 2019, we recognized $6.7 million and $7.4 million in stock-based compensation expense relating to restricted stock. During the six months ended July 31, 2018 and 2019, we recognized $10.2 million and $14.8 million in stock-based compensation expense relating to restricted stock. As of July 31, 2019,

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Notes to Condensed Consolidated Financial Statements (Unaudited)

total unrecognized employee compensation cost related to unvested restricted stock was $30.6 million, which is expected to be recognized over a weighted-average period of 2.3 years.

Stock-Based Compensation Expense

The following table summarizes the components of stock-based compensation expense recognized in the condensed consolidated statements of operations (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Cost of revenue—product	$ 720	$ 954	$ 1,328	$ 1,931
Cost of revenue—support subscription	2,929	3,633	5,613	7,584
Research and development	22,232	29,108	43,322	57,353
Sales and marketing	17,269	16,055	31,209	34,369
General and administrative	10,504	8,654	16,137	19,324
Total stock-based compensation expense	$ 53,654	$ 58,404	$ 97,609	$ 120,561

The tax benefit related to stock-based compensation expense for all periods presented was not material.

Note 11. Net Loss per Share Attributable to Common Stockholders

Basic and diluted net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities.

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive common stock equivalents, including our outstanding stock options, common stock related to unvested RSUs, repurchasable shares from early exercised stock options and restricted stock, our Notes to the extent dilutive, and common stock issuable pursuant to the ESPP. These potentially dilutive common stock equivalents have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is anti-dilutive.

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except per share data):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Net loss	$ (60,123)	$ (66,018)	$ (124,427)	$ (166,354)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	229,359	251,298	226,609	248,366
Net loss per share attributable to common stockholders, basic and diluted	$ (0.26)	$ (0.26)	$ (0.55)	$ (0.67)

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Notes to Condensed Consolidated Financial Statements (Unaudited)

The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been anti-dilutive (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Stock options to purchase common stock	40,920	31,739	42,923	32,852
Unvested RSUs	19,957	25,513	19,486	24,743
Restricted stock and early exercised stock options subject to repurchase	3,327	2,917	2,585	2,777
Shares related to Notes	21,884	21,884	13,783	21,884
Shares issuable pursuant to ESPP	1,154	720	1,127	720
Total	87,242	82,773	79,904	82,976

Note 12. Other Income (Expense), Net

Other income (expense), net consists of the following (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Interest income [(1)]	$ 4,783	$ 6,772	$ 6,654	$ 13,606
Interest expense [(2)]	(6,615)	(6,981)	(8,113)	(13,648)
Foreign currency transactions losses	(2,273)	(443)	(4,407)	(2,426)
Other income	73	—	835	—
Total other income (expense), net	$ (4,032)	$ (652)	$ (5,031)	$ (2,468)

[(1)] Interest income includes interest income related to our cash, cash equivalents and marketable securities and non-cash interest income related to accretion (amortization) of the discount (premium) on marketable securities.

[(2)] Interest expense includes non-cash interest expense related to amortization of the debt discount and debt issuance costs and the contractual interest expense related to the Notes for the three and six months ended July 31, 2018 and 2019.

Note 13. Income Taxes

Our income tax provision was primarily due to taxes on international operations and state income taxes. The difference between the income tax provision that would be derived by applying the statutory rate to our loss before income taxes and the income tax provision recorded was primarily attributable to changes in our valuation allowance, non-deductible stock-based compensation expense and the tax rate differential between the U.S. and foreign countries.

As of July 31, 2019, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended January 31, 2019.

Note 14. Segment Information

Our chief operating decision maker is a group comprised of our Chief Executive Officer, our Chief Financial Officer, and our President. This group reviews financial information presented on a consolidated basis 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 or operating results. Accordingly, we have a single reportable segment.

PURE STORAGE, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Disaggregation of Revenue

The following table depicts the disaggregation of revenue by geographic area based on the billing address of our customers and is consistent with how we evaluate our financial performance (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
United States	$ 229,760	$ 294,596	$ 414,678	$ 523,535
Rest of the world	79,124	101,731	150,151	199,492
Total revenue	$ 308,884	$ 396,327	$ 564,829	$ 723,027

Long-lived Assets by Geographic Area

Long-lived assets, which are comprised of property and equipment, net, by geographic area are summarized as follows (in thousands):

	As of January 31, 2019	As of July 31, 2019
United States	$ 120,876	$ 121,454
Rest of the world	4,477	9,594
Total long-lived assets	$ 125,353	$ 131,048

Note 15. Subsequent events

Share Repurchase Program

In August 2019, our board of directors approved a share repurchase program. All material terms of this program are disclosed in Note 9 Stockholders' Equity.

Departure of Officer

In August 2019, we announced that Timothy Riitters, our Chief Financial Officer, will be departing later this year. Mr. Riitters' departure is not related to any issues regarding the integrity of our financial statements, accounting policies and practices.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended January 31, 2019. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Form 10-Q and in our other SEC filings. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Our fiscal year end is January 31.

Overview

We help innovators to build a better world with data. As data continues to grow and organizations strive to mine intelligence from data the need for real-time analytics increases, we are focused on delivering software-defined data storage solutions that are uniquely fast and cloud-capable, enabling customers to maximize the value of data, gain competitive advantage and keep pace with cutting edge developments. Our innovative data platform replaces storage systems designed for mechanical disk with all-flash systems optimized end-to-end for solid-state memory. *Pure1,* our cloud-based management and support platform, helps predictively resolve potential issues and simplify storage administration. We provide a customer first business model that replaces the traditional forklift upgrade cycle with an *Evergreen Storage* subscription model built to keep customers on the cutting edge without downtime or performance impact.

We were incorporated in October 2009 and are headquartered in Mountain View, California, with operations throughout the world. Our primary offerings include our *FlashArray* and *FlashBlade* products, inclusive of our *Purity Operating Environment* (*Purity OE*) software, our *Pure1* cloud-based management and support software, *FlashStack and Artificial Intelligence Ready Infrastructure (AIRI)*, our joint converged Infrastructure offerings, and *Evergreen Storage Service (ES2)*, a cloud-like, storage consumption offering that enables customers to purchase on-premises or offsite-hosted private storage on a pay-per-month-per-terabyte basis, after a baseline commitment.

Since launching in 2012, our customer base has grown to approximately 6,600 customers, including over 40% of the Fortune 500. Our customers include enterprise and commercial organizations, cloud, global systems integrators, and service providers across a diverse set of industry verticals, consumer web, education, energy, financial services, governments, healthcare, manufacturing, media, retail and telecommunications. Our data services are used for a broad set of use cases, including database applications, large-scale analytics, artificial intelligence / machine learning, private and public cloud infrastructure and webscale applications, virtual server infrastructure and virtual desktop infrastructure. Our data platform helps customers scale their businesses through real-time and more accurate analytics, increase employee productivity, improve operational efficiency, and deliver more compelling user experiences to their customers and partners. We define a customer as an end user that purchases our products and services either from one of our channel partners or from us directly. No end user customer represented 10% or more of revenue in the three and six months ended July 31, 2018 and 2019.

We have continued to experience substantial growth, with revenue for the three months ended July 31, 2018 and 2019 of $308.9 million and $396.3 million, representing year-over-year growth of 28%. For the six months ended July 31, 2018 and 2019 our revenue was $564.8 million and $723.0 million, representing year-over-year growth of 28%. Our revenue growth rate may continue to decline as our business scales, even if our revenue continues to grow in absolute terms. We have continued to make significant expenditures and investments, including in personnel-related costs, sales and marketing, infrastructure and operations, and have incurred net losses in each period since our inception, including net losses of $60.1 million and $66.0 million for the three months ended July 31, 2018 and 2019, and $124.4 million and $166.4 million for the six months ended July 31, 2018 and 2019.

Since our founding, we have invested heavily in growing our business. Our headcount increased from over 2,800 employees as of January 31, 2019 to over 3,300 employees as of July 31, 2019. We intend to continue to invest in our research and development organization to extend our technology leadership, enhance the functionality of our existing products and introduce new products. By investing in research and development, we believe we will be well positioned to continue our rapid growth and take advantage of our large market opportunity.

We also intend to continue to invest in and expand our sales and marketing functions and channel programs, including expanding our global network of channel partners, hiring sales personnel and carrying out associated marketing activities in key geographies. By investing in sales and technical training, demand generation and partner programs, we believe we can enable many of our partners to independently identify, qualify, sell and upgrade customers, with limited involvement from us.

In addition, we intend to expand and continue to invest in our international operations, which we believe will be an important factor in our continued growth. Our revenue generated from customers outside of the United States was 27% and 28% for the six months ended July 31, 2018 and 2019.

As a result of our strategy to increase our investments in research and development, sales, marketing, support and international expansion, we expect to continue to incur operating losses and may incur negative cash flows from operations in the near future and require additional capital resources to execute strategic initiatives to grow our business.

Our Business Model

We sell our data platform predominantly through a high touch, channel-fulfilled model. Our sales force works collaboratively with our global network of distribution and channel partners, which provides us broad sales reach while maintaining direct customer engagement and is responsible for large account penetration, global account coordination, and overall market development. Our channel partners help market and sell our products, typically with assistance from our sales force. This joint sales approach provides us with the benefit of direct relationships with substantially all of our customers and expands our reach through the relationships of our channel partners. In certain geographies, we sell through a two-tier distribution model. We also sell to service providers that deploy our products and offer cloud-based storage services to their customers. We intend to continue to invest in the channel to add more partners and to expand our reach to customers through our channel partners' relationships. One channel partner represented 10% or more of revenue for the three months ended July 31, 2018. No channel partner represented 10% or more for the three months ended July 31, 2019. No channel partner represented 10% or more of revenue for the six months ended July 31, 2018 and 2019.

Our business model enables customers to broadly adopt flash for a wide variety of workloads in their data centers, with some of our most innovative customers adopting all-flash data centers. We have not charged separately for software, meaning that when a customer buys a *FlashArray*, *FlashBlade*, *FlashStack*, or *AIRI*, all operating software functionality is included in the base purchase price, and the customer is entitled to updates and new features to the operating software as long as the customer maintains an active support subscription agreement. By keeping our business model simple and efficient, we allow customers to buy more products and expand their footprint more easily while allowing us to reduce our sales and marketing costs.

To deliver on the next level of operational simplicity and support excellence, we designed *Pure1*, our integrated cloud-based management and support platform. *Pure1* enables our customers, support staff and partners to collaborate to achieve the best customer experience and is included with an active support subscription agreement. In addition, our *Evergreen Storage Service* program provides our customers who continually maintain active and eligible maintenance and support for three years with an included controller refresh with each additional three year support subscription renewal. In this way, our customers improve and extend the service life of their arrays, we reduce our cost of support by keeping the array modern and we encourage capacity expansion. In accordance with revenue recognition accounting guidance, we recognize the allocated revenue of the controllers and expense the related cost in the period in which we ship these controllers.

The combination of our high-performance, all-flash products, our exceptional support and our innovative business model has had a substantial impact on customer success and loyalty and is a strong driver of both initial purchase and additional purchases of our products. For customers that have been with us for at least 12 months as of July 31, 2019, for every $1 of initial product purchase, our top 25 customers on average spent approximately $9 on new product purchases in the first 18 months following their initial purchase.

Trends in Our Business and Industry

Demand for Data in the Multi-Cloud Environment

In today's multi-cloud environment, data is the strategic core that enables competitiveness and differentiation for businesses -- collecting vast amounts of data, analyzing it rapidly, discovering new insights, and ultimately delivering new innovations and experiences otherwise impossible without data. We continue to make significant investments in our business to enable data-centric architecture to support today and tomorrow's volume and velocity of data and to ensure the performance and reliability required for new data-driven applications, while substantially reducing costs and complexity for our customers. We believe that the shift in consumption models, like our *ES2* offering, and in deployment models, as demonstrated by the desire for hybrid deployment technologies, like our upcoming *Cloud Data*

Services, are at the core of the trend toward multi-cloud environments. Data-centric architecture supports a wide range of classic business applications as well as modern webscale-architecture applications enabling our customers can manage their existing applications more efficiently while they modernize their applications both on-premise and in the cloud.

Adoption of All-Flash Storage Systems

Organizations are replacing traditional disk-based systems with all-flash storage systems, including those based on NVMe technologies, due to their higher performance, reliability and efficiency. Flash continues to penetrate the data center at a steady rate, and our success depends on the continued adoption of all-flash storage systems. To the extent more organizations recognize the benefits of all-flash storage and the adoption of all-flash storage increases, our target customer base will expand, and demand for all-flash storage will rise.

Adding New Customers and Expanding Sales to Our Existing Customer Base

In order to capture long-term strategic opportunities, we intend to continue to target new customers, including large enterprises, service providers and government organizations, by continuing to invest in our field sales force and extending our relationships with key channel partners. We also expect that a substantial portion of our future sales will continue to be sales to existing customers, including expansion of existing arrays.

Seasonality in our Business Operations

Consistent with the seasonality of enterprise IT as a whole, we generally experience the lowest demand for our products and services in the first quarter of our fiscal year and the greatest demand for our products and services in the last quarter of our fiscal year. Furthermore, we typically focus investments into our sales organization, along with significant product launches, in the first half of our fiscal year. As a result, we expect that our business and results of operations will fluctuate from quarter to quarter, reflecting seasonally softer revenue and operating margin in the first half of our fiscal year, followed by a stronger second half, the relative impact of which will grow as we operate at a larger scale.

Components of Results of Operations

Revenue

We derive revenue from the sale of our *FlashArray and FlashBlade* products and support subscription services. Provided that all other revenue recognition criteria have been met, we typically recognize product revenue upon transfer of control to our customers and the satisfaction of our performance obligations. Products are typically shipped directly by us to customers, and our channel partners do not stock our inventory. We expect our product revenue may vary from period to period based on, among other things, the timing and size of orders and delivery of products and the impact of significant transactions.

We provide our support subscription services pursuant to support subscription agreements, which involve customer support, hardware maintenance and software upgrades for a period of generally one to six years. Support subscription services includes our *ES2* offering. We recognize revenue from support subscription agreements ratably over the contractual service period. We expect our support subscription revenue to increase as we add new customers and our existing customers renew support subscription agreements.

Cost of Revenue

Cost of product revenue primarily consists of costs paid to our third-party contract manufacturers, which includes the costs of our components, and personnel costs associated with our manufacturing operations. Personnel costs consist of salaries, bonuses and stock-based compensation expense. Our cost of product revenue also includes allocated overhead costs, inventory write-offs, amortization of intangible assets pertaining to developed technology, and freight. Allocated overhead costs consist of certain employee benefits and facilities-related costs. We expect our cost of product revenue to increase in absolute dollars as our product revenue increases.

Cost of support subscription revenue primarily consists of personnel costs associated with our customer support organization, parts replacement costs, allocated overhead costs and depreciation of computer equipment used for our *ES2* offering. We expect our cost of support subscription revenue to increase in absolute dollars, as our support subscription revenue increases.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing and general and administrative expenses. Salaries and personnel-related costs, including stock-based compensation expense, are the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs for employee benefits and facilities-related costs.

Research and Development. Research and development expense consists primarily of employee compensation and related expenses, prototype expenses, depreciation associated with assets acquired for research and development, third-party engineering and contractor support costs, as well as allocated overhead. We expect our research and development expense to increase in absolute dollars and it may decrease as a percentage of revenue, as we continue to invest in new and existing products and build upon our technology leadership.

Sales and Marketing. Sales and marketing expense consists primarily of employee compensation and related expenses, sales commissions, marketing programs, travel and entertainment expenses as well as allocated overhead. Marketing programs consist of advertising, events, corporate communications and brand-building activities. We expect our sales and marketing expense to increase in absolute dollars and it may decrease as a percentage of revenue, as we expand our sales force and increase our marketing resources, expand into new markets and further develop our channel program.

General and Administrative. General and administrative expense consists primarily of compensation and related expenses for administrative functions including finance, legal, human resources, IT and fees for third-party professional services as well as amortization of intangible assets pertaining to defensive technology patents and allocated overhead. We expect our general and administrative expense to increase in absolute dollars and it may decrease as a percentage of revenue, as we continue to invest in the growth of our business.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest income earned on cash, cash equivalents and marketable securities, interest expense from convertible notes and gains (losses) from foreign currency transactions.

Income Tax Provision

Income tax provision consists primarily of income taxes in certain foreign jurisdictions in which we conduct business and state income taxes in the United States. We have recorded no U.S. federal income tax and provided a full valuation allowance for U.S. deferred tax assets, which mainly includes net operating loss, carryforwards and tax credits related primarily to research and development. We expect to maintain this full valuation allowance for the foreseeable future as it is more likely than not that the deferred tax assets will not be realized based on our history of losses.

Results of Operations

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of total revenue (dollars in thousands, unaudited):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Consolidated Statements of Operations Data:				
Revenue:				
Product	$ 241,137	$ 300,128	$ 436,586	$ 538,869
Support subscription	67,747	96,199	128,243	184,158
Total revenue	308,884	396,327	564,829	723,027
Cost of revenue:				
Product [(1)]	78,262	92,870	144,682	169,462
Support subscription [(1)]	24,457	35,138	47,667	68,859
Total cost of revenue	102,719	128,008	192,349	238,321
Gross profit	206,165	268,319	372,480	484,706
Operating expenses:				
Research and development [(1)]	84,031	107,020	162,523	212,095
Sales and marketing [(1)]	143,749	186,188	266,116	352,814
General and administrative [(1)]	33,591	40,016	60,921	82,126
Total operating expenses	261,371	333,224	489,560	647,035
Loss from operations	(55,206)	(64,905)	(117,080)	(162,329)
Other income (expense), net	(4,032)	(652)	(5,031)	(2,468)
Loss before provision for income taxes	(59,238)	(65,557)	(122,111)	(164,797)
Income tax provision	885	461	2,316	1,557
Net loss	$ (60,123)	$ (66,018)	$ (124,427)	$ (166,354)

(1) Includes stock-based compensation expense as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Cost of revenue—product	$ 720	$ 954	$ 1,328	$ 1,931
Cost of revenue—support subscription	2,929	3,633	5,613	7,584
Research and development	22,232	29,108	43,322	57,353
Sales and marketing	17,269	16,055	31,209	34,369
General and administrative	10,504	8,654	16,137	19,324
Total stock-based compensation expense	$ 53,654	$ 58,404	$ 97,609	$ 120,561

	Three Months Ended July 31,		Six Months Ended July 31,	
	2018	2019	2018	2019
Condensed Consolidated Statements of Operations Data:				
Revenue:				
Product	78.1 %	75.7 %	77.3 %	74.5 %
Support subscription	21.9	24.3	22.7	25.5
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Product	25.4	23.4	25.6	23.5
Support subscription	7.9	8.9	8.5	9.5
Total cost of revenue	33.3	32.3	34.1	33.0
Gross profit	66.7	67.7	65.9	67.0
Operating expenses:				
Research and development	27.2	27.0	28.8	29.3
Sales and marketing	46.5	47.0	47.1	48.8
General and administrative	10.9	10.1	10.7	11.4
Total operating expenses	84.6	84.1	86.6	89.5
Loss from operations	(17.9)	(16.4)	(20.7)	(22.5)
Other income (expense), net	(1.3)	(0.2)	(0.9)	(0.3)
Loss before provision for income taxes	(19.2)	(16.6)	(21.6)	(22.8)
Income tax provision	0.3	0.1	0.4	0.2
Net loss	(19.5)%	(16.7)%	(22.0)%	(23.0)%

Revenue

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2018	2019	$	%	2018	2019	$	%
(dollars in thousands, unaudited)								
Product revenue	$ 241,137	$ 300,128	$ 58,991	24%	$ 436,586	$ 538,869	$ 102,283	23%
Support subscription revenue	67,747	96,199	28,452	42%	128,243	184,158	55,915	44%
Total revenue	$ 308,884	$ 396,327	$ 87,443	28%	$ 564,829	$ 723,027	$ 158,198	28%

Total revenue increased by $87.4 million, or 28%, during the three months ended July 31, 2019 compared to the three months ended July 31, 2018 and increased by $158.2 million, or 28%, during the six months ended July 31, 2019 compared to the six months ended July 31, 2018. The increases in product revenue for both periods were primarily driven by higher *FlashArray* and *FlashBlade* revenue, due to both repeat purchases from existing customers and a growing number of new customers. The number of customers grew from over 5,150 as of July 31, 2018 to approximately 6,600 as of July 31, 2019. The increases in support subscription revenue for both periods were primarily driven by an increase in maintenance and support subscription agreements sold with increased product sales, as well as increased recognition of deferred support subscription revenue contracts.

Cost of Revenue and Gross Margin

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2018	2019	$	%	2018	2019	$	%
(dollars in thousands, unaudited)								
Product cost of revenue	$ 78,262	$ 92,870	$ 14,608	19%	$ 144,682	$ 169,462	$ 24,780	17%
Support subscription cost of revenue	24,457	35,138	10,681	44%	47,667	68,859	21,192	44%
Total cost of revenue	$ 102,719	$ 128,008	$ 25,289	25%	$ 192,349	$ 238,321	$ 45,972	24%
Product gross margin	67.5%	69.1%			66.9%	68.6%		
Support subscription gross margin	63.9%	63.5%			62.8%	62.6%		
Total gross margin	66.7%	67.7%			65.9%	67.0%		

Cost of revenue increased by $25.3 million, or 25%, during the three months ended July 31, 2019 compared to the three months ended July 31, 2018 and increased by $46.0 million, or 24%, during the six months ended July 31, 2019 compared to the six months ended July 31, 2018. The increases in product cost of revenue for both periods were primarily driven by increased product sales and, to a lesser extent, by the increased costs in our manufacturing operations associated with increased headcount. The increases in support subscription cost of revenue for both periods were primarily attributable to costs in our customer support organization as we continue to scale our business. Total headcount in these functions increased 32% from July 31, 2018 to July 31, 2019.

Total gross margin increased from 66.7% in the three months ended July 31, 2018 to 67.7% in the three months ended July 31, 2019 and increased from 65.9% in the six months ended July 31, 2018 to 67.0% in the six months ended July 31, 2019. Product gross margin increased 1.6 percentage points from the three months ended July 31, 2018 to the three months ended July 31, 2019 and increased 1.7 percentage points in the six months ended July 31, 2018 to the six months ended July 31, 2019, primarily driven by strong performance across our product lines and lower component costs. Support subscription gross margin remained relatively consistent in both the three and six months ended July 31, 2018 compared to the three and six months ended July 31, 2019.

Operating Expenses

Research and Development

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2018	2019	$	%	2018	2019	$	%
(dollars in thousands, unaudited)								
Research and development	$ 84,031	$ 107,020	$ 22,989	27%	$ 162,523	$ 212,095	$ 49,572	31%

Research and development expense increased by $23.0 million, or 27%, during the three months ended July 31, 2019 compared to the three months ended July 31, 2018, as we continued to develop technologies to enhance and expand our product offerings. The increase was primarily driven by a $19.2 million increase in employee compensation and related costs, including a $6.9 million increase in stock-based compensation expense, as headcount increased by 27% from July 31, 2018 to July 31, 2019. The remainder of the increase was primarily attributable to a $2.3 million increase in office and facilities-related expenses and, $1.9 million increase in outside service expenses.

Research and development expense increased by $49.6 million, or 31%, during the six months ended July 31, 2019 compared to the six months ended July 31, 2018, as we continued to develop new and enhanced product offerings. The increase was primarily driven by a $40.5 million increase in employee compensation and related costs, including a $14.0 million increase in stock-based compensation expense, as headcount increased 27% from July 31, 2018 to July 31, 2019. The remainder of the increase was primarily attributable to a $4.6 million increase in office and facilities related expenses, and a $4.3 million increase in outside services expense.

Sales and Marketing

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2018	2019	$	%	2018	2019	$	%
(dollars in thousands, unaudited)								
Sales and marketing	$ 143,749	$ 186,188	$ 42,439	30%	$ 266,116	$ 352,814	$ 86,698	33%

Sales and marketing expense increased by $42.4 million, or 30%, during the three months ended July 31, 2019 compared to the three months ended July 31, 2018, as we continue to grow our sales force and expand our international presence. The increase was primarily driven by a $34.6 million increase in employee compensation and related costs, including a $10.5 million increase in sales commission expense, as headcount increased by 43% from July 31, 2018 to July 31, 2019. . The remainder of the increase was primarily attributable to a $3.0 million increase in travel expenses, a $2.6 million increase in office and facilities-related expenses, a $1.6 million increase in marketing expenses and, a $0.7 million increase in outside service expenses to support our growth and international expansion.

Sales and marketing expense increased by $86.7 million, or 33%, during the six months ended July 31, 2019 compared to the six months ended July 31, 2018, as we grew our sales force and expanded our international presence. The increase was primarily driven by a $66.7 million increase in employee compensation and related costs, including $16.3 million increase in commissions and a $3.2 million increase in stock-based compensation expense, as headcount increased 43% from July 31, 2018 to July 31, 2019. The remainder of the increase was primarily attributable to a $7.8 million increase in travel and related costs, a $5.4 million increase in office and facilities-related expenses, a $4.6 million increase in marketing expenses, and a $2.4 million increase in outside services to support our growth and international expansion.

General and Administrative

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2018	2019	$	%	2018	2019	$	%
(dollars in thousands, unaudited)								
General and administrative	$ 33,591	$ 40,016	$ 6,425	19%	$ 60,921	$ 82,126	$ 21,205	35%

General and administrative expense increased by $6.4 million, or 19%, during the three months ended July 31, 2019 compared to the three months ended July 31, 2018. The increase was primarily attributable to a $3.2 million increase in office and facilities-related expenses, a $1.9 million increase in outside service expenses, and a $1.0 million increase in employee compensation and related costs due to increase in headcount of 26% from July 31, 2018 to July 31, 2019.

General and administrative expense increased by $21.2 million, or 35%, during the six months ended July 31, 2019 compared to the six months ended July 31, 2018. The increase was primarily due to a $11.3 million increase in employee compensation and related costs, including a $3.2 million increase in stock-based compensation expense, as we increased our general and administrative headcount by 26% from July 31, 2018 to July 31, 2019, a $5.8 million increase in office and facilities-related expenses and, a $3.3 million increase in outside services costs.

Other Income (Expense), Net

	Three Months Ended July 31,		Change	Six Months Ended July 31,		Change
	2018	2019	$	2018	2019	$
(dollars in thousands, unaudited)						
Other income (expense), net	$ (4,032)	$ (652)	$ 3,380	$ (5,031)	$ (2,468)	$ 2,563

Other income (expense), net increased during the three months ended July 31, 2019 compared to the three months ended July 31, 2018 primarily due to an increase in interest income of $2.0 million from our increased cash, cash equivalents and marketable securities balances, as well as lower net foreign currency losses of $1.8 million.

Other income (expense), net increased during the six months ended July 31, 2019 compared to the six months ended July 31, 2018 primarily due to an increase in interest income of $7.0 million, as our cash, cash equivalents and marketable securities increased as well as lower net foreign exchange losses of $2.0 million as the U.S. dollar weakened relative to certain foreign currencies. The increase was partially offset by higher interest expense of $5.5 million associated with the amortization of debt discount and debt issuance costs in connection with the Notes issued in April 2018.

Income Tax Provision

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2018	2019	$	%	2018	2019	$	%
(dollars in thousands, unaudited)								
Income tax provision	$ 885	$ 461	$ (424)	(48)%	$ 2,316	$ 1,557	$ (759)	(33)%

The decrease in income tax provision during the three and six months ended July 31, 2019 compared to the three and six months ended July 31, 2018 was primarily driven by release of valuation allowance related to unrealized gains on available for sale securities.

Liquidity and Capital Resources

As of July 31, 2019, we had cash, cash equivalents and marketable securities of $1,182.5 million. Our cash and cash equivalents primarily consist of bank deposits and money market accounts. Our marketable securities generally consist of highly rated debt instruments of the U.S. government and its agencies, debt instruments of highly rated corporations, debt instruments issued by foreign governments, and asset-backed securities. We have generated significant operating losses since inception as reflected in our accumulated deficit of $1,248.3 million. We may continue to incur operating losses and negative cash flows from operations in the near future and require additional capital resources to execute strategic initiatives to grow our business.

We believe our existing cash, cash equivalents and marketable securities will be sufficient to fund our operating and capital needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing and international operation activities, the addition of office space, the timing of new product introductions and the continuing market acceptance of our products and services, and the timing and settlement election of the Notes. We may continue to enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. For example, in April 2019, we acquired Compuverde, a developer of file software solutions for enterprises and cloud providers. We may be required 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 would be adversely affected.

In April 2018, we issued $575.0 million of 0.125% convertible senior notes due 2023 (the Notes), in a private placement and received proceeds of $562.1 million, after deducting the underwriters' discounts and commissions. The Notes are unsecured obligations that do 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 Notes mature on April 15, 2023 unless repurchased or redeemed by us or converted in accordance with their terms prior to the maturity date. The Notes are convertible for up to 21,884,155 shares of our Class A common stock at an initial conversion rate of approximately 38.0594 shares of Class A common stock per $1,000 principal amount, which is equal to an initial conversion price of approximately $26.27 per share of Class A common stock, subject to adjustment.

Holders may surrender their Notes for conversion at their option at any time prior to the close of business on the business day immediately preceding October 15, 2022, only under specific circumstances. On or after October 15, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes at any time regardless of the foregoing conditions. Upon conversion, holders will receive cash, shares of our Class A common stock, or a combination of cash and shares of our Class A common stock, at our election. We intend to settle the principal of the Notes in cash. See further discussion in Note 6 in Part I, Item 1 of this report.

In August 2019, our board of directors approved the repurchase of up to $150.0 million of our Class A common stock. The authorization allows us to repurchase shares of our Class A common stock opportunistically and will be funded from available working capital. 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 program does not obligate us to acquire any of our common stock, has no end date, and may be suspended or discontinued by us at any time without prior notice.

As of January 31, 2019, and July 31, 2019, we had letters of credit in the aggregate amount of $10.8 million and $11.6 million, in connection with our facility leases. The letters of credit are collateralized by restricted cash and mature on various dates through August 2029.

The following table summarizes our cash flows for the periods presented (in thousands, unaudited):

	Six Months Ended July 31,	
	2018	2019
Net cash provided by operating activities	$ 27,080	$ 55,459
Net cash used in investing activities	$ (425,862)	$ (267,483)
Net cash provided by financing activities	$ 526,197	$ 32,574

Operating Activities

Net cash provided by operating activities during the six months ended July 31, 2019 was $55.5 million, which resulted primarily from non-cash charges for stock-based compensation of $120.6 million, depreciation and amortization of $43.6 million, amortization of the debt discount and debt issuance costs associated with our Notes of $13.3 million and net cash inflows of $44.0 million from changes in operating assets and liabilities, partially offset by a net loss of $166.4 million. The net cash inflows from changes in operating assets and liabilities were the result of a $71.0 million increase in deferred revenue, a $26.6 million decrease in accounts receivable, a $6.9 million decrease in inventory, and a decrease of $13.4 million in operating lease right-of-use assets, partially offset by a $30.8 million decrease in accounts payable, a $25.7 million decrease in accrued compensation and other liabilities, a $13.1 million decrease in operating lease liabilities, a $3.6 million increase in deferred commissions, and a $0.6 million increase in prepaid expenses and other assets. The increase in deferred revenue and deferred commissions and decrease in inventory were primarily due to new sales order growth during the six months ended July 31, 2019. The decreases in accounts receivable, accounts payable and accrued compensation and other liabilities were primarily attributable to timing of collections and payments.

Net cash provided by operating activities during the six months ended July 31, 2018 was $27.1 million, which mainly consisted of a net loss of $124.4 million, adjusted for non-cash charges including stock-based compensation expense of $97.6 million, depreciation and amortization of $33.6 million, amortization of debt discount and debt issuance costs of $7.9 million and net cash inflows of $12.3 million from changes in operating assets and liabilities. The net cash inflows from changes in operating assets and liabilities were primarily the result of a $39.1 million increase in deferred revenue, an $11.1 million decrease in prepaid expenses and other assets and a $0.7 million decrease in net accounts receivable, partially offset by an $18.1 million decrease in accounts payable, an $8.9 million increase in inventory, a $7.5 million decrease in accrued compensation and other liabilities, and a $4.2 million increase in deferred commissions. The increase in deferred revenue was primarily due to new sales order growth during the six months ended July 31, 2018. The increase in inventory was primarily due to expanding product portfolio and to support revenue growth. The decreases in prepaid expenses and other assets, accounts receivable, accounts payable and accrued compensation and other liabilities were primarily attributable to timing of collections and payments.

Investing Activities

Net cash used in investing activities during the six months ended July 31, 2019 of $267.5 million resulted from net purchases of marketable securities of $157.4 million, capital expenditures of $53.2 million, net cash paid for our acquisition of Compuverde of $47.9 million and, intangible assets acquired of $9.0 million.

Net cash used in investing activities during the six months ended July 31, 2018 of $425.9 million resulted from capital expenditures of $42.7 million and net purchases of marketable securities of $383.1 million.

Financing Activities

Net cash provided by financing activities during the six months ended July 31, 2019 of $32.6 million was primarily attributable to $32.0 million in proceeds from issuance of common stock under our employee stock purchase plan (ESPP) and $19.3 million in proceeds from the exercise of stock options, partially offset by a $11.6 million repayment of debt assumed in connection with our acquisition of Compuverde and $7.2 million in tax withholdings on vesting of restricted stock.

Net cash provided by financing activities during the six months ended July 31, 2018 of $526.2 million was attributable to $562.1 million in net proceeds from issuance of our Notes, $29.1 million in proceeds from the exercise of stock options and $19.7 million in proceeds from the issuance of common stock under our ESPP, partially offset by a $64.6 million payment to purchase capped calls and a $20.0 million common stock repurchase in conjunction with the issuance of the Notes.

Contractual Obligations and Commitments

Except as set forth in Note 7 of Part I, Item 1 of this Quarterly Report on Form 10-Q, there have been no material changes to our non-cancelable contractual obligations and commitments disclosed in our Annual Report on 10-K for the year ended January 31, 2019.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

Refer to Note 2 of Part I, Item 1 of this Quarterly Report on Form 10-Q for the summary of significant accounting policies. In addition, see “Critical Accounting Policies and Estimates” in our latest 10-K. There have been no material changes to our critical accounting policies and estimates since our 10-K filed on March 26, 2019, except for the changes as a result of the adoption of new accounting pronouncements.

Available Information

Our website is located at www.purestorage.com, and our investor relations website is located at investor.purestorage.com. The following filings will be available through our investor relations website free of charge after we file them with the SEC: Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements for our annual meetings of stockholders. We will 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 webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, social media accounts (Twitter, Facebook and LinkedIn), and blogs as part of 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 certificate of incorporation, bylaws, governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading "Corporate Governance." The content of our websites are not incorporated by reference into this Quarterly Report on Form 10-Q 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 3. Quantitative and Qualitative Disclosures about Market Risk.

We have operations both within the United States and internationally, and we are exposed to market risk in the ordinary course of our business.

Interest Rate Risk

Our cash, cash equivalents and marketable securities primarily consist of bank deposits and money market accounts, U.S. government notes and U.S. agency notes, asset-backed securities, and highly rated corporate debt. As of July 31, 2019, we had cash, cash equivalents and marketable securities of $1,182.5 million. The carrying amount of our cash equivalents reasonably approximates fair value, due to the short maturities of these instruments. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to fluctuation in interest rates, which may affect our interest income and the fair value of our investments.

We considered the historical volatility of short-term interest rates and determined that it was reasonably possible that an adverse change of 100 basis points could be experienced in the near term. A hypothetical 1.00% (100 basis points) increase in interest rates would have resulted in a decrease in the fair value of our marketable securities of approximately $9.9 million as of July 31, 2019.

Foreign Currency Exchange Risk

Our sales contracts are primarily denominated in U.S. dollars with a small number of contracts denominated in foreign currencies. A portion of our operating expenses are incurred outside the United States and denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British pound and Euro. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. Given the impact of foreign currency exchange rates has not been material to our historical operating results, we have not entered into any derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency exchange should become more significant.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 10% for all currencies could be experienced in the near term. These reasonably possible adverse changes in exchange rates of 10% were applied to total monetary assets and liabilities denominated in currencies other than U.S. dollar at July 31, 2019 to compute the adverse impact these changes would have had on our loss before income taxes in the near term. These changes would have resulted in an adverse impact on loss before provision for income taxes of approximately $4.9 million as of July 31, 2019.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, our CEO and CFO concluded that, as of July 31, 2019, our disclosure controls and procedures were designed at a reasonable assurance level and were 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 the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the three months ended April 30, 2019, we implemented changes to our lease accounting related internal controls to ensure compliance with the new leasing standards in accordance with Topic 842. There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) of the Exchange Act that occurred during the quarter ended July 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, 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 and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are involved in various legal proceedings arising from the normal course of business, and an unfavorable resolution of any of these matters could negatively affect our future results of operations, cash flows or financial position. We are not presently party to any legal proceedings that, in the opinion of management, would have a material adverse effect on our business.

Item 1A. Risk Factors.

Investing in our Class A common stock involves a high degree of risk. Investors should carefully consider the risks and uncertainties described below, together with all of the other information contained in this report, including our consolidated financial statements and the related notes appearing in this quarterly report, before deciding to invest in our Class A common stock. If any of the following risks actually occur, it could harm our business, prospects, operating results and financial condition. In such event, the trading price of our Class A common stock could decline and investors might lose all or part of their investment.

Risks Related to Our Business and Industry

We have experienced rapid growth in prior periods, and we may not be able to sustain or manage future growth effectively.

We have significantly expanded our overall business, customer base, headcount, channel partner relationships and operations in prior periods, and we anticipate that we will continue to expand and experience growth in future periods. For example, we delivered year-over-year revenue growth of 28% for the three months ended July 31, 2019, and our headcount increased from over 2,450 to over 3,300 employees from July 31, 2018 to July 31, 2019. Our future operating results will depend to a large extent on our ability to successfully sustain our growth and manage our anticipated expansion. To sustain and manage our growth successfully, we believe that we must, among other things, effectively:

- maintain and extend our product leadership;
- recruit, hire, train and manage qualified personnel, including sales personnel;
- maintain and further develop our partner relationships;
- enhance and expand our distribution and supply chain infrastructure;
- expand our support capabilities;
- forecast and control expenses;
- enhance and expand our international operations; and
- implement, improve and maintain our internal systems, procedures and controls.

We expect that our future growth will continue to place a significant strain on our managerial, administrative, operational, financial and other resources. We will incur costs associated with this future growth prior to realizing the anticipated benefits, and the return on these investments may be lower, may develop more slowly than we expect or may never materialize. Investors should not consider our revenue growth in prior quarterly or annual periods as indicative of our future performance. In future periods, we may not achieve similar percentage revenue growth rates as we have achieved in some past periods. If we are unable to maintain adequate revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability. If we are unable to manage our growth successfully, we may not be able to take advantage of market opportunities or release new products or enhancements in a timely manner, and we may fail to satisfy customers' expectations, maintain product quality, execute on our business plan or adequately respond to competitive pressures, each of which could adversely impact our growth and affect our business and operating results.

We intend to continue focusing on revenue growth and increasing our market penetration and international presence by investing heavily in our business, and this may put pressure on near-term profitability.

Our strategy is to continue investing in marketing, sales, support and research and development. We believe continuing to invest heavily in our business is critical to our future success and meeting our growth objectives. We anticipate that our operating costs and expenses will continue to increase in absolute terms. Even if we achieve or maintain significant revenue growth, we may continue to experience losses, forgoing near-term profitability on a U.S. GAAP basis.

We have not achieved profitability for any year since our inception. We incurred a net loss of $178.4 million for the year ended January 31, 2019, and $166.4 million for the six months ended July 31, 2019, and we had an accumulated deficit of $1,081.9 million as of January 31, 2019 and $1,248.3 million as of July 31, 2019. Our operating expenses largely are based on anticipated revenue, and a high percentage of our expenses are, and will continue to be, fixed in the short term. If we fail to adequately increase revenue and manage costs, we may not achieve or maintain profitability in the future. As a result, our business could be harmed, and our operating results could suffer.

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

We were founded in October 2009, but have generated substantially all of our revenue in our last three fiscal years. Investors should not consider our revenue growth in prior quarterly or annual periods as indicative of our future performance. In future periods, we do not expect to achieve similar percentage revenue growth rates as we have achieved in some past periods. If we are unable to maintain adequate revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability.

The market for data storage products is rapidly evolving, which makes it difficult to forecast demand for our products.

The market for data storage products is rapidly evolving. Our future financial performance depends on our ability to adapt to competitive dynamics and emerging customer demands and trends. Incumbent vendors promote storage products retrofitted with flash, which may reduce the perceived value of purpose-built, all-flash products. It is difficult to predict with any precision customer adoption rates of flash, customer demand for our products or the future growth rate and size of our addressable market.

Changes or advances in alternative technologies or adoption of cloud storage offerings not utilizing our storage platform could adversely affect the demand for our products. For instance, offerings from large public cloud providers are expanding quickly and may serve as alternatives to our products for a variety of customer workloads. Since these providers are known for developing storage systems internally, this trend could reduce the demand for storage systems developed by original equipment manufacturers, such as us. A slowing in or reduced demand for our data storage products caused by technological challenges, alternative technologies and products or any other reason would result in a lower revenue growth rate or decreased revenue, either of which would negatively impact our business and operating results.

We face intense competition from established companies and new entrants.

We face intense competition from a number of established companies that sell competitive storage products. These competitors include Dell EMC, HP Enterprise, Hitachi Vantara, IBM, NetApp and others. Our competitors may have:

- greater name and brand recognition and longer operating histories;
- larger sales and marketing and customer support budgets and resources;
- broader distribution and established relationships with distribution partners and customers;
- the ability to bundle storage products with other products and services to address customers’ requirements;
- greater resources to make acquisitions;
- larger and more mature product and intellectual property portfolios; and

- substantially greater financial, technical and other resources.

We also compete against cloud providers and vendors of hyperconverged products, which combine compute, networking and storage. These providers are growing and expanding their product offerings, potentially displacing some demand for our products. In addition, some of our competitors offer bundled products and services in order to reduce the initial cost of their storage products. Further, some of our competitors offer their storage products either at significant discounts or even for free in competing against us and in response to our efforts to market the overall benefits and technological merits of our products and programs.

Many competitors have developed or acquired competing storage technologies. For example, several of our competitors have introduced data storage products with features or data reduction technologies that directly compete with our products, or have introduced business programs that attempt to compete with our innovative programs, such as our *Evergreen Storage* model. We expect our competitors to continue to improve the performance of their products, reduce their prices and introduce new features, services and technologies that may, or that they may claim to, offer greater value compared to our products. In addition, our competitors may develop enhancements to, or future generations of, competitive products that may render our products or technologies obsolete or less competitive. These and other competitive pressures may prevent us from competing successfully against current or future competitors.

Our business may be harmed by trends in the overall external storage market.

Despite ongoing data growth, the external storage market in which we compete has not experienced substantial growth in the past few years due to a combination of technology transitions, increased storage efficiency, and changing economic and business environments. Customers are rethinking how they consume IT, increasing spending toward public cloud, software as a service, hyperconverged and converged infrastructure and software-defined storage. Any failure on our part to successfully update our product offerings or to adapt our sales programs to meet changing customer demands could harm our business, operating results and financial condition. The future impact of these trends on both short-term and long-term growth of the overall external storage market is uncertain. Reductions in the overall external storage market, or the specific markets in which we compete would harm our business and operating results.

Many of our competitors have long-standing relationships with key decision makers at current and prospective customers, which may inhibit our ability to compete.

Many of our competitors benefit from established brand awareness and long-standing relationships with key decision makers at our current and prospective customers. Our competitors often leverage these existing relationships to discourage customers from evaluating or purchasing our products. Additionally, most of our prospective customers have existing storage products supplied by our competitors, who have an advantage in retaining the customer because, among other things, they already understand the customer's IT infrastructure, user demands and needs. In the event that we are unable to successfully sell our products to new customers or persuade our customers to continue purchasing our products, we will not be able to maintain or increase our market share and revenue, which could adversely affect our business and operating results.

Our ability to increase our revenue depends on our ability to attract, motivate and retain sales, engineering and other key personnel, including our management team, and any failure to attract, motivate and retain these employees could harm our business, operating results and financial condition.

Our ability to increase our revenue depends on our ability to attract, motivate and retain qualified sales, engineering and other key employees, including our management. These positions may require candidates with specific backgrounds in software and the storage industry, and competition for employees with such expertise is intense. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. To the extent that we are successful in hiring to fill these positions, we need a significant amount of time to train new employees before they become effective and efficient in performing their jobs. From time to time, there may be changes in our management team, which could create short term uncertainty. Members of our management team, including our executive officers, are generally employed on an at-will basis, which means that they could terminate their employment with us at any time. If we are unable to attract, motivate and retain qualified sales, engineering and other key employees, including our management, our business and operating results could suffer.

If we fail to adequately expand and optimize our sales force, our growth will be impeded.

We need to continue to expand and optimize our sales organization in order to grow our customer base and our business. We plan to continue to expand and train our sales force, both domestically and internationally. We must design and implement effective sales incentive programs, and it can take time before new sales representatives are fully trained and productive. If we are unable to hire, develop and retain qualified sales personnel or if new sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not be able to realize the expected benefits of these investments or increase our revenue.

If we fail to develop and introduce new or enhanced products successfully, our ability to attract and retain customers could be harmed.

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. To compete successfully, we must design, develop, market and sell new or enhanced products that provide increasingly higher levels of performance, capacity and reliability and that meet the expectations of our customers, which is a complex and uncertain process. We believe that we must continue to dedicate significant resources to our research and development efforts to maintain or expand our competitive position. Our investments may take longer to generate revenue or may generate less revenue than we anticipate. The introduction of new products by our competitors, or the emergence of alternative technologies or industry standards could render our existing or future products obsolete or less competitive.

As we introduce new or enhanced products, we must successfully manage product launches and transitions to the next generations of our products, and encourage our customers to adopt new products and features. For example, we announced our suite of *Cloud Data Services* last year. If we are not able to successfully manage the development and release of new or enhanced products, our business, operating results and financial condition could be harmed. Similarly, if we fail to introduce new or enhanced products, such as new or improved software features, that meet our customers' needs in a timely or cost-effective fashion, we may lose market share and our operating results could be adversely affected.

If we fail to successfully maintain or grow our relationships with partners, our business, operating results and financial condition could be harmed.

Our future success is highly dependent upon our ability to establish and maintain successful relationships with our partners, including value-added resellers, service providers and systems integrators. In addition to selling our products, our partners may offer installation, post-sale service and support in their local markets. In markets where we rely on partners more heavily, we have less contact with our customers and less control over the sales process and the quality and responsiveness of our partners. As a result, it may be more difficult for us to ensure the proper delivery and installation of our products or the quality or responsiveness of the support and services being offered. Any failure on our part to effectively identify, train and manage our channel partners and to monitor their sales activity, as well as the customer support and services provided to our customers, could harm our business, operating results and financial condition.

Our partners may choose to discontinue offering our products and services or may not devote sufficient attention and resources toward selling our products and services. We typically enter into non-exclusive, written agreements with our channel partners. These agreements generally have a one-year, self-renewing term, have no minimum sales commitment and do not prohibit our channel partners from offering products and services that compete with ours. Additionally, our competitors provide incentives to our existing and potential channel partners to use, purchase or offer their products and services or to prevent or reduce sales of our products and services. The occurrence of any of these events could harm our business, operating results and financial condition.

Our sales cycles can be long and unpredictable and our sales efforts require considerable time and expense, making it difficult for us to predict future sales.

Our sales efforts involve educating our customers about the use and benefits of our products. Larger customers often undertake an evaluation process that can result in a lengthy sales cycle. We spend substantial time and resources on our sales efforts without any assurance that our efforts will produce any sales. In addition, product purchases are frequently subject to budget constraints, multiple approvals and unplanned administrative and other delays. A substantial portion of our quarterly sales typically occurs during the last several weeks of the quarter, which we believe largely reflects customer buying patterns of products similar to ours and other products in the technology industry generally. Since we do not recognize revenue from a sale until control is transferred and the performance obligations are satisfied, a substantial portion of our sales late in a quarter may negatively impact the recognition of the associated revenue. Furthermore, our products come with a 30-day money back guarantee, allowing a customer to return a product within 30 days of receipt if the customer is not satisfied with its purchase for any reason. These factors, among others, make it difficult for us to predict when customers will purchase our products, which may adversely affect our operating results and cause our operating results to fluctuate. In addition, if sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, our operating results may suffer.

Our gross margins are impacted by a variety of factors and vary from period to period, making them difficult to predict with certainty.

Our gross margins fluctuate from period to period due primarily to product costs, customer mix and product mix. A variety of factors may cause our gross margins to fluctuate and make them difficult to predict, including:

- demand for our products;
- sales and marketing initiatives, discount levels, rebates and competitive pricing;
- changes in customer, geographic or product mix, including mix of product configurations;
- the cost of components, including NAND flash and DRAM, and freight;
- new product introductions and enhancements, potentially with initial sales at relatively small volumes and higher product costs;
- excess inventory levels or purchase obligations as a result of changes in demand forecasts or product transitions;
- an increase in product returns, order rescheduling and cancellations;
- the timing of technical support service contracts and contract renewals;
- inventory stocking requirements to mitigate supply constraints, accommodate unforeseen demand or support new product introductions; and
- product quality and serviceability issues.

If we are unable to manage these factors effectively, our gross margins may decline, and fluctuations in gross margins may make it difficult to manage our business and achieve or maintain profitability, which could materially harm our business, operating results and financial condition.

Our operating results may fluctuate significantly, which could make our future results difficult to predict and could cause our operating results to fall below expectations.

Our operating results may fluctuate due to a variety of factors, a portion of which are outside of our control. As a result, comparing our results on a period-to-period basis may not be meaningful. Factors that are difficult to predict and that could cause our operating results to fluctuate include:

- the timing and magnitude of orders, shipments and acceptance of our products in any quarter, including product returns, order rescheduling and cancellations by our customers;
- fluctuations in demand and prices for our products;
- seasonality in our business or the markets we serve;
- our ability to control the costs of the components we use in our hardware products;

- our ability to timely adopt subsequent generations of components into our hardware products;
- disruption in our supply chains, component availability and related procurement costs;
- reductions in customers' budgets for IT purchases;
- changes in industry standards in the data storage industry;
- our ability to develop, introduce and ship in a timely manner new products and product enhancements that meet customer requirements;
- our ability to effectively manage product transitions as we introduce new products;
- any change in the competitive dynamics of our markets, including new entrants or discounting of product prices;
- our ability to control costs, including our operating expenses; and
- future accounting pronouncements and changes in accounting policies.

The occurrence of any one of these risks could negatively affect our operating results in any particular quarter.

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

We believe that our company culture has been a critical contributor to our success. Our culture fosters innovation, creativity, teamwork, passion for customers and focus on execution, and facilitates critical knowledge transfer and knowledge sharing. In particular, we believe that the difference between our sales, support and engineering cultures, relative to those of incumbent vendors, is a key competitive advantage and differentiator for our customers and partners. As we grow and change, we may find it difficult to maintain these important aspects of our company culture, which could limit our ability to innovate and operate effectively. Any failure to preserve our culture could also negatively affect our ability to retain and recruit personnel, continue to perform at current levels or execute on our business strategy.

Our long-term success depends, in part, on sales outside of the United States, which is susceptible to costs and risks associated with international operations.

We maintain operations outside of the United States, which we have been expanding and intend to continue to expand in the future. As a company headquartered in United States, conducting and expanding international operations subjects us to new costs and risks that we may not generally face in the United States. These include:

- exposure to foreign currency exchange rate risk;
- difficulties in collecting payments internationally, and managing and staffing international operations;
- establishing relationships with channel partners in international locations;
- increased travel, infrastructure and legal compliance costs associated with international locations;
- burdens of complying with a wide variety of laws associated with international operations, including taxes and customs;
- significant fines, penalties and collateral consequences if we or our partners fail to comply with anti-bribery laws;
- heightened risk of improper, unfair or corrupt business practices in certain geographies;
- potentially adverse tax consequences, including repatriation of earnings;
- increased financial accounting and reporting burdens and complexities;
- political, social and economic instability abroad, terrorist attacks and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could negatively affect our international operations and, consequently, our business, operating results and financial condition generally.

The sales prices of our products and services may fluctuate or decline, which may reduce our gross profits, revenue growth, and adversely impact our financial results.

The sales prices of our products and services may fluctuate or decline for a variety of reasons, including competitive pricing pressures, discounts, cost of components, a change in our mix of products and services, and the introduction of competing products or services or promotional programs. Competition continues to increase in the markets in which we participate, and we expect competition to further increase in the future, thereby leading to increased pricing pressures. Larger competitors may reduce the price of products or services that compete with ours or may bundle them with other products and services. Additionally, although we price our products and services predominantly in U.S. dollars, currency fluctuations in certain countries and regions may negatively impact actual prices that partners and customers are willing to pay in those countries and regions. Furthermore, we anticipate that the prices for our products will decrease over product life cycles. If we are required to decrease our prices to be competitive and are not able to offset this decrease by increases in the volume of sales or the sales of new products with higher margins, our gross margins and operating results could be adversely affected.

We derive the majority of our revenue from our FlashArray products, and a decline in demand for these products would cause our revenue to grow more slowly or to decline.

Our *FlashArray* products have historically accounted for the majority of our revenue and will continue to comprise a significant portion of our revenue for the foreseeable future. As a result, our revenue could be reduced by any decline or fluctuation in demand for these products, regardless of the reason. If demand for our core products slows or declines, we may not be able to increase our revenue or achieve and maintain profitability.

If we are unable to sell renewals of our support subscription services to our customers, our future revenue and operating results will be harmed.

Existing customers may not renew their support subscription agreements after the initial period, and given our limited operating history, we may not be able to accurately predict our renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their available budget and the level of their satisfaction with our products, customer support and pricing compared to that offered by our competitors. If our customers renew their contracts, they may renew on terms that are less economically beneficial to us. If our customers do not renew their agreements or renew on less favorable terms, our revenue may grow more slowly than expected, if at all.

We expect that revenue from subscription agreements will increase as a percentage of total revenue over time, and because we recognize this revenue over the term of the relevant contract period, downturns or upturns in sales of subscriptions are not immediately reflected in full in our results of operations.

We expect that our revenue from support subscription agreements will increase as a percentage of total revenue over time. We are also increasing the number of our subscription-based offerings, such as *ES2* although it is more difficult to predict the rate at which customers will adopt, and the rate at which our revenue will grow from, these new offerings. We recognize subscription revenue ratably over the term of the relevant period. As a result, much of the subscription revenue we report each quarter is derived from agreements that we sold in prior quarters. Consequently, a decline in new or renewed subscription agreements in any one quarter will not be fully reflected in revenue in that quarter but will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales of subscriptions is not reflected in full in our results of operations until future periods. It is also difficult for us to rapidly increase our subscription revenue through additional sales in any period, as revenue from renewals must be recognized ratably over the applicable service period.

Our products are highly technical and may contain defects, which could cause data unavailability, loss or corruption that might, in turn, result in liability and harm to our reputation and business.

Our products are highly technical and complex and are often used to store information critical to our customers' business operations. Our products may contain errors, defects or security vulnerabilities that could result in data unavailability, loss, corruption or other harm to our customers. Some errors in our products may only be discovered after they have been installed and used by customers. Any errors, defects or security vulnerabilities in our products could result in a loss of revenue, injury to our reputation, loss of customers or increased service and warranty costs, any of which could adversely affect our business and operating results. In addition, errors or failures in the products of third-party technology vendors may be attributed to us and may harm our reputation.

We could face claims for product liability, tort or breach of warranty. Many of our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may be difficult to enforce. Defending a lawsuit, regardless of its merit, would be costly and might divert management's attention and adversely affect the market's perception of us and our products. Our business liability insurance coverage could prove inadequate with respect to a claim and future coverage may be unavailable on acceptable terms or at all. These product-related issues could result in claims against us, and our business, operating results and financial condition could be harmed.

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

We believe that building and maintaining brand recognition and customer goodwill is critical to our success. Our efforts in this area have, on occasion, been hampered by the marketing efforts of our competitors, which have included negative or misleading statements about us and our products. If we are unable to effectively respond to the marketing efforts of our competitors and protect our brand and customer goodwill now or in the future, our business will be adversely affected.

Our products must interoperate with third party operating systems, software applications and hardware, and if we are unable to ensure that our products interoperate with third party software and hardware, we may lose or fail to increase our market share and may experience reduced demand for our products.

Our products must interoperate with our customers' infrastructure, specifically networks, servers, software and operating systems, which are offered by a wide variety of vendors. When new or updated versions of these operating systems or applications are introduced, we must sometimes develop updated versions of our software so that our products interoperate properly. For example, our *Pure1* cloud-based management and support includes connectors to virtualization platforms, allowing our customers to manage our products within native management tools, such as VMware and OpenStack. We may not deliver or maintain interoperability quickly, cost-effectively or at all. These efforts require capital investment and engineering resources. If we fail to maintain compatibility of our products with these infrastructure components, our customers may not be able to fully utilize our products, and we may, among other consequences, lose or fail to increase our market share and experience reduced demand for our products, which may harm our business, operating results and financial condition.

Our products must conform to industry standards in order to be accepted by customers in our markets.

Generally, our products comprise only a part of a data center. The servers, network, software and other components and systems of a data center must comply with established industry standards in order to interoperate and function efficiently together. We depend on companies that provide other systems in a data center to conform to prevailing industry standards. These companies are often significantly larger and more influential in driving industry standards than we are. Some industry standards may not be widely adopted or implemented uniformly, and competing standards may emerge that may be preferred by our customers. If larger companies do not conform to the same industry standards that we do, or if competing standards emerge, sales of our products could be adversely affected, which may harm our business.

Our ability to successfully market and sell our products is dependent in part on ease of use and the quality of our support offerings, and any failure to offer high-quality installation and technical support could harm our business.

Once our products are deployed by our customers, customers depend on our support organization to resolve technical issues relating to our products. Our ability to provide effective support is largely dependent on our ability to attract, train and retain qualified personnel, as well as to engage with qualified support partners that provide a similar level of customer support. In addition, our sales process is highly dependent on our product and business reputation and on recommendations from our existing customers. Although our products are designed to be interoperable with existing servers and systems, we may need to provide customized installation and configuration support to our customers before our products become fully operational in their environments. Any failure to maintain, or a market perception that we do not maintain, high-quality installation and technical support could harm our reputation, our ability to sell our products to existing and prospective customers and our business.

We rely on contract manufacturers to manufacture our products, and if we fail to manage our relationships with our contract manufacturers successfully, our business could be negatively impacted.

We rely on a limited number of contract manufacturers to manufacture our products. Our reliance on contract manufacturers reduces our control over the assembly process, and exposes us to risks, such as reduced control over quality assurance, costs and product supply. If we fail to manage our relationships with these contract manufacturers effectively, or if these contract manufacturers experience delays, disruptions, capacity constraints or quality control problems, our ability to timely ship products to our customers will be impaired, potentially on short notice and our competitive position, reputation and financial results could be harmed. If we are required, for whatever reason, to change contract manufacturers or assume internal manufacturing operations, we may lose revenue, incur increased costs and damage our customer relationships. Qualifying a new contract manufacturer and commencing production is expensive and time-consuming. We may need to increase our component purchases, contract manufacturing capacity and internal test and quality functions if we experience increased demand. The inability of our contract manufacturers to provide us with adequate supplies of high-quality products could cause a delay in our order fulfillment, and our business, operating results and financial condition may be harmed.

We rely on a limited number of suppliers, and in some cases single-source suppliers, and any disruption or termination of our supply arrangements could delay shipments of our products and could harm our relationships with current and prospective customers.

We rely on a limited number of suppliers, and in some cases, on single-source suppliers, for several key components of our products, and we have not generally entered into agreements for the long-term purchase of these components. For example, the CPUs utilized in our products are supplied by Intel Corporation (Intel), and neither we nor our contract manufacturers have an agreement with Intel for the procurement of these CPUs. Instead, we purchase the CPUs either directly from Intel or through a reseller on a purchase order basis. Intel or its resellers could stop selling to us at any time or could raise their prices without notice.

This reliance on a limited number of suppliers and the lack of any guaranteed sources of supply exposes us to several risks, including:

- the inability to obtain an adequate supply of key components, including solid-state drives;
- price volatility for the components of our products;
- failure of a supplier to meet our quality or production requirements;
- failure of a supplier of key components to remain in business or adjust to market conditions; and
- consolidation among suppliers, resulting in some suppliers exiting the industry or discontinuing the manufacture of components.

Further, some of the components in our products are sourced 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 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, there have been discussions regarding potential significant changes to U.S trade polices, legislation, treaties and tariffs, and the United States and Chinese governments have announced import tariffs by both countries. If any new legislation and/or regulations are implemented, or if existing trade agreements are renegotiated or terminated, or if tariffs are imposed on foreign-sourced or U.S. goods, it may be inefficient and expensive for us to alter our business operations in order to adapt to or comply with such changes. Such operational changes could have a material adverse effect on our business, financial condition, results of operations or cash flows.

As a result of these risks, we cannot assure investors that we will be able to obtain enough of these key components in the future or that the cost of these components will not increase. If our supply of components is disrupted or delayed, or if we need to replace our existing suppliers, there can be no assurance that additional components will be available when required or that components will be available on terms that are favorable to us, which could extend our lead times, increase the costs of our components and harm our business, operating results and financial condition. We may not be able to continue to procure components at reasonable prices, which may require us to enter into longer-term contracts with component suppliers to obtain components at competitive prices. Any of the foregoing disruptions could increase our costs and decrease our gross margins, harming our business, operating results and financial condition.

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

Our third-party contract manufacturers procure components and build our products based on our forecasts, and we generally do not hold inventory for a prolonged period of time. These forecasts are based on estimates of future demand for our products, which are in turn based on historical trends and analyses from our sales and marketing organizations, adjusted for overall market conditions. In order to reduce manufacturing lead times and plan for adequate component supply, from time to time we may issue orders 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 make accurate forecasts and effectively manage the supply of our products and components. We have, in the past, had to write off inventory in connection with transitions to new product models. If we ultimately determine that we have excess supply, we may have to reduce our prices and write down or write off excess or obsolete inventory, which in turn could result in lower gross margins. Alternatively, insufficient supply levels may lead to shortages that result in delayed revenue, reduced product margins or loss of sales opportunities altogether. If we are unable to effectively manage our supply and inventory, our results of operations could be adversely affected.

Adverse economic conditions may harm our revenues and profitability.

Our operations and performance depend in part on worldwide economic conditions and the economic health of our current and prospective customers. Global economic uncertainty and political and fiscal challenges in the United States and abroad can arise suddenly and affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our products and services. For example, in 2019, the growth rate in the economy of the European Union, China, or the United States, trade relations between the United States and China, political uncertainty in the Middle East and other geopolitical events could directly or indirectly affect our business. Additionally, the United Kingdom's exit from the European Union remains subject to the successful conclusion of a final withdrawal agreement between the parties. In the absence of such an agreement, there would be no transitional provisions and any exit from the European Union could lead to adverse economic consequences. Weak economic conditions would likely adversely impact our business, operating results and financial condition in a number of ways, including by reducing sales, lengthening sales cycles and lowering prices of our products and services.

Third-party claims that we infringe their intellectual property rights could be costly and harm our business.

There is a substantial amount of intellectual property litigation in the data storage industry, and we may become party to, or threatened with, litigation or other adversarial proceedings regarding intellectual property rights with respect to our technology. Third parties may assert infringement claims against us based on existing or future intellectual property rights. The outcome of intellectual property litigation is subject to uncertainties that cannot be adequately quantified in advance. We have been, and may in the future be, subject to claims that we infringe upon the intellectual property rights of other intellectual property holders, particularly as we grow and face increasing competition.

Any intellectual property rights claim against us or our customers, suppliers, and channel partners, with or without merit, could be time-consuming and expensive to litigate or settle, could divert management’s resources and attention from operating our business and could force us to acquire intellectual property rights and licenses, which may involve substantial royalty payments. Further, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. An adverse determination also could invalidate our intellectual property rights and prevent us from manufacturing and selling our products and may require that we procure or develop substitute products that do not infringe, which could require significant effort and expense. We may not be able to re-engineer our products successfully to avoid infringement, and we may have to seek a license for the infringed technology, which may not be available on reasonable terms or at all, may significantly increase our operating expenses or may require us to restrict our business activities in one or more respects. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business. Any of these events could harm our business and financial condition.

We currently have a number of agreements in effect pursuant to which we have agreed to defend, indemnify and hold harmless our customers, suppliers and channel partners from damages and costs which may arise from the infringement by our products of third-party patents, trademarks or other proprietary rights. The scope of these indemnity obligations varies but may, in some instances, include indemnification for damages and expenses, including attorneys' fees. Our insurance may not cover intellectual property infringement claims. A claim that our products infringe a third party's intellectual property rights could harm our relationships with our customers, deter future customers from purchasing our products and expose us to costly litigation and settlement expenses. Even if we are not a party to any litigation between a customer and a third party relating to infringement by our products, an adverse outcome in any such litigation could make it more difficult for us to defend our products against intellectual property infringement claims in any subsequent litigation in which we are a named party. Any of these results could harm our brand and financial condition.

The success of our business depends in part on our ability to protect and enforce our intellectual property rights.

We rely on a combination of patent, copyright, service mark, trademark and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection. We have over 800 issued patents and patent applications in the United States and foreign countries. We cannot assure investors that future patents issued to us, if any, will give us the protection that we seek, if at all, or that any patents issued to us will not be challenged, invalidated, circumvented or held to be unenforceable. Our issued patents and any patents that may issue in the future may not provide sufficiently broad protection or may not be enforceable. Changes to the patent laws in the United States and other jurisdictions could also diminish the value of our patents and patent applications or narrow the scope of our patent protection. We cannot be certain that the steps we have taken will prevent unauthorized use of our technology or the reverse engineering of our technology. Moreover, others may independently develop technologies competitive to ours or infringe our intellectual property. Furthermore, any of our trademarks may be challenged by others or invalidated through administrative process or litigation.

Protecting against the unauthorized use of our intellectual property, products and other proprietary rights is expensive and difficult. Litigation may be necessary in the future to enforce or defend our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could result in substantial costs and diversion of management's resources and attention, either of which could harm our business, operating results and financial condition. Further, many of our current and potential competitors have the ability to dedicate substantially greater resources than us to defend intellectual property infringement claims and enforce their intellectual property rights. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our products are available. An inability to adequately protect and enforce our intellectual property and other proprietary rights could harm our business and financial condition.

Our use of open source software could impose limitations on our ability to commercialize our products.

We use open source software in our products and expect to continue to use open source software in the future. Although we monitor our use of open source software, the terms of many open source licenses have not been interpreted by U.S. or foreign courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our products. From time to time, we may face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we have developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to make our software source code freely available, seek licenses from third parties in order to continue offering our products for certain uses or cease offering the implicated solutions unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may be required to discontinue providing some of our software in the event re-engineering cannot be accomplished on a timely basis, any of which could harm our business, operating results and financial condition.

If we or our products suffer a cybersecurity or other security breach, we may lose customers and incur significant liabilities.

In the ordinary course of business, we store sensitive data on our internal systems, networks and servers, which may include intellectual property, our proprietary business information and that of our customers, suppliers and business partners and sales data, which may, on occasion, include personally identifiable information. Additionally, we design and sell products that allow our customers to store our customers' data. The security of our own networks and the intrusion protection features of our products are both critical to our operations and business strategy.

We devote significant resources to network security, data encryption and other security measures to protect our systems and data, but these security measures cannot provide absolute security. For example, we use encryption and authentication technologies to secure the transmission and storage of data and prevent third party access to data or accounts, but these security measures are subject to third-party security breaches, employee error, malfeasance, faulty password management or other irregularities. Any destructive or intrusive breach of our internal systems could result in the information stored on our networks being accessed, publicly disclosed, lost or stolen.

Additionally, an effective attack on our products could disrupt the proper functioning of our products, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers, disrupt or temporarily interrupt customers' operations or cause other destructive outcomes, including the theft of information sufficient to engage in fraudulent transactions. The risk that these types of events could seriously harm our business is likely to increase as we expand our network of channel partners, resellers and authorized service providers and operate in more countries. The economic costs to us to eliminate or alleviate cyber or other security problems, viruses, worms, malicious software systems and security vulnerabilities could be significant and may be difficult to anticipate or measure because the damage may differ based on the identity and motive of the programmer or hacker, which are often difficult to identify. If any of these types of security breaches, actual or perceived, were to occur and we were to be unable to protect sensitive data, our relationships with our business partners and customers could be materially damaged, our reputation and brand could be materially harmed, use of our products could decrease and we could be exposed to a risk of loss or litigation and possible liability.

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

We may, from time to time, acquire complementary products, technologies or businesses. For example, in April 2019, we acquired Compuverde AB. We also may enter into relationships with other businesses in order to expand our product offerings, which could involve preferred or exclusive licenses, additional channels of distribution or discount pricing or investments in other companies. Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may be subject to third-party or government approvals, which are beyond our control. Consequently, we can make no assurance that these transactions, once undertaken and announced, will close.

These kinds of acquisitions or investments may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of acquired companies, particularly if the key personnel of the acquired business choose not to work for us, and we may have difficulty retaining the customers of any acquired business. Acquisitions may also disrupt our ongoing business, divert our resources and require significant management attention that would otherwise be available for development of our business. Any acquisition or investment could expose us to unknown liabilities. Moreover, we cannot assure investors that the anticipated benefits of any acquisition or investment will be realized. In connection with these types of transactions, we may issue additional equity securities that would dilute our stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to repay, incur large charges or substantial liabilities, encounter difficulties integrating diverse business cultures and become subject to adverse tax consequences, substantial depreciation or deferred compensation charges. These challenges related to acquisitions or investments could harm our business and financial condition.

We may require additional capital to support business growth, and this capital might not be available on acceptable terms, or at all.

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 products or enhance our existing products, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing in the future could involve additional restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. 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 support our business growth and to respond to business challenges could be significantly limited and our prospects and financial condition could be harmed.

We are exposed to the credit risk of some of our customers, which could harm our business, operating results and financial condition.

Most of our sales are made on an open credit basis. We monitor individual customer payment capability when we grant open credit arrangements and may limit these open credit arrangements based on perceived creditworthiness. We also maintain allowances we believe are adequate to cover exposure for doubtful accounts. Although we have programs in place that are designed to monitor and mitigate these risks, we cannot assure investors these programs will be effective in managing our credit risks, especially as we expand our business internationally. If we are unable to adequately control these risks, our business, operating results and financial condition could be harmed.

Sales to U.S. federal, state and local governments are subject to a number of challenges and risks that may adversely impact our business.

Sales to U.S. federal, state and local governmental agencies may in the future account for a significant portion of our revenue.

- Selling to governmental agencies can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that such efforts will generate a sale;
- Government certification requirements applicable to our products may change and in doing so restrict our ability to sell into the U.S. federal government sector until we have attained the revised certification;
- Government demand and payment for our products and services may be impacted by public sector budgetary cycles and funding authorizations, including in connection with an extended federal government shutdown, with funding reductions or delays adversely affecting public sector demand for our products and services;
- We sell our products to governmental agencies through our channel partners, and these agencies 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 results of operations; and
- Governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our products, which would adversely impact our revenue and results of operations, or institute fines or civil or criminal liability if the audit uncovers improper or illegal activities

Finally, governments may require certain products to be manufactured in the United States and other relatively high-cost manufacturing locations, and we may not manufacture all products in locations that meet these requirements, affecting our ability to sell these products to governmental agencies.

We need to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, and the failure to do so could have a material adverse effect on our business and stock price.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. We are required to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act (Section 404). Our independent registered public accounting firm also needs to attest to the effectiveness of our internal control over financial reporting. We continue to take steps to develop our finance and accounting function, such as hiring additional personnel and implementing additional tools and improvements to policies and procedures. Our compliance with Section 404 may require us to continue to incur substantial expense and expend significant management efforts. If we are unable to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm notes or identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the price of our Class A common stock could decline and we could be subject to sanctions or investigations by the SEC, or other regulatory authorities, which would require additional financial and management resources.

Our international operations, as well as U.S. tax reform, could expose us to potentially adverse tax consequences.

The Tax Cuts and Jobs Act (the Tax Act) was signed into law on December 22, 2017. The new legislation decreased the U.S. corporate federal income tax rate from 35% to 21% effective January 1, 2018. The Tax Act also includes a number of other provisions including the elimination of loss carrybacks and limitations on the use of future losses, limitations on the deductibility of executive compensation, limitation or modification on the deductibility of certain business expenses, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and the introduction of a base erosion and anti-abuse tax. Regulations have been issued to provide interpretive guidance on certain provisions of the Tax Act, but there are still uncertainties as regulations have not been issued for all provisions, and certain proposed regulations have not been finalized. The issuance of additional proposed and final regulations could have a material adverse effect on our cash tax liabilities, results of operations, and financial condition.

We generally conduct our international operations through wholly-owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Given the passage of the Tax Act and other global tax developments, we continue to evaluate our corporate structure and intercompany relationships. Future changes to U.S. and global tax laws may adversely impact our effective tax rate.

Our intercompany relationships are, and after the implementation of any changes to our corporate structure will continue to be, subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties, which could result in tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations.

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

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in the United States. For example, the European Union has adopted certain directives to facilitate the recycling of electrical and electronic equipment sold in the European Union, including the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment directive and the Waste Electrical and Electronic Equipment directive.

Changes in applicable laws, regulations and standards could harm our business, operating results and financial condition. For example, we have been subject to the EU General Data Protection Regulation, or GDPR, since May 2018. The GDPR may requires us to make further change our policies and procedures in the future beyond what we have already done. Our business could be impacted, to some extent, by the United Kingdom's exit from the European

Union and related changes in law and regulation. We made changes to our data protection compliance program to prepare for the GDPR and will continue to monitor the implementation and evolution of global data protection regulations, but if we are not compliant with GDPR requirements, we may be subject to significant fines and our business may be harmed. In addition, the California Consumer Privacy Act places additional requirements on the handling of personal data. The potential effects of this legislation are far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses. Customers may choose to implement technological solutions to comply with such regulations that impact the performance and competitiveness of our products and solutions.

Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, operating results and financial condition could be harmed. Even the perception of privacy concerns, whether or not valid, may harm our reputation and inhibit competitiveness and adoption of our products by current and future customers. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, operating results and financial condition.

Governmental regulations affecting the import or export of products could negatively affect our revenue.

The U.S. and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of some technologies, especially encryption technology. From time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring the escrow of imports or exports. If we fail to obtain required import or export approval for our products, our international and domestic sales could be harmed and our revenue may be adversely affected. In many cases, we rely on vendors and channel partners to handle logistics associated with the import and export of our products, so our visibility and control over these matters may be limited. In addition, failure to comply with such regulations could result in penalties, costs and restrictions on export privileges, which could harm our business, operating results and financial condition.

Our business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events, and to interruption by man-made factors such as computer viruses or terrorism.

We and our suppliers have operations in locations, including our headquarters in California, that are subject to earthquakes, fires, floods and other natural catastrophic events, such as severe weather and geological events, which could disrupt our operations or the operations of our customers and suppliers. Our customers affected by a natural disaster could postpone or cancel orders of our products, which could negatively impact our business. Moreover, should any of our key suppliers fail to deliver components to us as a result of a natural disaster, we may be unable to purchase these components in necessary quantities or may be forced to purchase components in the open market at significantly higher costs. We may also be forced to purchase components in advance of our normal supply chain demand to avoid potential market shortages. Our business interruption insurance may be insufficient to compensate us for losses due to a significant natural disaster or due to man-made factors. Any natural catastrophic events may also prevent our employees from being able to reach our offices in any jurisdiction around the world, and therefore impede our ability to conduct business as usual.

In addition, acts of terrorism or malicious computer viruses could cause disruptions in our or our customers' businesses or the economy as a whole. To the extent that these disruptions result in delays or cancellations of customer orders or the deployment of our products, our business, operating results and financial condition could be harmed.

Risks Related to Our Notes

We may not have the ability to raise the funds necessary to settle conversions of the Notes or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.

Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any, to, but excluding, the fundamental change repurchase date. In addition, if a make-whole fundamental change (as defined in the indenture for the Notes) occurs prior to the maturity date of the Notes, we will in some cases be required to increase the conversion rate for a holder that elects to convert its Notes in connection with such make-whole fundamental change. Upon a conversion of the Notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or pay cash with respect to Notes being converted.

In addition, our ability to repurchase or to pay cash upon conversion of the Notes may be limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the indenture governing the Notes or to pay cash upon conversion of the Notes as required by the indenture would constitute a default under the indenture. A default under the 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 the Notes or to pay cash upon conversion of the Notes.

Servicing our debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the amounts payable under the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We may still incur substantially more debt or take other actions that would diminish our ability to make payments on the Notes when due.

We and our subsidiaries may incur substantial additional debt in the future, subject to the restrictions contained in our future debt instruments, some of which may be secured debt. We are not restricted under the terms of the indenture governing the Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that could have the effect of diminishing our ability to make payments on the Notes when due. Furthermore, the indenture prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes and the indenture. These and other provisions in the indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to holders of the Notes.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than by paying cash in lieu of delivering any fractional share), we may settle all or a portion of our conversion obligation in cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

Under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

The capped call transactions may affect the value of the Notes and our common stock.

In connection with the Notes, we entered into capped call transactions with certain financial institutions (the option counterparties). The capped call transactions are expected generally to reduce the potential dilution upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of the Notes, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the capped call transactions, the option counterparties and/or their respective affiliates purchased shares of our Class A common stock and/or entered into various derivative transactions with respect to our Class A common stock. This activity could have increased (or reduced the size of any decrease in) the market price of our Class A common stock or the Notes at that time.

In addition, the option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock in secondary market transactions (and are likely to do so during any observation period related to a conversion of notes or following any repurchase of notes by us on any fundamental change repurchase date or otherwise). This activity could also cause or avoid an increase or a decrease in the price of our Class A common stock or the Notes.

The potential effect, if any, of these transactions and activities on the price of our Class A common stock or the Notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our Class A common stock.

Risks Related to Our Common Stock

The trading price of our Class A common stock has been and may continue to be highly volatile, and an active, liquid, and orderly market for our Class A common stock may not be sustained.

The trading price of our Class A common stock has been, and will likely continue to be, highly volatile. Since shares of our Class A common stock were sold in our initial public offering in October 2015 at a price of $17.00 per share, our closing stock price has ranged from $9.40 to $28.66, through August 23, 2019. Some of the factors, many of which are beyond our control, affecting our volatility may include:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of technology companies in general and of companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our operating results;
- whether our operating results meet the expectations of securities analysts or investors;
- issuance or new or updated research or reports by securities analysts, including the publication of unfavorable reports or change in recommendation or downgrading of our Class A common stock;
- actual or anticipated developments in our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry or both;
- general economic conditions and trends;

- major catastrophic events;
- sales of large blocks of our stock; or
- departures of key personnel.

In several recent situations where the price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, the defense and disposition of the lawsuit could be costly and divert the time and attention of our management and harm our business, operating results and financial condition.

We cannot guarantee that our recently announced share repurchase program will enhance shareholder value, and share repurchases could affect the price of our common stock.

In August 2019, our board of directors authorized a $150.0 million share repurchase program which will be funded from available working capital. The repurchase authorization has no fixed end date. Although our board of directors has authorized a share repurchase program, this program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. The share repurchase program could affect the price of our common stock, increase volatility and diminish our cash reserves. In addition, it may be suspended or terminated at any time, which may negatively impact the price of our Class A common stock.

If securities analysts do not publish research or reports about our business, or if they downgrade our stock, the price of our stock could decline.

The trading market for our Class A common stock will likely be influenced by research and reports that securities or industry analysts publish about us or our business. In the event securities or industry analysts cover our company and one or more of these analysts downgrades our stock, lowers their price target, or publishes unfavorable or inaccurate research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

We have never paid dividends on our common stock and we do not anticipate paying any cash dividends in 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, investors may only receive a return on their investment in our Class A common stock if the market price of our common stock increases.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the price of our Class A common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could depress the trading price of our Class A common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- authorize the issuance of “blank check” preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- prohibit stockholders from calling a special meeting of our stockholders;

- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder and which may discourage, delay, or prevent a change of control of our company.

Any provision of our amended and restated certificate of incorporation, bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. If a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit Number	Description	Incorporation By Reference Form	SEC File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation.	10-Q	001-37570	3.1	12/11/2015
3.2	Amended and Restated Bylaws.	S-1	333-206312	3.4	9/9/2015
4.1	Form of Class A Common Stock Certificate of the Company.	S-1	333-206312	4.1	9/9/2015
4.2	Indenture dated as of April 9, 2018 by and between Pure Storage, Inc. and U.S. Bank National Association, as Trustee	8-K	001-37570	4.1	4/10/2018
4.3	Form of Global Note, representing Pure Storage, Inc.'s 0.125% Convertible Senior Notes due 2023 (included as Exhibit A to the Indenture incorporated by reference as Exhibit 4.2 hereto)	8-K	001-37570	4.2	4/10/2018
4.4	Reference is made to Exhibits 3.1 and 3.2				
10.1*	Pure Storage, Inc. Amended and Restated 2015 Employee Stock Purchase Plan				
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1**	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
99.1	Form of Confirmation for Capped Call Transactions.	8-K	001-37570	99.1	4/10/2018
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.
** Furnished herewith.
\+ Indicates management contract or compensatory plan.

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SIGNATURES

Pursuant to the requirements 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.

PURE STORAGE, INC.

Date:	August 30, 2019	By:	/s/ CHARLES GIANCARLO
			Charles Giancarlo
			Chief Executive Officer and Director ***(Principal Executive Officer)***
Date:	August 30, 2019	By:	/s/ TIMOTHY RIITTERS
			Timothy Riitters
			Chief Financial Officer ***(Principal Financial and Accounting Officer)***

Exhibit 10.1

PURE STORAGE, INC.
AMENDED AND RESTATED
2015 EMPLOYEE STOCK PURCHASE PLAN

ADOPTED BY THE BOARD OF DIRECTORS: AUGUST 19, 2015
APPROVED BY THE STOCKHOLDERS: AUGUST 31, 2015
IPO DATE / EFFECTIVE DATE: OCTOBER 7, 2015
AMENDED BY THE BOARD OF DIRECTORS: FEBRUARY 26, 2019
APPROVED BY THE STOCKHOLDERS: JUNE 20, 2019

1. GENERAL; PURPOSE.

(a) The Plan provides a means by which Eligible Employees of the Company and certain Designated Companies may be given an opportunity to purchase shares of Common Stock. The Plan permits the Company to grant a series of Purchase Rights to Eligible Employees under an Employee Stock Purchase Plan.

(b) The Company, by means of the Plan, seeks to retain the services of such Employees, to secure and retain the services of new Employees and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Related Corporations and Affiliates.

(c) The Plan includes two components: a 423 Component and a Non-423 Component. The Company intends (but makes no undertaking or representation to maintain) the 423 Component to qualify as an Employee Stock Purchase Plan. The provisions of the 423 Component, accordingly, will be construed in a manner that is consistent with the requirements of Section 423 of the Code. In addition, this Plan authorizes grants of Purchase Rights under the Non-423 Component that do not meet the requirements of an Employee Stock Purchase Plan. Except as otherwise provided in the Plan or determined by the Board, the Non-423 Component will operate and be administered in the same manner as the 423 Component. In addition, the Company may make separate Offerings which vary in terms (provided that such terms are not inconsistent with the provisions of the Plan or the requirements of an Employee Stock Purchase Plan), and the Company will designate which Designated Company is participating in each separate Offering.

2. ADMINISTRATION.

(a) The Board will administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2(c).

(b) The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine how and when Purchase Rights will be granted and the provisions of each Offering (which need not be identical).

(ii) To designate from time to time which Related Corporations of the Company will be eligible to participate in the Plan as Designated 423 Corporations or as Designated Non-423 Corporations, which Affiliates may be excluded from participation in the Plan, and which Designated Companies will participate in each separate Offering (to the extent that the Company makes separate Offerings).

(iii) To construe and interpret the Plan and Purchase Rights, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan, in a manner and to the extent it deems necessary or expedient to make the Plan fully effective.

(iv) To settle all controversies regarding the Plan and Purchase Rights granted under the Plan.

(v) To suspend or terminate the Plan at any time as provided in Section 12.

(vi) To amend the Plan at any time as provided in Section 12.

(vii) Generally, to exercise such powers and to perform such acts as it deems necessary or expedient to promote the best interests of the Company, its Related Corporations, and Affiliates and to carry out the intent that the 423 Component be treated as an Employee Stock Purchase Plan.

(viii) To adopt such rules, procedures and sub-plans relating to the operation and administration of the Plan as are necessary or appropriate under applicable local laws, regulations and procedures to permit or facilitate participation in the Plan by Employees who are foreign nationals or employed or located outside the United States. Without limiting the generality of, but consistent with, the foregoing, the Board specifically is authorized to adopt rules, procedures, and sub-plans, which, for purposes of the Non-423 Component, may be beyond the scope of Section 423 of the Code, regarding, without limitation, eligibility to participate in the Plan, handling and making of Contributions, establishment of bank or trust accounts to hold Contributions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of share issuances, any of which may vary according to applicable requirements.

(c) The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest in the Board some or all of the powers previously delegated. Whether or not the Board has delegated administration of the Plan to a Committee, the Board will have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(d) All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

3. SHARES OF COMMON STOCK SUBJECT TO THE PLAN.

(a) Subject to the provisions of Section 11(a) relating to Capitalization Adjustments, the maximum number of shares of Common Stock that may be issued under the Plan will not exceed 8,500,000 shares of Common Stock, plus the number of shares of Common Stock that are automatically added commencing on February 1 of each year for a period of up to ten years, commencing on February 1 in the calendar year following the calendar year in which the IPO Date occurs and ending on (and including) February 1, 2025, in an amount equal to the lesser of (i) 1% of the total number of shares of Capital Stock outstanding on the last day of the calendar month prior to the date of such automatic increase, and (ii) 3,500,000 shares of Common Stock. Notwithstanding the foregoing, the Board may act prior to the first day of any fiscal year to provide that there will be no February 1st increase in the share reserve for such fiscal year or that the increase in the share reserve for such fiscal year will be a lesser number of shares of Common Stock than would otherwise occur pursuant to the preceding sentence. Pursuant to this provision, the share reserve has already been automatically increased by 1,905,094 shares, 2,043,637 shares, 2,209,789 shares and 2,435,238 shares, effective on each of February 1, 2016, 2017, 2018 and 2019, respectively.

(b) If any Purchase Right granted under the Plan terminates without having been exercised in full, the shares of Common Stock not purchased under such Purchase Right will again become available for issuance under the Plan.

(c) The stock purchasable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market.

4. GRANT OF PURCHASE RIGHTS; OFFERING.

(a) The Board may from time to time grant or provide for the grant of Purchase Rights to Eligible Employees under an Offering (consisting of one or more Purchase Periods) on an Offering Date or Offering Dates selected by the Board. Each Offering will be in such form and will contain such terms and conditions as the Board will deem appropriate, and, with respect to the 423 Component, will comply with the requirement of Section 423(b)(5) of the Code that all Employees granted Purchase Rights will have the same rights and privileges. The terms and conditions of an Offering shall be incorporated by reference into the Plan and treated as part of the Plan. The provisions of separate Offerings need not be identical, but each Offering will include (through incorporation of the provisions of this Plan by reference in the Offering Document or otherwise) the period during which the Offering will be effective, which period will not exceed 27 months beginning with the Offering Date, and the substance of the provisions contained in Sections 5 through 8, inclusive.

(b) If a Participant has more than one Purchase Right outstanding under the Plan, unless he or she otherwise indicates in forms delivered to the Company: (i) each form will apply to all of his or her Purchase Rights under the Plan, and (ii) a Purchase Right with a lower exercise price (or an earlier- granted Purchase Right, if different Purchase Rights have identical exercise prices) will be exercised to the fullest possible extent before a Purchase Right with a higher exercise price (or a later-granted Purchase Right if different Purchase Rights have identical exercise prices) will be exercised.

(c) The Board will have the discretion to structure an Offering so that if the Fair Market Value of a share of Common Stock on the first Trading Day of a new Purchase Period within that Offering is less than or equal to the Fair Market Value of a share of Common Stock on the Offering Date for that Offering, then (i) that Offering will terminate immediately as of that first Trading Day, and (ii) the Participants in such terminated Offering will be automatically enrolled in a new Offering beginning on the first Trading Day of such new Purchase Period.

5. ELIGIBILITY.

(a) Purchase Rights may be granted only to Employees of the Company or, as the Board may designate in accordance with Section 2(b), to Employees of a Related Corporation or an Affiliate. Except as provided in Section 5(b), an Employee will not be eligible to be granted Purchase Rights unless, on the Offering Date, the Employee has been in the employ of the Company, a Related Corporation, or an Affiliate, as the case may be, for such continuous period preceding such Offering Date as the Board may require, but in no event will the required period of continuous employment be equal to or greater than two years. In addition, the Board may provide that no Employee will be eligible to be granted Purchase Rights under the Plan unless, on the Offering Date, such Employee's customary employment with the Company, the Related Corporation, or the Affiliate, as applicable, is more than 20 hours per week and more than five months per calendar year or such other criteria as the Board may determine consistent with Section 423 of the Code.

(b) The Board may provide that each person who, during the course of an Offering, first becomes an Eligible Employee will, on a date or dates specified in the Offering which coincides with the day on which such person becomes an Eligible Employee or which occurs thereafter, receive a Purchase Right under that Offering, which Purchase Right will thereafter be deemed to be a part of that Offering. Such Purchase Right will have the same characteristics as any Purchase Rights originally granted under that Offering, as described herein, except that:

(i) the date on which such Purchase Right is granted will be the "Offering Date" of such Purchase Right for all purposes, including determination of the exercise price of such Purchase Right;

(ii) the period of the Offering with respect to such Purchase Right will begin on its Offering Date and end coincident with the end of such Offering; and

(iii) the Board may provide that if such person first becomes an Eligible Employee within a specified period of time before the end of the Offering, he or she will not receive any Purchase Right under that Offering.

(c) No Employee will be eligible for the grant of any Purchase Rights if, immediately after any such Purchase Rights are granted, such Employee owns stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or of any Related Corporation. For purposes of this Section 5(c), the rules of Section 424(d) of the Code will apply in determining the stock ownership of any Employee, and stock which such Employee may purchase under all outstanding Purchase Rights and options will be treated as stock owned by such Employee.

(d) As specified by Section 423(b)(8) of the Code, an Eligible Employee may be granted Purchase Rights only if such Purchase Rights, together with any other rights granted under all Employee Stock Purchase Plans of the Company and any Related Corporations or Affiliates, do not permit such Eligible Employee's rights to purchase stock of the Company or any Related Corporation or Affiliates to accrue at a rate which, when aggregated, exceeds US$25,000 of Fair Market Value of such stock (determined at the time such rights are granted, and which, with respect to the Plan, will be determined as of their respective Offering Dates) for each calendar year in which such rights are outstanding at any time.

(e) Officers of the Company and any Designated Company, if they are otherwise Eligible Employees, will be eligible to participate in Offerings under the Plan. Notwithstanding the foregoing, the Board may provide in an Offering that Employees who are highly compensated Employees within the meaning of Section 423(b)(4)(D) of the Code will not be eligible to participate.

6. Purchase Rights; Purchase Price.

(a) On each Offering Date, each Eligible Employee, pursuant to an Offering made under the Plan, will be granted a Purchase Right to purchase up to that number of shares of Common Stock (rounded down to the nearest whole share) purchasable either with a percentage or with a maximum dollar amount, as designated by the Board, but in either case not exceeding 30% of such Employee's earnings (as defined by the Board in each Offering) during the period that begins on the Offering Date (or such later date as the Board determines for a particular Offering) and ends on the date stated in the Offering, which date will be no later than the end of the Offering.

(b) The Board will establish one or more Purchase Dates during an Offering on which Purchase Rights granted for that Offering will be exercised and shares of Common Stock will be purchased in accordance with such Offering.

(c) In connection with each Offering made under the Plan, the Board may specify (i) a maximum number of shares of Common Stock that may be purchased by any Participant on any Purchase Date during such Offering, (ii) a maximum aggregate number of shares of Common Stock that may be purchased by all Participants pursuant to such Offering and/or (iii) a maximum aggregate number of shares of Common Stock that may be purchased by all Participants on any Purchase Date under the Offering. If the aggregate purchase of shares of Common Stock issuable upon exercise of Purchase Rights granted under the Offering would exceed any such maximum aggregate number, then, in the absence of any Board action otherwise, a pro rata (based on each Participant's accumulated Contributions) allocation of the shares of Common Stock (rounded down to the nearest whole share) available will be made in as nearly a uniform manner as will be practicable and equitable.

(d) The purchase price of shares of Common Stock acquired pursuant to Purchase Rights will be not less than the lesser of:

(i) an amount equal to 85% of the Fair Market Value of the shares of Common Stock on the Offering Date; or

(ii) an amount equal to 85% of the Fair Market Value of the shares of Common Stock on the applicable Purchase Date.

7. PARTICIPATION; WITHDRAWAL; TERMINATION.

(a) An Eligible Employee may elect to authorize payroll deductions as the means of making Contributions by completing and delivering to the Company, within the time specified in the Offering, an enrollment form provided by the Company or any third party designated by the Company (each, a "***Company Designee***"). The enrollment form will specify the amount of Contributions not to exceed the maximum amount specified by the Board. Each Participant's Contributions will be credited to a bookkeeping account for such Participant under the Plan and will be deposited with the general funds of the Company except where applicable laws or regulations require that Contributions be deposited with a Company Designee or otherwise be segregated. If permitted in the Offering, a Participant may begin such Contributions with the first payroll occurring on or after the Offering Date (or, in the case of a payroll date that occurs after the end of the prior Offering but before the Offering Date of the next new Offering, Contributions from such payroll will be included in the new Offering). If permitted in the Offering, a Participant may thereafter reduce (including to zero) or increase his or her Contributions. If required under applicable laws or regulations or if specifically provided in the Offering, in addition to or instead of making Contributions by payroll deductions, a Participant may make Contributions through a payment by cash, check, or wire transfer prior to a Purchase Date, in a manner directed by the Company or a Company Designee.

(b) During an Offering, a Participant may cease making Contributions and withdraw from the Offering by delivering to the Company or a Company Designee a withdrawal form provided by the Company. The Company may impose a deadline before a Purchase Date for withdrawing. Upon such withdrawal, such Participant's Purchase Right in that Offering will immediately terminate and the Company will distribute as soon as practicable to such Participant all of his or her accumulated but unused Contributions and such Participant's Purchase Right in that Offering shall thereupon terminate. A Participant's withdrawal from that Offering will have no effect upon his or her eligibility to participate in any other Offerings under the Plan, but such Participant will be required to deliver a new enrollment form to participate in subsequent Offerings.

(c) Purchase Rights granted pursuant to any Offering under the Plan will terminate immediately if the Participant either (i) is no longer an Employee for any reason or for no reason or (ii) is otherwise no longer eligible to participate. The Company will distribute as soon as practicable to such individual all of his or her accumulated but unused Contributions.

(d) During a Participant's lifetime, Purchase Rights will be exercisable only by such Participant. Purchase Rights are not transferable by a Participant, except by will, by the laws of descent and distribution, or, if permitted by the Company, by a beneficiary designation as described in Section 10.

(e) Unless otherwise specified in the Offering, the Company will have no obligation to pay interest on Contributions.

8. EXERCISE OF PURCHASE RIGHTS.

(a) On each Purchase Date, each Participant's accumulated Contributions will be applied to the purchase of shares of Common Stock (rounded down to the nearest whole share), up to the maximum number of shares of Common Stock permitted by the Plan and the applicable Offering, at the purchase price specified in the Offering. No fractional shares will be issued unless specifically provided for in the Offering.

(b) Unless otherwise provided in the Offering, if any amount of accumulated Contributions remains in a Participant's account after the purchase of shares of Common Stock on a Purchase Date in an Offering, then such remaining amount will be distributed to such Participant as soon as practicable after the applicable Purchase Date, without interest.

(c) No Purchase Rights may be exercised to any extent unless the shares of Common Stock to be issued upon such exercise under the Plan are covered by an effective registration statement pursuant to the Securities Act and the Plan is in material compliance with all applicable U.S. federal and state, foreign and other securities, exchange control and other laws applicable to the Plan. If on a Purchase Date the shares of Common Stock are not so registered or the Plan is not in such compliance, no Purchase Rights will be exercised on such Purchase Date, and the Purchase Date will be delayed until the shares of Common Stock are subject to such an effective registration statement and the Plan is in material compliance, except that the Purchase Date will in no event be more than 6 months from the Offering Date. If, on the Purchase Date, as delayed to the maximum extent permissible, the shares of Common Stock are not registered and the Plan is not in material compliance with all applicable laws or regulations, as determined by the Company in its sole discretion, no Purchase Rights will be exercised and all accumulated but unused Contributions will be distributed as soon as practicable to the Participants without interest.

9. COVENANTS OF THE COMPANY.

The Company will seek to obtain from each U.S. federal or state, foreign or other regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Purchase Rights and issue and sell shares of Common Stock thereunder unless the Company determines, in its sole discretion, that doing so would cause the Company to incur costs that are unreasonable. If, after commercially reasonable efforts, the Company is unable to obtain the authority that counsel for the Company deems necessary for the grant of Purchase Rights or the lawful issuance and sale of Common Stock under the Plan, and at a commercially reasonable cost, the Company will be relieved from any liability for failure to grant Purchase Rights and/or to issue and sell Common Stock upon exercise of such Purchase Rights.

10. DESIGNATION OF BENEFICIARY.

(a) The Company may, but is not obligated to, permit a Participant to submit a form designating a beneficiary who will receive any shares of Common Stock and/or Contributions from the Participant's account under the Plan if the Participant dies before such shares and/or Contributions are delivered to the Participant. The Company may, but is not obligated to, permit the Participant to change such designation of beneficiary. Any such designation and/or change must be on a form approved by the Company or as approved by the Company for use by a Company Designee.

(b) If a Participant dies, in the absence of a valid beneficiary designation, the Company will deliver any shares of Common Stock and/or Contributions to the executor or administrator of the estate of the Participant. If no executor or administrator has been appointed (to the knowledge of the Company), the Company, in its sole discretion, may deliver such shares of Common Stock and/or Contributions, without interest, to the Participant's spouse, dependents or relatives, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

11. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; CORPORATE TRANSACTIONS.

(a) In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities by which the share reserve is to increase automatically each year pursuant to Section 3(a), (iii) the class(es) and number of securities subject to, and the purchase price applicable to outstanding Offerings and Purchase Rights, and (iv) the class(es) and number of securities that are the subject of the purchase limits under each ongoing Offering. The Board will make these adjustments, and its determination will be final, binding and conclusive.

(b) In the event of a Corporate Transaction, then: (i) any surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) may assume or continue outstanding Purchase Rights or may substitute similar rights (including a right to acquire the same consideration paid to the stockholders in the Corporate Transaction) for outstanding Purchase Rights, or (ii) if any surviving or acquiring corporation (or its parent company) does not assume or continue such Purchase Rights or does not substitute similar rights for such Purchase Rights, then the Participants' accumulated Contributions will be used to purchase shares of Common Stock (rounded down to the nearest whole share) within ten business days prior to the Corporate Transaction under the outstanding Purchase Rights, and the Purchase Rights will terminate immediately after such purchase.

12. AMENDMENT, TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board may amend the Plan at any time in any respect the Board deems necessary or advisable. However, except as provided in Section 11(a) relating to Capitalization Adjustments, stockholder approval will be required for any amendment of the Plan for which stockholder approval is required by applicable laws, regulations or listing requirements, including any amendment that either (i) materially increases the number of shares of Common Stock available for issuance under the Plan, (ii) materially expands the class of individuals eligible to become Participants and receive Purchase Rights, (iii) materially increases the benefits accruing to Participants under the Plan or materially reduces the price at which shares of Common Stock may be purchased under the Plan, (iv) materially extends the

term of the Plan, or (v) expands the types of awards available for issuance under the Plan, but in each of
(i) through (v) above only to the extent stockholder approval is required by applicable laws, regulations, or listing requirements.

(b) The Board may suspend or terminate the Plan at any time. No Purchase Rights may be granted under the Plan while the Plan is suspended or after it is terminated.

(c) Any benefits, privileges, entitlements and obligations under any outstanding Purchase Rights granted before an amendment, suspension or termination of the Plan will not be materially impaired by any such amendment, suspension or termination except (i) with the consent of the person to whom such Purchase Rights were granted, (ii) as necessary to comply with any laws, listing requirements, or governmental regulations (including, without limitation, the provisions of Section 423 of the Code and the regulations and other interpretive guidance issued thereunder relating to Employee Stock Purchase Plans) including without limitation any such regulations or other guidance that may be issued or amended after the date the Plan is adopted by the Board, or (iii) as necessary to obtain or maintain any special tax, listing, or regulatory treatment. To be clear, the Board may amend outstanding Purchase Rights without a Participant's consent if such amendment is necessary to ensure that the Purchase Right and/or the 423 Component complies with the requirements of Section 423 of the Code.

13. SECTION 409A OF THE CODE; TAX QUALIFICATION.

(a) Purchase Rights granted under the 423 Component are intended to be exempt from the application of Section 409A of the Code under U.S. Treasury Regulation Section 1.409A-1(b)(5)(ii). Purchase Rights granted under the Non-423 Component to U.S. taxpayers are intended to be exempt from the application of Section 409A of the Code under the short-term deferral exception and any ambiguities will be construed and interpreted in accordance with such intent. Subject to Section 13(b) below, Purchase Rights granted to U.S. taxpayers under the Non-423 Component will be subject to such terms and conditions that will permit such Purchase Rights to satisfy the requirements of the short-term deferral exception available under Section 409A of the Code, including the requirement that the shares subject to a Purchase Right be delivered within the short-term deferral period. Subject to Section 13(b) below, in the case of a Participant who would otherwise be subject to Section 409A of the Code, to the extent the Board determines that a Purchase Right or the exercise, payment, settlement or deferral thereof is subject to Section 409A of the Code, the Purchase Right will be granted, exercised, paid, settled or deferred in a manner that will comply with Section 409A of the Code, including U.S. Department of Treasury regulations and other interpretive guidance issued thereunder, including, without limitation, any such regulations or other guidance that may be issued after the adoption of the Plan. Notwithstanding the foregoing, the Company will have no liability to a Participant or any other party if the Purchase Right that is intended to be exempt from or compliant with Section 409A of the Code is not so exempt or compliant or for any action taken by the Board with respect thereto.

(b) Although the Company may endeavor to (i) qualify a Purchase Right for special tax treatment under the laws of the United States or jurisdictions outside of the United States or (ii) avoid adverse tax treatment (*e.g.*, under Section 409A of the Code), the Company makes no representation to that effect and expressly disavows any covenant to maintain special or to avoid unfavorable tax treatment, notwithstanding anything to the contrary in this Plan, including Section 13(a) above. The Company will be unconstrained in its corporate activities without regard to the potential negative tax impact on Participants under the Plan.

14. EFFECTIVE DATE OF PLAN.

The Plan will become effective immediately prior to and contingent upon the IPO Date. No Purchase Rights will be exercised unless and until the Plan has been approved by the stockholders of the Company, which approval must be within 12 months before or after the date the Plan is adopted (or if required under Section 12(a) above, materially amended) by the Board.

15. MISCELLANEOUS PROVISIONS.

(a) Proceeds from the sale of shares of Common Stock pursuant to Purchase Rights will constitute general funds of the Company.

(b) A Participant will not be deemed to be the holder of, or to have any of the rights of a holder with respect to, shares of Common Stock subject to Purchase Rights unless and until the Participant's shares of Common Stock acquired upon exercise of Purchase Rights are recorded in the books of the Company (or its transfer agent).

(c) The Plan and Offering do not constitute an employment contract. Nothing in the Plan or in the Offering will in any way alter the at-will nature of a Participant's employment, if applicable, or be deemed to create in any way whatsoever any obligation on the part of any Participant to continue in the employ of the Company, a Related Corporation, or an Affiliate, or on the part of the Company, a Related Corporation, or an Affiliate to continue the employment of a Participant.

(d) The provisions of the Plan will be governed by the laws of the State of Delaware without resort to that state's conflicts of laws rules.

(e) If any particular provision of the Plan is found to be invalid or otherwise unenforceable, such provision will not affect the other provisions of the Plan, but the Plan will be construed in all respects as if such invalid provision were omitted.

(f) If any provision of the Plan does not comply with applicable law or regulations, such provision shall be construed in such a manner as to comply with applicable law or regulations.

16. DEFINITIONS.

As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

(a) "***423 Component***" means the part of the Plan, which excludes the Non-423 Component, pursuant to which Purchase Rights that satisfy the requirements for an Employee Stock Purchase Plan may be granted to Eligible Employees.

(b) "***Affiliate***" means any entity, other than a Related Corporation, in which the Company has an equity or other ownership interest or that is directly or indirectly controlled by, controls, or is under common control with the Company, in all cases, as determined by the Board, whether now or hereafter existing.

(c) "***Board***" means the Board of Directors of the Company.

(d) "***Capital Stock***" means each and every class of common stock of the Company, regardless of the number of votes per share.

(e) "***Capitalization Adjustment***" means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Purchase Right after the date the Plan is adopted by the Board without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other similar equity restructuring transaction, as that term is used in Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

(f) "***Code***" means the U.S. Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(g) "***Committee***" means a committee of one or more members of the Board to whom authority has been delegated by the Board in accordance with Section 2(c).

(h) "***Common Stock***" means, as of the IPO Date, the Class A Common Stock of the Company, having one vote per share.

(i) "***Company***" means Pure Storage, Inc., a Delaware corporation.

(j) ***"Contributions***" means the payroll deductions and/or other payments specifically provided for in the Offering that a Participant contributes to fund the exercise of a Purchase Right. A Participant may make additional payments into his or her account if specifically provided for in the Offering, and then only if the Participant has not already contributed the maximum permitted amount of payroll deductions and/or other payments during the Offering.

(k) "***Corporate Transaction***" means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least 90% of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(l) "***Designated 423 Corporation***" means any Related Corporation selected by the Board as participating in the 423 Component.

(m) "***Designated Company***" means any Designated Non-423 Corporation or Designated 423 Corporation, provided, however, that at any given time, a Related Corporation participating in the 423 Component shall not be a Related Corporation participating in the Non-423 Component.

(n) “***Designated Non-423 Corporation***” means any Related Corporation or Affiliate selected by the Board as participating in the Non-423 Component.

(o) “***Director***” means a member of the Board.

(p) “***Eligible Employee***” means an Employee who meets the requirements set forth in the document(s) governing the Offering for eligibility to participate in the Offering, provided that such Employee also meets the requirements for eligibility to participate set forth in the Plan.

(q) “***Employee***” means any person, including an Officer or Director, who is treated as an employee in the records of the Company or a Related Corporation (including an Affiliate). However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an “Employee” for purposes of the Plan.

(r) “***Employee Stock Purchase Plan***” means a plan that grants Purchase Rights intended to be options issued under an “employee stock purchase plan,” as that term is defined in Section 423(b) of the Code.

(s) “***Exchange Act***” means the U.S. Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.

(t) “***Fair Market Value***” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock will be the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in such source as the Board deems reliable. Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value will be the closing sales price on the last preceding date for which such quotation exists.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value will be determined by the Board in good faith in compliance with applicable laws and regulations and in a manner that complies with Sections 409A of the Code.

(iii) Notwithstanding the foregoing, for any Offering that commences on the IPO Date, the Fair Market Value of the shares of Common Stock on the Offering Date will be the price per share at which shares are first sold to the public in the Company’s initial public offering as specified in the final prospectus for that initial public offering.

(u) “***IPO Date***” means the date of the underwriting agreement between the Company and the underwriter(s) managing the initial public offering of the Common Stock, pursuant to which the Common Stock is priced for the initial public offering.

(v) “***Non-423 Component***” means the part of the Plan, which excludes the 423 Component, pursuant to which Purchase Rights that are not intended to satisfy the requirements for an Employee Stock Purchase Plan may be granted to Eligible Employees.

(w) “***Offering***” means the grant to Eligible Employees of Purchase Rights, with the exercise of those Purchase Rights automatically occurring at the end of one or more Purchase Periods. The terms and conditions of an Offering will generally be set forth in the "***Offering Document***" approved by the Board for that Offering.

(x) "***Offering Date***" means a date selected by the Board for an Offering to commence.

(y) "***Officer***" means a person who is an officer of the Company or a Related Corporation or Affiliate within the meaning of Section 16 of the Exchange Act.

(z) "***Participant***" means an Eligible Employee who holds an outstanding Purchase Right.

(aa) "***Plan***" means this Pure Storage, Inc. 2015 Employee Stock Purchase Plan, including both the 423 Component and the Non-423 Component, as amended from time to time.

(bb) "***Purchase Date***" means one or more dates during an Offering selected by the Board on which Purchase Rights will be exercised and on which purchases of shares of Common Stock will be carried out in accordance with such Offering.

(cc) "***Purchase Period***" means a period of time specified within an Offering, generally beginning on the Offering Date or on the first Trading Day following a Purchase Date, and ending on a Purchase Date. An Offering may consist of one or more Purchase Periods.

(dd) "***Purchase Right***" means an option to purchase shares of Common Stock granted pursuant to the Plan.

(ee) "***Related Corporation***" means any "parent corporation" or "subsidiary corporation" of the Company whether now or subsequently established, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(ff) "***Securities Act***" means the U.S. Securities Act of 1933, as amended.

(gg) "***Trading Day***" means any day on which the exchange(s) or market(s) on which shares of Common Stock are listed, including but not limited to the NYSE, Nasdaq Global Select Market, the Nasdaq Global Market, the Nasdaq Capital Market or any successors thereto, is open for trading.

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles Giancarlo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pure Storage, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 30, 2019

By: /s/ CHARLES GIANCARLO

Charles Giancarlo
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
EXCHANGE RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Timothy Riitters, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pure Storage, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 30, 2019

By: /s/ TIMOTHY RIITTERS

Timothy Riitters
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles Giancarlo, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Pure Storage, Inc. for the quarterly period ended July 31, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and result of operations Pure Storage, Inc.

Date: August 30, 2019	By:	/s/ CHARLES GIANCARLO
		Charles Giancarlo
		Chief Executive Officer **(Principal Executive Officer)**

I, Timothy Riitters, certify pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Pure Storage, Inc. for the quarterly period ended July 31, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and result of operations Pure Storage, Inc.

Date: August 30, 2019	By:	/s/ TIMOTHY RIITTERS
		Timothy Riitters
		Chief Financial Officer **(Principal Financial Officer)**

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Pure Storage, Inc. 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 the Form 10-Q), irrespective of any general incorporation language contained in such filing.