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Palo Alto Networks Execs Face Suit Over Misleading Outlook

By **Sydney Price**

Law360 (April 22, 2024, 6:56 PM EDT) -- Executives and directors of cybersecurity company Palo Alto Networks have been hit with a shareholder derivative suit in California federal court alleging they misled investors about the success of its platform consolidation strategy, which was expected to result in lucrative government contracts.

According to shareholder Nathan Silva's suit Friday, Palo Alto has attempted to ramp up its offerings to become a more comprehensive cybersecurity platform over the past several years. By consolidating certain products in existing platforms, its so-called platformization strategy aims to reduce the complexity of dealing with multiple solutions from multiple vendors, the suit states.

However, the suit says the company failed to disclose that the consolidation and platformization initiatives were not driving increased market share to a significant degree.

In addition to nominal defendant Palo Alto Networks, the suit names several executives and directors as individual defendants, including CEO Nikesh Arora, Chief Product Officer Lee Klarich and Chief Technology Officer Nir Zuk.

The suit accuses Arora of over-playing the company's progress on its platformization initiatives on multiple occasions during the relevant period, including on a November 2023 earnings call in which he told investors that a federal government agency signed a $25 million deal with the company, a statement the company would later walk back on.

Palo Alto's security operations offerings include several subscription services, including its artificial intelligence-supported Cortex XSIAM. In November 2023, Klarich touted the progress of XSIAM and the greater potential in harnessing AI to benefit the company, highlighting the "fastest sort of growth of a new product that we've ever seen."

According to the suit, the truth about the company's outlook emerged when Palo Alto Networks gave an unfavorable financial update on Feb. 20 and reduced billings guidance for the third quarter. The company also revealed the same day that U.S. federal government deals for several large projects did not close, resulting in "a significant shortfall in our U.S. federal government business," which was expected to continue through the rest of 2024.

The news resulted in Palo Alto Networks' shares declining $104.12, or about 28%, to close at $261.97 on Feb. 21, the complaint states.

The complaint also notes Palo Alto is facing a **securities class action** in California federal court and says the company has already been damaged financially due to the defendants' actions.

Silva accuses the defendants of breaching their fiduciary duties, unjust enrichment, wasting corporate assets and violating the Exchange Act.

Counsel for Silva and a representative for Palo Alto did not immediately respond to requests for comment Monday.

Silva is represented by Rachele R. Byrd, Alex J. Tramontano and Ferdeza Zekiri of Wolf Haldenstein Adler Freeman & Herz LLP, Seth D. Rigrodsky and Gina M. Serra of Rigrodsky Law PA and Joshua H.

Grabar of Grabar Law Office.

Counsel information for Palo Alto Networks and the individual defendants was not immediately available.

The case is Silva et al. v. Arora et al., case number 3:24-cv-02350, in the U.S. District Court for the Northern District of California.

--Editing by Drashti Mehta.
