



Q3 2019 Financial Results

October 31, 2019

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Q3 2019 Non-GAAP Results

	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Billings ⁽¹⁾	\$432M	\$534M	\$463M	\$513M	\$528M	\$649M	\$552M	\$622M	\$627M
<i>Y/Y % Change</i>	<i>24%</i>	<i>15%</i>	<i>15%</i>	<i>20%</i>	<i>22%</i>	<i>22%</i>	<i>19%</i>	<i>21%</i>	<i>19%</i>
Revenue	\$374M	\$417M	\$399M	\$441M	\$454M	\$507M	\$473M	\$522M	\$548M
<i>Y/Y % Change</i>	<i>18%</i>	<i>15%</i>	<i>17%</i>	<i>21%</i>	<i>21%</i>	<i>22%</i>	<i>18%</i>	<i>18%</i>	<i>21%</i>
Product Revenue	\$137M	\$162M	\$143M	\$166M	\$165M	\$201M	\$163M	\$190M	\$197M
<i>Y/Y % Change</i>	<i>7%</i>	<i>2%</i>	<i>6%</i>	<i>17%</i>	<i>20%</i>	<i>24%</i>	<i>14%</i>	<i>14%</i>	<i>20%</i>
Service Revenue	\$237M	\$255M	\$256M	\$275M	\$289M	\$306M	\$310M	\$332M	\$351M
<i>Y/Y % Change</i>	<i>26%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>22%</i>	<i>20%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>

Notes

- (1) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP plus the change in deferred revenue from the beginning to the end of the period and adjustments to the deferred revenue balance due to adoption of the new revenue recognition standard less any deferred revenue balances acquired from business combination(s) during the period.

Q3 2019 Non-GAAP Results (Continued)

	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Gross Margin ⁽¹⁾	76.0%	75.6%	76.7%	75.4%	76.5%	75.7%	77.2%	76.4%	78.2%
Operating Income ⁽¹⁾	\$70M	\$79M	\$71M	\$93M	\$109M	\$131M	\$97M	\$123M	\$145M
Operating Margin ⁽¹⁾	18.7%	18.9%	17.7%	21.1%	23.9%	25.8%	20.4%	23.6%	26.4%
Net Income ⁽¹⁾⁽²⁾⁽³⁾	\$50M	\$55M	\$57M	\$71M	\$87M	\$105M	\$81M	\$102M	\$117M
Diluted Net Income Per Share ⁽¹⁾⁽²⁾⁽³⁾	\$0.28	\$0.32	\$0.33	\$0.41	\$0.49	\$0.59	\$0.46	\$0.58	\$0.67
Weighted Diluted Shares Outstanding	179M	175M	172M	174M	176M	176M	175M	175M	175M
Deferred Revenue	\$1.22B	\$1.34B	\$1.40B	\$1.47B	\$1.54B	\$1.69B	\$1.77B	\$1.87B	\$1.95B
Cash and Investments ⁽⁴⁾	\$1.52B	\$1.35B	\$1.39B	\$1.50B	\$1.67B	\$1.72B	\$1.85B	\$1.98B	\$2.14B
Days Sales Outstanding	62	75	71	68	64	79	73	70	63
Inventory Turns	2.6	3.2	2.4	3.3	3.0	3.4	2.6	3.5	2.8
Headcount	4,903	5,066	5,275	5,462	5,639	5,845	6,015	6,293	6,590

Notes

- (1) Excludes stock-based compensation and amortization of acquired intangible assets.
- (2) Excludes gains/losses on investments in privately-held companies.
- (3) Assumes annual effective tax rate of 32%, 24% and 24% for 2017, 2018 and 2019, respectively.
- (4) Excludes investments in privately held companies, which are recorded in other assets.

Revenue by Geography

	Q3'17		Q4'17		Q1'18		Q2'18		Q3'18		Q4'18		Q1'19		Q2'19		Q3'19	
(\$ in millions)	\$	Y/Y % Change																
Americas	\$161	20%	\$174	16%	\$176	20%	\$189	18%	\$194	20%	\$204	17%	\$201	14%	\$226	19%	\$241	24%
EMEA	\$138	18%	\$161	14%	\$144	15%	\$164	27%	\$165	20%	\$205	27%	\$177	23%	\$192	17%	\$201	21%
APAC	\$75	14%	\$82	14%	\$79	16%	\$88	20%	\$95	27%	\$98	20%	\$95	21%	\$104	19%	\$106	12%
Total	\$374	18%	\$417	15%	\$399	17%	\$441	21%	\$454	21%	\$507	22%	\$473	18%	\$522	18%	\$548	21%

	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
	% of revenue								
Americas	43%	42%	44%	43%	43%	40%	42%	43%	44%
EMEA	37%	38%	36%	37%	36%	40%	38%	37%	37%
APAC	20%	20%	20%	20%	21%	20%	20%	20%	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Number of Deals & FortiGate Sales

Number of Deals ⁽¹⁾	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
No. of Deals >\$50K	1,381	1,883	1,446	1,669	1,710	2,154	1,683	1,906	1,908
No. of Deals >\$250K	208	313	233	261	264	363	266	346	333
No. of Deals >\$500K	87	120	80	113	103	129	108	147	130
No. of Deals >\$1M	32	40	34	36	30	47	35	46	53

% of FortiGate ⁽²⁾	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Entry - Level (FG20-90)	18%	20%	24%	23%	20%	21%	24%	21%	22%
Mid - Range (FG100-900)	41%	39%	43%	42%	44%	42%	44%	46%	45%
High - End (FG1000-7000)	41%	41%	33%	35%	36%	37%	32%	33%	33%

Notes

- (1) Deals are defined as combined sales in the period to a customer account.
- (2) Represents the percentage of invoiced amounts from FortiGate sales during the period by range of product and product bundles.

Statement of Cash Flows (Non-GAAP)

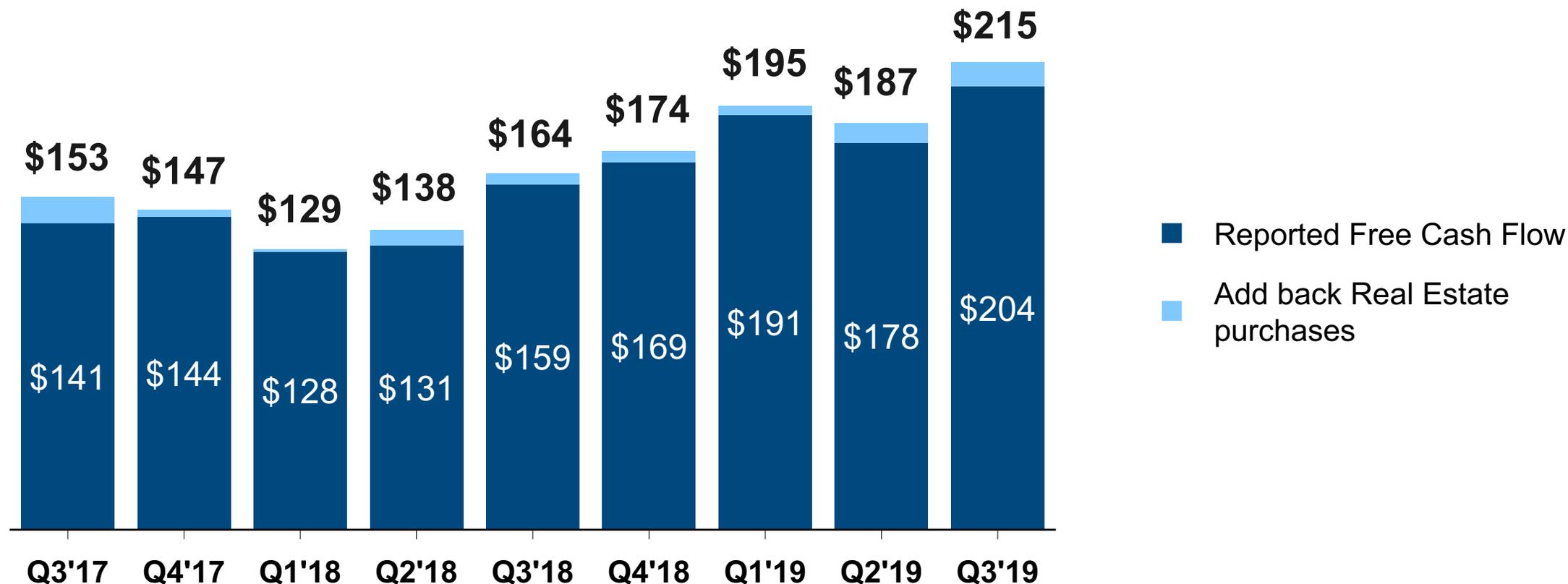
(\$ in millions)	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
GAAP Net Income (Loss)	\$27	\$(29)	\$42	\$49	\$59	\$183	\$59	\$73	\$80
Depreciation and Stock-Based Compensation	48	49	50	54	57	57	59	60	15
Accounts Receivable	14	(90)	49	(20)	9	(120)	64	(22)	19
Inventory	8	(8)	(7)	(4)	(8)	(14)	(3)	(3)	(20)
Deferred Revenue	59	116	64	72	74	142	79	101	79
Other	6	120	(58)	(9)	(14)	(67)	(57)	(14)	48
GAAP Cash Flow from Operations	\$162	\$158	\$140	\$142	\$177	\$181	\$201	\$195	\$221
Purchase of Property and Equipment	(21)	(14)	(12)	(11)	(18)	(12)	(10)	(17)	(17)
Free Cash Flow	\$141	\$144	\$128	\$131	\$159	\$169	\$191	\$178	\$204
Stock Option and RSU Exercises / ESPP	10	5	26	(2)	9	(14)	3	(20)	(17)
Stock Repurchases	(91)	(322)	(116)	(1)	—	(95)	(60)	(34)	(23)
Acquisition	—	—	—	(6)	—	(16)	—	—	—
Other	(1)	(1)	(1)	(9)	6	—	1	4	1
Change in Cash and Investments⁽¹⁾	\$59	\$(174)	\$37	\$113	\$174	\$44	\$135	\$128	\$165
Footnote: Cash Paid for Taxes, Net of Refunds	\$7	\$7	\$6	\$12	\$13	\$11	\$11	\$17	\$15

Notes

(1) Change in Cash, Cash Equivalents and Short-Term and Long-Term Investments, excluding activity related to investments in privately held companies which are recorded in other assets.

Free Cash Flow and Adjusted Free Cash Flow Growth

(\$ in millions)



- Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus purchases of property and equipment.
- Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus real estate purchases and cash payments related to the new Sunnyvale campus building.

Q4 and 2019 Guidance⁽¹⁾ (Non-GAAP)

	Actual Q4 18	Q4 19	Actual 2018	2019
Billings ⁽²⁾	\$649M	\$750 - 765M	\$2.15B	\$2.550 - 2.565B
<i>Y/Y Mid-Pt Growth</i>		17%		19%
Revenue (GAAP)	\$507M	\$595 - 610M	\$1.80B	\$2.135 - 2.150B
<i>Y/Y Mid-Pt Growth</i>		19%		19%
Service Revenue (GAAP)			\$1.13B	\$1.355 - 1.365B
<i>Y/Y Mid-Pt Growth</i>				21%
Gross Margin (%) ⁽³⁾	75.7%	75.5- 76.5%	76.0%	76.5- 77.0%
Operating Margin (%) ⁽³⁾	25.8%	25.5- 26.0%	22.4%	24.0- 24.5%
Net Income per Share ^{(3) (4) (5)}	\$0.59	\$0.69 - 0.71	\$1.84	\$2.39 - 2.41
Weighted Diluted Shares Outstanding	176M	176 - 178M	174M	175 - 177M

Notes

- (1) Guidance for non-GAAP financial measures excludes stock-based compensation and amortization of acquired intangible assets. We have not reconciled our guidance with respect to non-GAAP financial measures to the corresponding GAAP measures because certain items that impact these measures are uncertain or out of our control, or cannot be reasonably predicted. Accordingly, a reconciliation of these non-GAAP financial measures to the corresponding GAAP measures is not available without unreasonable effort.
- (2) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP plus the change in deferred revenue from the beginning to the end of the period and adjustments to the deferred revenue balance due to adoption of the new revenue recognition standard less any deferred revenue balances acquired from business combination(s) during the period.
- (3) Excludes stock-based compensation and amortization of acquired intangible assets.
- (4) Excludes gains/losses on investments in privately held companies.
- (5) Assumes an effective tax rate of 24% for 2018 and 2019. For 2019, we expect cash taxes to be between \$56.0 million and \$58.0 million.

GAAP to Non-GAAP Reconciliations

	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
GAAP product gross profit	\$79.0	\$92.4	\$84.6	\$92.4	\$92.5	\$113.9	\$92.5	\$107.2	\$118.1
Stock-based compensation	0.3	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4
Amortization of acquired intangible assets	1.0	1.2	1.1	1.2	1.7	2.0	2.1	1.7	1.2
Non-GAAP product gross profit	<u>\$80.3</u>	<u>\$93.9</u>	<u>\$86.1</u>	<u>\$94.0</u>	<u>\$94.5</u>	<u>\$116.3</u>	<u>\$95.0</u>	<u>\$109.3</u>	<u>\$119.7</u>
<i>Non-GAAP product gross margin</i>	<u>58.6%</u>	<u>58.0%</u>	<u>60.3%</u>	<u>56.5%</u>	<u>57.4%</u>	<u>57.9%</u>	<u>58.4%</u>	<u>57.6%</u>	<u>60.7%</u>
GAAP service gross profit	\$201.6	\$218.8	\$217.2	\$235.8	\$249.8	\$264.6	\$267.1	\$286.2	\$305.3
Stock-based compensation	2.4	2.4	2.5	2.7	2.8	2.8	2.8	2.9	2.7
Amortization of acquired intangible assets	0.2	0.1	0.1	0.1	—	—	—	0.4	0.4
Non-GAAP service gross profit	<u>\$204.2</u>	<u>\$221.3</u>	<u>\$219.8</u>	<u>\$238.6</u>	<u>\$252.6</u>	<u>\$267.4</u>	<u>\$269.9</u>	<u>\$289.5</u>	<u>\$308.4</u>
<i>Non-GAAP service gross margin</i>	<u>86.1%</u>	<u>86.9%</u>	<u>85.8%</u>	<u>86.8%</u>	<u>87.3%</u>	<u>87.3%</u>	<u>87.1%</u>	<u>87.3%</u>	<u>88.0%</u>
GAAP total gross profit	\$280.6	\$311.2	\$301.8	\$328.2	\$342.3	\$378.5	\$359.6	\$393.4	\$423.4
Stock-based compensation	2.7	2.7	2.9	3.1	3.1	3.2	3.2	3.3	3.1
Amortization of acquired intangible assets	1.2	1.3	1.2	1.3	1.7	2.0	2.1	2.1	1.6
Non-GAAP total gross profit	<u>\$284.5</u>	<u>\$315.2</u>	<u>\$305.9</u>	<u>\$332.6</u>	<u>\$347.1</u>	<u>\$383.7</u>	<u>\$364.9</u>	<u>\$398.8</u>	<u>\$428.1</u>
<i>Non-GAAP gross margin</i>	<u>76.0%</u>	<u>75.6%</u>	<u>76.7%</u>	<u>75.4%</u>	<u>76.5%</u>	<u>75.7%</u>	<u>77.2%</u>	<u>76.4%</u>	<u>78.2%</u>
GAAP research and development expense	\$53.5	\$54.8	\$59.1	\$61.2	\$58.7	\$65.5	\$68.6	\$67.4	\$69.9
Stock-based compensation	8.0	8.1	8.4	9.2	9.3	9.5	9.4	10.0	9.3
Non-GAAP research and development expense	<u>\$45.5</u>	<u>\$46.7</u>	<u>\$50.7</u>	<u>\$52.0</u>	<u>\$49.4</u>	<u>\$56.0</u>	<u>\$59.2</u>	<u>\$57.4</u>	<u>\$60.6</u>
<i>Non-GAAP research and development expense as a percentage of revenue</i>	<u>12.2%</u>	<u>11.2%</u>	<u>12.7%</u>	<u>11.8%</u>	<u>10.9%</u>	<u>11.0%</u>	<u>12.5%</u>	<u>11.0%</u>	<u>11.1%</u>
GAAP sales and marketing expense	\$172.4	\$191.9	\$185.3	\$192.8	\$198.3	\$205.9	\$215.9	\$226.5	\$227.4
Stock-based compensation	19.6	19.6	20.9	23.6	26.0	25.1	25.4	26.3	24.9
Amortization of acquired intangible assets	0.8	0.8	0.6	0.5	0.8	0.9	0.9	0.8	0.6
Non-GAAP sales and marketing expense	<u>\$152.0</u>	<u>\$171.5</u>	<u>\$163.8</u>	<u>\$168.7</u>	<u>\$171.5</u>	<u>\$179.9</u>	<u>\$189.6</u>	<u>\$199.4</u>	<u>\$201.9</u>
<i>Non-GAAP sales and marketing expense as a percentage of revenue</i>	<u>40.6%</u>	<u>41.2%</u>	<u>41.1%</u>	<u>38.2%</u>	<u>37.8%</u>	<u>35.5%</u>	<u>40.1%</u>	<u>38.2%</u>	<u>36.9%</u>

GAAP to Non-GAAP Reconciliations (Continued)

	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
GAAP general and administrative expense	\$21.0	\$22.3	\$25.0	\$23.5	\$22.5	\$22.0	\$24.5	\$24.3	\$26.1
Stock-based compensation	4.0	4.0	4.3	4.7	4.8	4.8	5.0	5.4	5.1
Non-GAAP general and administrative expense	\$17.0	\$18.3	\$20.7	\$18.8	\$17.7	\$17.2	\$19.5	\$18.9	\$21.0
<i>Non-GAAP general and administrative expense as a percentage of revenue</i>	<i>4.5%</i>	<i>4.4%</i>	<i>5.2%</i>	<i>4.3%</i>	<i>3.9%</i>	<i>3.4%</i>	<i>4.1%</i>	<i>3.6%</i>	<i>3.8%</i>
GAAP total operating expense	\$246.9	\$269.0	\$269.4	\$277.5	\$279.5	\$293.4	\$309.0	\$318.2	\$323.4
Stock-based compensation	31.6	31.7	33.6	37.5	40.1	39.4	39.8	41.7	39.3
Amortization of acquired intangible assets	0.8	0.8	0.6	0.5	0.8	0.9	0.9	0.8	0.6
Non-GAAP total operating expense	\$214.5	\$236.5	\$235.2	\$239.5	\$238.6	\$253.1	\$268.3	\$275.7	\$283.5
<i>Non-GAAP total operating expense as a percentage of revenue</i>	<i>57.3%</i>	<i>56.8%</i>	<i>58.9%</i>	<i>54.3%</i>	<i>52.6%</i>	<i>49.9%</i>	<i>56.8%</i>	<i>52.8%</i>	<i>51.8%</i>
GAAP operating income	\$33.7	\$42.2	\$32.4	\$50.7	\$62.8	\$85.1	\$50.6	\$75.2	\$100.0
Stock-based compensation	34.3	34.4	36.5	40.6	43.2	42.6	43.0	45.0	42.4
Amortization of acquired intangible assets	2.0	2.1	1.8	1.8	2.5	2.9	3.0	2.9	2.2
Non-GAAP operating income	\$70.0	\$78.7	\$70.7	\$93.1	\$108.5	\$130.6	\$96.6	\$123.1	\$144.6
<i>Non-GAAP operating margin</i>	<i>18.7%</i>	<i>18.9%</i>	<i>17.7%</i>	<i>21.1%</i>	<i>23.9%</i>	<i>25.8%</i>	<i>20.4%</i>	<i>23.6%</i>	<i>26.4%</i>

GAAP to Non-GAAP Reconciliations (Continued)

	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
GAAP other income (expense), net	\$0.3	\$(1.2)	\$(0.2)	\$(5.0)	\$0.9	\$(2.3)	\$(0.5)	\$(0.4)	\$(6.0)
(Gain) loss on investments in privately held companies	—	—	—	—	(2.2)	—	—	—	3.8
Non-GAAP other income (expense), net	\$0.3	\$(1.2)	\$(0.2)	\$(5.0)	\$(1.3)	\$(2.3)	\$(0.5)	\$(0.4)	\$(2.2)
<i>Non-GAAP other income (expense), net as a percentage of revenue</i>	<i>0.1%</i>	<i>(0.3)%</i>	<i>(0.1)%</i>	<i>(1.1)%</i>	<i>(0.3)%</i>	<i>(0.5)%</i>	<i>(0.1)%</i>	<i>(0.1)%</i>	<i>(0.4)%</i>
GAAP income before income taxes	\$37.9	\$45.0	\$36.7	\$51.5	\$70.6	\$92.1	\$60.3	\$85.8	\$105.4
Stock-based compensation	34.3	34.4	36.5	40.6	43.2	42.6	43.0	45.0	42.4
Amortization of acquired intangible assets	2.0	2.1	1.8	1.8	2.5	2.9	3.0	2.9	2.2
(Gain) loss on investments in privately held companies	—	—	—	—	(2.2)	—	—	—	3.8
Non-GAAP income before income taxes	\$74.2	\$81.5	\$75.0	\$93.9	\$114.1	\$137.6	\$106.3	\$133.7	\$153.8
GAAP provision for (benefit from) income taxes	\$11.3	\$74.0	\$(4.9)	\$2.2	\$11.9	\$(90.5)	\$1.5	\$13.1	\$25.6
Tax adjustments related to the above	12.4	(48.0)	22.9	20.3	15.5	123.5	24.0	19.0	11.3
Non-GAAP provision for income taxes	\$23.7	\$26.0	\$18.0	\$22.5	\$27.4	\$33.0	\$25.5	\$32.1	\$36.9
<i>Non-GAAP effective tax rate</i>	<i>32%</i>	<i>32%</i>	<i>24%</i>						

GAAP to Non-GAAP Reconciliations (Continued)

	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
GAAP net income (loss)	\$26.6	\$(29.0)	\$41.6	\$49.3	\$58.7	\$182.6	\$58.8	\$72.7	\$79.8
Stock-based compensation	34.3	34.4	36.5	40.6	43.2	42.6	43.0	45.0	42.4
Amortization of acquired intangible assets	2.0	2.1	1.8	1.8	2.5	2.9	3.0	2.9	2.2
(Gain) loss on investments in privately held companies	—	—	—	—	(2.2)	—	—	—	3.8
Tax adjustments	(12.4)	48.0	(22.9)	(20.3)	(15.5)	(123.5)	(24.0)	(19.0)	(11.3)
Non-GAAP net income	\$50.5	\$55.5	\$57.0	\$71.4	\$86.7	\$104.6	\$80.8	\$101.6	\$116.9
GAAP net income (loss) per share, diluted	\$0.15	\$(0.17)	\$0.24	\$0.28	\$0.33	\$1.04	\$0.34	\$0.42	\$0.46
Stock-based compensation	0.19	0.20	0.21	0.24	0.25	0.24	0.24	0.25	0.24
Amortization of acquired intangible assets	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.01
(Gain) loss on investments in privately held companies	—	—	—	—	(0.01)	—	—	—	0.02
Tax adjustments	(0.07)	0.28	(0.13)	(0.12)	(0.09)	(0.71)	(0.14)	(0.11)	(0.06)
Non-GAAP net income per share, diluted	\$0.28	\$0.32	\$0.33	\$0.41	\$0.49	\$0.59	\$0.46	\$0.58	\$0.67
Shares used in diluted net income (loss) per share calculations - GAAP	179.0	171.5	171.8	173.5	175.7	175.8	174.8	175.1	174.8
Adjustment for diluted weighted-average shares outstanding	—	3.9	—	—	—	—	—	—	—
Shares used in diluted net income per share calculations - Non-GAAP	179.0	175.4	171.8	173.5	175.7	175.8	174.8	175.1	174.8

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