Q4 2016 Financial Results

February 2, 2017
Safe Harbor Statement

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## Q4 2016 Non-GAAP Results

<table>
<thead>
<tr>
<th></th>
<th>Q4 16</th>
<th>Q4 15</th>
<th>Y/Y % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billings (1)</td>
<td>$463M</td>
<td>$381M</td>
<td>22%</td>
</tr>
<tr>
<td>Revenue</td>
<td>$363M</td>
<td>$297M</td>
<td>22%</td>
</tr>
<tr>
<td>Gross Margin (%) (2)</td>
<td>76%</td>
<td>74%</td>
<td>+2 pts</td>
</tr>
<tr>
<td>Operating Income (2)</td>
<td>$81M</td>
<td>$48M</td>
<td>71%</td>
</tr>
<tr>
<td>Operating Margin (%) (2)</td>
<td>22%</td>
<td>16%</td>
<td>+6 pts</td>
</tr>
<tr>
<td>Net Income (2)(3)</td>
<td>$53M</td>
<td>$32M</td>
<td>64%</td>
</tr>
<tr>
<td>Earnings per Share (2)(3)</td>
<td>$0.30</td>
<td>$0.18</td>
<td>67%</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>$1.04B</td>
<td>$791M</td>
<td>31%</td>
</tr>
<tr>
<td>Cash Flow from Operations</td>
<td>$101M</td>
<td>$69M</td>
<td>47%</td>
</tr>
<tr>
<td>Free Cash Flow (4)</td>
<td>$84M</td>
<td>$60M</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Notes**

1. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.
2. Does not include stock-based compensation, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, restructuring charges, and expenses associated with the implementation of a new ERP system. Effective in the fourth quarter of 2016, we are substantially complete with the implementation of a new ERP, as such, we are no longer adjusting ERP-related expenses in our non-GAAP results.
3. Assumes annual effective tax rate of 33% and 34% for Q4 2016 and Q4 2015, respectively.
4. Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.
Balanced Product Segmentation

- Balanced Product Sales
  - Entry-Level typically sold to Distributed Enterprises and SMBs
  - Mid-Range = Enterprises
  - High-End = Large Enterprises and Telcos/Carriers/Service Providers

FortiGate Billings

<table>
<thead>
<tr>
<th></th>
<th>Q4 2016</th>
<th>FY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry-Level (FG20-100)</td>
<td>41%</td>
<td>38%</td>
</tr>
<tr>
<td>Mid-Range (FG200-900)</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>High-End (FG1000-7000)</td>
<td>29%</td>
<td>22%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Q4 2015</th>
<th>FY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry-Level (FG20-100)</td>
<td>42%</td>
<td>34%</td>
</tr>
<tr>
<td>Mid-Range (FG200-900)</td>
<td>32%</td>
<td>26%</td>
</tr>
<tr>
<td>High-End (FG1000-7000)</td>
<td>26%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Note (1) Represents FortiGate billings by Product Category. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.
Quarterly Revenue Mix & Q4’16 Y/Y Growth

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Product</th>
<th>Subscription</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4’14</td>
<td>111</td>
<td>113</td>
<td>224</td>
</tr>
<tr>
<td>Q1’15</td>
<td>98</td>
<td>115</td>
<td>213</td>
</tr>
<tr>
<td>Q2’15</td>
<td>125</td>
<td>120</td>
<td>240</td>
</tr>
<tr>
<td>Q3’15</td>
<td>140</td>
<td>145</td>
<td>260</td>
</tr>
<tr>
<td>Q4’15</td>
<td>152</td>
<td>297</td>
<td>449</td>
</tr>
<tr>
<td>Q1’16</td>
<td>125</td>
<td>285</td>
<td>410</td>
</tr>
<tr>
<td>Q2’16</td>
<td>137</td>
<td>311</td>
<td>448</td>
</tr>
<tr>
<td>Q3’16</td>
<td>128</td>
<td>317</td>
<td>445</td>
</tr>
<tr>
<td>Q4’16</td>
<td>159</td>
<td>363</td>
<td>522</td>
</tr>
</tbody>
</table>

Q4’16 Y/Y Growth 22%
• Globally-diverse revenue stream
Revenue Growth by Geography

Q4'15

- APAC: 297
  - 59 (22%)
  - 115 (22%)
  - 122 (23%)

Q4'16

- APAC: 363
  - 72 (22%)
  - 140 (22%)
  - 150 (23%)

- EMEA
- Americas
## Q4 2016 Select Financial Statistics

<table>
<thead>
<tr>
<th></th>
<th>Q4 16</th>
<th>Q3 16</th>
<th>Q4 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Investments(1)</td>
<td>$1.31B</td>
<td>$1.27B</td>
<td>$1.16B</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>$1.04B</td>
<td>$935M</td>
<td>$791M</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$84M</td>
<td>$70M</td>
<td>$60M</td>
</tr>
<tr>
<td>DSO</td>
<td>78</td>
<td>68</td>
<td>79</td>
</tr>
<tr>
<td>Inventory Turns</td>
<td>1.8</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Revenue per Employee (Annualized)</td>
<td>$313K</td>
<td>$276K</td>
<td>$300K</td>
</tr>
<tr>
<td>No. of Deals &gt;$100K</td>
<td>733</td>
<td>559</td>
<td>577</td>
</tr>
<tr>
<td>No. of Deals &gt;$250K</td>
<td>239</td>
<td>165</td>
<td>193</td>
</tr>
<tr>
<td>No. of Deals &gt;$500K</td>
<td>97</td>
<td>58</td>
<td>74</td>
</tr>
</tbody>
</table>

**Notes**

(1) Excludes $10.3M of investments in privately-held companies which are recorded in other assets for all Q4 2016, Q3 2016 and Q4 2015.
## Statement of Cash Flows (Non-GAAP)

<table>
<thead>
<tr>
<th></th>
<th>Q4 16</th>
<th>Q4 15</th>
<th>FY 16</th>
<th>FY 15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GAAP Net Income (Loss)</strong></td>
<td>25</td>
<td>(3)</td>
<td>32</td>
<td>8</td>
</tr>
<tr>
<td>Depreciation and Stock-Based Compensation</td>
<td>46</td>
<td>37</td>
<td>171</td>
<td>127</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>(71)</td>
<td>(86)</td>
<td>(58)</td>
<td>(66)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(18)</td>
<td>(7)</td>
<td>(43)</td>
<td>(19)</td>
</tr>
<tr>
<td>Accounts Payable / Accrued Expenses / Other</td>
<td>19</td>
<td>44</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>100</td>
<td>84</td>
<td>243</td>
<td>222</td>
</tr>
<tr>
<td><strong>GAAP Cash Flow from Operations</strong></td>
<td>101</td>
<td>69</td>
<td>346</td>
<td>282</td>
</tr>
<tr>
<td>Purchase of Property and Equipment</td>
<td>(17)</td>
<td>(9)</td>
<td>(67)</td>
<td>(37)</td>
</tr>
<tr>
<td><strong>Free Cash Flow</strong></td>
<td>84</td>
<td>60</td>
<td>279</td>
<td>245</td>
</tr>
<tr>
<td>Stock Option and RSU Exercises / ESPP</td>
<td>(6)</td>
<td>(2)</td>
<td>7</td>
<td>38</td>
</tr>
<tr>
<td>Stock Repurchases</td>
<td>(36)</td>
<td>(60)</td>
<td>(111)</td>
<td>(60)</td>
</tr>
<tr>
<td>Acquisition</td>
<td>-</td>
<td>-</td>
<td>(22)</td>
<td>(38)</td>
</tr>
<tr>
<td>Other</td>
<td>(2)</td>
<td>(3)</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Net Cash Flow</strong></td>
<td>40</td>
<td>(5)</td>
<td>146</td>
<td>178</td>
</tr>
</tbody>
</table>

**Footnote: Cash Paid for Taxes, Net of Refunds**

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6</td>
<td>5</td>
<td>27</td>
<td>20</td>
</tr>
</tbody>
</table>
### 2016 Non-GAAP Results

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>Y/Y % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billings (1)</td>
<td>$1.515B</td>
<td>$1.232B</td>
<td>23%</td>
</tr>
<tr>
<td>Revenue</td>
<td>$1.275B</td>
<td>$1.009B</td>
<td>26%</td>
</tr>
<tr>
<td>Gross Margin (%) (2)</td>
<td>75%</td>
<td>73%</td>
<td>+2 pts</td>
</tr>
<tr>
<td>Operating Income (2)</td>
<td>$193M</td>
<td>$133M</td>
<td>45%</td>
</tr>
<tr>
<td>Operating Margin (%) (2)</td>
<td>15%</td>
<td>13%</td>
<td>+2 pts</td>
</tr>
<tr>
<td>Net Income (2)(3)</td>
<td>$130M</td>
<td>$89M</td>
<td>45%</td>
</tr>
<tr>
<td>Earnings per Share (2)(3)</td>
<td>$0.73</td>
<td>$0.51</td>
<td>43%</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>$1.04B</td>
<td>$791M</td>
<td>31%</td>
</tr>
<tr>
<td>Cash Flow from Operations</td>
<td>$346M</td>
<td>$283M</td>
<td>22%</td>
</tr>
<tr>
<td>Free Cash Flow (4)</td>
<td>$279M</td>
<td>$245M</td>
<td>14%</td>
</tr>
</tbody>
</table>

Notes:

1. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.
2. Does not include stock-based compensation, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, restructuring charges, and expenses associated with the implementation of a new ERP system. Effective in the fourth quarter of 2016, we are substantially complete with the implementation of a new ERP, as such, we are no longer adjusting ERP-related expenses in our non-GAAP results.
3. Assumes annual effective tax rate of 33% and 34% for 2016 and 2015, respectively.
4. Free Cash Flow is a non-GAAP measure that we define as net cash provided by operating activities minus capital expenditures.
## Q1 and 2017 Guidance (Non-GAAP)

<table>
<thead>
<tr>
<th></th>
<th>Q1 17</th>
<th>Y/Y % Mid-Pt Growth</th>
<th>2017</th>
<th>Y/Y % Mid-Pt Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billings (2)</td>
<td>$380 - 388M</td>
<td>16%</td>
<td>$1.750 - 1.770B</td>
<td>16%</td>
</tr>
<tr>
<td>Revenue (GAAP)</td>
<td>$330 - 335M</td>
<td>17%</td>
<td>$1.470 - 1.480B</td>
<td>16%</td>
</tr>
<tr>
<td>Gross Margin (%) (3)</td>
<td>74 - 75%</td>
<td></td>
<td>74 - 75%</td>
<td></td>
</tr>
<tr>
<td>Operating Margin (%) (3)</td>
<td>11 - 12%</td>
<td></td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Earnings per Share (3)(4)</td>
<td>$0.15 - 0.16</td>
<td></td>
<td>$0.87 - 0.89</td>
<td></td>
</tr>
<tr>
<td>Weighted Diluted Shares used in EPS</td>
<td>178 - 180M</td>
<td></td>
<td>181 - 183M</td>
<td></td>
</tr>
</tbody>
</table>

### Notes

1. With respect to Fortinet’s guidance for Q1 2017 and full year 2017, Fortinet has not reconciled its guidance with respect to non-GAAP gross margin to GAAP gross margin, non-GAAP operating margin to GAAP operating margin, and non-GAAP earnings per share to GAAP earnings per share because certain items such as stock-based compensation, business acquisition-related charges, impairment and amortization of intangible assets, and restructuring charges are out of Fortinet’s control or cannot be reasonably predicted. Accordingly, reconciliation is not available without unreasonable effort.

2. Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning to the end of the period, less any deferred revenue balances acquired from business combination(s) during the period.

3. Does not include stock-based compensation, business acquisition-related charges including inventory fair value adjustment amortization and other purchase price accounting adjustments, impairment and amortization of intangible assets, and restructuring charges.

## GAAP to Non-GAAP – Operating Results (Q4’16 vs. Q3’16 vs. Q4’15)

(Unaudited, in thousands, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Q4’16</th>
<th>Adjustment</th>
<th>Non-GAAP Q4’16</th>
<th>Q3’16</th>
<th>Adjustment</th>
<th>Non-GAAP Q3’16</th>
<th>Q4’15</th>
<th>Adjustment</th>
<th>Non-GAAP Q4’15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>158,925</td>
<td>-</td>
<td>158,925</td>
<td>127,972</td>
<td>-</td>
<td>127,972</td>
<td>144,759</td>
<td>-</td>
<td>144,759</td>
</tr>
<tr>
<td>Service</td>
<td>203,905</td>
<td>-</td>
<td>203,905</td>
<td>188,674</td>
<td>-</td>
<td>188,674</td>
<td>151,770</td>
<td>-</td>
<td>151,770</td>
</tr>
<tr>
<td>Total revenue</td>
<td>362,830</td>
<td>-</td>
<td>362,830</td>
<td>316,646</td>
<td>-</td>
<td>316,646</td>
<td>296,529</td>
<td>-</td>
<td>296,529</td>
</tr>
<tr>
<td><strong>Cost of revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>56,616</td>
<td>(1,198)</td>
<td>55,418</td>
<td>50,267</td>
<td>(1,049)</td>
<td>49,218</td>
<td>55,466</td>
<td>(2,521)</td>
<td>52,945</td>
</tr>
<tr>
<td>Service</td>
<td>34,275</td>
<td>(2,641)</td>
<td>31,634</td>
<td>34,532</td>
<td>(3,053)</td>
<td>31,479</td>
<td>26,510</td>
<td>(1,980)</td>
<td>24,530</td>
</tr>
<tr>
<td>Total cost of revenue</td>
<td>90,891</td>
<td>(3,839)</td>
<td>87,052</td>
<td>84,799</td>
<td>(4,102)</td>
<td>80,697</td>
<td>81,976</td>
<td>(4,501)</td>
<td>77,475</td>
</tr>
<tr>
<td><strong>Gross profit:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>102,309</td>
<td>1,198</td>
<td>103,507</td>
<td>77,705</td>
<td>1,049</td>
<td>78,754</td>
<td>89,293</td>
<td>2,521</td>
<td>91,814</td>
</tr>
<tr>
<td>Service</td>
<td>169,630</td>
<td>2,641</td>
<td>172,271</td>
<td>154,142</td>
<td>3,053</td>
<td>157,195</td>
<td>125,260</td>
<td>1,980</td>
<td>127,240</td>
</tr>
<tr>
<td>Total gross profit</td>
<td>271,939</td>
<td>3,839</td>
<td>275,778</td>
<td>231,847</td>
<td>4,102</td>
<td>235,949</td>
<td>214,553</td>
<td>4,501</td>
<td>219,054</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>45,589</td>
<td>(7,871)</td>
<td>37,718</td>
<td>47,239</td>
<td>(7,627)</td>
<td>39,612</td>
<td>42,814</td>
<td>(7,194)</td>
<td>35,620</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>162,873</td>
<td>(19,702)</td>
<td>143,171</td>
<td>154,831</td>
<td>(18,855)</td>
<td>135,976</td>
<td>136,840</td>
<td>(15,664)</td>
<td>121,176</td>
</tr>
<tr>
<td>General and administrative</td>
<td>17,451</td>
<td>(3,691)</td>
<td>13,760</td>
<td>22,006</td>
<td>(7,580)</td>
<td>14,426</td>
<td>20,315</td>
<td>(5,636)</td>
<td>14,679</td>
</tr>
<tr>
<td>Restructuring charges</td>
<td>833</td>
<td>(833)</td>
<td>-</td>
<td>2,283</td>
<td>(2,283)</td>
<td>-</td>
<td>1,717</td>
<td>(1,717)</td>
<td>-</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>226,746</td>
<td>(32,097)</td>
<td>194,649</td>
<td>226,359</td>
<td>(36,345)</td>
<td>190,014</td>
<td>201,686</td>
<td>(30,211)</td>
<td>171,475</td>
</tr>
<tr>
<td><strong>Operating income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Product</td>
<td>45,193</td>
<td>35,936</td>
<td>81,129</td>
<td>5,488</td>
<td>40,447</td>
<td>45,935</td>
<td>12,887</td>
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<td>-</td>
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<td>1,176</td>
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<tr>
<td>Other expense—net</td>
<td>(3,650)</td>
<td>-</td>
<td>(3,650)</td>
<td>(787)</td>
<td>-</td>
<td>(787)</td>
<td>(1,007)</td>
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<td>43,507</td>
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<td>79,443</td>
<td>6,589</td>
<td>40,447</td>
<td>47,036</td>
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<td>14,853</td>
<td>15,570</td>
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<td>15,357</td>
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<td><strong>Net income (loss):</strong></td>
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<td></td>
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<td></td>
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<tr>
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<td>28,061</td>
<td>53,227</td>
<td>6,291</td>
<td>25,892</td>
<td>32,183</td>
<td>(2,534)</td>
<td>34,925</td>
<td>32,391</td>
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<td>173,335</td>
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<td>171,831</td>
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<td>176,657</td>
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<td><strong>Basic net income (loss) per share:</strong></td>
<td>0.15</td>
<td>0.31</td>
<td>0.04</td>
<td>0.19</td>
<td>(0.01)</td>
<td>0.19</td>
<td>0.14</td>
<td>0.30</td>
<td>0.04</td>
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<tr>
<td><strong>Diluted net income (loss) per share:</strong></td>
<td>0.14</td>
<td>0.30</td>
<td>0.04</td>
<td>0.18</td>
<td>(0.01)</td>
<td>0.18</td>
<td>0.16</td>
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### GAAP to Non-GAAP – Operating Results (% of Rev)  
(Q4’16 vs. Q3’16 vs. Q4’15)

<table>
<thead>
<tr>
<th>% of revenue</th>
<th>Non-GAAP</th>
<th></th>
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<tr>
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<td>Adjustment</td>
<td>Q4’16</td>
<td>Q3’16</td>
<td>Adjustment</td>
</tr>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Product</td>
<td>44%</td>
<td>-</td>
<td>44%</td>
<td>40%</td>
<td>-</td>
</tr>
<tr>
<td>Service</td>
<td>56%</td>
<td>-</td>
<td>56%</td>
<td>60%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td><strong>100%</strong></td>
<td>-</td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td>-</td>
</tr>
<tr>
<td><strong>Cost of revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>16%</td>
<td>(1%)</td>
<td>15%</td>
<td>16%</td>
<td>(1%)</td>
</tr>
<tr>
<td>Service</td>
<td>9%</td>
<td>(1%)</td>
<td>9%</td>
<td>11%</td>
<td>(1%)</td>
</tr>
<tr>
<td><strong>Total cost of revenue</strong></td>
<td><strong>25%</strong></td>
<td>(1%)</td>
<td><strong>24%</strong></td>
<td><strong>27%</strong></td>
<td>(1%)</td>
</tr>
<tr>
<td><strong>Gross profit:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>64%</td>
<td>1%</td>
<td>65%</td>
<td>61%</td>
<td>1%</td>
</tr>
<tr>
<td>Service</td>
<td>83%</td>
<td>1%</td>
<td>84%</td>
<td>82%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total gross margin</strong></td>
<td><strong>75%</strong></td>
<td>1%</td>
<td><strong>76%</strong></td>
<td><strong>73%</strong></td>
<td>1%</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>13%</td>
<td>(2%)</td>
<td>10%</td>
<td>15%</td>
<td>(2%)</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>45%</td>
<td>(5%)</td>
<td>39%</td>
<td>49%</td>
<td>(6%)</td>
</tr>
<tr>
<td>General and administrative</td>
<td>5%</td>
<td>(1%)</td>
<td>4%</td>
<td>7%</td>
<td>(2%)</td>
</tr>
<tr>
<td>Restructuring charges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1%</td>
<td>(1%)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>62%</strong></td>
<td>(9%)</td>
<td><strong>54%</strong></td>
<td><strong>71%</strong></td>
<td>(11%)</td>
</tr>
<tr>
<td><strong>Operating margin</strong></td>
<td>12%</td>
<td>10%</td>
<td>22%</td>
<td>2%</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Interest income</strong></td>
<td>1%</td>
<td>-</td>
<td>1%</td>
<td>1%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other expense—net</strong></td>
<td>(1%)</td>
<td>-</td>
<td>(1%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>12%</td>
<td>10%</td>
<td>22%</td>
<td>2%</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Provision for income taxes</strong></td>
<td>5%</td>
<td>2%</td>
<td>7%</td>
<td>-</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>7%</td>
<td>8%</td>
<td>15%</td>
<td>2%</td>
<td>8%</td>
</tr>
</tbody>
</table>
GAAP to Non-GAAP – Operating Results (FY’16 vs. FY’15)
(Unaudited, in thousands, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>$548,110</td>
<td>$-</td>
<td>$548,110</td>
<td>$476,782</td>
<td>$-</td>
<td>$476,782</td>
</tr>
<tr>
<td>Service</td>
<td>727,333</td>
<td>-</td>
<td>727,333</td>
<td>532,486</td>
<td>-</td>
<td>532,486</td>
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<tr>
<td>Total revenue</td>
<td>1,275,443</td>
<td>-</td>
<td>1,275,443</td>
<td>1,009,268</td>
<td>-</td>
<td>1,009,268</td>
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<tr>
<td><strong>Cost of revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>208,984</td>
<td>(4,884)</td>
<td>204,100</td>
<td>190,398</td>
<td>(6,842)</td>
<td>183,556</td>
</tr>
<tr>
<td>Service</td>
<td>128,853</td>
<td>(9,951)</td>
<td>118,902</td>
<td>96,379</td>
<td>(7,121)</td>
<td>89,258</td>
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<tr>
<td>Total cost of revenue</td>
<td>337,837</td>
<td>(16,835)</td>
<td>321,002</td>
<td>286,777</td>
<td>(13,963)</td>
<td>272,814</td>
</tr>
<tr>
<td><strong>Gross profit:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>339,126</td>
<td>4,884</td>
<td>344,010</td>
<td>286,384</td>
<td>6,842</td>
<td>293,226</td>
</tr>
<tr>
<td>Service</td>
<td>598,480</td>
<td>9,951</td>
<td>608,431</td>
<td>436,107</td>
<td>7,121</td>
<td>443,228</td>
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<tr>
<td>Total gross profit</td>
<td>937,606</td>
<td>14,835</td>
<td>952,441</td>
<td>722,491</td>
<td>13,963</td>
<td>736,454</td>
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<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>183,084</td>
<td>(30,120)</td>
<td>152,964</td>
<td>158,129</td>
<td>(24,555)</td>
<td>133,574</td>
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<td>626,501</td>
<td>(73,399)</td>
<td>553,102</td>
<td>470,371</td>
<td>(51,168)</td>
<td>419,203</td>
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<td>(27,835)</td>
<td>53,245</td>
<td>71,514</td>
<td>(21,161)</td>
<td>50,353</td>
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<td>Restructuring charges</td>
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<td>(3,997)</td>
<td>-</td>
<td>7,600</td>
<td>(7,600)</td>
<td>-</td>
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<tr>
<td>Total operating expenses</td>
<td>894,662</td>
<td>(153,151)</td>
<td>759,311</td>
<td>707,614</td>
<td>(104,484)</td>
<td>603,130</td>
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<tr>
<td><strong>Operating income</strong></td>
<td>42,944</td>
<td>150,186</td>
<td>193,130</td>
<td>14,877</td>
<td>118,447</td>
<td>133,324</td>
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<tr>
<td><strong>Interest income</strong></td>
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<td>7,303</td>
<td>5,295</td>
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<td>5,295</td>
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<td>(7,099)</td>
<td>-</td>
<td>(7,099)</td>
<td>(3,167)</td>
<td>-</td>
<td>(3,167)</td>
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<tr>
<td><strong>Income before income taxes</strong></td>
<td>43,148</td>
<td>150,186</td>
<td>193,334</td>
<td>17,005</td>
<td>118,447</td>
<td>135,452</td>
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<tr>
<td><strong>Provision for income taxes</strong></td>
<td>10,961</td>
<td>52,839</td>
<td>63,800</td>
<td>9,018</td>
<td>37,036</td>
<td>46,054</td>
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<tr>
<td><strong>Net income</strong></td>
<td>$32,187</td>
<td>97,347</td>
<td>$129,534</td>
<td>$7,987</td>
<td>81,411</td>
<td>$89,398</td>
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<tr>
<td>Basic net income per share</td>
<td>$0.19</td>
<td>$0.75</td>
<td>$0.52</td>
<td>$0.05</td>
<td>$0.52</td>
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<tr>
<td>Diluted net income per share</td>
<td>$0.18</td>
<td>$0.73</td>
<td>$0.51</td>
<td>$0.05</td>
<td>$0.51</td>
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<tr>
<td>Shares used in computing net income per share</td>
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<tr>
<td>Basic</td>
<td>172,621</td>
<td>172,621</td>
<td>170,385</td>
<td>170,385</td>
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<tr>
<td>Diluted</td>
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<td>176,141</td>
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## GAAP to Non-GAAP – Operating Results (% of Rev) (FY’16 vs. FY’15)

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<th>% of revenue</th>
<th>Non-GAAP</th>
<th>Fiscal 2016</th>
<th>Adjustment</th>
<th>Fiscal 2016</th>
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<td><strong>Revenue:</strong></td>
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<td>Fiscal 2015</td>
<td>Adjustment</td>
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<tr>
<td>Product</td>
<td>43%</td>
<td>-</td>
<td>43%</td>
<td>47%</td>
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<tr>
<td>Service</td>
<td>57%</td>
<td>-</td>
<td>57%</td>
<td>53%</td>
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<tr>
<td>Total revenue</td>
<td>100%</td>
<td>-</td>
<td>100%</td>
<td>100%</td>
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<tr>
<td><strong>Cost of revenue:</strong></td>
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<td>Fiscal 2015</td>
<td>Adjustment</td>
<td>Fiscal 2015</td>
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<tr>
<td>Product</td>
<td>16%</td>
<td>-</td>
<td>16%</td>
<td>19%</td>
</tr>
<tr>
<td>Service</td>
<td>10%</td>
<td>( 1% )</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Total cost of revenue</td>
<td>26%</td>
<td>( 1% )</td>
<td>25%</td>
<td>28%</td>
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<td><strong>Gross profit:</strong></td>
<td></td>
<td>Fiscal 2015</td>
<td>Adjustment</td>
<td>Fiscal 2015</td>
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<tr>
<td>Product</td>
<td>62%</td>
<td>1%</td>
<td>63%</td>
<td>60%</td>
</tr>
<tr>
<td>Service</td>
<td>82%</td>
<td>1%</td>
<td>84%</td>
<td>82%</td>
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<tr>
<td>Total gross margin</td>
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<td>1%</td>
<td>75%</td>
<td>72%</td>
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<tr>
<td><strong>Operating expenses:</strong></td>
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<td>Fiscal 2015</td>
<td>Adjustment</td>
<td>Fiscal 2015</td>
</tr>
<tr>
<td>Research and development</td>
<td>14%</td>
<td>( 2% )</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>49%</td>
<td>( 6% )</td>
<td>43%</td>
<td>47%</td>
</tr>
<tr>
<td>General and administrative</td>
<td>6%</td>
<td>( 2% )</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Restructuring charges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>70%</td>
<td>( 11% )</td>
<td>60%</td>
<td>70%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>3%</td>
<td>12%</td>
<td>15%</td>
<td>1%</td>
</tr>
<tr>
<td>Interest income</td>
<td>1%</td>
<td>-</td>
<td>1%</td>
<td>-</td>
</tr>
<tr>
<td>Other expense—net</td>
<td>( 1% )</td>
<td>-</td>
<td>( 1% )</td>
<td>-</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>3%</td>
<td>12%</td>
<td>15%</td>
<td>2%</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>1%</td>
<td>4%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Net income</td>
<td>3%</td>
<td>8%</td>
<td>10%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Global Employee Footprint

Location:
- Americas: 24%
- EMEA: 56%
- APAC: 20%

Cost:
- Americas: 62%
- EMEA: 25%
- APAC: 13%

Function:
- Sales & Marketing: 47%
- R&D: 20%
- G&A: 6%
- Operations: 2%
- Service & Support: 25%

Q4'16 Headcount: 4,665