



Q3 2011 Financial Results

October 24, 2011



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Q3 2011 Non-GAAP Results

	Q3 11	Q3 10	Y/Y % Growth	Q2 11
Billings ⁽¹⁾	\$118M	\$95M	25%	\$110M
Revenue	\$116M	\$85M	37%	\$103M
Gross Margin (%) ⁽²⁾	74%	75%	-1%	75%
Operating Income ⁽²⁾	\$31M	\$21M	52%	\$22M
Operating Margin (%) ⁽²⁾	27%	24%	+3%	22%
Net Income ^{(2) (3)}	\$22M	\$13M	61%	\$15M
Earnings per Share ^{(2) (3)}	\$0.13	\$0.09	44%	\$0.09
Weighted Diluted Shares used in EPS	164M	156M	5%	164M
Deferred Revenue	\$275M	\$235M	17%	\$273M
Free Cash Flow ⁽⁴⁾	\$35M	\$32M	10%	\$33M

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 of that period to the end of that period
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 33% for Q3 2011, 35% for Q3 2010 and 33% for Q2 2011 and removes tax benefit of stock based compensation and write-off of acquisition expense
- (4) Free Cash Flow is a non-GAAP measure that we define as Cash Flow from Operations less the purchase of property, plant and equipment and patent settlement.

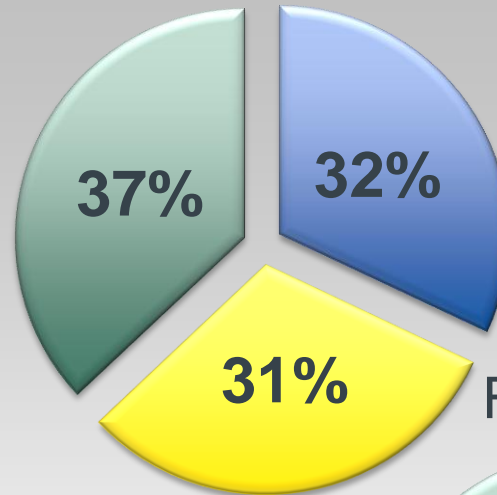
Balanced Product Segmentation

FortiGate Billings

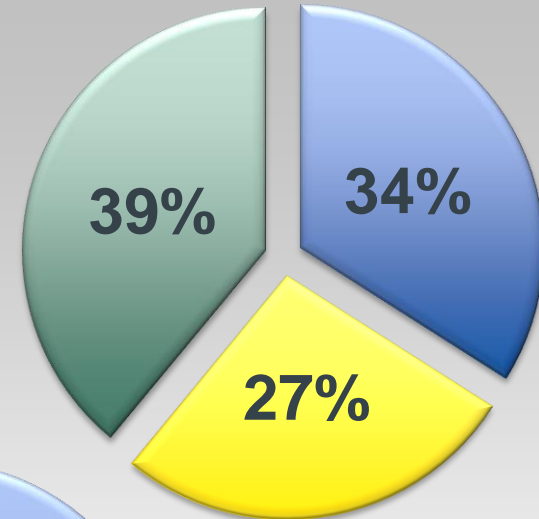
- **Balanced Product Sales**
 - Entry-level typically sold to SMBs/branch offices
 - Mid-range = enterprises
 - High-end = telcos/service providers and large enterprises
- **Growing enterprise & high-end**

- **Entry-Level (FG30-100)**
- **Mid-Range (FG200-800)**
- **High-End (FG1000-5000)**

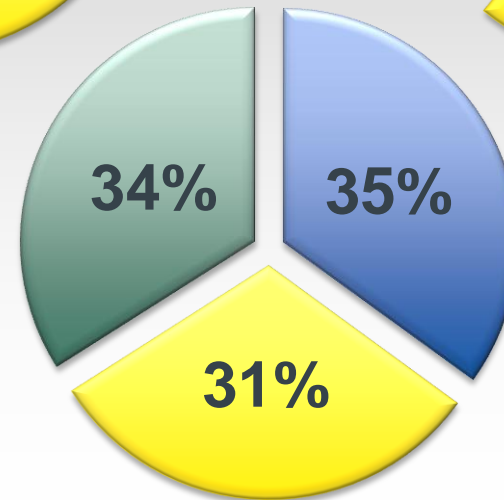
Q3 2011



Q3 2010



FY 2010



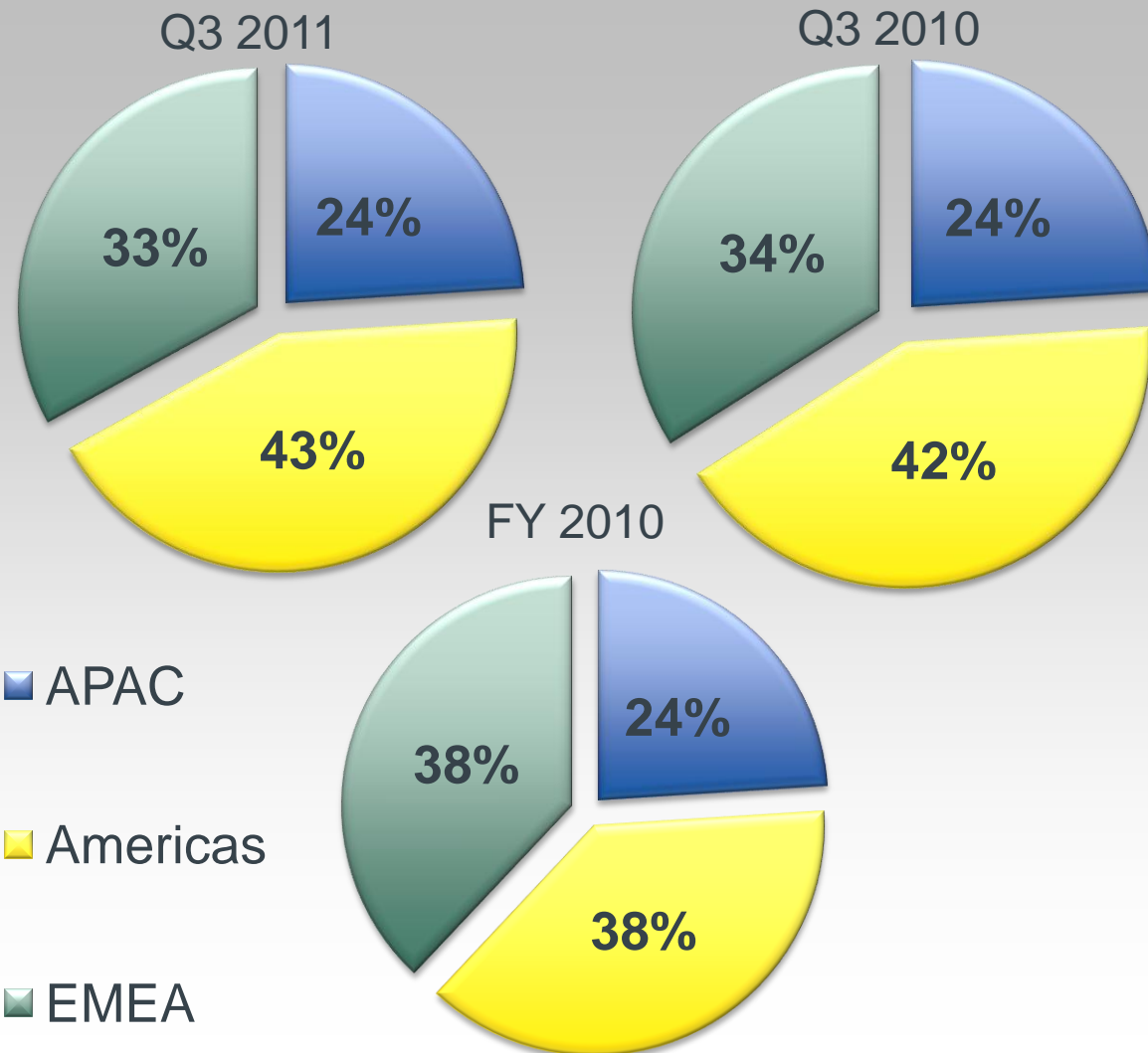
Note

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 of that period to the end of that period

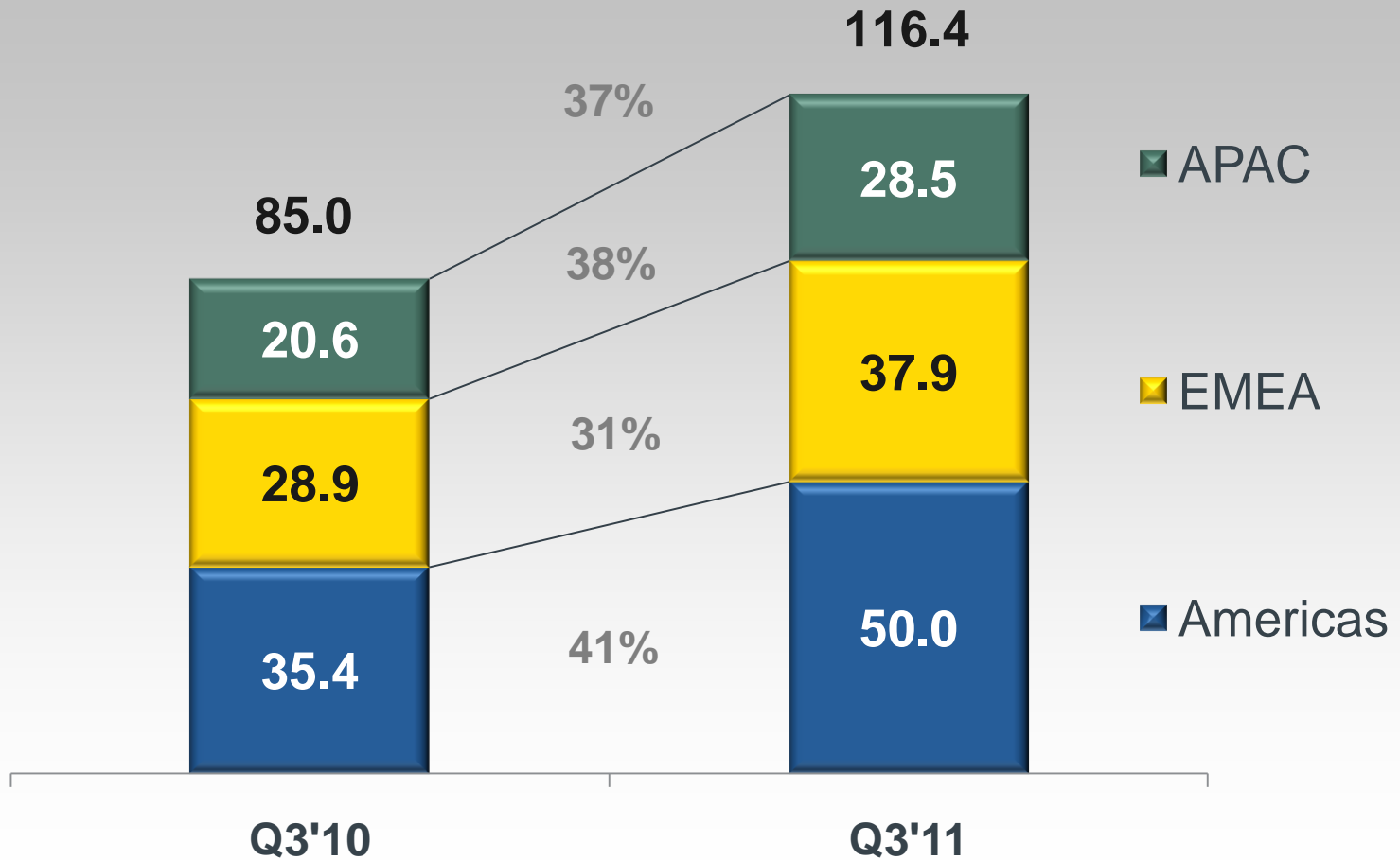
Diversified Global Revenue

Revenue by Geography

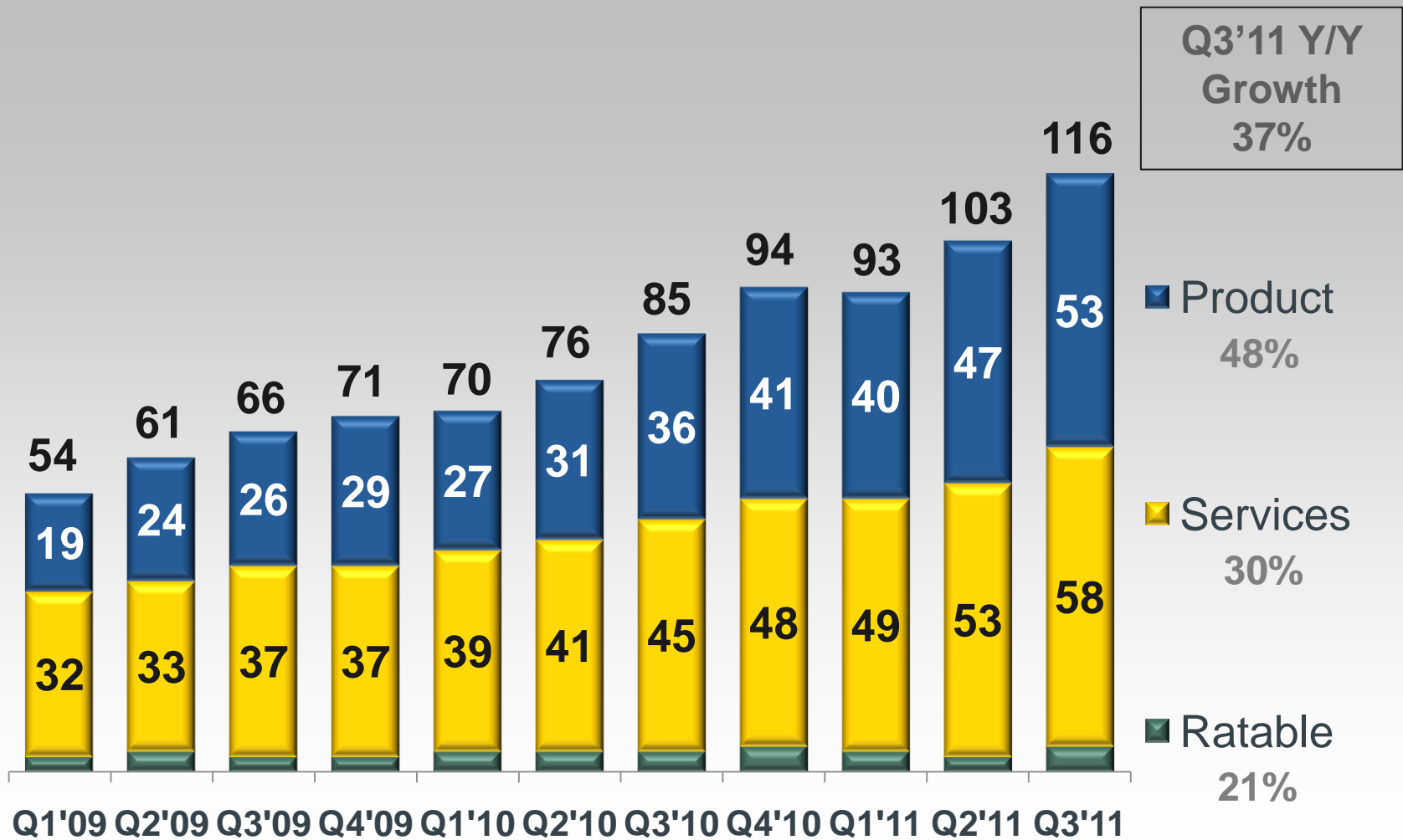
- Globally-diverse revenue stream
- AMER fastest-growing region
- Investing for growth globally



Revenue Growth by Geography

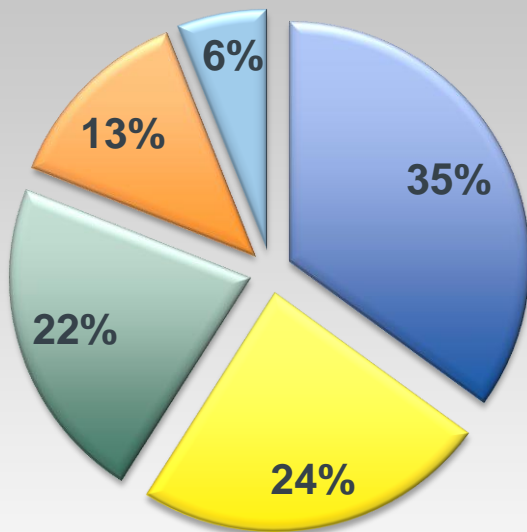


Quarterly Revenue Mix & Q3'11 Y/Y Growth



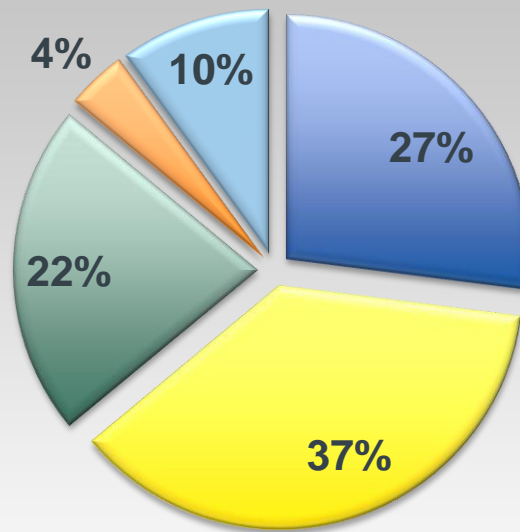
Global Employee Footprint

Location



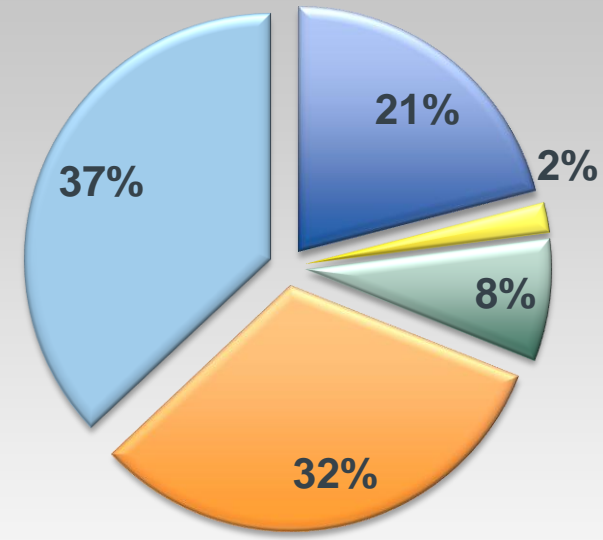
- Canada
- USA
- RoW
- China
- France

Cost



- Canada
- USA
- RoW
- China
- France

Function

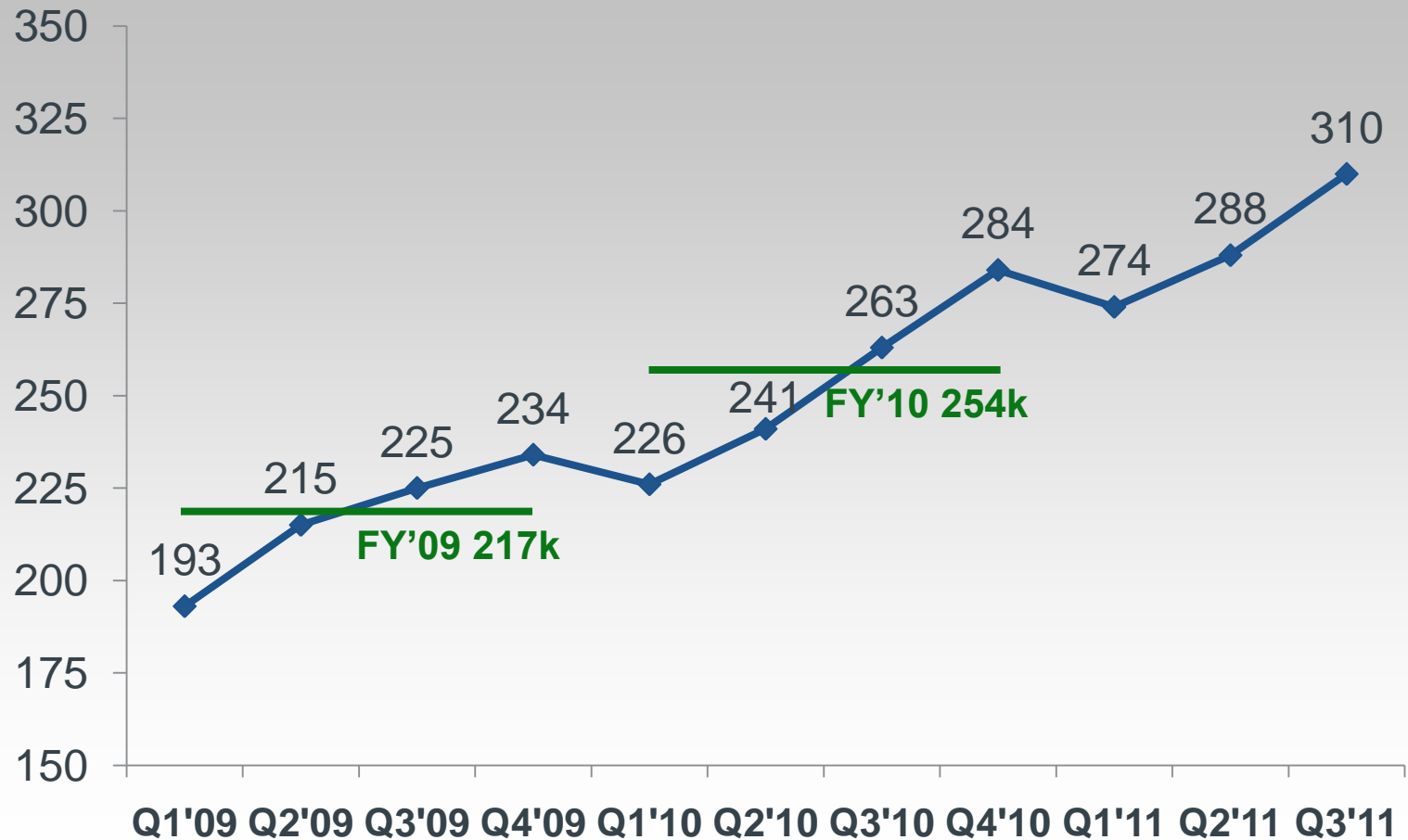


- Service & Support
- Operations
- G&A
- R&D
- Sales & Marketing

Revenue per Employee



(\$ in Thousands, Annualized)



Q3 2011 Select Financial Statistics

	Q3 11	Q2 11	Q3 10
Cash and Investments	\$503M	\$468M	\$352M
Deferred Revenue	\$275M	\$273M	\$235M
Free Cash Flow	\$35M	\$33M	\$32M
Working Capital	\$252M	\$208M	\$180M
Accounts Receivable	\$76M	\$72M	\$60M
DSO	59	63	63
Net Inventory	\$13M	\$14M	\$11M
Inventory Turns	5.2	4.0	3.9
Revenue per Employee (Annualized)	\$310K	\$288K	\$263K
No. of Deals >\$100K	130	127	101
No. of Deals >\$250K	39	37	38
No. of Deals >\$500K	13	11	13

Maintaining Strong Balance Sheet

<i>(\$ in Millions)</i>	Q3 11	Q2 11	Q3 10
Assets			
Cash and Investments	503	468	352
Accounts Receivable	76	72	60
Inventory	13	14	11
Property and Equipment	7	7	7
Deferred Tax Assets	52	51	42
Deferred Cost of Revenue/Other	20	23	16
Total Assets	671	635	488
Liabilities and Shareholders' Equity			
Accounts Payable	15	13	10
Accrued Expenses	64	61	37
Deferred Revenue	275	273	235
Common Stock/Paid in Capital	290	275	239
Retained Earnings	27	13	(33)
Total Liabilities and Shareholders' Equity	671	635	488

Statement of Cash Flows (Non-GAAP)

(\$ in Millions)	Q3 11	Q3 10	YTD 11	YTD 10
GAAP Net Income	18	14	46	25
Depreciation, Amortization and Intangibles	8	4	18	11
Amortization of Investment Premium	3	2	9	5
Excess Tax Benefit	(5)	(1)	(9)	(4)
Accounts Receivable	(4)	-	(4)	(5)
Inventory	-	1	(1)	(2)
Accounts Payable / Accrued Expenses / Other	14	2	29	9
Deferred Revenue	2	10	22	33
GAAP Cash Flow from Operations	36	32	110	72
Purchase of Property and Equipment	(1)	-	(3)	(3)
Removal of Patent Settlement	-	-	(3)	-
Free Cash Flow	35	32	104	69
Stock Option and Warrant Exercises	3	11	14	24
Acquisition	-	-	(3)	-
Effect of Exchange Rate on Cash / Other	(4)	-	1	(1)
Net Cash Flow	34	43	116	92

Q4 and 2011 Guidance

	Q4 11	Y/Y % Mid-Pt Growth	2011	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$131 - 135M	20%	\$466 - 470M	25%
Revenue	\$114 - 116M	23%	\$427 - 429M	32%
Gross Margin (%) ⁽²⁾	~74%		~74%	
Operating Margin (%) ⁽²⁾	24 - 25%		23 - 24%	
Earnings per Share ^{(2) (3)}	\$0.12		\$0.43	
Weighted Diluted Shares used in EPS	164 - 166M		164 - 165M	
Free Cash Flow ⁽⁴⁾	\$32 - 35M		\$137 - 140M	

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 of that period to the end of that period
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 33% for Q4 and 2011 and removes tax benefit of stock based compensation and write-off of acquisition expense
- (4) Free Cash Flow is a non-GAAP measure that we define as Cash Flow from Operations less the purchase of property, plant and equipment and patent settlement.

GAAP to Non-GAAP – Operating Results

(Q3'11 vs. Q3'10 vs. Q2'11)

(in thousands, except per share amounts)

	Q3'11	Adj	Non-GAAP Q3'11	Q3'10	Adj	Non-GAAP Q3'10	Q2'11	Adj	Non-GAAP Q2'11
Revenue:									
Product	\$ 53,093	\$ -	\$ 53,093	\$ 35,913	\$ -	\$ 35,913	\$ 46,687	\$ -	\$ 46,687
Services	57,835	-	57,835	44,527	-	44,527	52,671	-	52,671
Ratable product and services	5,498	-	5,498	4,531	-	4,531	3,665	-	3,665
Total Revenue	116,426		116,426	84,971	-	84,971	103,023	-	103,023
Cost of revenue:									
Cost of product revenue	20,606	(64)	20,542	13,263	(26)	13,237	16,591	(43)	16,548
Cost of services revenue	9,438	(564)	8,874	6,565	(242)	6,323	8,596	(362)	8,234
Cost of ratable product and services	1,095	-	1,095	1,615	-	1,615	1,371	-	1,371
Total cost of revenue	31,139	(628)	30,511	21,443	(268)	21,175	26,558	(405)	26,153
Gross Profit:									
Product	32,487	64	32,551	22,650	26	22,676	30,096	43	30,139
Services	48,397	564	48,961	37,962	242	38,204	44,075	362	44,437
Ratable product and services	4,403	-	4,403	2,916	-	2,916	2,294	-	2,294
Total gross profit	85,287	628	85,915	63,528	268	63,796	76,465	405	76,870
Operating Expenses:									
Research and development	16,834	(1,516)	15,318	12,389	(600)	11,789	15,942	(985)	14,957
Sales and marketing	36,934	(2,708)	34,226	26,987	(1,017)	25,970	35,896	(1,681)	34,215
General and administrative	5,359	(339)	5,020	5,993	(549)	5,444	5,848	(321)	5,527
Total operating expenses	59,127	(4,563)	54,564	45,369	(2,166)	43,203	57,686	(2,987)	54,699
Operating income	26,160	5,191	31,351	18,159	2,434	20,593	18,779	3,392	22,171
Interest income	904	-	904	514	-	514	863	-	863
Other income (expense), net	60	-	60	(402)	-	(402)	(207)	-	(207)
Net income before income taxes	27,124	5,191	32,315	18,271	2,434	20,705	19,435	3,392	22,827
Provision for income taxes	9,207	1,457	10,664	4,254	2,993	7,247	4,941	2,592	7,533
Net income	\$ 17,917	\$ 3,734	\$ 21,651	\$ 14,017	\$ (559)	\$ 13,458	\$ 14,494	\$ 800	\$ 15,294
Basic net income per share	\$ 0.12		\$ 0.14	\$ 0.10		\$ 0.09	\$ 0.10		\$ 0.10
Diluted net income per share	\$ 0.11		\$ 0.13	\$ 0.09		\$ 0.09	\$ 0.09		\$ 0.09
Shares used in computing net income per share									
Basic	153,265		153,265	143,672		143,672	152,267		152,267
Diluted	163,869		163,869	155,842		155,842	163,887		163,887

GAAP to Non-GAAP – Operating Results (% of Rev)

(Q3'11 vs. Q3'10 vs. Q2'11)

% of revenue	Q3'11			Q3'10			Q2'11		
	Q3'11	Adj	Non-GAAP Q3'11	Q3'10	Adj	Non-GAAP Q3'10	Q2'11	Adj	Non-GAAP Q2'11
Revenue:									
Product	46%	-	46%	42%	-	42%	45%	-	45%
Services	49%	-	49%	52%	-	52%	51%	-	51%
Ratable product and services	5%	-	5%	6%	-	6%	4%	-	4%
Total Revenue	100%	-	100%	100%	-	100%	100%		100%
Cost of revenue:									
Cost of product revenue	18%	-	18%	16%	-	16%	16%	-	16%
Cost of services revenue	8%	(1%)	7%	7%	-	7%	9%	(1%)	8%
Cost of ratable product and services	1%	-	1%	2%	-	2%	1%	-	1%
Total cost of revenue	27%	(1%)	26%	25%	-	25%	26%	(1%)	25%
Gross Profit:									
Product	61%	-	61%	63%	-	63%	64%	1%	65%
Services	84%	1%	85%	86%	-	86%	84%	-	84%
Ratable product and services	80%	-	80%	64%	-	64%	63%	-	63%
Total gross profit	73%	1%	74%	75%	-	75%	74%	1%	75%
Operating Expenses:									
Research and development	14%	(1%)	13%	15%	(1%)	14%	15%	-	15%
Sales and marketing	32%	(2%)	30%	32%	(1%)	31%	35%	(2%)	33%
General and administrative	5%	(1%)	4%	7%	(1%)	6%	6%	(1%)	5%
Total operating expenses	51%	(4%)	47%	54%	(3%)	51%	56%	(3%)	53%
Operating income	22%	5%	27%	21%	3%	24%	18%	4%	22%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Net income before income taxes	23%	5%	28%	22%	3%	25%	19%	4%	23%
Provision for income taxes	8%	1%	9%	5%	3%	8%	5%	2%	7%
Net income	15%	4%	19%	17%	-	17%	14%	2%	16%