



Q4 2011 Financial Results

January 31, 2012



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2011 Non-GAAP Results

	2011	2010	Y/Y % Growth
Billings ⁽¹⁾	\$476M	\$375M	27%
Revenue	\$434M	\$325M	34%
Gross Margin (%) ⁽²⁾	74%	74%	--
Operating Income ⁽²⁾	\$106M	\$65M	64%
Operating Margin (%) ⁽²⁾	24%	20%	+4%
Net Income ^{(2) (3)}	\$73M	\$45M	64%
Earnings per Share ^{(2) (3)}	\$0.45	\$0.29	55%
Weighted Diluted Shares used in EPS	164M	156M	5%
Deferred Revenue	\$295M	\$253M	17%
Free Cash Flow ⁽⁴⁾	\$135M	\$100M	36%

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 2011 and 32% for 2010 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.

Q4 2011 Non-GAAP Results

	Q4 11	Q4 10	Y/Y % Growth	Q3 11
Billings ⁽¹⁾	\$141M	\$111M	27%	\$118M
Revenue	\$121M	\$94M	29%	\$116M
Gross Margin (%) ⁽²⁾	74%	74%	--	74%
Operating Income ⁽²⁾	\$32M	\$23M	40%	\$31M
Operating Margin (%) ⁽²⁾	27%	25%	+2%	27%
Net Income ^{(2) (3)}	\$22M	\$17M	29%	\$22M
Earnings per Share ^{(2) (3)}	\$0.14	\$0.11	27%	\$0.13
Weighted Diluted Shares used in EPS	165M	161M	2%	164M
Deferred Revenue	\$295M	\$253M	17%	\$275M
Free Cash Flow ⁽⁴⁾	\$31M	\$31M	1%	\$35M

Notes

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- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 33% for Q4 2011, 27% for Q4 2010 and 33% for Q3 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.

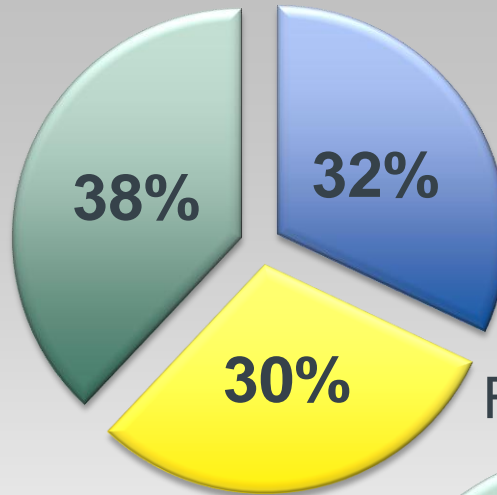
Balanced Product Segmentation



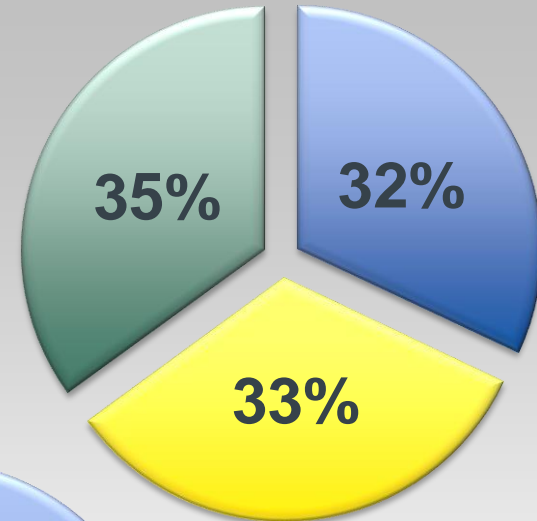
FortiGate Billings

- **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**

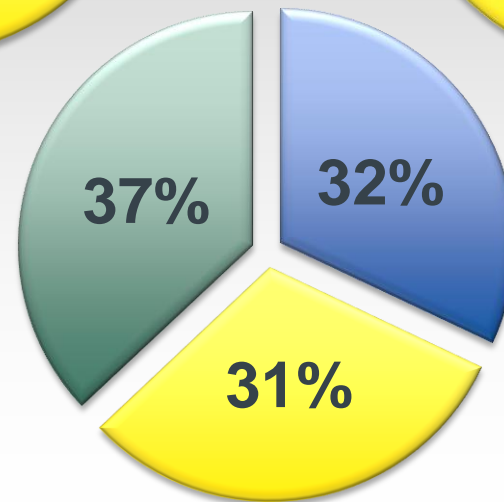
Q4 2011



Q4 2010



FY 2011



- **Entry-Level (FG20-100)**
- **Mid-Range (FG200-800)**
- **High-End (FG1000-5000)**

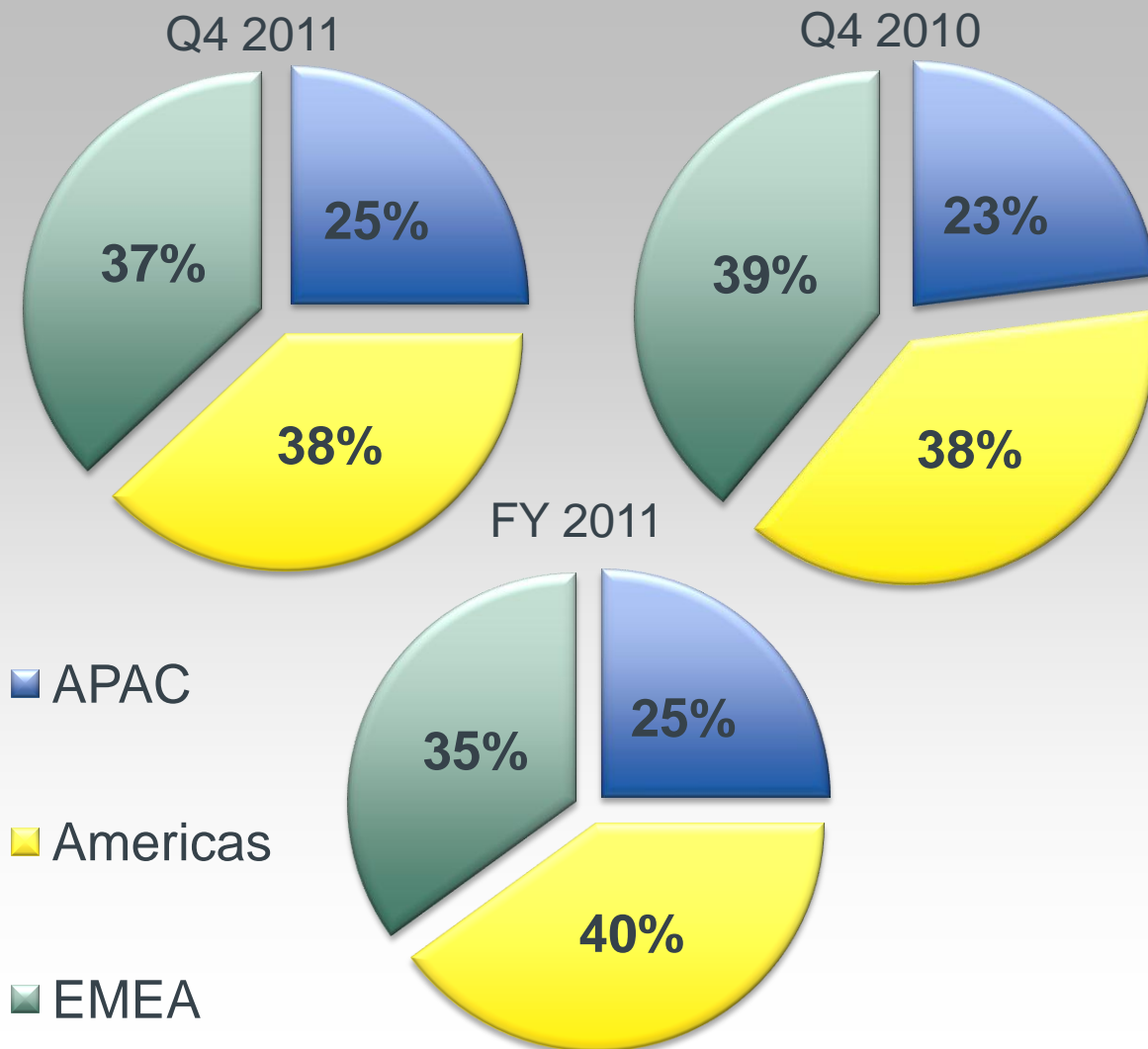
Note

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

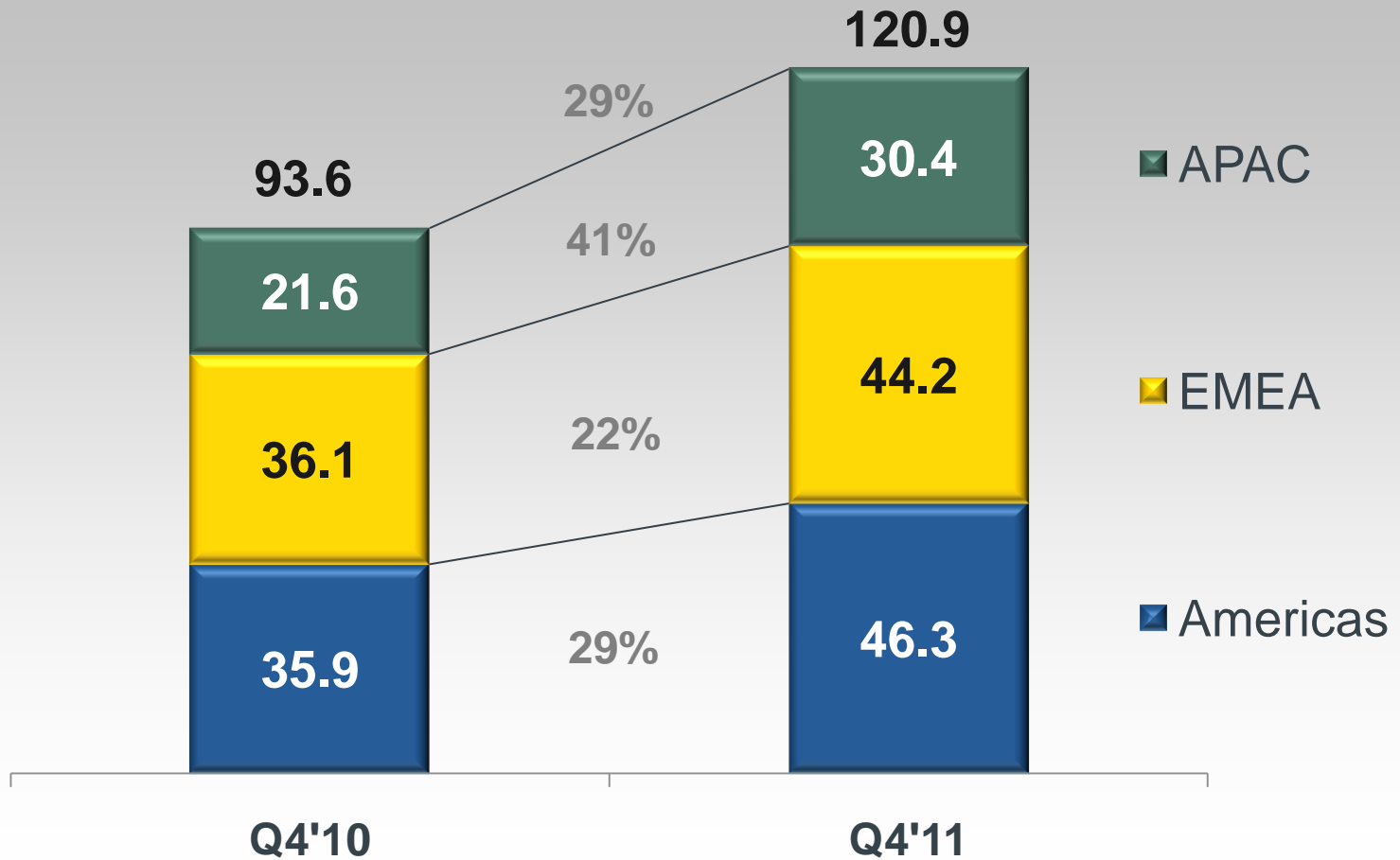
Diversified Global Revenue

Revenue by Geography

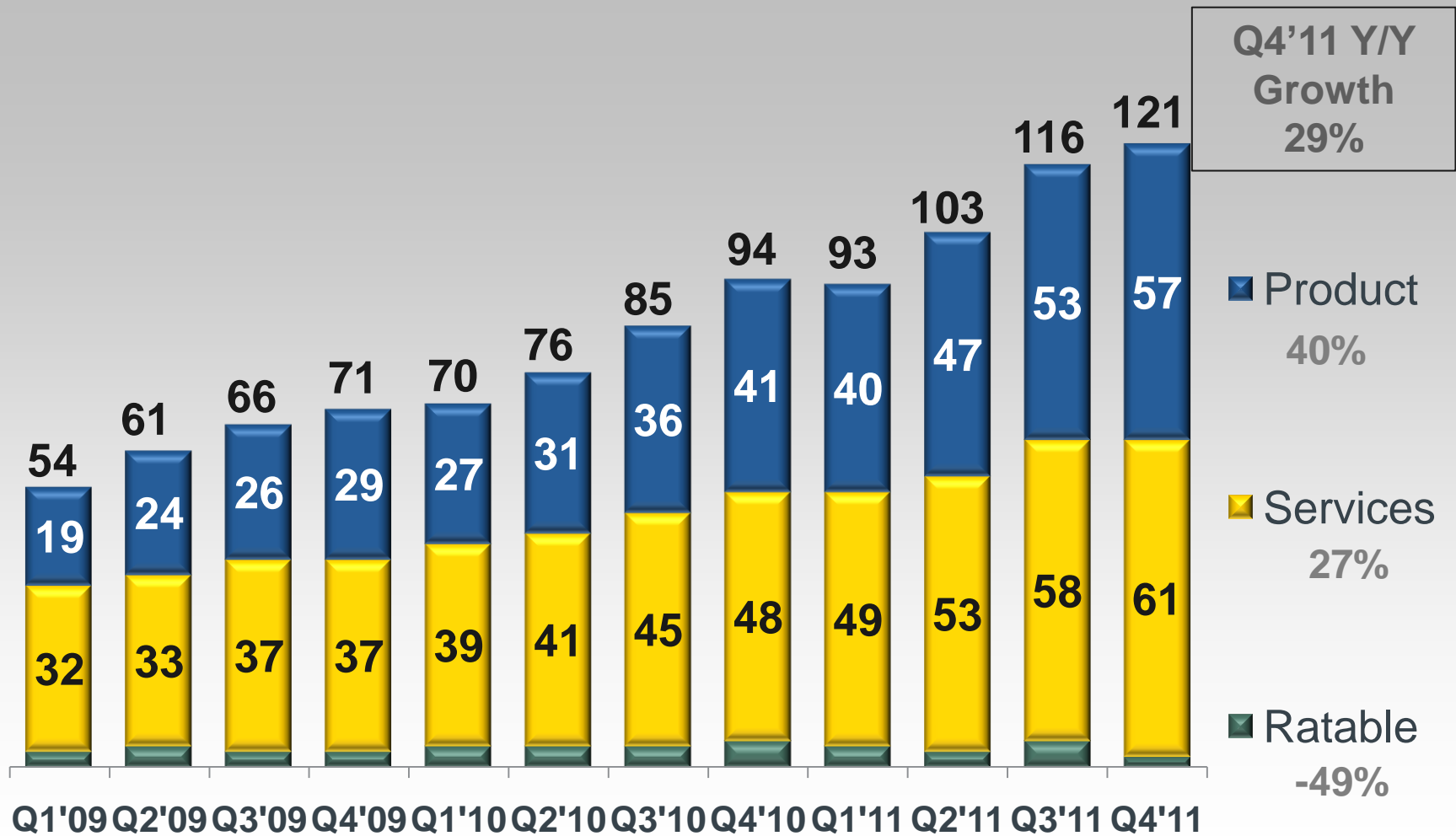
- Globally-diverse revenue stream
- AMER fastest-growing region in 2011
- Investing for growth globally



Revenue Growth by Geography

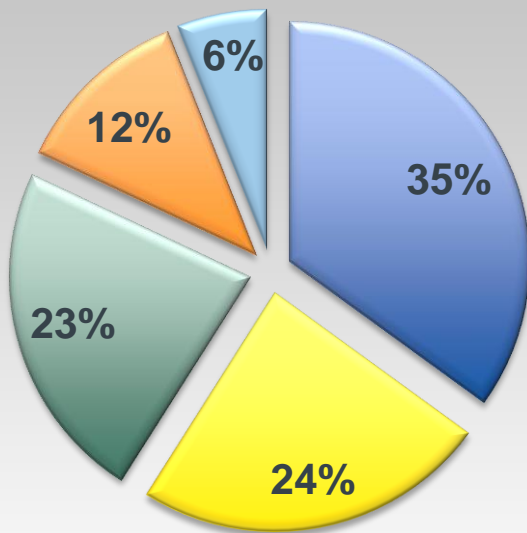


Quarterly Revenue Mix & Q4'11 Y/Y Growth



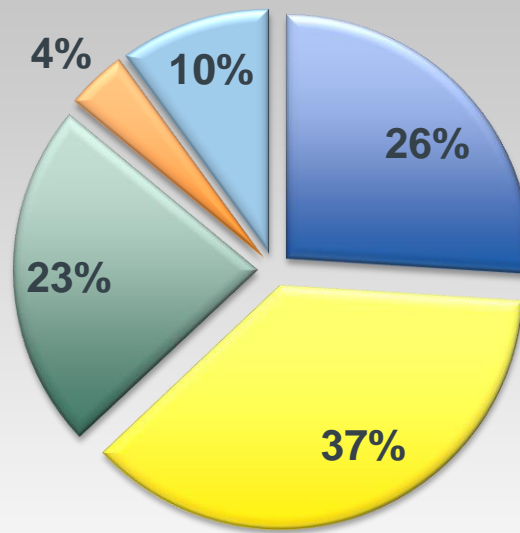
Global Employee Footprint

Location



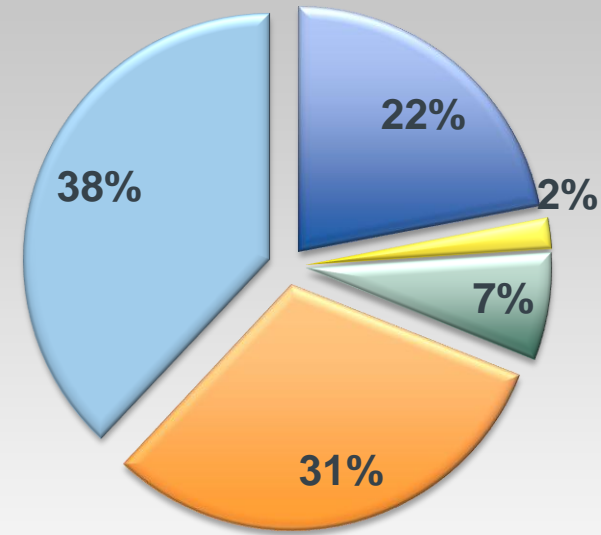
- Canada
- USA
- RoW
- China
- France

Cost



- Canada
- USA
- RoW
- China
- France

Function

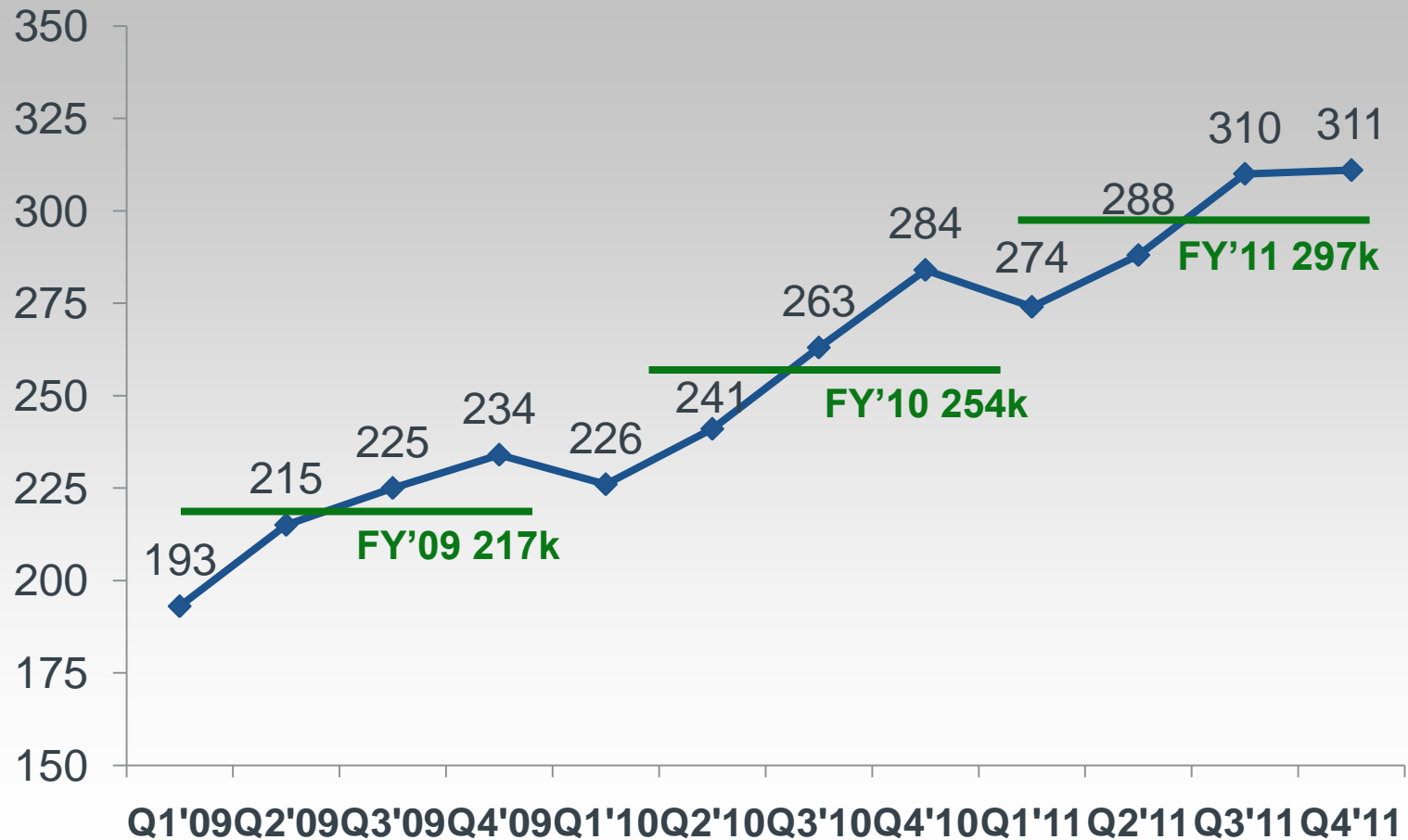


- Service & Support
- Operations
- G&A
- R&D
- Sales & Marketing

Q4'11 Headcount: 1,583

Revenue per Employee

(\$ in Thousands, Annualized)



Q4 2011 Select Financial Statistics

	Q4 11	Q3 11	Q4 10
Cash and Investments	\$539M	\$503M	\$387M
Deferred Revenue	\$295M	\$275M	\$253M
Free Cash Flow	\$31M	\$35M	\$31M
Working Capital	\$257M	\$252M	\$202M
Accounts Receivable	\$96M	\$76M	\$72M
DSO	71	59	70
Net Inventory	\$16M	\$13M	\$14M
Inventory Turns	4.4	5.2	3.9
Revenue per Employee (Annualized)	\$311K	\$310K	\$284K
No. of Deals >\$100K	192	130	142
No. of Deals >\$250K	57	39	45
No. of Deals >\$500K	15	13	13

Maintaining Strong Balance Sheet

<i>(\$ in Millions)</i>	Q4 11	Q3 11	Q4 10
Assets			
Cash and Investments	539	503	387
Accounts Receivable	96	76	60
Inventory	16	13	11
Property and Equipment	8	7	7
Deferred Tax Assets	54	52	48
Other Assets	22	20	17
Total Assets	735	671	545
Liabilities and Shareholders' Equity			
Accounts Payable	20	15	13
Accrued Expenses	62	64	47
Deferred Revenue	295	275	253
Common Stock/Paid in Capital	314	290	249
Retained Earnings	44	27	(17)
Total Liabilities and Shareholders' Equity	735	671	545

Statement of Cash Flows (Non-GAAP)

<i>(\$ in Millions)</i>	Q4 11	Q4 10	2011	2010
GAAP Net Income	16	16	62	41
Depreciation, Amortization and Intangibles	8	4	26	15
Amortization of Investment Premium	3	2	13	7
Excess Tax Benefit	(11)	(2)	(20)	(6)
Accounts Receivable	(20)	(13)	(23)	(18)
Inventory	(4)	(3)	(6)	(6)
Accounts Payable / Accrued Expenses / Other	11	10	39	19
Deferred Revenue	20	17	42	51
GAAP Cash Flow from Operations	23	31	133	103
Purchase of Property and Equipment	(1)	(1)	(4)	(3)
Removal of Patent Settlements	9	-	6	-
Free Cash Flow	31	31	135	100
Investing: Amort. of Investment Premium	(3)	(2)	(13)	(7)
Financing: Excess Tax Benefit	11	2	20	6
Adjusted Free Cash Flow	38	30	143	98
Stock Option Exercises	6	5	20	29
Patent Settlements	(9)	-	(6)	-
Effect of Exchange Rates on Cash / Acquisition	1	-	(5)	-
Net Cash Flow	36	35	152	127

Q1 and 2012 Guidance

	Q1 12	Y/Y % Mid-Pt Growth	2012	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$122 - 127M	17%	\$565 - 575M	20%
Revenue	\$112 - 115M	22%	\$505 - 520M	18%
Gross Margin (%) ⁽²⁾	~74%		~74%	
Operating Margin (%) ⁽²⁾	21 - 22%		~24%	
Earnings per Share ^{(2) (3)}	\$0.11		\$0.48 - 0.52	
Weighted Diluted Shares used in EPS	165 - 167M		167 - 170M	
Adjusted Free Cash Flow ⁽⁴⁾	\$35 - 40M		\$160 - 170M	

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 Q1 and 2012 and removes tax benefit of stock based compensation and write-off of acquisition expense
- (4) Adjusted 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 settlements adjusted for excess tax benefit and amortization of investment premiums.

GAAP to Non-GAAP – Operating Results

(Q4'11 vs. Q4'10 vs. Q3'11)

(in thousands, except per share amounts)

	Q4'11	Adj	Non-GAAP Q4'11	Q4'10	Adj	Non-GAAP Q4'10	Q3'11	Adj	Non-GAAP Q3'11
Revenue:									
Product	\$ 57,463	\$ -	\$ 57,463	\$ 41,080	\$ -	\$ 41,080	\$ 53,093	\$ -	\$ 53,093
Services	61,076	-	61,076	47,930	-	47,930	57,835	-	57,835
Ratable product and services	2,322	-	2,322	4,589	-	4,589	5,498	-	5,498
Total Revenue	120,861	-	120,861	93,599	-	93,599	116,426	-	116,426
Cost of revenue:									
Cost of product revenue	21,929	(54)	21,875	15,545	(25)	15,520	20,606	(64)	20,542
Cost of services revenue	9,671	(666)	9,005	7,116	(245)	6,871	9,438	(564)	8,874
Cost of ratable product and services	886	-	886	1,562	-	1,562	1,095	-	1,095
Total cost of revenue	32,486	(720)	31,766	24,223	(270)	23,953	31,139	(628)	30,511
Gross Profit:									
Product	35,534	54	35,588	25,535	25	25,560	32,487	64	32,551
Services	51,405	666	52,071	40,814	245	41,059	48,397	564	48,961
Ratable product and services	1,436	-	1,436	3,027	-	3,027	4,403	-	4,403
Total gross profit	88,375	720	89,095	69,376	270	69,646	85,287	628	85,915
Operating Expenses:									
Research and development	16,379	(1,737)	14,642	12,802	(598)	12,204	16,834	(1,516)	15,318
Sales and marketing	39,984	(3,036)	36,948	30,481	(1,030)	29,451	36,934	(2,708)	34,226
General and administrative	5,492	(370)	5,122	5,395	(571)	4,824	5,359	(404)	4,955
Total operating expenses	61,855	(5,143)	56,712	48,678	(2,199)	46,479	59,127	(4,628)	54,499
Operating income	26,520	5,863	32,383	20,698	2,469	23,167	26,160	5,256	31,416
Interest income	963	-	963	634	-	634	904	-	904
Other income (expense), net	(112)	-	(112)	(250)	-	(250)	60	-	60
Net income before income taxes	27,371	5,863	33,234	21,082	2,469	23,551	27,124	5,256	32,380
Provision for income taxes	10,877	90	10,967	4,941	1,332	6,273	9,207	1,478	10,685
Net income	\$ 16,494	\$ 5,773	\$ 22,267	\$ 16,141	\$ 1,137	\$ 17,278	\$ 17,917	\$ 3,778	\$ 21,695
Basic net income per share	\$ 0.11		\$ 0.14	\$ 0.11		\$ 0.12	\$ 0.12		\$ 0.14
Diluted net income per share	\$ 0.10		\$ 0.14	\$ 0.10		\$ 0.11	\$ 0.11		\$ 0.13
Shares used in computing net income per share									
Basic	154,429		154,429	147,698		147,698	153,265		153,265
Diluted	164,505		164,505	160,668		160,668	163,869		163,869

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

(Q4'11 vs. Q4'10 vs. Q3'11)

% of revenue	Non-GAAP			Non-GAAP			Non-GAAP		
	Q4'11	Adj	Q4'11	Q4'10	Adj	Q4'10	Q3'11	Adj	Q3'11
Revenue:									
Product	48%	-	48%	44%	-	44%	46%	-	46%
Services	50%	-	50%	51%	-	51%	49%	-	49%
Ratable product and services	2%	-	2%	5%	-	5%	5%	-	5%
Total Revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Cost of product revenue	18%	-	18%	17%	-	17%	18%	-	18%
Cost of services revenue	8%	(1%)	7%	8%	-	8%	8%	(1%)	7%
Cost of ratable product and services	1%	-	1%	1%	-	1%	1%	-	1%
Total cost of revenue	27%	(1%)	26%	26%	-	26%	27%	(1%)	26%
Gross Profit:									
Product	62%	-	62%	62%	-	62%	61%	-	61%
Services	84%	1%	85%	85%	1%	86%	84%	1%	85%
Ratable product and services	62%	-	62%	66%	-	66%	80%	-	80%
Total gross profit	73%	1%	74%	74%	-	74%	73%	1%	74%
Operating Expenses:									
Research and development	14%	(2%)	12%	14%	(1%)	13%	14%	(1%)	13%
Sales and marketing	33%	(2%)	31%	33%	(2%)	31%	32%	(2%)	30%
General and administrative	4%	-	4%	5%	-	5%	5%	(1%)	4%
Total operating expenses	51%	(4%)	47%	52%	(3%)	49%	51%	(4%)	47%
Operating income	22%	5%	27%	22%	3%	25%	22%	5%	27%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Net income before income taxes	23%	5%	28%	23%	3%	26%	23%	5%	28%
Provision for income taxes	9%	-	9%	6%	2%	8%	8%	1%	9%
Net income	14%	5%	19%	17%	1%	18%	15%	4%	19%

GAAP to Non-GAAP – Operating Results

(FY'11 vs. FY'10)

(in thousands, except per share amounts)

	Fiscal 2011	Adj	Non-GAAP Fiscal 2011	Fiscal 2010	Adj	Non-GAAP Fiscal 2010
Revenue:						
Product	\$ 197,408	\$ -	\$ 197,408	135,140	\$ -	\$ 135,140
Services	220,268	-	220,268	172,046	-	172,046
Ratable product and services	15,900	-	15,900	17,510	-	17,510
Total Revenue	433,576		433,576	324,696		\$ 324,696
Cost of revenue:						
Cost of product revenue	73,201	(183)	73,018	51,944	(101)	51,843
Cost of services revenue	35,486	(1,790)	33,696	26,967	(929)	26,038
Cost of ratable product and services	4,911	-	4,911	6,295	-	6,295
Total cost of revenue	113,598	(1,973)	111,625	85,206		84,176
Gross Profit:						
Product	124,207	183	124,390	83,196	101	83,297
Services	184,782	1,790	186,572	145,079	929	146,008
Ratable product and services	10,989	-	10,989	11,215	-	11,215
Total gross profit	319,978	1,973	321,951	239,490	1,030	240,520
Operating Expenses:						
Research and development	63,577	(4,691)	58,886	49,801	(2,339)	47,462
Sales and marketing	145,532	(9,325)	136,207	111,968	(3,810)	108,158
General and administrative	21,965	(1,115)	20,850	22,380	(2,136)	20,244
Total operating expenses	231,074	(15,131)	215,943	184,149	(8,285)	175,864
Operating income	88,904	17,104	106,008	55,341	9,315	64,656
Interest income	3,523	-	3,523	1,815	-	1,815
Other income (expense), net	(354)	-	(354)	(815)	-	(815)
Net income before income taxes	92,073	17,104	109,177	56,341	9,315	65,656
Provision for income taxes	29,581	6,447	36,028	15,096	5,914	21,010
Net income	\$ 62,492	\$ 10,657	\$ 73,149	\$ 41,245	\$ 3,401	\$ 44,646
Basic net income per share	\$ 0.41		\$ 0.48	\$ 0.29		\$ 0.32
Diluted net income per share	\$ 0.38		\$ 0.45	\$ 0.26		\$ 0.29
Shares used in computing net income per share						
Basic	152,581		152,581	140,726		140,726
Diluted	163,781		163,781	156,406		156,406

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

(FY'11 vs. FY'10)

% of revenue	Fiscal 2011			Fiscal 2010		
	Fiscal 2011	Adj	Non-GAAP Fiscal 2011	Fiscal 2010	Adj	Non-GAAP Fiscal 2010
Revenue:						
Product	46%	-	46%	42%	-	42%
Services	51%	-	51%	53%	-	53%
Ratable product and services	3%	-	3%	5%	-	5%
Total Revenue	100%	-	100%	100%	-	100%
Cost of revenue:						
Cost of product revenue	17%	-	17%	16%	-	16%
Cost of services revenue	8%	-	8%	8%	-	8%
Cost of ratable product and services	1%	-	1%	2%	-	2%
Total cost of revenue	26%	-	26%	26%	-	26%
Gross Profit:						
Product	63%	-	63%	62%	-	62%
Services	84%	-	84%	84%	-	84%
Ratable product and services	69%	-	69%	64%	-	64%
Total gross profit	74%	-	74%	74%	-	74%
Operating Expenses:						
Research and development	15%	(1%)	14%	15%	(1%)	14%
Sales and marketing	34%	(3%)	31%	34%	(1%)	33%
General and administrative	4%	1%	5%	8%	(1%)	7%
Total operating expenses	53%	(3%)	50%	57%	(3%)	54%
Operating income	21%	3%	24%	17%	3%	20%
Interest income	1%	-	1%	1%	-	1%
Net income before income taxes	22%	3%	25%	18%	3%	21%
Provision for income taxes	7%	1%	8%	5%	2%	7%
Net income	15%	2%	17%	13%	1%	14%