

# Q3 2018 Financial Results

November 1, 2018

# Safe Harbor Statement

Information, statements and projections contained in these presentation slides and related conference call concerning Fortinet's business outlook, the Q4 and 2018 guidance, and future prospects and expectations are forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements regarding our position for future growth, position to provide our customers the best network security, ability to continue to grow our market position and address our market opportunity, and guidance and future financial results. Although we attempt to be accurate in making forward-looking statements, it is possible that future circumstances might differ from the assumptions on which such statements are based such that actual results are materially different from our forward-looking statements in this release. Important factors that could cause results to differ materially from the statements herein include the following: general economic risks; global economic conditions, country-specific economic conditions, and foreign currency risks; competitiveness in the security market; the dynamic nature of the security market and its product and services; specific economic risks worldwide and in different geographies, and among different customer segments; uncertainty regarding increased business and renewals from existing customers; uncertainties around continued success in sales growth and market share gains; longer sales cycles, particularly for larger enterprise, service providers, government and other large organization customers; failure to convert sales pipeline into final sales; risks associated with successful implementation of multiple integrated software products and other product functionality risks; sales and marketing execution risks; execution risks around new product development and introductions and innovation; litigation and disputes and the potential cost, distraction and damage to sales and reputation caused thereby or by other factors; market acceptance of new products and services; the ability to attract and retain personnel; changes in strategy; risks associated with management of growth; lengthy sales and implementation cycles, particularly in larger organizations; technological changes that make our products and services less competitive; risks associated with the adoption of, and demand for, our products and services in general and by specific customer segments; competition and pricing pressure; risks related to integrating acquisitions; and the other risk factors set forth from time to time in our most recent Annual Report on Form 10-K, our most recent Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission (SEC), copies of which are available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov) or upon request from our investor relations department. All forward-looking statements herein reflect our opinions only as of the date of this release, and we undertake no obligation, and expressly disclaim any obligation, to update forward-looking statements herein in light of new information or future events

# Q3 2018 Non-GAAP Results

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
<b>Billings <sup>(1)</sup></b>	\$347M	\$463M	\$403M	\$427M	\$432M	\$534M	\$463M	\$513M	\$528M
<i>Y/Y % Change</i>	16%	22%	22%	14%	24%	15%	15%	20%	22%
<b>Revenue</b>	\$317M	\$363M	\$341M	\$363M	\$374M	\$417M	\$399M	\$441M	\$454M
<i>Y/Y % Change</i>	22%	22%	20%	17%	18%	15%	17%	21%	21%
<b>Product Revenue</b>	\$128M	\$159M	\$135M	\$143M	\$137M	\$162M	\$143M	\$166M	\$165M
<i>Y/Y % Change</i>	7%	10%	9%	4%	7%	2%	6%	17%	20%
<b>Service Revenue</b>	\$189M	\$204M	\$205M	\$221M	\$237M	\$255M	\$256M	\$275M	\$289M
<i>Y/Y % Change</i>	34%	34%	28%	26%	26%	25%	25%	25%	22%

## 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.

# Q3 2018 Non-GAAP Results (Continued)

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Gross Margin (%) <sup>(1)</sup>	74.5%	76.0%	74.6%	74.8%	76.0%	75.6%	76.7%	75.4%	76.5%
Operating Income <sup>(1)</sup>	\$46M	\$81M	\$43M	\$66M	\$70M	\$79M	\$71M	\$93M	\$109M
Operating Margin (%) <sup>(1)(2)</sup>	14.5%	22.4%	12.6%	18.1%	18.7%	18.9%	17.7%	21.1%	23.9%
Net Income <sup>(1)(3)(4)</sup>	\$32M	\$53M	\$31M	\$48M	\$50M	\$55M	\$57M	\$71M	\$87M
Earnings per Share <sup>(1)(3)(4)</sup>	\$0.18	\$0.30	\$0.17	\$0.27	\$0.28	\$0.32	\$0.33	\$0.41	\$0.49
Weighted Diluted Shares Used in EPS	178M	177M	178M	180M	179M	175M	172M	174M	176M
Deferred Revenue	\$0.93B	\$1.04B	\$1.10B	\$1.16B	\$1.22B	\$1.34B	\$1.40B	\$1.47B	\$1.54B
Cash and Investments <sup>(5)</sup>	\$1.27B	\$1.31B	\$1.44B	\$1.46B	\$1.52B	\$1.35B	\$1.39B	\$1.50B	\$1.67B
DSO <sup>(6)</sup>	68	78	71	68	62	75	71	68	64
Inventory Turns	1.7	1.8	1.6	2.2	2.6	3.2	2.4	3.3	3.0
Headcount	4,619	4,665	4,711	4,792	4,903	5,066	5,275	5,462	5,639

## Notes

- (1) Does not include stock-based compensation, impairment and amortization of intangible assets, and restructuring charges.
- (2) The adoption of ASC 606 resulted in an operating margin benefit of 390 basis points for Q1'18, 370 basis points for Q2'18 and 240 basis points for Q3'18.
- (3) Does not include the gain on sale of investment in a privately-held company.
- (4) Assumes annual effective tax rate of 24% and 32% for 2018 and 2017, respectively.
- (5) Excludes \$9.1M of investments in privately-held companies which are recorded in other assets for Q3 2018 and \$12.1M for both Q2 2018 and Q3 2017.
- (6) The adoption of ASC 606 resulted in 2 days increase in DSO in Q3 2018 compared to Q3 2017, if applied under the same standard.

# Revenue by Geography

	Q3'16		Q4'16		Q1'17		Q2'17		Q3'17		Q4'17		Q1'18		Q2'18		Q3'18	
(\$ in millions)	\$	Y/Y % Change																
Americas	\$134	18%	\$150	23%	\$146	22%	\$161	21%	\$161	20%	\$174	16%	\$176	20%	\$189	18%	\$194	20%
EMEA	\$117	27%	\$140	22%	\$126	20%	\$130	13%	\$138	18%	\$160	14%	\$144	15%	\$164	27%	\$165	20%
APAC	\$66	19%	\$72	22%	\$68	15%	\$73	14%	\$75	14%	\$82	14%	\$79	16%	\$88	20%	\$95	27%
Total	\$317	22%	\$363	22%	\$341	20%	\$363	17%	\$374	18%	\$417	15%	\$399	17%	\$441	21%	\$454	21%

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
	% of revenue								
Americas	42%	41%	43%	44%	43%	42%	44%	43%	43%
EMEA	37%	39%	37%	36%	37%	38%	36%	37%	36%
APAC	21%	20%	20%	20%	20%	20%	20%	20%	21%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

# Number of Deals & FortiGate Billings

Number of Deals <sup>(1)</sup>	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
No. of Deals >\$50K	1,204	1,412	1,381	1,883	1,446	1,669	1,710
No. of Deals >\$250K	174	193	208	313	233	261	264
No. of Deals >\$500K	76	75	87	120	80	113	103
No. of Deals >\$1M	28	30	32	40	34	36	30

% of FortiGate Billings <sup>(2)</sup>	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Entry - Level (FG20-100)	33%	32%	30%	30%	36%	34%	31%
Mid - Range (FG200-900)	31%	29%	29%	29%	31%	31%	33%
High - End (FG1000-7000)	36%	39%	41%	41%	33%	35%	36%

- Entry-Level = SMB & Distributed Networks for Large Enterprises
- Mid-Range = Enterprise
- High-End = Large Enterprises, Education, Government, and Telcos/Carriers/Service Providers

## Notes

(1) Deals are defined as combined sales in the period to a customer account.

(2) 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.

# Statement of Cash Flows (Non-GAAP)

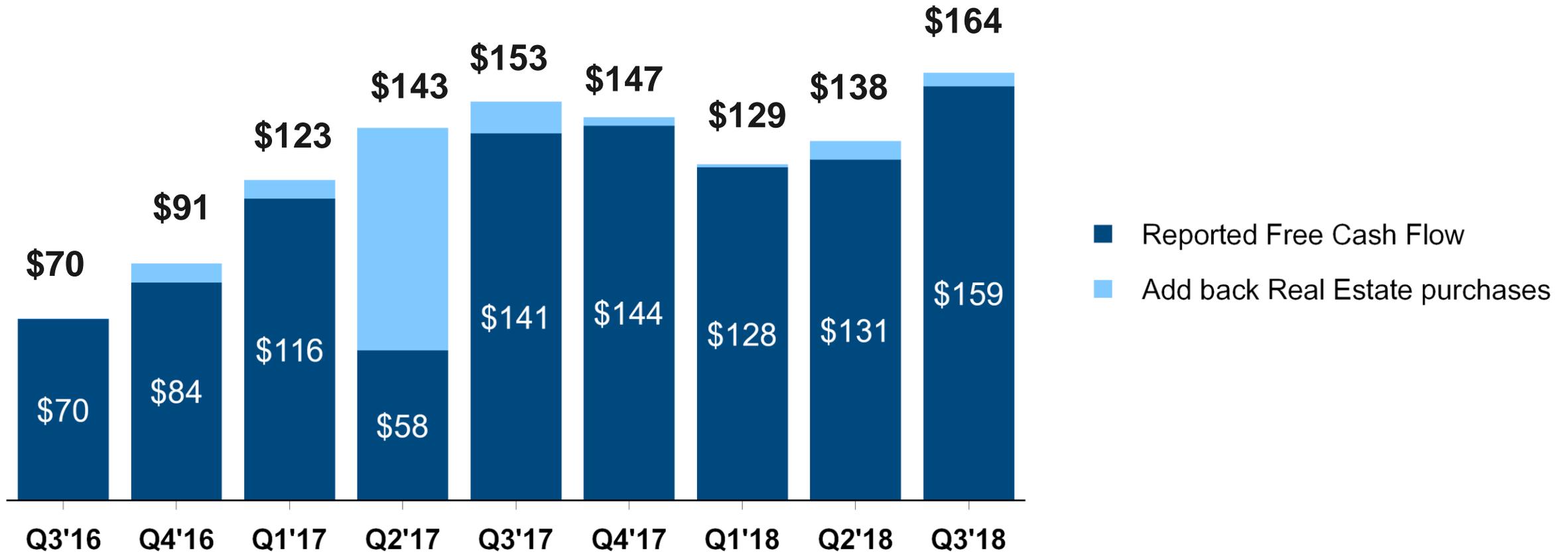
(\$ in Millions)	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
<b>GAAP Net Income (Loss)</b>	\$6	\$25	\$11	\$23	\$27	\$(29)	\$42	\$49	\$59
Depreciation and Stock-Based Compensation	44	46	47	49	48	49	50	54	57
Accounts Receivable	11	(71)	42	(5)	14	(90)	49	(20)	9
Inventory	(17)	(18)	(4)	13	8	(8)	(7)	(4)	(8)
Accounts Payable / Accrued Expenses / Other	—	19	28	1	6	120	(58)	(9)	(14)
Deferred Revenue	32	100	62	64	59	116	64	72	74
<b>GAAP Cash Flow from Operations</b>	<b>\$76</b>	<b>\$101</b>	<b>\$130</b>	<b>\$145</b>	<b>\$162</b>	<b>\$158</b>	<b>\$140</b>	<b>\$142</b>	<b>\$177</b>
Purchase of Property and Equipment	(6)	(17)	(14)	(87)	(21)	(14)	(12)	(11)	(18)
<b>Free Cash Flow</b>	<b>\$70</b>	<b>\$84</b>	<b>\$116</b>	<b>\$58</b>	<b>\$141</b>	<b>\$144</b>	<b>\$128</b>	<b>\$131</b>	<b>\$159</b>
Stock Option and RSU Exercises / ESPP	7	(6)	16	-	10	5	26	(2)	9
Stock Repurchases	(25)	(36)	—	(33)	(91)	(322)	(116)	(1)	—
Acquisition	(1)	—	—	-	—	—	—	(6)	—
Other	(2)	(2)	(2)	(1)	(1)	(1)	(1)	(9)	6
<b>Net Cash Flow<sup>(1)</sup></b>	<b>\$49</b>	<b>\$40</b>	<b>\$130</b>	<b>\$24</b>	<b>\$59</b>	<b>\$(174)</b>	<b>\$37</b>	<b>\$113</b>	<b>\$174</b>
<b>Footnote: Cash Paid for Taxes, Net of Refunds</b>	<b>\$7</b>	<b>\$6</b>	<b>\$9</b>	<b>\$9</b>	<b>\$7</b>	<b>\$7</b>	<b>\$6</b>	<b>\$12</b>	<b>\$13</b>

## 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 capital expenditures.
- Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus Real Estate purchases and new Sunnyvale campus building related cash payments.

# Q4 and 2018 Guidance<sup>(1)</sup> (Non-GAAP)

	Actual Q4 17	ASC 606 Q4 18	Actual 2017	ASC 606 2018
<b>Billings</b> <sup>(2)</sup>	\$534M	\$620 - 635M	\$1.796B	\$2.125 - 2.140B
<i>Y/Y Mid-Pt Growth</i>		18%		19%
<b>Revenue (GAAP)</b>	\$417M	\$490 - 500M	\$1.495B	\$1.785 - 1.795B
<i>Y/Y Mid-Pt Growth</i>		19%		20%
<b>Gross Margin (%)</b> <sup>(3)</sup>	75.6%	75 - 76%	75.3%	75 - 76%
<b>Operating Margin (%)</b> <sup>(3) (5)</sup>	18.9%	24.0 - 24.5%	17.2%	21.5 - 22.0%
<b>Earnings per Share</b> <sup>(3) (4)</sup>	\$0.32	\$0.50 - 0.52	\$1.04	\$1.72 - 1.76
<b>Weighted Diluted Shares used in EPS</b>	175M	178 - 179M	178M	174 - 176M

## 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 for the particular period plus the change in deferred revenue from the beginning to the end of the period and adjustment 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) 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, litigation settlement expenses, and restructuring charges.
- (4) Does not include the gain on sale of investment in a privately-held company and assumes effective tax rate of 24% for 2018.
- (5) Operating margin guidance includes a total benefit associated with the adoption of ASC 606 of approximately 250 basis points for Q4'18 and 300 basis points for FY 2018.

# GAAP to Non-GAAP Reconciliations

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
GAAP product gross profit	\$77.7	\$102.3	\$80.0	\$81.9	\$79.0	\$92.4	\$84.6	\$92.4	\$92.5
Stock-based compensation	0.3	0.3	0.3	0.4	0.3	0.3	0.4	0.4	0.3
Amortization of acquired intangible assets	0.6	0.9	0.7	1.0	1.0	1.2	1.1	1.2	1.7
Inventory fair value adjustment amortization	0.2	—	—	—	—	—	—	—	—
Non-GAAP product gross profit	\$78.8	\$103.5	\$81.0	\$83.3	\$80.3	\$93.9	\$86.1	\$94.0	\$94.5
<i>Non-GAAP product gross margin</i>	61.5%	65.1%	59.9%	58.4%	58.6%	58.0%	60.3%	56.5%	57.4%
GAAP service gross profit	\$154.1	\$169.6	\$170.0	\$185.9	\$201.6	\$218.8	\$217.2	\$235.8	\$249.8
Stock-based compensation	2.2	2.3	2.3	2.5	2.4	2.4	2.5	2.7	2.8
Amortization of acquired intangible assets	0.8	0.4	0.6	0.2	0.2	0.1	0.1	0.1	—
Non-GAAP service gross profit	\$157.1	\$172.3	\$172.9	\$188.6	\$204.2	\$221.3	\$219.8	\$238.6	\$252.6
<i>Non-GAAP service gross margin</i>	83.3%	84.5%	84.2%	85.4%	86.1%	86.9%	85.8%	86.8%	87.3%
GAAP total gross profit	\$231.8	\$271.9	\$250.0	\$267.8	\$280.6	\$311.2	\$301.8	\$328.2	\$342.3
Stock-based compensation	2.5	2.6	2.6	2.9	2.7	2.7	2.9	3.1	3.1
Amortization of acquired intangible assets	1.4	1.3	1.3	1.2	1.2	1.3	1.2	1.3	1.7
Inventory fair value adjustment amortization	0.2	—	—	—	—	—	—	—	—
Non-GAAP total gross profit	\$235.9	\$275.8	\$253.9	\$271.9	\$284.5	\$315.2	\$305.9	\$332.6	\$347.1
<i>Non-GAAP gross margin</i>	74.5%	76.0%	74.6%	74.8%	76.0%	75.6%	76.7%	75.4%	76.5%
GAAP research and development expense	\$47.2	\$45.6	\$51.2	\$51.2	\$53.5	\$54.8	\$59.1	\$61.2	\$58.7
Stock-based compensation	7.6	7.9	7.9	8.3	8.0	8.1	8.4	9.2	9.3
Amortization of acquired intangible assets	—	—	—	—	—	—	—	—	—
Non-GAAP research and development expense	\$39.6	\$37.7	\$43.3	\$42.9	\$45.5	\$46.7	\$50.7	\$52.0	\$49.4
<i>Non-GAAP research and development expense as a percentage of revenue</i>	12.5%	10.4%	12.7%	11.8%	12.2%	11.2%	12.7%	11.8%	10.9%
GAAP sales and marketing expense	\$154.8	\$162.9	\$170.4	\$166.3	\$172.4	\$191.9	\$185.3	\$192.8	\$198.3
Stock-based compensation	17.4	17.9	19.0	19.7	19.6	19.6	20.9	23.6	26.0
Amortization of acquired intangible assets	1.4	1.8	1.1	1.0	0.8	0.8	0.6	0.5	0.8
Non-GAAP sales and marketing expense	\$136.0	\$143.2	\$150.3	\$145.6	\$152.0	\$171.5	\$163.8	\$168.7	\$171.5
<i>Non-GAAP sales and marketing expense as a percentage of revenue</i>	42.9%	39.5%	44.1%	40.1%	40.6%	41.2%	41.1%	38.2%	37.8%

# GAAP to Non-GAAP Reconciliations (Continued)

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
GAAP general and administrative expense	\$22.0	\$17.4	\$22.6	\$21.9	\$21.0	\$22.3	\$25.0	\$23.5	\$22.5
Stock-based compensation	3.5	3.6	3.8	4.2	4.0	4.0	4.3	4.7	4.8
Amortization of acquired intangible assets	—	—	—	—	—	—	—	—	—
litigation settlement expense	—	—	1.5	—	—	—	—	—	—
ERP-related expenses	4.1	—	—	—	—	—	—	—	—
Non-GAAP general and administrative expense	\$14.4	\$13.8	\$17.3	\$17.7	\$17.0	\$18.3	\$20.7	\$18.8	\$17.7
<i>Non-GAAP general and administrative expense as a percentage of revenue</i>	<i>4.6%</i>	<i>3.8%</i>	<i>5.1%</i>	<i>4.9%</i>	<i>4.5%</i>	<i>4.4%</i>	<i>5.2%</i>	<i>4.3%</i>	<i>3.9%</i>
GAAP total operating expense	\$226.3	\$226.7	\$244.6	\$239.3	\$246.9	\$269.0	\$269.4	\$277.5	\$279.5
Stock-based compensation	28.5	29.4	30.7	32.2	31.6	31.7	33.6	37.5	40.1
Amortization of acquired intangible assets	1.4	1.8	1.1	1.0	0.8	0.8	0.6	0.5	0.8
Restructuring charges	2.3	0.8	0.4	(0.1)	—	—	—	—	—
litigation settlement expense	—	—	1.5	—	—	—	—	—	—
ERP-related expenses	4.1	—	—	—	—	—	—	—	—
Non-GAAP total operating expense	\$190.0	\$194.7	\$210.9	\$206.2	\$214.5	\$236.5	\$235.2	\$239.5	\$238.6
<i>Non-GAAP total operating expense as a percentage of revenue</i>	<i>60.0%</i>	<i>53.6%</i>	<i>61.9%</i>	<i>56.7%</i>	<i>57.3%</i>	<i>56.8%</i>	<i>58.9%</i>	<i>54.3%</i>	<i>52.6%</i>
GAAP operating income	\$5.5	\$45.2	\$5.4	\$28.5	\$33.7	\$42.2	\$32.4	\$50.7	\$62.8
Stock-based compensation	31.0	32.0	33.3	35.1	34.3	34.4	36.5	40.6	43.2
Amortization of acquired intangible assets	2.8	3.1	2.4	2.2	2.0	2.1	1.8	1.8	2.5
Restructuring charges	2.3	0.8	0.4	(0.1)	—	—	—	—	—
litigation settlement expense	—	—	1.5	—	—	—	—	—	—
ERP-related expenses	4.1	—	—	—	—	—	—	—	—
Inventory fair value adjustment amortization	0.2	—	—	—	—	—	—	—	—
Non-GAAP operating income	\$45.9	\$81.1	\$43.0	\$65.7	\$70.0	\$78.7	\$70.7	\$93.1	\$108.5
<i>Non-GAAP operating margin</i>	<i>14.5%</i>	<i>22.4%</i>	<i>12.6%</i>	<i>18.1%</i>	<i>18.7%</i>	<i>18.9%</i>	<i>17.7%</i>	<i>21.1%</i>	<i>23.9%</i>

# GAAP to Non-GAAP Reconciliations (Continued)

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
GAAP other income (expense), net	\$(0.8)	\$(3.7)	\$0.3	\$1.2	\$0.3	\$(1.2)	\$(0.2)	\$(5.0)	\$0.9
Gain on sale of investment in a privately-held company	—	—	—	—	—	—	—	—	(2.2)
Non-GAAP other income (expense), net	\$(0.8)	\$(3.7)	\$0.3	\$1.2	\$0.3	\$(1.2)	\$(0.2)	\$(5.0)	\$(1.3)
<i>Non-GAAP other income (expense), net as a percentage of revenue</i>	<i>(0.3)%</i>	<i>(1.0)%</i>	<i>0.1%</i>	<i>0.3%</i>	<i>0.1%</i>	<i>(0.3)%</i>	<i>(0.1)%</i>	<i>(1.1)%</i>	<i>(0.3)%</i>
GAAP income before income taxes	\$6.6	\$43.5	\$8.1	\$32.9	\$37.9	\$45.0	\$36.7	\$51.5	\$70.6
Stock-based compensation	31.0	32.0	33.3	35.1	34.3	34.4	36.5	40.6	43.2
Amortization of acquired intangible assets	2.8	3.1	2.4	2.2	2.0	2.1	1.8	1.8	2.5
Restructuring charges	2.3	0.8	0.4	(0.1)	—	—	—	—	—
litigation settlement expense	—	—	1.5	—	—	—	—	—	—
ERP-related expenses	4.1	—	—	—	—	—	—	—	—
Inventory fair value adjustment amortization	0.2	—	—	—	—	—	—	—	—
Gain on sale of investment in a privately-held company	—	—	—	—	—	—	—	—	(2.2)
Non-GAAP income before income taxes	\$47.0	\$79.4	\$45.7	\$70.1	\$74.2	\$81.5	\$75.0	\$93.9	\$114.1
GAAP provision for (benefit from) income taxes	\$0.3	\$18.3	\$(2.6)	\$9.9	\$11.3	\$74.0	\$(4.9)	\$2.2	\$11.9
Tax adjustments related to the above	14.5	7.9	17.3	12.5	12.4	(48.0)	22.9	20.3	15.5
Non-GAAP provision for income taxes	\$14.8	\$26.2	\$14.7	\$22.4	\$23.7	\$26.0	\$18.0	\$22.5	\$27.4
<i>Non-GAAP effective tax rate</i>	<i>33%</i>	<i>33%</i>	<i>32%</i>	<i>32%</i>	<i>32%</i>	<i>32%</i>	<i>32%</i>	<i>24%</i>	<i>24%</i>

# GAAP to Non-GAAP Reconciliations (Continued)

	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
GAAP net income (loss)	\$6.3	\$25.2	\$10.7	\$23.0	\$26.6	\$(29.0)	\$41.6	\$49.3	\$58.7
Stock-based compensation	31.0	32.0	33.3	35.1	34.3	34.4	36.5	40.6	43.2
Amortization of acquired intangible assets	2.8	3.1	2.4	2.2	2.0	2.1	1.8	1.8	2.5
Restructuring charges	2.3	0.8	0.4	(0.1)	—	—	—	—	—
litigation settlement expense	—	—	1.5	—	—	—	—	—	—
ERP-related expenses	4.1	—	—	—	—	—	—	—	—
Inventory fair value adjustment amortization	0.2	—	—	—	—	—	—	—	—
Gain on sale of investment in a privately-held company	—	—	—	—	—	—	—	—	(2.2)
Tax adjustments	(14.5)	(7.9)	(17.3)	(12.5)	(12.4)	48.0	(22.9)	(20.3)	(15.5)
Non-GAAP net income	\$32.2	\$53.2	\$31.0	\$47.7	\$50.5	\$55.5	\$57.0	\$71.4	\$86.7
GAAP net income (loss) per share, diluted	\$0.04	\$0.14	\$0.06	\$0.13	\$0.15	\$(0.17)	\$0.24	\$0.28	\$0.33
Stock-based compensation	0.17	0.18	0.19	0.20	0.19	0.20	0.21	0.24	0.25
Amortization of acquired intangible assets	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Restructuring charges	0.01	—	—	—	—	—	—	—	—
litigation settlement expense	—	—	0.01	—	—	—	—	—	—
ERP-related expenses	0.02	—	—	—	—	—	—	—	—
Inventory fair value adjustment amortization	—	—	—	—	—	—	—	—	—
Gain on sale of investment in a privately-held company	—	—	—	—	—	—	—	—	(0.01)
Tax adjustments	(0.08)	(0.04)	(0.10)	(0.07)	(0.07)	0.28	(0.13)	(0.12)	(0.09)
Non-GAAP net income per share, diluted	\$0.18	\$0.30	\$0.17	\$0.27	\$0.28	\$0.32	\$0.33	\$0.41	\$0.49
Shares used in diluted net income (loss) per share calculations - GAAP	177.9	176.7	178.3	179.7	179.0	171.5	171.8	173.5	175.7
Adjustment for diluted weighted-average shares outstanding	—	—	—	—	—	3.9	—	—	—
Shares used in diluted net income per share calculations - Non-GAAP	177.9	176.7	178.3	179.7	179.0	175.4	171.8	173.5	175.7

# Impact of ASC 606 on Non-GAAP Operating Results

(Unaudited, in millions, except per share and % amounts)	Non-GAAP Q3'18	ASC 606 Impact	Non-GAAP Balances Without Adoption of ASC 606
Revenue:			
Product (*)	\$164.5	\$(2.2)	\$162.3
Service	289.4	0.2	289.6
Total revenue	453.9	(2.0)	451.9
Cost of revenue:			
Product	70.0	0.3	70.3
Service	36.8		36.8
Total cost of revenue	106.8	0.3	107.1
Gross profit:			
Product	94.5	(2.5)	92.0
Service	252.6	0.2	252.8
Total gross profit	347.1	(2.3)	344.8
<i>Gross margin</i>	76.5%		76.3%
Operating expenses:			
Research and development	49.4		49.4
Sales and marketing	171.5	9.0	180.5
General and administrative	17.7		17.7
Total operating expenses	238.6	9.0	247.6
Operating income	108.5	(11.3)	97.2
<i>Operating margin</i>	23.9%		21.5%
Interest and other income (expense)—net	5.6		5.6
Provision for (Benefit from) income taxes	27.4	(2.1)	25.3
Net income	\$86.7	\$(9.2)	\$77.5
Diluted net income per share	\$0.49	\$(0.05)	\$0.44
Shares used in computing net income per share			
Diluted	175.7		175.7

(\*) Product revenue includes software license revenue.

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