



Q2 2012 Financial Results

July 25, 2012



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Q2 2012 Non-GAAP Results

	Q2 12	Q2 11	Y/Y % Growth	Q1 12
Billings ⁽¹⁾	\$146M	\$110M	32%	\$137M
Revenue	\$129M	\$103M	25%	\$117M
Gross Margin (%) ⁽²⁾	72%	75%	-3%	74%
Operating Income ⁽²⁾	\$28M	\$22M	28%	\$25M
Operating Margin (%) ⁽²⁾	22%	22%	--	22%
Net Income ^{(2) (3)}	\$20M	\$15M	28%	\$17M
Earnings per Share ^{(2) (3)}	\$0.12	\$0.09	33%	\$0.11
Weighted Diluted Shares used in EPS	166M	164M	1%	166M
Deferred Revenue	\$331M	\$273M	21%	\$315M
Free Cash Flow ⁽⁴⁾	\$41M	\$33M	24%	\$47M

Notes

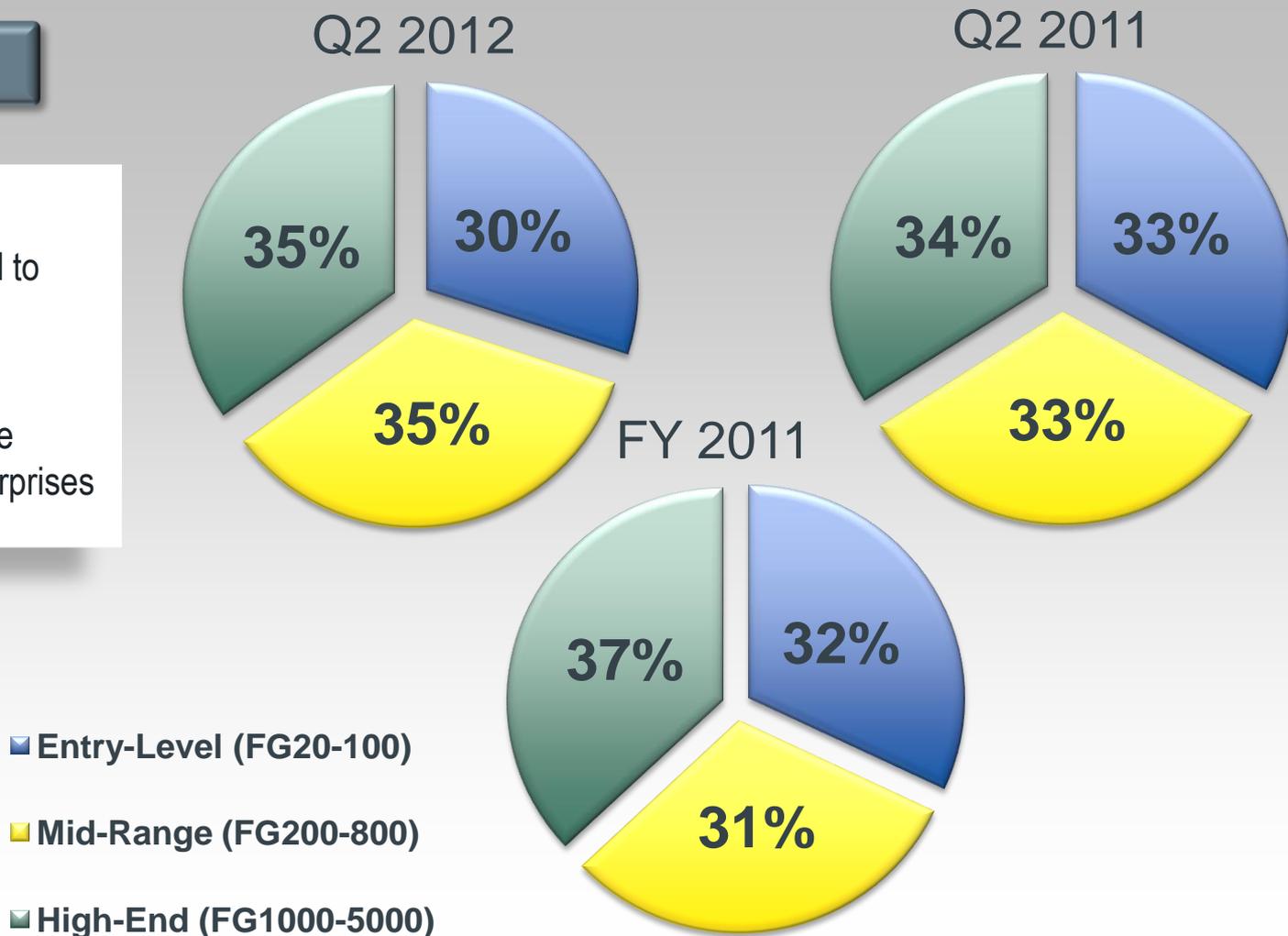
- (1) Billings is a non-GAAP measure that we define as revenue recognized for the particular period plus the change in deferred revenue from the beginning of that period to the end of that period
- (2) Does not include stock based compensation or acquisition-related write-offs
- (3) Assumes effective tax rate of 34% for Q2 2012, 33% for Q2 2011 and 34% for Q1 2012 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



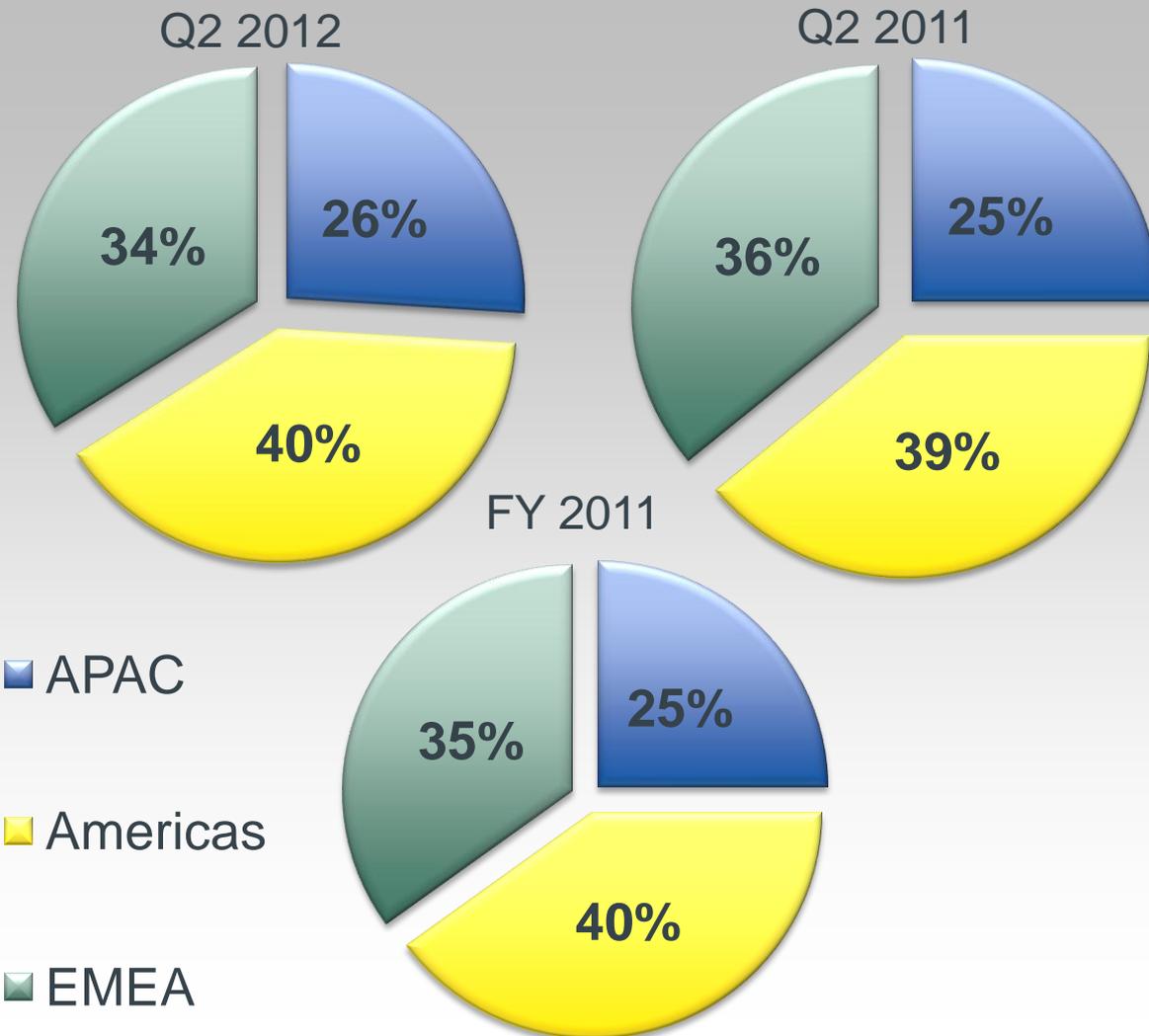
Note

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

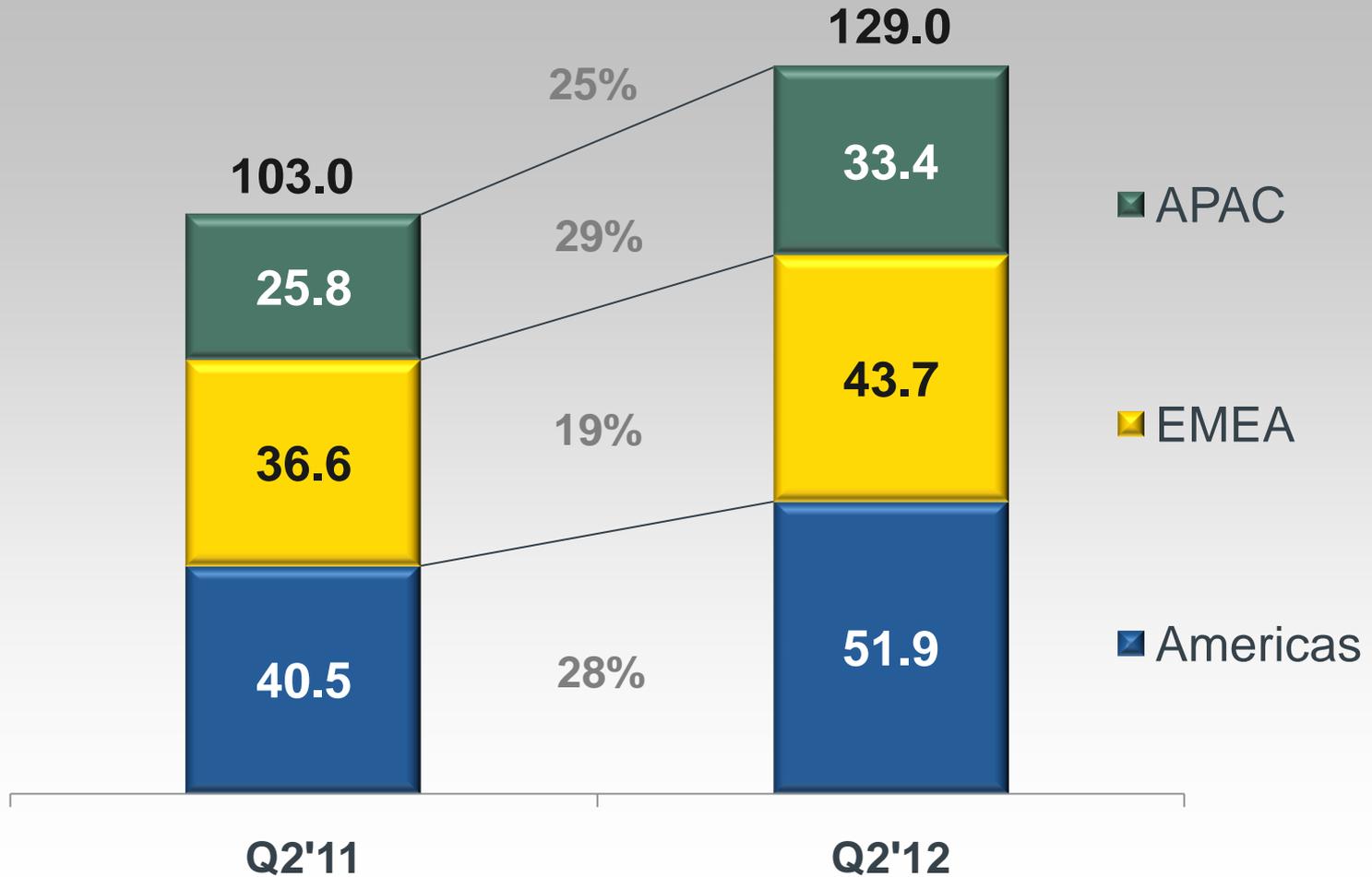
Diversified Global Revenue

Revenue by Geography

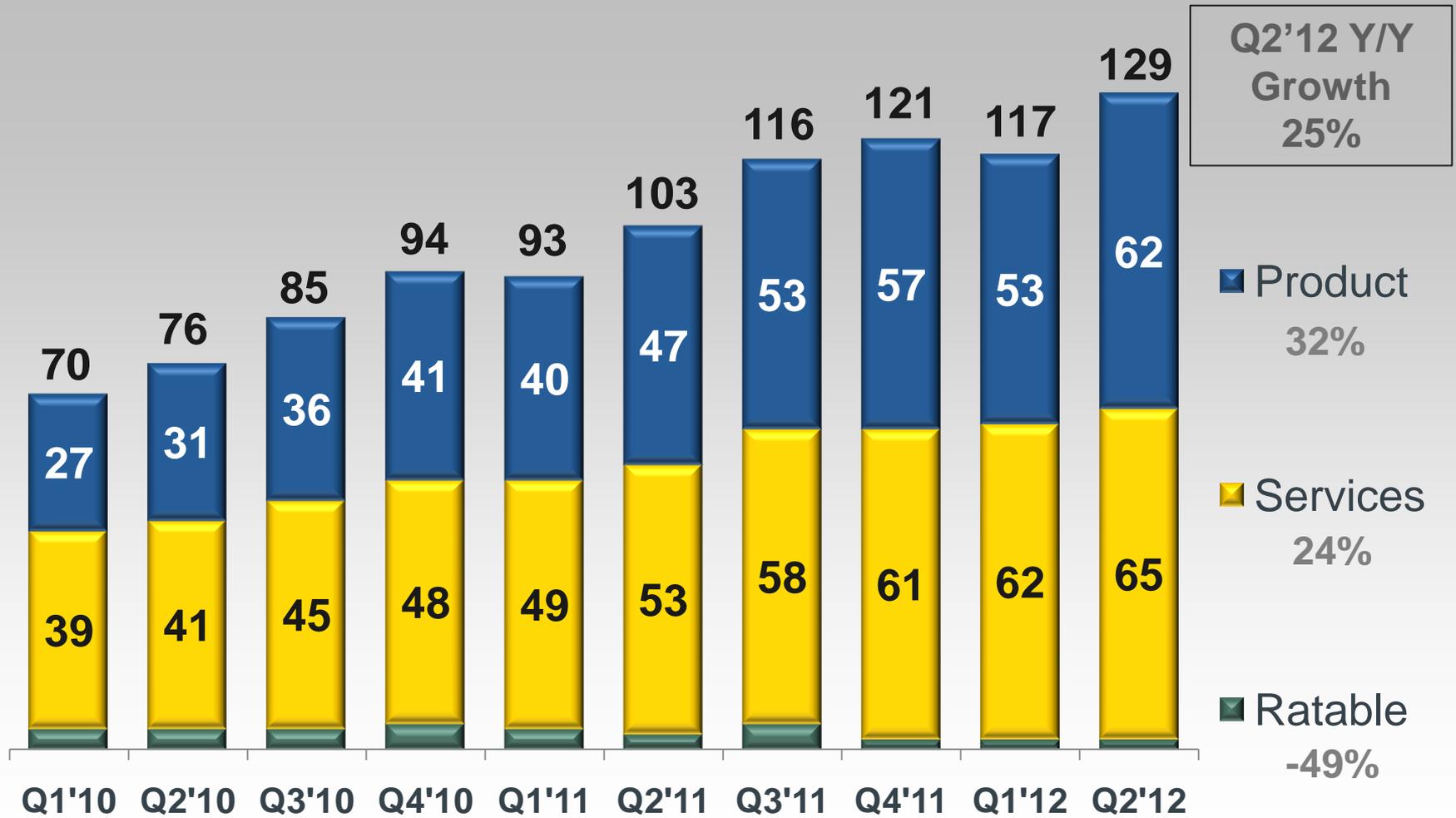
- Globally-diverse revenue stream
- Investing for growth globally



Revenue Growth by Geography

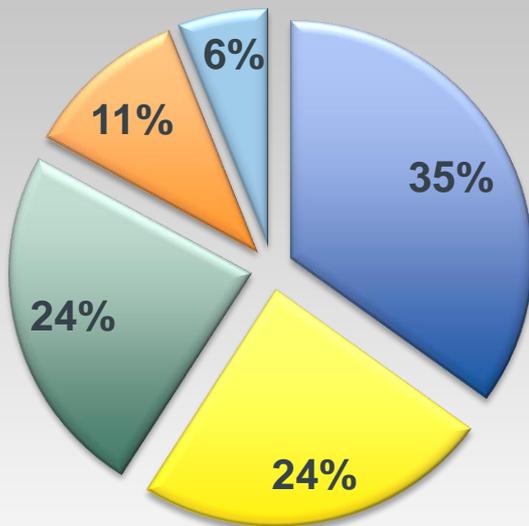


Quarterly Revenue Mix & Q2'12 Y/Y Growth



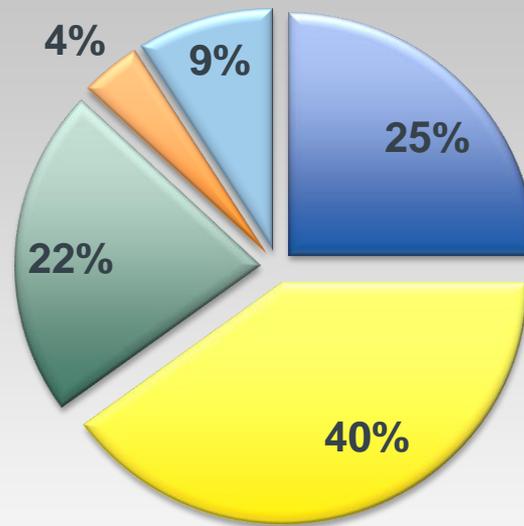
Global Employee Footprint

Location



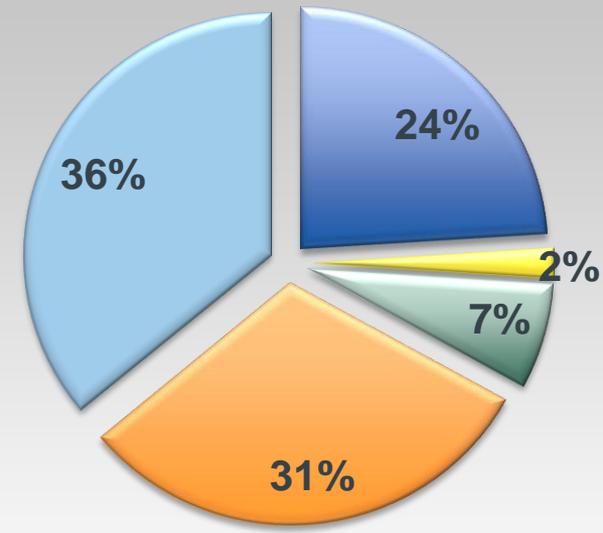
- Canada
- USA
- RoW
- China
- France

Cost



- Canada
- USA
- RoW
- China
- France

Function

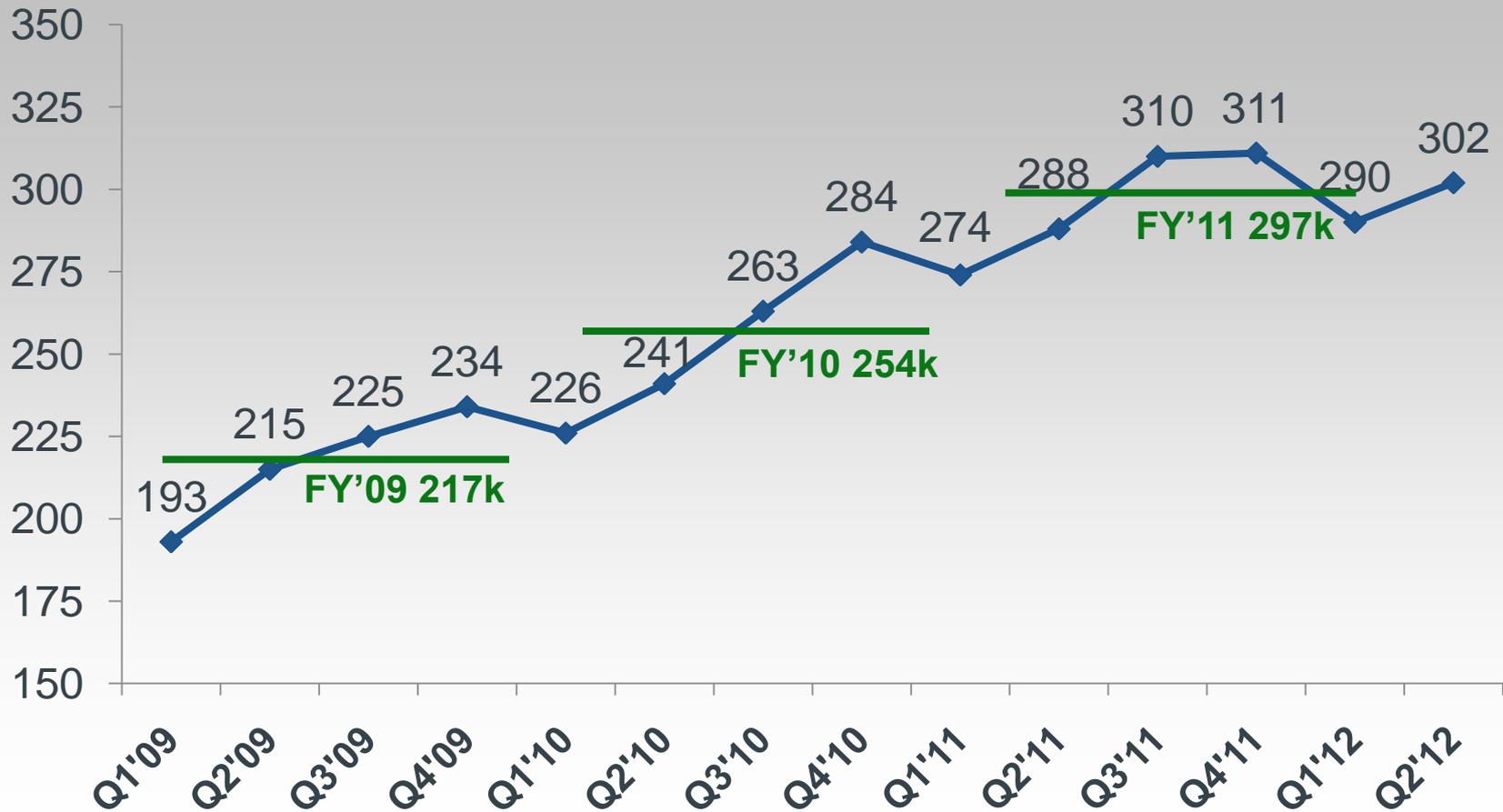


- Service & Support
- Operations
- G&A
- R&D
- Sales & Marketing

Q2'12 Headcount: 1,762

Revenue per Employee

(\$ in Thousands, Annualized)



Q2 2012 Select Financial Statistics

	Q2 12	Q1 12	Q2 11
Cash and Investments	\$644M	\$600M	\$468M
Deferred Revenue	\$331M	\$315M	\$273M
Free Cash Flow	\$41M	\$47M	\$33M
Working Capital	\$245M	\$281M	\$208M
Accounts Receivable	\$95M	\$85M	\$72M
DSO	67	65	63
Net Inventory	\$21M	\$18M	\$14M
Inventory Turns	4.1	3.9	4.0
Revenue per Employee (Annualized)	\$302K	\$290K	\$288K
No. of Deals >\$100K	168	153	127
No. of Deals >\$250K	55	47	37
No. of Deals >\$500K	19	19	11

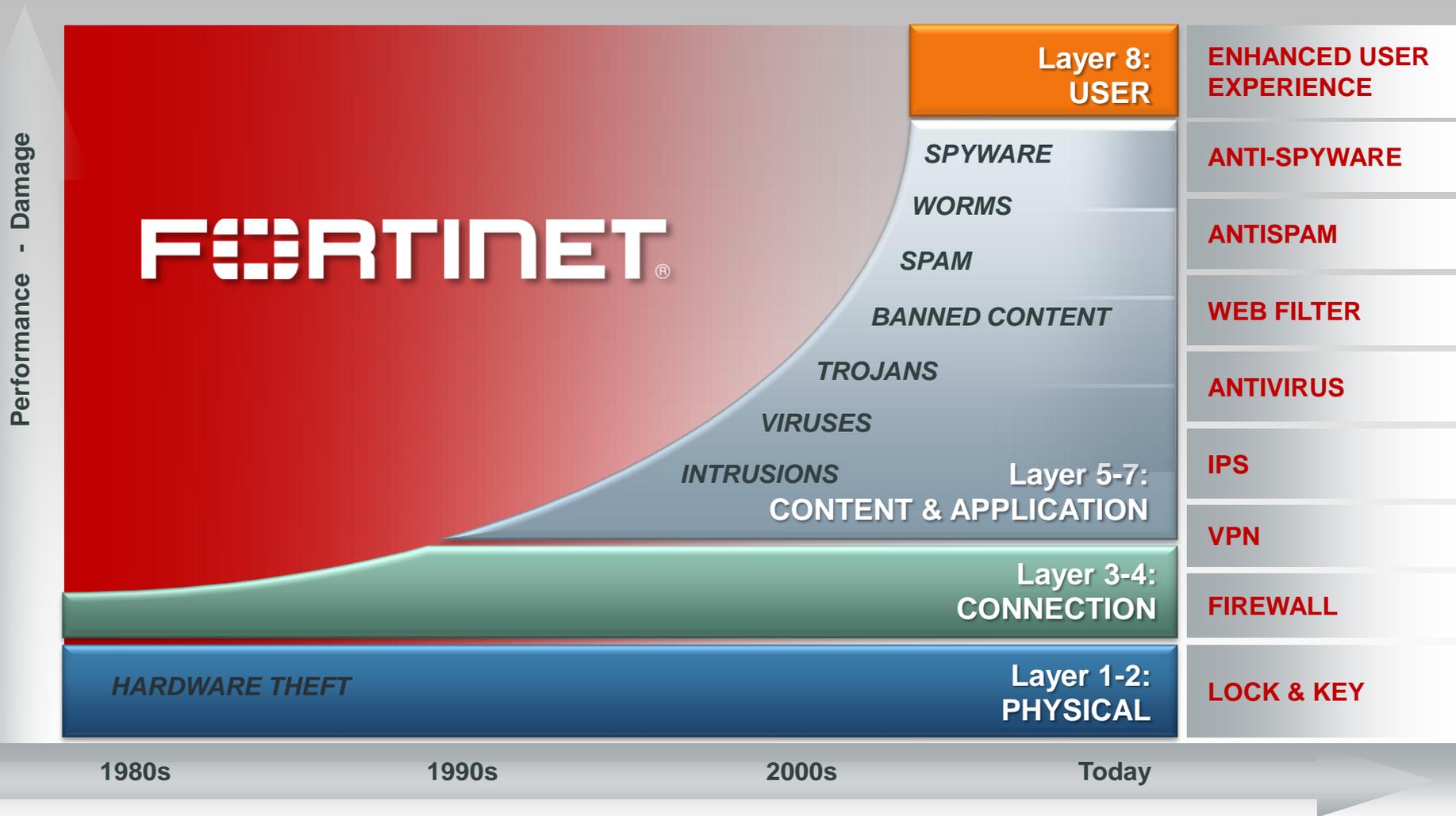
Maintaining Strong Balance Sheet

<i>(\$ in Millions)</i>	Q2 12	Q1 12	Q2 11
Assets			
Cash and Investments	644	600	468
Accounts Receivable	95	85	72
Inventory	21	18	14
Property and Equipment	10	10	7
Deferred Tax Assets	53	53	51
Other Assets	24	22	23
Total Assets	847	788	635
Liabilities and Shareholders' Equity			
Accounts Payable	24	14	13
Accrued Expenses	65	61	61
Deferred Revenue	331	315	273
Common Stock/Paid in Capital	354	338	275
Retained Earnings	73	60	13
Total Liabilities and Shareholders' Equity	847	788	635

Statement of Cash Flows (Non-GAAP)

<i>(\$ in Millions)</i>	Q2 12	Q2 11	1H 12	1H 11
GAAP Net Income	14	14	28	28
Depreciation and Stock-Based Compensation	11	6	20	10
Amortization of Investment Premium	3	3	6	6
Excess Tax Benefit	(3)	(3)	(5)	(4)
Accounts Receivable	(11)	(1)	-	-
Inventory	(5)	(2)	(8)	(1)
Accounts Payable / Accrued Expenses / Other	18	10	14	14
Deferred Revenue	17	7	37	21
GAAP Cash Flow from Operations	44	34	92	74
Purchase of Property and Equipment	(3)	(1)	(4)	(1)
Removal of Patent Settlement	-	-	-	(3)
Free Cash Flow	41	33	88	70
Stock Option Exercises and ESPP	4	4	18	11
Acquisition	-	(3)	(1)	(3)
Effect of F/X Rate on Cash / Patent / Other	(1)	2	1	3
Net Cash Flow	44	36	106	81

Security Evolution: Comprehensive & Integrated



Q3 and 2012 Guidance

	Q3 12	Y/Y % Mid-Pt Growth	2012	Y/Y % Mid-Pt Growth
Billings ⁽¹⁾	\$143 - 147M	23%	\$590 - 600M	25%
Revenue	\$134 - 137M	16%	\$520 - 530M	22%
Gross Margin (%) ⁽²⁾	72 - 73%		72 - 73%	
Operating Margin (%) ⁽²⁾	~24%		~24%	
Earnings per Share ^{(2) (3)}	\$0.14		\$0.51 - 0.53	
Weighted Diluted Shares used in EPS	167 - 169M		166 - 169M	
Cash Flow from Operations	\$40 - 42M		\$173 - 178M	
Free Cash Flow ⁽⁴⁾ (excludes \$14M purchase of land/bldg in Q3)	\$38 - 40M		\$165 - 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 34% for Q3 and 2012 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 settlements.

GAAP to Non-GAAP – Operating Results

(Q2'12 vs. Q2'11 vs. Q1'12)

(in thousands, except per share amounts)			GAAP			Non-GAAP			GAAP			Non-GAAP		
	Q2'12	Adj	Q2'12	Q2'11	Adj	Q2'11	Q1'12	Adj	Q1'12	Q1'12	Adj	Q1'12		
Revenue:														
Product	\$ 61,692	\$ -	\$ 61,692	\$ 46,687	\$ -	\$ 46,687	\$ 53,204	\$ -	\$ 53,204					
Services	65,412	-	65,412	52,671	-	52,671	62,138	-	62,138					
Ratable and other revenue	1,858	-	1,858	3,665	-	3,665	1,905	-	1,905					
Total Revenue	128,962	-	128,962	103,023	-	103,023	117,247	-	117,247					
Cost of revenue:														
Product	23,935	(88)	23,847	16,591	(43)	16,548	19,067	(64)	19,003					
Services	12,467	(941)	11,526	8,596	(362)	8,234	11,213	(745)	10,468					
Ratable and other revenue	725	-	725	1,371	-	1,371	763	-	763					
Total cost of revenue	37,127	(1,029)	36,098	26,558	(405)	26,153	31,043	(809)	30,234					
Gross Profit:														
Product	37,757	88	37,845	30,096	43	30,139	34,137	64	34,201					
Services	52,945	941	53,886	44,075	362	44,437	50,925	745	51,670					
Ratable and other revenue	1,133	-	1,133	2,294	-	2,294	1,142	-	1,142					
Total gross profit	91,835	1,029	92,864	76,465	405	76,870	86,204	809	87,013					
Operating Expenses:														
Research and development	20,388	(2,292)	18,096	15,942	(985)	14,957	19,667	(1,957)	17,710					
Sales and marketing	44,259	(3,475)	40,784	35,896	(1,681)	34,215	42,036	(3,443)	38,593					
General and administrative	6,238	(578)	5,660	5,848	(321)	5,527	5,786	(559)	5,227					
Total operating expenses	70,885	(6,345)	64,540	57,686	(2,987)	54,699	67,489	(5,959)	61,530					
Operating income	20,950	7,374	28,324	18,779	3,392	22,171	18,715	6,768	25,483					
Interest income	1,203	-	1,203	863	-	863	1,085	-	1,085					
Other income (expense), net	73	-	73	(207)	-	(207)	(71)	-	(71)					
Net income before income taxes	22,226	7,374	29,600	19,435	3,392	22,827	19,729	6,768	26,497					
Provision for income taxes	8,276	1,788	10,064	4,941	2,592	7,533	5,556	3,453	9,009					
Net income	\$ 13,950	\$ 5,586	\$ 19,536	\$ 14,494	\$ 800	\$ 15,294	\$ 14,173	\$ 3,315	\$ 17,488					
Net income per share - Basic	\$ 0.09		\$ 0.12	\$ 0.10		\$ 0.10	\$ 0.09		\$ 0.11					
Net income per share - Diluted	\$ 0.08		\$ 0.12	\$ 0.09		\$ 0.09	\$ 0.09		\$ 0.11					
Shares used in computing net income per share														
Basic	157,474		157,474	152,267		152,267	156,010		156,010					
Diluted	166,061		166,061	163,887		163,887	165,751		165,751					

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

(Q2'12 vs. Q2'11 vs. Q1'12)

% of revenue	Q2'12			Q2'11			Q1'12		
	GAAP	Adj	Non-GAAP	GAAP	Adj	Non-GAAP	GAAP	Adj	Non-GAAP
Revenue:									
Product	48%	-	48%	45%	-	45%	45%	-	45%
Services	51%	-	51%	51%	-	51%	53%	-	53%
Ratable and other revenue	1%	-	1%	4%	-	4%	2%	-	2%
Total Revenue	100%	-	100%	100%	-	100%	100%	-	100%
Cost of revenue:									
Product	19%	(1%)	18%	16%	-	16%	16%	-	16%
Services	9%	-	9%	9%	(1%)	8%	9%	-	9%
Ratable and other revenue	1%	-	1%	1%	-	1%	1%	-	1%
Total cost of revenue	29%	(1%)	28%	26%	(1%)	25%	26%	-	26%
Gross Profit:									
Product	61%	-	61%	64%	1%	65%	64%	-	64%
Services	81%	1%	82%	84%	-	84%	82%	1%	83%
Ratable and other revenue	61%	-	61%	63%	-	63%	60%	-	60%
Total gross profit	71%	1%	72%	74%	1%	75%	74%	-	74%
Operating Expenses:									
Research and development	16%	(2%)	14%	15%	-	15%	17%	(2%)	15%
Sales and marketing	34%	(2%)	32%	35%	(2%)	33%	36%	(3%)	33%
General and administrative	5%	(1%)	4%	6%	(1%)	5%	5%	(1%)	4%
Total operating expenses	55%	(5%)	50%	56%	(3%)	53%	58%	(6%)	52%
Operating income	16%	6%	22%	18%	4%	22%	16%	6%	22%
Interest income	1%	-	1%	1%	-	1%	1%	-	1%
Net income before income taxes	17%	6%	23%	19%	4%	23%	17%	6%	23%
Provision for income taxes	6%	2%	8%	5%	2%	7%	5%	3%	8%
Net income	11%	4%	15%	14%	2%	16%	12%	3%	15%