



Q2 2019 Financial Results

August 1, 2019

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Q2 2019 Non-GAAP Results

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Billings ⁽¹⁾	\$427M	\$432M	\$534M	\$463M	\$513M	\$528M	\$649M	\$552M	\$622M
<i>Y/Y % Change</i>	<i>14%</i>	<i>24%</i>	<i>15%</i>	<i>15%</i>	<i>20%</i>	<i>22%</i>	<i>22%</i>	<i>19%</i>	<i>21%</i>
Revenue	\$363M	\$374M	\$417M	\$399M	\$441M	\$454M	\$507M	\$473M	\$522M
<i>Y/Y % Change</i>	<i>17%</i>	<i>18%</i>	<i>15%</i>	<i>17%</i>	<i>21%</i>	<i>21%</i>	<i>22%</i>	<i>18%</i>	<i>18%</i>
Product Revenue	\$143M	\$137M	\$162M	\$143M	\$166M	\$165M	\$201M	\$163M	\$190M
<i>Y/Y % Change</i>	<i>4%</i>	<i>7%</i>	<i>2%</i>	<i>6%</i>	<i>17%</i>	<i>20%</i>	<i>24%</i>	<i>14%</i>	<i>14%</i>
Service Revenue	\$221M	\$237M	\$255M	\$256M	\$275M	\$289M	\$306M	\$310M	\$332M
<i>Y/Y % Change</i>	<i>26%</i>	<i>26%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>	<i>22%</i>	<i>20%</i>	<i>21%</i>	<i>21%</i>

Notes

- (1) Billings is a non-GAAP measure that we define as revenue recognized in accordance with GAAP plus the change in deferred revenue from the beginning to the end of the period and adjustments 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.

Q2 2019 Non-GAAP Results (Continued)

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Gross Margin ⁽¹⁾	74.8%	76.0%	75.6%	76.7%	75.4%	76.5%	75.7%	77.2%	76.4%
Operating Income ⁽¹⁾	\$66M	\$70M	\$79M	\$71M	\$93M	\$109M	\$131M	\$97M	\$123M
Operating Margin ⁽¹⁾	18.1%	18.7%	18.9%	17.7%	21.1%	23.9%	25.8%	20.4%	23.6%
Net Income ⁽¹⁾⁽²⁾⁽³⁾	\$48M	\$50M	\$55M	\$57M	\$71M	\$87M	\$105M	\$81M	\$102M
Diluted Net Income Per Share ⁽¹⁾⁽²⁾⁽³⁾	\$0.27	\$0.28	\$0.32	\$0.33	\$0.41	\$0.49	\$0.59	\$0.46	\$0.58
Weighted Diluted Shares Outstanding	180M	179M	175M	172M	174M	176M	176M	175M	175M
Deferred Revenue	\$1.16B	\$1.22B	\$1.34B	\$1.40B	\$1.47B	\$1.54B	\$1.69B	\$1.77B	\$1.87B
Cash and Investments ⁽⁴⁾	\$1.46B	\$1.52B	\$1.35B	\$1.39B	\$1.50B	\$1.67B	\$1.72B	\$1.85B	\$1.98B
Days Sales Outstanding	68	62	75	71	68	64	79	73	70
Inventory Turns	2.2	2.6	3.2	2.4	3.3	3.0	3.4	2.6	3.5
Headcount	4,792	4,903	5,066	5,275	5,462	5,639	5,845	6,015	6,293

Notes

- (1) Excludes stock-based compensation, amortization of acquired intangible assets and restructuring charges, if applicable.
- (2) Excludes the gain on sale of investment in a privately-held company.
- (3) Assumes annual effective tax rate of 32%, 24% and 24% for 2017, 2018 and 2019, respectively.
- (4) Excludes investments in privately-held companies, which are recorded in other assets.

Revenue by Geography

	Q2'17		Q3'17		Q4'17		Q1'18		Q2'18		Q3'18		Q4'18		Q1'19		Q2'19	
(\$ in millions)	\$	Y/Y % Change																
Americas	\$160	21%	\$161	20%	\$174	16%	\$176	20%	\$189	18%	\$194	20%	\$204	17%	\$201	14%	\$226	19%
EMEA	\$130	13%	\$138	18%	\$161	14%	\$144	15%	\$164	27%	\$165	20%	\$205	27%	\$177	23%	\$192	17%
APAC	\$73	14%	\$75	14%	\$82	14%	\$79	16%	\$88	20%	\$95	27%	\$98	20%	\$95	21%	\$104	19%
Total	\$363	17%	\$374	18%	\$417	15%	\$399	17%	\$441	21%	\$454	21%	\$507	22%	\$473	18%	\$522	18%

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
	% of revenue								
Americas	44%	43%	42%	44%	43%	43%	40%	42%	43%
EMEA	36%	37%	38%	36%	37%	36%	40%	38%	37%
APAC	20%	20%	20%	20%	20%	21%	20%	20%	20%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Number of Deals & FortiGate Sales

Number of Deals ⁽¹⁾	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
No. of Deals >\$50K	1,412	1,381	1,883	1,446	1,669	1,710	2,154	1,683	1,906
No. of Deals >\$250K	193	208	313	233	261	264	363	266	346
No. of Deals >\$500K	75	87	120	80	113	103	129	108	147
No. of Deals >\$1M	30	32	40	34	36	30	47	35	46

% of FortiGate ⁽²⁾ (New Classification) ⁽³⁾	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Entry - Level (FG20-90)	21%	18%	20%	24%	23%	20%	21%	24%	21%
Mid - Range (FG100-900)	40%	41%	39%	43%	42%	44%	42%	44%	46%
High - End (FG1000-7000)	39%	41%	41%	33%	35%	36%	37%	32%	33%

% of FortiGate ⁽²⁾ (Old Classification) ⁽³⁾	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
Entry - Level (FG20-100)	32%	30%	30%	36%	34%	31%	31%	34%	34%
Mid - Range (FG200-900)	29%	29%	29%	31%	31%	33%	32%	34%	33%
High - End (FG1000-7000)	39%	41%	41%	33%	35%	36%	37%	32%	33%

Notes

- (1) Deals are defined as combined sales in the period to a customer account.
- (2) Represents the percentage of invoiced amounts from FortiGate sales during the period by range of product and product bundles. Given the high performance level associated with the recently released FortiGate 100F, we believe it is better aligned with other *Mid-Range* products.
- (3) In Q2'19, the Company reclassified FortiGate sales of the FG100 series from the *Entry-Level* category to the *Mid-Range* category. Prior periods have been reclassified to conform with current period presentation.

Statement of Cash Flows (Non-GAAP)

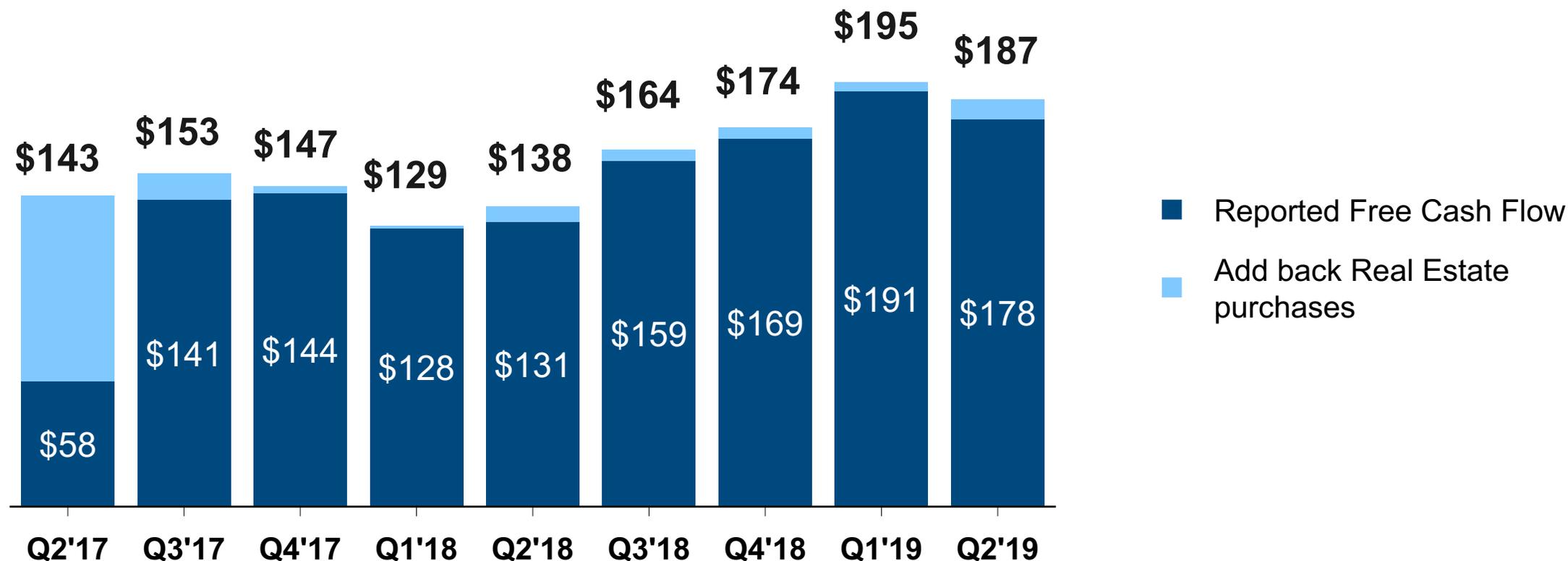
(\$ in millions)	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
GAAP Net Income (Loss)	\$23	\$27	\$(29)	\$42	\$49	\$59	\$183	\$59	\$73
Depreciation and Stock-Based Compensation	49	48	49	50	54	57	57	59	60
Accounts Receivable	(5)	14	(90)	49	(20)	9	(120)	64	(22)
Inventory	13	8	(8)	(7)	(4)	(8)	(14)	(3)	(3)
Deferred Revenue	64	59	116	64	72	74	142	79	101
Other	1	6	120	(58)	(9)	(14)	(67)	(57)	(14)
GAAP Cash Flow from Operations	\$145	\$162	\$158	\$140	\$142	\$177	\$181	\$201	\$195
Purchase of Property and Equipment	(87)	(21)	(14)	(12)	(11)	(18)	(12)	(10)	(17)
Free Cash Flow	\$58	\$141	\$144	\$128	\$131	\$159	\$169	\$191	\$178
Stock Option and RSU Exercises / ESPP	—	10	5	26	(2)	9	(14)	3	(20)
Stock Repurchases	(33)	(91)	(322)	(116)	(1)	—	(95)	(60)	(34)
Acquisition	—	—	—	—	(6)	—	(16)	—	—
Other	(1)	(1)	(1)	(1)	(9)	6	—	1	4
Change in Cash and Investments⁽¹⁾	\$24	\$59	\$(174)	\$37	\$113	\$174	\$44	\$135	\$128
Footnote: Cash Paid for Taxes, Net of Refunds	\$9	\$7	\$7	\$6	\$12	\$13	\$11	\$11	\$17

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 purchases of property and equipment.
- Adjusted Free Cash Flow is a non-GAAP measure that we define as Free Cash Flow plus real estate purchases and cash payments related to the new Sunnyvale campus building.

Q3 and 2019 Guidance⁽¹⁾ (Non-GAAP)

	Actual Q3 18	Q3 19	Actual 2018	2019
Billings ⁽²⁾	\$528M	\$600 - 615M	\$2.15B	\$2.51 - 2.54B
<i>Y/Y Mid-Pt Growth</i>		15%		17%
Revenue (GAAP)	\$454M	\$525 - 540M	\$1.80B	\$2.10 - 2.12B
<i>Y/Y Mid-Pt Growth</i>		17%		17%
Service Revenue (GAAP)			\$1.13B	\$1.34 - 1.36B
<i>Y/Y Mid-Pt Growth</i>				20%
Gross Margin (%) ⁽³⁾	76.5%	75.5 - 76.5%	76.0%	75.5 - 76.5%
Operating Margin (%) ⁽³⁾	23.9%	23.0 - 23.5%	22.4%	23.0 - 23.5%
Net Income per Share ^{(3) (4) (5)}	\$0.49	\$0.55 - 0.57	\$1.84	\$2.23 - 2.26
Weighted Diluted Shares Outstanding	176M	177 - 179M	174M	177 - 179M

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 in accordance with GAAP plus the change in deferred revenue from the beginning to the end of the period and adjustments 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) Excludes stock-based compensation and amortization of acquired intangible assets.
- (4) Excludes the gain on sale of investment in a privately-held company.
- (5) Assumes an effective tax rate of 24% for 2018 and 2019. For 2019, we expect cash taxes to be between \$52.0 million and \$54.0 million.

GAAP to Non-GAAP Reconciliations

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
GAAP product gross profit	\$81.9	\$79.0	\$92.4	\$84.6	\$92.4	\$92.5	\$113.9	\$92.5	\$107.2
Stock-based compensation	0.4	0.3	0.3	0.4	0.4	0.3	0.4	0.4	0.4
Amortization of acquired intangible assets	1.0	1.0	1.2	1.1	1.2	1.7	2.0	2.1	1.7
Non-GAAP product gross profit	<u>\$83.3</u>	<u>\$80.3</u>	<u>\$93.9</u>	<u>\$86.1</u>	<u>\$94.0</u>	<u>\$94.5</u>	<u>\$116.3</u>	<u>\$95.0</u>	<u>\$109.3</u>
<i>Non-GAAP product gross margin</i>	<u>58.4%</u>	<u>58.6%</u>	<u>58.0%</u>	<u>60.3%</u>	<u>56.5%</u>	<u>57.4%</u>	<u>57.9%</u>	<u>58.4%</u>	<u>57.6%</u>
GAAP service gross profit	\$185.9	\$201.6	\$218.8	\$217.2	\$235.8	\$249.8	\$264.6	\$267.1	\$286.2
Stock-based compensation	2.5	2.4	2.4	2.5	2.7	2.8	2.8	2.8	2.9
Amortization of acquired intangible assets	0.2	0.2	0.1	0.1	0.1	—	—	—	0.4
Non-GAAP service gross profit	<u>\$188.6</u>	<u>\$204.2</u>	<u>\$221.3</u>	<u>\$219.8</u>	<u>\$238.6</u>	<u>\$252.6</u>	<u>\$267.4</u>	<u>\$269.9</u>	<u>\$289.5</u>
<i>Non-GAAP service gross margin</i>	<u>85.4%</u>	<u>86.1%</u>	<u>86.9%</u>	<u>85.8%</u>	<u>86.8%</u>	<u>87.3%</u>	<u>87.3%</u>	<u>87.1%</u>	<u>87.3%</u>
GAAP total gross profit	\$267.8	\$280.6	\$311.2	\$301.8	\$328.2	\$342.3	\$378.5	\$359.6	\$393.4
Stock-based compensation	2.9	2.7	2.7	2.9	3.1	3.1	3.2	3.2	3.3
Amortization of acquired intangible assets	1.2	1.2	1.3	1.2	1.3	1.7	2.0	2.1	2.1
Non-GAAP total gross profit	<u>\$271.9</u>	<u>\$284.5</u>	<u>\$315.2</u>	<u>\$305.9</u>	<u>\$332.6</u>	<u>\$347.1</u>	<u>\$383.7</u>	<u>\$364.9</u>	<u>\$398.8</u>
<i>Non-GAAP gross margin</i>	<u>74.8%</u>	<u>76.0%</u>	<u>75.6%</u>	<u>76.7%</u>	<u>75.4%</u>	<u>76.5%</u>	<u>75.7%</u>	<u>77.2%</u>	<u>76.4%</u>
GAAP research and development expense	\$51.2	\$53.5	\$54.8	\$59.1	\$61.2	\$58.7	\$65.5	\$68.6	\$67.4
Stock-based compensation	8.3	8.0	8.1	8.4	9.2	9.3	9.5	9.4	10.0
Non-GAAP research and development expense	<u>\$42.9</u>	<u>\$45.5</u>	<u>\$46.7</u>	<u>\$50.7</u>	<u>\$52.0</u>	<u>\$49.4</u>	<u>\$56.0</u>	<u>\$59.2</u>	<u>\$57.4</u>
<i>Non-GAAP research and development expense as a percentage of revenue</i>	<u>11.8%</u>	<u>12.2%</u>	<u>11.2%</u>	<u>12.7%</u>	<u>11.8%</u>	<u>10.9%</u>	<u>11.0%</u>	<u>12.5%</u>	<u>11.0%</u>
GAAP sales and marketing expense	\$166.3	\$172.4	\$191.9	\$185.3	\$192.8	\$198.3	\$205.9	\$215.9	\$226.5
Stock-based compensation	19.7	19.6	19.6	20.9	23.6	26.0	25.1	25.4	26.3
Amortization of acquired intangible assets	1.0	0.8	0.8	0.6	0.5	0.8	0.9	0.9	0.8
Non-GAAP sales and marketing expense	<u>\$145.6</u>	<u>\$152.0</u>	<u>\$171.5</u>	<u>\$163.8</u>	<u>\$168.7</u>	<u>\$171.5</u>	<u>\$179.9</u>	<u>\$189.6</u>	<u>\$199.4</u>
<i>Non-GAAP sales and marketing expense as a percentage of revenue</i>	<u>40.1%</u>	<u>40.6%</u>	<u>41.2%</u>	<u>41.1%</u>	<u>38.2%</u>	<u>37.8%</u>	<u>35.5%</u>	<u>40.1%</u>	<u>38.2%</u>

GAAP to Non-GAAP Reconciliations (Continued)

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
GAAP general and administrative expense	\$21.9	\$21.0	\$22.3	\$25.0	\$23.5	\$22.5	\$22.0	\$24.5	\$24.3
Stock-based compensation	4.2	4.0	4.0	4.3	4.7	4.8	4.8	5.0	5.4
Non-GAAP general and administrative expense	\$17.7	\$17.0	\$18.3	\$20.7	\$18.8	\$17.7	\$17.2	\$19.5	\$18.9
<i>Non-GAAP general and administrative expense as a percentage of revenue</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>	<i>3.4%</i>	<i>4.1%</i>	<i>3.6%</i>
GAAP total operating expense	\$239.3	\$246.9	\$269.0	\$269.4	\$277.5	\$279.5	\$293.4	\$309.0	\$318.2
Stock-based compensation	32.2	31.6	31.7	33.6	37.5	40.1	39.4	39.8	41.7
Amortization of acquired intangible assets	1.0	0.8	0.8	0.6	0.5	0.8	0.9	0.9	0.8
Restructuring charges	(0.1)	—	—	—	—	—	—	—	—
Non-GAAP total operating expense	\$206.2	\$214.5	\$236.5	\$235.2	\$239.5	\$238.6	\$253.1	\$268.3	\$275.7
<i>Non-GAAP total operating expense as a percentage of revenue</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>	<i>49.9%</i>	<i>56.8%</i>	<i>52.8%</i>
GAAP operating income	\$28.5	\$33.7	\$42.2	\$32.4	\$50.7	\$62.8	\$85.1	\$50.6	\$75.2
Stock-based compensation	35.1	34.3	34.4	36.5	40.6	43.2	42.6	43.0	45.0
Amortization of acquired intangible assets	2.2	2.0	2.1	1.8	1.8	2.5	2.9	3.0	2.9
Restructuring charges	(0.1)	—	—	—	—	—	—	—	—
Non-GAAP operating income	\$65.7	\$70.0	\$78.7	\$70.7	\$93.1	\$108.5	\$130.6	\$96.6	\$123.1
<i>Non-GAAP operating margin</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>	<i>25.8%</i>	<i>20.4%</i>	<i>23.6%</i>

GAAP to Non-GAAP Reconciliations (Continued)

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
GAAP other income (expense), net	\$1.2	\$0.3	\$(1.2)	\$(0.2)	\$(5.0)	\$0.9	\$(2.3)	\$(0.5)	\$(0.4)
Gain on sale of investment in a privately-held company	—	—	—	—	—	(2.2)	—	—	—
Non-GAAP other income (expense), net	\$1.2	\$0.3	\$(1.2)	\$(0.2)	\$(5.0)	\$(1.3)	\$(2.3)	\$(0.5)	\$(0.4)
<i>Non-GAAP other income (expense), net as a percentage of revenue</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>	<i>(0.5)%</i>	<i>(0.1)%</i>	<i>(0.1)%</i>
GAAP income before income taxes	\$32.9	\$37.9	\$45.0	\$36.7	\$51.5	\$70.6	\$92.1	\$60.3	\$85.8
Stock-based compensation	35.1	34.3	34.4	36.5	40.6	43.2	42.6	43.0	45.0
Amortization of acquired intangible assets	2.2	2.0	2.1	1.8	1.8	2.5	2.9	3.0	2.9
Restructuring charges	(0.1)	—	—	—	—	—	—	—	—
Gain on sale of investment in a privately-held company	—	—	—	—	—	(2.2)	—	—	—
Non-GAAP income before income taxes	\$70.1	\$74.2	\$81.5	\$75.0	\$93.9	\$114.1	\$137.6	\$106.3	\$133.7
GAAP provision for (benefit from) income taxes	\$9.9	\$11.3	\$74.0	\$(4.9)	\$2.2	\$11.9	\$(90.5)	\$1.5	\$13.1
Tax adjustments related to the above	12.5	12.4	(48.0)	22.9	20.3	15.5	123.5	24.0	19.0
Non-GAAP provision for income taxes	\$22.4	\$23.7	\$26.0	\$18.0	\$22.5	\$27.4	\$33.0	\$25.5	\$32.1
<i>Non-GAAP effective tax rate</i>	<i>32%</i>	<i>32%</i>	<i>32%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>	<i>24%</i>

GAAP to Non-GAAP Reconciliations (Continued)

	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
GAAP net income (loss)	\$23.0	\$26.6	\$(29.0)	\$41.6	\$49.3	\$58.7	\$182.6	\$58.8	\$72.7
Stock-based compensation	35.1	34.3	34.4	36.5	40.6	43.2	42.6	43.0	45.0
Amortization of acquired intangible assets	2.2	2.0	2.1	1.8	1.8	2.5	2.9	3.0	2.9
Restructuring charges	(0.1)	—	—	—	—	—	—	—	—
Gain on sale of investment in a privately-held company	—	—	—	—	—	(2.2)	—	—	—
Tax adjustments	(12.5)	(12.4)	48.0	(22.9)	(20.3)	(15.5)	(123.5)	(24.0)	(19.0)
Non-GAAP net income	\$47.7	\$50.5	\$55.5	\$57.0	\$71.4	\$86.7	\$104.6	\$80.8	\$101.6
GAAP net income (loss) per share, diluted	\$0.13	\$0.15	\$(0.17)	\$0.24	\$0.28	\$0.33	\$1.04	\$0.34	\$0.42
Stock-based compensation	0.20	0.19	0.20	0.21	0.24	0.25	0.24	0.24	0.25
Amortization of acquired intangible assets	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	0.02
Gain on sale of investment in a privately-held company	—	—	—	—	—	(0.01)	—	—	—
Tax adjustments	(0.07)	(0.07)	0.28	(0.13)	(0.12)	(0.09)	(0.71)	(0.14)	(0.11)
Non-GAAP net income per share, diluted	\$0.27	\$0.28	\$0.32	\$0.33	\$0.41	\$0.49	\$0.59	\$0.46	\$0.58
Shares used in diluted net income (loss) per share calculations - GAAP	179.7	179.0	171.5	171.8	173.5	175.7	175.8	174.8	175.1
Adjustment for diluted weighted-average shares outstanding	—	—	3.9	—	—	—	—	—	—
Shares used in diluted net income per share calculations - Non-GAAP	179.7	179.0	175.4	171.8	173.5	175.7	175.8	174.8	175.1

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