



## Fortinet Announces First Quarter 2010 Financial Results

Fortinet (NASDAQ: FTNT) a leading network security provider and worldwide leader of unified threat management (UTM) solutions has announced financial results for the first quarter ended March 31, 2010.

### Financial Highlights for the First Quarter of 2010

**Billings:** Total billings were \$79.4 million for the first quarter of 2010, an increase of 32% compared to the first quarter of 2009. We define billings as revenue recognized plus the change in deferred revenue from the beginning to the end of the period.

**Revenue:** Total revenue was \$69.8 million for the first quarter of 2010, an increase of 29% compared to the first quarter of 2009. Within total revenue, product revenue was \$27.1 million, an increase of 40% compared to the first quarter of 2009. Services revenue was \$38.6 million, an increase of 22% compared to the first quarter of 2009. Ratable product and services revenue was \$4.1 million, an increase of 23% compared to the first quarter of 2009.

**Deferred Revenue:** Deferred revenue was \$211.5 million as of March 31, 2010, an increase of 19% compared to deferred revenue as of March 29, 2009, and up \$9.6 million from December 31, 2009.

Cash and Cash Flow:

As of March 31, 2010, cash, cash equivalents and investments were \$280.9 million, compared to \$260.3 million as of December 31, 2009. Cash flow from operations was \$21.8 million for the first quarter of 2010, compared to \$15.6 million for the first quarter of 2009. In the first quarter of 2010, free cash flow was \$20.8 million, compared to \$12.9 million for the first quarter of 2009. We define free cash flow, a non-GAAP measure of liquidity, as net cash provided by operating activities less capital expenditures.

GAAP Operating Income: GAAP operating income was \$6.7 million for the first quarter of 2010, representing a GAAP operating margin of 10% and an increase of 108% compared to the first quarter of 2009.

Non-GAAP1 Operating Income: Non-GAAP operating income was \$8.9 million for the first quarter of 2010, representing a non-GAAP operating margin of 13% and an increase of 85% compared to the first quarter of 2009. Non-GAAP operating income and operating margin exclude stock-based compensation expense.

GAAP Net Income and EPS: GAAP net income was \$4.2 million for the first quarter of 2010, compared to \$3.8 million for the first quarter of 2009. GAAP EPS was \$0.06 based on 74.9 million weighted-average diluted shares outstanding, compared to a loss of \$0.07 based on 21.0 million weighted-average diluted shares outstanding for the first quarter of 2009. The loss per share was based on a net loss attributable to common stockholders of \$1.5 million (which includes a \$5.2 million expense from the premium paid to repurchase convertible preferred shares).

Non-GAAP1 Net Income and EPS: Non-GAAP net income was \$5.8 million for the first quarter of 2010, based on a 35% tax rate. This compares to \$5.4 million for the first quarter of 2009, based on a 10% tax rate. Non-GAAP EPS was \$0.08 for the first quarter of 2010 based on 74.9 million weighted-average diluted shares outstanding, compared to \$0.08 in the first quarter of 2009 based on 65.9 million weighted-average diluted shares outstanding. Non-GAAP net income and EPS exclude stock-based compensation expense and

the related tax effects.

1A reconciliation of GAAP to non-GAAP

financial measures has been provided in the financial statement tables included in this press release. An explanation of these measures is also included below under the heading Non-GAAP Financial Measures.

Management

Commentary:

Ken Xie, founder, president and chief executive officer of Fortinet, stated: We are very pleased with the companys execution in the first quarter, which resulted in accelerated growth across our targeted customer segments and across all geographic regions.

We believe Fortinets business momentum is being driven by our superior value proposition in unified threat management, combined with growing traction for our complementary product portfolio and ramping productivity related to our increased investments in the sales organization.

Ken Goldman, chief financial officer of Fortinet, stated: We reported solid results in the first quarter, which met or exceeded our expectations across key metrics, including billings, revenue, operating profitability and cash flow.

Looking ahead, we will continue to invest in our business to support growth as the economic environment improves.

At the same time, we remain focused on continuing to drive productivity improvements to deliver against our goals of long-term operating margin expansion.

An archived recording of the earnings conference call question-and-answer session is available at <http://investor.fortinet.com/events.cfm>

About Fortinet ([www.fortinet.com](http://www.fortinet.com))

Fortinet (NASDAQ: FTNT) is a worldwide provider of network security and unified threat management (UTM) solutions. Our products and subscription services provide broad, integrated and high-performance protection against dynamic security threats while simplifying the IT security infrastructure. Our customers include enterprises, service providers and government entities worldwide, including the majority of the 2009 Fortune Global 100. Fortinet is headquartered in Sunnyvale, Calif., with offices around the world.

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#### Forward-looking Statements

This press release contains forward-looking statements that involve risks and uncertainties. These statements include statements regarding trends in accelerated growth across our targeted customer segments and across all geographic regions, business momentum, the growing traction of our product portfolio, ramping productivity, our increased investments in the sales organization, our continued investment in the business, growth in sales as the economic environment improves, our continued focus on driving productivity improvements, and our goal of long-term operating margin expansion. Although Fortinet attempts 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. Important factors that could cause results to differ materially from the statements herein include the following: general economic risks; uncertainty regarding increased business and renewals from existing customers; uncertainties around continued success in sales growth; risks associated with successful implementation of multiple integrated software products and other product functionality risks; execution risks around new product introductions and innovation; the ability to attract and retain key 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; and the other risk factors set forth from time to time in our filings with the 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 Fortinet's 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.

#### Non-GAAP Financial Measures

Fortinet has provided in this release financial information that has not been prepared in accordance with GAAP. Fortinet uses these non-GAAP financial measures internally in analyzing its financial results and believes they are useful to

investors, as a supplement to GAAP measures, in evaluating Fortinet's ongoing operational performance. Fortinet believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing its financial results with other companies in Fortinet's industry, many of which present similar non-GAAP financial measures to investors.

#### Non-GAAP

financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure below. As previously mentioned, a reconciliation of our non-GAAP financial measures to their most directly comparable GAAP measures has been provided in the financial statement tables included below in this press release.

#### Billings. We define billings as revenue

recognized plus the change in deferred revenue from the beginning to the end of the period. Fortinet considers billings to be a useful metric for management and investors because billings drive deferred revenue, which is an important indicator of the health and visibility of Fortinet's business, and has historically represented a majority of the quarterly revenue that Fortinet recognizes. There are a number of limitations related to the use of billings versus revenue calculated in accordance with GAAP. First, billings include amounts that have not yet been recognized as revenue. Second, Fortinet may calculate billings in a manner that is different from peer companies that report similar financial measures. Management compensates for these limitations by providing specific information regarding GAAP revenues and evaluating billings together with revenues calculated in accordance with GAAP.

Free Cash Flow. We define free cash flow as net cash provided by operating activities minus capital expenditures. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that, after the acquisition of property and equipment, can be used for strategic opportunities, including investing in our business, making strategic acquisitions, and strengthening the balance sheet. Analysis of free cash flow also facilitates management's comparisons of our operating results to competitors' operating results. A limitation of using free cash flow versus the GAAP measure of net cash provided by operating activities as a means for evaluating Fortinet is that free cash flow does not represent the total increase or decrease in the cash balance from operations for the period because it excludes cash used for capital expenditures during the period. Our management compensates for this limitation by providing information about our capital expenditures on the face of the cash

flow statement and under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in our Quarterly Report on Form 10-Q and Annual Report on Form 10-K. Fortinet has computed free cash flow using the same consistent method from quarter to quarter and year to year.

#### Non-GAAP

operating income and operating margin. We define non-GAAP operating income as operating income plus stock-based compensation expense. Non-GAAP operating margin is defined as non-GAAP operating income divided by revenue. Fortinet considers these non-GAAP financial measures to be useful metrics for management and investors because they exclude the effect of stock-based compensation expense so that Fortinet's management and investors can compare Fortinet's recurring core business operating results over multiple periods. There are a number of limitations related to the use of non-GAAP operating income versus operating income calculated in accordance with GAAP. First, non-GAAP operating income excludes stock-based compensation expense. Stock-based compensation has been and will continue to be for the foreseeable future a significant recurring expense in Fortinet's business. Second, stock-based compensation is an important part of our employees' compensation and impacts their performance. Third, the components of the costs that we exclude in our calculation of non-GAAP operating income may differ from the components that our peer companies exclude when they report their non-GAAP results of operations. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP operating income and evaluating non-GAAP operating income together with operating income calculated in accordance with GAAP.

Non-GAAP net income and EPS. We define non-GAAP net income as net income plus stock-based compensation expense, less the related tax effects for both periods presented, and the premium paid on repurchase of convertible preferred stock for the first quarter of 2009. We define non-GAAP EPS as non-GAAP net income divided by the weighted-average outstanding shares, on a fully-diluted basis. We consider these non-GAAP financial measures to be a useful metric for management and investors for the same reasons that Fortinet uses non-GAAP operating income and non-GAAP operating margin. However, in order to provide a complete picture of our recurring core business operating results, we exclude from non-GAAP net income and non-GAAP EPS the tax effects associated with stock-based compensation. Without excluding these tax effects, investors would only see the gross effect that excluding these expenses had on our operating results. The same limitations described above regarding Fortinet's use of non-GAAP operating income and non-GAAP operating margin apply to our use of non-GAAP net income and non-GAAP EPS. Management compensates for these limitations by providing specific information regarding the GAAP amounts excluded from non-GAAP net income and non-GAAP EPS and evaluating non-GAAP net income and non-GAAP EPS together with net income and EPS calculated in accordance with GAAP.

