

Fortinet (NASDAQ: FTNT) a leading network security provider and a worldwide leader of unified threat management (UTM) solutions today announced financial results for the second quarter ended June 30, 2010.

#### Financial Highlights for the Second Quarter of 2010

##### Billings:

Total billings were \$90.3 million for the second quarter of 2010, an increase of 31% compared to the second quarter of 2009.

We define billings, a non-GAAP financial measure, as revenue recognised during the period plus the change in deferred revenue from the beginning to the end of the period.

##### Revenue: Total

revenue was \$76.3 million for the second quarter of 2010, an increase of 24% compared to the second quarter of 2009.

Within total revenue, product revenue was \$31.0 million, an increase of 27% compared to the second quarter of 2009.

Services revenue was \$41.0 million, an increase of 22% compared to the second quarter of 2009. Ratable product and services revenue was \$4.3 million, an increase of 27% compared to the second quarter of 2009.

##### Deferred

Revenue: Deferred revenue was \$225.5 million as of June 30, 2010, an increase of 22% compared to deferred revenue as of June 28, 2009, and up \$14.0 million from March 31, 2010.

#### Cash and Cash

Flow: As of June 30, 2010, cash, cash equivalents and investments were \$309.0 million, compared to \$280.9 million as of March 31, 2010. Cash flow from operations was \$18.0 million for the second quarter of 2010, compared to \$14.3 million for the second quarter of 2009. In the second quarter of 2010, free cash flow was \$16.7 million, compared to \$13.9 million for the second quarter of 2009. We define free cash flow, a non-GAAP financial measure of liquidity, as net cash provided by operating activities less capital expenditures.<sup>1</sup>

#### GAAP Operating

Income: GAAP operating income was \$9.8 million for the second quarter of 2010, representing a GAAP operating margin of 13% and an increase of 97% compared to the second quarter of 2009.

#### Non-GAAP

Operating Income: Non-GAAP operating income was \$12.0 million for the second quarter of 2010, representing a non-GAAP operating margin of 16% and an increase of 63% compared to the second quarter of 2009. Non-GAAP operating income and operating margin exclude stock-based compensation expense and, for the second quarter of 2009, non-cash acquisition related charges. Non-cash acquisition related charges consist of intangible asset write-offs but exclude ongoing amortisation of intangible assets.

#### GAAP Net

Income and EPS: GAAP net income was \$6.9 million for the second quarter of 2010, compared to \$4.6 million for the second quarter of 2009. GAAP EPS was \$0.09 for the second quarter of 2010, based on 75.6 million weighted-average diluted shares outstanding, compared to \$0.01 for the second quarter of 2009, based on 64.0 million weighted-average diluted shares outstanding. GAAP EPS for the second quarter of 2009 was based on net income attributable to common stockholders of \$0.5 million (which was reduced by \$4.0 million due to the premium paid to repurchase convertible preferred shares during that quarter).

#### Non-GAAP Net

Income and EPS: Non-GAAP net income was \$8.1 million for the second quarter of 2010, based on a 35% tax rate. This compares to \$6.7 million of non-GAAP net income for the second quarter of 2009, based on a 13% tax rate. Non-GAAP EPS was \$0.11 for the second quarter of 2010 based on 75.6 million weighted-average

diluted shares outstanding, compared to \$0.10 for the second quarter of 2009 based on 64.0 million weighted-average diluted shares outstanding. Non-GAAP net income excludes stock-based compensation expense, non-cash acquisition related charges (for the second quarter of 2009) and the related tax effects.

Non-GAAP EPS for the second quarter of 2009 also excludes the reduction in net income attributable to common stockholders that reflects the premium paid to repurchase convertible preferred shares.

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: Our solid execution combined with the unique value proposition of our UTM solutions contributed to accelerated momentum in our business during the second quarter. We continued to attract and retain a number of large high profile enterprise and service provider customers, as well as introduced several new and competitive differentiating products such as our FortiGate-3950B, the fastest enterprise UTM appliance on the market, and FortiGate-60C appliances, which utilize the FortiASIC System-on-a-Chip architecture that Fortinet pioneered. We remain focused on executing our growth strategy by investing additional resources to expand and enhance our sales organization and further strengthen our research and development capabilities to continue to drive security innovation and market share gains.

Ken Goldman, chief financial officer of Fortinet, stated:

We reported an exceptionally strong second quarter, with impressive growth across the business and customer wins across a wide array of industry verticals and geographies. We were especially encouraged with the growth in our high end product segment as well as the balanced growth across our three geographic segments, with Europe leading the way.

For the third consecutive quarter as a public company, we have outperformed against our key operating metrics, including billings, revenue and operating profitability a result of solid execution and the continued delivery and market adoption of new products and technologies. We remain encouraged by the momentum we are seeing in the business and believe we are well positioned to benefit from the worldwide demand for network security solutions and the growing trend towards UTM adoption.

Conference Call Details

A live webcast of the conference call and supplemental slides will be accessible from the Investor Relations page of Fortinet's website at <http://investor.fortinet.com> and a replay will be archived and accessible 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 appliances and a market leader in unified threat management (UTM). 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's flagship FortiGate product delivers ASIC-accelerated performance and integrates multiple layers of security designed to help protect against application and network threats. Fortinet's broad product line goes beyond UTM to help secure the extended enterprise -- from endpoints, to the perimeter and the core, including databases and applications. 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 business momentum and demand for network security solutions, our plans to invest additional resources to expand and enhance our sales organizations and further strengthen our research and development capabilities to continue to drive security innovation and market share gains, positioning to benefit from the worldwide demand for network security solutions, and the growing trend towards UTM adoption. 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; specific economic risks

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; 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; risks associated with the adoption of, and demand for, the UTM model; 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 and non-cash acquisition related charges. Non-cash acquisition related charges include intangible asset write-offs but exclude ongoing amortization of intangible assets. 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 and non-cash acquisition related charges (for the second quarter of 2009), less the related tax effects for both periods presented. We define non-GAAP EPS as non-GAAP net income divided by the weighted-average outstanding shares, on a fully-diluted basis and, for the second quarter of 2009, we define non-GAAP EPS as including the premium paid on the repurchase of convertible preferred stock before dividing that amount 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 and, for the second quarter of 2009, the non-cash acquisition related charges. We used a 35 percent effective tax rate to calculate non-GAAP net income for the second quarter of 2010. We believe the 35 percent effective tax rate is a reasonable estimate of a long-term normalized tax rate under our global operating structure. Our effective tax rate for the second quarter of 2009 was 13 percent which reflects only our foreign tax provision as our US operations had net operating losses to offset any taxable income. 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.