RICHARDSON ELECTRONICS LTD/DE
Form 8-K
June 14, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported) June 14, 2004

RICHARDSON ELECTRONICS, LTD.

(Exact Name of Registrant as Specified in Charter)

Delaware	**0-12906**	**36-2096643**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

40W267 Keslinger Road
P.O. Box 393
LaFox, Illinois 60147-0393
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code **(630) 208-2200**

Item 7. Financial Statements and Exhibits.

See Exhibit Index.

Item 12. Results of Operations and Financial Condition.

On June 14, 2004, Richardson Electronics, Ltd. (the "Company") filed an amended registration statement on Form S-1 (the "Amended Registration Statement") disclosing, among other things, financial results for the fourth quarter and full year of fiscal 2004.

For the fourth quarter of fiscal 2004, the Company expects to report sales of approximately $145 million, an increase of 22% from the fourth quarter of fiscal 2003, led by sales in Asia/Pacific which are anticipated to be $33 million for the quarter, an increase of 54% from the prior fiscal year's fourth quarter. Gross margin is expected to be in the range of 24.6% to 25.0% of sales for the quarter with operating expenses anticipated to be between 20.7% and 21.1% of sales. Operating expenses for the quarter included program costs related to foreign entity cash management, PeopleSoft implementation, and Sarbanes-Oxley compliance. Net income is expected to be between $2.0 million and $2.4 million with earnings per diluted share anticipated to be in the range of $0.14 to $0.16 on a weighted average of 14.553 million shares outstanding.

For fiscal 2004, the Company expects to report sales of approximately $520 million, an increase of 12% over the prior year led by sales in Asia/Pacific of over $100 million, up 33% from fiscal 2003. Sales for all of the strategic business units increased from the prior year. Gross margin is expected to be in the range of 24.4% to 24.6% of sales with operating expenses anticipated to be between 20.8% and 21.0% of sales for the year. Net income is expected to be between $5.6 million and $6.0 million with earnings per diluted share anticipated to be in the range of $0.39 to $0.41 on a weighted average of 14.418 million shares outstanding.

The above figures are preliminary pending the completion of the Company's external audit. The Company expects to report full fourth quarter and fiscal year results later in the month of June.

The Amended Registration Statement also includes, among other things, new guidance for fiscal 2005 financial results.

This report includes certain "forward-looking" statements as defined by the SEC. Statements in this report regarding the Company's business which are not historical facts represent "forward-looking statements" that involve risks and uncertainties including, without limitation, our preliminary fiscal 2004 results. Actual results could differ materially from those contained in the forward-looking statements due to, among other things, adjustments and corrections that may occur as the Company completes its external audit, as well as risks and uncertainties contained under "Risk Factors" in the Company's Amended Registration Statement. The Company assumes no responsibility to update the forward-looking statements in this release as a result of new information, future events, or otherwise.

The Amended Registration Statement has been filed with the SEC but has not yet become effective. The securities covered thereby may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This Current Report shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State. Any offer of the securities will be made solely by means of the prospectus included in the registration statement.

Preliminary Sales
Fiscal 2004

	SALES		
	FY 2003	FY 2004	% Change
	(In millions, unaudited)		
By Business Unit:			
Fourth Quarter			
RF and Wireless Communications Group	$ 52	$ 68	31%
Industrial Power Group	24	32	29%
Security Systems Division	22	25	13%
Display Systems Group	18	19	4%
Other	2	2	
Total	$ 119	$ 145	22%
Fiscal Year:			
RF and Wireless Communications Group	$ 204	$ 231	13%
Industrial Power Group	96	113	18%
Security Systems Division	92	102	11%
Display Systems Group	64	66	4%
Other	8	8	
Total	$ 465	$ 520	12%

	SALES		
	FY 2003	FY 2004	% Change
	(In millions, unaudited)		
By Geographic Area:			
Fourth Quarter			
North America	$ 64	$ 76	20%
Europe	28	31	11%
Asia/Pacific	21	33	54%
Latin America	5	5	-9%
Corporate	1	1	
Total	$ 119	$ 145	22%
Fiscal Year:			
North America	$ 260	$ 276	6%
Europe	103	117	13%
Asia/Pacific	78	104	33%
Latin America	21	20	-2%
Corporate	3	3	

	SALES		
Total	$ 465	$ 520	12%

NOTE:

Fiscal 2003 data has been reclassified to conform with the fiscal 2004 presentation. These modifications include:
- reclassifying broadcast tubes from RF and Wireless Communications Group to Industrial Power Group; and
- reclassifying direct export and a portion of Corporate to the identified geographic areas based on ship to location.

Europe includes sales to Middle East and Africa.

Corporate consists of freight and other non-specific sales.

2

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RICHARDSON ELECTRONICS, LTD.
(Registrant)

Date: June 14, 2004

By: /s/ WILLIAM G. SEILS

William G. Seils
Senior Vice President, General Counsel and Secretary

Exhibit Index

Exhibit No.	Description
99.1	Amendment No. 4 to the Registration Statement on Form S-1 of Richardson Electronics, Ltd. (Commission File No. 333-113568) filed on June 14, 2004, incorporated by reference herein.

QuickLinks

AN=1>20.235 2/08/2018 8/02/2011 50,000 20.13 8/02/2018 Michael
Xie 2/7/2008 50,000[(2)] 3.735 2/07/2015 7/31/2008 213,540 36,460 3.735 7/31/2015 1/28/2009 145,832 54,
Whittle 4/23/2008 2,096 8,334 3.735 4/23/2015 1/28/2009 2,922 37,918 3.735 1/28/2016 2/10/2010 27,084

(1) Reflects options granted under the 2009 Equity Incentive Plan, 2008 Stock Plan or Amended and Restated 2000 Stock Plan, as applicable. Unless otherwise indicated below, all options granted to named executive officers vest over a four-year period, at a rate of 1/4th upon the first anniversary of the date of grant and then at a rate of 1/48th per month thereafter.

(2) The option is fully vested and immediately exercisable.

(3) The option is held directly by G.V. Partners, L.P. for which Mr. Goldman serves as the managing member.

2011 Option Exercises

The following table presents information concerning each exercise of stock options during fiscal 2011 for each of the named executive officers.

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)[(1)]
Ken Xie		
Kenneth Goldman	334,520	5,714,128
Michael Xie	160,000	2,893,250
John Whittle	111,646	1,774,759

(1) Reflects the difference between the fair market value of Fortinet common stock at the time of exercise on the exercise date and the exercise price of the option.

28

TABLE OF CONTENTS

Potential Payments Upon Termination or Change of Control

Termination or Change of Control Arrangements

Ken Xie. We have entered into a Change of Control Severance Agreement, dated August 7, 2009, with Ken Xie, our President and Chief Executive Officer under which he may receive certain benefits upon certain terminations of employment, provided that he has provided us with an executed release of claims and subject to non-solicitation and non-competition for a period of twelve months. This agreement provides that, if Mr. Ken Xie s employment is terminated without Cause (as defined below), or if he terminates his employment with us for Good Reason (as defined below), prior to a Change of Control (as defined below) or after twelve months following a Change of Control, he will be entitled to a severance payment in an amount equal to twelve months of his then-current base salary and twelve months of medical, dental, and/or vision benefits for him and/or his eligible dependents. If Mr. Ken Xie is terminated without Cause, or if he terminates his employment with us for Good Reason, within one year following a Change of Control, in addition to receiving twelve months of base salary (as in effect immediately prior to the Change of Control or his termination, whichever is greater) and twelve months of medical, dental, and/or vision benefits for him and/or his eligible dependents, Mr. Ken Xie s unvested equity awards will immediately vest and become exercisable in full, and our right of repurchase or reacquisition with respect to such awards will lapse. The awards will remain exercisable, to the extent applicable, following the termination for the period prescribed in the respective stock plan and agreement for each award. In the event any payment to Mr. Xie is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code (as a result of a payment being classified as a parachute payment under Section 280G of the Internal Revenue Code), he will be entitled to receive such payment as would entitle him to receive the greatest after-tax benefit of either the full payment or a lesser payment which would result in no portion of such severance benefits being subject to excise tax.

Michael Xie and Kenneth Goldman. We have entered into Change of Control Severance Agreements, with each of Michael Xie, our Chief Technical Officer, dated August 7, 2009, and Kenneth Goldman, our Chief Financial Officer, dated August 7, 2009, under which each may receive certain benefits upon certain terminations of employment, provided that each has provided us with an executed release of claims and subject to non-solicitation and non-competition for a period of twelve months. These agreements provide that, if the executive s employment is terminated without Cause, or if the executive terminates his employment with us for Good Reason, prior to a Change of Control or after twelve months following a Change of Control, the executive will be entitled to a severance payment and/or benefits as determined by us in our sole discretion. If the executive is terminated without Cause, or if the executive terminates his employment with us for Good Reason, within one year following a Change of Control, the executive will receive a severance payment equal to six months of his base salary (as in effect immediately prior to the Change of Control or his termination, whichever is greater), twelve months of medical, dental, and/or vision benefits for him and/or his eligible dependents, and the unvested portion of his equity awards will immediately vest and become exercisable in full and our right of repurchase or reacquisition with respect to such awards will lapse. The awards will remain exercisable, to the extent applicable, following the termination for the period prescribed in the respective stock plan and agreement for each award. In the event any payment to the executive is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code (as a result of a payment being classified as a parachute payment under Section 280G of the Internal Revenue Code), the executive will be entitled to receive such payment as would entitle him to receive the greatest after-tax benefit of either the full payment or a lesser payment which would result in no portion of such severance benefits being subject to excise tax.

John Whittle. We have entered into a Change of Control Severance Agreement, dated August 7, 2009 with John Whittle, our General Counsel, under which he may receive certain benefits upon certain terminations of employment, provided that he has provided us with an executed release of claims and subject to non-solicitation and non-competition for a period of twelve months. This agreement provides that, if Mr. Whittle s employment is terminated without Cause, or if he terminates his employment with us for Good Reason, he will be entitled to a severance payment equal to twelve months of base salary (as in effect immediately prior to the Change of Control or his termination, whichever is greater), twelve months of medical, dental and/or vision benefits for him and/or his eligible dependents and his unvested equity awards will immediately vest as to the awards that would have vested over the next twelve months and such accelerated awards become exercisable in full, and our right of repurchase or reacquisition with respect to

29

TABLE OF CONTENTS

such awards will lapse. If Mr. Whittle is terminated without Cause, or if he terminates his employment with us for Good Reason, within one year following a Change of Control, then in addition to receiving twelve months base salary, all of his unvested equity awards will fully vest and such accelerated awards become exercisable in full, and our right of repurchase or reacquisition with respect to such awards will lapse. The awards will remain exercisable, to the extent applicable, following the termination for the period prescribed in the respective stock plan and agreement for each award. In the event any payment to Mr. Whittle is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code (as a result of a payment being classified as a parachute payment under Section 280G of the Internal Revenue Code), he will be entitled to receive such payment as would entitle him to receive the greatest after-tax benefit of either the full payment or a lesser payment which would result in no portion of such severance benefits being subject to excise tax.

For the purpose of our Change of Control Severance Agreements with the above-mentioned executives, Change of Control means:

(a) the acquisition by one person, or more than one person acting as a group (for these purposes, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with us Person) that is or becomes the owner, directly or indirectly, of our securities representing fifty percent or more of the total voting power represented by our then outstanding securities (the Voting Securities); provided, however, that for the purposes of this subsection (i), the acquisition of additional securities by any one Person, who is considered to own more than fifty percent of the total voting power of our securities shall not be considered a Change of Control;

(b) a change in the composition of the Board occurring within a twelve month period, as a result of which fewer than a majority of the directors are Incumbent Directors. Incumbent Directors will mean directors who either (i) are our directors as of the effective date of the Change of Control Severance Agreement or (ii) are elected, or nominated for election, to the Board with the affirmative votes of a least a majority of the Incumbent Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of our directors);

(c) the date of the consummation of a merger or consolidation between us and any other corporation that has been approved by our stockholders, other than a merger or consolidation which would result in our voting securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) fifty percent or more of the total voting power represented by our voting securities or such surviving entity outstanding immediately after such merger or consolidation, or our stockholders approve a plan of our complete liquidation; or

(d) a change in the ownership of a substantial portion of our assets which occurs on the date that any person acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or persons) assets from us that have a total gross fair market value equal to or more than fifty percent of the total fair market value of all of our assets immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (d), the following shall not constitute a change in the ownership of a substantial portion of our assets: (i) a transfer to an entity that is controlled by our shareholders immediately after the transfer; or (ii) a transfer of assets by us to: (A) a shareholder of ours (immediately before the asset transfer) in exchange for or with respect to our securities; (B) an entity, fifty percent or more of the total value or voting power of which is owned, directly or indirectly, by us; (C) a person, that owns, directly or indirectly, fifty percent or more of the total value or voting power of all our outstanding stock; or (D) an entity, at least fifty percent of the total value or voting power of which is owned, directly or indirectly, by a person described in subsection (C). For purposes of this clause (ii), gross fair market value means the value of our assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

TABLE OF CONTENTS

Notwithstanding the foregoing, a transaction of ours that does not constitute a change of control event under Treasury Regulation 1.409A-3(i)(5)(v) or (vii) shall not be considered a Change of Control.

For the purposes of our change of control agreements with the above-mentioned executives, Cause means:

(a) an act of dishonesty made by the executive in connection with the executive s responsibilities as an employee and materially and adversely affects us;
(b) the executive s conviction of, or plea of nolo contendere to, a felony or any crime involving fraud, embezzlement or any other act of moral turpitude;
(c) the executive s gross misconduct that materially and adversely affects our reputation or business; or
(d) the executive s continued intentional refusal to perform employment duties in a material fashion that materially and adversely affects our reputation or business, after the executive has received a written demand of performance from us which specifically sets forth the factual basis for our belief that the executive has not substantially performed his duties and the executive continues to refuse to cure such non-performance within thirty days after receiving such notice.

For the purpose of our change of control agreements with the above mentioned executives, Good Reason means the occurrence of one of more of the following events without the executive s express written consent:

(a) the assignment to the executive of any duties or the reduction of the executive s duties, either of which results in a material diminution in the executive s position or responsibilities with us in effect immediately prior to such assignment, or the removal of the executive from such position and responsibilities; provided, however, it being understood that a new position with a larger combined company does not alone constitute Good Reason if it is in the same area of operations and involves substantially the same duties and scope of responsibilities and management responsibility notwithstanding that the executive may not retain as senior of a title within the larger combined company as the executive s prior title;
(b) a material reduction by us in the base salary of the executive; provided that, it being understood that a reduction by us by five percent or more in the base salary or bonus opportunity of the executive as in effect immediately prior to such reduction shall be deemed Good Reason;
(c) a material change in the geographic location of the executive, provided that a change in geographic location to a facility or a location less than twenty-five miles from the executive s then-present location shall not be considered a material change in geographic location;
(d) any material breach by us of any material provision of the Change of Control Severance Agreement; or
(e) our failure to obtain the assumption of the Change of Control Severance Agreement by any successor (whether direct or indirect and whether by purchase, merger, consolidation, liquidation or otherwise) to substantially all of our business and/or assets.

The executive may not resign for Good Reason without first providing us with written notice of the acts or omissions constituting the grounds for Good Reason within ninety days of the initial existence of the ground for Good Reason and a reasonable cure period of not less than thirty days following the date of such notice.

Estimated Payments Upon Termination or Change in Control

The following table provides information concerning the estimated payments and benefits that would be provided in the circumstances described above for each of the named executive officers. Except where otherwise noted, payments and benefits are estimated assuming that the triggering event took place on the last business day of fiscal 2011 (December 30, 2011), and the price per share of Fortinet s common stock is the closing price on the NASDAQ Global Market as of that date ($21.81). There can be no assurance that a triggering event would produce the same or similar results as those estimated below if such event occurs on

31

TABLE OF CONTENTS

any other date or at any other price, of if any other assumption used to estimate potential payments and benefits is not correct. Due to the number of factors that affect the nature and amount of any potential payments or benefits, any actual payments and benefits may be different.

Name	Qualifying Termination Not Within One Year after a Change of Control[1]		Qualifying Termination Within One Year after a Change of Control[1]	
	Salary ($)[2]	Acceleration of Equity Vesting ($)[3]	Salary ($)[2]	Acceleration of Equity Vesting ($)[3]
Ken Xie[4]	338,746		338,746	2,736,136
Michael Xie[5]			150,250	2,241,985
Kenneth Goldman[5]			163,909	1,945,354
John Whittle[5]	272,538	1,007,821	272,538	1,334,889

(1) A Qualifying Termination under the severance agreement is an involuntary termination without Cause or a voluntary resignation for Good Reason, as defined below.

(2) The severance amount related to base salary was determined based on base salaries in effect on December 30, 2011, the last business day of fiscal 2011.

(3) For individuals with partial equity award acceleration, the value is calculated by multiplying (a) the number of shares that would have vested over 12 months following December 30, 2011 by (b) the difference between $21.81 (the per share closing stock price on December 30, 2011) and the exercise price. For individuals with full equity award acceleration, the value is calculated by multiplying (c) the number of unvested shares by (d) the difference between $21.81 and the exercise price.

(4) If severance is payable, the named executive officer is also eligible to receive reimbursement for insurance premium expenses incurred for group health insurance continuation coverage under Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended (COBRA) for a period of up to 12 months for his Qualifying Termination prior to or after a Change of Control. The value as of December 30, 2011 for 12 months of COBRA continuation coverage was $24,014.

(5) If severance is payable, the named executive officer is also eligible to receive reimbursement for insurance premium expenses incurred for group health insurance continuation coverage under COBRA for a period of up to 12 months after his Qualifying Termination within one year after a Change of Control. The value as of December 30, 2011 for 12 months of COBRA continuation coverage was $24,014.

Compensation of Directors

Compensation for Fiscal 2011

The following table provides information concerning the compensation paid by us to each of our non-employee directors for fiscal 2011 Board service. Messrs. Ken Xie and Michael Xie, who are employees of Fortinet, do not receive additional compensation for their services as directors.

Name	Fees Earned or	Option Awards	Total ($)

	Paid in Cash ($)[1]	($)[2][3]	
Pehong Chen	22,000	120,980	142,980
Hong Liang Lu	25,000	120,980	145,980
Greg Myers	32,391	120,980	153,371
Christopher B. Paisley	27,609	120,980	148,589
John Walecka	20,000	120,980	140,980

(1) Reflects fees earned or paid in cash for services rendered in the last fiscal year.

(2) Amounts shown do not reflect compensation actually received by the director. Instead, the amounts shown represent an aggregate grant date fair value of stock-related awards in each fiscal year computed in accordance with FASB ASC Topic 718. The assumptions used in the valuation of these awards are set forth in the notes to our consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 28, 2012.

32

(3) As of December 31, 2011, the aggregate number of shares underlying options outstanding for each of our non-employee directors was:

Name	Aggregate Number of Shares Underlying Options Outstanding
Pehong Chen	55,000
Hong Liang Lu	114,000
Greg Myers	143,000
Christopher B. Paisley	217,000
John Walecka	57,000

Standard Director Compensation Arrangements

In fiscal 2011, the compensation policy applicable to our Board of Directors provides that each such non-employee director will be entitled to receive the following compensation for Board services:

- an annual cash retainer for serving on the Board of $12,000, paid quarterly;
- an annual cash retainer for serving in a non-chair position on the Audit Committee of $8,000, on the Compensation Committee of $5,000, and on the Nominating and Corporate Governance committee of $3,000;
- an annual cash retainer for serving as the chair of the Audit Committee of $20,000, for serving as the chair of the Compensation Committee of $10,000 and for serving as the chair of the Nominating and Corporate Governance committee of $5,000;
- upon appointment to the Board, an automatic initial grant of a stock option to purchase 40,000 shares of our common stock vesting over a 4-year period; and
- after completion of each full year of service, an additional annual grant of a stock option to purchase 15,000 shares of our common stock vesting over a 4-year period.

In April 2012, our Board of Directors amended the annual cash retainer policy and equity award grant policy applicable to non-employee directors to provide that, effective April 1, 2012, each such non-employee director will be entitled to receive the following compensation for Board services:

- an annual cash retainer for serving on the Board of $30,000, paid quarterly, in addition to the annual cash retainer for service on the committees of the Board as discussed above, which remains unchanged;
- upon initial appointment or election to the Board, an automatic initial grant of 20,000 restricted stock units vesting over a 4-year period; and
- after completion of each full year of service, an additional annual grant of 5,000 restricted stock units vesting over a 4-year period.

Termination or Change of Control Arrangements

We have entered into change of control agreements with each of the non-employee directors. These agreements provide that upon a Change of Control, 100% of the unvested equity awards held by such directors will immediately vest and become exercisable and to the extent applicable, our right of repurchase or reacquisition with respect to such awards will lapse.

Change of Control in our change of control agreements with our non-employee directors has the same meaning as used in our Change of Control Severance Agreements with the named executive officers. See *Potential Payments*

Upon Termination or Change of Control Termination or Change of Control Arrangements.

Other Arrangements

Non-employee directors also have their travel, lodging and related expenses associated with attending Board or Committee meetings and for participating in Board-related activities paid or reimbursed by Fortinet.

33

TABLE OF CONTENTS

Equity Compensation Plan Information

The following table summarizes the number of outstanding options, warrants and rights granted to employees and directors, as well as the number of securities remaining available for future issuance, under Fortinet s equity compensation plans as of December 31, 2011.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)	(b) Weighted-average exercise price per share of outstanding options, warrants and rights ($)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (#)
Equity compensation plans approved by security holders[1]	21,390,144 [2]	$ 9.1438	25,399,515 [3]
Equity compensation plans not approved by security holders			
Total	21,390,144	$ 9.1438	25,399,515

(1) Includes the following plans: 2009 Equity Incentive Plan, 2008 Stock Plan, Amended and Restated 2000 Stock Plan and 2011 Employee Stock Purchase Plan.

(2) Excludes purchase rights accruing under the 2011 Employee Stock Purchase Plan.

(3) Includes 17,399,515 shares of common stock available for issuance under the 2009 Equity Incentive Plan and 8,000,000 shares are available for issuance under the 2011 Employee Stock Purchase Plan.

34

TABLE OF CONTENTS

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Person Transactions

Indemnification of Officers and Directors

Our amended and restated certificate of incorporation and bylaws provide that we will indemnify each of our directors and officers to the fullest extent permitted by Delaware law. In addition, we have entered into indemnification agreements with each of our directors and executive officers.

Review of Related Person Transactions

In accordance with the charter for the Audit Committee of the Board of Directors, our Audit Committee is responsible for reviewing and approving any related person transaction. Prior to the creation of our Audit Committee, our full Board of Directors reviewed related person transactions.

All of the transactions set forth above were approved or ratified by our Board of Directors or Audit Committee. We believe that we have executed all of the transactions set forth above on terms no less favorable to us than we could have obtained from unaffiliated third parties. We intend to ensure that all future transactions between us and our officers, directors and principal stockholders and their affiliates are approved by our Audit Committee on terms no less favorable to us than those that we could obtain from unaffiliated third parties.

For purposes of these procedures, related person and transaction have the meanings contained in Item 404 of Regulation S-K.

The individuals and entities that are considered related persons include:

Directors, nominees for director and executive officers of Fortinet;
Any person known to be the beneficial owner of five percent or more of Fortinet s common stock (a 5% Stockholder); and
Any immediate family member, as defined in Item 404(a) of Regulation S-K, of a director, nominee for director, executive officer and 5% Stockholder.

35

TABLE OF CONTENTS

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16 of the Exchange Act, Fortinet s directors, executive officers and any persons holding more than 10% of the Fortinet s common stock are required to report initial ownership of the Fortinet common stock and any subsequent changes in ownership to the SEC. Specific due dates have been established by the SEC, and Fortinet is required to disclose in this proxy statement any failure to file required ownership reports by these dates. Based solely on a review of the reports furnished to Fortinet, or written representations from reporting persons that all reportable transaction were reported, Fortinet believes that during the fiscal year ended December 31, 2011, Fortinet s officers, directors and greater than ten percent owners timely filed all reports they were required to file under Section 16(a) except that Messrs. Ken Xie, Goldman, Michael Xie and Whittle each filed a late Form 4 reporting one transaction in February 2011.

36

TABLE OF CONTENTS

OWNERSHIP OF SECURITIES

The following table sets forth certain information regarding the beneficial ownership of Fortinet s common stock, as of March 31, 2012, for the following:

- each person (or group of affiliated persons) who is known by us to beneficially own 5% of the outstanding shares of our common stock;
- each of our non-employee directors and nominees;
- each of our executive officers named in the Summary Compensation Table of this proxy statement; and
- all directors and current executive officers of Fortinet as a group.

5% Stockholders, Directors, Director Nominees and Officers[1]	Shares Beneficially Owned (#)[2]	Percentage Beneficially Owned (%)[2]
5% Stockholders:		
FMR LLC[3]	11,207,302	7.1
Non-Employee Directors and Nominees:		
Hong Liang Lu[4]	82,812	*
Greg Myers[4]	95,812	*
Christopher B. Paisley[4]	175,312	*
John Walecka[5]	255,870	*
Pehong Chen[4]	15,812	*
Chenming Hu		
Named Executive Officers:		
Ken Xie[6]	13,999,064	8.9
Kenneth Goldman[7]	84,164	*
Michael Xie[8]	14,341,412	9.1
John Whittle[4]	33,774	*
All directors and current executive officers as a group (9 persons)[9]	28,483,032	17.9

* Represents less than 1% of the total.

(1) Unless otherwise indicated in the table, the address for each listed person is c/o Fortinet, Inc., 1090 Kifer Road, Sunnyvale, California 94086.

(2) The number and percentage of shares beneficially owned is determined under rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days of March 31, 2012, through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares shown as beneficially owned. Percentage beneficially owned is based on 157,081,218 shares of common stock outstanding on March 31, 2012.

(3) Based solely on information reported by FMR LLC (FMR) on Schedule 13G/A filed with the SEC on February 14, 2012, FMR has sole voting power over 626,315 shares. FMR is a parent holding company and has sole dispositive power over all reported shares beneficially owned through multiple entities to which it is a direct or indirect parent. Edward C. Johnson 3rd, as chairman of FMR, has sole dispositive power with respect to all reported shares. The address of FMR and Mr. Johnson is 82 Devonshire Street, Boston, Massachusetts 02109.

(4) All shares are issuable upon exercise of options exercisable within 60 days of March 31, 2012.

37

TABLE OF CONTENTS

(5) Includes (i) 182,854 shares held of record by the Walecka 1992 Living Trust udt dated December 31, 1992 for which Mr. Walecka serves as trustee; (ii) 55,204 shares held of record by Walecka Enterprises I, L.P. (Walecka LP); and (iii) 17,812 shares issuable upon exercise of options exercisable within 60 days of March 31, 2012. Mr. Walecka is the General Manager of Walecka Capital LLC which serves as the general partner of Walecka LP.

(6) Includes (i) 12,712,650 shares held of record by Mr. Ken Xie; (ii) 601,000 shares held of record by The Xie Foundation, a non-profit entity for which Mr. Ken Xie serves as co-president and a director; and (iii) 685,414 shares issuable upon exercise of options exercisable within 60 days of March 31, 2012. Mr. Ken Xie has no pecuniary interest in and disclaims beneficial ownership of the shares held by The Xie Foundation.

(7) All shares are issuable upon exercise of options exercisable within 60 days of March 31, 2012 and include 10,666 shares held directly by G.V. Partners, L.P. for which Mr. Goldman serves as the managing member.

(8) Includes (i) 7,230,000 shares held of record by Mr. Michael Xie; (ii) 2,341,055 shares held of record by the Michael Xie Grantor Retained Annuity Trust dated February 9, 2011 for which Mr. Michael Xie serves as a trustee; (iii) 2,341,055 shares held of record by the Danke Wu Grantor Retained Annuity Trust dated February 9, 2011 for which Mr. Michael Xie serves as a trustee; (iv) 1,317,890 shares held of record by the 2010 K.A. Family Trust dated May 3, 2010 for which the Reporting Person serves as a trustee; (v) 601,000 shares held of record by The Xie Foundation, a non-profit entity for which Mr. Michael Xie serves as co-president and a director; and (v) 510,412 shares issuable upon exercise of options exercisable within 60 days of March 31, 2012. Mr. Michael Xie has no pecuniary interest in and disclaims beneficial ownership of the shares held by The Xie Foundation.

(9) Includes (i) 26,781,708 shares held of record by the current directors and executive officers; and (ii) 1,701,324 shares issuable upon exercise of options exercisable within 60 days of March 31, 2012.

TABLE OF CONTENTS

AUDIT COMMITTEE REPORT

The Audit Committee assists the Board of Directors in fulfilling its responsibilities for oversight of the integrity of Fortinet s financial statements, our internal accounting and financial controls, our compliance with legal and regulatory requirements and the qualifications, independence and performance of our independent registered public accounting firm.

The management of Fortinet is responsible for establishing and maintaining internal controls and for preparing Fortinet s consolidated financial statements. The independent registered public accounting firm is responsible for auditing the financial statements. It is the responsibility of the Audit Committee to oversee these activities.

The Audit Committee has:

Reviewed and discussed the audited financial statements with Fortinet management and with Deloitte & Touche LLP, Fortinet s independent registered public accounting firm;
Discussed with Deloitte & Touche LLP the matters required to be discussed by the Statement on Auditing Standards No. 61, Communications with Audit Committees, as amended, and as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and
Received the written disclosures and the letter from Deloitte & Touche LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Deloitte & Touche LLP s communications with the Audit Committee concerning independence and has discussed with Deloitte & Touche LLP its independence.

Based upon these discussions and review, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Fortinet s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 for filing with the United States Securities and Exchange Commission.

Respectfully submitted by the members of the Audit Committee of the Board of Directors

Christopher B. Paisley (Chairman)
Greg Myers
Hong Liang Lu

39

TABLE OF CONTENTS

OTHER MATTERS

Fortinet knows of no other matters to be submitted at the 2012 Annual Meeting. If any other matters properly come before the 2012 Annual Meeting, it is the intention of the persons named in the proxy to vote the shares they represent as the Board of Directors may recommend. Discretionary authority with respect to such other matters is granted by a properly submitted proxy.

It is important that your shares be represented at the 2012 Annual Meeting, regardless of the number of shares that you hold. You are, therefore, urged to vote as instructed in the Notice, via the Internet or by telephone as promptly as possible to ensure your vote is recorded.

THE BOARD OF DIRECTORS

Sunnyvale, California
April 27, 2012

TABLE OF CONTENTS