

FORTINET INC  
Form 10-Q  
November 07, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34511

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FORTINET, INC.  
(Exact name of registrant as specified in its charter)

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Delaware 77-0560389  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
899 Kifer Road 94086  
Sunnyvale, California  
(Address of principal executive offices) (Zip Code)  
(408) 235-7700  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

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Table of Contents

As of October 31, 2018, there were 170,370,205 shares of the registrant's common stock outstanding.

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FORTINET, INC.  
 QUARTERLY REPORT ON FORM 10-Q  
 For the Quarter Ended September 30, 2018  
 Table of Contents

|  | Page |
|--|------|
| Part I   |      |
| Item 1. <u>Financial Statements</u>  | 1    |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>                                      | 1    |
| <u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u>           | 2    |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017</u> | 3    |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>                     | 4    |
| <u>Notes to Condensed Consolidated Financial Statements</u>  | 5    |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                             | 28   |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 44   |
| Item 4. <u>Controls and Procedures</u>   | 45   |
| Part II  |      |
| Item 1. <u>Legal Proceedings</u>   | 46   |
| Item 1A. <u>Risk Factors</u>   | 46   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 74   |
| Item 6. <u>Exhibits</u>  | 74   |
| <u>Exhibit Index</u>   | 75   |
| <u>Signatures</u>  | 76   |

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Table of Contents

## Part I

## ITEM 1. Financial Statements

## FORTINET, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited, in millions, except per share amounts)

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
| ASSETS   |                       |                      |
| CURRENT ASSETS:  |                       |                      |
| Cash and cash equivalents  | \$ 1,169.3            | \$ 811.0             |
| Short-term investments   | 464.9                 | 440.3                |
| Accounts receivable—Net  | 324.4                 | 348.2                |
| Inventory  | 80.8                  | 77.3                 |
| Prepaid expenses and other current assets  | 38.7                  | 40.0                 |
| Total current assets   | 2,078.1               | 1,716.8              |
| LONG-TERM INVESTMENTS  | 38.6                  | 98.0                 |
| PROPERTY AND EQUIPMENT—NET   | 265.4                 | 245.4                |
| DEFERRED CONTRACT COSTS  | 169.6                 | —                    |
| DEFERRED TAX ASSETS  | 147.8                 | 146.9                |
| OTHER INTANGIBLE ASSETS—NET  | 18.1                  | 16.3                 |
| GOODWILL   | 25.7                  | 14.6                 |
| OTHER ASSETS   | 20.2                  | 19.9                 |
| TOTAL ASSETS   | \$ 2,763.5            | \$ 2,257.9           |
| LIABILITIES AND STOCKHOLDERS' EQUITY   |                       |                      |
| CURRENT LIABILITIES:   |                       |                      |
| Accounts payable   | \$ 66.6               | \$ 70.0              |
| Accrued liabilities  | 60.7                  | 50.0                 |
| Accrued payroll and compensation   | 85.4                  | 92.0                 |
| Income taxes payable   | 23.0                  | 21.4                 |
| Deferred revenue   | 876.2                 | 793.8                |
| Total current liabilities  | 1,111.9               | 1,027.2              |
| DEFERRED REVENUE   | 668.2                 | 542.5                |
| INCOME TAX LIABILITIES   | 80.7                  | 90.2                 |
| OTHER LIABILITIES  | 11.1                  | 8.6                  |
| Total liabilities  | 1,871.9               | 1,668.5              |
| COMMITMENTS AND CONTINGENCIES (Note 10)  |                       |                      |
| STOCKHOLDERS' EQUITY:  |                       |                      |
| Common stock, \$0.001 par value—300 shares authorized; 170.3 and 167.9 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively | 0.2                   | 0.2                  |
| Additional paid-in capital   | 1,048.4               | 909.6                |
| Accumulated other comprehensive loss   | (1.0)                 | (0.8)                |
| Accumulated deficit  | (156.0)               | (319.6)              |
| Total stockholders' equity   | 891.6                 | 589.4                |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | \$ 2,763.5            | \$ 2,257.9           |

See notes to condensed consolidated financial statements.



Table of Contents

FORTINET, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in millions, except per share amounts)

|                         | Three Months Ended |               | Nine Months Ended |               |
|-------------------------|--------------------|---------------|-------------------|---------------|
|                         | September 30,      | September 30, | September 30,     | September 30, |
|                         | 2018               | 2017          | 2018              | 2017          |
| <b>REVENUE:</b>         |                    |               |                   |               |
| Product                 | \$164.5            | \$ 137.1      | \$473.6           | \$ 415.1      |
| Service                 | 289.4              | 237.1         | 820.6             | 663.2         |
| Total revenue           | 453.9              | 374.2         | 1,294.2           | 1,078.3       |
| <b>COST OF REVENUE:</b> |                    |               |                   |               |
| Product                 | 72.0               | 58.1          | 204.1             | 174.2         |
| Service                 | 39.6               | 35.5          | 117.8             | 105.7         |
| Total cost of revenue   | 111.6              | 93.6          | 321.9             | 279.9         |
| <b>GROSS PROFIT:</b>    |                    |               |                   |               |
| Product                 | 92.5               | 79.0          | 269.5             | 240.9         |
| Service                 | 249.8              | 201.6         | 702.8             | 557.5         |
| Total gross profit      | 342.3              | 280.6         | 972.3             | 798.4         |