

FORTINET INC
Form 424B4
November 18, 2009
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-161190

PROSPECTUS

12,500,000 Shares

COMMON STOCK

Fortinet, Inc. is offering 5,781,683 shares of its common stock and the selling stockholders are offering 6,718,317 shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market exists for our shares.

Our common stock has been approved for listing on The Nasdaq Global Market under the symbol FTNT.

Investing in our common stock involves risks. See Risk Factors beginning on page 10.

PRICE \$12.50 A SHARE

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	<i>Underwriting</i>			
	<i>Price to</i>	<i>Discounts and</i>	<i>Proceeds to</i>	<i>Proceeds to</i>
	<i>Public</i>	<i>Commissions</i>	<i>Fortinet</i>	<i>Selling Stockholders</i>
<i>Per share</i>	\$12.50	\$0.875	\$11.625	\$11.625
<i>Total</i>	\$156,250,000	\$10,937,500	\$67,212,065	\$78,100,435

We have granted the underwriters the right to purchase up to an additional 1,875,000 shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on November 23 , 2009.

MORGAN STANLEY

J.P. MORGAN

DEUTSCHE BANK SECURITIES

ROBERT W. BAIRD & CO.

RBC CAPITAL MARKETS

THINKEQUITY LLC

JMP SECURITIES

SIGNAL HILL

November 17, 2009

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You should rely only on the information contained in this prospectus and in any free writing prospectus. We, the underwriters and the selling stockholders have not authorized anyone to provide you with information different from that contained in this prospectus. We, the underwriters and the selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

Until December 12, 2009 (25 days after the commencement of this offering), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside of the United States, neither we, the selling stockholders nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside of the United States.

Fortinet, FortiAnalyzer, FortiASIC, FortiClient, FortiGate, FortiGuard, FortiMail, FortiManager and FortiWiFi are trademarks of Fortinet, Inc. in the United States and other countries. This prospectus also includes other trademarks of Fortinet and trademarks of other persons.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. Before deciding to invest in shares of our common stock, you should read this summary together with the more detailed information, including our consolidated financial statements and the related notes, elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in Risk Factors, our consolidated financial statements and related notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, in each case included elsewhere in this prospectus.

FORTINET, INC.

Overview

We have pioneered an innovative, high performance network security solution to the fundamental problems of an increasingly bandwidth-intensive network environment and a more sophisticated IT threat landscape. We are a leading provider of network security appliances and the market leader in Unified Threat Management, or UTM. Through our products and subscription services, we provide broad, integrated and high performance protection against dynamic security threats while simplifying the IT security infrastructure for enterprises, service providers and government entities worldwide.

IT security and regulatory compliance have become increasingly complex for organizations, driving continued spending on solutions despite a cautious overall IT spending environment. The increasing sophistication of hackers and the rise of new Web applications have significantly multiplied the volume, intensity and diversity of security threats. Organizations have traditionally responded to security threats by deploying numerous standalone security point products within their network, such as gateway antivirus, firewall, intrusion prevention and Web filtering devices. This approach results in management complexity and a high total cost of ownership, leading to the need for a vendor that can integrate multiple security functions onto a single platform while maintaining high performance. Through our core focus on security innovation, we have built our UTM solution to address these problems. Our solution incorporates our proprietary application-specific integrated circuits, or ASICs, hardware architecture, operating system and set of associated security and networking functions to defend against multiple categories of IT security attacks without significantly impacting network performance, all while reducing point product complexity and cost.

We are the leading worldwide provider of UTM appliances, with a 15.4% share of the UTM appliance market for the second quarter of 2009, as determined by IDC.⁽¹⁾ IDC forecasts that the UTM market will grow from \$1.3 billion in 2007 to \$3.5 billion in 2012,⁽²⁾ representing a compounded annual growth rate of 22.3%. Based on IDC data, the UTM market is the fastest growing segment within the network security market, which was \$6.8 billion in 2007.⁽²⁾ As of September 30, 2009, we had shipped over 475,000 appliances to more than 5,000 channel partners and 75,000 end-customers worldwide, including a majority of the 2009 Fortune Global 100.

Our total revenue was \$123.5 million, \$155.4 million, and \$211.8 million for fiscal years 2006, 2007, and 2008, respectively, and was \$152.7 million and \$181.4 million for the first nine months of fiscal 2008 and 2009, respectively. Our business is geographically diversified, with 37% of our total revenue from the Americas, 37% from Europe, Middle East and Africa, or EMEA, and 26% from Asia Pacific countries, or APAC, for the first nine months of fiscal 2009. We have generated positive cash flow from operations since fiscal 2005, growing our cash

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- (1) IDC Worldwide Security Appliances Tracker, September 2009.
- (2) Worldwide Network Security 2008-2012 Forecast and 2007 Vendor Shares: Transitions Appliances Are More Than Meets the Eye, Doc #214246, October 2008.

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flow from operations from \$3.4 million in fiscal 2005 to \$37.7 million in fiscal 2008 and to \$45.8 million for the first nine months of fiscal 2009. Subscription and support services, which represented approximately half of our total revenue for fiscal 2008 and the first nine months of fiscal 2009, are a significant source of recurring revenue.

Our Solution

Our flagship UTM solution consists of our FortiGate appliance product line and our FortiGuard security subscription services, which together provide a broad array of security and networking functions, including firewall, virtual private network, or VPN, antivirus, intrusion prevention, Web filtering, antis spam, and wide area network, or WAN, acceleration. Our FortiGate appliances, from the FortiGate-50 for small businesses and branch offices to the FortiGate-5000 series for large enterprises and service providers, are based on our proprietary technology platform. This platform includes our FortiASICs, which are specifically designed for accelerated processing of security and networking functions, and our FortiOS operating system, which provides the foundation for all of our security functions. Our FortiGuard security subscription services provide end-customers with access to dynamic updates to our antivirus, intrusion prevention, Web filtering and antis spam functionality based on intelligence gathered by our dedicated FortiGuard Labs team. By combining multiple proprietary security and networking functions with our purpose-built FortiASIC and FortiOS, our FortiGate UTM solution delivers broad protection against dynamic security threats while reducing the operational burden and costs associated with managing multiple point products.

We complement our FortiGate product line with a family of FortiManager appliances, which enable end-customers to manage the system configuration and security functions of multiple FortiGate appliances from a centralized console, as well as FortiAnalyzer appliances, which enable collection, analysis and archiving of content and log data generated by our products. We also offer other appliances and software that protect our end-customers from security threats to other critical areas in the enterprise, such as messaging, Web-based traffic and databases, and employees' computers or handheld devices.

Key benefits of our solution include:

Accelerated, high performance unified threat management. We offer a high performance UTM solution based on our proprietary technology platform, comprised of our FortiASICs and FortiOS. Our FortiASICs are designed to accelerate the computationally intensive tasks required to secure networks in today's sophisticated threat environment while also delivering faster network performance than traditional network security solutions.

High quality security functionality. Our broad set of integrated, high quality security functions enables the most sophisticated and demanding end-customers to avoid the shortcomings of a traditionally fragmented security point product infrastructure. Organizations such as ICSA Labs and The NSS Group have certified the quality of our security functionality and our products have received Federal Information Processing Standard, or FIPS, Common Criteria EAL4+, and Network Equipment Building System, or NEBS, certifications, among others. The fact that many large organizations, including a majority of the 2009 Fortune Global 100, have deployed our solution is a testament to the quality of our offering.

Lower total cost of ownership. By consolidating security functionality, reducing network complexity, integrating high performance capabilities and centralizing management functions, our UTM solution is designed to lower our end-customers' total cost of ownership compared to multiple point products.

Superior flexibility and ease of deployment. Our UTM solution enables end-customers to activate additional security functions and subscription services on an on-demand basis as their security needs evolve.

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Dedicated, real-time security intelligence. Through our subscription services, our FortiGuard Labs team of over 100 professionals is able to provide real time security intelligence 24 hours a day, seven days a week and 365 days a year by enabling rapid updates to our end-customers' security products and delivering the latest counter-measures to emerging network security threats.

Broad, end-to-end security protection. We offer a broad range of appliances and software to help end-customers defend against a myriad of security threats at many critical areas throughout the organization, including within the network through our UTM solution, but also in areas such as messaging, Web-based traffic and databases, and employees' computers or handheld devices, through our other offerings.

Our Strategy

Key elements of our strategy include the following:

extend our UTM leadership through continued investment in research and development in our FortiASIC and FortiOS, and integration of other functions to expand the value proposition of UTM;

continue our security focus in the broader network security market and expand into additional security segments;

continue to increase our sales to new large enterprise, service provider and government customers;

further expand sales within our existing customer base by selling additional FortiGate appliances and complementary products and services;

continue to build and optimize our worldwide channel partner footprint; and

further enhance the security threat research capabilities that support our FortiGuard real-time security subscription services.

Selected Risk Factors

Investing in our common stock involves risks. You should carefully read "Risk Factors" beginning on page 10 for an explanation of these risks before investing in our common stock. In particular, the following considerations, among others, may offset our competitive strengths or have a negative effect on our growth strategy, which could cause a decline in the price of our common stock and result in a loss of all or a portion of your investment:

we may not maintain profitability or continue growth;

our quarterly operating results are likely to vary and be unpredictable, which could cause our stock price to decline;

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reliance on a concentration of shipments at the end of the quarter could cause our revenue to fall below expectations of securities analysts and investors, resulting in a decline in our stock price;

insufficient inventory may result in lost sales opportunities or delayed revenue, while excess inventory may harm gross margins;

we rely on our channel partners to generate substantially all of our revenue, and a failure of partners to perform will harm our ability to grow;

the average sale prices of our products or services may decrease;

defects in our products or services could harm our reputation and results;

we face intense competition, especially from larger companies; and

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a significant deferral of revenue, for example, based on an inability to establish fair value for any products or services, could cause our revenue for any quarter to fall below expectations of securities analysts and investors, resulting in a decline in our stock price.

Corporate Information

We were incorporated as a Delaware corporation in November 2000. Our principal executive office is located at 1090 Kifer Road, Sunnyvale, California 94086. Our telephone number at that location is (408) 235-7700. Our website address is *www.fortinet.com*. We do not incorporate the information on or accessible through our website into this prospectus, and you should not consider any information on, or that can be accessed through, our website as part of this prospectus. Except where the context requires otherwise, in this prospectus the Company, Fortinet, we, us, and our refer to Fortinet, Inc. and, where appropriate, its subsidiaries.

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THE OFFERING

Shares of common stock offered by us	5,781,683 shares
Shares of common stock offered by the selling stockholders	6,718,317 shares
Total	12,500,000 shares
Shares of common stock to be outstanding after this offering	64,393,969 shares
Over-allotment option to be offered by us	1,875,000 shares

Use of proceeds

We expect our net proceeds from this offering will be approximately \$66.2 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us and after giving effect to estimates of certain expenses that we expect to be reimbursed. We plan to use the net proceeds to us from this offering for working capital and other general corporate purposes. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders. See Use of Proceeds.

Risk Factors

You should read the Risk Factors section of this prospectus for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.

Nasdaq Global Market symbol

FTNT

The number of shares of our common stock that will be outstanding after this offering is based on 58,612,286 shares outstanding at September 30, 2009, and excludes:

17,488,988 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2009 (including 243,730 shares that we expect to be sold in this offering by certain selling stockholders upon the exercise of vested options immediately prior to the closing of this offering), at a weighted-average exercise price of \$4.88 per share;

300,025 shares of common stock issuable upon the exercise of options granted after September 30, 2009, at an exercise price of \$11.00 per share;

291,000 shares of common stock issuable upon the exercise of warrants outstanding as of September 30, 2009 (including 150,000 shares that we expect to be sold in this offering by a selling stockholder upon the exercise of a warrant immediately prior to the closing of this offering), at a weighted-average exercise price of \$7.07 per share; and

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9,000,000 shares of common stock reserved for future issuance under our 2009 Equity Incentive Plan.

Unless otherwise indicated, all information in this prospectus assumes:

the automatic conversion of all outstanding shares of our convertible preferred stock into an aggregate of 37,475,835 shares of common stock upon the closing of this offering; and

no exercise by the underwriters of their right to purchase up to 1,875,000 shares of common stock from us to cover over-allotments.

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SUMMARY CONSOLIDATED FINANCIAL DATA

We present below our summary consolidated financial data. The summary consolidated statements of operations data for the fiscal years 2006, 2007 and 2008 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statements of operations data for the first nine months of fiscal 2008 and 2009 and the summary consolidated balance sheet data as of September 30, 2009 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, that management considers necessary for the fair presentation of the financial information set forth in those statements. The historical results presented below are not necessarily indicative of financial results to be achieved in future periods, and the results for the first nine months of fiscal 2009, are not necessarily indicative of results to be expected for the full year or for any other period. You should read this information together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited consolidated financial statements and related notes, each included elsewhere in this prospectus.

The additional key metrics presented are used in addition to the financial measures reflected in the consolidated statements of operations and balance sheet data to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess operational efficiencies. We assess the increase in deferred revenue balance at the end of a period plus revenue we recognize in that period as a measure of our sales activity for that period. We monitor cash flow from operations as a measure of our overall business performance.

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	Fiscal Year ⁽¹⁾			Nine Months Ended	
	2006	2007	2008	September 28, 2008	September 30, 2009 ⁽²⁾
(in thousands, except per share data)					
Consolidated Statement of Operations Data:					
Revenue					
Product	\$ 59,469	\$ 70,131	\$ 94,587	\$ 68,395	\$ 69,327
Services	39,590	74,152	105,292	75,394	101,758
Ratable product and services	24,407	11,083	11,912	8,936	10,318
Total revenue	123,466	155,366	211,791	152,725	181,403
Cost of revenue					
Product ⁽³⁾	24,166	35,948	41,397	29,420	29,049
Services ⁽³⁾	9,496	15,941	19,441	14,751	15,955
Ratable product and services	7,302	4,763	4,634	3,447	4,062
Total cost of revenues	40,964	56,652	65,472	47,618	49,066
Gross profit					
Product	35,303	34,183	53,190	38,975	40,278
Services	30,094	58,211	85,851	60,643	85,803
Ratable product and services	17,105	6,320	7,278	5,489	6,256
Total gross profit	82,502	98,714	146,319	105,107	132,337
Operating expenses					
Research and development ⁽³⁾	21,446	27,588	37,035	28,186	31,207
Sales and marketing ⁽³⁾	54,056	72,159	87,717	65,900	69,572
General and administrative ⁽³⁾	12,997	20,544	16,640	12,367	13,678
Total operating expenses	88,499	120,291	141,392	106,453	114,457
Operating income (loss)	(5,997)	(21,577)	4,927	(1,346)	17,880
Interest income	2,376	3,507	2,614	1,872	1,677
Other income (expense), net	(503)	(1,991)	1,710	171	