Exhibit A-3

IronPorts's audited consolidated balance sheets as of December 31, 2005, December 31, 2004 and the related consolidated statements of operations and consolidated statements of cash flows for the fiscal years ended December 31, 2004 and 2005

IronPort Systems, Inc.

Consolidated Financial Statements
December 31, 2005 and 2004

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Report of Independent Auditors

To the Board of Directors and Stockholders
of IronPort Systems, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of IronPort Systems, Inc. and its subsidiaries at December 31, 2005 and December 31, 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

June 26, 2006

IronPort Systems, Inc.
Consolidated Balance Sheets
December 31, 2005 and 2004

(in thousands, except per share amounts)	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 22,295	$ 44,043
Accounts receivable, net of allowance of $434 and $128, respectively	20,061	14,433
Inventories, net	2,948	2,609
Prepaid expenses and other current assets	13,422	4,502
Total current assets	58,726	65,587
Property and equipment, net	4,387	2,151
Intangible assets, net	1,863	106
Restricted certificate of deposit (Note 6)	500	415
Other non-current assets	6,969	7,405
Total assets	$ 72,445	$ 75,664
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	1,936	1,542
Royalties payable	8,321	4,575
Accrued compensation and related benefits	6,032	3,055
Deferred revenue	43,983	20,150
Deferred income	1,456	-
Other current liabilities	3,458	1,885
Total current liabilities	65,186	31,207
Non-current liabilities		
Deferred revenue, less current portion	19,985	11,791
Deferred income, less current portion	1,820	-
Other non-current liabilities	1,230	2,019
Total liabilities	88,221	45,017
Commitments and contingencies (Note 6)		
Stockholders' equity (deficit)		
Convertible Preferred Stock; $0.0001 par value; 79,167 shares authorized; 76,132 and 73,844 shares issued and outstanding, respectively; liquidation value at December 31, 2005 of $89,695	8	7
Common Stock: $0.0001 par value; 115,000 and 112,500 shares authorized, respectively; 16,893 and 14,293 shares issued and outstanding, respectively, excluding 1,038 and 602 shares subject to repurchase, respectively	2	1
Additional paid-in capital	91,959	89,880
Accumulated deficit	(107,745)	(59,241)
Total stockholders' equity (deficit)	(15,776)	30,647
Total liabilities and stockholders' equity (deficit)	$ 72,445	$ 75,664

The accompanying notes are an integral part of these consolidated financial statements.

IronPort Systems, Inc.
Consolidated Statements of Operations
December 31, 2005 and 2004

(in thousands)		2005		2004
Revenues	$	40,675	$	16,180
Cost of revenues		21,470		7,350
Gross profit		19,205		8,830
Operating expenses				
Research and development (includes stock-based compensation expense of $28 and $23, respectively)		16,798		9,366
Sales and marketing (includes stock-based compensation expense of $57 and $28, respectively)		46,503		28,737
General and administrative (includes stock-based compensation expense of $56 and $88, respectively)		5,892		5,442
Total operating expenses		69,193		43,545
Loss from operations		(49,988)		(34,715)
Interest and other income, net		1,734		272
Interest expense		(49)		(161)
Loss before taxes		(48,303)		(34,604)
Tax expense		(201)		(60)
Net loss	$	(48,504)	$	(34,664)

The accompanying notes are an integral part of these consolidated financial statements.

IronPort Systems, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
Years Ended December 31, 2005 and 2004

(in thousands, except per share amounts)	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balance at December 31, 2003	54,894	$ 5	13,329	$ 1	$ 44,525	$ (24,577)	$ 19,954
Issuance of Series D Convertible Preferred Stock at $2.40 per share, net of issuance costs of $91 in October 2004	18,750	2	-	-	44,907	-	44,909
Exercise of warrants for Series B Convertible Preferred Stock	200	-	-	-	120	-	120
Issuance of Series C Preferred Stock Warrants	-	-	-	-	58	-	58
Issuance of common stock warrants	-	-	-	-	22	-	22
Issuance of restricted stock	-	-	1	-	-	-	-
Issuance of common stock to employees and consultants, net of repurchases and repurchase liability for early exercises	-	-	259	-	92	-	92
Vesting of options exercised prior to vesting	-	-	704	-	17	-	17
Modifications to employee options	-	-	-	-	66	-	66
Non-employee option expense	-	-	-	-	73	-	73
Net loss	-	-	-	-	-	(34,664)	(34,664)
Balance at December 31, 2004	73,844	7	14,293	1	89,880	(59,241)	30,647
Issuance of Series D Convertible Preferred Stock at $2.40 per share, in February 2005	125	-	-	-	300	-	300
Exercise of warrants for Series B Convertible Preferred Stock	2,163	1	-	-	783	-	784
Issuance of restricted stock	-	-	150	-	120	-	120
Deferred stock-based compensation associated with restricted stock					(120)		(120)
Amortization of stock-based compensation	-	-	-	-	30	-	30
Issuance of common stock to employees and consultants, net of repurchases and repurchase liability for early exercises	-	-	1,860	1	732	-	733
Vesting of options exercised prior to vesting	-	-	590	-	123	-	123
Modifications to employee options	-	-	-	-	93	-	93
Non-employee option expense	-	-	-	-	18	-	18
Net loss	-	-	-	-	-	(48,504)	(48,504)
Balance at December 31, 2005	76,132	$ 8	16,893	$ 2	$ 91,959	$ (107,745)	$ (15,776)

The accompanying notes are an integral part of these consolidated financial statements.

IronPort Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2005 and 2004

(in thousands)	2005	2004
Cash flows from operating activities		
Net loss	$ (48,504)	$ (34,664)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,740	846
Amortization of intangible assets	399	72
Amortization of deferred income	(912)	-
Noncash interest expense	-	80
Stock-based compensation	141	139
Provision for accounts receivable allowance	459	240
Loss on disposal of fixed assets	(2)	(7)
Changes in operating assets and liabilities		
Accounts receivable	(6,122)	(10,890)
Inventories	(339)	(1,252)
Prepaid expenses and other current and non-current assets	(6,350)	(11,653)
Accounts payable	394	309
Royalties payable	2,575	5,777
Accrued compensation and related benefits	2,976	1,946
Deferred revenue	32,236	26,751
Other current and non-current liabilities	2,128	313
Net cash used in operating activities	(19,181)	(21,993)
Cash flows from investing activities		
Acquisition of business, net of cash acquired (Note 2)	(2,233)	-
Proceeds from sale of assets (Note 3)	1,900	-
Purchase of investments	(7,385)	-
Proceeds from sale of investments	7,385	-
Increase in restricted certificate of deposit	(85)	(95)
Purchase of property and equipment	(3,966)	(1,657)
Net cash used in investing activities	(4,384)	(1,752)
Cash flows from financing activities		
Proceeds from convertible promissory notes	-	15,000
Proceeds from issuance of common stock, net of repurchases	733	92
Proceeds from issuance of convertible preferred stock, net of issuance costs	300	29,909
Exercise of warrants for Series B Convertible Preferred Stock	784	120
Net cash provided by financing activities	1,817	45,121
Net increase (decrease) in cash and cash equivalents	(21,748)	21,376
Cash and cash equivalents at beginning of year	44,043	22,667
Cash and cash equivalents at end of year	$ 22,295	$ 44,043
Supplemental cash flow information		
Stock received from sale of assets (Note 3)	$ 2,106	$ -
Issuance of restricted stock in connection with a business acquisition (Notes 2 and 8)	120	-
Conversion of convertible promissory notes to convertible preferred stock (Notes 5 and 7)	-	15,000
Issuance of Series C Preferred Stock warrants (Notes 5 and 7)	-	58
Issuance of common stock warrants (Notes 5 and 8)	-	22
Cash paid for interest	5	56
Cash paid for taxes	186	60

The accompanying notes are an integral part of these consolidated financial statements.

1. The Company and Summary of Significant Accounting Policies

The Company
IronPort Systems, Inc. (the "Company"), was incorporated in Delaware in December 2000 and is headquartered in San Bruno, California. The Company is a leading provider of email and Web gateway security appliances to businesses of all sizes. Our gateway security appliances help companies meet major network security challenges such as stopping email spam, computer viruses and other Internet-distributed malware.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

Revenue Recognition
The Company derives its revenue primarily through two sources: (i) product revenues, which include term-based software licenses and hardware and (ii) service revenues, which include support and maintenance, training and consulting.

The Company applies the provisions of Statement of Position ("SOP") 97-2, *Software Revenue Recognition*, as amended ("SOP 97-2"), and related interpretations, to all transactions involving the sale of hardware and software products, as well as support and maintenance. In addition, some transactions include training and consulting. SOP 97-2 generally requires revenues earned on software arrangements involving multiple elements such as software products, support and maintenance, consulting services and training to be allocated to each element based on the relative fair values of these elements. The fair value of an element must be based on vendor-specific objective evidence ("VSOE") of fair value. Evidence of the fair value of each element is based on the price charged when the element is sold separately or, if the element is not being sold separately, the price for each element established by management having relevant authority if it is probable that the price, once established, will not change before the separate introduction of the element into the marketplace. Substantive renewal terms for maintenance services included in contracts also serve as evidence of fair value for such service. Revenue is generally recognized when all of the following criteria are met as set forth in paragraph 8 of SOP 97-2:

- persuasive evidence of an arrangement exists,
- delivery has occurred,
- the fee is fixed or determinable, and
- collectibility is probable.

Receipt of a customer purchase order or contract is persuasive evidence of an arrangement. Sales through our distribution channel are evidenced by an agreement governing the relationship together with purchase orders on a transaction-by-transaction basis.

Delivery generally occurs when product is delivered to a common carrier by the Company.

The Company's fees are typically considered to be fixed or determinable at the inception of an arrangement and are negotiated at the outset of an arrangement, generally based on specific products and quantities to be delivered. In the event payment terms are provided that differ significantly from our standard business practices, which are generally ninety days or less, the fees are deemed to not be fixed or determinable and revenue is recognized as the fees become due and payable.

We assess collectibility based on number of factors, including credit worthiness of the customer and past transaction history of the customer.

Through December 31, 2005, the Company has not experienced any significant sales returns and, accordingly, does not have a sales returns and allowances reserve.

The Company has analyzed all of the elements included in its multiple element arrangements and has determined that is does not have sufficient VSOE of fair value to allocate revenue to its term-based software license arrangements and support and maintenance. Accordingly, all revenue is recognized ratably over the period of the arrangement, which is typically 12 to 36 months.

The Company has determined that it does have VSOE for training based upon separate sales of training to customers. Training revenue is recognized as the training is provided.

No one customer accounted for more than 10% of revenues in the years ended December 31, 2005 and 2004.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at their fair market values, which are determined based on quoted market prices. Cash and cash equivalents are as follows at December 31 (in thousands):

	2005	2004
Cash	$ 3,336	$ 1,347
Money market funds (cash equivalents)	18,959	42,696
Total cash and cash equivalents	$ 22,295	$ 44,043

Restricted Certificate of Deposit

At December 31, 2005 and 2004, the Company had a restricted certificate of deposit in the amount of $500,000 and $415,000, respectively, in connection with a lease agreement for its facilities (Note 6).

Concentration of Credit Risk
Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents and accounts receivable. The Company deposits cash and cash equivalents with high credit quality financial institutions. The risk from accounts receivable is mitigated through the creditworthiness of the Company's customers. The Company sells its products both domestically and internationally and generally does not require its customers to provide collateral or other security. In addition, the Company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of accounts receivable. At December 31, 2005 and 2004, one customer accounted for approximately 11% and 41% of accounts receivable, respectively.

Inventories
Inventories consist primarily of finished goods and raw materials and are stated at the lower of cost (on a first-in, first-out basis) or market. We record inventory reserves for all evaluation units outstanding with customers for greater than six months, as well as for excess and obsolete inventories based on historical usage and forecasted demand. If future demand or market conditions are less favorable than our projections, additional inventory write-downs may be required and would be reflected in cost of sales in the period the revision is made. Total inventories, net, are as follows at December 31 (in thousands):

	2005	2004
Finished goods	$ 3,185	$ 2,409
Raw materials	1,155	345
Total	4,340	2,754
Less: Inventory reserve	(1,392)	(145)
Total inventories, net	$ 2,948	$ 2,609

Long-Lived Assets
In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*" ("SFAS 144"), the Company evaluates long-lived assets, including intangible assets other than goodwill, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which are generally three years. Amortization of leasehold improvements and certain furniture, fixtures and equipment associated with Company's San Bruno facility is computed using the straight-line method over the shorter of the lease term or the estimated useful life of the asset or improvement. Total property and equipment, net, is as follows at December 31 (in thousands):

	2005	2004
Computer hardware	$ 5,390	$ 2,998
Computer software	384	103
Furniture, fixtures and equipment	915	162
Leasehold improvements	593	275
Total	7,282	3,538
Less: Accumulated depreciation and amortization	(2,895)	(1,387)
Total property and equipment, net	$ 4,387	$ 2,151

Depreciation and amortization expense for the years ended December 31, 2005 and 2004 was approximately $1.7 million and $846,000, respectively.

Intangible Assets

The following table represents the details of the intangible assets acquired in the acquisition of iMimic Networking, Inc. ("iMimic") discussed in Note 2 of these consolidated financial statements (in thousands):

	Amount	Estimated Useful Life in Years
Software	$ 1,250	3
Customer contracts and relationships	500	2
Technology	405	1
	$ 2,155	

The carrying amount of the Company's total intangible assets is as follows at December 31 (in thousands):

2005	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Software	$ 1,250	$ -	$ 1,250
Customer contracts and relationships	510	(211)	299
Technology	603	(290)	313
Other	5	(4)	1
	$ 2,368	$ (505)	$ 1,863

2004	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Customer contracts and relationships	$ 10	$ (5)	$ 5
Technology	198	(99)	99
Other	5	(3)	2
	$ 213	$ (107)	$ 106

Amortization expense for the years ended December 31, 2005 and 2004 was approximately $399,000 and $71,000, respectively, and is included in cost of revenues in the accompanying consolidated statements of operations.

Based on the intangible assets balance at December 31, 2005, the estimated future amortization expense for these intangible assets is as follows (in thousands):

Year	**Amount**
2006	$ 696
2007	542
2008	417
2009	208
	$ 1,863

Stock-Based Compensation
Pursuant to SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), the Company accounts for employee stock options under Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and follows the disclosure-only provisions of SFAS 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure, an amendment of FASB Statement No. 123*. Under APB 25, compensation expense is based on the difference, if any, on the date of the grant, between the estimated fair value of the Company's shares and the exercise price of options to purchase that stock. For purposes of estimating the compensation cost of the Company's option grants in accordance with SFAS 123, the fair value of each option grant is estimated on the date of grant using the minimum value method.

The Company has one stock-based employee compensation plan. As all options have been granted with exercise prices equal to the deemed fair value of the shares at the grant date, no stock-based employee compensation cost has been recognized under the stock-based employee compensation plan. Had compensation cost for the Company's stock-based compensation plan been determined consistent with SFAS 123, the Company's pro forma net loss would have differed from the amount reported as its net loss, as illustrated in the following table at December 31 (in thousands):

	2005	2004
Net loss - as reported	$ (48,504)	$ (34,664)
Deduct: Total stock-based employee compensation expense determined under a fair value based method	(695)	(258)
Net loss - proforma	$ (49,199)	$ (34,922)

The Company's calculations are based on a single option award approach using the straight-line method, and forfeitures are recognized as they occur. The fair value of each employee option grant is estimated on the date of grant using the minimum value method with the following weighted average assumptions at December 31:

	2005	2004
Risk-free interest rate	3.95%	3.93%
Expected average life	6.94	6.98
Expected dividends	0%	0%

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes pricing model with the following assumptions: dividend yield at 0%; weighted average expected option term of 7 years, with certain options having an expected term of 1 year; risk free interest rates of 3.20% to 4.18% and 2.13% to 4.24% for the years ended December 31, 2005 and 2004, respectively. The weighted average fair value of options granted to employees during 2005 and 2004 was $0.188 and $0.141, respectively.

The Company accounts for equity instruments issued to nonemployees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force ("EITF") Issue 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services ("EITF 96-18")*. Equity instruments issued to nonemployees are measured at fair value using the Black-Scholes pricing model and charged to expense using the straight-line method over the vesting period of the options. In 2005 and 2004, the Company recognized approximately $18,000 and $73,000, respectively, in nonemployee option expense. The fair value of options granted to nonemployees were estimated using the following weighted average assumptions at December 31:

	2005	2004
Risk-free interest rate	4.11%	4.00%
Expected average life	10.00	10.00
Expected dividends	0%	0%
Volatility	60%	60%

In addition, the Company modified certain stock options previously granted to employees. In 2005 and 2004, the Company recognized compensation expense of approximately $93,000 and $66,000, respectively, related to these options.

Software Development Costs
Costs incurred in the research and development of new software products are expensed as incurred until technological feasibility has been established at which time such costs are capitalized, subject to a net realizable value evaluation. Technological feasibility is established upon the completion of an integrated working model. Once a new product is ready for general release, costs are no longer capitalized. Costs incurred between completion of the working model and the point at which the product is ready for general release have not been significant. Accordingly, the Company has charged all costs to research and development expense in the period incurred.

Foreign Currency Transactions
The Company's sales to international customers are U.S. dollar-denominated. As a result, there are no foreign currency gains or losses related to these transactions. The functional currency for the Company's foreign subsidiaries is the U.S. dollar. Accordingly, the entities remeasure monetary assets and liabilities at period-end exchange rates, while nonmonetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average rates in effect during the year. Remeasurement adjustments are recognized in income as transaction gains or losses in the year of occurrence. To date, the effect of such amounts on net income has not been significant.

Recently Issued Accounting Pronouncements
In May 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* ("SFAS 150"). SFAS 150 requires companies to classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that requires a transfer of assets and that meets the definition of liabilities in Concepts Statement 6 and other recognition criteria in SFAS No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, be reported as a liability. SFAS 150 also requires that certain obligations that could be settled by issuance of an entity's equity but lack other characteristics of equity be reported as liabilities even though the obligation does not meet the definition of liabilities in Concepts Statement No. 6. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2004, and otherwise is effective beginning after June 15, 2004. The adoption of SFAS 150 did not have a material effect on our consolidated financial statements.

In December 2004, the FASB issued a revision to Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* ("FIN 46R"). FIN 46R clarifies the application of ARB No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. Among other changes, the revisions of FIN 46R (a) clarified some requirements of the original FIN 46, which had been issued in January 2004, (b) eased some implementation matters and (c) added new scope exceptions. Among the scope exceptions, companies are not required to apply FIN 46R to an entity that meets the criteria to be considered a "business" as defined in the Interpretation unless one or more of four named conditions exist. FIN 46R applies immediately to a VIE created or acquired after January 31, 2004. The adoption of the required provisions of the revised FIN 46 did not have a material effect on our consolidated financial statements.

In December 2004, the FASB issued SFAS 123(R), *Share Based Payments*, which the Company will adopt in 2006. SFAS 123(R) will result in the recognition of substantial compensation expense relating to our employee stock option plan. The Company currently uses the intrinsic value method to measure compensation expense for stock-based awards to its employees. Under this standard, the Company generally does not recognize any compensation related to stock option grants the Company issues under its stock option plan. Under the new rules, the Company is required to adopt one of the fair-value-based methods for measuring the compensation expense related to employee stock awards, as well as select a transition method as provided under SFAS 123(R). The Company has not yet determined which fair-value-based method or transition method it will adopt. The paragraph entitled *Stock-Based Compensation* included in Note 1 to these consolidated financial statements provides the pro forma net loss as if the Company had used a fair-value-based method similar to the methods required under SFAS 123(R) to measure the compensation expense for employee stock options during the years ended December 31, 2005 and 2004. The adoption of SFAS 123(R) is expected to have a material effect on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets — An Amendment of APB Opinion No. 29* ("SFAS 153"). The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendment eliminates the narrow exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." The provisions in SFAS 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this standard on July 1, 2005 did not have a material effect on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* ("SFAS 154"). This new standard replaces APB Opinion 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS 154 also provides that a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and that corrections of previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this standard is not expected to have a material effect on our consolidated financial statements.

2. Acquisition

In June 2005, the Company acquired all of the outstanding common stock of iMimic, a privately held company located in Houston, Texas. iMimic develops and markets a leading platform for Internet Edge and CDN services, with award-winning proxy and reverse proxy services already provided as integral components of its DataReactor and EdgeReactor products. Running on industry-standard operating systems like FreeBSD, Linux and Solaris, the iMimic Reactor platform substantially cuts cost and time-to-market for developers of innovative edge services. The iMimic acquisition enables IronPort to launch a line of Web Security Appliances that offer high performance and scalability to large customers, and provide a comprehensive perimeter defense against a broad range of spyware and Web-based malware.

The aggregate purchase price of iMimic was approximately $2.2 million, including acquisition costs. The acquisition was accounted for under the purchase method of accounting and, accordingly, the purchase price was allocated to the tangible and intangible assets acquired on the basis of their fair value at the acquisition date, using established valuation techniques in the high technology industry. The following table presents the allocation of the acquisition costs, including professional fees and other related acquisition costs, to the assets acquired and liabilities assumed (in thousands):

Accounts receivable	$	63
Prepaids and other current assets		26
Fixed assets, net		8
Intangible assets		2,155
Other assets		4
Deferred revenue		(23)
Net assets acquired	$	2,233

Of the $2.2 million in intangible assets, $1.3 million was assigned to software, approximately $500,000 was assigned to customer contracts and relationships and approximately $405,000 was assigned to technology. These intangible assets have useful lives ranging from 12 to 36 months. All of the intangible assets are expected to be deductible for tax purposes.

In addition, the Company issued 150,000 shares of restricted common stock valued at $0.80 per share to three former iMimic advisors in exchange for consulting services covering a two year period subsequent to the acquisition. The restricted common stock vests monthly over the two year consulting period and in the event that the advisor agreements are terminated prior to the expiration of the two year period, the unvested shares are subject to repurchase by the Company at $0.0001 per share. Stock-based compensation associated with these shares totaled $30,000 for the year ended December 31, 2005.

The Company will also pay up to $200,000 in retention bonuses to two former iMimic employees to incent the employees to remain with the Company. So long as the employee still remains employed with the Company on the one year anniversary of the acquisition, the cash bonuses will be paid in full. The retention bonuses are being accrued to bonus expense over the one-year period on a straight-line basis.

iMimic's results of operations have been included in the consolidated financial statements since the date of acquisition. Pro forma results of operations have not been presented as the results were not material for all periods presented.

3. Sale of Assets

In March 2005, the Company sold certain assets to Return Path, Inc. ("Return Path") associated with the Company's Bonded Sender Program under an Asset Purchase Agreement. Under the Asset Purchase Agreement, the Company received approximately $2.1 million in Return Path preferred and common stock. Those shares were valued at the then current price ascribed to other sales of Return Path's preferred and common stock. In conjunction with the Asset Purchase Agreement, the Company entered into two additional agreements with Return Path, a License Agreement and a Transitional Services Agreement. Under the License Agreement, the Company received $1.0 million in cash to provide Return Path with certain data over a three year period. The License Agreement also requires Return Path to provide the Company with certain data over the same three year period. Under the Transitional Services Agreement, the Company received $900,000 in cash to provide services to transition the operations of the Bonded Sender Program to Return Path. All three agreements were accounted for as a single arrangement under the guidance of EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. As the Company did not have fair value for the undelivered transition services, the entire arrangement was deferred and is being recognized ratably over a three year period. In addition, as this arrangement is outside the normal course of business of the Company, the associated revenue is being recorded as other income. The Company recognized approximately $912,000 under this arrangement in the year ended December 31, 2005, which is included in interest and other income, net, in the accompanying consolidated statements of operations.

4. Related Parties

Our Chief Executive Officer is a board member of Return Path. The Company believes all transactions with Return Path discussed in Note 3 were entered into at fair value.

5. Financings

Loan and Security Agreement
In July 2004, the Company entered into a Loan and Security Agreement under which the Company could have borrowed up to $8.0 million. Interest rates under the agreement ranged from 5.85% to Prime plus 1.85%. In connection with the agreement, the Company issued warrants to purchase 66,667 shares of the Company's Series C Convertible Preferred Stock at a price of $1.20 per share. The warrants expire in July 2011. The number of warrants available to the lender was subject to increase on December 31, 2005 if the aggregate loan borrowings exceed $2.0 million. The Company made no borrowings under the agreement, and it expired on December 31, 2005.

Convertible Promissory Notes
In August 2004, the Company entered into four Convertible Promissory Notes totaling $15.0 million. Interest under the notes accrued at a rate of 2.37% per annum. The principal balance and, at the Company's option, accrued interest on the notes, were convertible into shares of the Company's next preferred stock financing. Unless otherwise converted, the notes, plus any accrued interest, would become due and payable on February 20, 2005. The notes were converted as part of the Company's Series D Convertible Preferred Stock financing that closed in October 2004, and cancelled. In connection with the conversion of the notes, the Company issued warrants to purchase 100,000 shares of the Company's Common Stock at a price of $0.40 per share. The warrants expire in October 2009. The Company paid interest of approximately $55,000 to the holders of the notes in the year ended December 31, 2004, which is included in interest expense in the accompanying consolidated statements of operations.

6. Commitments and Contingencies

Leases
The Company leases its facilities under noncancelable operating leases, which were originally scheduled to expire on December 31, 2010. In May 2005, the Company terminated its old lease agreement for its then existing office space in San Bruno, California, and entered into a new lease agreement with the same landlord for its existing office space also in San Bruno, California. The new lease agreement expires on October 31, 2011, and provides for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid. In addition, the Company provided a $500,000 letter of credit issued by the Company's bank in favor of the lessor as a security deposit. The letter of credit is collateralized by a restricted certificate of deposit in the same amount. Included within the new agreement, is a commitment to lease additional space in future periods.

Future minimum lease payments under noncancelable operating leases are as follows at December 31, 2005 (in thousands):

2006	$	1,739
2007		1,676
2008		1,683
2009		1,720
2010		1,747
Thereafter		1,491
Total minimum lease payments	$	10,056

Rent expense was approximately $1.9 million and $657,000 for the years ended December 31, 2005 and 2004, respectively.

Patent License Agreement
In June 2004, the Company entered into a Patent License Agreement with a technology company whereby the Company agreed to pay $1.0 million over four years. The Company recorded the present value of the obligation, or $845,000. During 2005 and 2004, the Company made payments of $65,000 and $250,000, respectively, and recorded interest expense of $49,000 and $26,000, respectively. At December 31, 2005, the remaining payments under this agreement are as follows (in thousands):

2006	$ 145
2007	225
2008	315
Total remaining payments	$ 685

Of the remaining payments, $604,000 is recorded in current and non-current liabilities in the accompanying consolidated balance sheets, and $81,000 is being accreted to interest expense over the remaining payments at an interest rate of 8%.

Guarantees
From time to time, the Company enters into certain types of contracts that contingently require it to indemnify parties against third-party claims. These obligations primarily relate to (i) certain agreements with the Company's officers, directors and employees, under which it may be required to indemnify such persons for liabilities arising out of their employment relationship and (ii) certain license agreements with customers, under which it may be required to indemnify such customers for liabilities arising out of intellectual property infringement by the Company. The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Therefore the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make any payments for these obligations and the Company is not aware of any infringement by its products on any third party intellectual property rights. No liabilities have been recorded for these obligations on the Company's consolidated balance sheets as of December 31, 2005 and 2004.

7. Convertible Preferred Stock

Convertible Preferred Stock (the "Preferred Stock") at December 31, 2005 consists of the following (in thousands):

Series	Shares Authorized	Shares Outstanding	Liquidation Amount	Proceeds Net of Issuance Costs
A	5,387	5,387	$ 269	$ 254
B	30,756	30,196	18,117	17,575
C	21,941	21,674	26,009	25,968
D	21,083	18,875	45,300	45,209
	79,167	76,132	$ 89,695	$ 89,006

The significant terms of Series A, B, C and D Preferred Stock are as follows:

Voting
Each share of the Preferred Stock has the same voting rights as the number of shares of Common Stock into which it is convertible.

Dividends
Holders of Series A, B, C and D Preferred Stock are entitled to receive noncumulative dividends at the per annum rate of $0.004, $0.054, $0.108 and $0.216 per share, respectively, when and if declared by the Board of Directors. The holders of the Preferred Stock will also be entitled to participate in dividends on Common Stock, when and if declared by the Board of Directors, based on the number of shares of Common Stock held on an as-if converted basis. No dividends on Preferred Stock or Common Stock have been declared by the Board of Directors from inception through December 31, 2005.

Liquidation
In the event of liquidation, dissolution or winding-up of the Company, either voluntary or involuntary, the holders of Series D Preferred Stock are entitled to receive, prior to and in preference to any distribution of any of the assets of the Company to the holders of the Series A, B and C Preferred Stock and the Common Stock of the Company, an amount equal to $2.40 per share, plus any declared but unpaid dividends. The remaining assets, if any, shall be distributed first to the Series C Preferred Stock holders at an amount equal at $1.20 per share, plus any declared but unpaid dividends, and then to the Series A and Series B Preferred Stock holders at an amount equal to $0.05 and $0.60 per share, respectively, plus any declared but unpaid dividends. The remaining assets, if any, shall be distributed to the Common Stock holders.

Conversion
Each share of Series A, B, C and D Preferred Stock is convertible at the option of the holder by dividing the $0.05, $0.60, $1.20 and $2.40, respectively, by the conversion price applicable to such share, determined in effect on the date the certificate is surrendered for conversion. Such initial conversion price shall be subject to adjustment for stock splits, stock dividends and other matters. The preferred stock shares are automatically converted into shares of common stock at the conversion price in effect upon the earlier of a public offering of common stock or the date specified by written consent or agreement of the holders of a majority of the outstanding shares of the preferred stock.

At December 31, 2005, the Company reserved the following shares of common stock for the conversion of the preferred stock (in thousands):

A	5,387
B	30,756
C	21,941
D	21,083
	79,167

Warrants for Convertible Preferred Stock

In connection with a loan and security agreement in July 2004, the Company issued warrants to purchase 66,667 shares of the Company's Series C Convertible Preferred Stock at a price of $1.20 per share. The warrants have a net exercise provision under which the holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the preferred stock at the time of exercise of the warrant after deduction of the aggregate exercise price. Using the Black-Scholes pricing model, the company determined the fair value of the warrants was approximately $58,000 at the date of grant, and recorded this amount as interest expense in the year ended December 31, 2004. The fair value of the warrants were estimated using the following assumptions: dividend yield at 0%, expected term of 7 years; risk free interest rate of 4.11% and volatility of 60%. Such warrants are still outstanding at December 31, 2005 and expire in July 2011.

In connection with the conversion of convertible notes during 2001, the Company issued warrants to purchase 3,589,580 shares of the Company's Series B Convertible Preferred Stock at a price of $0.60 per share. The warrants had a net exercise provision under which the holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the preferred stock at the time of exercise of the warrant after deduction of the aggregate exercise price. During 2003, 916,665 of the warrants were exercised for $550,000. In November 2004, 200,000 of the warrants were exercised for $120,000. In January and February 2005, 2,162,358 warrants were exercised for $785,000, and 310,557 warrants were surrendered in accordance with the net exercise provision discussed above.

In connection with an equipment financing arrangement entered into during 2002, the Company issued warrants to purchase 250,000 shares of the Company's Series B Convertible Preferred Stock at a price of $0.60 per share. The warrants have a net exercise provision under which the holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of the preferred stock at the time of exercise of the warrant after deduction of the aggregate exercise price. Such warrants are still outstanding at December 31, 2005 and expire in November 2013.

8. Common Stock

The Company's Articles of Incorporation, as amended, authorize the Company to issue 115 million shares of $0.0001 par value Common Stock. Subsequent to December 31, 2005, the Company amended its Articles of Incorporation to increase the number of authorized shares of Common Stock to 120 million. A portion of the shares sold are subject to a right of repurchase by the Company subject to vesting, which is generally over a four year period from the earlier of grant date or employee hire date, as applicable, until vesting is complete. In 2005 and 2004, the Company repurchased 3,750 and 26,354 shares, respectively. At December 31, 2005 and 2004, there were 1,038,001 and 602,590 shares, respectively, subject to repurchase at a weighted average repurchase price of $0.33 and $0.13 per share, respectively. In accordance with EITF 00-23, *Issues Related to the Accounting for Stock Compensation Under APB Opinion No. 25 and FASB Interpretation No. 44*, these unvested shares purchased by employees pursuant to an early exercise provision are to be considered a deposit of the exercise price, and thus a liability that is recorded by the Company. The liability associated with this potential for repurchase, and the related shares, is reclassified as equity as the options vest. Accordingly, at December 31, 2005 and 2004, these shares have been excluded from shares issued and outstanding on the consolidated balance sheets and consolidated statements of stockholders' equity (deficit), and the Company has recorded a liability of $340,039 and $78,185, respectively, for the unvested portion of these options.

Warrants for Common Stock

In connection with the conversion of four convertible promissory notes in October 2004, the Company issued warrants to purchase 100,000 shares of the Company's Common Stock at a price of $0.40 per share. The warrants have a net exercise provision under which the holder may, in lieu of payment of the exercise price in cash, surrender the warrant and receive a net amount of shares based on the fair market value of our common stock at the time of exercise of the warrant after deduction of the aggregate exercise price. Using the Black-Scholes pricing model, the company determined the fair value of the warrants was approximately $22,000 at the date of grant, and recorded this amount as interest expense in the year ended December 31, 2004. The fair value of the warrants were estimated using the following assumptions: dividend yield at 0%, expected term of 5 years; risk free interest rate of 3.31% and volatility of 60%. Such warrants are still outstanding at December 31, 2005 and expire in October 2009.

Restricted Stock

In connection with the iMimic acquisition in June 2005, the Company issued 150,000 shares of restricted common stock valued at $0.80 per share to three former iMimic advisors in exchange for consulting services covering a two year period subsequent to the acquisition. The restricted common stock vests monthly over the two year consulting period and in the event that the advisor agreements are terminated prior to the expiration of the two year period, the unvested shares are subject to repurchase by the Company at $0.0001 per share. Stock-based compensation associated with these shares totaled $30,000 for the year ended December 31, 2005.

9. Stock Option Plan

In April 2001, the Company adopted the 2001 Stock Option Plan (the "Plan"). The Plan provides for the granting of stock options to employees and consultants of the Company. Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company employees and consultants. As of December 31, 2005, the Company has reserved 26,320,000 shares of Common Stock for issuance under the Plan.

Options under the Plan may be granted for periods of up to ten years and at prices no less than 85% of the estimated fair value of the shares on the date of grant as determined by the Board of Directors, provided, however, that (i) the exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares on the date of grant, respectively, and (ii) the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, respectively. Options granted to certain executive officers and all options granted on or before October 10, 2004 are exercisable immediately, subject to repurchase by the Company over a maximum period of 4 years at such times and under such conditions as determined by the Board of Directors. To date, options granted generally vest over four years.

A summary of the stock option activity in the Plan is as follow (in thousands, except per share amounts):

		Options Outstanding	
	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price
Balance at December 31, 2003	5,229	6,222	$ 0.361
Increase in plan	10,320	-	$ -
Options granted	(11,277)	11,277	$ 0.578
Options exercised	-	(423)	$ 0.366
Options canceled	1,498	(1,498)	$ 0.395
Balance at December 31, 2004	5,770	15,578	$ 0.515
Options granted	(6,151)	6,151	$ 0.800
Options exercised	-	(2,905)	$ 0.389
Options canceled	1,745	(1,745)	$ 0.689
Balance at December 31, 2005	1,364	17,079	$ 0.621

The table below summarizes information about stock options outstanding at December 31, 2005 (in thousands, except per share amounts):

	Options Outstanding at December 31, 2005			Options Exercisable at December 31, 2005	
Range of Exercise Price	**Number Outstanding**	**Weighted Average Remaining Contractual Life (in Years)**	**Weighted Average Exercise Price**	**Number Outstanding**	**Weighted Average Exercise Price**
$ 0.005	100	5.42	$ 0.005	100	$ 0.005
$ 0.06	219	6.52	$ 0.06	219	$ 0.06
$ 0.30	233	7.08	$ 0.30	233	$ 0.30
$ 0.40	6,584	8.13	$ 0.40	6,584	$ 0.40
$ 0.70	674	8.76	$ 0.70	238	$ 0.70
$ 0.80	9,268	9.17	$ 0.80	3,202	$ 0.80
	17,078	8.67	$ 0.62	10,576	$ 0.52

10. Employee Benefit Plans

The Company sponsors a 401(k) defined contribution plan covering all employees. The Company may make discretionary contributions to the 401(k). To date, no contributions have been made by the Company.

11. Income Taxes

Loss before taxes consisted of the following at December 31 (in thousands):

	2005	2004
United States	$ (48,316)	$ (34,914)
Foreign	13	310
	$ (48,303)	$ (34,604)

Tax expense consisted of the following at December 31 (in thousands):

	2005	2004
Current		
U.S. federal	$ -	$ -
State and local	28	17
Foreign	173	43
	201	60
	-	-
Deferred	$ 201	$ 60

The components of net deferred tax assets consist of the following at December 31 (in thousands):

	2005	2004
Net operating loss carryforwards	$ 20,786	$ 16,357
Tax credit carryforwards	2,651	1,477
Capitalized start-up and organizational costs	64	148
Accruals and reserves not currently deductible	18,996	4,583
Other	356	163
Total gross deferred tax assets	42,853	22,728
Valuation allowance	(42,853)	(22,728)
Net deferred tax assets	$ -	$ -

Based upon available objective evidence, management believes that, based on a number of factors, it is more likely than not that the deferred tax assets will not be fully realizable. Accordingly, management has established a full valuation allowance for all deferred tax assets.

At December 31, 2005, the Company had federal and state net operating loss carryforwards of approximately $53.1 million and $38.3 million, respectively, expiring through 2025 and 2015, respectively. The Company also had federal and state research and development credit carryforwards of approximately $1.8 million and $1.3 million, respectively, expiring through 2025 for federal purposes and carried forward indefinitely for state purposes.

Federal and California tax laws impose substantial restrictions on the utilization of net operating loss and credit carryforwards in the event of an "ownership change" for tax purposes, as defined in Section 382 of the Internal Revenue Code. Accordingly, the Company's ability to utilize these carryforwards may be limited as a result of such "ownership change." Such limitation could result in the expiration of carryforwards before they are utilized.

12. Segments and Geographic Information

SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, established standards for reporting information about operating segments in a company's financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company has identified one industry segment: the development and marketing of email and Web gateway security appliances, software and related services. This segment operates in three geographic regions: the Americas (United States, Canada and Latin America), EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific). The Company's products are marketed internationally through a direct sales force and independent distributors and resellers.

The following is a summary of revenues by geographic region based on customer location for the years ended December 31:

	2005	2004
The Americas	$ 31,001	$ 14,155
Europe, Middle East and Africa	6,471	1,217
Asia Pacific	3,203	808
Total revenues	$ 40,675	$ 16,180

Included in "The Americas" is the United States, Canada and Central and Latin America. For the years ended December 31, 2005 and 2004, the United States represented 92% and 94%, respectively, Canada represented 5% and 4%, respectively, and Central and Latin America represented 3% and 2%, respectively.

Substantially all of the Company's long-lived assets are in the United States.

13. Subequent Events

In May 2006, the Company sold the preferred and common stock received in the Return Path transaction discussed in Note 3 for approximately $2.5 million.

In May 2006, the Common Stock warrants discussed in Note 8 were exercised for $40,000.