

**BLUE COAT SYSTEMS, INC.**  
**Table 1**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended			Six Months Ended	
	October 31,		October 31,	October 31,	
	2011	July 31, 2011	2010	2011	2010
Net revenue:					
Product	\$ 62,289	\$ 58,556	\$ 73,127	\$ 120,845	\$ 148,695
Service	51,792	50,953	47,920	102,745	94,832
Total net revenue	114,081	109,509	121,047	223,590	243,527
Cost of net revenue:					
Product	14,883	13,764	15,284	28,647	31,248
Service	12,089	12,268	10,723	24,357	21,111
Total cost of net revenue	26,972	26,032	26,007	53,004	52,359
Gross profit	87,109	83,477	95,040	170,586	191,168
Operating expenses:					
Sales and marketing	46,781	47,557	44,821	94,338	89,476
Research and development	19,618	19,209	20,948	38,827	40,803
General and administrative	11,447	10,173	10,715	21,620	21,058
Amortization of intangible assets	1,826	1,843	1,843	3,669	3,686
Restructuring	-	-	38	-	178
Total operating expenses	79,672	78,782	78,365	158,454	155,201
Operating income	7,437	4,695	16,675	12,132	35,967
Interest income	137	113	126	250	290
Interest expense	(227)	(235)	(223)	(462)	(447)
Other income (expense), net	(473)	(346)	158	(819)	(165)
Income before income taxes	6,874	4,227	16,736	11,101	35,645
Provision for income taxes	2,288	1,532	4,703	3,820	9,687
Net income	<u>\$ 4,586</u>	<u>\$ 2,695</u>	<u>\$ 12,033</u>	<u>\$ 7,281</u>	<u>\$ 25,958</u>
Basic net income per share	<u>\$ 0.10</u>	<u>\$ 0.06</u>	<u>\$ 0.26</u>	<u>\$ 0.16</u>	<u>\$ 0.56</u>
Diluted net income per share	<u>\$ 0.10</u>	<u>\$ 0.06</u>	<u>\$ 0.25</u>	<u>\$ 0.15</u>	<u>\$ 0.55</u>
Weighted average shares used in computing basic net income per share	<u>46,362</u>	<u>46,718</u>	<u>46,712</u>	<u>46,517</u>	<u>46,520</u>
Weighted average shares used in computing diluted net income per share	<u>46,699</u>	<u>47,692</u>	<u>47,638</u>	<u>47,124</u>	<u>47,594</u>

BLUE COAT SYSTEMS, INC.

Table 2  
Reconciliation of GAAP to Non-GAAP Financial Measures  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended			Six Months Ended October 31,	
	October 31, 2011	July 31, 2011	October 31, 2010	2011	2010
<b><u>Gross Profit Reconciliation:</u></b>					
GAAP gross profit	\$ 87,109	\$ 83,477	\$ 95,040	\$ 170,586	\$ 191,168
Stock-based compensation expense included in cost of revenue	A 451	440	422	891	776
Amortization of intangible assets included in cost of revenue	B 1,168	1,168	1,168	2,336	2,356
Non-GAAP gross profit	<u>\$ 88,728</u>	<u>\$ 85,085</u>	<u>\$ 96,630</u>	<u>\$ 173,813</u>	<u>\$ 194,300</u>
<b><u>Operating Income Reconciliation:</u></b>					
GAAP operating income	\$ 7,437	\$ 4,695	\$ 16,675	\$ 12,132	\$ 35,967
Stock-based compensation expense	A 3,723	4,478	4,913	8,201	8,985
Amortization of intangible assets	B 2,994	3,011	3,011	6,005	6,042
Expense for matters related to the stock option investigation	C -	-	41	-	99
Restructuring	D -	-	38	-	178
Non-GAAP operating income	<u>\$ 14,154</u>	<u>\$ 12,184</u>	<u>\$ 24,678</u>	<u>\$ 26,338</u>	<u>\$ 51,271</u>
<b><u>Net Income Reconciliation:</u></b>					
GAAP net income	\$ 4,586	\$ 2,695	\$ 12,033	\$ 7,281	\$ 25,958
Stock-based compensation expense	A 3,723	4,478	4,913	8,201	8,985
Amortization of intangible assets	B 2,994	3,011	3,011	6,005	6,042
Expense for matters related to the stock option investigation	C -	-	41	-	99
Restructuring	D -	-	38	-	178
Income tax adjustments	E (2,023)	(1,749)	(1,977)	(3,772)	(4,069)
Non-GAAP net income	<u>\$ 9,280</u>	<u>\$ 8,435</u>	<u>\$ 18,059</u>	<u>\$ 17,715</u>	<u>\$ 37,193</u>
<b><u>Net Income per Share Reconciliation:</u></b>					
GAAP diluted net income per share	\$ 0.10	\$ 0.06	\$ 0.25	\$ 0.15	\$ 0.55
Stock-based compensation expense	A 0.08	0.09	0.10	0.17	0.19
Amortization of intangible assets	B 0.06	0.06	0.06	0.13	0.13
Expense for matters related to the stock option investigation	C -	-	-	-	-
Restructuring	D -	-	-	-	-
Income tax adjustments	E (0.04)	(0.03)	(0.03)	(0.07)	(0.09)
Non-GAAP diluted net income per share	<u>\$ 0.20</u>	<u>\$ 0.18</u>	<u>\$ 0.38</u>	<u>\$ 0.38</u>	<u>\$ 0.78</u>
Shares used in computing non-GAAP diluted net income per share	<u>46,699</u>	<u>47,692</u>	<u>47,638</u>	<u>47,124</u>	<u>47,594</u>

**Notes:**

- (A) Stock-based compensation expense consists of non-cash charges for employee stock options, restricted stock awards, restricted stock units and employee stock purchase plan awards.

Results include stock-based compensation expense as follows (unaudited):

	<b>Three Months Ended</b>			<b>Six Months Ended</b>	
	<b>October 31, 2011</b>	<b>July 31, 2011</b>	<b>October 31, 2010</b>	<b>2011</b>	<b>2010</b>
Cost of revenue	\$ 451	\$ 440	\$ 422	\$ 891	\$ 776
Sales and marketing	1,257	1,470	1,462	2,727	2,794
Research and development	1,478	1,395	1,579	2,873	2,810
General and administrative	537	1,173	1,450	1,710	2,605
Total	<u>\$ 3,723</u>	<u>\$ 4,478</u>	<u>\$ 4,913</u>	<u>\$ 8,201</u>	<u>\$ 8,985</u>

- (B) Amortization of intangible assets associated with acquisitions.

- (C) Includes expense for matters related to the Company's stock option investigation.

- (D) Restructuring includes severance and facilities related exit costs associated with the Fiscal 2010 Restructuring Plan.

- (E) Income tax adjustment is used to reconcile the GAAP tax provision to a non-GAAP tax provision utilizing an expected annual effective tax rate of 30% in fiscal 2012.

**BLUE COAT SYSTEMS, INC.**  
**Table 3**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands)  
(Unaudited)

	<u>October 31,</u> <u>2011</u>	<u>April 30,</u> <u>2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 361,393	\$ 375,939
Accounts receivable, net	70,737	67,626
Inventory	9,934	10,134
Prepaid expenses and other current assets	11,706	14,091
Current portion of deferred income tax assets	10,582	10,399
Total current assets	<u>464,352</u>	<u>478,189</u>
Property and equipment, net	29,565	31,745
Restricted cash	1,066	1,031
Goodwill	242,611	242,611
Identifiable intangible assets, net	18,965	24,970
Non-current portion of deferred income tax assets	35,517	34,650
Other assets	5,760	6,212
Total assets	<u>\$ 797,836</u>	<u>\$ 819,408</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 18,420	\$ 20,806
Accrued payroll and related benefits	17,745	15,947
Deferred revenue	116,995	121,526
Other current liabilities	11,184	10,758
Total current liabilities	<u>164,344</u>	<u>169,037</u>
Deferred revenue, less current portion	57,928	56,546
Deferred rent, less current portion	4,940	5,501
Long-term income taxes payable	38,953	35,152
Other non-current liabilities	791	688
Convertible senior notes	78,583	78,136
Commitments and contingencies		
Blue Coat stockholders' equity:		
Common stock	4	4
Additional paid-in capital	1,239,979	1,269,311
Accumulated deficit	(787,686)	(794,967)
Total stockholders' equity	<u>452,297</u>	<u>474,348</u>
Total liabilities and stockholders' equity	<u>\$ 797,836</u>	<u>\$ 819,408</u>

**BLUE COAT SYSTEMS, INC.**  
**Table 4**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(unaudited)

	<u>Six Months Ended October 31,</u>	
	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Net income	\$ 7,281	\$ 25,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,126	6,953
Amortization	6,798	6,836
Stock-based compensation	8,201	8,985
Deferred income taxes	(1,050)	3,686
Tax benefit of stock option deduction	41	523
Excess tax benefit from stock-based compensation	(334)	(521)
Gain on disposition of equipment	-	18
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,111)	(17,976)
Inventory	200	(4,788)
Prepaid expenses and other assets	2,491	4,029
Accounts payable	(2,386)	4,079
Accrued expenses and other liabilities	5,567	4,989
Deferred revenue	(3,149)	8,666
Net cash provided by operating activities	<u>27,675</u>	<u>51,437</u>
<b>Investing Activities</b>		
Purchases of property and equipment, and technology licenses	(4,946)	(5,953)
Restricted cash	(35)	(45)
Net cash used in investing activities	<u>(4,981)</u>	<u>(5,998)</u>
<b>Financing Activities</b>		
Net proceeds from issuance of common stock	5,446	6,894
Payments for repurchases of common stock	(43,020)	-
Excess tax benefit from stock-based compensation	334	521
Acquisition of noncontrolling interest	-	(427)
Net cash (used in) provided by financing activities	<u>(37,240)</u>	<u>6,988</u>
Net (decrease) increase in cash and cash equivalents	(14,546)	52,427
Cash and cash equivalents at beginning of period	375,939	236,347
Cash and cash equivalents at end of period	<u>\$ 361,393</u>	<u>\$ 288,774</u>

**BLUE COAT SYSTEMS, INC.**  
**Table 5**  
**RECONCILIATION OF PROJECTED GAAP TO**  
**PROJECTED NON-GAAP FINANCIAL MEASURES**  
(In thousands, except per share data)

	<b>Three Months Ended</b>	
	<b>January 31, 2012</b>	
	<b>Low</b>	<b>High</b>
<b>Projected GAAP Net Income</b>	<b>\$ 2,200</b>	<b>\$ 6,300</b>
Add back:		
Stock-based compensation expense	A 4,700	4,700
Amortization of intangible assets	B 3,000	3,000
Income tax adjustments	C (1,000)	(1,500)
Projected Non-GAAP net income	\$ 8,900	\$ 12,500
<b>Projected GAAP Diluted Net Income per Share</b>	<b>\$ 0.05</b>	<b>\$ 0.13</b>
Add back:		
Stock-based compensation expense	A \$ 0.10	\$ 0.10
Amortization of intangible assets	B \$ 0.06	\$ 0.06
Income tax adjustments	C \$ (0.02)	\$ (0.03)
Projected Non-GAAP diluted net income per share	\$ 0.19	\$ 0.26

(A) Stock-based compensation expense consists of non-cash charges for employee stock options, restricted stock awards, restricted stock units and employee stock purchase plan awards.

(B) Amortization of intangible assets associated with acquisitions.

(C) Income tax adjustment is used to reconcile the GAAP tax provision to a non-GAAP tax provision utilizing an expected annual effective tax rate of 30%.