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ARCSIGHT, INC.
Condensed Consolidated Balance Sheets

(In thousands)

	As of	As of
	July 31,	April 30,
	2009	2009
	<u>(Unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 101,460	\$ 90,467
Accounts receivable, net	23,122	34,184
Capitalized software, current	2,303	-
Other prepaid expenses and current assets	<u>3,953</u>	<u>3,861</u>
Total current assets	130,838	128,512
Property and equipment, net	5,326	4,416
Goodwill	5,746	5,746
Acquired intangibles assets, net	1,097	1,319
Capitalized software licenses, non-current	1,913	-
Other long-term assets	<u>1,166</u>	<u>1,168</u>
Total assets	\$ <u>146,086</u>	\$ <u>141,161</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 3,613	\$ 1,432
Accrued compensation and benefits	6,491	11,671
Obligations for software licenses	2,599	363
Other accrued liabilities	4,482	4,337
Deferred revenues, current	<u>34,569</u>	<u>36,160</u>
Total current liabilities	51,754	53,963
Deferred revenues, non-current	7,254	8,888
Obligations for software licenses, non-current	1,753	-
Other long-term liabilities	<u>1,763</u>	<u>1,637</u>
Total liabilities	62,524	64,488
Stockholders' equity:		
Additional paid-in capital	119,526	113,781
Accumulated other comprehensive loss	(185)	(314)
Accumulated deficit	<u>(35,779)</u>	<u>(36,794)</u>
Total stockholders' equity	83,562	76,673
Total liabilities and stockholders' equity	\$ <u>146,086</u>	\$ <u>141,161</u>



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ARCSIGHT, INC.
Consolidated Statement of Operations

(On a GAAP basis)

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended	
	July 31,	July 31,
	2009	2008
Revenues:		
Products	\$ 18,265	\$ 15,802
Maintenance	11,919	8,568
Services	4,371	3,293
Total revenues	<u>34,555</u>	<u>27,663</u>
Cost of revenues:		
Products	1,944	1,655
Maintenance ⁽¹⁾	1,925	1,631
Services ⁽¹⁾	2,630	2,043
Total cost of revenues	<u>6,499</u>	<u>5,329</u>
Gross profit	28,056	22,334
Operating expenses ⁽¹⁾ :		
Research and development	5,598	5,315
Sales and marketing	14,785	14,868
General and administrative	6,018	4,349
Total operating expenses	<u>26,401</u>	<u>24,532</u>
Income (loss) from operations	1,655	(2,198)
Interest income	28	404
Other income and expense, net	(117)	(99)
Income (loss) before provision for income taxes	1,566	(1,893)
Provision (benefit) for income taxes	551	(563)
Net income (loss)	<u>\$ 1,015</u>	<u>\$ (1,330)</u>
Net income (loss) per common share, basic	<u>\$ 0.03</u>	<u>\$ (0.04)</u>
Net income (loss) per common share, diluted	<u>\$ 0.03</u>	<u>\$ (0.04)</u>
Shares used in computing basic net income (loss) per common share	<u>32,685</u>	<u>30,992</u>
Shares used in computing diluted net income (loss) per common share	<u>35,249</u>	<u>30,992</u>

(1) Stock-based compensation expense as included in above

Cost of maintenance revenues	80	46
Cost of services revenues	33	33
Research and development	429	339
Sales and marketing	612	751
General and administrative	776	234



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ARCSIGHT, INC.
Consolidated Statement of Operations
 (GAAP to Non-GAAP Reconciliation)
 (In thousands, except per share amounts)
 (Unaudited)

	For the Three Months Ended	
	July 31, 2009	July 31, 2008
GAAP net income (loss)	\$ 1,015	\$ (1,330)
Plus:		
a) Stock-based expenses	1,930	1,403
b) Amortization of intangibles	222	211
Non-GAAP net income	<u>\$ 3,167</u>	<u>\$ 284</u>
GAAP net income (loss) per common share, basic	\$ 0.03	\$ (0.04)
Plus:		
a) Stock-based expenses	0.06	0.04
b) Amortization of intangibles	0.01	0.01
Non-GAAP net income, basic	<u>\$ 0.10</u>	<u>\$ 0.01</u>
Non-GAAP net income, diluted	<u>\$ 0.09</u>	<u>\$ 0.01</u>
Shares used in computing basic net income (loss) per common share	<u>32,685</u>	<u>30,992</u>
Shares used in computing diluted net income (loss) per common share	<u>35,249</u>	<u>33,114</u>



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Use of Non-GAAP Financial Information

In addition to the reasons stated above, which are generally applicable to each of the items ArcSight excludes from its non-GAAP financial measures, ArcSight believes it is appropriate to exclude certain items for the following reasons:

Amortization of Intangibles. When analyzing the operating performance of an acquired entity, ArcSight management focuses on the total return provided by the investment (i.e., operating profit generated from the acquired entity as compared to the purchase price paid) without taking into consideration any allocations made for accounting purposes. Because the purchase price for an acquisition necessarily reflects the accounting value assigned to intangible assets (including acquired in-process technology and goodwill), when analyzing the operating performance of an acquisition in subsequent periods, ArcSight management excludes the GAAP impact of the amortization of acquired intangible assets to its financial results. ArcSight believes that such an approach is useful in understanding the long-term return provided by an acquisition and that investors benefit from a supplemental non-GAAP financial measure that excludes the accounting amortization expense associated with acquired intangible assets.

In addition, in accordance with GAAP, ArcSight generally recognizes expenses for internally-developed intangible assets as they are incurred until technological feasibility is reached, notwithstanding the potential future benefit such assets may provide. Unlike internally developed intangible assets, however, and also in accordance with GAAP, ArcSight generally capitalizes the cost of acquired intangible assets and recognizes that cost as an expense over the useful lives of the assets acquired (other than goodwill, which is not amortized, and acquired in-process technology, which is expensed immediately, as required under GAAP). As a result of their GAAP treatment, there is an inherent lack of comparability between the financial performance of internally developed intangible assets and acquired intangible assets. Accordingly, ArcSight believes it is useful to provide, as a supplement to its GAAP operating results, a non-GAAP financial measure that excludes the amortization of acquired intangibles.

Stock-Based Compensation. When evaluating the performance of its consolidated results, ArcSight does not consider stock-based compensation charges. Likewise, the ArcSight management team excludes stock-based compensation expense from its operating plans. In contrast, the ArcSight management team is held accountable for cash-based compensation and such amounts are included in its operating plans. Further, when considering the impact of equity award grants, ArcSight places a greater emphasis on overall stockholder dilution rather than the accounting charges associated with such grants.

ArcSight believes it is useful to provide a non-GAAP financial measure that excludes stock-based compensation in order to better understand the long-term performance of its business.