

ARCSIGHT, INC.

Consolidated Balance Sheets

(In thousands, except share amounts and par value)

	As of	As of
	October 31,	April 30,
	2009	2009
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 87,408	\$ 90,467
Marketable securities	19,810	-
Accounts receivable, net	39,341	34,184
Capitalized software licenses, current	2,303	144
Other prepaid expenses and current assets	3,940	3,717
Total current assets	152,802	128,512
Property and equipment, net	5,889	4,416
Goodwill	5,746	5,746
Acquired intangibles assets, net	875	1,319
Capitalized software licenses, non-current	1,337	-
Other long-term assets	312	1,168
Total assets	\$ 166,961	\$ 141,161
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 4,240	\$ 1,432
Accrued compensation and benefits	9,131	11,671
Obligations for software licenses, current	2,980	363
Other accrued liabilities	6,488	4,337
Deferred revenues, current	39,814	36,160
Total current liabilities	62,653	53,963
Deferred revenues, non-current	7,797	8,888
Obligations for software licenses, non-current	1,173	-
Other long-term liabilities	1,884	1,637
Total liabilities	73,507	64,488
Stockholders' equity:		
Additional paid-in capital	126,960	113,781
Accumulated other comprehensive loss	(225)	(314)
Accumulated deficit	(33,281)	(36,794)
Total stockholders' equity	93,454	76,673
Total liabilities and stockholders' equity	\$ 166,961	\$ 141,161

ARCSIGHT, INC.
Condensed Consolidated Statements of Income

(On a GAAP basis)

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	October 31, 2009	October 31, 2008	October 31, 2009	October 31, 2008
Revenues:				
Products	\$ 28,018	\$ 19,169	\$ 46,283	\$ 34,971
Maintenance	12,617	9,530	24,536	18,098
Services	<u>4,868</u>	<u>4,136</u>	<u>9,239</u>	<u>7,429</u>
Total revenues	45,503	32,835	80,058	60,498
Cost of revenues:				
Products	3,150	1,844	5,094	3,499
Maintenance ⁽¹⁾	2,434	1,663	4,359	3,294
Services ⁽¹⁾	<u>3,204</u>	<u>2,387</u>	<u>5,834</u>	<u>4,430</u>
Total cost of revenues	<u>8,788</u>	<u>5,894</u>	<u>15,287</u>	<u>11,223</u>
Gross profit	36,715	26,941	64,771	49,275
Operating expenses ⁽¹⁾ :				
Research and development	6,576	5,423	12,174	10,738
Sales and marketing	18,582	14,355	33,367	29,223
General and administrative	<u>6,336</u>	<u>4,863</u>	<u>12,354</u>	<u>9,212</u>
Total operating expenses	<u>31,494</u>	<u>24,641</u>	<u>57,895</u>	<u>49,173</u>
Income from operations	5,221	2,300	6,876	102
Interest income	35	351	63	755
Other expense, net	<u>(214)</u>	<u>(11)</u>	<u>(331)</u>	<u>(110)</u>
Income before provision for income taxes	5,042	2,640	6,608	747
Provision for income taxes	<u>2,544</u>	<u>795</u>	<u>3,095</u>	<u>232</u>
Net income	<u>\$ 2,498</u>	<u>\$ 1,845</u>	<u>\$ 3,513</u>	<u>\$ 515</u>
Net income per common share, basic	<u>\$ 0.07</u>	<u>\$ 0.06</u>	<u>\$ 0.11</u>	<u>\$ 0.02</u>
Net income per common share, diluted	<u>\$ 0.07</u>	<u>\$ 0.06</u>	<u>\$ 0.10</u>	<u>\$ 0.02</u>
Shares used in computing basic net income per common share	<u>33,371</u>	<u>31,154</u>	<u>33,029</u>	<u>31,048</u>

Shares used in computing diluted net income per common share	<u>35,691</u>	<u>32,780</u>	<u>35,408</u>	<u>32,784</u>
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(1) Stock-based compensation expense as included in above:

Cost of maintenance revenues	102	54	182	100
Cost of services revenues	43	39	76	72
Research and development	518	334	947	673
Sales and marketing	851	752	1,463	1,503
General and administrative	971	346	1,747	580

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

	For the Three Months Ended		For the Six Months Ended	
	October 31, 2009	October 31, 2008	October 31, 2009	October 31, 2008
GAAP net income	\$ 2,498	\$ 1,845	\$ 3,513	\$ 515
Plus:				
a) Stock-based compensation expenses	2,485	1,525	4,415	2,928
b) Amortization of intangibles	222	210	444	421
Non-GAAP net income	\$ 5,205	\$ 3,580	\$ 8,372	\$ 3,864
GAAP net income per common share, basic	\$ 0.07	\$ 0.06	\$ 0.11	\$ 0.02
Plus:				
a) Stock-based compensation expenses	0.08	0.05	0.13	0.09
b) Amortization of intangibles	0.01	-	0.01	0.01
Non-GAAP net income, basic	\$ 0.16	\$ 0.11	\$ 0.25	\$ 0.12
Non-GAAP net income, diluted	\$ 0.15	\$ 0.11	\$ 0.24	\$ 0.12
Shares used in computing basic net income per common share	33,371	31,154	33,029	31,048
Shares used in computing diluted net income per common share	35,691	32,780	35,408	32,784

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.