

ARCSIGHT, INC.
Condensed Consolidated Balance Sheets
(In thousands)

	<u>As of</u> <u>April 30,</u> <u>2009</u>	<u>As of</u> <u>April 30,</u> <u>2008</u>
	<u>(Unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 90,467	\$ 71,946
Accounts receivable, net	34,184	26,658
Other prepaid expenses and current assets	<u>3,861</u>	<u>5,565</u>
Total current assets	128,512	104,169
Property and equipment, net	4,416	4,834
Goodwill	5,746	5,746
Acquired intangibles assets, net	1,319	2,161
Other long-term assets	<u>1,168</u>	<u>1,669</u>
Total assets	\$ <u>141,161</u>	\$ <u>118,579</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,432	\$ 3,115
Accrued compensation and benefits	11,671	11,864
Other accrued liabilities	4,700	5,967
Deferred revenues, current	<u>36,160</u>	<u>36,512</u>
Total current liabilities	53,963	57,458
Deferred revenues, non-current	8,888	4,754
Other long-term liabilities	<u>1,637</u>	<u>1,598</u>
Total liabilities	64,488	63,810
Stockholders' equity:		
Additional paid-in capital	113,781	101,574
Deferred stock-based compensation	-	(53)
Accumulated other comprehensive loss	(314)	(45)
Accumulated deficit	<u>(36,794)</u>	<u>(46,707)</u>
Total stockholders' equity	<u>76,673</u>	<u>54,769</u>
Total liabilities and stockholders' equity	\$ <u>141,161</u>	\$ <u>118,579</u>

ARCSIGHT, INC.
Consolidated Statement of Operations

(On a GAAP basis)

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended		Fiscal Year Ended	
	April 30, 2009	April 30, 2008	April 30, 2009	April 30, 2008
Revenues:				
Products	\$ 23,870	\$ 18,192	\$ 80,616	\$ 63,765
Maintenance	10,419	7,980	38,521	27,607
Services	4,989	3,204	17,031	10,173
Total revenues	39,278	29,376	136,168	101,545
Cost of revenues:				
Products	2,459	1,466	8,595	4,767
Maintenance ⁽¹⁾	1,930	1,608	6,861	5,691
Services ⁽¹⁾	2,858	1,906	9,875	5,800
Total cost of revenues	7,247	4,980	25,331	16,258
Gross profit	32,031	24,396	110,837	85,287
Operating expenses ⁽¹⁾ :				
Research and development	6,598	5,592	22,537	19,762
Sales and marketing	14,758	16,086	56,279	53,453
General and administrative	6,123	3,495	20,278	13,422
Total operating expenses	27,479	25,173	99,094	86,637
Income (loss) from operations	4,552	(777)	11,743	(1,350)
Interest income	82	435	991	857
Other income and expense, net	(150)	(101)	(257)	(385)
Income (loss) before provision for income taxes	4,484	(443)	12,477	(878)
Provision (benefit) for income taxes	149	617	2,564	1,131
Net income (loss)	\$ 4,335	\$ (1,060)	\$ 9,913	\$ (2,009)
Net income (loss) per common share, basic	\$ 0.14	\$ (0.04)	\$ 0.32	\$ (0.08)
Net income (loss) per common share, diluted	\$ 0.13	\$ (0.04)	\$ 0.30	\$ (0.08)
Shares used in computing basic net income (loss) per common share	31,848	30,195	31,233	25,936
Shares used in computing diluted net income (loss) per common share	34,416	30,195	33,550	25,936

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

Cost of maintenance revenues	60	44	216	106
Cost of services revenues	36	46	142	115
Research and development	347	416	1,342	1,356
Sales and marketing	482	773	2,451	2,685
General and administrative	628	232	1,994	664

ARCSIGHT, INC.
Consolidated Statement of Operations

(GAAP to Non-GAAP Reconciliation)
(In thousands, except per share amounts)
(Unaudited)

	<u>For the Three Months Ended</u>		<u>Fiscal Year Ended</u>	
	<u>April 30,</u> <u>2009</u>	<u>April 30,</u> <u>2008</u>	<u>April 30,</u> <u>2009</u>	<u>April 30,</u> <u>2008</u>
GAAP net income (loss)	\$ 4,335	\$ (1,060)	\$ 9,913	\$ (2,009)
Plus:				
a) Stock-based expenses	1,553	1,511	6,145	4,926
b) Amortization of intangibles	211	143	842	573
Non-GAAP net income	<u>\$ 6,099</u>	<u>\$ 594</u>	<u>\$ 16,900</u>	<u>\$ 3,490</u>
GAAP net income (loss) per common share, basic	\$ 0.14	\$ (0.04)	\$ 0.32	\$ (0.08)
Plus:				
a) Stock-based expenses	0.04	0.05	0.19	0.19
b) Amortization of intangibles	0.01	0.01	0.03	0.02
Non-GAAP net income, basic	<u>\$ 0.19</u>	<u>\$ 0.02</u>	<u>\$ 0.54</u>	<u>\$ 0.13</u>
Non-GAAP net income, diluted	<u>\$ 0.18</u>	<u>\$ 0.02</u>	<u>\$ 0.50</u>	<u>\$ 0.12</u>
Shares used in computing basic net income (loss) per common share	<u>31,848</u>	<u>30,195</u>	<u>31,233</u>	<u>25,936</u>
Shares used in computing diluted net income (loss) per common share	<u>34,416</u>	<u>32,535</u>	<u>33,550</u>	<u>28,576</u>

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.