

ARCSIGHT, INC.
Consolidated Balance Sheets

(In thousands, except share amounts and par value)

	As of		As of
	January 31,		April 30,
	2010		2009
	(Unaudited)		
Assets			
Current assets:			
Cash and cash equivalents	\$ 111,821	\$	90,467
Marketable securities	19,994		-
Accounts receivable, net	24,046		34,184
Capitalized software licenses, current	2,303		144
Other prepaid expenses and current assets	5,994		3,717
Total current assets	164,158		128,512
Property and equipment, net	7,076		4,416
Goodwill	5,746		5,746
Acquired intangibles assets, net	652		1,319
Capitalized software licenses, non-current	761		-
Other long-term assets	341		1,168
Total assets	\$ 178,734	\$	141,161
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 2,286	\$	1,432
Accrued compensation and benefits	9,476		11,671
Obligations for software licenses, current	3,048		363
Other accrued liabilities	5,137		4,337
Deferred revenues, current	43,755		36,160
Total current liabilities	63,702		53,963
Deferred revenues, non-current	10,325		8,888
Obligations for software licenses, non-current	589		-
Other long-term liabilities	1,993		1,637
Total liabilities	76,609		64,488
Stockholders' equity:			
Additional paid-in capital	133,412		113,781
Accumulated other comprehensive loss	(234)		(314)
Accumulated deficit	(31,053)		(36,794)
Total stockholders' equity	102,125		76,673
Total liabilities and stockholders' equity	\$ 178,734	\$	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 Nine Months Ended	
	January 31, 2010	January 31, 2009	January 31, 2010	January 31, 2009
Revenues:				
Products	\$ 26,555	\$ 21,775	\$ 72,838	\$ 56,746
Maintenance	14,702	10,004	39,238	28,102
Services	4,853	4,613	14,092	12,042
Total revenues	46,110	36,392	126,168	96,890
Cost of revenues:				
Products	3,824	2,637	8,918	6,136
Maintenance ⁽¹⁾	2,497	1,637	6,856	4,931
Services ⁽¹⁾	3,283	2,587	9,117	7,017
Total cost of revenues	9,604	6,861	24,891	18,084
Gross profit	36,506	29,531	101,277	78,806
Operating expenses ⁽¹⁾ :				
Research and development	6,429	5,201	18,603	15,939
Sales and marketing	18,563	12,298	51,930	41,521
General and administrative	6,767	4,943	19,121	14,155
Total operating expenses	31,759	22,442	89,654	71,615
Income from operations	4,747	7,089	11,623	7,191
Interest income	34	154	97	909
Other income (expense), net	(115)	3	(446)	(107)
Income before provision for income taxes	4,666	7,246	11,274	7,993
Provision for income taxes	2,438	2,183	5,533	2,415
Net income	<u>\$ 2,228</u>	<u>\$ 5,063</u>	<u>\$ 5,741</u>	<u>\$ 5,578</u>
Net income per common share, basic	<u>\$ 0.07</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>	<u>\$ 0.18</u>
Net income per common share, diluted	<u>\$ 0.06</u>	<u>\$ 0.15</u>	<u>\$ 0.16</u>	<u>\$ 0.17</u>
Shares used in computing basic net income per common share	<u>33,840</u>	<u>31,499</u>	<u>33,260</u>	<u>31,115</u>
Shares used in computing diluted net income per common share	<u>36,169</u>	<u>33,494</u>	<u>35,649</u>	<u>33,324</u>

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

Cost of maintenance revenues	\$123	\$56	\$305	\$156
Cost of services revenues	64	34	140	106
Research and development	595	322	1,542	995
Sales and marketing	987	466	2,450	1,969
General and administrative	1,071	786	2,818	1,366

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 Nine Months Ended	
	January 31, 2010	January 31, 2009	January 31, 2010	January 31, 2009
GAAP net income	\$ 2,228	\$ 5,063	\$ 5,741	\$ 5,578
Plus:				
a) Stock-based compensation expenses	2,840	1,664	7,255	4,592
b) Amortization of intangibles	223	210	667	631
Non-GAAP net income	<u>\$ 5,291</u>	<u>\$ 6,937</u>	<u>\$ 13,663</u>	<u>\$ 10,801</u>
GAAP net income per common share, basic	\$ 0.07	\$ 0.16	\$ 0.17	\$ 0.18
Plus:				
a) Stock-based compensation expenses	0.08	0.05	0.22	0.15
b) Amortization of intangibles	0.01	0.01	0.02	0.02
Non-GAAP net income, basic	<u>\$ 0.16</u>	<u>\$ 0.22</u>	<u>\$ 0.41</u>	<u>\$ 0.35</u>
Non-GAAP net income, diluted	<u>\$ 0.15</u>	<u>\$ 0.21</u>	<u>\$ 0.38</u>	<u>\$ 0.32</u>
Shares used in computing basic net income per common share	<u>33,840</u>	<u>31,499</u>	<u>33,260</u>	<u>31,115</u>
Shares used in computing diluted net income per common share	<u>36,169</u>	<u>33,494</u>	<u>35,649</u>	<u>33,324</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.