

**ARCSIGHT, INC.**  
**Consolidated Balance Sheets**

(In thousands)

	<b>As of</b>		<b>As of</b>
	<b>April 30,</b>		<b>April 30,</b>
	<b>2010</b>		<b>2009</b>
	<u><b>(unaudited)</b></u>		<u><b>(audited)</b></u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 137,358	\$	90,467
Marketable securities	12,013		-
Accounts receivable, net	33,609		34,184
Deferred tax asset, current	8,807		-
Capitalized software licenses, current	2,303		144
Other prepaid expenses and current assets	6,557		3,717
<b>Total current assets</b>	<u><b>200,647</b></u>		<u><b>128,512</b></u>
Property and equipment, net	8,174		4,416
Deferred tax asset, non-current	10,649		-
Goodwill	5,746		5,746
Acquired intangibles assets, net	430		1,319
Capitalized software licenses, non-current	186		-
Other long-term assets	371		1,168
<b>Total assets</b>	<u><b>\$ 226,203</b></u>	<u><b>\$</b></u>	<u><b>141,161</b></u>
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Accounts payable	\$ 5,039	\$	1,432
Accrued compensation and benefits	13,633		11,671
Obligations for software licenses, current	2,832		363
Other accrued liabilities	5,696		4,337
Deferred revenues, current	49,674		36,160
<b>Total current liabilities</b>	<u><b>76,874</b></u>		<u><b>53,963</b></u>
Deferred revenues, non-current	11,237		8,888
Other long-term liabilities	2,516		1,637
<b>Total liabilities</b>	<u><b>90,627</b></u>		<u><b>64,488</b></u>
<b>Stockholders' equity:</b>			
Additional paid-in capital	144,273		113,781
Accumulated other comprehensive loss	(290)		(314)
Accumulated deficit	(8,407)		(36,794)
<b>Total stockholders' equity</b>	<u><b>135,576</b></u>		<u><b>76,673</b></u>
<b>Total liabilities and stockholders' equity</b>	<u><b>\$ 226,203</b></u>	<u><b>\$</b></u>	<u><b>141,161</b></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, 2010	April 30, 2009	April 30, 2010	April 30, 2009
Revenues:				
Products	\$ 33,730	\$ 23,870	\$ 106,568	\$ 80,616
Maintenance	15,498	10,419	54,736	38,521
Services	<u>5,988</u>	<u>4,989</u>	<u>20,080</u>	<u>17,031</u>
Total revenues	55,216	39,278	181,384	136,168
Cost of revenues:				
Products	4,051	2,459	12,969	8,595
Maintenance <sup>(1)</sup>	2,647	1,930	9,503	6,861
Services <sup>(1)</sup>	<u>4,223</u>	<u>2,858</u>	<u>13,340</u>	<u>9,875</u>
Total cost of revenues	<u>10,921</u>	<u>7,247</u>	<u>35,812</u>	<u>25,331</u>
Gross profit	44,295	32,031	145,572	110,837
Operating expenses <sup>(1)</sup> :				
Research and development	7,663	6,598	26,266	22,537
Sales and marketing	21,728	14,758	73,658	56,279
General and administrative	<u>7,148</u>	<u>6,123</u>	<u>26,269</u>	<u>20,278</u>
Total operating expenses	<u>36,539</u>	<u>27,479</u>	<u>126,193</u>	<u>99,094</u>
Income from operations	7,756	4,552	19,379	11,743
Interest income	27	82	124	991
Other income (expense), net	<u>(77)</u>	<u>(150)</u>	<u>(523)</u>	<u>(257)</u>
Income before provision for income taxes	7,706	4,484	18,980	12,477
Provision (benefit) for income taxes	<u>(14,940)</u>	<u>149</u>	<u>(9,407)</u>	<u>2,564</u>
Net income	<u>\$ 22,646</u>	<u>\$ 4,335</u>	<u>\$ 28,387</u>	<u>\$ 9,913</u>
Net income per common share, basic	<u>\$ 0.66</u>	<u>\$ 0.14</u>	<u>\$ 0.85</u>	<u>\$ 0.32</u>
Net income per common share, diluted	<u>\$ 0.62</u>	<u>\$ 0.13</u>	<u>\$ 0.78</u>	<u>\$ 0.30</u>
Shares used in computing basic net income per common share	<u>34,094</u>	<u>31,848</u>	<u>33,434</u>	<u>31,233</u>
Shares used in computing diluted net income per common share	<u>36,690</u>	<u>34,416</u>	<u>36,197</u>	<u>33,550</u>

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

Cost of maintenance revenues	140	60	445	216
Cost of services revenues	85	36	225	142
Research and development	635	347	2,177	1,342
Sales and marketing	968	482	3,418	2,451
General and administrative	1,123	628	3,941	1,994

**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>2010</u>	<u>April 30,</u> <u>2009</u>	<u>April 30,</u> <u>2010</u>	<u>April 30,</u> <u>2009</u>
GAAP operating income	\$ 7,756	\$ 4,552	\$ 19,379	\$ 11,743
Plus:				
a) Stock-based expenses	2,951	1,553	10,206	6,145
b) Amortization of intangibles	222	211	889	842
Non-GAAP operating income	<u>\$ 10,929</u>	<u>\$ 6,316</u>	<u>\$ 30,474</u>	<u>\$ 18,730</u>
GAAP net income	\$ 22,646	\$ 4,335	\$ 28,387	\$ 9,913
Plus:				
a) Stock-based expenses	2,951	1,553	10,206	6,145
b) Amortization of intangibles	222	211	889	842
c) Income tax benefit	<u>(18,573)</u>	<u>-</u>	<u>(18,573)</u>	<u>-</u>
Non-GAAP net income	<u>\$ 7,246</u>	<u>\$ 6,099</u>	<u>\$ 20,909</u>	<u>\$ 16,900</u>
GAAP net income per common share, basic	\$ 0.66	\$ 0.14	\$ 0.85	\$ 0.32
Plus:				
a) Stock-based expenses	0.09	0.04	0.31	0.19
b) Amortization of intangibles	0.01	0.01	0.03	0.03
c) Income tax benefit	(0.55)	-	(0.56)	-
Non-GAAP net income, basic	<u>\$ 0.21</u>	<u>\$ 0.19</u>	<u>\$ 0.63</u>	<u>\$ 0.54</u>
Non-GAAP net income, diluted	<u>\$ 0.20</u>	<u>\$ 0.18</u>	<u>\$ 0.58</u>	<u>\$ 0.50</u>
Shares used in computing basic net income per common share	<u>34,094</u>	<u>31,848</u>	<u>33,434</u>	<u>31,233</u>
Shares used in computing diluted net income per common share	<u>36,690</u>	<u>34,416</u>	<u>36,197</u>	<u>33,550</u>

- Due to rounding to the nearest tenth of a percent, totals may not equal the sum of the line items in the table above.

## **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.

**Income Tax Benefit.** During the fourth quarter of fiscal 2010, ArcSight determined the entire valuation allowance against its deferred tax assets was no longer necessary. As such, ArcSight recognized a cumulative income tax benefit of \$18.6 million. When evaluating the performance of its consolidated results, ArcSight does not consider this income tax benefit, as the company believes it is not directly indicative of the company's performance. Further, the release covered all of the company's valuation allowance of its deferred tax assets. Consequently, ArcSight believes it is useful to provide, as a supplement to its GAAP operating results, a non-GAAP financial measure that excludes the income tax benefit, and that such exclusion aids period to period comparability.

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.