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ArcSight Reports 32% Year-over-Year Growth for Fiscal Third Quarter Ended January 31, 2009

*Company Posts Total Revenues of \$36.4M for Fiscal Third Quarter and
GAAP and Non-GAAP Earnings per Diluted Share of \$0.15 and \$0.21, Respectively*

For the Fiscal Third Quarter:

- **Total Revenue: \$36.4M, a 32% increase year-over-year**
- **GAAP Net Income: \$5.1M or \$0.15 per diluted share**
- **Non-GAAP Net Income: \$6.9M or \$0.21 per diluted share**
- **Positive Cash Flows from Operations: \$7.8M**

CUPERTINO, CA – March 5, 2009 – ArcSight, Inc. (NASDAQ: ARST), a leading global provider of compliance and security management solutions that protect enterprises and government agencies, today announced financial results for its fiscal third quarter ended January 31, 2009.

For the third quarter of fiscal 2009, ArcSight reported total revenues of \$36.4 million compared to total revenues of \$27.7 million reported in the third quarter of fiscal 2008. Net income on a GAAP basis for the third quarter of fiscal 2009 was \$5.1 million, or \$0.15 per diluted share, including \$210,000 in amortization of intangible assets and \$1.7 million in stock-based compensation expense. This compares to a GAAP net income of \$2.4 million, or \$0.09 per diluted share, reported in the third quarter of fiscal 2008, including \$144,000 in amortization of intangible assets and \$1.3 million in stock-based compensation expense.

Non-GAAP net income for the third quarter of fiscal 2009 was \$6.9 million, or \$0.21 per diluted share, excluding the above-mentioned amortization and stock-based compensation charges. This compares to a non-GAAP net income of \$3.8 million, or \$0.14 per diluted share, reported in the third quarter of fiscal 2008, excluding the above-mentioned charges.

During the third quarter of fiscal 2009, the company generated \$7.8 million in cash from operations and closed the third quarter with cash and cash equivalents of \$82.9 million.

“Enterprises and government agencies place great value on protecting their businesses, assets, and services whether in robust or difficult economic times. In our view, this important and resilient value proposition is supported by our continued strong growth in our first year as a public company,” commented Tom Reilly, president and CEO of ArcSight. “We believe that our success this past quarter reflects how ArcSight’s compliance and security management solutions can help our customers cost-effectively secure their businesses while enabling them to meet the expectations of auditors.”

For the nine month period ended January 31, 2009, ArcSight reported total revenues of \$96.9 million, an increase of 34% over \$72.2 million reported for the same period of fiscal 2008. GAAP

net income for the nine month period ended January 31, 2009 was \$5.6 million, or \$0.17 per diluted share, including \$631,000 in amortization of intangible assets and \$4.6 million in stock-based compensation expense. This compares to a net loss of \$0.9 million, or \$0.09 per basic and diluted share, reported in the same period in 2008, including \$430,000 in amortization of intangible assets and \$3.4 million in stock-based compensation expenses.

Non-GAAP net income for the nine month period of fiscal 2009 was \$10.8 million, or \$0.32 per diluted share, excluding the above-mentioned charges. This compares to a non-GAAP net income of \$2.9 million, or \$0.11 per diluted share, reported in the same period of fiscal 2008, excluding the above-mentioned charges.

Business Outlook

The following forward-looking statements reflect expectations as of March 5, 2009. Results may be materially different and could be affected by the factors detailed in this release and in recent ArcSight SEC filings.

Fourth Quarter Expectations – Ending April 30, 2009

Based on current business trends and the visibility the company has from third quarter performance, ArcSight expects revenue for the fourth quarter of fiscal 2009 to be in the range of \$34 million to \$38 million, representing growth in the range of 16-29% over the same quarter of fiscal 2008.

ArcSight expects non-GAAP net income for the fourth quarter of fiscal 2009 to be in the range of \$3.0 million to \$5.1 million, or \$0.09 to \$0.15 cents per diluted share, which excludes stock-based compensation expense and amortization of intangibles.

Full Year Expectations – Fiscal Year Ending April 30, 2009

For fiscal 2009, ArcSight expects revenue to be in the range of \$130.9 million to \$134.9 million and non-GAAP net income in the range of \$13.8 million to \$15.9 million, or \$0.41 to \$0.48 cents per diluted share, excluding the above-mentioned charges.

Conference Call and Webcast Information

ArcSight will host a conference call and live webcast to discuss these financial results for investors and analysts at 2:00 p.m. Pacific Time on March 5, 2009. To access the conference call, dial 877-852-6579 for the U.S. or Canada and 719-325-4779 for international callers. The webcast will be available live on the Investor Relations section of the company's website at www.arcsight.com. An audio replay of the call will also be available to investors by phone beginning at approximately 4:00 p.m. Pacific Time on March 5, 2009 until 11:59 p.m. Pacific Time on March 12, 2009, by dialing 888-203-1112 for the U.S. or Canada or 719-457-0820 for international callers, and entering passcode 4422355. In addition, an archived webcast will be available on the Investor Relations section of the company's website at www.arcsight.com.

Use of Non-GAAP Financial Measures

ArcSight reports all financial information required in accordance with generally accepted accounting principles (GAAP). To supplement the ArcSight unaudited condensed consolidated financial statements presented in accordance with GAAP, ArcSight uses certain non-GAAP

measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the results of ArcSight operations as determined in accordance with GAAP. The non-GAAP financial measures used by ArcSight include historical non-GAAP net income (loss) and non-GAAP basic and diluted earnings (loss) per share. These non-GAAP financial measures exclude amortization of intangible assets and stock-based compensation from the ArcSight statement of operations.

For a description of these items, including the reasons why management adjusts for them, and reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures, please see the section of the accompanying tables titled "Use of Non-GAAP Financial Information" as well as the related tables that precede it. ArcSight may consider whether other significant non-recurring items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses.

ArcSight believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the performance of ArcSight by excluding certain items that may not be indicative of the company's core business, operating results or future outlook. ArcSight management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing operating results of ArcSight, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the performance of ArcSight to prior periods.

Cautionary Statement Regarding Forward Looking Statements

This news release contains forward-looking statements, including without limitation those regarding ArcSight's "Business Outlook" ("Fourth Quarter Expectations – Ending April 30, 2009" and "Full Year Expectations – Fiscal Year Ending April 30, 2009"); ArcSight's belief that its continued strong growth in its first year as a public company is supported by the great value that enterprises and government agencies place on protecting their businesses, assets, and services whether in robust or difficult economic times, and ArcSight's belief that its success this past quarter reflects how ArcSight's compliance and security management solutions can help its customers cost-effectively secure their businesses while enabling them to meet the expectations of auditors. These forward-looking statements are subject to material risks and uncertainties that may cause actual results to differ substantially from expectations. Investors should consider important risk factors, which include: the risk that demand for enterprise risk compliance management solutions may not increase and may decrease; the risk that competitors may be perceived by customers to be better positioned to help handle compliance violations and security threats and protect their businesses from major risk; the risk that the growth of ArcSight may be lower than anticipated; and other risks detailed under the caption "Risk Factors" in the ArcSight Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on July 22, 2008 and the company's other filings with the SEC. You can obtain copies of the company's Annual Report on Form 10-K and its other SEC filings on the SEC's website at www.sec.gov.

The foregoing information represents the company's outlook only as of the date of this press release, and ArcSight undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, new developments or otherwise.

About ArcSight

ArcSight (NASDAQ: ARST) is a leading global provider of compliance and security management solutions that protect enterprises and government agencies. ArcSight helps customers comply with corporate and regulatory policy, safeguard their assets and processes, and control risk. The ArcSight platform collects and correlates user activity and event data across the enterprise so that businesses can rapidly identify, prioritize, and respond to compliance violations, policy breaches, cybersecurity attacks, and insider threats. For more information, visit www.arcsight.com. (ARST-IR)

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ARCSIGHT, INC.
Condensed Consolidated Balance Sheets

(In thousands)

	As of January 31, 2009	As of April 30, 2008
	<u>2009</u>	<u>2008</u>
	<u>(Unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 82,891	\$ 71,946
Accounts receivable, net	22,223	26,658
Other prepaid expenses and current assets	<u>3,176</u>	<u>5,565</u>
Total current assets	108,290	104,169
Property and equipment, net	4,749	4,834
Goodwill	5,746	5,746
Acquired intangibles assets, net	1,530	2,161
Other long-term assets	<u>1,391</u>	<u>1,669</u>
Total assets	\$ <u>121,706</u>	\$ <u>118,579</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,230	\$ 3,115
Accrued compensation and benefits	7,757	11,864
Other accrued liabilities	6,485	5,967
Deferred revenues, current	<u>33,524</u>	<u>36,512</u>
Total current liabilities	48,996	57,458
Deferred revenues, non-current	3,970	4,754
Other long-term liabilities	<u>1,687</u>	<u>1,598</u>
Total liabilities	54,653	63,810
Stockholders' equity:		
Additional paid-in capital	108,531	101,574
Deferred stock-based compensation	-	(53)
Accumulated other comprehensive loss	(349)	(45)
Accumulated deficit	<u>(41,129)</u>	<u>(46,707)</u>
Total stockholders' equity	<u>67,053</u>	<u>54,769</u>
Total liabilities and stockholders' equity	\$ <u>121,706</u>	\$ <u>118,579</u>

ARCSIGHT, INC.
Condensed Consolidated Statement of Operations

(On a GAAP basis)

(In thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2009	January 31, 2008	January 31, 2009	January 31, 2008
Revenues:				
Products	\$ 21,775	\$ 17,698	\$ 56,746	\$ 45,573
Maintenance	10,004	7,380	28,102	19,627
Services	4,613	2,593	12,042	6,969
Total revenues	36,392	27,671	96,890	72,169
Cost of revenues:				
Products	2,637	1,487	6,136	3,301
Maintenance ⁽¹⁾	1,637	1,456	4,931	4,083
Services ⁽¹⁾	2,587	1,454	7,017	3,894
Total cost of revenues	6,861	4,397	18,084	11,278
Gross profit	29,531	23,274	78,806	60,891
Operating expenses ⁽¹⁾ :				
Research and development	5,201	5,063	15,939	14,170
Sales and marketing	12,298	12,760	41,521	37,367
General and administrative	4,943	2,939	14,155	9,927
Total operating expenses	22,442	20,762	71,615	61,464
Income (loss) from operations	7,089	2,512	7,191	(573)
Interest income	154	158	909	422
Other income and expense, net	3	(60)	(107)	(284)
Income (loss) before provision for income taxes	7,246	2,610	7,993	(435)
Provision for income taxes	2,183	257	2,415	514
Net income (loss)	\$ 5,063	\$ 2,353	\$ 5,578	\$ (949)
Net income (loss) per common share, basic	\$ 0.16	\$ 0.22	\$ 0.18	\$ (0.09)
Net income (loss) per common share, diluted	\$ 0.15	\$ 0.09	\$ 0.17	\$ (0.09)
Shares used in computing basic net income (loss) per common share	31,499	10,829	31,115	10,609
Shares used in computing diluted net income (loss) per common share	33,494	27,458	33,324	10,609

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

Cost of maintenance revenues	56	24	156	62
Cost of services revenues	34	23	106	69
Research and development	322	293	995	940
Sales and marketing	466	771	1,969	1,912
General and administrative	786	171	1,366	432

ARCSIGHT, INC.
Consolidated Statement of Operations

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

	For the Three Months Ended		For the Nine Months Ended	
	January 31, 2009	January 31, 2008	January 31, 2009	January 31, 2008
GAAP net income (loss)	\$ 5,063	\$ 2,353	\$ 5,578	\$ (949)
Plus:				
a) Stock-based compensation expenses	1,664	1,282	4,592	3,415
b) Amortization of intangibles	210	144	631	430
Non-GAAP net income	\$ 6,937	\$ 3,779	\$ 10,801	\$ 2,896
GAAP net income (loss) per common share, basic	\$ 0.16	\$ 0.22	\$ 0.18	\$ (0.09)
Plus:				
a) Stock-based compensation expenses	0.05	0.12	0.15	0.32
b) Amortization of intangibles	0.01	0.01	0.02	0.04
Non-GAAP net income (loss), basic	\$ 0.22	\$ 0.35	\$ 0.35	\$ 0.27
Non-GAAP net income (loss), diluted	\$ 0.21	\$ 0.14	\$ 0.32	\$ 0.11
Shares used in computing basic net income (loss) per common share	31,499	10,829	31,115	10,609
Shares used in computing diluted net income (loss) per common share	33,494	27,458	33,324	27,409

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.