

Ariba

Supplemental Presentation
Material for
Quarter Ending
December 31, 2009

January 28, 2010



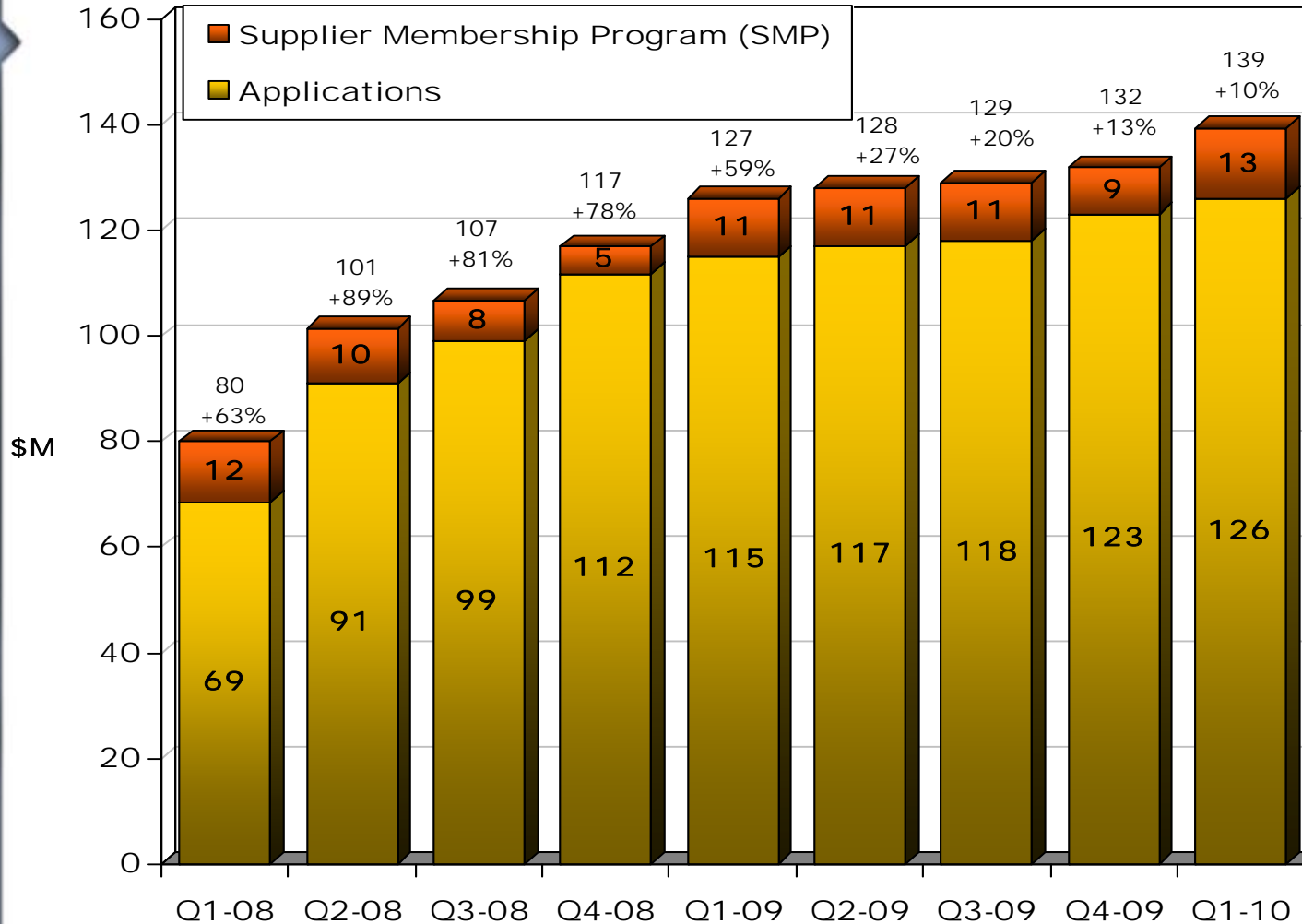
Ariba Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act 1995: Information and announcements in this presentation involve Ariba's expectations, beliefs, hopes, plans, intentions or strategies regarding the future and are forward-looking statements that involve risks and uncertainties. All forward-looking statements included in this presentation are based upon information available to Ariba as of the date of the presentation, and we assume no obligation to update any such forward-looking statements. These statements are not guarantees of future performance and actual results could differ materially from our current expectations. Factors that could cause or contribute to Ariba's operating and financial results to differ materially from current expectations include, but are not limited to: the impact of the credit crises on Ariba's results of operations and financial condition; delays in development or shipment of new versions of Ariba's products and services; lack of market acceptance of Ariba's existing or future products or services; inability to continue to develop competitive new products and services on a timely basis; introduction of new products or services by major competitors; the ability to attract and retain qualified employees; difficulties in assimilating acquired companies, long and unpredictable sales cycles and the deferrals of anticipated orders; declining economic conditions, including the impact of a recession; inability to control costs; changes in the company's pricing or compensation policies; significant fluctuations in our stock price; the outcome of and costs associated with pending or potential future regulatory or legal proceedings; the impact of our acquisitions, including the disruption or loss of customer, business partner, supplier or employee relationships; and the level of costs and expenses incurred by Ariba as a result of such transactions. Factors and risks associated with its business, including a number of the factors and risks described above, are discussed in Ariba's latest Form 10-K filed with the SEC November 25th, 2009.

During this presentation we may also make statements relating to the Company's real estate forecast, and estimated fiscal 2010 financial results and condition and long term financial model. This forward-looking information involves risks and uncertainties, as well as assumptions, that, if they do not fully materialize or prove correct, could cause actual results to differ materially from the Company's current expectations.

Ariba provides quarterly and annual financial statements that are prepared in accordance with Generally Accepted Accounting Principals ("GAAP"). In addition, Ariba provides certain non-GAAP financial information. This non-GAAP financial information includes a purchase accounting adjustment needed to deferred revenues and generally excludes costs and expenses for (i) amortization of intangible assets related to acquisitions, (ii) stock-based compensation, (iii) restructuring and integration and (iv) other-than-temporary impairment of long-term investments. Management reviews this non-GAAP financial information in evaluating Ariba's historical and projected performance and believes that it may assist investors in assessing its ongoing operations. The presentation of this additional information is not meant to be considered in isolation or as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. We have provided a reconciliation of the non-GAAP financial information with the comparable financial information reported in accordance with GAAP for the given period.

Annualized Sub SW Backlog – Up 10% Y/Y



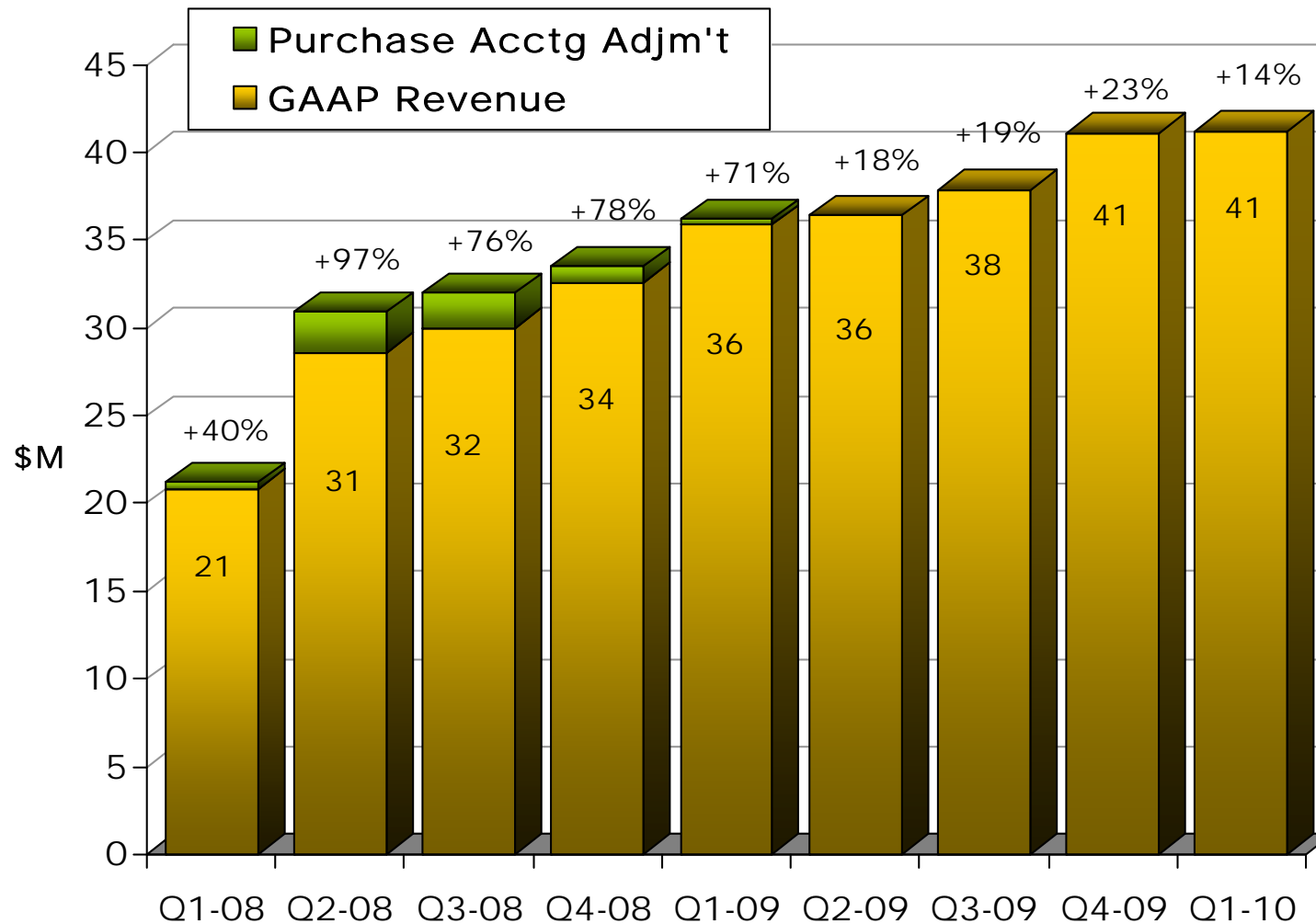
▶ Underlying strategy of Land and Expand is continuing to deliver Volume and Velocity

▶ Total Sub SW backlog at 12/30 was \$258M:
 ▶ Up \$18M from Q109

Percentages represent Y/Y growth rates



Non GAAP Sub SW Revenue - Up 14% Y/Y



Q409 had \$1.5M of one-time revenue

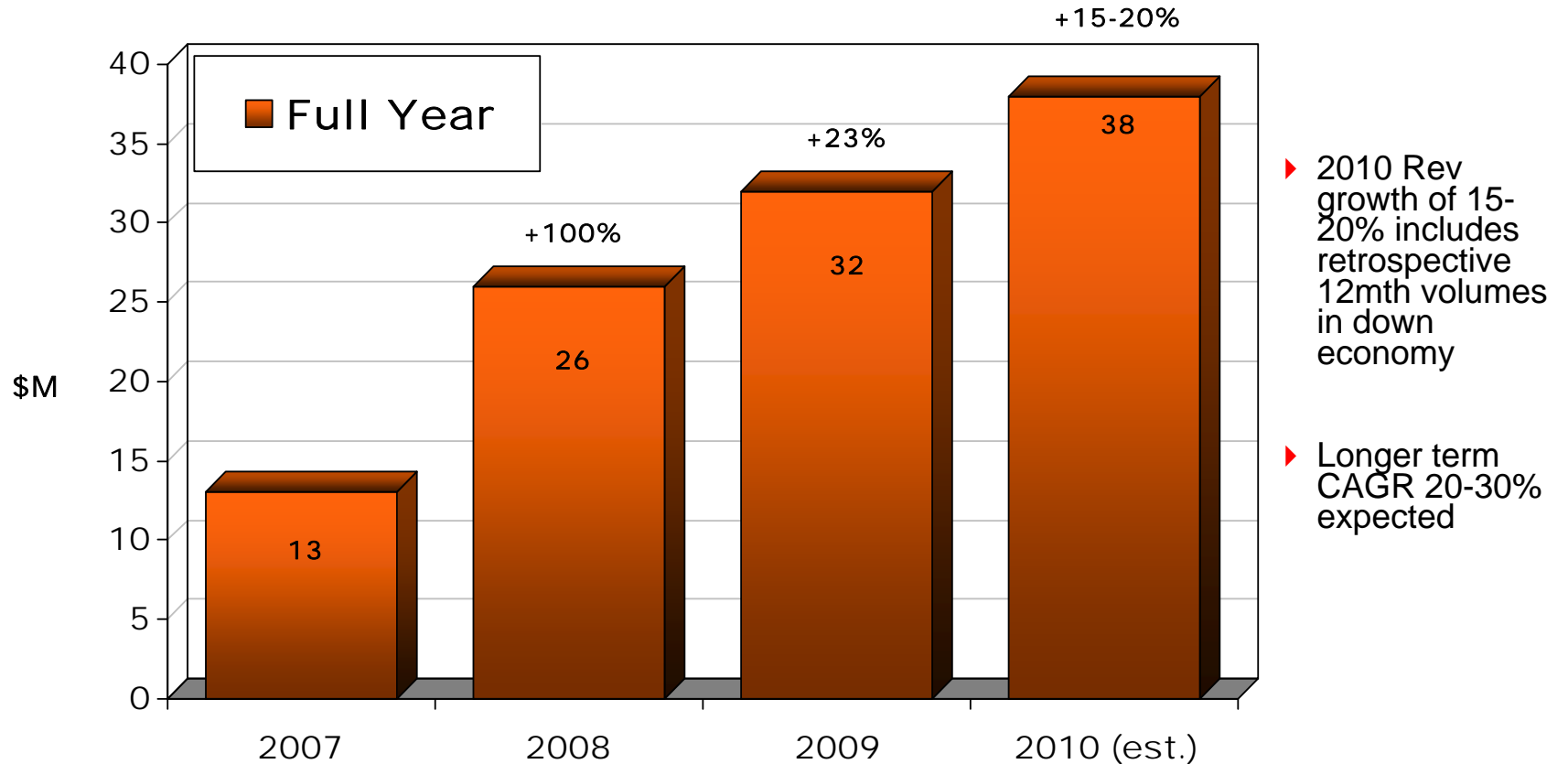
Q110 had \$0.5M of one-time revenue

Percentages represent Y/Y growth rates

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Network Software Revenue - expected to grow 15 - 20% in 2010



Notes: Network Subscription Software Revenue is a component of total Subscription Software Revenue and represents network-related software fees paid by suppliers, buyers, and third parties. Percentages represent year-over-year growth rates. Please refer to safe harbor statement.

Q1 Results vs. Oct Outlook

| | <u>Q4 09 Actual</u> | <u>Oct Outlook</u> | <u>Q1 10 Actual</u> |
|--|-------------------------|------------------------|-------------------------|
| Non-GAAP Subscription Software Revenue | 41.1M ⁽¹⁾ | ~40.5M | 41.2M ⁽²⁾ |
| Maintenance Revenues | 16.8M | ~17M | 17.1M |
| Services and Other | 26.5M | 27.5M+/-1M | 27.3M |
| Total Non-GAAP Revenue | 84.3M | 85M+/-1M | 85.7M |
| Non-GAAP EPS | 18¢ | 17 – 19 ¢ | 19¢ |

(1) Q409 had \$1.5M of one-time revenue.

(2) Q110 had \$0.5M of one-time revenue.

FY 2010 Non-GAAP Outlook -- No change

| | <u>2008 Actual</u> | <u>2009 Actual</u> | <u>2010 Outlook</u> | <u>Vs 2009</u> |
|--|------------------------|------------------------|-------------------------|----------------|
| Non-GAAP Subscription Software Revenue | 117.3M | 151.6M | 168 - 172M | +12% |
| Maintenance Revenues | 74.9M | 71.0M | ~ 66M | - 7% |
| Services & Other | 140.9M | 116.8M | 114 +/- 5M | - 2% |
| Total Non-GAAP Revenue | 333.1M | 339.3M | 350M +/- 5M | + 3% |
| Non-GAAP EPS | 44¢ | 71 ¢ | 72 - 76 ¢ * | + 4% |

* Including investments in the Sub SW and Network areas of the business

Please refer to safe harbor statement

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FY 2010 Cash-Flow Outlook -- No change

| | <u>2008 Actual</u> | <u>2009 Actual</u> | <u>2010 Outlook</u> |
|--|------------------------|--------------------|-------------------------|
| Cash Flow from Operations before lease-losses, Sky and Procuri/Restructuring | 57M | 89M | 70-80M |
| Sky & Procuri/Restructuring | -15M | -5M | - |
| Lease-loss payments | -20M | -18M | -18M |
| Cash Flow from Operations | 22M | 66M | 52-62M |

Notes: Capital Expenditures were \$8M & \$7M in 2008 and 2009, respectively and are anticipated to be approximately \$8-9M in 2010.
Please see Safe Harbor statement.

Supplemental Information: Real Estate

Quarterly Real Estate Lease Loss Impact

- ▶ The Ariba Sunnyvale campus has 4 buildings and each building has 4 floors.
- ▶ There are currently 4 vacant floors.
- ▶ As of 12/31/09, \$44.7M is reserved on the balance sheet for lease loss.

| \$M | <u>2Q '10</u> | <u>3Q '10</u> | <u>4Q '10</u> | <u>FY11</u> | <u>FY12</u> | <u>FY13</u> | <u>Total</u> |
|--------------------------|----------------------|----------------------|----------------------|--------------------|--------------------|--------------------|---------------------|
| Per Period | 4.3 | 4.4 | 4.9 | 13.2 | 13.2 | 4.7 | 44.7 |
| Quarterly Average | 4 | 4 | 5 | 3 | 3 | 4 | 3.6 |

- ▶ The “Per Period” amounts represent the quarterly or annual reduction (cash flow usage) associated with the \$44.7M real estate lease loss restructuring reserve.
- ▶ In the worst case that no new leases for the above mentioned 4 vacant floors get signed and we just see out the existing sub-tenant contracts for current abandoned space then the lease loss would be ~\$9M higher than shown for the remainder of the term.

Please see Safe Harbor statement.

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Supplemental Information: Cash, Restricted Cash & Investments

Cash, Restricted Cash & Investments

| | <u>Geography</u> | <u>Interest rate</u> | <u>Balance at 12/31/2009</u> |
|---|-------------------|----------------------|------------------------------|
| Cash, Cash Equiv & S/T | Current Asset | 0.6% | \$144.2M |
| Restricted Cash | Non-Current Asset | 0.6% | 29.2M |
| Long-term Investments | Non-Current Asset | 1.5%* | <u>26.1M</u> |
| Total Cash, Restricted Cash and Investments | | 0.7% | \$199.5M |

Auction rate securities with an estimated fair value of \$17.5M are included in Long-term Investments above. The realized and unrealized loss on these Auction rate securities totals \$5.6M.

Supplemental Information: Financials

Ariba, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited; in thousands)

| | <u>December 31,</u> 2009 | <u>September 30,</u> 2009 |
|---|-----------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 127,333 | \$ 130,881 |
| Short-term investments | 16,813 | 12,169 |
| Accounts receivable, net | 19,666 | 19,660 |
| Prepaid expenses and other current assets | 12,084 | 11,235 |
| Total current assets | <u>175,896</u> | <u>173,945</u> |
| Property and equipment, net | 13,965 | 14,418 |
| Long-term investments | 26,118 | 23,155 |
| Restricted cash, less current portion | 29,241 | 29,241 |
| Goodwill | 406,507 | 406,507 |
| Other intangible assets, net | 16,229 | 17,660 |
| Other assets | 3,199 | 3,245 |
| Total assets | <u><u>\$ 671,155</u></u> | <u><u>\$ 668,171</u></u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 7,802 | \$ 7,758 |
| Accrued compensation and related liabilities | 16,273 | 29,010 |
| Accrued liabilities | 18,168 | 17,010 |
| Restructuring obligations | 16,921 | 17,964 |
| Deferred revenue | 111,315 | 101,172 |
| Total current liabilities | <u>170,479</u> | <u>172,914</u> |
| Deferred rent obligations | 13,560 | 14,539 |
| Restructuring obligations, less current portion | 27,815 | 31,098 |
| Deferred revenue, less current portion | 8,177 | 9,288 |
| Other long-term liabilities | 5,985 | 6,281 |
| Total liabilities | <u>226,016</u> | <u>234,120</u> |
| Stockholders' equity: | | |
| Common stock | 179 | 179 |
| Additional paid-in capital | 5,198,060 | 5,189,566 |
| Accumulated other comprehensive loss | (3,319) | (3,688) |
| Accumulated deficit | (4,749,781) | (4,752,006) |
| Total stockholders' equity | <u>445,139</u> | <u>434,051</u> |
| Total liabilities and stockholders' equity | <u><u>\$ 671,155</u></u> | <u><u>\$ 668,171</u></u> |

Ariba, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited; in thousands, except per share data)

| | Three Months Ended December 31, | |
|--|------------------------------------|-----------------|
| | 2009 | 2008 |
| Revenues: | | |
| Subscription and maintenance | \$ 58,373 | \$ 54,081 |
| Services and other | 27,298 | 32,006 |
| Total revenues | <u>85,671</u> | <u>86,087</u> |
| Cost of revenues: | | |
| Subscription and maintenance | 12,674 | 11,648 |
| Services and other | 19,462 | 19,798 |
| Amortization of acquired technology and customer intangible assets | 1,327 | 1,388 |
| Total cost of revenues | <u>33,463</u> | <u>32,834</u> |
| Gross profit | <u>52,208</u> | <u>53,253</u> |
| Operating expenses: | | |
| Sales and marketing | 28,302 | 27,577 |
| Research and development | 11,146 | 10,904 |
| General and administrative | 10,697 | 11,603 |
| Insurance reimbursement | - | (7,527) |
| Amortization of other intangible assets | 104 | 210 |
| Restructuring and integration costs | - | 1,701 |
| Total operating expenses | <u>50,249</u> | <u>44,468</u> |
| Income from operations | 1,959 | 8,785 |
| Interest and other income (expense), net | 321 | (5,016) |
| Income before income taxes | <u>2,280</u> | <u>3,769</u> |
| Provision for income taxes | 55 | 342 |
| Net income | <u>\$ 2,225</u> | <u>\$ 3,427</u> |
| Net income loss per share - basic | \$ 0.03 | \$ 0.04 |
| Net income loss per share - diluted | \$ 0.03 | \$ 0.04 |
| Weighted average shares - basic | 85,161 | 80,947 |
| Weighted average shares - diluted | 88,262 | 84,044 |



Ariba, Inc. and Subsidiaries
Cash Flows
(Unaudited; in thousands)

| | Three Months Ended December 31, | |
|---|------------------------------------|-----------|
| | 2009 | 2008 |
| Operating activities: | | |
| Net income | \$ 2,225 | \$ 3,427 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for doubtful accounts | 46 | 131 |
| Depreciation | 1,839 | 1,946 |
| Amortization of intangible assets | 1,431 | 1,598 |
| Other-than temporary impairment of long-term investments | 499 | 1,414 |
| Stock-based compensation | 13,523 | 9,526 |
| Restructuring costs | - | 1,701 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (52) | 2,814 |
| Prepaid expense and other assets | (889) | 1,307 |
| Accounts payable | 79 | (2,483) |
| Accrued compensation and related liabilities | (12,815) | (6,711) |
| Accrued liabilities | (85) | (755) |
| Deferred revenue | 9,030 | 2,626 |
| Restructuring obligations | (4,326) | (5,706) |
| Net cash provided by operating activities | 10,505 | 10,835 |
| Investing activities: | | |
| Purchases of property and equipment | (1,386) | (2,253) |
| Purchases of investments, net of sales | (7,631) | 726 |
| Net cash used in investing activities | (9,017) | (1,527) |
| Financing activities: | | |
| Proceeds from issuance of common stock, net | 27 | 45 |
| Repurchase of common stock | (5,056) | (678) |
| Net cash used in financing activities | (5,029) | (633) |
| Effect of exchange rates on cash and cash equivalents | (7) | 66 |
| Net change in cash and cash equivalents | (3,548) | 8,741 |
| Cash and cash equivalents at beginning of period | 130,881 | 86,804 |
| Cash and cash equivalents at end of period | \$ 127,333 | \$ 95,545 |

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Non-GAAP Financial Measures

The following table(s) reconcile the non-GAAP financial measures used herein to the most directly comparable financial measures prepared in accordance with Generally Accepted Accounting Principles (GAAP). These non-GAAP financial measures include non-GAAP revenues, non-GAAP cost of revenues, gross profit, operating expenses, income from operations, net income and net income per share amounts.

Non-GAAP financial measures should not be considered as a substitute for, or superior to, GAAP financial measures, which should be considered as the primary financial metrics for evaluating our financial performance. Significantly, non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles. Instead, they are based on subjective determinations by management designed to supplement our GAAP financial measures. They are subject to a number of important limitations and should be considered only in conjunction with our consolidated financial statements prepared in accordance with GAAP. For example, our non-GAAP financial measures have the effect of excluding a purchase accounting adjustment, costs and expenses from our operating results that should be properly considered under a system of accrual accounting. In addition, our non-GAAP financial measures differ from GAAP measures with the same names, may vary over time and may differ from non-GAAP financial measures with the same or similar names used by other companies. Accordingly, investors should exercise caution when evaluating our non-GAAP financial measures.

Despite these limitations, we believe our non-GAAP financial measures provide meaningful supplemental information about our operating results, primarily because they exclude a purchase accounting adjustment and costs and expenses that we do not believe are indicative of the ongoing operating performance of our business and our senior management. Although these items should properly be considered in our GAAP financial measures, we believe they should be excluded when evaluating our current operating performance. The non-GAAP financial measures disclosed in the accompanying press release are used by our Board of Directors and senior management to evaluate our current operating performance, are used in evaluating the performance of our senior management, and are used in our budget and planning processes. We believe that our non-GAAP financial measures are helpful to investors by facilitating comparisons of our current and prior operating results and by facilitating comparisons of our operating results with those of other software companies.

Ariba, Inc. and Subsidiaries
 Reconciliation of GAAP to Non-GAAP Operating Results
 (Unaudited; in thousands, except per share data)

The following tables reconcile the specific items excluded from GAAP in the calculation of non-GAAP operating results for the period indicated below:

| | <u>Three Months Ended December 31, 2009</u> | <u>Three Months Ended December 31, 2008</u> |
|---|---|---|
| <u>Revenue reconciliation:</u> | | |
| GAAP revenue | \$ 85,671 | \$ 86,087 |
| Purchase accounting adjustment | - | 355 |
| Total non-GAAP revenues | <u>\$ 85,671</u> | <u>\$ 86,442</u> |
| | | |
| | <u>Three Months Ended December 31, 2009</u> | <u>Three Months Ended December 31, 2008</u> |
| <u>Expense reconciliation:</u> | | |
| GAAP revenue | \$ 85,671 | \$ 86,087 |
| Less: GAAP net income | 2,225 | 3,427 |
| Total GAAP expenses | <u>83,446</u> | <u>82,660</u> |
| Amortization of intangible assets | (1,431) | (1,598) |
| Stock-based compensation | (13,523) | (9,526) |
| Restructuring and integration | - | (1,701) |
| Other-than-temporary decline in long-term investment | - | (1,414) |
| Total non-GAAP operating expenses | <u>\$ 68,492</u> | <u>\$ 68,421</u> |
| | | |
| | <u>Three Months Ended December 31, 2009</u> | <u>Three Months Ended December 31, 2008</u> |
| <u>Net income reconciliation:</u> | | |
| GAAP net income | \$ 2,225 | \$ 3,427 |
| Purchase accounting adjustment | - | 355 |
| Amortization of intangible assets | 1,431 | 1,598 |
| Stock-based compensation | 13,523 | 9,526 |
| Restructuring and integration | - | 1,701 |
| Other-than-temporary decline in long-term investment | - | 1,414 |
| Non-GAAP net income | <u>\$ 17,179</u> | <u>\$ 18,021</u> |
| | | |
| | <u>Three Months Ended December 31, 2009</u> | <u>Three Months Ended December 31, 2008</u> |
| <u>Net income per share reconciliation:</u> | | |
| GAAP net income per share - basic | \$ 0.03 | \$ 0.04 |
| Purchase accounting adjustment | - | 0.00 |
| Amortization of intangible assets | 0.02 | 0.02 |
| Stock-based compensation | 0.16 | 0.12 |
| Restructuring and integration | - | 0.02 |
| Other-than-temporary decline in long-term investment' | - | 0.02 |
| Non-GAAP net income per share - basic | <u>\$ 0.20</u> | <u>\$ 0.22</u> |
| Non-GAAP net income per share - diluted | \$ 0.19 | \$ 0.21 |
| Weighted average shares - basic | 85,161 | 80,947 |
| Weighted average shares - diluted | 88,262 | 84,044 |

Ariba, Inc. and Subsidiaries
Q1 Fiscal 2010 Supplemental Information
(in millions, except for percentages)

| | FY 2007 | | | | FY 2008 | | | | FY2009 | | | | FY2010 |
|--|------------|-------------|------------|-------------|------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2007-Q1 | 2007-Q2 | 2007-Q3 | 2007-Q4 | 2008-Q1 | 2008-Q2 | 2008-Q3 | 2008-Q4 | 2009-Q1 | 2009-Q2 | 2009-Q3 | 2009-Q4 | 2010-Q1 |
| REVENUE ANALYSIS | | | | | | | | | | | | | |
| Network Software Revenue | 2.7 | 3.3 | 3.7 | 3.7 | 4.7 | 7.4 | 7.1 | 6.9 | 8.2 | 7.5 | 7.7 | 8.6 | 9.8 |
| Subscription software revenue | \$ 15.2 | 15.7 | 18.0 | 18.8 | 20.8 | 28.6 | 30.3 | 32.6 | 35.9 | 36.4 | 37.9 | 41.1 | 41.2 |
| Purchase accounting adjustment to acquired Procuri contracts | | | | | 0.4 | 2.3 | 1.4 | 0.9 | 0.4 | - | - | - | - |
| Non-GAAP subscription software revenue | \$ 15.2 | 15.7 | 18.0 | 18.8 | 21.2 | 30.8 | 31.7 | 33.5 | 36.2 | 36.4 | 37.9 | 41.1 | 41.2 |
| Subscription software revenue growth rates (Yr/Yr) | | | | | | | | | | | | | |
| Subscription software revenue | 18% | 15% | 29% | 27% | 37% | 83% | 68% | 74% | 72% | 27% | 25% | 26% | 15% |
| Non-GAAP subscription software revenue | 18% | 15% | 29% | 27% | 40% | 97% | 76% | 78% | 71% | 18% | 19% | 23% | 14% |
| CASH FLOW METRICS | | | | | | | | | | | | | |
| Cash Flow from Operations | \$ 4.5 | \$ 2.5 | \$ 2.9 | \$ 6.6 | \$ 1.2 | \$ 1.5 | \$ 8.7 | \$ 10.2 | \$ 10.8 | \$ 16.3 | \$ 20.0 | \$ 18.8 | \$ 10.5 |
| Cash used for lease loss (Restructuring Obligations) | 3.5 | 7.8 | 2.3 | 5.4 | 4.4 | 4.5 | 5.9 | 4.7 | 4.7 | 4.5 | 4.4 | 4.3 | \$ 4.3 |
| Cash used for Procuri-related integration & other severances (Restructuring Obligations) | - | - | - | - | 0.2 | 1.8 | 0.8 | 1.2 | 1.0 | 1.7 | 1.4 | 0.7 | - |
| Cash for Procuri-related M&A activities (Accrued liabilities) | - | - | - | - | - | 3.1 | - | - | - | - | - | - | - |
| Cash used for Sky settlement (Prepays, Accrued liabilities) | - | - | - | - | - | 5.9 | - | - | - | - | - | - | - |
| Cash from Operations used for Procuri, Sky and Lease Loss | 3.5 | 7.8 | 2.3 | 5.4 | 4.6 | 15.3 | 6.7 | 5.9 | 5.7 | 6.2 | 5.8 | 5.0 | 4.3 |
| Cash Flow from Ops, before Procuri, Sky and Lease Losses | 8.0 | 10.3 | 5.2 | 12.0 | 5.8 | 16.8 | 15.4 | 16.1 | 16.5 | 22.5 | 25.9 | 23.8 | 14.8 |
| Capital Expenditures | 1.2 | 1.8 | 2.2 | 2.3 | 0.9 | 1.8 | 2.5 | 2.5 | 2.3 | 1.2 | 1.4 | 1.8 | 1.4 |
| Free Cash Flow | 3.3 | 0.7 | 0.7 | 4.3 | 0.3 | (0.3) | 6.2 | 7.7 | 8.6 | 15.2 | 18.7 | 17.0 | 9.1 |
| Free Cash Flow, before Procuri, Sky and Lease Losses | 6.8 | 8.5 | 3.0 | 9.7 | 4.9 | 15.0 | 12.9 | 13.7 | 14.3 | 21.4 | 24.5 | 22.0 | 13.4 |

Ariba, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited; in thousands, except per share data)

| | Three Months Ended December 31, | | | Three Months Ended December 31, | | |
|--|------------------------------------|------------------|-------------------|------------------------------------|------------------|-------------------|
| | 2009 Reported | Adj | 2009 Non- GAAP | 2008 Reported | Adj | 2008 Non- GAAP |
| Revenues: | | | | | | |
| Subscription and maintenance (1) | \$ 58,373 | \$ - | \$ 58,373 | \$ 54,081 | \$ 355 | \$ 54,436 |
| Services and other | 27,298 | - | 27,298 | 32,006 | - | 32,006 |
| Total revenues | <u>85,671</u> | <u>-</u> | <u>85,671</u> | <u>86,087</u> | <u>355</u> | <u>86,442</u> |
| Cost of revenues: | | | | | | |
| Subscription and maintenance (3) | 12,674 | (934) | 11,740 | 11,648 | (625) | 11,023 |
| Services and other (3) | 19,462 | (1,434) | 18,028 | 19,798 | (1,030) | 18,768 |
| Amortization of acquired technology and customer intangible assets (2) | 1,327 | (1,327) | - | 1,388 | (1,388) | - |
| Total cost of revenues | <u>33,463</u> | <u>(3,695)</u> | <u>29,768</u> | <u>32,834</u> | <u>(3,043)</u> | <u>29,791</u> |
| Gross profit | <u>52,208</u> | <u>3,695</u> | <u>55,903</u> | <u>53,253</u> | <u>3,398</u> | <u>56,651</u> |
| Operating expenses: | | | | | | |
| Sales and marketing (3) | 28,302 | (5,715) | 22,587 | 27,577 | (3,882) | 23,695 |
| Research and development (3) | 11,146 | (1,377) | 9,769 | 10,904 | (1,424) | 9,480 |
| General and administrative (3) | 10,697 | (4,063) | 6,634 | 11,603 | (2,565) | 9,038 |
| Insurance reimbursement | - | - | - | (7,527) | - | (7,527) |
| Amortization of other intangible assets (2) | 104 | (104) | - | 210 | (210) | - |
| Restructuring and integration (4) | - | - | - | 1,701 | (1,701) | - |
| Total operating expenses | <u>50,249</u> | <u>(11,259)</u> | <u>38,990</u> | <u>44,468</u> | <u>(9,782)</u> | <u>34,686</u> |
| Income from operations | 1,959 | 14,954 | 16,913 | 8,785 | 13,180 | 21,965 |
| Interest and other income (expense), net (5) | 321 | - | 321 | (5,016) | 1,414 | (3,602) |
| Income before income taxes | 2,280 | 14,954 | 17,234 | 3,769 | 14,594 | 18,363 |
| Provision for income taxes | 55 | - | 55 | 342 | - | 342 |
| Net income | <u>\$ 2,225</u> | <u>\$ 14,954</u> | <u>\$ 17,179</u> | <u>\$ 3,427</u> | <u>\$ 14,594</u> | <u>\$ 18,021</u> |
| Net income per share | | | | | | |
| Basic | \$ 0.03 | | \$ 0.20 | \$ 0.04 | | \$ 0.22 |
| Diluted | \$ 0.03 | | \$ 0.19 | \$ 0.04 | | \$ 0.21 |
| Weighted average shares | | | | | | |
| Basic | 85,161 | | 85,161 | 80,947 | | 80,947 |
| Diluted | 88,262 | | 88,262 | 84,044 | | 84,044 |

Discussion of Specific Items Excluded From Non-GAAP Financial Measures

Our non-GAAP financial measures include a purchase accounting adjustment related to deferred revenues and generally exclude costs and expenses for (i) amortization of intangible assets related to acquisitions, (ii) stock-based compensation, (iii) restructuring and integration and (iv) other-than-temporary impairment of long-term investments. We exclude these items because we believe they are not closely related to the ongoing operating performance of our business and the performance of our senior management and are generally excluded from our budget and planning process. In addition to these reasons, we believe our non-GAAP financial measures are also helpful to investors by facilitating comparisons of our operating results over different time periods and by facilitating comparisons of our financial performance with that of other companies. In addition, except for costs and expenses related to restructuring and integration, these items are non-cash items that do not affect cash flows.

(1) *Purchase accounting adjustment – deferred revenue.* As announced on December 17, 2007, Ariba acquired Procuri, Inc. In accordance with the fair value provisions of EITF 01-3, Accounting in a Business Combination for Deferred Revenue of an Acquiree, acquired deferred revenue of approximately \$4.5 million was recorded on the opening balance sheet, which was approximately \$5.9 million lower than the historical carrying value. Although this purchase accounting requirement has no impact on the Company's business or cash flow, it adversely impacts the Company's reported GAAP revenue primarily for the first twelve months post-acquisition. In order to provide investors with financial information that facilitates comparison of both historical and future results, the Company has provided non-GAAP financial measures which exclude the impact of the purchase accounting adjustment. The Company believes that this non-GAAP financial adjustment is useful to investors because it allows investors to (a) evaluate the effectiveness of the methodology and information used by management in its financial and operational decision-making and (b) compare past and future reports of financial results of the Company as the revenue reduction related to acquired deferred revenue will not recur when related subscription terms are renewed in future periods.

(2) *Amortization of Acquired Intangible Assets.* In accordance with GAAP, we amortize intangible assets acquired in connection with acquisitions over the estimated useful lives of the assets. We exclude these amortization costs in our non-GAAP financial measures because they (i) result from prior acquisitions, rather than the ongoing operating performance of our business, and (ii) absent additional acquisitions, are expected to decline over time as the remaining carrying amounts of these assets are amortized. We believe excluding these costs helps investors compare our financial performance with that of other companies with different acquisition histories. However, as with impairment charges, we recognize that amortization costs provide a helpful measure of the financial impact and performance of prior acquisitions and consider our non-GAAP financial measures in conjunction with our GAAP financial results that include amortization costs.

(3) *Stock-Based Compensation Expenses.* We exclude stock-based compensation expense associated with stock options and stock granted to employees and non-executive directors in our non-GAAP financial measures. While stock-based compensation is a significant component of our expenses, we believe that investors wish to be able to exclude the effects of stock-based compensation expense in comparing our financial performance with that of other companies.

(4) *Restructuring and integration.* We recorded restructuring related to lease abandonment accruals and/or severance and related benefits in the three months ended December 31, 2009. We exclude this from our non-GAAP financial measures because it is unrelated to our ongoing operations and is significantly impacted by factors outside our control. We believe excluding restructuring and integration helps investors compare our operating performance with that of other companies. We recognize, however, that restructuring and integration will impact cash flows and that we and investors should carefully consider the impact of these costs on future cash flows.

(5) *Other-than-temporary impairment of long-term investments.* We recorded an other-than temporary impairment of a long-term investment in the three months ended December 31, 2009. We exclude this from our non-GAAP financial measures because it is unrelated to our ongoing operations. We believe excluding the other-than-temporary impairment helps investors compare our operating performance with that of other companies. We recognize, however, that the other-than-temporary impairment may impact cash flows and that we and investors should carefully consider the impact of these costs on future cash flows.

Ariba, Inc. and Subsidiaries
 Reconciliation of Outlook for the Quarter Ending March 31, 2010
 (Unaudited; in thousands, except per share data)

The following tables reconcile the specific items excluded from GAAP in the calculation of non-GAAP projected operating results for the period indicated below:

| | Range for the Three Months Ending March 31, 2010 | |
|---------------------------|---|-----------|
| | Low | High |
| <u>Projected revenue:</u> | \$ 85,500 | \$ 87,500 |

| | Range for the Three Months Ending March 31, 2010 | |
|--|---|-----------|
| | Low | High |
| <u>Projected expense reconciliation:</u> | | |
| GAAP projected total expenses | \$ 82,500 | \$ 82,500 |
| Amortization of intangible assets | (1,000) | (1,000) |
| Stock-based compensation | (11,000) | (11,000) |
| Non-GAAP projected total expenses | \$ 70,500 | \$ 70,500 |

| | Range for the Three Months Ending March 31, 2010 | |
|---|---|-----------|
| | Low | High |
| <u>Projected net income reconciliation:</u> | | |
| GAAP projected net income | \$ 3,000 | \$ 5,000 |
| Amortization of intangible assets | 1,000 | 1,000 |
| Stock-based compensation | 11,000 | 11,000 |
| Non-GAAP projected net income | \$ 15,000 | \$ 17,000 |

| | Range for the Three Months Ending March 31, 2010 | |
|---|---|---------|
| | Low | High |
| <u>Projected net income per share reconciliation:</u> | | |
| GAAP projected net income per share - basic | \$ 0.03 | \$ 0.06 |
| Amortization of intangible assets | 0.01 | 0.01 |
| Stock-based compensation | 0.13 | 0.13 |
| Non-GAAP projected net income per share - basic | \$ 0.17 | \$ 0.20 |

| | | |
|---|---------|---------|
| Non-GAAP projected net income per share - diluted | \$ 0.17 | \$ 0.19 |
|---|---------|---------|

| | | |
|---|--------|--------|
| Projected weighted average shares - basic | 86,400 | 86,400 |
| Projected weighted average shares - diluted | 88,500 | 88,500 |

Please refer to safe harbor statement

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Ariba, Inc. and Subsidiaries
Q1 Fiscal 2010 Supplemental Information
(in millions, except for percentages)

Analysis of Other Income/(Expenditure) & Calculation of Operating Profit %

| \$M | | FY2008 Actual | Q1 Actual | Q2 Actual | Q3 Actual | Q4 Actual | FY2009 Actual | FY2010 Q1 Actual |
|-----------------------------|---|------------------|-------------|--------------|--------------|--------------|------------------|---------------------|
| | Non-GAAP Revenue | <u>333.1</u> | <u>86.4</u> | <u>84.7</u> | <u>83.9</u> | <u>84.3</u> | <u>339.3</u> | <u>85.7</u> |
| | NG Profit Before Other Income/(Exp) | (A) 27.6 | 14.4 | 13.8 | 15.2 | 15.9 | 59.4 | 16.9 |
| | % | 8% | 17% | 16% | 18% | 19% | 18% | 20% |
| Other Income/(Exp) : | | | | | | | | |
| FX Gain/(Loss) : | | | | | | | | |
| | Contract Mark to Market (Profit)/Loss (1) | (B) 3.0 | (1.5) | (1.2) | (1.1) | (0.3) | (4.1) | 0.5 |
| | Bal Sheet Retranslation Loss (2) | - | (2.6) | - | - | - | (2.6) | - |
| | Interest | 5.0 | 0.7 | 0.4 | 0.3 | 0.3 | 1.6 | 0.4 |
| | Tax/Other | 0.2 | (0.5) | (0.3) | 0.2 | (0.1) | (0.8) | (0.5) |
| | Insurance Reimbursement | | 7.5 | - | | | 7.5 | - |
| | Total Other Income/(Exp) | <u>8.2</u> | <u>3.6</u> | <u>(1.2)</u> | <u>(0.6)</u> | <u>(0.1)</u> | <u>1.7</u> | <u>0.3</u> |
| | Non-GAAP Profit | <u>35.8</u> | <u>18.0</u> | <u>12.7</u> | <u>14.6</u> | <u>15.8</u> | <u>61.0</u> | <u>17.2</u> |
| | Diluted Shares | 82,250 | 84,044 | 84,645 | 85,447 | 87,561 | 85,424 | 88,262 |
| | EPS | 0.44 | 0.21 | 0.15 | 0.17 | 0.18 | 0.71 | 0.19 |
| | NG Op Profit incl Contract Mark to Market FX = (A) + (B) | <u>30.6</u> | <u>12.9</u> | <u>12.6</u> | <u>14.1</u> | <u>15.6</u> | <u>55.3</u> | <u>17.4</u> |
| | NG Op Profit % (Recommended) | <u>9%</u> | <u>15%</u> | <u>15%</u> | <u>17%</u> | <u>19%</u> | <u>16%</u> | <u>20%</u> |

Notes :

(1) Ariba schedules revenue using FX rates at time of contract. The difference between this and FX rate at time of invoice is recognized as a Contract Mark to Market FX Gain/(Loss). Ariba recommends including Contract Mark to Mark (Profit)/Loss within Operating Profit as these gains/(losses) are ongoing, operating in nature and approximately map to increases/(decreases) in Regional expenses (creating a "quasi" natural hedge).

(2) Ariba recommends excluding Bal Sheet Retranslation Losses from Operating Profit as these are point in time adjustments impacting A/R and Cash resulting from currency jolts. These should not recur with high magnitude every quarter and our go forward hedging strategy should limit these adjustments.

Please refer to safe harbor statement

