

Ariba

Supplemental Presentation
Material for
Quarter Ending
June 30, 2010

July 29, 2010



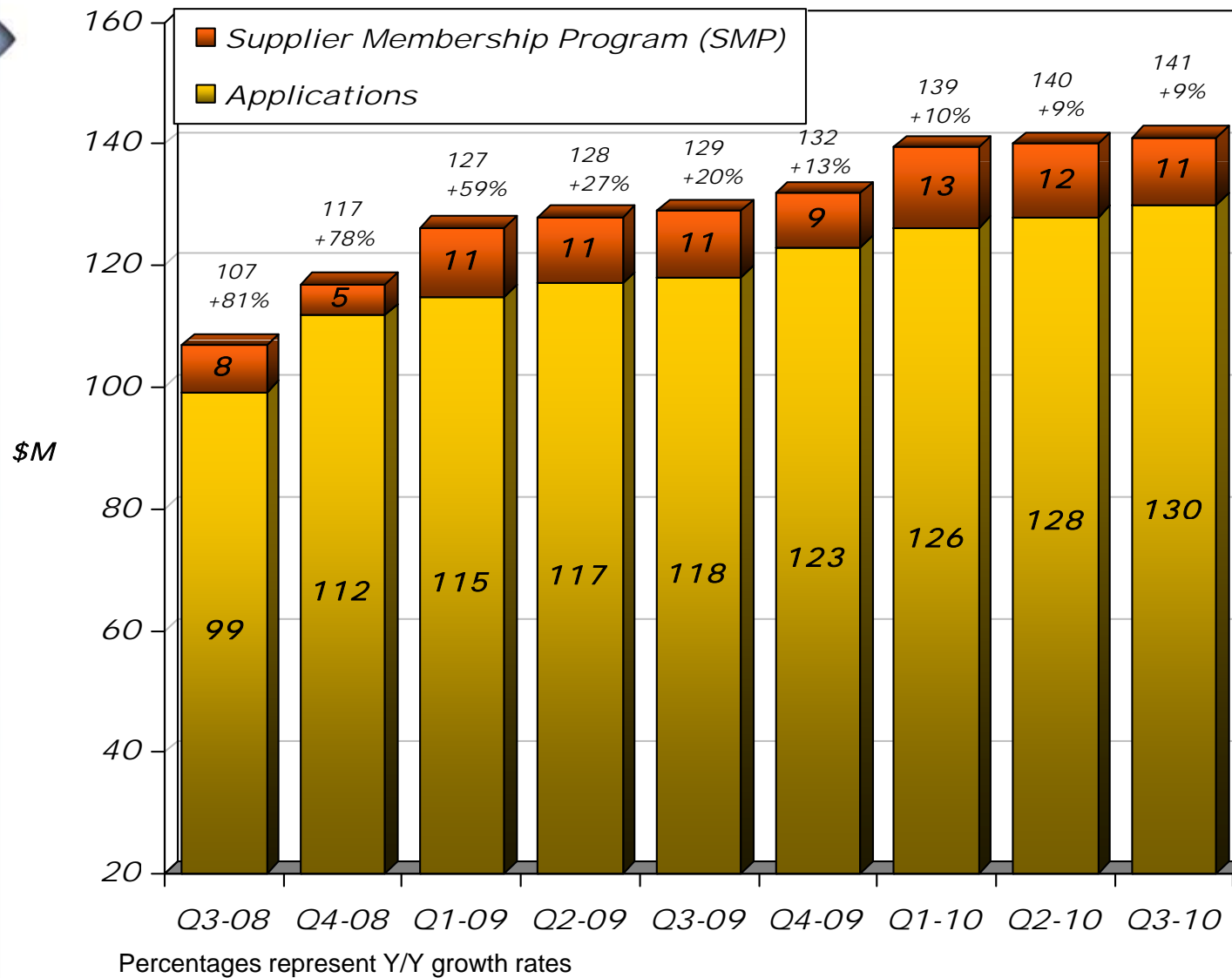
Ariba Safe Harbor Statement

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-Q filed with the SEC May 6th, 2010.

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.

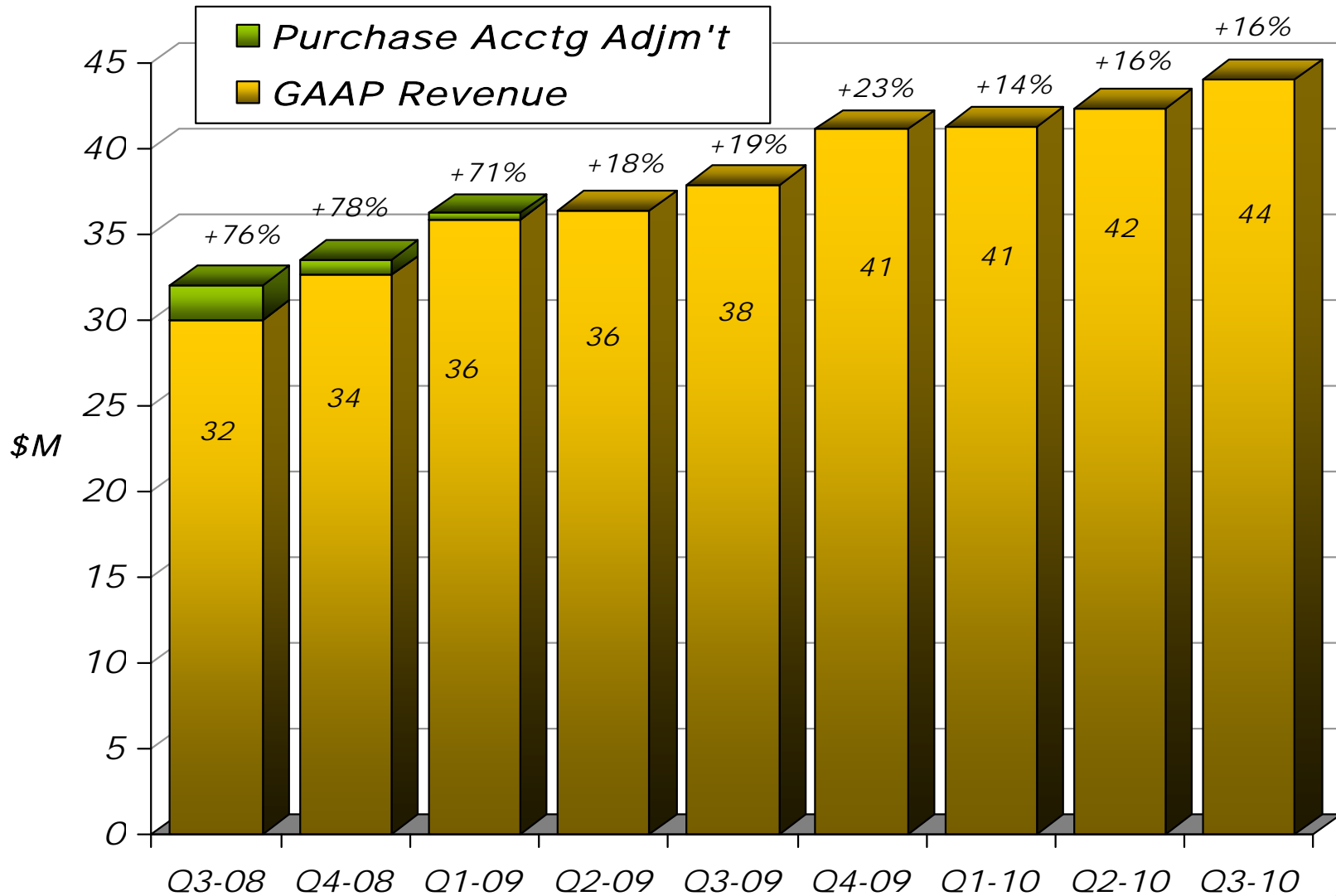
Ariba provides quarterly and annual financial statements that are prepared in accordance with Generally Accepted Accounting Principals ("GAAP"). In addition, Ariba provides certain non-GAAP financial information. Our non-GAAP financial measures include a purchase accounting adjustment related to deferred revenues and generally exclude costs and expenses for (i) amortization of intangible assets related to acquisitions, (ii) stock-based compensation, (iii) restructuring costs, (iv) litigation benefit, (v) tax accrual reversal and (vi) 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 \$12M Y/Y



- ▶ Total Sub SW backlog at 6/30 was \$262M:
- ▶ Up \$19M from Q309

Non GAAP Sub SW Revenue - Up 16% Y/Y and above Outlook YTD

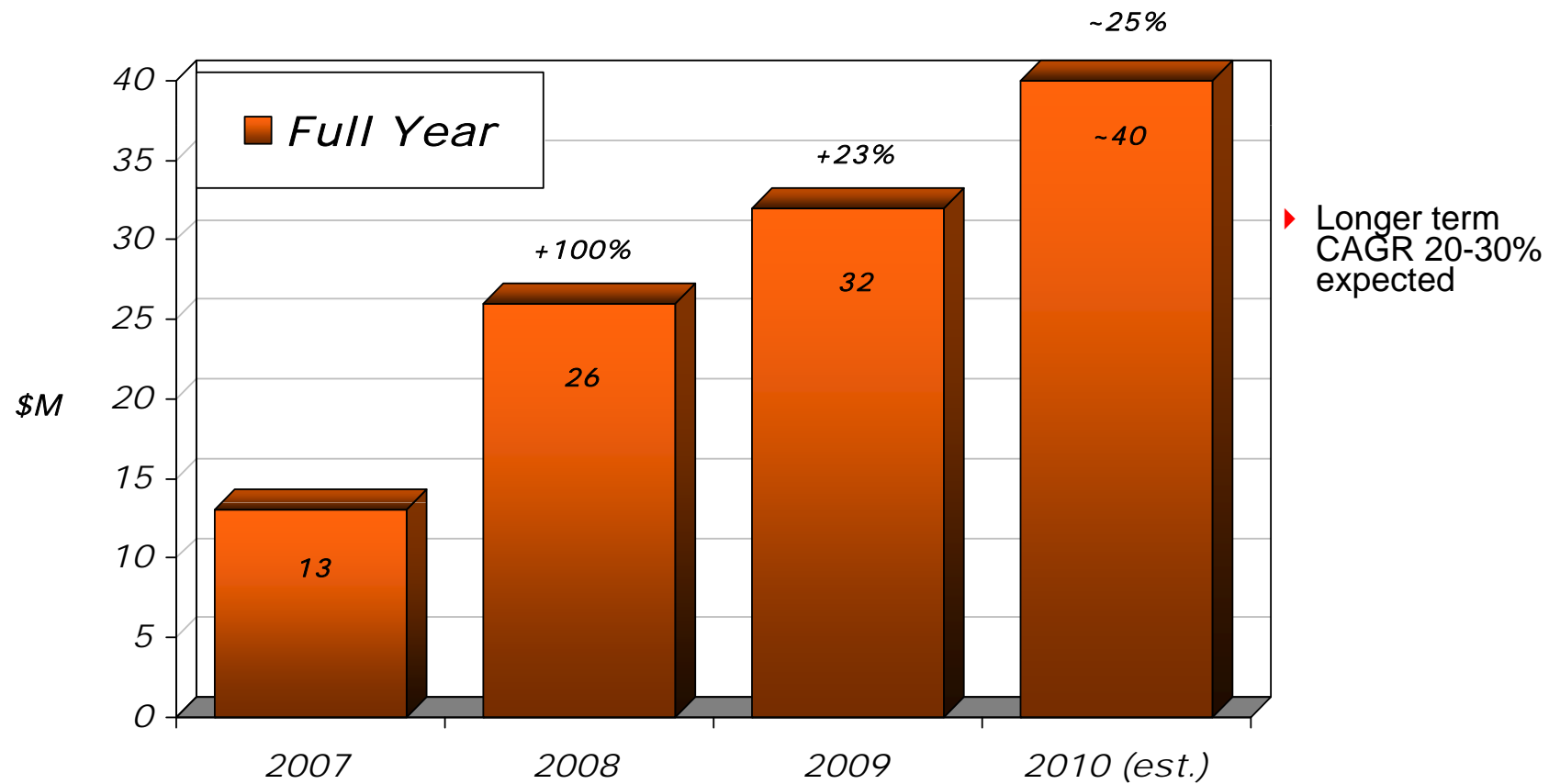


Q409 and Q110 had one-time revenue from certain customer expansions of \$1.5M and \$0.5M respectively
 Percentages represent Y/Y growth rates

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Network Software Revenue - expected to grow ~25% in 2010 (revised up from original outlook of 15 to 20%)



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.

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Q3 Results Above the April Outlook

	<i><u>Q2 10 Actual</u></i>	<i><u>April Outlook</u></i>	<i><u>Q3 10 Actual</u></i>
<i>Non-GAAP Subscription Software Revenue</i>	42.3M	~43.5M	44.0M
<i>Maintenance Revenues</i>	16.5M	~16.5M	16.8M
<i>Services and Other</i>	28.4M	30M+/-1M	32.5M ⁽¹⁾
<i>Total Non-GAAP Revenue</i>	87.1M	90M+/-1M	93.2M
<i>Non-GAAP EPS</i>	19¢	18- 20 ¢	19¢

(1) Q310 had ~\$2.5M+ of catch-up Services revenue

FY 2010 Non-GAAP Outlook – Revised Upward

	<u>2009 Actual</u>	<u>Prior 2010 Outlook</u>	<u>July 2010 Outlook</u>	<u>Vs 2009</u>
<i>Non-GAAP Subscription Software Revenue</i>	151.6M	168 - 172M	~173.5M	+14-15%
<i>Maintenance Revenues</i>	71.0M	~ 66M	~ 66.5M	- 6%
<i>Services & Other</i>	116.8M	114 +/- 5M	118+/- 1M	+1%
<i>Total Non-GAAP Revenue</i>	333.9M	350M +/- 5M	358M +/- 1M	+ 7%
<i>Non-GAAP EPS</i>	71¢	72 – 76 ¢ *	75 - 77 ¢ *	+ 6-8%

* Including 16-18 cents of investments in Front End Sales & Marketing and Network areas of the business

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FY 2010 Cash-Flow Outlook – Revised to the Top End

	<u>2009 Actual</u>	<u>Prior 2010 Outlook</u>	<u>July 2010 Outlook</u>
<i>Cash Flow from Operations before lease-losses, Sky and Procuri/Restructuring</i>	89M	70-80M	75-80M
<i>Sky & Procuri/Restructuring</i>	-5M	-	-
<i>Lease-loss payments</i>	-18M	-18M	-17M
<i>Emptoris Litigation Receipt</i>		7M	7M
<i>Cash Flow from Operations</i>	66M	59-69M	65-70M

Notes: Capital Expenditures are anticipated to be \$9-10M in FY2010 – consistent with prior year levels.

Please refer to 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. With the continued oversupply of office space in the market, we have concluded, after trying for several years, that we are not going to be able to sublet the available space prior to the lease ending.
- ▶ As of 6/30/10, \$44.8M is reserved on the balance sheet for lease loss.

\$M	<u>4Q '10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>Total</u>
Per Period	4.3	17.1	17.3	6.1	44.8
Quarterly Average	4.3	4.3	4.3	4.6	4.3

- ▶ The “Per Period” amounts represent the quarterly or annual reduction (cash flow usage) associated with the \$44.8M real estate lease loss restructuring reserve.

Supplemental Information: Cash, Restricted Cash & Investments

Cash, Restricted Cash & Investments

	<u>Geography</u>	<u>Interest rate</u>	<u>Balance at 6/30/2010</u>
Cash, Cash Equiv & S/T	Current Asset	0.5%	\$187M
Restricted Cash	Non-Current Asset	0.6%	29M
Long-term Investments	Non-Current Asset	1.5%*	<u>23M</u>
Total Cash, Restricted Cash and Investments		0.6%*	\$239M

* Interest rates are expressed as a percentage of par value. Interest rates expressed as a percentage of fair value (balance sheet value) will be higher.

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Supplemental Information: Financials

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

	<u>June 30,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 167,728	\$ 130,881
Short-term investments	18,922	12,169
Restricted cash	104	-
Accounts receivable, net	19,899	19,660
Prepaid expenses and other current assets	<u>8,651</u>	<u>11,235</u>
Total current assets	215,304	173,945
Property and equipment, net	16,425	14,418
Long-term investments	23,353	23,155
Restricted cash, less current portion	29,137	29,241
Goodwill	406,507	406,507
Other intangible assets, net	14,179	17,660
Other assets	<u>3,582</u>	<u>3,245</u>
Total assets	<u><u>\$ 708,487</u></u>	<u><u>\$ 668,171</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,474	\$ 7,758
Accrued compensation and related liabilities	26,333	29,010
Accrued liabilities	15,590	17,010
Restructuring obligations	17,148	17,964
Deferred revenue	<u>107,504</u>	<u>101,172</u>
Total current liabilities	177,049	172,914
Deferred rent obligations	10,463	14,539
Restructuring obligations, less current portion	27,664	31,098
Deferred revenue, less current portion	7,076	9,288
Other long-term liabilities	<u>6,704</u>	<u>6,281</u>
Total liabilities	228,956	234,120
Stockholders' equity:		
Common stock	181	179
Additional paid-in capital	5,222,220	5,189,566
Accumulated other comprehensive loss	(3,114)	(3,688)
Accumulated deficit	<u>(4,739,756)</u>	<u>(4,752,006)</u>
Total stockholders' equity	479,531	434,051
Total liabilities and stockholders' equity	<u><u>\$ 708,487</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 June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Subscription and maintenance	\$ 60,768	\$ 55,411	\$ 177,897	\$ 164,348
Services and other	32,481	28,463	88,153	90,306
Total revenues	<u>93,249</u>	<u>83,874</u>	<u>266,050</u>	<u>254,654</u>
Cost of revenues:				
Subscription and maintenance	13,045	12,158	38,358	35,638
Services and other	21,700	18,551	61,116	56,873
Amortization of acquired technology and customer intangible assets	1,025	1,388	3,377	4,163
Total cost of revenues	<u>35,770</u>	<u>32,097</u>	<u>102,851</u>	<u>96,674</u>
Gross profit	<u>57,479</u>	<u>51,777</u>	<u>163,199</u>	<u>157,980</u>
Operating expenses:				
Sales and marketing	31,337	25,515	88,280	79,019
Research and development	11,622	10,787	34,112	32,142
General and administrative	9,369	9,301	25,822	33,116
Litigation benefit	-	-	(7,000)	-
Insurance reimbursement	-	-	-	(7,527)
Amortization of other intangible assets	-	210	104	630
Restructuring costs	-	1,438	8,579	10,837
Total operating expenses	<u>52,328</u>	<u>47,251</u>	<u>149,897</u>	<u>148,217</u>
Income from operations	5,151	4,526	13,302	9,763
Interest and other (expense) income, net	<u>(454)</u>	<u>(265)</u>	<u>(59)</u>	<u>(6,020)</u>
Income before income taxes	4,697	4,261	13,243	3,743
Provision for income taxes	<u>423</u>	<u>367</u>	<u>993</u>	<u>1,158</u>
Net income	<u>\$ 4,274</u>	<u>\$ 3,894</u>	<u>\$ 12,250</u>	<u>\$ 2,585</u>
Net income per share - basic	\$ 0.05	\$ 0.05	\$ 0.14	\$ 0.03
Net income per share - diluted	\$ 0.05	\$ 0.05	\$ 0.14	\$ 0.03
Weighted average shares - basic	87,163	83,444	86,300	82,269
Weighted average shares - diluted	89,336	85,447	88,783	84,712

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

	Three Months Ended June 30,	
	2010	2009
Operating activities:		
Net income	\$ 4,274	\$ 3,894
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	263	493
Depreciation	2,007	1,932
Amortization of intangible assets	1,025	1,598
Stock-based compensation	11,520	7,640
Restructuring costs	-	1,438
Changes in operating assets and liabilities:		
Accounts receivable	(235)	399
Prepaid expense and other assets	4,123	(704)
Accounts payable	2,452	619
Accrued compensation and related liabilities	6,263	3,739
Accrued liabilities	792	(460)
Deferred revenue	(10,915)	5,284
Restructuring obligations	(4,293)	(5,847)
	17,276	20,025
Investing activities:		
Purchases of property and equipment	(2,042)	(1,352)
Purchases of investments, net of sales	1,188	(17,995)
Allocation from restricted cash, net	-	14
	(854)	(19,333)
Financing activities:		
Proceeds from issuance of common stock, net	164	162
Repurchase of common stock	-	(1,015)
	164	(853)
Effect of exchange rates on cash and cash equivalents	64	(289)
Net change in cash and cash equivalents	16,650	(450)
Cash and cash equivalents at beginning of period	151,078	112,636
Cash and cash equivalents at end of period	\$ 167,728	\$ 112,186

Non-GAAP Financial Measures

The accompanying press release dated July 29, 2010 contains non-GAAP financial measures. The following table reconciles the non-GAAP financial measures in the press release to the most directly comparable financial measures prepared in accordance with Generally Accepted Accounting Principles in the United States of America (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 June 30, 2010</u>	<u>Three Months Ended June 30, 2009</u>
<u>Expense reconciliation:</u>		
GAAP revenue	\$ 93,249	\$ 83,874
Less: GAAP net income	4,274	3,894
Total GAAP expenses	<u>88,975</u>	<u>79,980</u>
Amortization of intangible assets	(1,025)	(1,598)
Stock-based compensation	(11,520)	(7,640)
Total non-GAAP operating expenses	<u>\$ 76,430</u>	<u>\$ 70,742</u>

	<u>Three Months Ended June 30, 2010</u>	<u>Three Months Ended June 30, 2009</u>
<u>Net income reconciliation:</u>		
GAAP net income	\$ 4,274	\$ 3,894
Amortization of intangible assets	1,025	1,598
Stock-based compensation	11,520	7,640
Non-GAAP net income	<u>\$ 16,819</u>	<u>\$ 13,132</u>

	<u>Three Months Ended June 30, 2010</u>	<u>Three Months Ended June 30, 2009</u>
<u>Net income per share reconciliation:</u>		
GAAP net income per share - basic	\$ 0.05	\$ 0.05
Amortization of intangible assets	0.01	0.02
Stock-based compensation	0.13	0.09
Non-GAAP net income per share - basic	<u>\$ 0.19</u>	<u>\$ 0.16</u>

Non-GAAP net income per share - diluted	\$ 0.19	\$ 0.15
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Weighted average shares - basic	87,163	83,444
Weighted average shares - diluted	89,336	85,447



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:

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Revenue reconciliation:		
GAAP revenue	\$ 266,050	\$ 254,654
Purchase accounting adjustment	-	355
Total non-GAAP revenues	<u>\$ 266,050</u>	<u>\$ 255,009</u>
	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Expense reconciliation:		
GAAP revenue	\$ 266,050	\$ 254,654
Less: GAAP net income	12,250	2,585
Total GAAP expenses	<u>253,800</u>	<u>252,069</u>
Amortization of intangible assets	(3,481)	(4,793)
Stock-based compensation	(36,272)	(25,262)
Tax accrual reversal	3,089	-
Litigation benefit	7,000	-
Restructuring costs	(8,579)	(10,837)
Other-than-temporary decline in long-term investment	-	(1,414)
Total non-GAAP operating expenses	<u>\$ 215,557</u>	<u>\$ 209,763</u>
	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Net income reconciliation:		
GAAP net income	\$ 12,250	\$ 2,585
Purchase accounting adjustment	-	355
Amortization of intangible assets	3,481	4,793
Stock-based compensation	36,272	25,262
Tax accrual reversal	(3,089)	-
Litigation benefit	(7,000)	-
Restructuring costs	8,579	10,837
Other-than-temporary decline in long-term investment	-	1,414
Non-GAAP net income	<u>\$ 50,493</u>	<u>\$ 45,246</u>
	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
Net income per share reconciliation:		
GAAP net income per share - basic	\$ 0.14	\$ 0.03
Purchase accounting adjustment	-	0.00
Amortization of intangible assets	0.04	0.06
Stock-based compensation	0.42	0.31
Tax accrual reversal	(0.04)	-
Litigation benefit	(0.08)	-
Restructuring costs	0.10	0.13
Other-than-temporary decline in long-term investment	-	0.02
Non-GAAP net income per share - basic	<u>\$ 0.59</u>	<u>\$ 0.55</u>
Non-GAAP net income per share - diluted	\$ 0.57	\$ 0.53
Weighted average shares - basic	86,300	82,269
Weighted average shares - diluted	88,783	84,712

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Ariba, Inc. and Subsidiaries
Q3 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	2010-Q2	2010-Q3
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	9.4	10.7
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	42.3	44.0
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	42.3	44.0
Subscription software revenue growth rates (Yr/Yr)															
Subscription software revenue	18%	15%	29%	27%	37%	83%	68%	74%	72%	27%	25%	26%	15%	16%	16%
Non-GAAP subscription software revenue	18%	15%	29%	27%	40%	97%	76%	78%	71%	18%	19%	23%	14%	16%	16%
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	\$ 26.4	\$ 17.3
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	\$ 4.2	\$ 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 Received for Emptoris Litigation Judgment	-	-	-	-	-	-	-	-	-	-	-	-	-	(7.0)	-
Cash from Operations used for Procuri, Sky, Lease Loss less Emptoris Receipt	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	(2.8)	4.3
Cash Flow from Ops, before Procuri, Sky, Lease Losses & Emptoris Receipt	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	23.6	21.6
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	4.4	2.0
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	22.0	15.2
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	19.2	19.5

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

	Three Months Ended			Three Months Ended		
	June 30,			June 30,		
	2010 Reported	Adj	2010 Non- GAAP	2009 Reported	Adj	2009 Non- GAAP
Revenues:						
Subscription and maintenance	\$ 60,768	\$ -	\$ 60,768	\$ 55,411	\$ -	\$ 55,411
Services and other	32,481	-	32,481	28,463	-	28,463
Total revenues	<u>93,249</u>	<u>-</u>	<u>93,249</u>	<u>83,874</u>	<u>-</u>	<u>83,874</u>
Cost of revenues:						
Subscription and maintenance (3)	13,045	(775)	12,270	12,158	(567)	11,591
Services and other (3)	21,700	(1,279)	20,421	18,551	(840)	17,711
Amortization of acquired technology and customer intangible assets (2)	1,025	(1,025)	-	1,388	(1,388)	-
Total cost of revenues	<u>35,770</u>	<u>(3,079)</u>	<u>32,691</u>	<u>32,097</u>	<u>(2,795)</u>	<u>29,302</u>
Gross profit	<u>57,479</u>	<u>3,079</u>	<u>60,558</u>	<u>51,777</u>	<u>2,795</u>	<u>54,572</u>
Operating expenses:						
Sales and marketing (3)	31,337	(5,678)	25,659	25,515	(3,003)	22,512
Research and development (3)	11,622	(1,396)	10,226	10,787	(1,150)	9,637
General and administrative (3)	9,369	(2,392)	6,977	9,301	(2,080)	7,221
Amortization of other intangible assets (2)	-	-	-	210	(210)	-
Restructuring costs (4)	-	-	-	1,438	(1,438)	-
Total operating expenses	<u>52,328</u>	<u>(9,466)</u>	<u>42,862</u>	<u>47,251</u>	<u>(7,881)</u>	<u>39,370</u>
Income from operations	5,151	12,545	17,696	4,526	10,676	15,202
Interest and other (expense) income, net	(454)	-	(454)	(265)	-	(265)
Income before income taxes	4,697	12,545	17,242	4,261	10,676	14,937
Provision for income taxes	423	-	423	367	-	367
Net income	<u>\$ 4,274</u>	<u>\$ 12,545</u>	<u>\$ 16,819</u>	<u>\$ 3,894</u>	<u>\$ 10,676</u>	<u>\$ 14,570</u>
Net income per share						
Basic	\$ 0.05		\$ 0.19	\$ 0.05		\$ 0.17
Diluted	\$ 0.05		\$ 0.19	\$ 0.05		\$ 0.17
Weighted average shares						
Basic	87,163		87,163	83,444		83,444
Diluted	89,336		89,336	85,447		85,447

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

	Nine Months Ended June 30,			Nine Months Ended June 30,		
	2010 Reported	Adj	2010 Non- GAAP	2009 Reported	Adj	2009 Non- GAAP
Revenues:						
Subscription and maintenance (1)	\$ 177,897	\$ -	\$ 177,897	\$ 164,348	\$ 355	\$ 164,703
Services and other	88,153	-	88,153	90,306	-	90,306
Total revenues	<u>266,050</u>	<u>-</u>	<u>266,050</u>	<u>254,654</u>	<u>355</u>	<u>255,009</u>
Cost of revenues:						
Subscription and maintenance (3)	38,358	(2,545)	35,813	35,638	(1,733)	33,905
Services and other (3)	61,116	(4,041)	57,075	56,873	(2,718)	54,155
Amortization of acquired technology and customer intangible assets (2)	3,377	(3,377)	-	4,163	(4,163)	-
Total cost of revenues	<u>102,851</u>	<u>(9,963)</u>	<u>92,888</u>	<u>96,674</u>	<u>(8,614)</u>	<u>88,060</u>
Gross profit	<u>163,199</u>	<u>9,963</u>	<u>173,162</u>	<u>157,980</u>	<u>8,969</u>	<u>166,949</u>
Operating expenses:						
Sales and marketing (3)	88,280	(16,822)	71,458	79,019	(10,289)	68,730
Research and development (3)	34,112	(3,984)	30,128	32,142	(3,645)	28,497
General and administrative (3) (6)	25,822	(5,791)	20,031	33,116	(6,877)	26,239
Litigation benefit (5)	(7,000)	7,000	-	-	-	-
Insurance reimbursement	-	-	-	(7,527)	-	(7,527)
Amortization of other intangible assets (2)	104	(104)	-	630	(630)	-
Restructuring costs (4)	8,579	(8,579)	-	10,837	(10,837)	-
Total operating expenses	<u>149,897</u>	<u>(28,280)</u>	<u>121,617</u>	<u>148,217</u>	<u>(32,278)</u>	<u>115,939</u>
Income from operations	13,302	38,243	51,545	9,763	41,247	51,010
Interest and other (expense) income, net (5)	(59)	-	(59)	(6,020)	1,414	(4,606)
Income before income taxes	<u>13,243</u>	<u>38,243</u>	<u>51,486</u>	<u>3,743</u>	<u>42,661</u>	<u>46,404</u>
Provision for income taxes	993	-	993	1,158	-	1,158
Net income	<u>\$ 12,250</u>	<u>\$ 38,243</u>	<u>\$ 50,493</u>	<u>\$ 2,585</u>	<u>\$ 42,661</u>	<u>\$ 45,246</u>
Net income per share						
Basic	\$ 0.14		\$ 0.58	\$ 0.03		\$ 0.55
Diluted	\$ 0.14		\$ 0.57	\$ 0.03		\$ 0.53
Weighted average shares						
Basic	87,163		87,163	82,269		82,269
Diluted	88,783		88,783	84,712		84,712

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 costs, (iv) litigation benefit, (v) tax accrual reversal and (vi) 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, 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

Discussion of Specific Items Excluded From Non-GAAP Financial Measures (continued)

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 costs.* We recorded restructuring related to lease abandonment accruals and/or severance and related benefits in the three months and nine months ended June 31, 2009 and the nine months ended June 30, 2010. 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 costs helps investors compare our operating performance with that of other companies. We recognize, however, that restructuring costs will impact cash flows and that we and investors should carefully consider the impact of these costs on future cash flows.

(5) *Litigation benefit.* We received \$7.0 million from Emptoris in relation to a patent litigation judgment which we recorded as income in the nine months ended June 30, 2010. We exclude this from our non-GAAP financial measures because it is unrelated to our ongoing operations. We believe excluding the litigation benefit helps investors compare our operating performance with that of other companies. We recognize, however, that the litigation benefit impacts cash flow and that we and investors should carefully consider the impact of this on cash flow.

(6) *Release of tax reserve.* We released a tax reserve of approximately \$3.1 million in the nine months ended June 30, 2010. We exclude this from our non-GAAP financial measures because it is unrelated to our ongoing operations. We believe excluding the tax reserve release helps investors compare our operating performance with that of other companies.

(7) *Other-than-temporary impairment of long-term investments.* We recorded an other-than-temporary impairment of a long-term investment in the nine months ended June 30, 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.

Reconciliation of Outlook for the Quarter Ending September 30, 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 September 30, 2010	
	Low	High
<u>Projected revenue:</u>	\$ 91,000	\$ 93,000

	Range for the Three Months Ending September 30, 2010	
	Low	High
<u>Projected expense reconciliation:</u>		
GAAP projected total expenses	\$ 86,500	\$ 87,000
Amortization of intangible assets	(1,000)	(1,000)
Stock-based compensation	(11,500)	(11,500)
Non-GAAP projected total expenses	\$ 74,000	\$ 74,500

	Range for the Three Months Ending September 30, 2010	
	Low	High
<u>Projected net income reconciliation:</u>		
GAAP projected net income	\$ 4,500	\$ 6,000
Amortization of intangible assets	1,000	1,000
Stock-based compensation	11,500	11,500
Non-GAAP projected net income	\$ 17,000	\$ 18,500

	Range for the Three Months Ending September 30, 2010	
	Low	High
<u>Projected net income per share reconciliation:</u>		
GAAP projected net income per share - basic	\$ 0.05	\$ 0.07
Amortization of intangible assets	0.01	0.01
Stock-based compensation	0.13	0.13
Non-GAAP projected net income per share - basic	\$ 0.19	\$ 0.21

Non-GAAP projected net income per share - diluted	\$ 0.18	\$ 0.20
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Projected weighted average shares - basic	88,000	88,000
Projected weighted average shares - diluted	92,000	92,000

Ariba, Inc. and Subsidiaries
Q3 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	Q1 Actual	FY2010 Q2 Actual	Q3 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>	<u>87.1</u>	<u>93.2</u>
NG Profit Before Other Income/(Exp) %	(A)	27.6 8%	14.4 17%	13.8 16%	15.2 18%	15.9 19%	59.4 18%	16.9 20%	16.9 19%	17.7 19%
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	(0.4)	(0.9)
Bal Sheet Retranslation Loss (2)		-	(2.6)	-	-	-	(2.6)	-	-	-
Interest		5.0	0.7	0.4	0.3	0.3	1.6	0.4	0.4	0.4
Tax/Other		0.2	(0.5)	(0.3)	0.2	(0.1)	(0.8)	(0.5)	(0.5)	(0.4)
Insurance Reimbursement			7.5	-			7.5	-	-	-
Total Other Income/(Exp)		8.2	3.6	(1.2)	(0.6)	(0.1)	1.7	0.3	(0.4)	(0.9)
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>	<u>16.5</u>	<u>16.8</u>
Diluted Shares		82,250	84,044	84,645	85,447	87,561	85,424	88,262	88,753	89,336
EPS		0.44	0.21	0.15	0.17	0.18	0.71	0.19	0.19	0.19
NG Op Profit incl Contract Mark to Market FX, = (A) + (B)		30.6	12.9	12.6	14.1	15.6	55.3	17.4	16.5	16.8
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>	<u>19%</u>	<u>18%</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 Market (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.