



**Supplemental Presentation  
Material for  
Quarter Ending  
December 31, 2010**

*January 27, 2011*

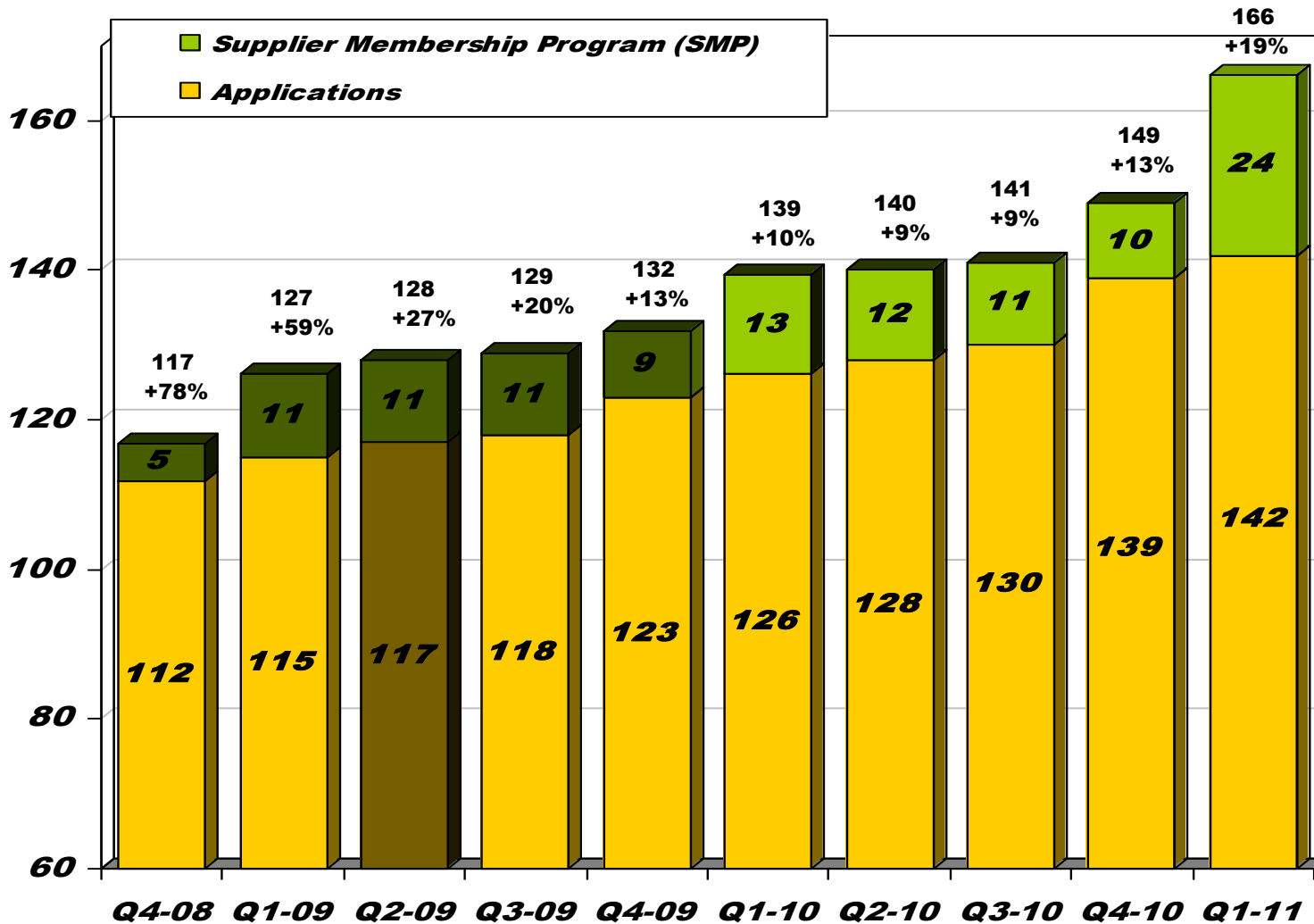
# Ariba Safe Harbor Statement

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. These forward looking statements include statements relating to the company's real estate forecast, estimated fiscal 2011 financial results and long-term financial model. Actual results may differ materially from expected results.. 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 or dispositions 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 23<sup>rd</sup>, 2010.

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 exclude discontinued operations, 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 (vi) other-than-temporary impairment of long-term investments and (vii) transaction related costs. 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 \$27M Y/Y

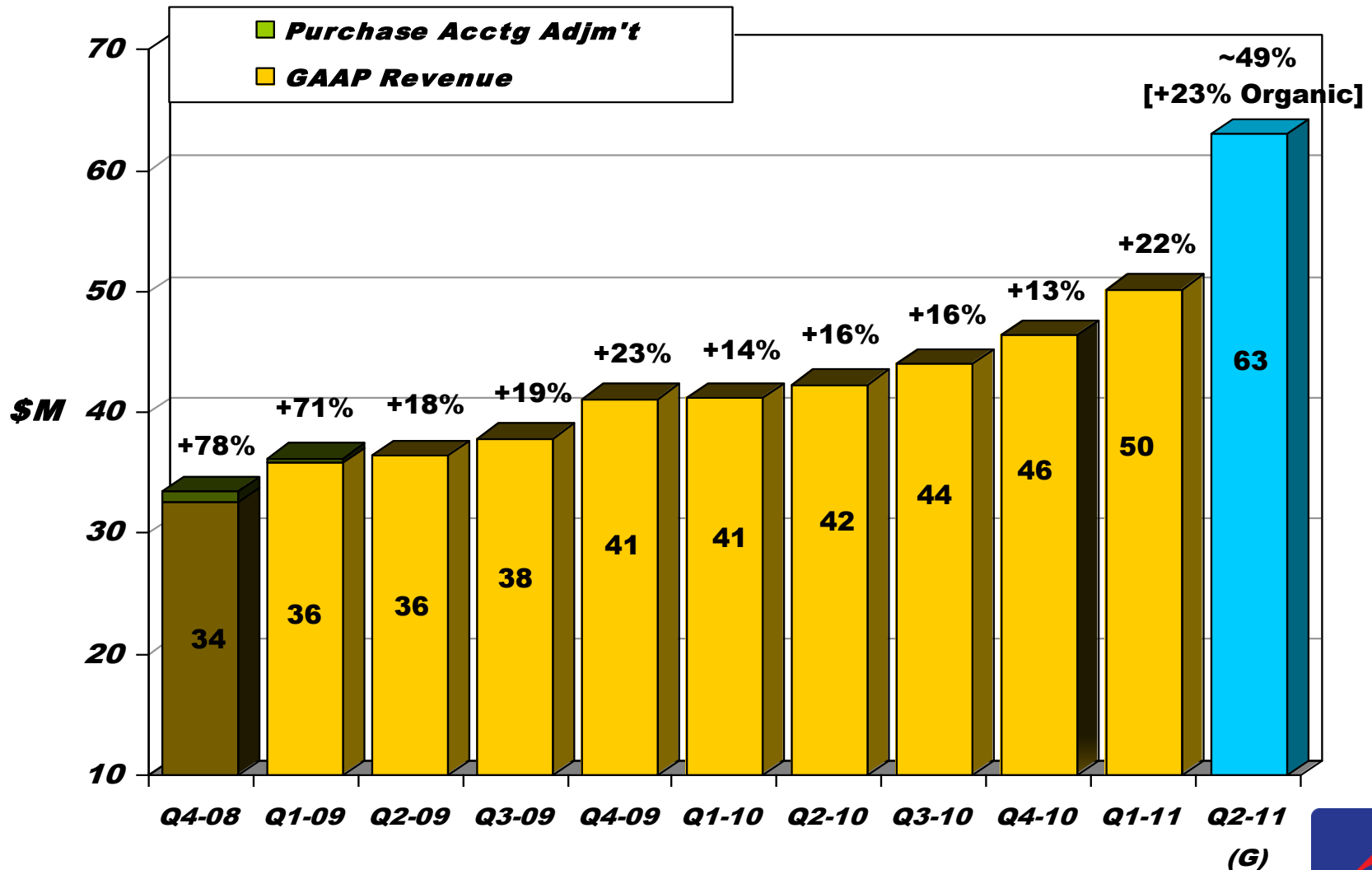


Percentages represent Y/Y growth rates



# Non GAAP Sub SW Revenue -- Up 22% in Q1-11

With 2 mths of Quadrem accelerates to ~49 % in Q2-11



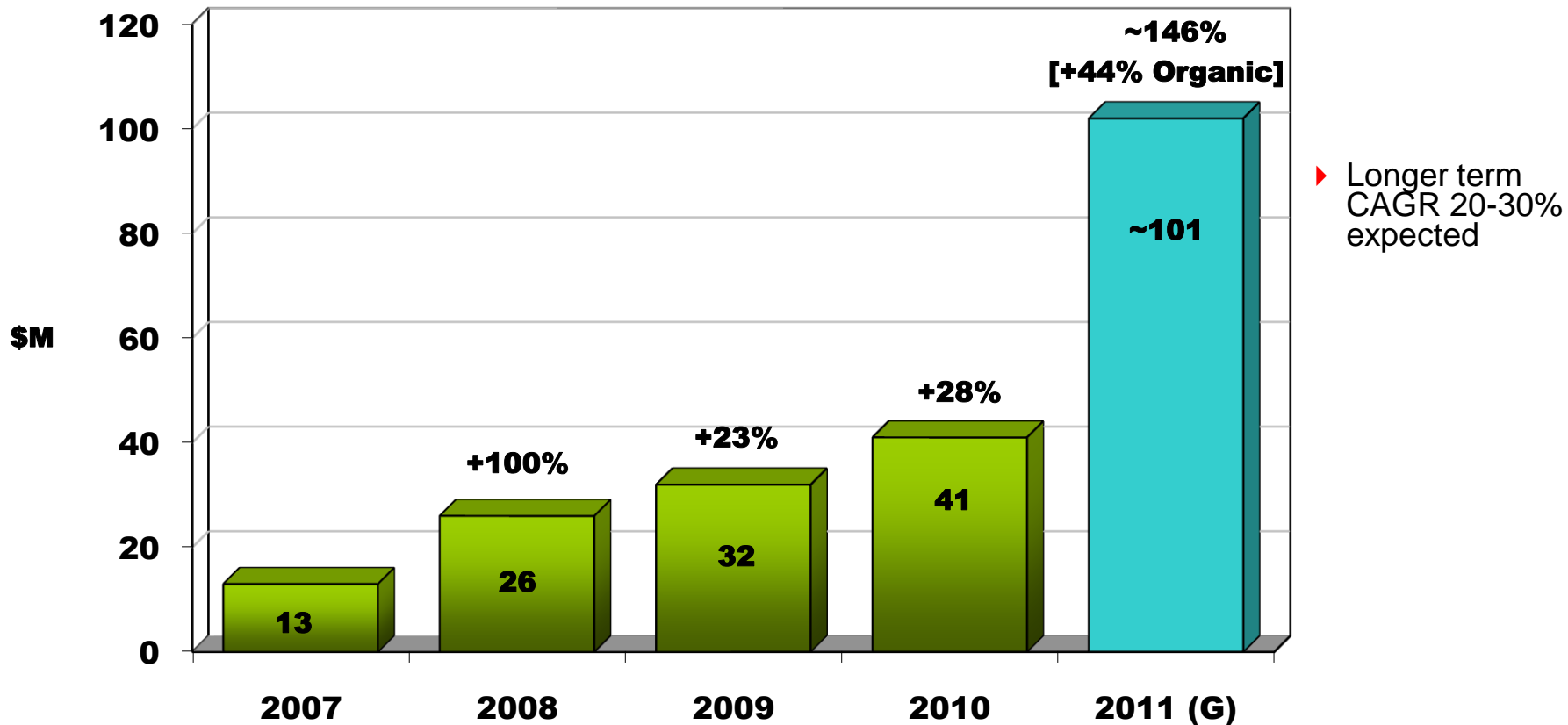
(G) = Guidance as at January 27, 2011

Percentages represent Y/Y growth rates

Please refer to safe harbor statement



# Network Software Revenue -- expected to grow +44% organically and +146% with Quadrem in FY11



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.

(G) = Guidance as at January 27, 2011

Percentages represent Y/Y growth rates

Please refer to safe harbor statement



# Q1 Results Above the November Outlook

<b>Continuing Operations:</b>	<b>Q4 10 <u>Actual</u></b>	<b>November <u>Outlook</u></b>	<b>Q1 11 <u>Actual</u></b>
<b>Subscription Software Revenue</b>	<b>46.5M</b>	<b>~49M</b>	<b>50.2M</b>
<b>Maintenance Revenues</b>	<b>16.4M</b>	<b>~15.5M</b>	<b>15.6M</b>
<b>Services and Other</b>	<b>22.0M</b>	<b>21.5M+/-1M</b>	<b>24.6M<sup>(1)</sup></b>
<b>Total Revenue</b>	<b>84.9M</b>	<b>86M+/-1M</b>	<b>90.4M</b>
<b>Non-GAAP EPS</b>	<b>18¢</b>	<b>16 – 18 ¢</b>	<b>18¢</b>

(1) Including one-time exceptional Services/Other revenue in Q1 11 of ~\$2M.



# FY 2011 Revised Guidance

<b>Continuing Ops :</b>	<b><u>FY10 Actual</u></b>	<b><u>FY11 November Guidance</u></b>	<b><u>Raised Guidance</u></b>	<b><u>FY11 January Guidance</u></b>	<b><u>Organic Growth</u></b>	<b><u>Quadrem 8 mths</u></b>	<b><u>Dilution</u></b>	<b><u>FY11 January Guidance Incl Quadrem</u></b>	<b><u>Total Growth</u></b>	<b><u>Mix</u></b>
<b>Network Applications</b>	<b>41M <u>133M</u></b>	<b>54 - 56M <u>150 - 152M</u></b>	<b>4M <u>2M</u></b>	<b>58 - 60M <u>152 - 154M</u></b>	<b>+44% <u>+15%</u></b>	<b>42M <u>3M</u></b>		<b>100 - 102M <u>155 - 157M</u></b>	<b>+146% <u>+17%</u></b>	<b>24% <u>37%</u></b>
<b>Total Subs SW</b>	<b>174M</b>	<b>204 - 208M</b>	<b>6M</b>	<b>210 - 214M</b>	<b>+22%</b>	<b>45M</b>		<b>255 - 259M</b>	<b>+48%</b>	<b>61%</b>
<b>Maintenance</b>	<b>67M</b>	<b>62.5M</b>	<b>-1.5M</b>	<b>61M</b>	<b>-9%</b>			<b>61M</b>	<b>-9%</b>	<b>15%</b>
<b>Services &amp; Other</b>	<b>80M</b>	<b>78.5M+/- 5</b>	<b>12.5M</b>	<b>91M+/- 5</b>	<b>+14%</b>	<b>10M</b>		<b>101M+/- 5</b>	<b>+26%</b>	<b>24%</b>
<b>Total Revenue</b>	<b>320M</b>	<b>347M+/- 5</b>	<b>17M</b>	<b>364M+/- 5</b>	<b>+14%</b>	<b>55M</b>		<b>419M+/- 5</b>	<b>+31%</b>	
<b>Non-GAAP EPS</b>	<b>71¢</b>	<b>77 - 81¢</b>	<b>0¢</b>	<b>77 - 81¢</b>	<b>+11%</b>	<b>2¢</b>	<b>-2¢</b>	<b>77 - 81¢</b>	<b>+11%</b>	

Please refer to safe harbor statement

# FY 2011 Revised Cash-Flow Guidance

<b>Continuing Ops :</b>	<b><u>FY 2010</u> <u>Actual</u></b>	<b><u>FY11</u> <u>Guidance</u> <u>November</u></b>	<b><u>Quadrem</u> <u>8 mths</u></b>	<b><u>FY11</u> <u>Guidance</u> <u>Revised</u></b>
<b>Cash Flow from Operations before lease-losses and litigation receipt</b>	<b>72M</b>	<b>84M+/-5M</b>	<b>2M</b>	<b>86M+/-5M</b>
<b>Lease-loss payments</b>	<b>-17M</b>	<b>-17M</b>		<b>-16M</b>
<b>Emptoris Litigation Receipt</b>	<b>7M</b>			
<b>Cash Flow from Operations</b>	<b>62M</b>	<b>67M+/-5M</b>	<b>2M</b>	<b>70M+/-5M</b>

Notes: There will be a one-time tick-up in Capex in Q1 and Q2 reflecting a server/storage refresh cycle. FY11 Capex will therefore be ~\$12M against normal run-rate of ~\$10M.

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# Appendices

# Supplemental Information:

## Real Estate

# Quarterly Real Estate Lease Loss Impact

- ▶ The Ariba Sunnyvale campus has 4 buildings and each building has 4 floors.
- ▶ In 1Q'11, Juniper agreed to take 2 vacant floors, resulting in a lease restructuring benefit of \$2.9M.
- ▶ There are currently 2 vacant floors.
- ▶ As of 12/31/10, \$33.3M is reserved on the balance sheet for lease loss.
- ▶ Lease end date is January 2013

<b>\$M</b>	<b><u>2Q '11</u></b>	<b><u>3Q'11</u></b>	<b><u>4Q '11</u></b>	<b><u>FY12</u></b>	<b><u>FY13</u></b>	<b><u>Total</u></b>
<b>Per Period</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>15.8</b>	<b>5.5</b>	<b>33.3</b>
<b>Quarterly Average</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.1</b>	<b>4.0</b>

- The “Per Period” amounts represent the quarterly or annual reduction (cash flow usage) associated with the \$33.3M 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 12/31/2010</u>
Cash, Cash Equiv & S/T	Current Asset	0.4%	\$238M
Restricted Cash	Non-Current Asset	0.5%	29M
Long-term Investments	Non-Current Asset	1.7%*	<u>24M</u>
Total Cash, Restricted Cash and Investments		0.6%*	\$291M

\* 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.

Supplemental Information:

# Financials

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

	December 31, 2010	September 30, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 221,754	\$ 182,393
Short-term investments	15,706	18,449
Restricted cash	104	104
Accounts receivable, net	23,565	21,781
Prepaid expenses and other current assets	19,901	7,942
Total current assets	281,030	230,669
Property and equipment, net	15,999	15,958
Long-term investments	24,219	22,283
Restricted cash, less current portion	29,137	29,137
Goodwill	394,718	406,507
Other intangible assets, net	12,129	13,154
Other assets	4,293	4,001
Total assets	\$ 761,525	\$ 721,709
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 13,617	\$ 11,190
Accrued compensation and related liabilities	17,086	32,079
Accrued liabilities	20,663	18,398
Restructuring obligations	15,901	17,188
Deferred revenue	113,167	97,005
Total current liabilities	180,434	175,860
Deferred rent obligations	8,342	9,880
Restructuring obligations, less current portion	17,443	23,339
Deferred revenue, less current portion	12,028	7,285
Other long-term liabilities	1,508	6,391
Total liabilities	219,755	222,755
Stockholders' equity:		
Common stock	187	188
Additional paid-in capital	5,237,531	5,236,265
Accumulated other comprehensive loss	(2,427)	(1,879)
Accumulated deficit	(4,693,521)	(4,735,620)
Total stockholders' equity	541,770	498,954
Total liabilities and stockholders' equity	\$ 761,525	\$ 721,709



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

	Three Months Ended December 31,	
	2010	2009
Revenues:		
Subscription and maintenance	\$ 65,858	\$ 58,373
Services and other	24,562	16,819
Total revenues	90,420	75,192
Cost of revenues:		
Subscription and maintenance	14,290	12,674
Services and other	15,307	12,448
Amortization of acquired technology and customer intangible assets	1,025	1,327
Total cost of revenues	30,622	26,449
Gross profit	59,798	48,743
Operating expenses:		
Sales and marketing	35,716	26,692
Research and development	12,492	11,146
General and administrative	10,610	10,012
Amortization of other intangible assets	-	104
Restructuring benefit	(2,923)	-
Total operating expenses	55,895	47,954
Operating income	3,903	789
Interest and other expense, net	769	277
Income from continuing operations before income taxes	4,672	1,066
(Benefit from) provision for income taxes	(3,812)	17
Income from continuing operations	8,484	1,049
Discontinued operations, net of tax:		
(Loss) income from discontinued operations	(5,104)	1,176
Gain on sale of discontinued operations	38,719	-
Total discontinued operations	33,615	1,176
Net income	\$ 42,099	\$ 2,225
Basic earnings per share:		
Income from continuing operations	\$ 0.09	\$ 0.01
Discontinued operations, net of tax	0.38	0.02
Net income per basic common share	\$ 0.47	\$ 0.03
Diluted earnings per share:		
Income from continuing operations	\$ 0.09	\$ 0.01
Discontinued operations, net of tax	0.36	0.02
Net income per diluted common share	\$ 0.45	\$ 0.03
Weighted average shares - basic	88,632	85,161
Weighted average shares - diluted	92,574	88,262



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

	Three Months Ended December 31,	
	2010	2009
Operating activities:		
Net income	\$ 42,099	\$ 2,225
Less income from discontinued operations, net of tax	(33,615)	(1,176)
Income from continuing operations	8,484	1,049
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Provision for doubtful accounts	165	46
Depreciation	2,074	1,839
Amortization of intangible assets	1,025	1,431
Stock-based compensation	12,834	13,106
Restructuring benefit	(2,923)	-
Other-than temporary impairment of long-term investments	-	499
Changes in operating assets and liabilities:		
Accounts receivable	(1,949)	(52)
Prepaid expense and other assets	(652)	(889)
Accounts payable	91	79
Accrued compensation and related liabilities	(13,695)	(11,431)
Accrued liabilities	(6,535)	(85)
Deferred revenue	20,917	9,030
Restructuring obligations	(4,260)	(4,326)
Net cash provided by continuing operations	15,576	10,296
Net cash (used in)/provided by discontinued operations	(1,121)	209
Net cash provided by operating activities	14,455	10,505
Investing activities:		
Proceeds from sale of discontinued operations	39,000	-
Purchases of property and equipment	(2,115)	(1,386)
Maturities of investments, net of purchases	459	(7,631)
Net cash provided by (used in) investing activities	37,344	(9,017)
Financing activities:		
Proceeds from issuance of common stock, net	431	27
Repurchase of common stock	(12,802)	(5,056)
Net cash used in financing activities	(12,371)	(5,029)
Effect of exchange rates on cash and cash equivalents	(67)	(7)
Net change in cash and cash equivalents	39,361	(3,548)
Cash and cash equivalents at beginning of period	182,393	130,881
Cash and cash equivalents at end of period	\$ 221,754	\$ 127,333



# Non-GAAP Financial Measures

The following table reconciles financial measures prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) to the most directly comparable non-GAAP financial measures in the press release.

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, 2010</u>	<u>Three Months Ended December 31, 2009</u>
<u>Expense reconciliation:</u>		
GAAP revenue	\$ 90,420	\$ 75,192
Less: GAAP net income	<u>42,099</u>	<u>2,225</u>
Total GAAP expenses	48,321	72,967
Amortization of intangible assets	(1,025)	(1,431)
Stock-based compensation	(12,834)	(13,106)
Tax accrual reversal	3,942	-
Restructuring benefit	2,923	-
Transaction costs	(990)	-
Discontinued operations	33,615	1,176
Total non-GAAP operating expenses	<u>\$ 73,952</u>	<u>\$ 59,606</u>

	<u>Three Months Ended December 31, 2010</u>	<u>Three Months Ended December 31, 2009</u>
<u>Net income reconciliation:</u>		
GAAP net income	\$ 42,099	\$ 2,225
Amortization of intangible assets	1,025	1,431
Stock-based compensation	12,834	13,106
Tax accrual reversal	(3,942)	-
Restructuring benefit	(2,923)	-
Transaction costs	990	-
Discontinued operations	(33,615)	(1,176)
Non-GAAP income from continuing operations	<u>\$ 16,468</u>	<u>\$ 15,586</u>

	<u>Three Months Ended December 31, 2010</u>	<u>Three Months Ended December 31, 2009</u>
<u>Net income per share reconciliation:</u>		
GAAP net income per share - basic	\$ 0.47	\$ 0.03
Amortization of intangible assets	0.01	0.01
Stock-based compensation	0.14	0.15
Tax accrual reversal	(0.04)	-
Restructuring benefit	(0.03)	-
Transaction costs	0.01	-
Discontinued operations	(0.38)	(0.01)
Non-GAAP income from continuing operations per share - basic	<u>\$ 0.19</u>	<u>\$ 0.18</u>
Non-GAAP income from continuing operation per share - diluted	\$ 0.18	\$ 0.18

Weighted average shares - basic	88,632	85,161
Weighted average shares - diluted	92,574	88,262



Ariba, Inc. and Subsidiaries  
 Reconciliation of Outlook for the Quarter Ending March 31, 2011  
 (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, 2011	
	Low	High
	<u>Projected revenue:</u>	\$ 103,000

	Range for the Three Months Ending March 31, 2011	
	Low	High
	<u>Projected expense reconciliation:</u>	
GAAP projected total expenses	\$ 103,300	\$ 104,300
Amortization of intangible assets	(3,000)	(3,000)
Stock-based compensation	(12,000)	(12,000)
Transaction costs	(1,300)	(1,300)
Non-GAAP projected total expenses	\$ 87,000	\$ 88,000

	Range for the Three Months Ending March 31, 2011	
	Low	High
	<u>Projected net income reconciliation:</u>	
GAAP projected net income	\$ (300)	\$ 1,700
Amortization of intangible assets	3,000	3,000
Stock-based compensation	12,000	12,000
Transaction costs	1,300	1,300
Non-GAAP projected net income	\$ 16,000	\$ 18,000

	Range for the Three Months Ending March 31, 2011	
	Low	High
	<u>Projected net income per share reconciliation:</u>	
GAAP projected net income per share - basic	\$ (0.00)	\$ 0.02
Amortization of intangible assets	0.03	0.03
Stock-based compensation	0.13	0.13
Transaction costs	0.01	0.01
Non-GAAP projected net income per share - basic	\$ 0.17	\$ 0.20

Non-GAAP projected net income per share - diluted	\$ 0.17	\$ 0.19
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Projected weighted average shares - basic	91,900	91,900
Projected weighted average shares - diluted	94,700	94,700



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,		
	2010 Reported	Adj	2010 Non- GAAP	2009 Reported	Adj	2009 Non- GAAP
<b>Revenues:</b>						
Subscription and maintenance	\$ 65,858	\$ -	\$ 65,858	\$ 58,373	\$ -	\$ 58,373
Services and other	24,562	-	24,562	16,819	-	16,819
Total revenues	<u>90,420</u>	<u>-</u>	<u>90,420</u>	<u>75,192</u>	<u>-</u>	<u>75,192</u>
<b>Cost of revenues:</b>						
Subscription and maintenance (3)	14,290	(788)	13,502	12,674	(934)	11,740
Services and other (2)	15,307	(889)	14,418	12,448	(1,186)	11,262
Amortization of acquired technology and customer intangible assets (2)	1,025	(1,025)	-	1,327	(1,327)	-
Total cost of revenues	<u>30,622</u>	<u>(2,702)</u>	<u>27,920</u>	<u>26,449</u>	<u>(3,447)</u>	<u>23,002</u>
Gross profit	<u>59,798</u>	<u>2,702</u>	<u>62,500</u>	<u>48,743</u>	<u>3,447</u>	<u>52,190</u>
<b>Operating expenses:</b>						
Sales and marketing (3)	35,716	(6,450)	29,266	26,692	(5,546)	21,146
Research and development (3)	12,492	(1,863)	10,629	11,146	(1,377)	9,769
General and administrative (3) (6)	10,610	(3,834)	6,776	10,012	(4,063)	5,949
Amortization of other intangible assets (2)	-	-	-	104	(104)	-
Restructuring benefit (4)	(2,923)	2,923	-	-	-	-
Total operating expenses	<u>55,895</u>	<u>(9,224)</u>	<u>46,671</u>	<u>47,954</u>	<u>(11,090)</u>	<u>36,864</u>
Operating income	3,903	11,926	15,829	789	14,537	15,326
Interest and other expense, net	769	-	769	277	-	277
Income from continuing operations before income taxes	4,672	11,926	16,598	1,066	14,537	15,603
(Benefit from) provision for income taxes (5)	(3,812)	3,942	130	17	-	17
Income from continuing operations	8,484	7,984	16,468	1,049	14,537	15,586
<b>Discontinued operations, net of tax:</b>						
(Loss) income from discontinued operations (1)	(5,104)	5,104	-	1,176	(1,176)	-
Gain on sale of discontinued operations (1)	38,719	(38,719)	-	-	-	-
Total discontinued operations	<u>33,615</u>	<u>(33,615)</u>	<u>-</u>	<u>1,176</u>	<u>(1,176)</u>	<u>-</u>
Net income	<u>\$ 42,099</u>	<u>\$ (25,631)</u>	<u>\$ 16,468</u>	<u>\$ 2,225</u>	<u>\$ 13,361</u>	<u>\$ 15,586</u>
<b>Basic earnings per share:</b>						
Income from continuing operations	\$ 0.09		\$ 0.19	\$ 0.01		\$ 0.18
Discontinued operations, net of tax	0.38		-	0.02		-
Net income per basic common share	<u>\$ 0.47</u>		<u>\$ 0.19</u>	<u>\$ 0.03</u>		<u>\$ 0.18</u>
<b>Diluted earnings per share:</b>						
Income from continuing operations	\$ 0.09		\$ 0.18	\$ 0.01		\$ 0.18
Discontinued operations, net of tax	0.36		-	0.02		-
Net income per diluted common share	<u>\$ 0.45</u>		<u>\$ 0.18</u>	<u>\$ 0.03</u>		<u>\$ 0.18</u>
Weighted average shares - basic	88,632		88,632	85,161		85,161
Weighted average shares - diluted	92,574		92,574	88,262		88,262

## Discussion of Specific Items Excluded From Non-GAAP Financial Measures

Our non-GAAP financial measures exclude the results of discontinued operations and generally exclude expenses or benefits for (i) amortization of intangible assets related to acquisitions, (ii) stock-based compensation, (iii) restructuring costs or benefits, (iv) tax accrual reversal (v) transaction related costs. 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 transaction related costs, these items are non-cash items that do not affect cash flows.

- (1) *Discontinued Operations.* We exclude the results of discontinued operations from our non-GAAP financial measures because they are unrelated to our ongoing operations. We believe excluding the results of discontinued operations helps investors compare our operating performance with that of other companies. We recognize, however, that the discontinued operations impact cash flow and that we and investors should carefully consider the impact of this on cash flow.
- (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.

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

- (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 benefit.* We recorded a restructuring benefit related to lease abandonment accruals in the three months ended December 31, 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) *Release of tax reserve.* We released a tax reserve of approximately \$3.9 million in the three months ended December 31, 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.
- (6) *Transaction related costs.* We recorded approximately \$1.0 million of transaction related costs in the three months and twelve months ended December 31, 2010. We exclude these from our non-GAAP financial measures because they are unrelated to our ongoing operations. We believe excluding the transaction related costs helps investors compare our operating performance with that of other companies. We recognize, however, that the transaction related costs impact cash flow and that we and investors should carefully consider the impact of this on cash flow.

**Ariba, Inc. and Subsidiaries**  
**Q1 Fiscal 2011 Supplemental Information**  
(in millions, except for percentages)

	FY 2008				FY2009				FY2010				FY2011
	2008-Q1	2008-Q2	2008-Q3	2008-Q4	2009-Q1	2009-Q2	2009-Q3	2009-Q4	2010-Q1	2010-Q2	2010-Q3	2010-Q4	2011-Q1
<b>REVENUE ANALYSIS</b>													
<b>Network Software Revenue</b>	4.7	7.4	7.1	6.9	8.2	7.5	7.7	8.6	9.8	9.4	10.7	11.2	13.8
<b>Subscription software revenue</b>	20.8	28.6	30.3	32.6	35.9	36.4	37.9	41.1	41.2	42.3	44.0	46.5	50.2
Purchase accounting adjustment to acquired Procuri contracts	0.4	2.3	1.4	0.9	0.4	-	-	-	-	-	-	-	-
<b>Non-GAAP subscription software revenue</b>	21.2	30.8	31.7	33.5	36.2	36.4	37.9	41.1	41.2	42.3	44.0	46.5	50.2
<b>Subscription software revenue growth rates (Yr/Yr)</b>													
Subscription software revenue	37%	83%	68%	74%	72%	27%	25%	26%	15%	16%	16%	13%	22%
Non-GAAP subscription software revenue	40%	97%	76%	78%	71%	18%	19%	23%	14%	16%	16%	13%	22%
<b>CASH FLOW METRICS</b>													
	<b>Continuing Operations =&gt;</b>												
<b>Cash Flow from Operations</b>	<b>\$ 1.2</b>	<b>\$ 1.5</b>	<b>\$ 8.7</b>	<b>\$ 10.2</b>	<b>\$ 10.8</b>	<b>\$ 16.3</b>	<b>\$ 20.0</b>	<b>\$ 18.8</b>	<b>\$ 10.3</b>	<b>\$ 24.9</b>	<b>\$ 16.3</b>	<b>\$ 10.5</b>	<b>\$ 15.6</b>
Cash used for lease loss (Restructuring Obligations)	4.4	4.5	5.9	4.7	4.7	4.5	4.4	4.3	\$ 4.3	\$ 4.2	\$ 4.3	\$ 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 Received for Emptoris Litigation Judgment	-	-	-	-	-	-	-	-	-	(7.0)	-	-	-
Cash from Operations used for Procuri, Sky, Lease Loss less Emptoris Receipt	4.6	15.3	6.7	5.9	5.7	6.2	5.8	5.0	4.3	(2.8)	4.3	4.3	4.3
<b>Cash Flow from Ops, before Procuri, Sky, Lease Losses &amp; Emptoris Receipt</b>	<b>5.8</b>	<b>16.8</b>	<b>15.4</b>	<b>16.1</b>	<b>16.5</b>	<b>22.5</b>	<b>25.9</b>	<b>23.8</b>	<b>14.6</b>	<b>22.1</b>	<b>20.6</b>	<b>14.8</b>	<b>19.8</b>
Capital Expenditures	0.9	1.8	2.5	2.5	2.3	1.2	1.4	1.8	1.4	4.4	2.0	1.6	2.1
<b>Free Cash Flow</b>	<b>0.3</b>	<b>(0.3)</b>	<b>6.2</b>	<b>7.7</b>	<b>8.6</b>	<b>15.2</b>	<b>18.7</b>	<b>17.0</b>	<b>8.9</b>	<b>20.4</b>	<b>14.3</b>	<b>8.9</b>	<b>13.5</b>
<b>Free Cash Flow, before Procuri, Sky and Lease Losses</b>	<b>4.9</b>	<b>15.0</b>	<b>12.9</b>	<b>13.7</b>	<b>14.3</b>	<b>21.4</b>	<b>24.5</b>	<b>22.0</b>	<b>13.2</b>	<b>17.6</b>	<b>18.6</b>	<b>13.2</b>	<b>17.7</b>

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

	Q1 '10 Non-GAAP Reported	Q1 '10 Non-GAAP SMS	Q1 '10 Non-GAAP Continuing Ops	Q2 '10 Non-GAAP Reported	Q2 '10 Non-GAAP SMS	Q2 '10 Non-GAAP Continuing Ops	Q3 '10 Non-GAAP Reported	Q3 '10 Non-GAAP SMS	Q3 '10 Non-GAAP Continuing Ops	Q4 '10 Non-GAAP Reported	Q4 '10 Non-GAAP SMS	Q4 '10 Non-GAAP Continuing Ops	2010 Non-GAAP Reported	2010 Non-GAAP SMS	2010 Non-GAAP Continuing Ops
<b>Revenues:</b>															
Subscription and maintenance	\$ 58,373	\$ -	\$ 58,373	\$ 58,756	\$ -	\$ 58,756	\$ 60,768	\$ -	\$ 60,768	\$ 62,892	\$ -	\$ 62,892	\$ 240,789	\$ -	\$ 240,789
Services and other	27,298	10,479	16,819	28,374	9,822	18,552	32,481	10,243	22,238	32,204	10,203	22,001	120,357	40,747	79,610
<b>Total revenues</b>	<b>85,671</b>	<b>10,479</b>	<b>75,192</b>	<b>87,130</b>	<b>9,822</b>	<b>77,308</b>	<b>93,249</b>	<b>10,243</b>	<b>83,006</b>	<b>95,096</b>	<b>10,203</b>	<b>84,893</b>	<b>361,146</b>	<b>40,747</b>	<b>320,399</b>
<b>Cost of revenues:</b>															
Subscription and maintenance	11,740	-	11,740	11,803	-	11,803	12,270	-	12,270	11,948	-	11,948	47,761	-	47,761
Services and other	18,028	6,766	11,262	18,626	6,498	12,128	20,421	6,792	13,629	20,256	6,884	13,372	77,331	26,940	50,391
<b>Total cost of revenues</b>	<b>29,768</b>	<b>6,766</b>	<b>23,002</b>	<b>30,429</b>	<b>6,498</b>	<b>23,931</b>	<b>32,691</b>	<b>6,792</b>	<b>25,899</b>	<b>32,204</b>	<b>6,884</b>	<b>25,320</b>	<b>125,092</b>	<b>26,940</b>	<b>98,152</b>
<b>Gross profit</b>	<b>55,903</b>	<b>3,713</b>	<b>52,190</b>	<b>56,701</b>	<b>3,324</b>	<b>53,377</b>	<b>60,558</b>	<b>3,451</b>	<b>57,107</b>	<b>62,892</b>	<b>3,319</b>	<b>59,573</b>	<b>236,054</b>	<b>13,807</b>	<b>222,247</b>
<b>Operating expenses:</b>															
Sales and marketing	22,587	1,441	21,146	23,212	1,408	21,804	25,659	1,564	24,095	26,425	1,254	25,171	97,883	5,667	92,216
Research and development	9,769	-	9,769	10,133	-	10,133	10,226	-	10,226	10,348	-	10,348	40,476	-	40,476
General and administrative	6,534	685	5,949	6,420	685	5,735	6,977	684	6,293	6,663	683	5,980	26,694	2,737	23,957
<b>Total operating expenses</b>	<b>38,990</b>	<b>2,126</b>	<b>36,864</b>	<b>39,765</b>	<b>2,093</b>	<b>37,672</b>	<b>42,862</b>	<b>2,248</b>	<b>40,614</b>	<b>43,436</b>	<b>1,937</b>	<b>41,499</b>	<b>165,053</b>	<b>8,404</b>	<b>156,649</b>
<b>Income from operations</b>	<b>16,913</b>	<b>1,587</b>	<b>15,326</b>	<b>16,936</b>	<b>1,231</b>	<b>15,705</b>	<b>17,696</b>	<b>1,203</b>	<b>16,493</b>	<b>19,456</b>	<b>1,382</b>	<b>18,074</b>	<b>71,001</b>	<b>5,403</b>	<b>65,598</b>
Interest and other expense, net	321	44	277	74	(69)	143	(454)	(160)	(294)	(676)	67	(743)	(735)	(118)	(617)
<b>Income before income taxes</b>	<b>17,234</b>	<b>1,631</b>	<b>15,603</b>	<b>17,010</b>	<b>1,162</b>	<b>15,848</b>	<b>17,242</b>	<b>1,043</b>	<b>16,199</b>	<b>18,780</b>	<b>1,449</b>	<b>17,331</b>	<b>70,266</b>	<b>5,285</b>	<b>64,981</b>
Provision for income taxes	55	38	17	515	37	478	423	38	385	425	37	388	1,418	150	1,268
<b>Net income</b>	<b>\$ 17,179</b>	<b>\$ 1,593</b>	<b>\$ 15,586</b>	<b>\$ 16,495</b>	<b>\$ 1,125</b>	<b>\$ 15,370</b>	<b>\$ 16,819</b>	<b>\$ 1,005</b>	<b>\$ 15,814</b>	<b>\$ 18,355</b>	<b>\$ 1,412</b>	<b>\$ 16,943</b>	<b>\$ 68,848</b>	<b>\$ 5,135</b>	<b>\$ 63,713</b>
<b>Net income per share</b>															
Basic	\$ 0.20	\$ 0.02	\$ 0.18	\$ 0.19	\$ 0.01	\$ 0.18	\$ 0.19	\$ 0.01	\$ 0.18	\$ 0.21	\$ 0.02	\$ 0.19	\$ 0.79	\$ 0.06	\$ 0.73
Diluted	\$ 0.19	\$ 0.02	\$ 0.18	\$ 0.19	\$ 0.01	\$ 0.17	\$ 0.19	\$ 0.01	\$ 0.18	\$ 0.20	\$ 0.02	\$ 0.18	\$ 0.77	\$ 0.06	\$ 0.71
<b>Weighted average shares</b>															
Basic	85,161	85,161	85,161	86,578	86,578	86,578	87,163	87,163	87,163	87,565	87,565	87,565	87,565	87,565	87,565
Diluted	88,262	88,262	88,262	88,753	88,753	88,753	89,336	89,336	89,336	91,868	91,868	91,868	89,221	89,221	89,221

To supplement our financial results presented on a GAAP basis, we use non-GAAP measures of net income and earnings per share, which exclude expenses that we believe are helpful in understanding our past financial performance and prospects for the future, including stock-based compensation associated with stock options and restricted shares issued to executive officers and employees, amortization of intangible assets in connection with our acquisitions, restructuring costs related to lease abandonment accruals, litigation benefit related to a patent infringement judgement, transaction-related costs and release of tax reserves.

