

# *Ariba*

Supplemental Presentation  
Material for  
Quarter Ending  
December 31, 2008

January 29, 2009



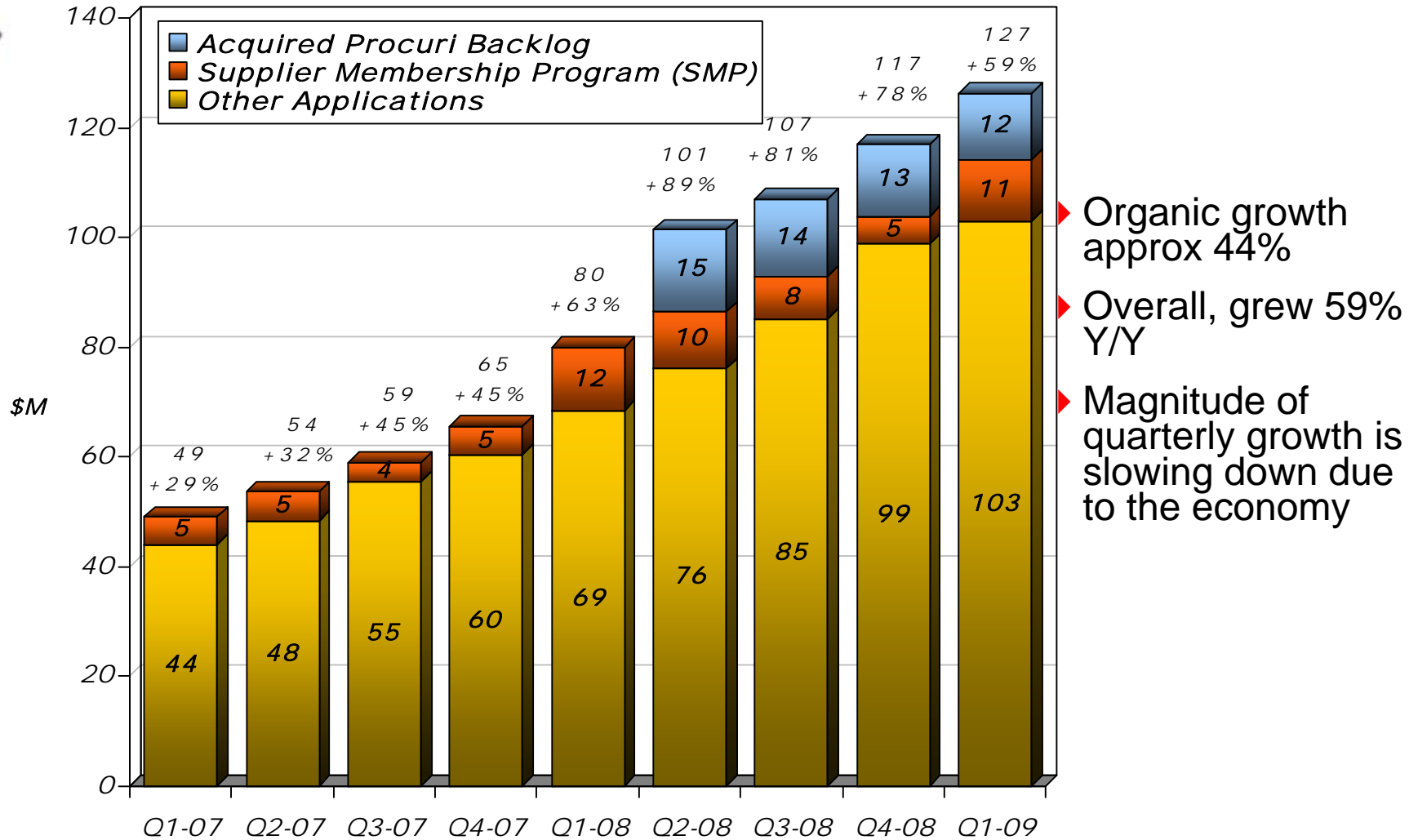
# *Ariba Safe Harbor Statement*

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 Form 10-K filed with the SEC on November 19th, 2008.

During this presentation we may also make statements relating to the Company's real estate forecast, and estimated fiscal 2009 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 amortization of intangible assets related to acquisitions, stock-based compensation, (iii) restructuring and integration, (iv) litigation provision and (v) 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.

# 12 Month Sub SW Backlog Growth -- still growing in the current economy

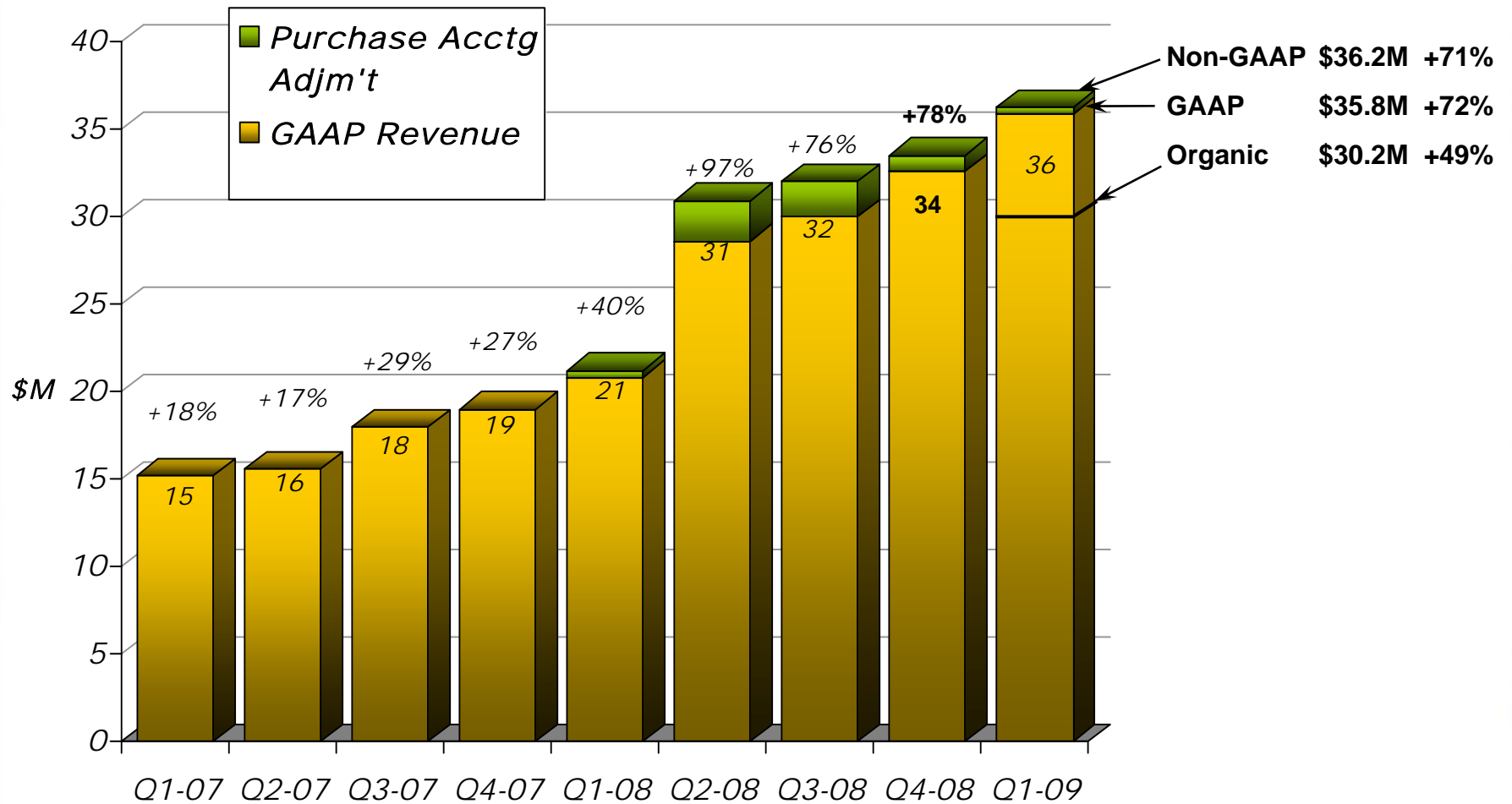


- ▶ Organic growth approx 44%
- ▶ Overall, grew 59% Y/Y
- ▶ Magnitude of quarterly growth is slowing down due to the economy

Percentages represent Y/Y growth rates  
Please refer to Safe Harbor statement.



# Sub SW Revenue – continued strong organic growth

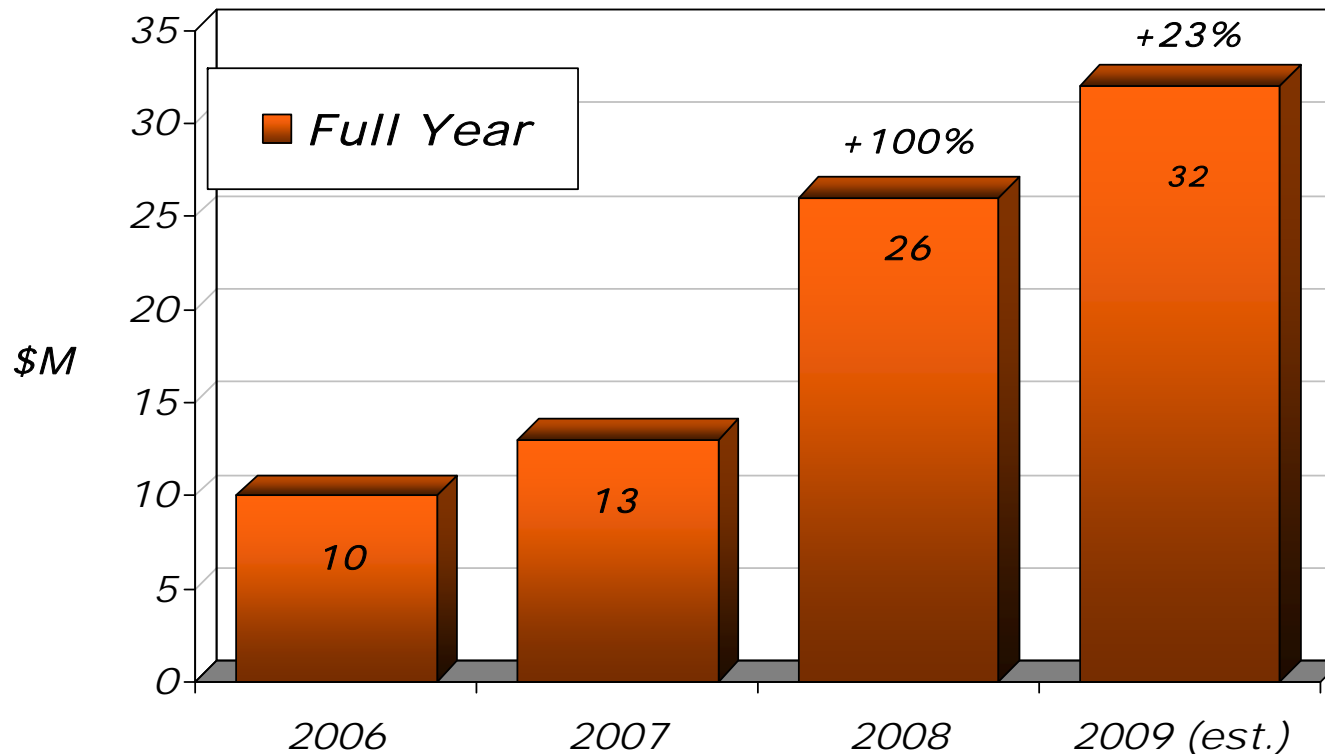


Percentages represent Y/Y growth rates

Please refer to safe harbor statement.



## *Network Software Revenue expected to grow 20-25% during 2009*



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 including financial institutions.**

Percentages represent year-over-year growth rates.

Please refer to safe harbor statement.

© 2009. Ariba, Inc. All rights reserved. The contents of this document are proprietary information of Ariba Inc.



## Q1 Results vs. Oct Guidance

	<u>Q4 08</u>	<u>Q1 09 Actual</u>	<u>Oct Guidance</u>
<i>Non-GAAP Subscription Software Revenue</i>	33.5M	36.2M	35.5 – 36.5M
<i>Maintenance Revenues</i>	18.4M	18.2M	~18M
<i>Services and Other</i>	34.5M	32M	32 - 34M
<i>Total Non-GAAP Revenue</i>	86.4M	86.4M	86 – 89M
<i>Non-GAAP EPS</i>	15¢	21 ¢ <sup>(1)</sup>	12 - 14¢

**Note:**

(1.) Includes 9¢ insurance reimbursement less 2¢ one-time devaluation of non-US dollar cash accounts.

Please refer to safe harbor statement.

# FY 2009 Revised Non-GAAP Outlook

	<u>2008 Actual</u>	<u>Oct 2009 Guidance</u>	<u>Jan 2009 Guidance</u>	<u>Vs Oct Guidance</u>	<u>Vs 2008</u>
Non-GAAP Subscription Software Revenue	117.3M	152 - 162M	148 - 152M	- 4%	+26 - 30%
Maintenance Revenues	74.9M	69 - 70M	~ 70M	-	- 7%
Services & Other	140.9M	133 - 138M	120 - 124M	- 10%	- 13%
Total Non-GAAP Revenue	333.1M	355 - 370M	342M+/- \$5M	- 6%	+3%
Non-GAAP EPS	44¢	70¢	65 ¢ +/- 5 ¢	-7%	+48%

Please refer to safe harbor statement

## FY 2009 Guidance: Bridge of Mid-points

	<u>Oct 2009 Guidance</u>	Revenue Redn	Cost Redn	Insurance Reimburse- ment	FX	Interest Income	<u>Jan 2009 Guidance</u>	<u>Delta</u>
Non-GAAP Subs SW Revenue	157M	(7)M					150M	-4%
Maintenance Revenues	70M						70M	-
Services & Other	135M	(13)M					122M	- 10%
<b>Total Non- GAAP Revenue</b>	<b>362M</b>	<b>(20)M</b>					<b>342M (3)</b>	<b>-6%</b>
Non- GAAP Net Income	61M	(20)M	12M	7.5M	(2)M (1)	(2)M (2)	56M	-8%
<b>Non-GAAP EPS</b>	<b>70¢</b>	<b>(24)¢</b>	<b>14¢</b>	<b>9¢</b>	<b>(2)¢</b>	<b>(2)¢</b>	<b>65¢ (3)</b>	<b>-7%</b>

**Based on 23 January FX rates.**

(1.) This is a 2¢ hit from a one-time devaluation of non-US dollar cash accounts.

(2.) This reflects fall in Interest rates on short term Treasury notes.

(3.) The above midpoints are ranged in Guidance as follows : Revenue \$342M +/- 5M ; EPS 65¢ +/- 5¢

Please refer to Safe Harbor Statement.

© 2009, Ariba, Inc. All rights reserved. The contents of this document are proprietary information of Ariba Inc.



## FY2009 Cash-Flow

	<u>2008 Actual</u>	<u>October 2009 Guidance</u>	<u>January 2009 Guidance</u>
<i>Non-GAAP Net Income %</i>	11%	16 - 17%	16-17%
<i>Non-GAAP Net Income</i>	36M	60 - 62M	~56M
<i>Change in Working Capital</i> <i>(a key driver is growth in deferred revenue)</i>	14M	10 - 15M	0 - 5 M
<i>Depreciation</i>	8M	8M	8M
<i>Softbank Impact</i>	-1M		
<i>Cash Flow from Operations before lease-losses, Sky and Procuri/Restructuring</i>	57M	80 - 82M	64-69M
<i>Sky &amp; Procuri/Restructuring</i>	-15M		-3M
<i>Lease-loss payments</i>	-20M	-19M	-19M
<i>Cash Flow from Operations</i>	22M	61-63M	42-47M

**Notes:** Capital Expenditures were \$7M & \$8m in 2007 and 2008, respectively and are anticipated to be approximately \$8M in 2009.

Please see Safe Harbor statement.

© 2009. Ariba, Inc. All rights reserved. The contents of this document are proprietary information of Ariba Inc.



# Supplemental Information:

## Real Estate

# Real Estate Summary

► Sunnyvale: (4 floors per building)



**Bldg 1**

Juniper – 2 floors committed through 2013  
Vacant – 2 floors



**Bldg 2**

Ariba – 2 floors  
Vacant – 2 floors



**Bldg 3**

Juniper – 4 floors committed through 2013



**Bldg 4**

Motorola – 2 floors committed through 2013  
E-Frontier – 1 floor committed through 2013  
Ariba – 1 floor (campus amenities)

# Quarterly Real Estate Lease Loss Impact

- ▶ As of 12/31/08, \$55.7M is reserved on the balance sheet for lease loss.

\$M	<u>2Q '09</u>	<u>3Q '09</u>	<u>4Q '09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>Total</u>
Per Period	4.9	4.4	5.2	12.4	12.3	12.1	4.4	55.7
Quarterly Average	4.8			3	3	3	3	3.4

- ▶ The “Per Period” amounts represent the quarterly or annual reduction (cash flow usage) associated with the \$55.7M real estate lease loss restructuring reserve.

# **Supplemental Information: Cash & Auction Rate Securities**

# Cash, Marketable Securities & Investments

	<u>Geography</u>	<u>Interest rate</u>	<u>Balance at 12/31/2008</u>
Cash, Cash Equiv & S/T	Current Asset	1.1%	\$95M
Restricted Cash	Non-Current Asset	0.1%	<u>30M</u>
Total Cash			\$125M
Long-term Investments	Non-Current Asset	2.3%*	<u>18M</u>
Total Cash, Marketable Securities and Investments		1.1%*	\$143M (+\$6m v Sept)

\* 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.

# *Auction Rate Securities (ARS)*

## *Background and Important Information*

- ▶ These securities are variable-rate debt instruments whose underlying agreements have contractual maturities of up to 40 years, though the expected average maturity is often much less.
  - ▶ The student-loan backed securities are issued by various state-related higher education agencies, and are secured by pools of student loans guaranteed by the agencies and reinsured by the United States Department of Education.
  - ▶ The other ARS in our portfolio are issued by corporate borrowers and are secured by pools of securities including commercial paper and other corporate debt obligations. These securities achieve their credit rating based on the credit worthiness of the underlying corporate issuer and over-collateralization.
  
- ▶ Liquidity for these auction rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 28 days.
  
- ▶ We may not be able to access these funds until a successful auction occurs or until the underlying notes mature. There is no assurance that future auctions on our remaining auction rate securities will be successful. In addition, if the auctions continue to fail to settle or if the credit ratings on the securities deteriorate, we may in the future be required to record additional impairment charges on these investments. Based on our remaining cash and marketable securities and operating cash flows, we do not anticipate the current lack of liquidity on these investments will affect our ability to operate our business as usual.

# Auction Rate Securities (ARS) Update

	<u>Rate Formula</u>	<u>Balance at 12/31/2008</u>
<b>Student-loan backed</b>		<b>\$18.4M</b>
<ul style="list-style-type: none"> <li>▶ AAA</li> <li>▶ 97% guaranteed by federal agencies</li> </ul>	<p>\$5.0M based on LIBOR + 1.50%</p> <p>\$13.4M subject to a “max rate” formula</p>	
<b>Corporate-backed</b>		<b>4.9M</b>
<ul style="list-style-type: none"> <li>▶ Ratings: AA/BBB+/BB</li> <li>▶ Backed by either corporate loans or commercial paper</li> </ul>	<p>\$3.4M at LIBOR +0.50%</p> <p>\$1.5M at LIBOR +1.50%</p>	
<b>Total Auction Rate Securities: Par Value</b>		<b>\$23.3M</b>
<b><i>Realized &amp; Unrealized Loss</i></b>		<b>(5.5M) *</b>
<b>Total Auction Rate Securities: Fair Value</b>		<b>\$17.8M</b>

\* Of the total loss of \$5.5M in Q1, \$1.4M represents a realized loss due to downgrade of Camber Securities to below investment grade.

# *Auction Rate Securities – Valuation Update*

- ▶ Valuation is difficult due to unique nature of each security and the lack of market pricing data. Assumptions regarding discount rate and maturity must be made.
- ▶ To reflect a continuing deterioration in overall credit markets, a downgrade in one of the corporate-note backed ARS, and an adjustment in the rate index to more closely align with expected maturities, we adjusted the discount rates used this quarter.
  - ▶ For student loan ARS, previously we used a discount rate of 7-Yr LIBOR swap rate +250 bps. Although all of these securities remain at the highest investment grade, this quarter we increased the rate to the 7-Yr LIBOR swap rate+350bps.
  - ▶ For the corporate note-backed ARS, our prior discount rate assumption of 7 or 15 year LIBOR swap rate +350bps was increased : (1) for the first series of notes (\$3.4M notional amount), to 7-Yr LIBOR swap rate +850bps; and (2) for the second series of notes (\$1.5M notional amount), to 15-Yr LIBOR swap rate +450bps.

## *Auction Rate Securities – Valuation Update*

- ▶ The \$3.4M notional amount notes were downgraded during the quarter due to a deterioration in the credit quality of the underlying credit default swap collateral. Since this security now holds a non-investment grade rating by one of the credit rating agencies, we recorded an impairment charge on this investment in Q1 of \$1.4M.
- ▶ The other corporate-backed ARS we hold (\$1.5M notional amount) remains investment grade. At 12/31/08, this security had an unrealized loss of approximately \$600k.
- ▶ The student loan-backed ARS remain at the highest credit rating (AAA). At 12/31, the unrealized loss on these securities totaled \$3.5M.

# Supplemental Information: Financials

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

	December 31, 2008	September 30, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 95,545	\$ 86,804
Accounts receivable, net	26,023	28,968
Prepaid expenses and other current assets	6,852	7,859
Total current assets	128,420	123,631
Property and equipment, net	20,080	19,773
Long-term investments	17,776	20,525
Restricted cash, less current portion	29,641	29,641
Goodwill	406,507	406,507
Other intangible assets, net	22,367	23,965
Other assets	3,160	3,419
Total assets	\$ 627,951	\$ 627,461
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,818	\$ 12,202
Accrued compensation and related liabilities	15,334	21,480
Accrued liabilities	15,477	15,677
Restructuring obligations	18,998	19,925
Deferred revenue	97,898	95,519
Total current liabilities	157,525	164,803
Deferred rent obligations	17,338	18,174
Restructuring obligations, less current portion	38,043	41,121
Deferred revenue, less current portion	6,643	6,396
Other long-term liabilities	6,356	5,949
Total liabilities	225,905	236,443
Stockholders' equity:		
Common stock	174	174
Additional paid-in capital	5,163,030	5,154,137
Accumulated other comprehensive loss	(4,386)	(3,094)
Accumulated deficit	(4,756,772)	(4,760,199)
Total stockholders' equity	402,046	391,018
Total liabilities and stockholders' equity	\$ 627,951	\$ 627,461

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

	Three Months Ended December 31,	
	2008	2007
Revenues:		
Subscription and maintenance	\$ 54,081	\$ 40,026
Services and other	32,006	36,948
Total revenues	<u>86,087</u>	<u>76,974</u>
Cost of revenues:		
Subscription and maintenance	11,648	8,868
Services and other	19,798	24,606
Amortization of acquired technology and customer intangible assets	1,388	3,509
Total cost of revenues	<u>32,834</u>	<u>36,983</u>
Gross profit	<u>53,253</u>	<u>39,991</u>
Operating expenses:		
Sales and marketing	27,577	25,112
Research and development	10,904	13,317
General and administrative	11,603	13,502
Other income - Softbank	-	(566)
Insurance reimbursement	(7,527)	-
Amortization of other intangible assets	210	109
Restructuring and integration costs	1,701	3,838
Litigation provision	-	5,900
Total operating expenses	<u>44,468</u>	<u>61,212</u>
Income (loss) from operations	8,785	(21,221)
Interest and other (expense) income, net	(5,016)	3,344
Income (loss) before income taxes	<u>3,769</u>	<u>(17,877)</u>
Provision for income taxes	342	443
Net income (loss)	<u>\$ 3,427</u>	<u>\$ (18,320)</u>
Net income (loss) per share - basic	\$ 0.04	\$ (0.25)
Net income (loss) per share - diluted	\$ 0.04	\$ (0.25)
Weighted average shares - basic	80,947	73,204
Weighted average shares - diluted	84,044	73,204

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

	Three Months Ended December 31,	
	2008	2007
Operating activities:		
Net income (loss)	\$ 3,427	\$ (18,320)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for (recovery of) doubtful accounts	131	(72)
Depreciation	1,946	1,913
Amortization of intangible assets	1,598	3,618
Impairment of investment	1,414	-
Stock-based compensation	9,526	9,829
Restructuring charge	1,701	3,838
Changes in operating assets and liabilities:		
Accounts receivable	2,814	4,386
Prepaid expense and other assets	1,307	1,368
Accounts payable	(2,483)	(14)
Accrued compensation and related liabilities	(6,711)	(5,297)
Accrued liabilities	(755)	6,374
Deferred income - Softbank	-	(566)
Deferred revenue	2,626	(1,193)
Restructuring obligations	(5,706)	(4,649)
Net cash provided by operating activities	<u>10,835</u>	<u>1,215</u>
Investing activities:		
Cash paid for acquisitions, net of cash acquired	-	(54,554)
Purchases of property and equipment	(2,253)	(906)
Sales of investments, net of purchases	726	30,517
Allocation from restricted cash, net	-	692
Net cash used in investing activities	<u>(1,527)</u>	<u>(24,251)</u>
Financing activities:		
Proceeds from issuance of common stock, net	45	714
Repurchase of common stock	(678)	(1,639)
Net cash used in financing activities	<u>(633)</u>	<u>(925)</u>
Effect of exchange rates on cash and cash equivalents	66	(202)
Net change in cash and cash equivalents	8,741	(24,163)
Cash and cash equivalents at beginning of period	86,804	61,311
Cash and cash equivalents at end of period	<u>\$ 95,545</u>	<u>\$ 37,148</u>

# Non-GAAP Financial Measures

The accompanying presentation dated January 29, 2009 contains non-GAAP financial measures. The following table reconciles the non-GAAP financial measures in the presentation to the most directly comparable financial measures prepared in accordance with Generally Accepted Accounting Principles (GAAP). These non-GAAP measures include non-GAAP revenues, non-GAAP cost of revenues, gross profit, operating expenses, (loss) income from operations, net (loss) income and net (loss) 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 presentation 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, 2008</u>	<u>Three Months Ended December 31, 2007</u>
<b>Revenue reconciliation:</b>		
GAAP revenue	\$ 86,087	\$ 76,974
Purchase accounting adjustment	355	403
Total non-GAAP revenues	<u>\$ 86,442</u>	<u>\$ 77,377</u>
	<u>Three Months Ended December 31, 2008</u>	<u>Three Months Ended December 31, 2007</u>
<b>Expense reconciliation:</b>		
GAAP revenue	\$ 86,087	\$ 76,974
Less: GAAP net income (loss)	3,427	(18,320)
Total GAAP expenses	<u>82,660</u>	<u>95,294</u>
Amortization of intangible assets	(1,598)	(3,618)
Stock-based compensation	(9,526)	(9,829)
Restructuring and integration	(1,701)	(3,838)
Litigation provision	-	(5,900)
Other temporary impairment of long-term investment	(1,414)	-
Total non-GAAP operating expenses	<u>\$ 68,421</u>	<u>\$ 72,109</u>
	<u>Three Months Ended December 31, 2008</u>	<u>Three Months Ended December 31, 2007</u>
<b>Net income (loss) reconciliation:</b>		
GAAP net income (loss)	\$ 3,427	\$ (18,320)
Purchase accounting adjustment	355	403
Amortization of intangible assets	1,598	3,618
Stock-based compensation	9,526	9,829
Restructuring and integration	1,701	3,838
Litigation provision	-	5,900
Other temporary impairment of long-term investment	1,414	-
Non-GAAP net income	<u>\$ 18,021</u>	<u>\$ 5,268</u>
	<u>Three Months Ended December 31, 2008</u>	<u>Three Months Ended December 31, 2007</u>
<b>Net income (loss) per share reconciliation:</b>		
GAAP net income (loss) per share - basic	\$ 0.04	\$ (0.25)
Purchase accounting adjustment	0.00	0.01
Amortization of intangible assets	0.02	0.05
Stock-based compensation	0.12	0.13
Restructuring and integration	0.02	0.05
Litigation provision	-	0.08
Other temporary impairment of long-term investment	0.02	-
Non-GAAP net income per share - basic	<u>\$ 0.22</u>	<u>\$ 0.07</u>
Non-GAAP net income per share - diluted	\$ 0.21	\$ 0.07
Weighted average shares - basic	80,947	73,204
Weighted average shares - diluted	84,044	78,838

**Ariba, Inc. and Subsidiaries**  
**Q1 Fiscal 2009 Supplemental Information**  
(in millions, except for percentages)

	FY 2007				FY 2008				FY2009
	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2	2008-Q3	2008-Q4	2009-Q1
<b>REVENUE ANALYSIS</b>									
<b>Perpetual license revenue</b>	\$ 4.6	4.3	2.7	5.0	2.4	1.4	1.5	0.6	0.8
<b>Network Software Revenue</b>	2.7	3.3	3.7	3.7	4.7	7.4	7.1	6.9	8.2
<b>Subscription software revenue</b>	\$ 15.2	15.7	18.0	18.8	20.8	28.6	30.3	32.6	35.9
Purchase accounting adjustment to acquired Procuri contracts					0.4	2.3	1.4	0.9	0.4
<b>Non-GAAP subscription software revenue</b>	\$ 15.2	15.7	18.0	18.8	21.2	30.8	31.7	33.5	36.2
<b>Subscription software revenue growth rates (Yr/Yr)</b>									
Subscription software revenue	18%	15%	29%	27%	37%	83%	68%	74%	72%
Non-GAAP subscription software revenue	18%	15%	29%	27%	40%	97%	76%	78%	71%
<b>CASH FLOW METRICS</b>									
<b>Cash Flow from Operations</b>	\$ 4.5	\$ 2.5	\$ 2.9	\$ 6.6	\$ 1.2	\$ 1.5	\$ 8.7	\$ 10.2	\$ 10.8
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
Cash used for Procuri-related integration & other severances (Restructuring Obligations)	-	-	-	-	0.2	1.8	0.8	1.2	1.0
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
<b>Cash Flow from Ops, before Procuri, Sky and Lease Losses</b>	<b>8.0</b>	<b>10.3</b>	<b>5.2</b>	<b>12.0</b>	<b>5.8</b>	<b>16.8</b>	<b>15.4</b>	<b>16.1</b>	<b>16.5</b>
Capital Expenditures	1.2	1.8	2.2	2.3	0.9	1.8	2.5	2.5	2.3
<b>Free Cash Flow</b>	<b>3.3</b>	<b>0.7</b>	<b>0.7</b>	<b>4.3</b>	<b>0.3</b>	<b>(0.3)</b>	<b>6.2</b>	<b>7.7</b>	<b>8.6</b>
<b>Free Cash Flow, before Procuri, Sky and Lease Losses</b>	<b>6.8</b>	<b>8.5</b>	<b>3.0</b>	<b>9.7</b>	<b>4.9</b>	<b>15.0</b>	<b>12.9</b>	<b>13.7</b>	<b>14.3</b>

**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,		
	2008 Reported	Adj	2008 Non- GAAP	2007 Reported	Adj	2007 Non- GAAP
<b>Revenues:</b>						
Subscription and maintenance (1)	\$ 54,081	\$ 355	\$ 54,436	\$ 40,026	\$ 403	\$ 40,429
Services and other	32,006	-	32,006	36,948	-	36,948
Total revenues	<u>86,087</u>	<u>355</u>	<u>86,442</u>	<u>76,974</u>	<u>403</u>	<u>77,377</u>
<b>Cost of revenues:</b>						
Subscription and maintenance (3)	11,648	(625)	11,023	8,868	(497)	8,371
Services and other (3)	19,798	(1,030)	18,768	24,606	(1,617)	22,989
Amortization of acquired technology and customer intangible assets (2)	1,388	(1,388)	-	3,509	(3,509)	-
Total cost of revenues	<u>32,834</u>	<u>(3,043)</u>	<u>29,791</u>	<u>36,983</u>	<u>(5,623)</u>	<u>31,360</u>
Gross profit	<u>53,253</u>	<u>3,398</u>	<u>56,651</u>	<u>39,991</u>	<u>6,026</u>	<u>46,017</u>
<b>Operating expenses:</b>						
Sales and marketing (3)	27,577	(3,882)	23,695	25,112	(3,783)	21,329
Research and development (3)	10,904	(1,424)	9,480	13,317	(1,241)	12,076
General and administrative (3)	11,603	(2,565)	9,038	13,502	(2,691)	10,811
Other income - Softbank	-	-	-	(566)	-	(566)
Insurance reimbursement	(7,527)	-	(7,527)	-	-	-
Amortization of other intangible assets (2)	210	(210)	-	109	(109)	-
Restructuring and integration (4)	1,701	(1,701)	-	3,838	(3,838)	-
Litigation provision (5)	-	-	-	5,900	(5,900)	-
Total operating expenses	<u>44,468</u>	<u>(9,782)</u>	<u>34,686</u>	<u>61,212</u>	<u>(17,562)</u>	<u>43,650</u>
Income (loss) from operations	8,785	13,180	21,965	(21,221)	23,588	2,367
Interest and other (expense) income, net (6)	(5,016)	1,414	(3,602)	3,344	-	3,344
Income (loss) before income taxes	3,769	14,594	18,363	(17,877)	23,588	5,711
Provision for income taxes	342	-	342	443	-	443
Net income (loss)	<u>\$ 3,427</u>	<u>\$ 14,594</u>	<u>\$ 18,021</u>	<u>\$ (18,320)</u>	<u>\$ 23,588</u>	<u>\$ 5,268</u>
<b>Net income (loss) per share</b>						
Basic	\$ 0.04		\$ 0.22	\$ (0.25)		\$ 0.07
Diluted	\$ 0.04		\$ 0.21	\$ (0.25)		\$ 0.07
<b>Weighted average shares</b>						
Basic	80,947		80,947	73,204		73,204
Diluted	84,044		84,044	73,204		78,838

## 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, (iv) litigation provision and (v) 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 severance and related benefits in the three months ended December 31, 2008 and 2007. 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) *Litigation provision.* We recorded a litigation provision related to a patent infringement matter in the three months ended December 31, 2007. We exclude this from our non-GAAP financial measures because it is unrelated to our ongoing operations. We believe excluding the litigation provision helps investors compare our operating performance with that of other companies. We recognize, however, that the litigation provision will impact cash flows and that we and investors should carefully consider the impact of these costs on future cash flows.

(6) *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, 2008. 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, 2009  
 (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, 2009	
	Low	High
<u>Projected revenue:</u>	\$ 84,000	\$ 86,000

	Range for the Three Months Ending March 31, 2009	
	Low	High
<u>Projected expense reconciliation:</u>		
GAAP projected total expenses	\$ 85,000	\$ 87,000
Amortization of intangible assets	(2,000)	(2,000)
Stock-based compensation	(9,000)	(9,000)
Restructuring Charge	(1,000)	(1,000)
Non-GAAP projected total expenses	\$ 73,000	\$ 75,000

	Range for the Three Months Ending March 31, 2009	
	Low	High
<u>Projected net income (loss) reconciliation:</u>		
GAAP projected net income (loss)	\$ (2,000)	\$ 1,000
Amortization of intangible assets	2,000	2,000
Stock-based compensation	9,000	9,000
Restructuring Charge	1,000	1,000
Non-GAAP projected net income	\$ 10,000	\$ 13,000

	Range for the Three Months Ending March 31, 2009	
	Low	High
<u>Projected net income (loss) per share reconciliation:</u>		
GAAP projected net income (loss) per share - basic	\$ (0.02)	\$ 0.01
Amortization of intangible assets	0.02	0.02
Stock-based compensation	0.11	0.11
Restructuring Charge	0.01	0.01
Non-GAAP projected net income per share - basic	\$ 0.12	\$ 0.16

Non-GAAP projected net income per share - diluted	\$ 0.12	\$ 0.15
Projected weighted average shares - basic	82,500	82,500
Projected weighted average shares - diluted	85,700	85,700

© 2009. Ariba, Inc. All rights reserved. The contents of this document are proprietary information of Ariba Inc.



**Ariba, Inc. and Subsidiaries**  
**Q1 Fiscal 2009 Supplemental Information**  
(in millions, except for percentages)

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

\$M		FY2008 Actual	Q1 Guidance (Mid-point)	Q1 Actual	Q2 Guidance (Midpoint)	FY2009 Guidance (Midpoint)
Non-GAAP Revenue		<u>333.1</u>	<u>87.5</u>	<u>86.4</u>	<u>85.0</u>	<u>342.0</u>
NG Profit Before Other Income/(Exp)	(A)	27.6	12.0	14.4	14.4	61.0
%		8%	14%	17%	17%	18%
<b>Other Income/(Exp) :</b>						
<b>FX Gain/(Loss) :</b>						
Contract Mark to Market (Profit)/Loss (1)	(B)	3.0	(1.0)	(1.5)	(2.8)	(8.4)
Bal Sheet Retranslation Loss (2)		-	(0.5)	(2.6)	-	(4.1)
Interest		5.0	1.0	0.7	0.4	2.0
Tax/Other		0.2	(0.5)	(0.5)	(0.5)	(2.0)
Insurance Reimbursement			-	7.5		7.5
<b>Total Other Income/(Exp)</b>		<b>8.2</b>	<b>(1.0)</b>	<b>3.6</b>	<b>(2.8)</b>	<b>(5.0)</b>
Non-GAAP Profit		<u>35.8</u>	<u>11.0</u>	<u>18.0</u>	<u>11.6</u>	<u>56.0</u>
Diluted Shares		82,250	86,000	84,044	85,700	85,900
EPS		0.44	0.13	0.21	0.135	0.65
NG Op Profit incl Contract Mark to Market FX = (A) + (B)		30.6	11.0	12.9	11.6	52.6
NG Op Profit % (Recommended)		<u>9%</u>	<u>13%</u>	<u>15%</u>	<u>14%</u>	<u>15%</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.

© 2009, Ariba, Inc. All rights reserved. The contents of this document are proprietary information of Ariba Inc.

