

Ariba

Supplemental Presentation
Material for Quarter Ending
March 31, 2008

April 24, 2008



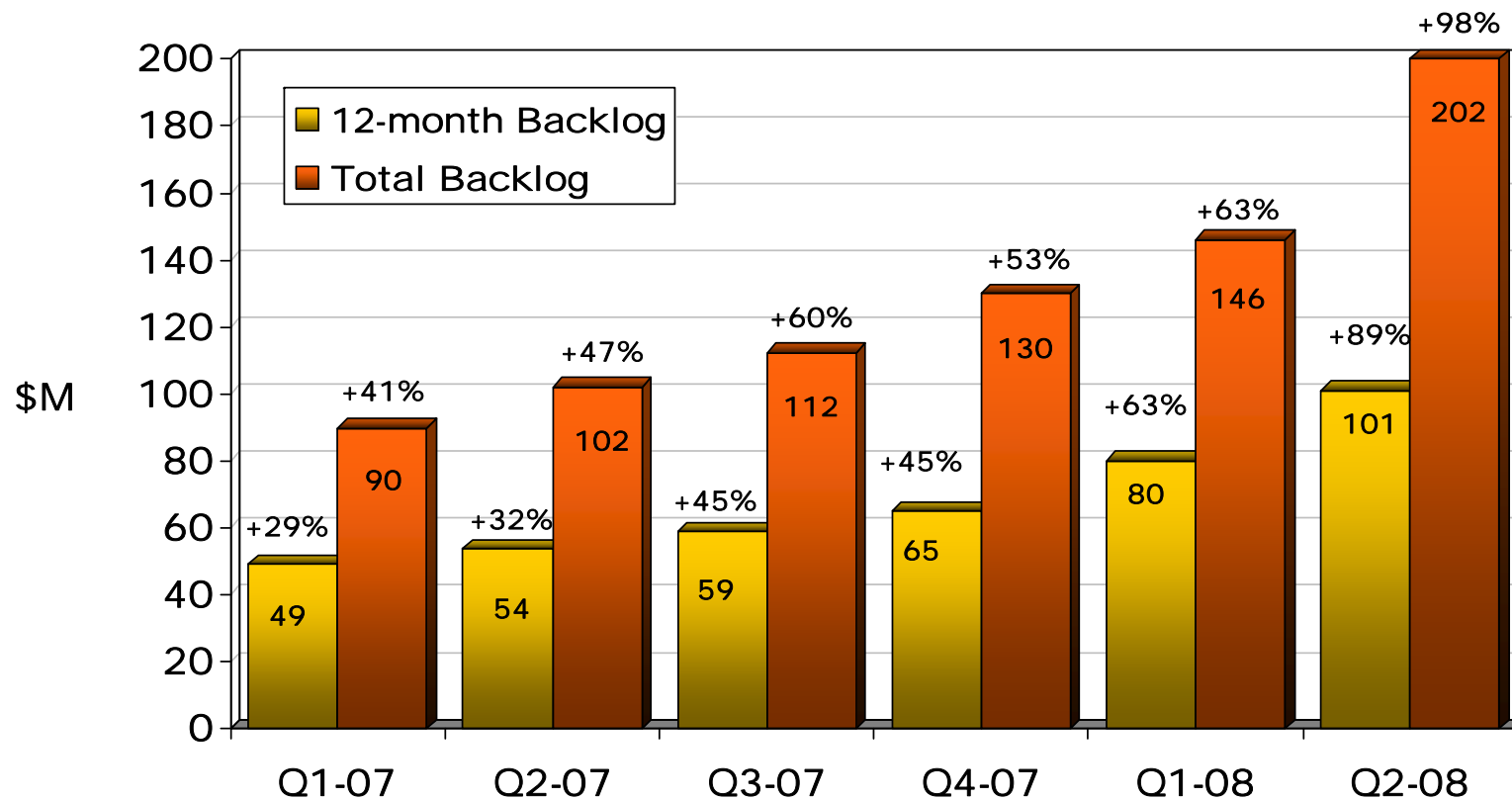
Ariba Safe Harbor Statement

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 release are based upon information available to Ariba as of the date of the release, 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: 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, including Procuri which Ariba acquired on December 17, 2007; 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-Q filed with the SEC on February 6, 2008.

During this presentation we may also make statements relating to the Company's real estate forecast, and estimated fiscal year 2008 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 related to deferred revenues and generally excludes costs and expenses for amortization of intangible assets related to acquisitions, stock-based compensation, (iii) restructuring and integration and (iv) litigation provision. Management reviews this non-GAAP financial information in evaluating Ariba's historical and projected financial 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.

Subscription Software Backlog Continues to Grow at Record Levels

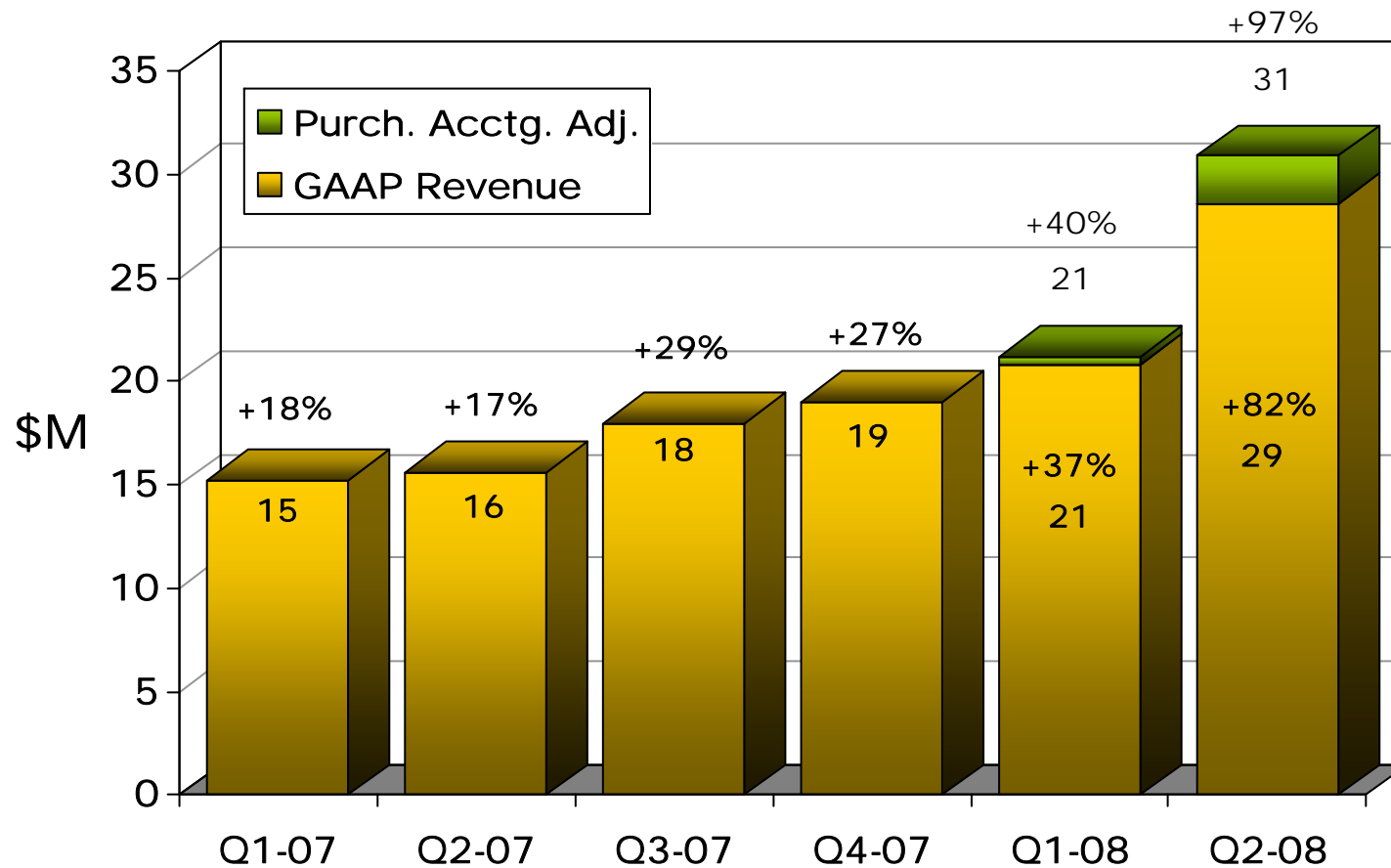


Notes: **Procuri contributed \$15M of 12 month backlog and \$34M of total backlog in Q2.**
Q2 organic growth rates without Procuri backlog were 61% for 12-month and 64% for total backlog.
 Percentages represent year-over-year growth rates.
 Please refer to safe harbor statement.

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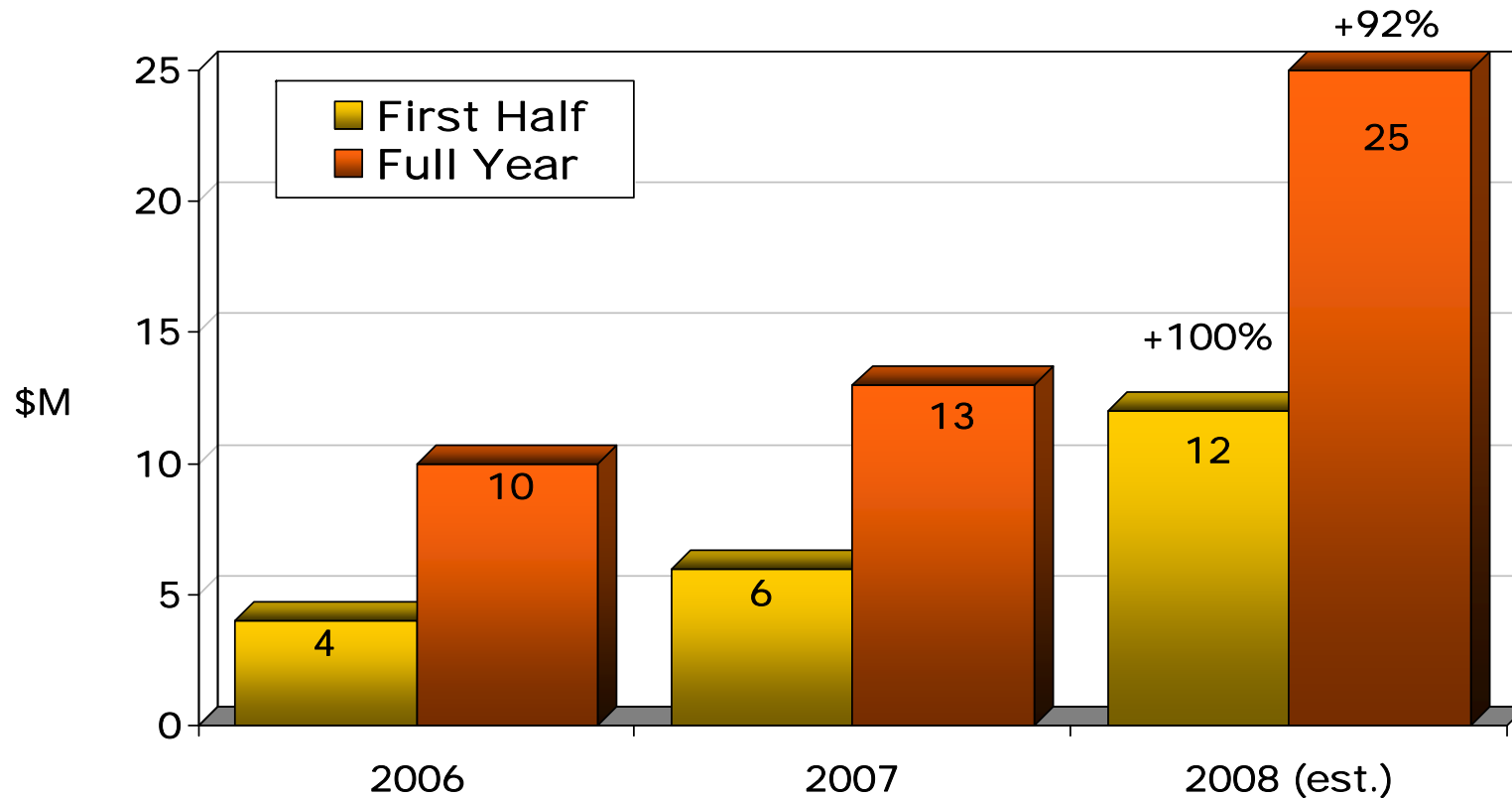


Subscription Software Revenue Has Accelerated



Notes: Percentages represent year-over-year growth rates. \$31M in Q2-08 represents Non-GAAP Revenue. Please refer to safe harbor statement.

Network Software Revenue on Track to almost Double in 2008



Notes: **Network Subscription Software Revenue is a component of total Subscription Software Revenue and represents network-related software fees paid by suppliers (SMP fees), buyers, and third parties like financial institutions.**

Percentages represent year-over-year growth rates.

Please refer to safe harbor statement.

Fiscal Year 2008 non-GAAP Outlook

(no change from January)

	<u>2007</u>	<u>2008</u> <u>Guidance</u>	<u>Delta</u>
Non-GAAP Subscription Software Revenue	68M	115 - 120M	+70%
Maintenance Revenues	75M	73 - 75M	-2%
Perpetual Licenses	17M	6 - 9M	-65%
Services	143M	130 - 137M	-7%
Total Non-GAAP Revenue	302M	330 - 335M	+10%
Non-GAAP EPS	37¢	45¢	+20%

Notes: Please refer to safe harbor statement.

The Leverage of the Subscription Model Extends to Cash Flow

	<u>2007 Actual</u>	<u>2008 Guidance</u>
Non-GAAP Net Income %	9%	11%
Non-GAAP Net Income	28M	37M
Working capital benefit of subscription model / other	15M	7 - 12M
Depreciation	7M	7M
Softbank Impact	-14M	-1M
Cash Flow from Operations before lease-losses, Sky and Procuri	36M	50 - 55M
Sky Settlement & Procuri Impact		-15M
Lease-loss payments	-19M	-20M
Cash Flow from Operations	17M	15 - 20M

Note: See Safe Harbor statement.

Ariba's Long-term Financial Model (Non-GAAP)

	<u>Target Range</u>
Gross Margin	60-65%
Operating Expenses	<u>45-50%</u>
Operating Margin	~15%
Interest Income/Taxes/Other	<u>0-1%</u>
Net Income	~15-16%
Working Capital benefit of Subscription Model and Depreciation	<u>~4-5%</u>
Cash Flow from Ops before Lease Loss Payments	~20%

Note: See Safe Harbor statement.

Supplemental Information: Cash & Auction Rate Securities

Cash, Marketable Securities & Investment Update

	<u>Geography</u>	<u>Annualized interest rate at 3/31/08</u>	<u>Balance at 3/31/2008</u>
Cash and cash equivalents (Bank Deposits & AAA Money Mkt Funds)	Current Asset	2.4%	\$73M
Restricted cash (Bank Money Deposits)	Mostly Non-Current Asset	2.4%	<u>30M</u>
Total Cash			\$103M
Long-term Investments (Auction Rate Securities)	Non-Current Asset	3.6%*	<u>22M</u>
Total Cash, Marketable Securities and Investments		2.6%*	\$125M (-\$3M vs. Dec.)

* 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 AAA 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, secondary markets may not form to trade these securities. While all of our auction rate securities are currently rated AAA, 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 an impairment charge 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)

	<u>Rate Formula</u>	<u>Balance at 3/31/2008</u>
Student-loan backed		\$21.6M
<ul style="list-style-type: none"> ▶ AAA ▶ 97% guaranteed by federal agencies 	<p>\$14.6M based on LIBOR + 1.50%</p> <p>\$7M subject to a “max rate” formula</p>	
Corporate-backed		4.9M
<ul style="list-style-type: none"> ▶ AAA ▶ Backed by either corporate notes/CDS or commercial paper 	<p>\$3.4M at LIBOR +0.50%</p> <p>\$1.5M at LIBOR +1.50%</p>	
Total Auction Rate Securities: Par Value		\$26.5M
<i>Unrealized Loss</i>		<i>(4.5M)</i>
Total Auction Rate Securities: Fair Value		\$22.0M

Valuation of Auction Rate Securities

- ▶ Management believes that we can and we will hold these securities for an extended period of time. At this time, our plan is to contribute the \$26M of auction rate securities as collateral for our \$29M of letters of credit which will be in place for almost 5 years.
- ▶ At this time, Management also believes that the losses are temporary and that we will be able to redeem these securities at par (at cost). We will closely monitor the market and the accounting guidance and will update this assumption as appropriate.
- ▶ Given these assumptions, the accounting treatment is to take the \$4.5M fair-value adjustment as a reduction to the investment asset and apply it directly as a reduction to other comprehensive income in equity (that is, do not run it through the P&L).

Valuation of Auction Rate Securities

- ▶ Valuation is difficult due to:
 - ▶ The unique nature of each security.
 - ▶ Lack of a efficient secondary market.
 - ▶ The need to make assumptions regarding discount rate and maturity, where it is difficult to get good data.

- ▶ Ariba's approach to valuation:
 - ▶ Use a discounted cash flow approach.
 - ▶ For student loans, use an effective maturity of 10 years vs. contractual maturity of 24 to 39 years. Based on historical patterns, student loan auction rate securities often have an effective average maturity far less than contractual maturities.
 - ▶ Use a discount rate of LIBOR + 3.50%. This rate represents an estimate of the fair value for similar investments and should incorporate a premium for the current lack of liquidity. At this time it is difficult to estimate this accurately, but we believe an appropriate discount rate could range from LIBOR + 2.00% to LIBOR + 3.50%. We have used LIBOR + 3.50% because it is on the more conservative end of the range.
 - ▶ Given these assumptions, Ariba will record an unrealized loss of \$4.5M on its auction rate securities. The discounted cash flow approach to valuation is very sensitive to changes in maturity and discount rate assumptions. For example:

	<u>Maturity</u>	<u>Discount Rate</u>	<u>Discount from Par</u>	<u>Unrealized Loss</u>
In 3/31 results	10 years	LIBOR + 3.50%	17%	\$4.5M
Sensitivity Case 1	10 years	LIBOR + 2.00%	6%	\$1.6M
Sensitivity Case 2	20 years	LIBOR + 3.50%	24%	\$6.4M

Supplemental Information: Real Estate

Real Estate Summary

- ▶ The Ariba Sunnyvale campus has 4 buildings and each building has 4 floors.
- ▶ In fiscal Q2-08, Ariba extended a sub-lease for 2 floors in its Sunnyvale campus with Motorola, an existing tenant through the end of the Ariba master lease. In addition, Ariba revised sub-lease commencement dates for other available space in its Sunnyvale campus. The combination of the sub-lease extension and the revised commence dates had a net effect of \$0.0M on the restructuring reserve.
- ▶ As of 3/31/08, \$67M is reserved on the balance sheet for lease loss.

Real Estate Summary

▶ Sunnyvale: (4 floors per building)



Juniper – 2 floors committed through 2013
Vacant – 2 floors



Ariba – 2 ¾ floors
Vacant – 1 ¼ floors



Juniper – 4 floors committed through 2013



Motorola – 2 floors committed through 2013
Vacant – 1 floor
Ariba – 1 floor (campus amenities)

- ▶ Within one year from the date of acquisition of Procuri, Ariba plans to implement an integration plan that will likely result in a partial year abandonment of facilities.

Quarterly Real Estate Lease Loss Impact

	Actual		Reserve Usage (estimated future burn-rate)							
\$M	2008 <u>Q1</u>	2008 <u>Q2</u>	2008 <u>Q3</u>	2008 <u>Q4</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>Total</u>
Per Period	4.4	4.5	6.1	4.4	18.3	11.6	11.4	11.1	4.0	66.9
Quarterly Average					5	3	3	3	4	3.5

- ▶ The burn rate in 3Q 2008 is higher than average due to the effects of turnover in the campus (real estate commissions, vacant space, etc.)
- ▶ These amounts represent the quarterly reduction (cash flow usage) associated with the \$67M real estate lease loss restructuring reserve.

Q2 Fiscal 2008 Supplemental Financial Information

Ariba, Inc. and Subsidiaries
Q2 Fiscal 2008 Supplemental Information
(in millions, except for percentages)

	FY 2007				FY 2008	
	2007-Q1	2007-Q2	2007-Q3	2007-Q4	2008-Q1	2008-Q2
REVENUE ANALYSIS						
Perpetual license revenue	\$ 4.6	4.3	2.7	5.0	2.4	1.4
Network Software Revenue	2.7	3.3	3.7	3.7	4.7	7.4
Subscription software revenue	\$ 15.2	15.7	18.0	18.8	20.8	28.6
Purchase accounting adjustment to acquired Procuri contracts					0.4	2.3
Non-GAAP subscription software revenue	\$ 15.2	15.7	18.0	18.8	21.2	30.8
Subscription software revenue growth rates (Yr/Yr)						
Subscription software revenue	18%	15%	29%	27%	37%	83%
Non-GAAP subscription software revenue	18%	15%	29%	27%	40%	97%
CASH FLOW METRICS						
Cash Flow from Operations	\$ 4.5	\$ 2.5	\$ 2.9	\$ 6.6	\$ 1.2	\$ 1.5
Cash used for lease loss (Restructuring Obligations)	3.5	7.8	2.3	5.4	4.4	4.5
Cash used for Procuri-related integration (Restructuring Obligations)	-	-	-	-	0.2	1.8
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
Cash Flow from Ops, after Procuri, Sky and Lease Losses	8.0	10.3	5.2	12.0	5.8	16.8
Capital Expenditures	1.2	1.8	2.2	2.3	0.9	1.8
Free Cash Flow	3.3	0.7	0.7	4.3	0.3	(0.3)
Free Cash Flow, after Procuri, Sky and Lease Losses	6.8	8.5	3.0	9.7	4.9	15.0

Non-GAAP Financial Measures

The accompanying press release dated April 24, 2008 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 (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 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
Condensed Consolidated Statements of Operations
(Unaudited; in thousands, except per share data)

	Three Months Ended March 31,			Three Months Ended March 31,		
	2008 Reported	Adj	2008 Non- GAAP	2007 Reported	Adj	2007 Non- GAAP
Revenues:						
Subscription and maintenance (1)	\$ 46,798	\$ 2,260	\$ 49,058	\$ 34,219	\$ -	\$ 34,219
Services and other	33,740	-	33,740	39,200	-	39,200
Total revenues	<u>80,538</u>	<u>2,260</u>	<u>82,798</u>	<u>73,419</u>	<u>-</u>	<u>73,419</u>
Cost of revenues:						
Subscription and maintenance (3)	10,454	(628)	9,826	8,195	(484)	7,711
Services and other (3)	24,029	(1,628)	22,401	29,196	(1,823)	27,373
Amortization of acquired technology and customer intangible assets (2)	4,685	(4,685)	-	3,734	(3,734)	-
Total cost of revenues	<u>39,168</u>	<u>(6,941)</u>	<u>32,227</u>	<u>41,125</u>	<u>(6,041)</u>	<u>35,084</u>
Gross profit	<u>41,370</u>	<u>9,201</u>	<u>50,571</u>	<u>32,294</u>	<u>6,041</u>	<u>38,335</u>
Operating expenses:						
Sales and marketing (3)	29,432	(4,455)	24,977	23,096	(2,747)	20,349
Research and development (3)	13,944	(1,832)	12,112	13,033	(1,289)	11,744
General and administrative (3)	11,806	(2,946)	8,860	8,714	(2,018)	6,696
Other income - Softbank	-	-	-	(3,389)	-	(3,389)
Amortization of other intangible assets (2)	210	(210)	-	124	(124)	-
Restructuring and integration (4)	690	(690)	-	-	-	-
Total operating expenses	<u>56,082</u>	<u>(10,133)</u>	<u>45,949</u>	<u>41,578</u>	<u>(6,178)</u>	<u>35,400</u>
(Loss) income from operations	(14,712)	19,334	4,622	(9,284)	12,219	2,935
Interest and other income, net	2,863	-	2,863	4,896	-	4,896
(Loss) income before income taxes	(11,849)	19,334	7,485	(4,388)	12,219	7,831
Provision for income taxes	549	-	549	684	-	684
Net (loss) income	<u>\$ (12,398)</u>	<u>\$ 19,334</u>	<u>\$ 6,936</u>	<u>\$ (5,072)</u>	<u>\$ 12,219</u>	<u>\$ 7,147</u>
Net (loss) income per share - basic and diluted						
Basic	\$ (0.16)		\$ 0.09	\$ (0.07)		\$ 0.10
Diluted	\$ (0.16)		\$ 0.09	\$ (0.07)		\$ 0.10
Weighted average shares						
Basic	77,648		77,648	69,704		69,704
Diluted	77,648		81,394	69,704		74,109

- (1) See item 1 on the "Discussion of Specific Items Excluded From Non-GAAP Financial Measures".
(2) See item 2 on the "Discussion of Specific Items Excluded From Non-GAAP Financial Measures".
(3) See item 3 on the "Discussion of Specific Items Excluded From Non-GAAP Financial Measures".
(4) See item 4 on the "Discussion of Specific Items Excluded From Non-GAAP Financial Measures".

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 and (iii) restructuring and integration. 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 March 31, 2008. 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.

Ariba, Inc. and Subsidiaries
Reconciliation of Outlook for the Quarter Ending June 30, 2008
(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 June 30, 2008	
	Low	High
<u>Projected revenue reconciliation:</u>		
GAAP revenue	\$ 81,000	\$ 84,000
Purchase accounting adjustment	2,000	2,000
Total non-GAAP projected revenues	<u>\$ 83,000</u>	<u>\$ 86,000</u>

	Range for the Three Months Ending June 30, 2008	
	Low	High
<u>Projected expense reconciliation:</u>		
GAAP projected total expenses	\$ 91,000	\$ 92,000
Amortization of intangible assets	(5,000)	(5,000)
Restructuring and integration	(1,000)	(1,000)
Stock-based compensation	(10,000)	(10,000)
Non-GAAP projected total expenses	<u>\$ 75,000</u>	<u>\$ 76,000</u>

	Range for the Three Months Ending June 30, 2008	
	Low	High
<u>Projected net income (loss) reconciliation:</u>		
GAAP projected net loss	\$ (10,000)	\$ (7,000)
Purchase accounting adjustment	2,000	2,000
Restructuring and integration	1,000	1,000
Amortization of intangible assets	5,000	5,000
Stock-based compensation	10,000	10,000
Non-GAAP projected net income	<u>\$ 8,000</u>	<u>\$ 11,000</u>

	Range for the Three Months Ending June 30, 2008	
	Low	High
<u>Projected net income (loss) per share reconciliation:</u>		
GAAP projected net loss per share - basic	\$ (0.13)	\$ (0.09)
Purchase accounting adjustment	0.03	0.03
Restructuring and integration	0.01	0.01
Amortization of intangible assets	0.06	0.06
Stock-based compensation	0.13	0.13
Non-GAAP projected net income per share - basic	<u>\$ 0.10</u>	<u>\$ 0.14</u>
Non-GAAP projected net income per share - diluted	\$ 0.10	\$ 0.13
Projected weighted average shares - basic	78,700	78,700
Projected weighted average shares - diluted	82,900	82,900