

ARIBA INC

FORM 10-Q (Quarterly Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ to _____

Commission File Number 000-26299

ARIBA, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0439730
(I.R.S. Employer
Identification Number)

807 11th Avenue
Sunnyvale, California 94089
(Address of principal executive offices)

(650) 390-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock as of June 30, 2010 was 90,400,000.

ARIBA, INC.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

ARIBA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>June 30,</u> <u>2010</u> <u>(unaudited)</u>	<u>September 30,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 167,728	\$ 130,881
Short-term investments	18,922	12,169
Restricted cash	104	—
Accounts receivable, less allowances of \$2,531 and \$2,691, respectively	19,899	19,660
Prepaid expenses and other current assets	<u>8,651</u>	<u>11,235</u>
Total current assets	215,304	173,945
Property and equipment, net	16,425	14,418
Long-term investments	23,353	23,155
Restricted cash, less current portion	29,137	29,241
Goodwill	406,507	406,507
Other intangible assets, net	14,179	17,660
Other assets	<u>3,582</u>	<u>3,245</u>
Total assets	<u>\$ 708,487</u>	<u>\$ 668,171</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,474	\$ 7,758
Accrued compensation and related liabilities	26,333	29,010
Accrued liabilities	15,590	17,010
Restructuring obligations	17,148	17,964
Deferred revenue	<u>107,504</u>	<u>101,172</u>
Total current liabilities	177,049	172,914
Deferred rent obligations	10,463	14,539
Restructuring obligations, less current portion	27,664	31,098
Deferred revenue, less current portion	7,076	9,288
Other long-term liabilities	<u>6,704</u>	<u>6,281</u>
Total liabilities	228,956	234,120
Stockholders' equity:		
Common stock	181	179
Additional paid-in capital	5,222,220	5,189,566
Accumulated other comprehensive loss	(3,114)	(3,688)
Accumulated deficit	<u>(4,739,756)</u>	<u>(4,752,006)</u>
Total stockholders' equity	479,531	434,051
Total liabilities and stockholders' equity	<u>\$ 708,487</u>	<u>\$ 668,171</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

ARIBA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited; in thousands, except per share data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Subscription and maintenance	\$60,768	\$55,411	\$177,897	\$164,348
Services and other	<u>32,481</u>	<u>28,463</u>	<u>88,153</u>	<u>90,306</u>
Total revenues	<u>93,249</u>	<u>83,874</u>	<u>266,050</u>	<u>254,654</u>
Cost of revenues:				
Subscription and maintenance	13,045	12,158	38,358	35,638
Services and other	21,700	18,551	61,116	56,873
Amortization of acquired technology and customer intangible assets	<u>1,025</u>	<u>1,388</u>	<u>3,377</u>	<u>4,163</u>
Total cost of revenues	<u>35,770</u>	<u>32,097</u>	<u>102,851</u>	<u>96,674</u>
Gross profit	<u>57,479</u>	<u>51,777</u>	<u>163,199</u>	<u>157,980</u>
Operating expenses:				
Sales and marketing	31,337	25,515	88,280	79,019
Research and development	11,622	10,787	34,112	32,142
General and administrative	9,369	9,301	25,822	33,116
Litigation benefit	—	—	(7,000)	—
Insurance reimbursement	—	—	—	(7,527)
Amortization of other intangible assets	—	210	104	630
Restructuring costs	—	1,438	8,579	10,837
Total operating expenses	<u>52,328</u>	<u>47,251</u>	<u>149,897</u>	<u>148,217</u>
Income from operations	5,151	4,526	13,302	9,763
Interest and other (expense) income, net	(454)	(265)	(59)	(6,020)
Net income before income taxes	4,697	4,261	13,243	3,743
Provision for income taxes	423	367	993	1,158
Net income	<u>\$ 4,274</u>	<u>\$ 3,894</u>	<u>\$ 12,250</u>	<u>\$ 2,585</u>
Net income per share—basic and diluted	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.14</u>	<u>\$ 0.03</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

ARIBA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited; in thousands)

	Nine Months Ended June 30,	
	2010	2009
Operating activities:		
Net income	\$ 12,250	\$ 2,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	576	1,383
Depreciation	5,857	5,777
Amortization of intangible assets	3,481	4,793
Stock-based compensation	36,272	25,262
Restructuring costs	8,579	10,837
Other-than-temporary impairment of long-term investments	499	1,414
Impairment of property and equipment	—	4,277
Changes in operating assets and liabilities:		
Accounts receivable	(815)	4,989
Prepaid expenses and other assets	2,114	(3,725)
Accounts payable	2,800	(4,684)
Accrued compensation and related liabilities	(3,408)	(873)
Accrued liabilities	(5,242)	(1,653)
Deferred revenue	4,052	14,569
Restructuring obligations	(12,829)	(17,791)
Net cash provided by operating activities	54,186	47,160
Investing activities:		
Purchases of property and equipment	(7,864)	(4,755)
Purchases of long-term investments, net	(5,948)	(17,280)
Allocation from restricted cash, net	—	400
Net cash used in investing activities	(13,812)	(21,635)
Financing activities:		
Proceeds from issuance of common stock	2,248	2,354
Repurchase of common stock	(5,864)	(2,389)
Net cash used in financing activities	(3,616)	(35)
Effect of foreign exchange rate changes on cash and cash equivalents	89	(108)
Net change in cash and cash equivalents	36,847	25,382
Cash and cash equivalents at beginning of period	130,881	86,804
Cash and cash equivalents at end of period	\$167,728	\$112,186

See accompanying Notes to Condensed Consolidated Financial Statements.

ARIBA, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1—Description of Business and Summary of Significant Accounting Policies

Description of Business

Ariba, Inc., along with its subsidiaries (collectively referred to herein as the “Company”), is the leading provider of collaborative business commerce solutions. Ariba combines industry-leading software as a service (“SaaS”) technology to optimize the complete commerce lifecycle with the world’s largest web-based community to discover, connect and collaborate with a global network of trading partners and expert capabilities to augment internal resources and skills, delivering everything needed to control costs, minimize risk, improve profits and enhance cash flow and operations, all in the Ariba® Commerce Cloud. Over 300,000 companies, including more than 80 percent of the Fortune 500, use Ariba’s solutions to drive more efficient inter-enterprise commerce. The Company was incorporated in Delaware in September 1996.

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company reflect all adjustments (all of which are normal and recurring in nature) that, in the opinion of management, are necessary for a fair presentation of the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending September 30, 2010. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission (“SEC”). These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto, together with management’s discussion and analysis of financial condition and results of operations, presented in the Company’s Annual Report on Form 10-K for the year ended September 30, 2009 (“Form 10-K”) filed on November 25, 2009 with the SEC. There have been no significant changes in new accounting pronouncements or in the Company’s critical accounting policies that were disclosed in the Form 10-K, other than the adoption of changes to accounting for multiple-deliverable revenue arrangements and arrangements that include software elements on October 1, 2009, as described in “Recently Adopted Accounting Pronouncements” below.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported results of operations during the reporting period. Actual results could differ from those estimates. The items that are significantly impacted by estimates include revenue recognition, the assessment of recoverability of goodwill and other intangible assets, restructuring obligations related to abandoned operating leases, the fair value of investments and collectability of accounts receivable.

Fair Value

Effective October 1, 2008, the Company adopted changes issued by the Financial Accounting Standards Board (“FASB”) to fair value accounting. This guidance defines fair value as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the

measurement date and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. Examples of the assets carried at Level 1 fair value generally are equities listed in active markets and investments in publicly traded mutual funds with quoted market prices.

Level 2 — Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset/liability's anticipated life.

Level 3 — Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of a security, whether the security is new and not yet established in the marketplace, and other characteristics particular to a transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. When observable prices are not available, the Company either uses implied pricing from similar instruments or valuation models based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those it believes market participants would use in pricing the asset or liability at the measurement date. See Note 8 for fair value related to the Company's cash equivalents, short-term investments, long-term investments and restricted cash.

Concentration of credit risk

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, long-term investments and trade accounts receivable. The Company maintains its cash, cash equivalents, short-term investments and long-term investments with high quality financial institutions and limits its investment in individual securities based on the type and credit quality of each such security. The Company's customer base consists of both domestic and international businesses, and the Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains allowances for potential credit losses.

No customer accounted for more than 10% of total revenues for the three and nine months ended June 30, 2010 and 2009. No customer accounted for more than 10% of net accounts receivable as of June 30, 2010 and September 30, 2009.

Recently Adopted Accounting Pronouncements

In December 2007, the FASB issued changes to accounting for business combinations. The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development,

the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition-related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance. These changes were effective for the Company on October 1, 2009. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

In December 2007, the FASB issued changes to accounting for noncontrolling interests in consolidated financial statements. The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements, including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity and the elimination of "minority interest" accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, these changes revise the accounting for both increases and decreases in a parent's controlling ownership interest and are effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. These changes were effective for the Company on October 1, 2009. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

In April 2008, the FASB issued changes in determining the useful life of intangible assets. The standard changes amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. These changes are effective for fiscal years beginning after December 15, 2008 and early adoption was prohibited. These changes were effective for the Company on October 1, 2009. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

In August 2009, the FASB issued changes to measuring liabilities at fair value. The standard changes provide clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the techniques prescribed by the update. These changes were effective for the Company on October 1, 2009. The adoption of this standard did not have an impact on the Company's condensed consolidated financial statements.

In September 2009, the FASB issued changes to accounting for multiple-deliverable revenue arrangements, and arrangements that include software elements. These changes require entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated among the various deliverables in a multi-element transaction using the relative selling price method. These changes remove tangible products from the scope of software revenue guidance and provide guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. These changes should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company early adopted this standard at the beginning of its first quarter for fiscal year 2010 on a prospective basis for applicable transactions originating or materially modified after September 30, 2009. There were no material impacts during the quarter nor does the Company currently expect a material impact in the year ended September 30, 2010. See "Revenue Recognition" below.

Recent Accounting Pronouncements Not Yet Adopted

In June 2009, the FASB issued authoritative guidance on the consolidation of variable interest entities. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. The Company will adopt this standard on October 1, 2010. The adoption is not expected to have an impact on the Company's consolidated financial statements.

Revenue Recognition

Substantially all of the Company's revenues are derived from the following sources: (i) subscription software solutions on a multi-tenant basis and single-tenant basis either hosted or behind the firewall; (ii) maintenance and support related to existing single-tenant perpetual licenses; and (iii) services, including implementation services, strategic consulting services, sourcing services, managed services, training, education, premium support and other miscellaneous services. The subscription software solutions include technical support and product updates. The significant majority of the Company's subscription software solutions are time-based license and are based on the number of users or other usage criteria. The Company's multiple element arrangements typically include a combination of: (i) subscription software solutions; and (ii) a services arrangement, on either a fixed fee for access to specific services over time or a time and materials basis.

The Company licenses its subscription software through its direct sales force and indirectly through resellers. Sales made through resellers are recognized at the time that the Company has received persuasive evidence of an end user customer and all other criteria are met as defined below. The license agreements for the Company's subscription software generally do not provide for a right of return, and historically product returns have not been significant. The Company does not recognize revenue on agreements subject to refund or cancellation rights until such rights to refund or cancel have expired. Direct sales force commissions are accounted for as sales and marketing expense at the time of sale, when the liability is incurred and is reasonably estimable.

The Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery of the product or service has occurred; the fee is fixed or determinable; and collectibility is probable.

Certain of the Company's contracts include performance incentive payments based on market volume and/or savings generated, as defined in the respective contracts. Revenue from such arrangements is recognized when those thresholds are achieved.

In September 2009, the FASB issued new guidance on accounting for multiple deliverable revenue arrangements. The new guidance:

- (i) provides updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- (ii) requires an entity to establish an estimated selling prices ("ESP") for all deliverables when vendor-specific objective evidence ("VSOE") of selling price or third-party evidence ("TPE") of selling price does not exist; and,
- (iii) eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method.

The Company elected to early adopt this accounting guidance at the beginning of its first quarter of fiscal year 2010 on a prospective basis for applicable transactions originating or materially modified after September 30, 2009. The new guidance allows for deliverables with stand alone value in a multi-element arrangement for which revenue was previously deferred due to undelivered elements not having VSOE of selling price to be separated and recognized as delivered, rather than over the longest service delivery period as a single unit with other elements in the arrangement.

For transactions entered into prior to the first quarter of fiscal year 2010, the Company allocated revenue to each element in a multiple element arrangement based on its respective fair value. The Company's determination of the fair value of each element in a multiple element arrangement was based on VSOE of selling price, which is limited to the price when sold separately. Revenue from subscription software, hosting and sourcing solutions services was primarily recognized ratably over the term of the arrangement, commencing with the initial customer access date. Revenue allocated to maintenance and support was recognized ratably over the maintenance term (typically one year). Revenue allocated to software implementation, process improvement,

training and other services was recognized as the services are performed or as milestones are achieved or if bundled with a subscription or time-based arrangement or in circumstances where VSOE of selling price could not be established for undelivered service elements, was recognized ratably over the term of the access agreement. In circumstances where the Company provided services as part of a multi-element arrangement with subscription software, both the subscription software revenue and service revenue were recognized under the lesser of proportional performance method based on hours or ratably over the subscription term. When revenue associated with multiple element arrangements was recognized and more than one element in that arrangement did not have VSOE of selling price, the Company first allocated revenue on the statement of operations to those elements for which VSOE of selling price was available and the residual was allocated to those elements that did not have VSOE of selling price.

The Company does sell implementation services, strategic consulting, training and other services in stand-alone engagements. Maintenance and support are sold separately through renewals of annual contracts. As a result, the Company has used and intends to continue using VSOE of selling price to allocate the arrangement consideration to each of these deliverables. Consistent with its methodology under previous accounting guidance, the Company determines VSOE of selling price based on its normal pricing and discounting practices for the specific service when sold separately. In determining VSOE of selling price, the Company requires that a substantial majority of the selling prices for a service fall within a reasonably narrow pricing range, generally evidenced by approximately 80% of such historical stand-alone transactions falling within plus or minus 15% of the median rates. In addition, the Company considers the geographies in which the services are sold and major service groups in determining VSOE of selling price.

However, the Company is not always able to establish VSOE of selling price for all deliverables in an arrangement with multiple elements. This may be due to the Company infrequently selling each element separately, not pricing products within a narrow range, or only having a limited sales history. When VSOE of selling price cannot be established, as in the case for all subscription software solutions along with certain services, the Company attempts to establish selling price of each element based on TPE of selling price. TPE of selling price is determined based on competitor prices for similar deliverables when sold separately. Generally, the Company's go-to-market strategy differs from that of its peers and its offerings contain a level of differentiation such that the comparable pricing of software solutions and services with similar functionality and delivery cannot be obtained. Furthermore, the Company is rarely able to reliably determine what similar competitors' selling prices are on a stand-alone basis. Therefore, the Company is typically not able to determine TPE of selling price.

For contracts signed or substantially modified after October 1, 2009, and within the scope of the new guidance, the Company uses ESP in its allocation of arrangement consideration when the Company is unable to establish selling price using VSOE or TPE. The objective of ESP is to determine the price at which the Company would transact a sale if the subscription software or other services were sold on a stand-alone basis. ESP is generally used for offerings not priced within a narrow range, and it applies to a majority of the Company's arrangements with multiple deliverables.

The Company determines ESP for all deliverables that do not have VSOE of selling price by considering multiple factors which include, but are not limited to the following: (i) substantive renewal rates contained within an arrangement for subscription software solutions; (ii) gross margin objectives and internal costs for services; and (iii) pricing practices, market conditions and competitive landscape. The determination of ESP is made through consultation with and approval by the Company's management, taking into consideration the go-to-market strategy.

The Company regularly reviews VSOE, TPE, and ESP and maintains internal controls over the establishment and updates of these estimates. There were no material impacts during the quarter nor does the Company currently expect a material impact in the year ended September 30, 2010 from changes in VSOE, TPE, or ESP.

The impact during the three and nine months ended June 30, 2010 of the new guidance was not material to the Company's reported revenues or results of operations. In terms of the timing and pattern of revenue recognition, the new guidance is not expected to have a significant effect on revenues in periods after the initial adoption when applied to multiple element arrangements. The impact on future periods will vary based on the nature and volume of new deals in any given period.

Deferred revenue includes amounts received from customers for which revenue has not been recognized, and generally results from deferred subscription, maintenance and support, hosting, consulting or training services not yet rendered and recognizable and license revenue deferred until all requirements are met. Deferred revenue is recognized as revenue upon delivery of the Company's product, as services are rendered, or as other requirements are satisfied. Deferred revenue excludes contract amounts for which payment has yet to be collected. Likewise, accounts receivable excludes amounts due from customers for which revenue has been deferred.

Software development costs

Software development costs are expensed as incurred until technological feasibility, defined as a working prototype, has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the Company's software has been available for general release shortly after the establishment of technological feasibility and, accordingly, capitalized development costs have not been material.

The Company follows the guidance set forth by the FASB in accounting for the development of its on-demand application service. This guidance requires companies to capitalize qualifying computer software costs which are incurred during the application development stage and to amortize such costs over the software's estimated useful life.

Income taxes

Income taxes are computed using an asset and liability approach, which requires the recognition of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. The Company has recorded a valuation allowance to reduce its deferred tax assets to the amount of future tax benefit that is more likely than not to be realized.

The Company follows the guidance set forth by the FASB to accounting for uncertainty in income taxes. The guidance contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon effective settlement.

Stock-Based Compensation

The Company maintains stock-based compensation plans which allow for the issuance of stock options and restricted common stock to executives and certain employees. The Company also maintains an employee stock purchase plan ("ESPP") that provides for the issuance of shares to all eligible employees of the Company at a discounted price.

The Company amortizes the fair value of awards on an accelerated basis. The guidance requires that forfeitures be estimated over the vesting period of an award, rather than being recognized as a reduction of compensation expense when the forfeiture actually occurs.

During the three and nine months ended June 30, 2010, the Company recorded \$156,000 and \$520,000, respectively, of stock-based compensation expense associated with employee stock purchase plan programs. During the three and nine months ended June 30, 2009, the Company recorded \$147,000 and \$393,000, respectively, of stock-based compensation expense associated with employee stock purchase plan programs.

During the three and nine months ended June 30, 2010, the Company granted 516,000 shares and 1.0 million shares, respectively, of restricted common stock to directors and certain employees, subject to a time-based service requirement, with a fair value of \$7.8 million and \$13.9 million, respectively. During the three and nine months ended June 30, 2009, the Company granted 1.0 million and 1.3 million shares, respectively, of restricted common stock to directors and certain employees, subject to a time-based service requirement, with a fair value of \$9.8 million and \$12.4 million, respectively. These amounts are being amortized over the vesting period of the individual restricted common stock grants, which is one to three years.

In October 2008, the Company granted restricted stock units to executive officers and certain key employees. The number of units that could vest under this grant is contingent upon meeting three criteria: (1) a 2009 performance milestone related to subscription software revenues for the year ended September 30, 2009, (2) a 2010 performance milestone, established in October 2009, based upon sustained performance related to subscription software revenues for the year ended September 30, 2010, and (3) a time-based service requirement. The number of units that vested upon meeting the performance milestone for the year ended September 30, 2009 was 848,250 units with a fair value of \$7.3 million, based on the then current fair value of the Company's shares at the grant date. The number of units that could vest upon meeting the performance milestone for the year ended September 30, 2010 is up to 1.6 million units with a fair value of \$18.0 million, based on the then current fair value of the Company's shares at the grant date. The restricted stock units will not vest if the fiscal year 2010 performance milestone is not achieved.

In November 2009, the Company granted 1.3 million restricted stock units to executive officers and certain key employees with a fair value of \$14.3 million, based on the then current fair value of the Company's shares at the grant date. The number of units that could vest under this grant is contingent upon meeting three criteria: (1) a 2010 performance milestone related to subscription software revenues for the year ended September 30, 2010, (2) a 2011 performance milestone based upon sustained performance related to subscription software revenue for the year ended September 30, 2011; and (3) a time-based service requirement. If subscription software revenues exceed the fiscal year 2010 target, the granted restricted stock units can vest up to 200% of the target number of restricted shares. The restricted stock units will not vest if the fiscal year 2010 performance milestone is not achieved.

During the three months ended June 30, 2010 and 2009, the Company recorded \$10.5 million and \$6.5 million, respectively, of stock-based compensation expense associated with both time-based restricted stock and performance-based restricted stock units. During the nine months ended June 30, 2010 and 2009, the Company recorded \$32.6 million and \$22.2 million, respectively, of stock-based compensation expense associated with both time-based restricted stock and performance-based restricted stock units. As of June 30, 2010, there was \$36.6 million of unrecognized compensation cost related to non-vested restricted share-based compensation arrangements which is expected to be recognized over a weighted-average period of 0.8 years. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

The Company also made a contribution to the Ariba, Inc. Employees 401(k) Savings Plan in the form of common stock with a value of \$895,000 and \$952,000 in the three months ended June 30, 2010 and 2009, respectively, and of \$3.1 million and \$2.6 million in the nine months ended June 30, 2010 and 2009, respectively.

Total stock-based compensation resulting from the ESPP, time-based service awards, performance-based awards and the 401(k) savings plan was \$11.5 million and \$7.6 million in the three months ended June 30, 2010 and 2009, respectively, and \$36.3 million and \$25.3 million in the nine months ended June 30, 2010 and 2009, respectively, to various operating expense categories as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Cost of revenues—subscription and maintenance	\$ 775	\$ 567	\$ 2,545	\$ 1,733
Cost of revenues—services and other	1,279	840	4,041	2,718
Sales and marketing	5,678	3,003	16,822	10,289
Research and development	1,396	1,150	3,984	3,645
General and administrative	2,392	2,080	8,880	6,877
Total	<u>\$ 11,520</u>	<u>\$ 7,640</u>	<u>\$36,272</u>	<u>\$25,262</u>

Derivative Financial Instruments

The Company transacts business in various foreign currencies and has established a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effects of certain foreign currency exposures. Under this program, the Company's strategy is to have increases or decreases in foreign currency exposures offset by gains or losses on the foreign currency forward contracts to mitigate the risks and volatility associated with foreign currency transaction gains or losses. The Company's foreign currency forward contracts generally settle within 90 days. The Company does not use these forward contracts for trading purposes. The Company does not designate these forward contracts as hedging instruments. Accordingly, the Company records the fair value of these contracts as of the end of the reporting period to the consolidated balance sheet with changes in fair value recorded in the consolidated statement of operations. The balance sheet classification for the fair values of these forward contracts is to prepaid expenses and other current assets for unrealized gains and to other current liabilities for unrealized losses. The statement of operations classification for the fair values of these forward contracts is to non-operating income, net, for both realized and unrealized gains and losses.

As of June 30, 2010, the notional amounts of the forward contracts held to sell and purchase U.S. dollars in exchange for other major international currencies were \$6.6 million and \$19.4 million, respectively, and the unrealized gain on these contracts was \$537,000. The notional principal amounts for derivative instruments provided one measure of the transaction volume outstanding as of June 30, 2010, and do not represent the amount of the Company's exposure to credit or market loss. The Company has determined that the gross exposure for both market and credit risk are deemed immaterial.

The fair value of the foreign currency forward contracts not designated as hedges in the condensed consolidated balance sheet were \$615,000 included in prepaid expense and other current assets and \$78,000 included in other current liabilities as of June 30, 2010. The effects of the foreign currency forward contracts not designated as hedges on net income was a gain of \$297,000 and \$434,000 for the three and nine months ended June 30, 2010, respectively, included in interest and other (expense) income, net on the condensed consolidated statement of operations.

Note 2—Other Intangible Assets

The table below reflects changes or activity in the balances related to other intangible assets for the nine months ended June 30, 2010 (in thousands):

	Useful Life	June 30, 2010			September 30, 2009		
		Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Other Intangible Assets							
Existing software technology	24 months	\$13,300	\$ (13,300)	\$ —	\$13,300	\$ (12,998)	\$ 302
Contracts and related customer relationships	72 months	80,881	(66,702)	14,179	80,881	(63,627)	17,254
Trade names/ trademarks	24 months	2,200	(2,200)	—	2,200	(2,158)	42
Non-competition agreements	24 months	600	(600)	—	600	(538)	62
Total		<u>\$96,981</u>	<u>\$ (82,802)</u>	<u>\$14,179</u>	<u>\$96,981</u>	<u>\$ (79,321)</u>	<u>\$17,660</u>

Amortization of other intangible assets for the three and nine months ended June 30, 2010 totaled \$1.0 million and \$3.5 million, respectively. Of the total, amortization of \$1.0 million and \$3.4 million related to contracts and related customer relationships and existing software technology was recorded as cost of revenues in the three and nine months ended June 30, 2010, respectively. Amortization of \$104,000 primarily related to trade names/trademarks and non-competition agreements were recorded as operating expense in the nine months ended June 30, 2010.

Amortization of other intangible assets for the three and nine months ended June 30, 2009 totaled \$1.6 million and \$4.8 million, respectively. Of the total, amortization of \$1.4 million and \$4.2 million related to contracts and related customer relationships and existing software technology was recorded as cost of revenues in the three and nine months ended June 30, 2009, respectively. Amortization of \$210,000 and \$630,000 primarily related to trade names/trademarks and non-competition agreements were recorded as operating expense in the three and nine months ended June 30, 2009, respectively.

As of June 30, 2010, estimated future amortization expense related to intangible assets is \$1.0 million for the remainder of fiscal year 2010, \$4.1 million in fiscal year 2011, \$4.1 million in fiscal year 2012, \$4.1 million in fiscal year 2013 and \$854,000 in fiscal year 2014.

Note 3—Commitments and Contingencies

Leases

In March 2000, the Company entered into a facility lease agreement for approximately 716,000 square feet in four office buildings and an amenities building in Sunnyvale, California for its headquarters. The operating lease term commenced in January 2001 through April 2001 and ends in January 2013. The Company occupies approximately 150,000 square feet in this facility. The Company currently subleases two buildings, totaling 396,000 square feet, to third parties. These subleases expire in January 2013. The remaining 170,000 square feet is available for sublease. Minimum monthly lease payments are approximately \$3.5 million and escalate annually, with the total future minimum lease payments amounting to \$114.6 million over the remaining lease term. As part of this lease agreement, the Company is required to issue standby letters of credit backed by cash equivalents, totaling \$28.8 million as of June 30, 2010, as a form of security through January 2013. Also, the Company is required by other lease agreements to hold an additional \$401,000 of standby letters of credit, which are cash collateralized. These instruments are issued by its banks in lieu of a cash security deposit required by landlords for domestic and international real estate leases. The total cash collateral of \$29.2 million is classified as restricted cash on the Company's consolidated balance sheet as of June 30, 2010.

The Company occupies 91,000 square feet of office space in Pittsburgh, Pennsylvania under a lease that expires in December 2017. This location consists principally of the Company's services organization and administrative activities.

The Company occupies approximately 27,000 square feet of office space in Atlanta, Georgia under a lease that expires in June, 2013. Operations at this location consist principally of our sales, sales support and administrative activities.

The Company leases certain equipment, software and its facilities under various noncancelable operating leases with various expiration dates through 2017. Rental expense was \$6.1 million in each of the three months ended June 30, 2010 and 2009 and \$18.4 million and \$17.9 million for the nine months ended June 30, 2010 and 2009, respectively. This expense was reduced by sublease income of \$2.8 million and \$2.7 million for the three months ended June 30, 2010 and 2009, respectively, and \$8.5 million and \$7.7 million for the nine months ended June 30, 2010 and 2009, respectively.

The following table summarizes future minimum lease payments and sublease income under noncancelable operating leases as of June 30, 2010 (in thousands):

Period Ending September 30,	Contractual	
	Lease Payments	Sublease Income
2010	\$ 12,067	\$ 3,097
2011	49,000	12,970
2012	50,864	13,656
2013	20,062	4,450
2014	3,544	—
Thereafter	7,920	—
Total	\$143,457	\$ 34,173

Of the total operating lease commitments noted above, \$50.8 million is for occupied properties and \$92.6 million is for abandoned properties, which are a component of the restructuring obligation.

Restructuring costs

The following table details accrued restructuring obligations and related activity through June 30, 2010 (in thousands):

	Severance and benefits	Lease abandonment costs	Asset impairment	Total restructuring costs
Accrued restructuring obligations as of October 1, 2008	\$ 660	\$ 60,386	\$ —	\$ 61,046
Cash paid	(4,554)	(18,179)	—	(22,733)
Total charge to operating expense	3,936	6,813	88	10,837
Asset impairment applied to asset balances	—	—	(88)	(88)
Accrued restructuring obligations as of September 30, 2009	\$ 42	\$ 49,020	\$ —	49,062
Cash paid	(42)	(12,787)	—	(12,829)
Total charge to operating expense	—	8,579	—	8,579
Accrued restructuring obligations as of June 30, 2010	\$ —	\$ 44,812	\$ —	44,812
Less: current portion				17,148
Accrued restructuring obligations, less current portion				\$ 27,664

Severance and benefits costs

Severance and benefits costs primarily include involuntary termination and health benefits, outplacement costs and payroll taxes for terminated personnel. The Company recorded a charge of \$1.4 million and \$3.9 million for the three and nine months ended June 30, 2009, respectively, related to severance benefit costs based on the then current economic environment to better align its expenses with its revenues.

Lease abandonment and leasehold impairment costs

Lease abandonment costs incurred to date relate primarily to the abandonment of leased facilities in Sunnyvale, California. Total lease abandonment costs include lease liabilities offset by sublease income, and were based on market trend information analyses. As of June 30, 2010, \$44.8 million of lease abandonment costs remain accrued and are expected to be paid by fiscal year 2013. In the nine months ended June 30, 2010, the Company revised its estimates for sublease commencement dates based on the remaining terms of the lease in Sunnyvale, California and continued soft market conditions in the Northern California real estate market, resulting in a charge of \$8.6 million. In the nine months ended June 30, 2009, the Company revised its estimates for sublease commencement dates and sublease rental rate projections to reflect continued soft market conditions in the Northern California real estate market, resulting in a charge of \$6.8 million. The Company's lease abandonment accrual is net of \$34.2 million of sublease income as of June 30, 2010.

Other arrangements

Other than the obligations identified above, the Company does not have commercial commitments under lines of credit, standby repurchase obligations or other such debt arrangements. The Company has no other off-balance sheet arrangements or transactions with unconsolidated limited purpose entities, nor does it have any undisclosed material transactions or commitments involving related persons or entities. The Company does not have any material noncancelable purchase commitments as of June 30, 2010.

Other accruals

In the nine months ended June 30, 2010, the Company released a \$3.1 million accrual based upon the assessment that the previously accrued contingency now has less than a remote probability of potential loss.

Litigation and other proceedings

Patent Litigation with Emptoris, Inc.

On April 19, 2007, the Company sued Emptoris, Inc. ("Emptoris") in the United States District Court for the Eastern District of Texas for patent infringement. On October 29, 2008, after a seven day jury trial, the Company received a verdict that Emptoris willfully infringed one Company patent and also infringed a second Company patent. The jury awarded the Company approximately \$4.9 million in damages. On January 7, 2009, the Court issued its judgment which affirmed the jury's damage award of \$4.9 million and further ordered Emptoris to pay the Company \$207,000 for pre-judgment interest, \$1.4 million in enhanced damages due to the willfulness finding, and the Company's costs of Court which have been calculated to be \$164,000. In its judgment, the Court also issued an injunction against Emptoris. On January 22, 2009, the Court entered an amended judgment which assessed additional damages of \$168,000 against Emptoris based on its infringing conduct during the period after trial through December 4, 2008. Emptoris filed an appeal of the trial Court's judgment. On January 8, 2010, the United States Court of Appeals for the Federal Circuit affirmed the judgment. During the nine months ended June 30, 2010, the Company received \$7.0 million in satisfaction of the monetary portion of the judgment, and the Company recorded \$7.0 million of income related to this matter.

General

From time to time, the Company is involved in a variety of claims, suits, investigations, and proceedings arising from the ordinary course of its business, including actions with respect to intellectual property claims, government investigations, labor and employment claims, breach of contract claims, tax, and other matters.

Regardless of the outcome, these proceedings can have an adverse impact on the Company because of defense costs, diversion of management resources, and other factors. In addition, it is possible that an unfavorable resolution of one or more such proceedings could in the future materially and adversely affect our financial position, results of operations, cash flows in a particular period or subject the Company to an injunction that could seriously harm its business. See the risk factors “*If the Protection of Our Intellectual Property Is Inadequate, Our Competitors May Gain Access to Our Technology, and We May Lose Customers*” and “*We Could Be Subject to Potential Claims Related to Our On-Demand Solutions, As Well As the Ariba Supplier Network,*” in the Risk Factors section of Part II, Item 1A of this Quarterly Report on Form 10-Q.

During the nine months ended June 30, 2009, the Company recorded \$7.5 million of income related to an insurance reimbursement for previously unreimbursed litigation costs.

Indemnification

The Company sells software licenses, access to its on-demand offerings and/or services to its customers under contracts that the Company refers to as Terms of Purchase or Software License and Service Agreements (collectively, “SLSA”). Each SLSA contains the relevant terms of the contractual arrangement with the customer, and generally includes certain provisions for indemnifying the customer against losses, expenses and liabilities from damages that may be incurred by or awarded against the customer in the event the Company’s software or services are found to infringe upon a patent, copyright, trade secret, trademark or other proprietary right of a third party. The SLSA generally limits the scope of remedies for such indemnification obligations in a variety of industry-standard respects, including but not limited to certain product usage limitations and geography-based scope limitations, and a right to replace an infringing product or service or modify them to make them non-infringing. If the Company cannot address the infringement by replacing the product or service, or modifying the product or service, the Company is allowed to cancel the license or service and return certain of the fees paid by the customer.

As of June 30, 2010, the Company has not had to reimburse any of its customers for any losses related to these indemnification provisions and no material customer claims for such indemnification are outstanding.

Note 4—Income Taxes

The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to the Company’s tax audits. However, there can be no assurances as to the possible outcomes. The unrecognized tax benefits did not materially change in the three months ended June 30, 2010. It is reasonably possible that the Company’s existing liabilities for unrecognized tax benefits may decrease within the next twelve months by approximately \$3.3 million primarily due to the expiration of statutes of limitation in a foreign jurisdiction.

Note 5—Stockholders’ Equity

Stock-Based Compensation Plans

A summary of the activity related to the Company’s restricted common stock is presented below for the nine months ended June 30, 2010:

	Nine Months Ended June 30, 2010	
	Number of Shares	Weighted- Average Fair Value
Nonvested at beginning of period	5,245,588	\$ 9.90
Granted	1,024,043	\$ 13.54
Vested	(3,012,409)	\$ 10.06
Forfeited	(202,695)	\$ 10.95
Nonvested at end of period	<u>3,054,527</u>	<u>\$ 10.91</u>

The fair value of stock awards vested was \$5.1 million and \$6.5 million for the three months ended June 30, 2010 and 2009 and \$35.7 million and \$23.9 million for the nine months ended June 30, 2010 and 2009, respectively.

The nonvested shares roll forward presented above excludes the restricted stock units granted in the nine months ended June 30, 2010. See *Stock-Based Compensation* in Note 1—Description of Business and Summary of Significant Accounting Policies.

A summary of the activity related to the Company's stock options is presented below:

	Nine Months Ended June 30, 2010		
	Number of Options	Average Exercise Price	Aggregate Intrinsic Value
Outstanding at beginning of period	583,655	\$ 16.95	
Exercised	(25,127)	\$ 8.28	
Forfeited	(21,119)	\$ 29.73	
Outstanding and exercisable at end of period	<u>537,409</u>	\$ 16.79	\$2,837,000

The total intrinsic value of options exercised during the three months ended June 30, 2010 and 2009 was \$128,000 and \$119,000, respectively, and was \$153,000 and \$506,000 during the nine months ended June 30, 2010 and 2009, respectively. The aggregate intrinsic value represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third quarter of fiscal 2010 and the exercise price, multiplied by the number of shares subject to in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2010. This amount changes based on the fair market value of the Company's stock.

Comprehensive Income

Other comprehensive income refers to revenues, expenses, gains and losses that are not included in net income but rather are recorded directly in stockholders' equity. The components of comprehensive income for the three and nine months ended June 30, 2010 and 2009 are as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 4,274	\$ 3,894	\$12,250	\$2,585
Unrealized gain (loss) on securities	862	—	1,502	(609)
Foreign currency translation adjustments	(545)	857	(928)	(264)
Comprehensive income	<u>\$ 4,591</u>	<u>\$ 4,751</u>	<u>\$12,824</u>	<u>\$1,712</u>

The income tax effects related to unrealized gains and losses on securities and foreign currency translation adjustments are not material.

The components of accumulated other comprehensive loss as of June 30, 2010 and September 30, 2009 are as follows (in thousands):

	June 30, 2010	September 30, 2009
	Unrealized loss on securities	\$(2,622)
Foreign currency translation adjustments	(492)	436
Accumulated other comprehensive loss	<u>\$(3,114)</u>	<u>\$ (3,688)</u>

Note 6—Net Income Per Share

The following table presents the calculation of basic and diluted net income per share (in thousands, except per share data):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 4,274	\$ 3,894	\$12,250	\$ 2,585
Weighted-average common shares outstanding—basic	87,163	83,444	86,300	82,269
Add: Effect of dilutive securities	2,173	2,003	2,483	2,443
Weighted-average common shares—diluted	89,336	85,447	88,783	84,712
Net income per common share—basic	\$ 0.05	\$ 0.05	\$ 0.14	\$ 0.03
Net income per common share—diluted	\$ 0.05	\$ 0.05	\$ 0.14	\$ 0.03

Note 7—Segment Information

The Company has three geographic operating segments: North America; Europe, Middle-East and Africa (“EMEA”); and Asia-Pacific (“APAC”). The segments are determined in accordance with how management views and evaluates the Company’s business and based on the aggregation criteria. Future changes to this organizational structure or the business may result in changes to the reportable segments disclosed. The Company markets its products in the United States of America and in foreign countries through its direct sales force and indirect sales channels.

The results of the reportable segments are derived directly from the Company’s management reporting system. The results are based on the Company’s method of internal reporting and are not necessarily in conformity with GAAP. Management measures the performance of each segment based on several metrics, including contribution margin. Asset data is not reviewed by management at the segment level.

Segment contribution margin includes all geographic segment revenues less the related cost of sales, direct sales and marketing expenses and regional general and administrative expenses. A significant portion of each segment’s expenses arise from shared services and infrastructure that the Company has historically allocated to the segments in order to realize economies of scale and to use resources efficiently. These expenses include information technology services, facilities and other infrastructure costs and are generally allocated based upon headcount.

Financial information for each reportable segment was as follows for the three and nine months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Revenue				
—North America	\$56,299	\$52,601	\$160,827	\$156,407
—EMEA	20,534	18,878	59,098	60,281
—APAC	6,829	5,312	18,944	15,672
—Corporate revenue	9,587	7,083	27,181	22,294
Total revenue	\$93,249	\$83,874	\$266,050	\$254,654

Revenues are attributed to countries based on the location of the Company's customers, with some internal reallocation for multi-national customers. Certain revenue items are not allocated to segments because they are separately managed at the corporate level. These items include Ariba Managed Procurement Services, expense reimbursement and other miscellaneous items.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Contribution margin				
—North America	\$26,607	\$25,844	\$ 77,639	\$ 75,469
—EMEA	7,616	7,039	21,920	24,818
—APAC	1,788	1,473	5,391	3,620
Contribution margin	<u>\$36,011</u>	<u>\$34,356</u>	<u>\$104,950</u>	<u>\$103,907</u>

Contribution margin is used, in part, to evaluate the performance of, and allocate resources to, each of the segments. Certain operating expenses are not allocated to segments because they are separately managed at the corporate level. These unallocated costs include marketing costs other than direct sales and marketing, research and development costs, corporate general and administrative costs, such as legal and accounting, amortization of purchased intangibles, litigation benefit, insurance reimbursement, restructuring costs, interest and other (expense) income, net and provision for income taxes.

The reconciliation of segment information to the Company's net income before income taxes was as follows for the three and nine months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Segment contribution margin	\$ 36,011	\$ 34,356	\$ 104,950	\$ 103,907
Corporate revenue	9,587	7,083	27,181	22,294
Corporate costs, such as research and development, corporate general and administrative and other	(39,422)	(33,877)	(113,769)	(108,335)
Amortization of acquired technology and customer intangible assets	(1,025)	(1,388)	(3,377)	(4,163)
Litigation benefit	—	—	7,000	—
Insurance reimbursement	—	—	—	7,527
Amortization of other intangible assets	—	(210)	(104)	(630)
Restructuring costs	—	(1,438)	(8,579)	(10,837)
Interest and other (expense) income, net	(454)	(265)	(59)	(6,020)
Net income before income taxes	<u>\$ 4,697</u>	<u>\$ 4,261</u>	<u>\$ 13,243</u>	<u>\$ 3,743</u>

Subscription revenues consist mainly of fees for software access subscription and hosted software services. Maintenance revenues consist primarily of Ariba Buyer and Ariba Sourcing product maintenance fees. Services and other revenues consist of fees for implementation services, consulting services, managed services, training, education, premium support, fees charged for the use of the Company's software under perpetual agreements and other miscellaneous items. Revenues by similar product and service groups are as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Subscription revenues	\$43,978	\$37,888	\$127,511	\$110,131
Maintenance revenues	16,790	17,523	50,386	54,217
Services and other revenues	32,481	28,463	88,153	90,306
Total	<u>\$93,249</u>	<u>\$83,874</u>	<u>\$266,050</u>	<u>\$254,654</u>

Information regarding long-lived assets in geographic areas are as follows (in thousands):

	June 30, 2010	September 30, 2009
Long-Lived Assets:		
United States	\$15,210	\$ 12,976
International	1,215	1,442
Total	<u>\$16,425</u>	<u>\$ 14,418</u>

Note 8—Fair Value

As of June 30, 2010, the fair value measurements of the Company's cash equivalents, short-term investments, long-term investments and restricted cash consisted of the following and which are categorized in the table below based upon the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 80,247	\$ —	\$ —	\$ 80,247
Certificates of deposit and other bank deposits	91,214	—	—	91,214
Non-U.S. government securities	19,625	—	—	19,625
U.S. government and agency securities	4,234	—	—	4,234
Auction rate securities	—	—	18,415	18,415
Total cash equivalents, investments and restricted cash	<u>\$195,320</u>	<u>\$ —</u>	<u>\$18,415</u>	<u>\$213,735</u>

The table below presents reconciliations for market securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended June 30, 2010 (in thousands):

	Nine Months Ended June 30, 2010
Beginning balance as of October 1, 2009	\$ 17,676
Realized losses	(499)
Unrealized gains	1,350
Redemptions	(300)
Accretion and other	188
Ending fair value as of June 30, 2010	<u>\$ 18,415</u>

Auction Rate Securities

The Company holds a variety of interest-bearing Auction Rate Securities ("ARS") that represent investments in pools of assets, including student loans, commercial paper and credit derivative products. As of June 30, 2010, the Company held \$18.0 million in par value of student loan securities that failed to settle in auctions commencing February 2008 and \$4.9 million in par value of commercial paper and credit derivative products that failed to settle in auctions commencing August 2007. These ARS investments are intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par. The uncertainties in the credit markets have affected all of the Company's holdings in ARS investments and auctions for our investments in these securities have failed to settle on their respective settlement dates. Consequently, the investments are not currently liquid and the Company will not be able to access these funds until such time as either a future auction of these investments is successful or a buyer is found outside of the auction process. Given the failures in the auction markets, as well as the lack of any correlation of these

instruments to other observable market data, there are no longer observable inputs available as defined by Levels 1 and 2 of the fair value hierarchy by which to value these securities. Therefore, these auction rate securities are classified within Level 3 and their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities.

Contractual maturity dates for these ARS investments range from 2016 to 2047. The ARS backed by student loans are guaranteed by the U.S. government and have credit ratings of AAA. The ARS investments were in compliance with the Company's investment policy at the time of acquisition and are investment grade quality, except for one commercial paper and credit derivative product that maintains a split rating between investment and speculative grade.

Currently, we have no intent to sell these ARS investments prior to recovery nor are aware of any factors that would make such a sale of the ARS investments more likely than not. As of June 30, 2010, the Company has classified the entire ARS investment balance as long-term investments on its condensed consolidated balance sheet because of its current inability to predict that these investments will be available for settlement within the next twelve months. The Company has also modified its current investment strategy and increased its investments in more liquid money market instruments.

Historically, the fair value of ARS investments approximates par value due to the frequent resets through the auction process. While the Company continues to earn interest on its ARS investments at the contractual rate, these investments are not currently trading and therefore do not currently have a readily determinable market value. Accordingly, the estimated fair value of ARS no longer approximates par value.

The Company has used a discounted cash flow ("DCF") model to determine the estimated fair value of its investment in ARS as of June 30, 2010. Significant estimates used in the DCF models were the credit quality of the instruments, the types of instruments and an illiquidity discount factor. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, timing and amount of cash flows and expected holding periods of the ARS. The discount factor used for the \$18.0 million of student loan securities and \$4.9 million of commercial paper and credit derivative products was adjusted by 150 basis points ("bps") for the student loan securities and between 250 bps and 1100 bps for the commercial paper and credit derivative products, respectively, to reflect the then current market conditions for instruments with similar credit quality at the date of valuation and the risk in the marketplace for these investments that has arisen due to the lack of an active market for these instruments. Based on this assessment of fair value, the Company determined there was a decline in the fair value of its ARS investments of \$4.5 million, of which \$2.8 million was deemed temporary. As a result of the credit rating reduction to below investment grade related to one of its ARS, the Company recorded an other-than-temporary impairment of \$1.4 million in the year ended September 30, 2009 and \$499,000 in the nine months ended June 30, 2010, partially offset by \$204,000 of accretion recorded through June 30, 2010. Based upon its analysis of this impairment, the Company determined that the other-than-temporary loss of \$1.7 million was principally related to the credit loss on the investment. Additionally, the Company evaluated the factors related to other than credit loss, which were determined to be immaterial to the condensed consolidated financial statements.

The Company reviews its impairments in accordance with the changes issued by the FASB to fair value accounting and the recognition and presentation of other-than-temporary impairments, in order to determine the classification of the impairment as "temporary" or "other-than-temporary". A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income (loss) component of stockholders' equity. Such an unrealized loss does not affect net income (loss) for the applicable accounting period. An other-than-temporary impairment charge is recorded as a realized loss in the consolidated statement of operations. The differentiating factors between temporary and other-than-temporary impairment are primarily the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and the Company's intent and ability to retain its investment for a period of time sufficient to allow for the recovery in market value to par. If the issuers of the ARS are unable to successfully close future

auctions or refinance their debt in the near term and/or the credit ratings of these instruments deteriorate, the Company may, in the near future, conclude that an additional other-than-temporary impairment charge is required related to these investments. Such other-than-temporary impairment may be greater than the \$2.8 million currently accounted for as a temporary decline or may be greater than the \$1.7 million other-than-temporary impairment recorded through June 30, 2010.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. For example, words such as “may”, “will”, “should”, “estimates”, “predicts”, “potential”, “continue”, “strategy”, “believes”, “anticipates”, “plans”, “expects”, “intends”, and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in any forward-looking statements. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those discussed under the heading “Risk Factors” in Part II of this Form 10-Q and the risks discussed in our other Securities and Exchange Commission (“SEC”) filings.

Overview of Our Business

Ariba is the leading provider of collaborative business commerce solutions. Ariba combines industry-leading software as a service (“SaaS”) technology to optimize the complete commerce lifecycle with the world’s largest web-based community to discover, connect and collaborate with a global network of trading partners and expert capabilities to augment internal resources and skills, delivering everything needed to control costs, minimize risk, improve profits and enhance cash flow and operations, all in the Ariba® Commerce Cloud. Over 300,000 companies, including more than 80 percent of the Fortune 500, use Ariba’s solutions to drive more efficient inter-enterprise commerce.

Our software is built to leverage the Internet and provide enterprises with real-time access to their business data and their business partners. Our software is designed to integrate with all major platforms and can be accessed via a web browser. Our software can be provided as a service in an on-demand model or deployed as an installed application. In addition to application software, Ariba Spend Management solutions include implementation and strategic consulting services, education and training, commodity expertise and decision support services, benchmarking services, low-cost country sourcing services and procurement outsourcing services. Ariba Spend Management solutions also integrate with and leverage the Ariba Supplier Network. The Ariba Supplier Network is a scalable Internet infrastructure that connects our buying organizations with their suppliers to exchange product and service information as well as a broad range of business documents, such as purchase orders and invoices. Over 232,000 registered suppliers, offering a wide array of goods and services, are connected to the Ariba Supplier Network.

Ariba Spend Management solutions are organized around six key functions: (1) spend visibility; (2) sourcing; (3) contract management; (4) procurement and expense; (5) invoice and payment; and (6) supplier management. Through our solution offerings, we help customers develop a strategy for spend management and enable a step-by-step approach with technology and services that work together.

Business Model

Ariba Spend Management solutions are delivered in a flexible manner, depending upon the needs and preferences of the customer. For customers seeking self sufficiency, we offer flexible, highly configurable and easy-to-use technology and related services that can be deployed behind the firewall or delivered as an on-demand service. For customers seeking expert assistance, we offer sourcing process and commodity expertise in over 400 categories of spend.

We have aligned our business model with the way we believe customers want to purchase and deploy spend management solutions. Customers may generally subscribe to our software products and services for a specified term and/or pay for services on a time-and-materials or milestone basis, depending upon their business

requirements. Our revenue is comprised of subscription and maintenance fees, and services and other fees. Subscription and maintenance revenue consists of fees charged for hosted on-demand software solutions and fees for product updates and support, as well as fees paid by suppliers for access to the Ariba Supplier Network. Services and other revenue consists of fees for implementation services, consulting services, managed services, training, education, premium support, license fees charged for the use of our software products under perpetual agreements and other miscellaneous items.

Due to the different treatment of our revenue streams under applicable accounting guidance, each type of revenue has a different impact on our consolidated financial statements. Subscription fees for hosted on-demand software solutions are generally fixed for a specific period of time, and revenue is recognized ratably over the term. Similarly, maintenance fees are generally fixed for a specific period of time, and revenue is customarily recognized ratably over the maintenance term. Most of our customers renew their maintenance contracts annually to continue receiving product updates and product support. Given the ratable revenue recognition and historically high renewal rates of our subscription and maintenance agreements, this revenue stream has generally been stable over time. Services revenues are driven by a contract, project or statement of work, in which the fees may be fixed for specific services to be provided over time or billed on a time and materials basis. Individual subscription software license sales can be significant (greater than \$1.0 million) and sales cycles are often lengthy and difficult to predict.

These different revenue streams also carry different gross margins. Revenue from subscription and maintenance fees tends to be higher-margin revenue with gross margins typically around 75% to 80%. Subscription and maintenance fees are generally based on software products developed by us, which carry minimal marginal cost to reproduce and sell. Revenue from labor-intensive services and other fees tends to be lower-margin revenue, with gross margins typically in the 20% to 40% range. Our overall gross margins could fluctuate from period to period depending upon the mix of revenue. For example, a period with a higher mix of subscription revenue versus services revenue would drive overall gross margin higher and vice versa.

Overview of Quarter Ended June 30, 2010

Our revenues increased to \$93.2 million in the three months ended June 30, 2010 compared to \$83.9 million in the three months ended June 30, 2009. Subscription and maintenance revenues increased \$5.4 million, or 10%, and services and other revenues increased \$4.0 million, or 14%. Subscription revenues were \$44.0 million in the three months ended June 30, 2010, as compared to \$37.9 million in the three months ended June 30, 2009. This is primarily due to an increase in the demand for our subscription software products. The increase in services and other revenues is primarily due to an increase in implementation revenues in the three months ended June 30, 2010.

Operating expenses increased to \$52.3 million in the three months ended June 30, 2010 compared to \$47.3 million in the three months ended June 30, 2009. The increase in operating expenses is primarily attributable to an increase in compensation and benefits expense related to an increase in overall headcount in the three months ended June 30, 2010 and in increase in stock-based compensation expense related to performance-based awards based on the increase in subscription software revenues noted above. In sum, our total net expenses, including cost of revenue and other items, increased to \$89.0 million in the three months ended June 30, 2010 compared to \$80.0 million in the three months ended June 30, 2009, which resulted in a net income for the three months ended June 30, 2010 of \$4.3 million compared to a net income of \$3.9 million in the three months ended June 30, 2009.

Outlook for Fiscal Year 2010

With the increase in customer demand and continued shift in demand toward subscription software sales, we expect continued growth in subscription revenue in fiscal year 2010 compared to fiscal year 2009, but at a lower growth rate than in 2009. We also expect modest declines in maintenance, but at a lower rate of decline than in 2009. As a result, we expect total revenues to grow in fiscal year 2010 at an increased growth rate compared to fiscal year 2009.

We plan to continue to carefully monitor expenses in fiscal year 2010. We expect that total expenses, excluding expenses for amortization of intangibles, stock-based compensation and restructuring and integration, will grow, if at all, at a lower rate than revenues. Our expense outlook includes targeted investments in our business that are dependent on economic conditions in fiscal year 2010. As a result of our revenue and expense outlooks, we anticipate continued improvement in our results from operations, before giving effect to these excluded expenses.

We believe that our success for the remainder of fiscal year 2010 will depend largely on our ability to: (1) renew our subscription or time-based revenues, including on-demand software fees, maintenance fees, and fees for certain services; (2) sell bundled solution offerings that include both technology and expert services; and (3) capitalize on new revenue opportunities, such as collecting fees for the Ariba Supplier Network and selling on-demand spend management solutions to smaller and mid-market customers.

In addition to the macro-economic impact, we believe that key risks to our revenues in the remainder of fiscal year 2010 include: our ability to renew ratable revenue streams without substantial declines from prior arrangements, including subscription software, software maintenance and subscription services; our ability to generate organic growth; the market acceptance of spend management solutions as a standalone market category; the overall level of information technology spending; and potential declines in average selling prices. We believe that key risks to our future operating profitability include: our ability to maintain or grow our revenues; and our ability to maintain adequate utilization of our services organization. We may not be successful in addressing such risks and difficulties. See “Risk Factors” for additional information.

Results of Operations

The following table sets forth statements of operations data for the periods indicated (in thousands, except per share data). The data has been derived from the unaudited Condensed Consolidated Financial Statements contained in this Form 10-Q which, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position and results of operations for the interim periods presented. The operating results for any period should not be considered indicative of results for any future period. This information should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in our Form 10-K for the fiscal year ended September 30, 2009 filed with the SEC on November 25, 2009.

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Revenues:				
Subscription and maintenance	\$60,768	\$55,411	\$177,897	\$164,348
Services and other	32,481	28,463	88,153	90,306
Total revenues	<u>93,249</u>	<u>83,874</u>	<u>266,050</u>	<u>254,654</u>
Cost of revenues:				
Subscription and maintenance	13,045	12,158	38,358	35,638
Services and other	21,700	18,551	61,116	56,873
Amortization of acquired technology and customer intangible assets	1,025	1,388	3,377	4,163
Total cost of revenues	<u>35,770</u>	<u>32,097</u>	<u>102,851</u>	<u>96,674</u>
Gross profit	<u>57,479</u>	<u>51,777</u>	<u>163,199</u>	<u>157,980</u>
Operating expenses:				
Sales and marketing	31,337	25,515	88,280	79,019
Research and development	11,622	10,787	34,112	32,142
General and administrative	9,369	9,301	25,822	33,116
Litigation benefit	—	—	(7,000)	—
Insurance reimbursement	—	—	—	(7,527)
Amortization of other intangible assets	—	210	104	630
Restructuring and integration	—	1,438	8,579	10,837
Total operating expenses	<u>52,328</u>	<u>47,251</u>	<u>149,897</u>	<u>148,217</u>
Income from operations	5,151	4,526	13,302	9,763
Interest and other (expense) income, net	(454)	(265)	(59)	(6,020)
Net income before income taxes	4,697	4,261	13,243	3,743
Provision for income taxes	423	367	993	1,158
Net income	<u>\$ 4,274</u>	<u>\$ 3,894</u>	<u>\$ 12,250</u>	<u>\$ 2,585</u>

Comparison of the Three and Nine Months Ended June 30, 2010 and 2009

Revenues

Please refer to Note 1 of Notes to Condensed Consolidated Financial Statements for a description of our accounting policy related to revenue recognition.

Subscription and maintenance

Subscription and maintenance revenues for the three months ended June 30, 2010 were \$60.8 million, a 10% increase from the \$55.4 million recorded in the three months ended June 30, 2009. Subscription revenues for the

three months ended June 30, 2010 were \$44.0 million, a 16% increase from the \$37.9 million recorded in the three months ended June 30, 2009. The increase of \$6.1 million in subscription revenues was primarily due to an increase in the demand for our subscription software products and the continued growth of Ariba Supplier Network revenues. Maintenance revenues for the three months ended June 30, 2010 were \$16.8 million, a 4% decrease from the \$17.5 million recorded in the three months ended June 30, 2009 primarily due to a decline in perpetual license revenues.

Subscription and maintenance revenues for the nine months ended June 30, 2010 were \$177.9 million, an 8% increase from the \$164.3 million recorded in the nine months ended June 30, 2009. Subscription revenues for the nine months ended June 30, 2010 were \$127.5 million, a 16% increase from the \$110.1 million recorded in the nine months ended June 30, 2009. The increase of \$17.4 million in subscription revenues was primarily due to an increase in the demand for our subscription software products. Maintenance revenues for the nine months ended June 30, 2010 were \$50.4 million, a 7% decrease from the \$54.2 million recorded in the nine months ended June 30, 2009 primarily due to a decline in perpetual license revenues. We anticipate that subscription revenues will increase in fiscal year 2010 compared to fiscal year 2009, partially offset by modest declines of maintenance revenues in fiscal year 2010.

Services and other

Services and other revenues for the three months ended June 30, 2010 were \$32.5 million, a 14% increase from the \$28.5 million recorded in the three months ended June 30, 2009. The increase in the three months ended June 30, 2010 is primarily due to an increase in implementation revenues. Services and other revenues for the nine months ended June 30, 2010 were \$88.2 million, a 2% decrease from the \$90.3 million recorded in the nine months ended June 30, 2009. The decrease in the nine months ended June 30, 2010 is attributed to a decline in sourcing services revenues. We anticipate that services and other revenues will remain relatively consistent in fiscal year 2010 compared to fiscal year 2009.

Cost of Revenues

Subscription and maintenance

Cost of subscription and maintenance revenues consists of labor costs for hosting services and technical support, including stock compensation costs and facilities and equipment costs. Cost of subscription and maintenance revenues for the three months ended June 30, 2010 was \$13.0 million, a 7% increase from the \$12.2 million recorded in the three months ended June 30, 2009. Cost of subscription and maintenance revenues for the nine months ended June 30, 2010 was \$38.4 million, an 8% increase over the \$35.6 million recorded in the nine months ended June 30, 2009. These increases are primarily the result of an increase in hosted support costs associated with the increase in subscription revenues in the three and nine months ended June 30, 2010. We anticipate that cost of subscription and maintenance expenses will remain relatively consistent as a percentage of revenues in the year ending September 30, 2010 compared to the year ended September 30, 2009.

Services and other

Cost of services and other revenues consists of labor costs for consulting services, including stock compensation costs, training personnel, facilities and equipment costs. Cost of services and other revenues for the three months ended June 30, 2010 was \$21.7 million, a 17% increase from the \$18.6 million recorded in the three months ended June 30, 2009. This increase of \$3.1 million was primarily due to increased compensation and benefits expense of \$1.4 million due to a slight increase in average consulting headcount in the three months ended June 30, 2010, increased temporary and contract labor costs of \$1.5 million primarily related to the increase in services and other revenues noted above and a slight increase in stock-based compensation expense in the three months ended June 30, 2010 related to performance-based awards based on the increase in subscription software revenues noted above.

Cost of services and other revenues for the nine months ended June 30, 2010 was \$61.1 million, a 7% increase from the \$56.9 million recorded in the nine months ended June 30, 2009. This increase of \$4.2 million was primarily due to increased compensation and benefits expense of \$1.2 million due to a slight increase in average consulting headcount in the nine months ended June 30, 2010, increased temporary and contract labor costs of \$1.9 million primarily and an increase in stock-based compensation expense of \$1.3 million in the nine months ended June 30, 2010 related to performance-based awards based on the increase in subscription software revenues noted above. We anticipate that cost of services and other revenues will increase slightly as a percentage of services and other revenues in the year ending September 30, 2010 compared to the year ended September 30, 2009.

Amortization of acquired technology and customer intangible assets

Amortization of acquired technology and customer intangible assets primarily represents the amortization of the costs allocated to technology and customer relationships in our fiscal year 2004 business combination with FreeMarkets, Inc. ("FreeMarkets") and our fiscal year 2008 acquisition of Procuri, Inc ("Procuri"). This expense amounted to \$1.0 million and \$1.4 million in the three months ended June 30, 2010 and 2009, respectively, and \$3.4 million and \$4.2 million in the nine months ended June 30, 2010 and 2009, respectively. The decrease in the three and nine months ended June 30, 2010 is primarily attributable to assets reaching the end of their estimated useful lives. We anticipate amortization of acquired technology and customer intangible assets will decrease in the year ended September 30, 2010 compared to the year ended September 30, 2009 due to decreases in costs resulting from our merger with FreeMarkets and our acquisition of Procuri as assets reach the end of their estimated useful lives.

Gross profit

Our gross profit as a percentage of revenues remained relatively consistent at 62% and 61% for the three and nine months ended June 30, 2010, respectively, compared to 62% for the three and nine months ended June 30, 2009.

Operating Expenses

Sales and marketing

Sales and marketing includes costs associated with our sales, marketing and product marketing personnel, and consists primarily of compensation and benefits, commissions and bonuses, stock compensation, promotional and advertising and travel and entertainment expenses related to these personnel, as well as the provision for doubtful accounts. Sales and marketing expenses for the three months ended June 30, 2010 were \$31.3 million, a 23% increase from the \$25.5 million recorded in the three months ended June 30, 2009. This increase of \$5.8 million is primarily due to an increase in stock-based compensation of \$2.7 million related to performance-based awards based on the increase in subscription software revenues noted above, an increase in compensation and benefits expense and travel expense of \$1.1 million and \$443,000, respectively, due to a slight increase in average sales and marketing headcount in the three months ended June 30, 2010, an increase in marketing expense of \$749,000 in the three months ended June 30, 2010 and an increase in sales commission and bonus expense of \$697,000 related to the increase in revenues noted above.

Sales and marketing expenses for the nine months ended June 30, 2010 were \$88.3 million, a 12% increase from the \$79.0 million recorded in the nine months ended June 30, 2009. This increase of \$9.3 million is primarily due to an increase in stock-based compensation of \$6.5 million related to performance-based awards based on the increase in subscription software revenues noted above, an increase in sales commission and bonus expense of \$2.0 million related to the increase in revenues noted above and an increase in marketing expense of \$1.1 million in the nine months ended June 30, 2010. These increases were partially offset by a decrease in bad debt expense of \$804,000 due to the aging of certain outstanding receivables balances in the nine months ended June 30, 2009. We anticipate that sales and marketing expenses will remain relatively consistent as a percentage of revenues in the year ending September 30, 2010 compared to the year ended September 30, 2009.

Research and development

Research and development includes costs associated with the development of new products, enhancements of existing products for which technological feasibility has not been achieved, and quality assurance activities, and primarily includes employee compensation and benefits, stock compensation, consulting costs and the cost of software development tools and equipment. Research and development expenses for the three months ended June 30, 2010 were \$11.6 million, an 8% increase from the \$10.8 million recorded in the three months ended June 30, 2009. Research and development expenses for the nine months ended June 30, 2010 were \$34.1 million, a 6% increase from the \$32.1 million recorded in the nine months ended June 30, 2009. The slight increases in each period are primarily due to increases in compensation and benefits expense. We anticipate that research and development expenses will remain relatively consistent as a percentage of revenues in the year ending September 30, 2010 compared to the year ended September 30, 2009.

General and administrative

General and administrative includes costs for executive, finance, human resources, information technology, legal and administrative support functions. General and administrative expenses for the three months ended June 30, 2010 were \$9.4 million, a 1% increase from the \$9.3 million recorded in the three months ended June 30, 2009, noting no significant change by expense type.

General and administrative expenses for the nine months ended June 30, 2010 were \$25.8 million, a 22% decrease from the \$33.1 million recorded in the nine months ended June 30, 2009. This decrease is primarily due to an impairment of \$4.3 million in the nine month ended June 30, 2009 associated with capitalized costs related to an enterprise resource planning (“ERP”) system for finance and human resources, a decrease in expenses of \$3.1 million based upon management’s assessment that a previously accrued contingency now has less than a remote probability of potential loss, a decrease in intellectual property related legal expenses of approximately \$2.0 million associated with the patent infringement matters disclosed in Note 3 to Notes to Condensed Consolidated Financial Statements partially offset by an increase in stock-based compensation of \$2.0 million primarily related to restricted stock awards. We anticipate that general and administrative expenses will decrease as a percentage of revenues in the year ending September 30, 2010 compared to the year ended September 30, 2009.

Litigation benefit

During the nine months ended June 30, 2010, we recorded \$7.0 million of income related to the Emptoris matter. See Note 3 of Notes to Condensed Consolidated Financial Statements.

Insurance reimbursement

During the nine months ended June 30, 2009, we recorded \$7.5 million of income related to an insurance reimbursement for previously unreimbursed litigation costs.

Amortization of other intangible assets

Amortization of other intangible assets was zero and \$210,000 for the three months ended June 30, 2010 and 2009, respectively, and \$104,000 and \$630,000 for the nine months ended June 30, 2010 and 2009, respectively, which primarily consisted of amortization of trademark intangible assets acquired from our merger with FreeMarkets and our acquisition of Procuri. The decrease in the three and nine months ended June 30, 2010 is primarily attributable to assets reaching the end of their estimated useful lives. We anticipate amortization of other intangible assets will decrease in the year ended September 30, 2010 compared to the year ended September 30, 2009 as assets reach the end of their estimated useful lives.

Restructuring and integration

We recorded a restructuring charge of \$8.6 million in the nine months ended June 30, 2010 due to the revision of our estimates for sublease commencement dates based on the remaining terms of the lease in Sunnyvale, California and continued soft market conditions in the Northern California real estate market.

We recorded a restructuring charge of \$1.4 million and \$10.8 million in the three and nine months ended June 30, 2009. In the nine months ended June 30, 2009, we revised our estimates for sublease commencement dates and sublease rental rate projections to reflect continued soft market conditions in the Northern California real estate market, resulting in a charge of \$6.8 million. The remaining charge of \$1.4 million and \$3.9 million in the three and nine months ended June 30, 2009, respectively, primarily related to severance benefit costs based on the then current economic environment to better align our expenses with our revenues.

Interest and other (expense) income, net

Interest and other (expense) income, net for the three months ended June 30, 2010 was expense of \$454,000, compared to expense of \$265,000 recorded in the three months ended June 30, 2009. The slight decrease is primarily attributable to other income of \$461,000 released to Ariba from the Procuri escrow account in connection with the settlement of certain claims with the former stockholders of Procuri in the three months ended June 30, 2009 partially offset by a decrease in realized and unrealized foreign currency transaction losses of \$198,000 on accounts receivable billed from Ariba, Inc. in foreign currencies to customers headquartered in foreign countries and realized losses on foreign denominated cash balances maintained in the United States, primarily due to the U.S. dollar strengthening against the Euro, the British Pound, the Australian dollar and the Canadian dollar in the three months ended June 30, 2009.

Interest and other (expense) income, net for the nine months ended June 30, 2010 was expense of \$59,000, compared to expense of \$6.0 million recorded in the nine months ended June 30, 2009. The increase is primarily attributable to a decrease in realized and unrealized foreign currency transaction losses of \$5.6 million on accounts receivable billed from Ariba, Inc. in foreign currencies to customers headquartered in foreign countries and realized losses on foreign denominated cash balances maintained in the United States of America, primarily due to the U.S. dollar strengthening against the Euro, the British Pound, the Australian dollar and the Canadian dollar in the nine months ended June 30, 2009. The increase is also attributable to a decline in other-than-temporary impairment of \$915,000 related to a long-term investment. The decreases are partially offset by other income of \$461,000 released to Ariba from the Procuri escrow account in connection with the settlement of certain claims with the former stockholders of Procuri in the three months ended June 30, 2009.

Provision for income taxes

The provision for income taxes for the three months ended June 30, 2010 was \$423,000, relatively consistent with the \$367,000 in the three months ended June 30, 2009. The provision for income taxes for the nine months ended June 30, 2010 was \$993,000, compared to \$1.2 million in the nine months ended June 30, 2009. The slight decrease is primarily attributable to releases of unrecognized tax benefits due to expiring statutes of limitations in the nine months ended June 30, 2010.

Liquidity and Capital Resources

As of June 30, 2010, we had \$210.0 million in cash, cash equivalents and investments and \$29.2 million in restricted cash, for total cash, cash equivalents, investments and restricted cash of \$239.2 million. Our working capital on June 30, 2010 was \$38.3 million. All significant cash, cash equivalents and investments are held in accounts in the United States of America. As of September 30, 2009, we had \$166.2 million in cash, cash equivalents and investments and \$29.2 million in restricted cash, for total cash, cash equivalents, investments and restricted cash of \$195.4 million. Our working capital on September 30, 2009 was \$1.0 million.

We hold a variety of interest-bearing Auction Rate Securities (“ARS”) that represent investments in pools of assets, including student loans, commercial paper and credit derivative products. These ARS investments are intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par. The continuing uncertainties in the credit markets have affected all of our holdings in ARS investments and auctions for our investments in these securities have failed to settle on their respective settlement dates. Consequently, the investments are not currently liquid and we will not be able to access these funds until a future auction of these investments is successful or a buyer is found outside of the auction process. Given the failures in the auction markets, as well as the lack of any correlation of these instruments to other observable market data, there are no longer observable inputs available as defined by Levels 1 and 2 of the fair value hierarchy by which to value these securities. Therefore, these auction rate securities are classified within Level 3 and their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities.

Contractual maturity dates for these ARS investments range from 2016 to 2047. The ARS backed by student loans are guaranteed by the U.S. government and have credit ratings of AAA. All of the ARS investments were in compliance with our investment policy at the time of acquisition and are investment grade quality, except for one commercial paper and credit derivative product that maintains a split rating between investment and speculative grade.

Currently, we have no intent to sell these ARS investments prior to recovery nor are aware of any factors that would make such a sale of the ARS investments more likely than not. As of June 30, 2010 and September 30, 2009, we classified the entire ARS investment balance as long-term investments on our condensed consolidated balance sheet because of our inability to determine when our investments in ARS would settle.

Typically the fair value of ARS investments approximates par value due to the frequent resets through the auction process. While we continue to earn interest on our ARS investments at the contractual rate, these investments are not currently trading and therefore do not currently have a readily determinable market value. Accordingly, the estimated fair value of ARS no longer approximates par value.

We have used a discounted cash flow model (“DCF”) to determine the estimated fair value of our investment in ARS as of June 30, 2010. Significant estimates used in the DCF models were the credit quality of the instruments, the types of instruments and an illiquidity discount factor. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, timing and amount of cash flows and expected holding periods of the ARS. The discount factor used for the \$18.0 million of student loan securities and \$4.9 million of commercial paper and credit derivative products was adjusted by 150 basis points (“bps”) for the student loan securities and between 250 bps and 1100 bps for the commercial paper and credit derivative products, respectively, to reflect the then current market conditions for instruments with similar credit quality at the date of valuation and the risk in the marketplace for these investments that has arisen due to the lack of an active market for these instruments. Based on this assessment of fair value, we determined there was a decline in the fair value of its ARS investments of \$4.5 million, of which \$2.8 million was deemed temporary. As a result of the credit rating reduction to below investment grade related to one of its ARS, we recorded an other-than-temporary impairment of \$1.4 million in the year ended September 30, 2009 and \$499,000 in the nine months ended June 30, 2010, partially offset by \$204,000 of accretion recorded through June 30, 2010. As a result of adopting changes issued by the Financial Accounting Standards Board (“FASB”) to fair value accounting and the recognition and presentation of other-than-temporary impairments, we evaluated the recorded other-than-temporary impairment loss of \$1.7 million. Based upon the analysis completed, we determined that the other-than-temporary loss of \$1.7 million was principally related to the credit loss on the investment.

We review our impairments in accordance with the changes issued by the FASB to fair value accounting and the recognition and presentation of other-than-temporary impairments, in order to determine the classification of the impairment as “temporary” or “other-than-temporary”. A temporary impairment charge

results in an unrealized loss being recorded in the other comprehensive income (loss) component of stockholders' equity. Such an unrealized loss does not affect net income (loss) for the applicable accounting period. An other-than-temporary impairment charge is recorded as a realized loss in the consolidated statement of operations. The differentiating factors between temporary and other-than-temporary impairment are primarily the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for the recovery in market value. If the issuers of the ARS are unable to successfully close future auctions or refinance their debt in the near term and/or the credit ratings of these instruments deteriorate, we may, in the future, conclude that an additional other-than-temporary impairment charge is required related to these investments. Such other-than-temporary impairment may be greater than the \$2.8 million currently accounted for as a temporary decline or may be greater than the \$1.7 million other-than-temporary impairment recorded through June 30, 2010.

The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact our valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates and ongoing strength and quality of market credit and liquidity.

If the current market conditions deteriorate further, or the anticipated recovery in market values does not occur, we may be required to record additional unrealized losses in other comprehensive income (loss) or to record all current and any future unrealized losses as a charge in our statement of operations in future quarters. We continue to monitor the market for ARS transactions and consider their impact (if any) on the fair value of our investments.

Our investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield in relationship to our investment guidelines and market conditions. We have modified our current investment strategy by limiting our investments in ARS to our current holdings and increasing our investments in more liquid investments.

Our largest source of operating cash flows is cash collections from our customers related to our hosted on-demand software solutions and fees for product updates and support, as well as fees paid by suppliers for the Ariba Supplier Network. We also generate cash inflows from services for implementation services, consulting services and license fees charged for the use of our software products under perpetual agreements. Our primary uses of cash from operating activities are for personnel related expenditures as well as payments related to leased facilities. Net cash provided by operating activities was \$54.2 million for the nine months ended June 30, 2010, compared to net cash provided by operating activities of \$47.2 million for the nine months ended June 30, 2009. Cash flows from operating activities increased primarily due to higher net income in the nine months ended June 30, 2010 as compared to the nine months ended June 30, 2009.

The changes in cash flows from investing activities primarily relates to acquisitions and the timing of purchases, maturities and sales of our investments. Net cash used in investing activities was \$13.8 million for the nine months ended June 30, 2010, compared to net cash used in investing activities of \$21.6 million for the nine months ended June 30, 2009. The increase of \$7.8 million is primarily attributable to a decrease in purchases of investments, net of sales of \$11.3 million, partially offset by an increase in capital expenditures of \$3.1 million primarily related to computer hardware for data storage in the nine months ended June 30, 2010.

The changes in cash flows from financing activities primarily relate to the repurchase of common stock shares forfeited to Ariba by employees in satisfaction of statutory tax withholding obligations incurred as a result of the vesting of restricted shares of common stock held by those employees and the proceeds from the issuance of common stock is attributed to stock option exercises. Net cash used in financing activities was \$3.6 million for the nine months ended June 30, 2010, compared to net cash used in financing activities of \$35,000 for the nine months ended June 30, 2009. The decrease in the nine months ended June 30, 2010 is related to an increase in the repurchase of common stock forfeited to Ariba by employees in satisfaction of statutory tax withholding obligations.

Contractual obligations

Our primary contractual obligations are from operating leases for office space and letters of credit related to those leases. See Note 3 to the Condensed Consolidated Financial Statements for a discussion of our lease commitments and letters of credit.

Other than the lease commitments and letters of credit discussed in Note 3 to the Condensed Consolidated Financial Statements, we do not have commercial commitments under lines of credit, standby repurchase obligations or other such debt arrangements. We do not have any material noncancelable purchase commitments as of June 30, 2010. There has been no material change in our contractual obligations and commercial commitments during the three months ended June 30, 2010 from those presented in our Annual Report on Form 10-K filed with the SEC on November 25, 2009.

Off-balance sheet arrangements

We have no off-balance sheet arrangements or transactions with unconsolidated limited purpose entities, nor do we have any undisclosed material transactions or commitments involving related persons or entities.

Anticipated cash flows

We expect to incur significant operating costs, particularly related to services delivery costs, sales and marketing, research and development and restructuring costs, for the foreseeable future in order to execute our business plan. We anticipate that such operating costs, as well as planned capital expenditures, will constitute a material use of our cash resources. As a result, our net cash flows will depend heavily on the level of future sales, changes in deferred revenues and our ability to manage infrastructure costs.

We believe our existing cash, cash equivalents and investment balances, together with anticipated cash flow from operations, should be sufficient to meet our working capital and operating resource requirements for at least the next twelve months. See "Risk Factors." After the next twelve months, we may find it necessary to obtain additional funds. In the event additional funds are required, we may not be able to obtain additional financing on favorable terms or at all.

Application of Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accounting policies, methods and estimates are an integral part of the preparation of consolidated financial statements in accordance with GAAP and, in part, are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. While there are a number of accounting policies, methods and estimates affecting our consolidated financial statements, areas that are particularly significant include:

- Revenue recognition policies
- Recoverability of goodwill
- Impairment of long-lived assets
- Lease abandonment costs
- Fair value of auction-rate securities
- Allowance for doubtful accounts

These critical accounting policies and estimates, their related disclosures and other accounting policies, methods and estimates have been reviewed by our senior management and audit committee. There were no significant changes in our critical accounting policies and estimates during the three months ended June 30, 2010. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended September 30, 2009 for a more complete discussion of our critical accounting policies and estimates.

During the nine months ended June 30, 2010, the Company adopted the guidance of revenue recognition policies, which was ratified by the Financial Accounting Standards Board Emerging Issues Task Force on September 23, 2009. The Company has elected to adopt these standards in the first quarter of 2010, both prospectively and effective beginning on October 1, 2009. The adoption of this guidance is more fully discussed in Note 1 of Notes to Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Risk

We develop products primarily in the United States of America and India and market our products in the United States of America, Latin America, Europe, Canada, Australia, Middle East and Asia. As a result, our financial results have been and could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Since the majority of our non-U.S. sales are priced in currencies other than the U.S. dollar, a strengthening of the dollar may reduce the level of reported revenues. If such events were to occur, our net revenues could be seriously impacted, since a significant portion of our net revenues are derived from international operations. For the three months ended June 30, 2010 and 2009, 29% and 29%, respectively, of our total net revenues were derived from customers outside of the United States of America. As a result, our U.S. dollar earnings and net cash flows from international operations may be adversely affected by changes in foreign currency exchange rates.

We use derivative instruments to manage risks associated with foreign currency transactions in order to minimize the impact of changes in foreign currency exchange rates on earnings. We utilize forward contracts to reduce our net exposures, by currency, related to the monetary assets and liabilities of our foreign operations denominated in local currency. In addition, from time to time, we may enter into forward exchange contracts to establish with certainty the U.S. dollar amount of future firm commitments denominated in a foreign currency. The forward contracts do not qualify for hedge accounting and accordingly, all of these instruments are marked to market at each balance sheet date by a charge to earnings. We believe that these forward contracts do not subject us to undue risk due to foreign exchange movements because gains and losses on these contracts are generally offset by losses and gains on the underlying assets and liabilities. We do not use derivatives for trading or speculative purposes. All contracts have a maturity of less than one year.

The following table provides information about our foreign exchange forward contracts outstanding as of June 30, 2010 (in thousands):

	Buy/Sell	Contract Value		Unrealized
		Foreign Currency	USD	Gain (Loss)
				in USD
Foreign Currency				
Euro	Sell	6,500	\$ 8,335	\$ 428
Singapore Dollar	Sell	7,500	5,371	5
Chinese Renminbi	Sell	35,000	5,161	2
Japanese Yen	Buy	350,000	3,777	179
Czech Koruna	Buy	22,000	1,145	(60)
Swiss Franc	Buy	1,200	1,120	(6)
Brazilian Real	Sell	1,000	556	1
Indian Rupee	Buy	25,000	549	(12)
Total			<u>\$26,014</u>	<u>\$ 537</u>

The unrealized gain (loss) represents the difference between the contract value and the market value of the contract based on market rates as of June 30, 2010.

Given our foreign exchange position, a ten percent change in foreign exchange rates upon which these forward exchange contracts are based would result in unrealized exchange gains or losses of approximately \$2.6 million. In all material aspects, these exchange gains and losses would be fully offset by exchange losses or gains on the underlying net monetary exposures. We do not expect material exchange rate gains and losses from other foreign currency exposures.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing in widely diversified investments, consisting only of investment grade securities. We hold investments in both fixed rate and floating rate interest earning instruments, and both carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which may have declined in market value due to changes in interest rates. Our investments may fall short of expectations due to changes in market conditions and as such we may suffer losses at the time of sale due to the decline in market value. See "Liquidity and Capital Resources." All investments in the table below are carried at market value, which approximates cost.

The table below represents principal (or notional) amounts and related weighted-average interest rates by year of maturity of our investment portfolio (in thousands, except for interest rates).

	Period Ending June 30, 2011	Period Ending June 30, 2012	Period Ending June 30, 2013	Period Ending June 30, 2014	Period Ending June 30, 2015	Thereafter	Total
Cash equivalents	\$ 142,220	\$ —	\$ —	\$ —	\$ —	\$ —	\$142,220
Average interest rate	0.36%	—	—	—	—	—	0.36%
Investments	\$ 18,922	\$ 4,938	\$ —	\$ —	\$ —	\$ 18,415	\$ 42,275
Average interest rate	1.46%	1.06%	—	—	—	1.61%	1.48%
Restricted cash	\$ 104	\$ —	\$ 29,137	\$ —	\$ —	\$ —	\$ 29,241
Average interest rate	0.58%	—	0.58%	—	—	—	0.58%
Total investment securities	\$ 161,246	\$ 4,938	\$ 29,137	\$ —	\$ —	\$ 18,415	\$213,736

The table above does not include uninvested cash of \$25.5 million held as of June 30, 2010. Total cash, cash equivalents, investments and restricted cash as of June 30, 2010 was \$239.2 million.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2010, the end of the period covered by this report on Form 10-Q. This evaluation (the "controls evaluation") was done under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Rules adopted by the SEC require that we disclose the conclusions of the CEO and the CFO about the effectiveness of our disclosure controls and internal controls based upon the controls evaluation.

Disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act, such as this report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed such that information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Our management does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, the benefits of controls must be considered relative to their costs and that there are inherent limitations in all control systems. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As of June 30, 2010, management evaluated the effectiveness of our disclosure controls and procedures and concluded those disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The litigation discussion set forth in Note 3 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

A restated description of the risk factors associated with our business is set forth below, which should be read in conjunction with risks disclosed elsewhere herein, including “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Outlook for Fiscal Year 2010”.

The Current Economic Downturn Has Adversely Impacted Our Business and May Adversely Impact Our Business Beyond Our Expectations.

Our business has been adversely affected by the ongoing credit crises and adverse worldwide economic conditions. Although our spend management solutions help companies reduce the cost of their goods and services and may therefore be perceived as even more strategic during adverse economic conditions, we experienced a challenging selling environment during the three and nine months ended June 30, 2010 and the year ended September 30, 2009. Adverse economic conditions could, among other things, result in reduced revenues, increased operating losses and reduced cash flows from operations, greater than anticipated uncollectible accounts receivables and increased allowances for doubtful accounts receivable, impairment of financial and non-financial assets and increased restructuring charges.

We May Fail to Achieve Our Financial Forecasts Due to Inaccurate Sales Forecasts and Other Factors.

Our revenues are difficult to predict and, as a result, our quarterly financial results can fluctuate substantially. We estimate quarterly revenues in part based on our sales pipeline, which is an estimate of potential customers, their stage of the sales process, the potential amount of their sales contracts and the likelihood that we will convert them into actual customers during the quarter. To the extent that any of these estimates are inaccurate, our actual revenues may be different than our forecast revenues.

Our Business Is Susceptible to Numerous Risks Associated with International Operations.

International operations have represented a significant portion of our revenues over the past three years. We have committed and expect to continue to commit significant resources to our international sales and marketing activities. We are subject to a number of risks associated with these activities. These risks generally include:

- currency exchange rate fluctuations;
- unexpected changes in regulatory requirements;
- tariffs, export controls and other trade barriers;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations;
- potentially adverse foreign tax consequences, including withholding in connection with the repatriation of earnings;
- the burdens of complying with a wide variety of foreign laws; and,
- political instability.

For international sales and expenditures denominated in foreign currencies, we are subject to risks associated with currency fluctuations. Since the majority of our non-U.S. sales are priced in currencies other than the U.S. dollar, a strengthening of the dollar may reduce the level of reported revenues. If such events continue to

occur, our net revenues could be seriously impacted, since a significant portion of our net revenues are derived from international operations. We have partially hedged risks associated with foreign currency transactions in order to minimize the impact of changes in foreign currency exchange rates on earnings. We utilize forward contracts to hedge trade and intercompany receivables and payables. There can be no assurance that our hedging strategy will be successful or that currency exchange rate fluctuations will not have a material adverse effect on our operating results. For example, in the year ended September 30, 2009 we had an increase in realized and unrealized foreign currency transaction losses of \$6.7 million on accounts receivable billed from Ariba, Inc. in foreign currencies to customers headquartered in foreign countries and realized losses on foreign denominated cash balances maintained in the United States of America, primarily due to the U.S. dollar strengthening against the Euro, the British Pound, the Australian dollar and the Canadian dollar.

Our Success Depends on Market Acceptance of Standalone Spend Management Solutions.

Our success depends on widespread customer acceptance of standalone spend management solutions from vendors like us, rather than solutions from ERP software vendors and others that are part of a broader enterprise application solution. For example, ERP vendors, such as Oracle and SAP, could bundle spend management modules with their existing applications and offer these modules at little or no cost. If our products and services do not achieve continued customer acceptance, our business will be seriously harmed.

We Have a History of Losses and May Incur Significant Additional Losses in the Future.

We have a significant accumulated deficit as of June 30, 2010, resulting in large part from cumulative charges for the amortization and impairment of goodwill and other intangible assets. We may incur significant losses in the future for a number of reasons, including those discussed in other risk factors and the following:

- declines in average selling prices of our products and services resulting from adverse economic conditions, competition and other factors;
- failure to successfully grow our sales channels;
- failure to maintain control over costs;
- charges incurred in connection with any future restructurings or acquisitions; and
- additional impairment charges as a result of the decline in value and credit quality of our investments in auction rate securities (“ARS”) or changes in the accounting treatment of these securities.

Our Quarterly Operating Results Are Volatile, Difficult to Predict and May Be Unreliable as Indicators of Future Performance Trends.

Our quarterly operating results have varied significantly in the past and will likely continue to vary significantly in the future. As a result, period-to-period comparisons of our results may not be meaningful and should not be relied upon as indicators of future performance. In addition, we may fail to achieve forecasts of quarterly and annual revenues and operating results.

Our quarterly operating results have varied or may vary depending on a number of factors, including the following:

Risks Related to Revenues:

- fluctuations in demand, sales cycles and average selling price for our products and services;
- reductions in customers’ budgets for information technology purchases and delays in their purchasing cycles;
- fluctuations in the number of relatively larger orders for our products and services;

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- increased dependence on relatively smaller orders from a larger number of customers;
 - dependence on generating revenues from new revenue sources;
 - ability to renew ratable revenue streams, including subscription software, software maintenance and subscription services, without substantial declines from prior arrangements; and,
 - changes in the mix of types of customer agreements and related timing of revenue recognition.

Risks Related to Expenses:

- our overall ability to control costs, including managing reductions in expense levels through restructuring and severance payments;
- costs associated with changes in our pricing policies and business model;
- costs associated with the amortization of stock-based compensation expense; and
- the failure to adjust our workforce to changes in the level of our operations.

Our On-Demand Strategy Carries a Number of Risks Which May Be Harmful to Our Business.

We derive a substantial portion of our revenue from subscriptions to our on-demand applications. We have experienced and may continue to experience a deferral of revenues and cash payments from customers.

Additional risks with the on-demand model include the following:

- as a result of increased demands on our engineering organization to develop multi-tenant versions of our products while supporting and enhancing our existing products, we may not introduce multi-tenant versions of our products or enhancements to our products on a timely and cost-effective basis or at appropriate quality levels;
- we have experienced and expect to continue to experience a decrease in the demand for our implementation services to the extent fewer customers license our software products as installed applications;
- we have experienced and expect to continue to experience a decrease in the demand for our maintenance services, which is related to our CD business, as many new customers are purchasing our on-demand products and a small number of legacy CD customers are converting to on-demand products;
- because we recognize revenue from subscription to our on-demand services over the term of the agreements, downturns or upturns in sales may not be immediately reflected in our operating results;
- we may not successfully achieve market penetration in our newly targeted markets, including target customers we characterize as middle-market companies;
- we may incur costs at a higher than forecasted rate as we expand our on-demand operations; and,
- product quality issues may affect forecasted adoptions and renewals.

We May Incur Additional Restructuring Charges that Adversely Affect Our Operating Results.

We have recorded significant restructuring charges relating to the abandonment of numerous leased facilities, including most notably portions of our Sunnyvale, California headquarters. For example, in the nine months ended June 30, 2010, we revised our estimates for sublease commencement dates based on the remaining terms of the lease in Sunnyvale, California and continued soft market conditions in the Northern California real estate market, resulting in a charge of \$8.6 million. Additional lease abandonment costs, resulting from the abandonment of additional facilities could adversely affect our operating results.

Our Business Could Be Seriously Harmed If We Fail to Retain Our Key Personnel.

Our future performance depends on the continued service of our senior management, product development and sales personnel. The loss of the services of one or more of these personnel could seriously harm our business. Our ability to retain key employees may be harder given that we have substantial operations in several geographic regions, including Sunnyvale, California, Pittsburgh, Pennsylvania, Atlanta, Georgia and Bangalore, India. In addition, uncertainty created by turnover of key employees could result in reduced confidence in our financial performance which could cause fluctuations in our stock price and result in further turnover of our employees.

Our Revenues In Any Quarter May Fluctuate Significantly Because Our Sales Cycles Can Be Long and Unpredictable.

Our sales cycles can be long and unpredictable. The purchase of our products is often discretionary and generally involves a significant commitment of capital and other resources by a customer. It frequently takes several months to finalize a sale and requires approval at a number of management levels within the customer organization. We have experienced longer sales cycles as a result of the current economic downturn and more levels of required customer management approvals. The implementation and deployment of our products requires a significant commitment of resources by our customers and third parties and/or professional services organizations. As a result of the length and unpredictability of our sales cycle, our revenues in any quarter may fluctuate significantly.

Revenues in Any Quarter May Vary to the Extent Recognition of Revenue Is Deferred When Contracts Are Signed. As a Result, Revenues in Any Quarter May Be Difficult to Predict and Are an Unreliable Indicator of Future Performance Trends.

We frequently enter into contracts where we recognize only a portion of the total revenue under the contract in the quarter in which we enter into the contract. For example, we may recognize revenue on a ratable basis over the life of the contract or enter into contracts where the recognition of revenue is conditioned upon delivery of future product or service elements. The portion of revenues recognized on a deferred basis may vary significantly in any given quarter, and revenues in any given quarter are a function both of contracts signed in such quarter and contracts signed in prior quarters.

Revenues From Our Ariba Spend Management Sourcing Services Could Be Negatively Affected If Customers Elect Not to Renew Their Contracts and New Deals Are Signed More Infrequently and at Lower Selling Prices.

We have several large multi-year contracts for our spend management services, some of which come up for renewal in the next year or beyond. If these customers do not renew their contracts upon expiration, or if they elect to use one of our lower-cost self-service solutions, our future revenues may decrease.

A Decline in Revenues May Have a Disproportionate Impact on Operating Results and Require Further Reductions in Our Operating Expense Levels.

Because our expense levels are relatively fixed in the near term and are based in part on expectations of our future revenues, any decline in our revenues to a level that is below our expectations would have a disproportionately adverse impact on our operating results for that quarter.

We Are Subject to Evolving and Expensive Corporate Governance Regulations and Requirements. Our Failure to Adequately Adhere to These Requirements or the Failure or Circumvention of Our Controls and Procedures Could Seriously Harm Our Business and Results of Operations.

Because we are a publicly-traded company, we are subject to certain federal, state and other rules and regulations, including those required by the Sarbanes-Oxley Act of 2002. Compliance with these evolving regulations is costly and requires a significant diversion of management time and attention, particularly with

regard to our disclosure controls and procedures and our internal control over financial reporting. Although we have reviewed our disclosure and internal controls and procedures in order to determine whether they are effective, our controls and procedures may not be able to prevent fraud or other errors in the future. Faulty judgments, simple errors or mistakes, or the failure of our personnel to adhere to established controls and procedures may make it impossible for us to ensure that the objectives of the control system are met. A failure of our controls and procedures to detect fraud or other errors could seriously harm our business and results of operations.

We Sometimes Experience Long Implementation Cycles, Which May Increase Our Operating Costs and Delay Recognition of Revenues.

Many of our products are complex applications that are generally deployed with many users. Implementation of these applications by enterprises is complex, time consuming and expensive. Long implementation cycles may delay the recognition of revenue as some of our customers engage us to perform system implementation services, which can defer revenue recognition for the related software license revenue. In addition, when we experience long implementation cycles, we may incur costs at a higher level than anticipated, which may reduce the anticipated profitability of a given implementation .

If a Sufficient Number of Suppliers Do Not Join and Maintain Their Participation In the Ariba Supplier Network, It May Not Attract a Sufficient Number of Buyers and Other Sellers Required to Make the Network Successful.

In order to provide buyers on the Ariba Supplier Network an organized method for accessing goods and services, we rely on suppliers to maintain web-based product catalogs, indexing services and other content aggregation tools. Any failure of suppliers to join the Ariba Supplier Network in sufficient numbers, or of existing suppliers to maintain their participation in the Ariba Supplier Network as a result of increase access charges or otherwise, would make the network less attractive to buyers and consequently other suppliers. Our inability to access and index these catalogs and services provided by suppliers would result in our customers having fewer products and services available to them through our solutions, which would adversely affect the perceived usefulness of the Ariba Supplier Network.

We Could Be Subject to Potential Claims Related to Our On-Demand Solutions, As Well As the Ariba Supplier Network.

We warrant to our customers that our on-demand solutions and the Ariba Supplier Network will achieve specified performance levels to allow our customers to conduct their transactions. To the extent we fail to meet warranted performance levels, we could be obligated to provide refunds or credits for future use or maintenance. Further, to the extent that a customer incurs significant financial hardship due to the failure of our on-demand solutions or the Ariba Supplier Network to perform as specified, we could be exposed to additional liability claims.

Failure to Establish and Maintain Strategic Relationships with Third Parties Could Seriously Harm Our Business, Results of Operations and Financial Condition.

We have established strategic relationships with a number of other companies. These companies are entitled to resell our products, to host our products for their customers, and/or to implement our products within their customers' organizations. We cannot be assured that any existing or future resellers or hosting or implementation partners will perform to our expectations. For example, in the past we have not realized the anticipated benefits from strategic relationships with a number of resellers. If our current or future strategic partners do not perform to expectations, or if they experience financial difficulties that impair their operating capabilities, our business, operating results and financial condition could be seriously harmed.

We Face Intense Competition. If We Are Unable to Compete Successfully, Our Business Will Be Seriously Harmed.

The market for our solutions is intensely competitive, evolving and subject to rapid technological change. This competition could result in further price pressure, reduced profit margins and loss of market share, any one of which could seriously harm our business. Competitors vary in size and in the scope and breadth of the products and services they offer. We compete with several major enterprise software companies, including SAP AG and Oracle. We also compete with several service providers, including A.T. Kearney and McKinsey & Company. In addition, we compete with smaller specialty vendors or smaller niche providers of sourcing or procurement products and services, including Emptoris, BravoSolution, Zycus, American Express S2S, Perfect Commerce, cc-Hubwoo, Ketera Technologies and Iasta. Because spend management is a relatively new software and solutions category, we expect additional competition from other established and emerging companies if this market continues to develop and expand. For example, third parties that currently help implement Ariba Buyer and our other products could begin to market products and services that compete with our products and services. These third parties, which include IBM, Accenture, Capgemini, Deloitte Consulting, BearingPoint and Unisys, are generally not subject to confidentiality or non-compete agreements that restrict such competitive behavior. Other competition includes established business process outsourcing organizations in the procuring industry including Accenture, Genpact and EDS.

Many of our current and potential competitors, such as ERP software vendors including Oracle and SAP, have longer operating histories, significantly greater financial, technical, marketing and other resources, significantly greater name recognition and a larger installed base of customers than us. These vendors could also introduce spend management solutions that are included as part of broader enterprise application solutions at little or no cost to their customers. In addition, many of our competitors have well-established relationships with our current and potential customers and have extensive knowledge of our industry. In the past, we have lost potential customers to competitors for various reasons, including lower prices and incentives not matched by us. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address customer needs. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly increase their market share. We also expect that competition will increase as a result of industry consolidations. The industry has experienced consolidation with both larger and smaller competitors acquiring companies to broaden their offerings or increase scale. As a result, we may not be able to successfully compete against our current and future competitors.

Any Future Acquisitions or Disposition Will Be Subject to a Number of Risks.

Any future acquisitions or disposition will be subject to a number of risks, including:

- the diversion of management time and resources;
- the difficulty of assimilating the operations and personnel of the acquired companies;
- the potential disruption of our ongoing business;
- the difficulty of incorporating acquired technology and rights into our products and services;
- unanticipated expenses related to integration of the acquired companies;
- difficulties in implementing and maintaining uniform standards, controls, procedures and policies;
- the impairment of relationships with employees and customers as a result of any integration of new management personnel;
- potential unknown liabilities associated with acquired businesses; and
- impairment of goodwill and other assets acquired.

If We Fail to Develop Products and Services on a Timely and Cost-Effective Basis, or If Our Products or Services Contain Defects, Our Business Could Be Seriously Harmed.

In developing new products and services, we may:

- fail to develop, introduce and market products in a timely or cost-effective manner;
- find that our products and services are obsolete, noncompetitive or have shorter life cycles than expected;
- fail to develop new products and services that adequately meet customer requirements or achieve market acceptance; or
- develop products that contain undetected errors or failures when first introduced or as new versions are released.

If new releases of our products or potential new products are delayed, we could experience a delay or loss of revenues and customer dissatisfaction.

Litigation Could Seriously Harm Our Business.

There can be no assurance that future litigation will not have a material adverse effect on our business, financial position, results of operations or cash flows, or that the amount of any accrued losses is sufficient for any actual losses that may be incurred. See Note 3 of Notes to the Condensed Consolidated Financial Statements.

We May Be Required to Record Additional Impairment Charges in Future Quarters as a Result of the Decline in Value of Our Investments in Auction Rate Securities (“ARS”).

We hold a variety of interest bearing ARS that represent investments in pools of assets, including student loans, commercial paper and credit derivative products. These ARS investments are intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par. The continuing uncertainties in the credit markets have affected all of our holdings in ARS investments and auctions for our investments in these securities have failed to settle on their respective settlement dates. Consequently, the investments are not currently liquid and we will not be able to access these funds until a future auction of these investments is successful or a buyer is found outside of the auction process. Contractual maturity dates for these ARS investments range from 2016 to 2047 with principal distributions occurring on certain securities prior to maturity.

The valuation of our ARS, along with the rest of our investment portfolio, is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates and ongoing strength and quality of market credit and liquidity.

Although we currently have no intent to sell these ARS investments prior to recovery nor are aware of any factors that would make such a sale of the ARS investments more likely than not, if the current market conditions deteriorate further, or the anticipated recovery in market values does not occur, we may be required to record additional unrealized losses in other comprehensive income (loss) or to record all current and any future unrealized losses as a charge in our statement of operations in future quarters. See Note 8—Fair Value of Our Notes to Condensed Consolidated Financial Statements for additional information about the potential adverse impact of our investments in ARS.

We May Incur Goodwill Impairment Charges that Adversely Affect Our Operating Results.

We review goodwill for impairment annually and more frequently if events and circumstances indicate that the asset may be impaired and that the carrying value may not be recoverable. Factors we consider important that

could trigger an impairment review include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period, and decreases in our market capitalization below the recorded amount of our net assets for a sustained period. Our stock price is highly volatile and has experienced significant declines recently. The balance of goodwill is \$406.5 million as of June 30, 2010 and, there can be no assurance that future goodwill impairments will not occur.

Our Stock Price Is Highly Volatile and the Market Price of Our Common Stock May Decrease in the Future.

Our stock price has fluctuated dramatically. There is a significant risk that the market price of our common stock will decrease in the future in response to any of the following factors, including those discussed in other risk factors, some of which are beyond our control:

- variations in our quarterly operating results;
- announcements that our revenues or income are below analysts' expectations;
- changes in analysts' estimates of our performance or industry performance;
- changes in market valuations of similar companies;
- sales of large blocks of our common stock;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- the loss of a major customer or our failure to complete significant subscription transactions; and
- additions or departures of key personnel.

We Are at Risk of Further Securities Class Action Litigation Due to Our Stock Price Volatility.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. We have experienced significant volatility in the price of our stock over the past years. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources, which could seriously harm our business.

If the Protection of Our Intellectual Property Is Inadequate, Our Competitors May Gain Access to Our Technology, and We May Lose Customers.

We depend on our ability to develop and maintain the proprietary rights of our technology. To protect our proprietary technology, we rely primarily on a combination of contractual provisions, including customer licenses that restrict use of our products, confidentiality agreements and procedures, and patent, copyright, trademark and trade secret laws. We have 45 patents issued in the United States of America, but may not develop other proprietary products that are patentable. Despite our efforts, we may not be able to adequately protect our proprietary rights, and our competitors may independently develop similar technology, duplicate our products or design around any patents issued to us. This is particularly true because some foreign laws do not protect proprietary rights to the same extent as those of the United States of America and, in the case of our solutions, because the validity, enforceability and type of protection of proprietary rights in these technologies are uncertain and evolving. If we fail to adequately protect our proprietary rights, we may lose customers.

There has been a substantial amount of litigation in the software industry and the Internet industry regarding intellectual property rights. It is possible that in the future, third parties may claim that we or our current or potential future products infringe their intellectual property rights. We expect that software product developers and providers of electronic commerce solutions will increasingly be subject to infringement claims, and third parties may claim that we or our current or potential future products infringe their intellectual property. Any

claims, with or without merit, could be time-consuming, result in costly litigation, divert management's time from developing our business, cause product shipment delays, require us to enter into royalty or licensing agreements or require us to satisfy indemnification obligations to our customers. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could seriously harm our business.

In addition, we may need to commence litigation or take other actions to protect our intellectual property rights. These lawsuits and other potential litigation and actions brought by us could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights.

We Rely on Third-Party Technology for Our Solutions which Might Not be Available to Us in the Future.

We must now, and may in the future have to, license or otherwise obtain access to intellectual property of third parties. For example, we are currently dependent on developers' licenses from ERP, database, human resource and other systems software vendors in order to ensure compliance of our products with their management systems. In addition, we rely on technology that we license from third parties, including software that is integrated with internally developed software and used in our software products to perform key functions. If we are unable to continue to license any of this software on commercially reasonable terms, or at all, we will face delays in releases of our software until equivalent technology can be identified, licensed or developed, and integrated into our current products or require us to satisfy indemnification obligations to our customers. These delays, if they occur, could adversely affect our business.

If Our Security Measures Fail or Unauthorized Access to Customer Data Is Otherwise Obtained, Our Solutions May Be Perceived As Not Being Secure, Customers May Curtail or Stop Using Our Solutions, And We May Incur Significant Liabilities.

Our operations involve the storage and transmission of our customers' confidential information, and security breaches could expose us to a risk of loss of this information, litigation, indemnity obligations and other liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to our customers' data, our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose potential revenues and existing customers.

Further, because our products transmit data and information belonging to our customers, many customers and prospects require us to meet specific security standards or to maintain security certifications with respect to our products and operations. Given the complexity of our business and the costs and efforts required to meet the high standards to maintain these security certifications, there is no guarantee that we can achieve or maintain any such certifications or standards. If we fail to meet the standards for these security certifications, it could negatively impact our ability to attract new or keep existing customers and it could seriously harm our business.

Business Disruptions Could Affect Our Operating Results.

A significant portion of our research and development activities and certain other critical business operations is concentrated in a few geographic areas. We are a highly automated business and a disruption or failure of our systems could cause delays in completing sales and providing services. A major earthquake, fire or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and, as a result, our future operating results could be materially and adversely affected.

Anti-takeover Provisions in Our Charter Documents and Delaware Law Could Discourage, Delay or Prevent a Change in Control of Our Company and May Affect the Trading Price of Our Common Stock.

Certain anti-takeover provisions in our certificate of incorporation and bylaws and certain provisions of Delaware law may have the effect of delaying, deferring or preventing a change in control of the Company without further action by our stockholders, may discourage bids for our common stock at a premium over the market price of our common stock and may adversely affect the market price of our common stock and other rights of our stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

We have granted shares of restricted common stock that allow statutory tax withholding obligations incurred upon settlement of those shares to be satisfied by forfeiting a portion of those shares to us. There were no shares acquired by us upon forfeiture of restricted shares during the quarter ended June 30, 2010.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Exhibit Title</u>
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files pursuant to Rule 405 of Regulation S-T (XBRL).

CERTIFICATION

I, Robert M. Calderoni, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ariba, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/ s / **ROBERT M. CALDERONI**
Robert M. Calderoni
Chief Executive Officer

CERTIFICATION

I, Ahmed Rubaie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ariba, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ A HMED R UBAIE

Ahmed Rubaie
Executive Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Ariba, Inc. (the "Company") on Form 10-Q for the three months ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Robert M. Calderoni, as Chief Executive Officer of the Company, and Ahmed Rubaie, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/ s / R O B E R T M . C A L D E R O N I

Robert M. Calderoni
Chief Executive Officer

August 5, 2010

/ s / A H M E D R U B A I E

Ahmed Rubaie
Executive Vice President and
Chief Financial Officer

August 5, 2010