

SABA SOFTWARE INC
Form 10-Q
October 07, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 31, 2010

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

For the transition period from to .

001-34372

(Commission File number)

SABA SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware (State or other jurisdiction of incorporation or organization)	94-3267638 (I.R.S. Employer Identification No.)
2400 Bridge Parkway Redwood Shores, California (Address of principal executive offices)	94065-1166 (Zip Code)
(650) 581-2500 (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 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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-Accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

On September 30, 2010, 28,173,685 shares of the registrant's Common Stock, \$0.001 par value, were outstanding.

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SABA SOFTWARE, INC.

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QUARTER ENDED AUGUST 31, 2010

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SABA SOFTWARE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

(Unaudited)

	August 31, 2010	May 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,192	\$ 32,002
Restricted cash	21	20
Accounts receivable, net of allowances for doubtful accounts of \$150 as of August 31, 2010 and May 31, 2010	16,722	23,352
Prepaid expenses and other current assets	3,096	1,788
Total current assets	53,031	57,162
Property and equipment, net	2,934	3,178
Goodwill	36,095	36,095
Purchased intangible assets, net	4,099	5,027
Restricted cash	260	260
Other assets	1,982	1,722
Total assets	\$ 98,401	\$ 103,444
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 3,343	\$ 3,218
Accrued compensation and related expenses	6,567	8,069
Accrued expenses	2,996	2,746
Deferred revenue	31,647	34,435
Current portion of lease obligations	474	450
Total current liabilities	45,027	48,918
Deferred revenue	2,782	2,559
Other long-term liabilities	1,179	1,156
Accrued rent	1,658	1,785
Total liabilities	50,646	54,418
Stockholders equity:		
Preferred stock, issuable in series \$0.001 par value, 5,000,000 authorized shares at August 31, 2010 and May 31, 2010; none issued or outstanding		
Common stock, \$0.001 par value, 50,000,000 authorized; 28,254,937 shares issued at August 31, 2010 and 28,252,131 shares issued at May 31, 2010	29	29
Additional paid-in capital	257,144	255,938

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Treasury stock: 195,497 shares at August 31, 2010 and 121,997 shares at May 31, 2010	(1,075)	(328)
Accumulated deficit	(208,141)	(206,336)
Accumulated other comprehensive loss	(202)	(277)
Total stockholders' equity	47,755	49,026
Total liabilities and stockholders' equity	\$ 98,401	\$ 103,444

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**SABA SOFTWARE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except share and per share data)****(Unaudited)**

	Three months ended August 31,	
	2010	2009
Revenues:		
Subscription	\$ 14,895	\$ 13,977
License	4,450	5,712
Professional services	7,469	6,122
Total revenues	26,814	25,811
Cost of revenues:		
Cost of subscription	3,920	4,045
Cost of license	247	210
Cost of professional services	5,426	4,552
Amortization of acquired developed technology	295	295
Total cost of revenues	9,888	9,102
Gross profit	16,926	16,709
Operating expenses:		
Research and development	4,423	4,222
Sales and marketing	9,869	6,788
General and administrative	3,412	3,843
Restructuring		(37)
Amortization of purchased intangible assets	634	634
Total operating expenses	18,338	15,450
Income (loss) from operations	(1,412)	1,259
Interest and other income (expense), net	(225)	(22)
Interest expense	(2)	(3)
Income (loss) before provision for income taxes	(1,639)	1,234
Provision for income taxes	(165)	(214)
Net income (loss)	\$ (1,804)	\$ 1,020
Basic net income (loss) per share	\$ (0.06)	\$ 0.03
Diluted net income (loss) per share	\$ (0.06)	\$ 0.03
Shares used in computing basic net income (loss) per share	28,151	29,220

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Shares used in computing diluted net income (loss) per share	28,151	29,833
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See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**SABA SOFTWARE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

	Three months ended August 31,	
	2010	2009
Operating activities:		
Net income (loss)	\$ (1,804)	\$ 1,020
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	558	622
Amortization of purchased intangible assets	929	929
Share-based compensation	814	264
Changes in operating assets and liabilities:		
Accounts receivable	6,886	1,406
Prepaid expenses and other current assets	(1,284)	(258)
Other assets	(243)	51
Accounts payable	109	1,102
Accrued compensation and related expenses	(1,442)	177
Accrued expenses	217	175
Deferred revenue	(2,962)	(4,511)
Accrued rent	(279)	(264)
Net cash provided by operating activities	1,499	713
Investing activities:		
Purchases of property and equipment	(288)	(183)
Net cash used in investing activities	(288)	(183)
Financing activities:		
Proceeds from issuance of common stock under stock plans	392	45
Repurchase of common stock	(747)	(4,847)
Repayments of borrowings under credit facility		(99)
Repayments of note payable		(22)
Net cash used in financing activities	(355)	(4,923)
Effect of exchange rate changes on cash and cash equivalents	334	3
Increase (decrease) in cash and equivalents	1,190	(4,390)
Cash and cash equivalents, beginning of period	32,002	25,978
Cash and cash equivalents, end of period	\$ 33,192	\$ 21,588
Supplemental disclosure of other cash flow information:		
Cash paid for income taxes, net of refunds	\$ 819	\$ 230
Cash paid for interest	\$	\$ 3

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SABA SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Saba Software, Inc. and its wholly owned subsidiaries (Saba or the Company). All intercompany balances and transactions have been eliminated.

The accompanying condensed consolidated balance sheet as of August 31, 2010, the condensed consolidated statements of operations for the three months ended August 31, 2010 and 2009 and the condensed consolidated statements of cash flows for the three months ended August 31, 2010 and 2009 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP). In the opinion of management, the unaudited interim condensed consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of the Company s financial position as of August 31, 2010, and the Company s results of operations for the three months ended August 31, 2010 and 2009 and cash flows for the three months ended August 31, 2010 and 2009.

These unaudited condensed consolidated financial statements should be read in conjunction with Saba s audited consolidated financial statements included in Saba s Annual Report on Form 10-K for the fiscal year ended May 31, 2010 filed with the Securities and Exchange Commission (the SEC) on August 12, 2010. The results of operations for the three months ended August 31, 2010 are not necessarily indicative of results for the entire fiscal year ending May 31, 2011 or for any future period.

The condensed consolidated balance sheet at May 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements.

Certain prior year balances have been reclassified to conform to the current year s presentation. Such reclassifications did not affect total revenues, operating income (loss) or net income (loss).

2. Summary of Significant Accounting Policies

Revenue Recognition

Saba recognizes license revenues in accordance with the provisions of ASC 985-605, *Software-Revenue Recognition*. Under ASC 985-605, Saba recognizes license revenues when all of the following conditions are met:

persuasive evidence of an agreement exists;

delivery has occurred;

the fee is fixed or determinable; and

collection is probable.

Saba recognizes revenue earned on software arrangements involving multiple elements using the residual method. Under the residual method revenue is allocated to undelivered element based on vendor-specific objective evidence of fair value of such undelivered elements and the residual amounts of revenue are allocated to delivered elements. Saba has analyzed each element in its multiple-element arrangements and determined that it has sufficient vendor-specific objective evidence (VSOE) to allocate revenues to certain subscription offerings and professional services. Accordingly, assuming all other revenue recognition criteria are met, revenues from perpetual licenses are

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

recognized upon delivery using the residual method. Saba limits its assessment of VSOE for each element to either the price charged when the same element is sold separately or the price established by management, having the relevant authority to do so, for an element not yet sold separately.

Subscription revenues include revenue from Saba products delivered as software as a service in an internet-based cloud architecture and revenue from license updates and product support. Revenue from providing customers with access to Saba products in the cloud is recognized as a service arrangement ratably over the term of the arrangement upon delivery or on an as-used basis if defined in the contract. Certain of the cloud-based offerings are integrated offerings pursuant to which the customers' ability to access the Company's software is not separable from the services necessary to operate the software and customers are not allowed to take possession of the Company's software, in which case revenue is recognized under ASC 605-10. Saba's cloud-based offerings also include arrangements with customers that have separately licensed and taken possession of the Company's software. When these offerings are part of a multiple element arrangement involving licenses, Saba recognizes revenue in accordance with ASC 985-605. License updates and product support revenue is also recognized ratably over the term of the arrangement, typically 12 months.

License revenues from licenses with a term of three years or more are generally recognized on delivery if the other conditions of ASC 985-605 are satisfied. License revenues from licenses with a term of less than three years are generally recognized ratably over the term of the arrangement. In arrangements where term licenses are bundled with license updates and product support and such revenue is recognized ratably over the term of the arrangement, Saba allocates the revenue to license revenue and to license updates and product support revenue based on the VSOE of fair value for license updates and product support revenue on perpetual licenses of similar products. Saba does not grant its resellers the right of return and does not recognize revenue from resellers until an end-user has been identified and the other conditions of ASC 985-605 are satisfied.

Professional services revenues are generally recognized as the services are performed. Although Saba generally provides professional services on a time-and-materials basis, certain services agreements are provided on a fixed-fee basis. For services performed on a fixed-fee basis, revenues are generally recognized on the proportional performance of the project, with performance measured based on hours of work performed. For contracts that involve significant customization and implementation or consulting services that are essential to the functionality of the software, the license and services revenues are recognized using the percentage-of-completion method or, if Saba is unable to reliably estimate the costs to complete the services, Saba uses the completed-contract method of accounting in accordance with ASC 985-605 and relevant guidance of ASC 605-35 *Construction-Type and Certain Production Type*. A contract is considered complete when all significant costs have been incurred or the item has been accepted by the customer.

If the requirements of ASC 985-605 are not met when Saba bills a customer or a customer pays Saba, the billed or paid amount is recorded as deferred revenue, which is a liability account. As the revenue recognition criteria of ASC 985-605 are satisfied, the requisite amounts are recognized as revenue.

In arrangements that include professional services and delivery of our products in the cloud, but not a license of the Company's software, the Company recognizes revenue for professional services as the services are performed if these professional services qualify as a separate element of the arrangement. If the professional services do not qualify as a separate element of the arrangement, the professional services revenue is recognized ratably over the longest period of the subscription period. Additionally, the Company defers the direct costs related to the professional services and recognizes them ratably over the applicable subscription period. The Company classifies deferred revenue and deferred costs on its consolidated balance sheet as current if the Company expects to recognize such revenue or cost within the following twelve months. When the revenue from professional services is recognized ratably over the subscription, the Company allocates the revenue to professional services revenue and to subscription revenue based on the VSOE of fair value for similar professional services that qualify as a separate element of the arrangement. The Company's judgment as to whether the consulting services qualify as a separate unit of accounting may materially affect the timing of the Company's revenue recognition and results of operations.

Table of Contents**SABA SOFTWARE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)*****Fair Value Measurements***

The Company performs fair value measurements in accordance with the guidance provided by the FASB's Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at their fair values, the Company considers the principal or most advantageous market in which it transacts and considers assumptions that market participants would use when pricing the assets or liabilities, such as inherent risk, transfer restrictions, and risk of nonperformance.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset's or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets or liabilities.

Liabilities Measured at Fair Value on a Recurring Basis

The liabilities measured at fair value on a recurring basis, excluding accrued interest components, consisted of the following types of instruments (Level 2 inputs are defined above):

	Fair Value Measurements Using Input Types Level 2 (in thousands)
Liabilities:	
Derivative financial instruments	\$ 96
Current liabilities	\$ 96

3. Share-Based Compensation

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The Company accounts for share-based payments to employees, including grants of employee stock options, restricted stock units (RSUs) and purchases under employee stock purchase plans, in accordance with ASC 718-10 *Compensation - Stock Compensation*, which requires that these awards (to the extent they are compensatory) be recognized in the Company's consolidated statements of operations based on their fair values.

The Company currently uses the Black-Scholes-Merton option pricing model to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the expected term of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

the awards, the Company's expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, the risk-free interest rate and any expected dividends. The Company estimates the expected term of the share-based awards using its historical option activities, including option exercises, restricted stock units and holding patterns. The Company estimates the volatility using its historical stock price volatility over the length of the expected term of the options. The Company bases the risk-free interest rate that it uses in the option valuation model on U.S. Treasury zero-coupon issues with remaining maturities similar to the expected term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. The expected term of employee stock purchase plan shares is the average of the remaining purchase periods under each offering period.

The following assumptions have been used to value the options and awards granted during the three months ended August 31, 2010 and 2009, respectively, under the Company's stock incentive plans and stock purchased under the Company's employee stock purchase plan:

	Three months ended August 31,	
	2010	2009
Stock Options:		
Expected volatility	57%	59%
Risk-free interest rates	2.08%	0.80%
Expected term (years)	5.7	4.1
Expected dividend yield	0%	0%
Employee Stock Purchase Plan:		
Expected volatility	51%	78%
Risk-free interest rates	0.40%	0.53%
Expected term (years)	0.5 2.0	0.5 2.0
Expected dividend yield	0%	0%

The following table summarizes the stock-based compensation expense for stock options, restricted stock units and the Company's employee stock purchase plan shares that was recorded in the Company's condensed consolidated statements of operations for the three months ended August 31, 2010 and 2009, respectively:

	Three months ended August 31,	
	2010	2009
	(in thousands)	
Cost of revenues	\$ 107	\$ 46
Research and development	123	56
Sales and marketing	279	71
General and administrative	305	91
Share-based compensation expense included in net income (loss)	\$ 814	\$ 264

The share-based compensation expense categorized by various equity components is summarized in the table below:

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	Three months ended	
	August 31,	
	2010	2009
	(in thousands)	
Stock options	\$ 658	\$ 223
Restricted stock units	147	19
Employee stock purchase plan	9	22
 Total share-based compensation	 \$ 814	 \$ 264

RSUs granted by the Board of Directors have been awarded under the Company's 2000 Stock Incentive Plan (the "2000 Stock Plan") and the 2009 Stock Incentive Plan (the "2009 Stock Plan"). The RSUs vest in four annual installments commencing on the one year anniversary of the date of the award. During the quarter ended August 31, 2010, 40,000 shares of the RSUs were vested. In order to satisfy tax withholding obligations that arose on the vesting of restricted stock units, 14,547 shares of common stock pursuant to our restricted stock units were repurchased for an aggregate price of approximately \$0.1 million.

Share-based compensation expense included \$0.1 million during the quarter ended August 31, 2010 resulting from the acceleration of vesting for the Company's former Chief Marketing Officer, upon termination as per his employment agreement.

The weighted average estimated fair value of options granted was \$2.60 and \$1.89 per share for the three months ended August 31, 2010 and 2009, respectively. The weighted average estimated fair value of RSUs granted was \$4.90 and \$1.30 per share for the three months ended August 31, 2010 and 2009.

4. Basic and Diluted Net Income (Loss) Per Share

Basic and diluted net income (loss) per share information for all periods is presented under the requirements of ASC 260-10 *Earnings per Share*. Basic earnings per share have been computed using the weighted-average number of shares of common stock outstanding during the period. Basic earnings per share excludes the dilutive effects of options. Dilutive potential common shares consist of shares issuable upon the exercise of stock options and restricted stock unit awards under the treasury stock method. Potentially dilutive issuances have been excluded from the computation of diluted net loss per share as their inclusion would be anti-dilutive, which consist of common stock options, restricted stock unit awards and common stock subject to repurchase. The calculations of basic and diluted net income (loss) per share are as follows:

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(in thousands, except per share data)	Three months ended August 31,	
	2010	2009
Net income (loss)	\$ (1,804)	\$ 1,020
Weighted-average shares of common stock used in computing basic net income (loss) per share	28,151	29,220
Effect of dilutive employee stock plans		613
Weighted-average shares of common stock used in computing diluted net income (loss) per share	28,151	29,833
Basic net income (loss) per share	\$ (0.06)	\$ 0.03
Diluted net income (loss) per share	\$ (0.06)	\$ 0.03
Shares subject to anti-dilutive stock options and restricted stock-based awards excluded from calculation ⁽¹⁾	4,581	3,505

(1) These weighted shares relate to anti-dilutive stock options and restricted stock-based awards as calculated using the treasury stock method (described above) and could be dilutive in the future.

If Saba had generated net income for the three months ended August 31, 2010, 1.2 million common equivalent shares would have been added to the basic weighted-average shares outstanding for purposes of calculating the diluted weighted-average shares outstanding for the period. For the three months ended August 31, 2009, 0.6 million common equivalent shares related to employee stock plans were added to the basic weighted-average shares outstanding for purposes of calculating the diluted weighted-average shares outstanding.

Shares used in diluted net income per common share calculations exclude anti-dilutive common equivalent shares, consisting of all stock options and restricted stock units, if they have exercise prices that are higher than the average market price of the Company's common stock during the respective periods, under the treasury method. These anti-dilutive common equivalent shares totaled 4.6 million and 3.5 million shares for the three months ended August 31, 2010 and 2009, respectively. While these common equivalent shares are currently anti-dilutive, they could be dilutive in the future.

5. Comprehensive Income (Loss)

The Company reports comprehensive income (loss) in accordance with ASC 220-10 *Comprehensive Income*. The following table sets forth the calculation of comprehensive income (loss) for all the periods presented:

(in thousands)	Three months ended August 31,	
	2010	2009
Net income (loss)	\$ (1,804)	\$ 1,020
Foreign currency translation gain (loss)	74	(20)
Comprehensive income (loss)	\$ (1,730)	\$ 1,000

6. Goodwill and Purchased Intangible Assets

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Purchased intangible assets consist of acquired developed technology, customer relationships and trade names acquired as part of a purchase business combination. The intangible assets are stated at cost less accumulated

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amortization and are being amortized on a straight-line basis over their estimated useful lives ranging from five to seven years.

There were no additions to intangible assets during the three months ended August 31, 2010. The following tables provide a summary of the carrying amounts of purchased intangible assets that continue to be amortized:

(in thousands)	August 31, 2010			Weighted Average Useful Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$ 14,920	\$ (11,380)	\$ 3,540	6.3 Years
Tradenames	820	(752)	68	5.0 Years
Acquired developed technology	5,890	(5,399)	491	5.0 Years
Total	\$ 21,630	\$ (17,531)	\$ 4,099	

(in thousands)	May 31, 2010			Weighted Average Useful Life
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Customer relationships	\$ 14,920	\$ (10,787)	\$ 4,133	6.3 Years
Tradenames	820	(710)	110	5.0 Years
Acquired developed technology	5,890	(5,105)	785	5.0 Years
Total	\$ 21,630	\$ (16,602)	\$ 5,028	

The total expected future amortization related to acquired intangible assets is approximately \$2.3 million and \$1.8 million in fiscal years 2011 through 2012, respectively. All intangible assets are expected to be fully amortized by May 31, 2012.

Goodwill is reviewed annually for impairment (or more frequently if indicators of impairment arise or circumstances otherwise dictate). The Company completed its annual impairment assessment in fiscal 2010 and concluded that goodwill was not impaired. For the three months ended August 31, 2010, there were no indicators of impairment of goodwill. Intangible assets are reviewed for impairment whenever events indicate that their carrying amount may not be recoverable. For the three months ended August 31, 2010, there were no indicators of impairment of intangible assets.

7. Lease Obligations

On September 7, 2010, the Company entered into a Third Amendment to Lease with Westport Office Park, LLC (the Landlord), which amends the Lease Agreement dated as of March 16, 1999, as amended, between the Company and the Landlord relating to the lease of the office space comprising the Company's corporate headquarters. The Third Amendment to Lease, which became effective as of August 31, 2010, extended the lease termination date from May 31, 2014 to May 31, 2019. The Third Amendment to Lease also amended the Lease Agreement so that the base monthly rent payable from June 1, 2013 through May 31, 2014 under the Lease

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Agreement will be \$162,086 and the monthly rent payable from June 1, 2014 through May 31, 2019 under the Lease Agreement will begin at \$96,768 on June 1, 2014 and thereafter increase annually by approximately \$3,000.

8. Derivative Financial Instruments***Foreign Currency Forward Contracts Not Designated as Hedges***

Saba transacts business in various foreign currencies and is subject to risks associated with certain foreign currency exposures. In fiscal 2011, Saba started a program that primarily utilizes foreign currency forward contracts to offset these risks so that increases or decreases in foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions, specifically with Indian rupee. Saba's currency exposures typically arise from intercompany loans and other intercompany transactions that are expected to be cash-settled in the near term. Saba's ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of cross-currency transactions that are entered into, the currency exchange rates associated with these exposures and changes in those rates, whether Saba has entered into foreign currency forward contracts to offset these exposures and other factors.

Saba neither uses foreign currency forward contracts for trading purposes nor designates these forward contracts as hedging instruments pursuant to ASC 815. Accordingly, the fair values of these contracts are recorded as of the end of the reporting period on the Company's consolidated balance sheet with changes in fair values recorded on the Company's consolidated statement of operations. The balance sheet classification for the fair values of these forward contracts is current liabilities for unrealized losses. The statement of operations classification for the fair values of these forward contracts is interest and other expense, net, for both realized and unrealized gains and losses. In the tables below, Saba provides information related to its foreign currency forward contracts where all of the contracts are not designated as hedges.

The effects of derivative instruments on the Company's condensed consolidated financial statements are as follows as of and for each of the respective periods presented below (amounts presented exclude any income tax effects):

Fair Value of Derivative Instruments in Condensed Consolidated Balance Sheets

		Three months ended August 31, 2010 2009 (in thousands)
Derivatives not designated as hedges:		
Foreign currency forward contracts	Current liabilities	\$ 96

		Three months ended August 31, 2010 2009 (in thousands)
Derivatives not designated as hedges:		
Foreign currency forward contracts	Interest and other income (expense), net	\$ (96)

9. Guarantees

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Saba enters into license agreements that generally provide indemnification for its customers against intellectual property claims. To date, Saba has not incurred any costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in its consolidated financial statements.

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SABA SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Saba's license agreements also generally include a warranty that its software products will substantially operate as described in the applicable program documentation for a period of generally 90 days after delivery. To date, Saba has not incurred or accrued any material costs associated with these warranties.

Other guarantees include promises to indemnify, defend and hold harmless each of the Company's executive officers, non-employee directors and certain key employees from and against losses, damages and costs incurred by each such individual in administrative, legal or investigative proceedings arising from alleged wrongdoing by the individual while acting in good faith within the scope of his or her job duties on behalf of the Company. Historically, minimal costs have been incurred relating to such indemnifications and, as such, no accruals for these guarantees have been made.

10. Income Taxes

Income tax provision for the three months ended August 31, 2010 and 2009 was an expense of \$165,000 and \$214,000, respectively. Income tax provision during both of these three-month periods consists primarily of state taxes as well as foreign tax expense incurred as a result of local country profits. The decrease in provision expense for the three months ended August 31, 2010 compared to the three months ended August 31, 2009 is primarily related to the current quarter loss in the US jurisdiction.

As of August 31, 2010 and May 31, 2010, the Company had a valuation allowance against the full amount of any U.S. net deferred tax assets. The Company currently provides a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all of its deferred tax assets, will not be realized.

11. Litigation

Litigation Relating to Initial Public Offering of Saba

In November 2001, a complaint was filed in the United States District Court for the Southern District of New York (the "District Court") against the Company, certain of its officers and directors, and certain underwriters of the Company's initial public offering. The complaint was purportedly filed on behalf of a class of certain persons who purchased the Company's common stock between April 6, 2000 and December 6, 2000. The complaint alleges violations by the Company and its officers and directors of Section 11 of the Securities Act of 1933, as amended (the "Securities Act"), Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other related provisions in connection with certain alleged compensation arrangements entered into by the underwriters in connection with the initial public offering. An amended complaint was filed in April 2002. Similar complaints have been filed against hundreds of other issuers that have had initial public offerings since 1998. The complaints allege that the prospectus and the registration statement for the initial public offering failed to disclose that the underwriters allegedly solicited and received excessive commissions from investors and that some investors in the initial public offering agreed with the underwriters to buy additional shares in the aftermarket in order to inflate the price of the Company's stock. The complaints were later consolidated into a single action. The complaint seeks unspecified damages, attorney and expert fees, and other unspecified litigation costs.

On July 1, 2002, the underwriter defendants in the consolidated actions moved to dismiss all of the actions, including the action involving the Company. On July 15, 2002, the Company, along with other non-underwriter defendants in the coordinated cases, moved to dismiss the litigation. On February 19, 2003, the District Court ruled on the motions. The District Court granted the Company's motion to dismiss the claims against the Company under Rule 10b-5, due to the insufficiency of the allegations against the Company. The District Court also granted the motion of the individual defendants, Bobby Yazdani and Terry Carlitz, the Company's Chief Executive Officer and Chairman of the Board and former Chief Financial Officer and a member of the Company's Board of Directors, to dismiss the claims against them under Rule 10b-5 and Section 20 of the Exchange Act. The motions to dismiss the claims under Section 11 of the Securities Act were denied as to virtually all of the defendants in the consolidated cases, including the Company.

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SABA SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In June 2003, a proposed collective partial settlement of this litigation was structured between the plaintiffs, the issuer defendants in the consolidated actions, the issuer officers and directors named as defendants, and the issuers' insurance companies. In June 2004, an agreement of partial settlement was submitted to the District Court for preliminary approval. The District Court granted the preliminary approval motion on February 15, 2005, subject to certain modifications. On August 31, 2005 the District Court issued a preliminary order further approving the modifications to the settlement and certifying the settlement classes. The District Court also appointed the notice administrator for the settlement and ordered that notice of the settlement be distributed to all settlement class members by January 15, 2006. The settlement fairness hearing occurred on April 24, 2006, and the court reserved decision at that time.

While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The District Court directed that the litigation proceed within a number of "focus cases" rather than in all of the 310 cases that have been consolidated. The Company's case is not one of these focus cases. On October 13, 2004, the District Court certified the focus cases as class actions. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit reversed the District Court's class certification decision. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing. In light of the Second Circuit opinion, counsel for the issuer defendants informed the District Court that this settlement could not be approved because the defined settlement class, like the litigation class, could not be certified. On June 25, 2007, the District Court entered an order terminating the settlement agreement. On August 14, 2007, the plaintiffs filed their second consolidated amended class action complaints against the focus cases and on September 27, 2007, again moved for class certification. On November 12, 2007, certain of the defendants in the focus cases moved to dismiss the second consolidated amended class action complaints. On March 26, 2008, the District Court denied the motions to dismiss except as to Section 11 claims raised by those plaintiffs who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. Briefing on the class certification motion was completed in May 2008. That motion was withdrawn without prejudice on October 10, 2008.

On April 2, 2009, a stipulation and agreement of settlement among the plaintiffs, issuer defendants and underwriter defendants was submitted to the Court for preliminary approval. The Court granted the plaintiffs' motion for preliminary approval and preliminarily certified the settlement classes on June 10, 2009. The settlement fairness hearing was held on September 10, 2009. On October 5, 2009, the Court entered an opinion granting final approval to the settlement and directing that the Clerk of the Court close these actions. Notices of appeal of the opinion granting final approval have been filed.

The Company intends to dispute these claims and defend the lawsuit vigorously. However, due to the inherent uncertainties of litigation and because the settlement remains subject to appeal, the ultimate outcome of the litigation is uncertain. An unfavorable outcome in litigation could materially and adversely affect the Company's business, financial condition and results of operations.

Litigation Relating to Centra's Initial Public Offering

Centra, certain of its former officers and directors and the managing underwriters of Centra's initial public offering were named as defendants in an action filed in the District Court. The plaintiffs filed an initial complaint on December 6, 2001 and purported to serve the Centra defendants on or about March 18, 2002. The original complaint has been superseded by an amended complaint filed in April 2002. The action, captioned in re Centra Software, Inc. Initial Public Offering Securities Litigation, No. 01 CV 10988, is purportedly brought on behalf of the class of persons who purchased Centra's common stock between February 3, 2000 and December 6, 2000. The complaint asserts claims under Sections 11 and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act. The complaint alleges that, in connection with Centra's initial public offering in February 2000, the underwriters received undisclosed commissions from certain investors in exchange for allocating shares to them and also agreed to allocate shares to certain customers in exchange for the agreement of those customers to purchase additional shares in the aftermarket at pre-determined prices. The complaint asserts that Centra's registration statement and prospectus for the offering were materially false and misleading due to their failure to disclose these

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SABA SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

alleged arrangements. The complaint seeks damages in an unspecified amount against Centra and the named individuals. Similar complaints have been filed against hundreds of other issuers that have had initial public offerings since 1998; the complaints have been consolidated into an action captioned in re Initial Public Offering Securities Litigation, No. 21 MC 92.

On July 1, 2002, the underwriter defendants in the consolidated actions moved to dismiss all the actions, including the action involving Centra. On July 15, 2002, Centra, along with other non-underwriter defendants in the coordinated cases, moved to dismiss the litigation. On October 9, 2002, pursuant to agreements tolling the statute of limitations for claims related to the litigation, the plaintiffs dismissed, without prejudice, the claims against the named Centra officers and directors in the above-referenced action. Subsequent addenda to the agreements extended the tolling period through August 27, 2010. On February 19, 2003, the District Court issued an order denying the motion to dismiss the claims against Centra under Rule 10b-5. The motions to dismiss the claims under Section 11 of the Securities Act were denied as to virtually all of the defendants in the consolidated cases, including Centra.

In June 2003, a proposed collective partial settlement of this litigation was structured between the plaintiffs, the issuer defendants in the consolidated actions, the issuer officers and directors named as defendants, and the issuers' insurance companies. In June 2004, an agreement of settlement was submitted to the District Court for preliminary approval. The District Court granted the preliminary approval motion on February 15, 2005, subject to certain modifications. On August 31, 2005, the District Court issued a preliminary order further approving the modifications to the settlement and certifying the settlement classes. The District Court also appointed the notice administrator for the settlement and ordered that notice of the settlement be distributed to all settlement class members by January 15, 2006. The settlement fairness hearing occurred on April 24, 2006, and the court reserved decision at that time.

While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The District Court directed that the litigation proceed within a number of "focus cases" rather than in all of the 310 cases that have been consolidated. The Company's case is not one of these focus cases. On October 13, 2004, the District Court certified the focus cases as class actions. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit reversed the District Court's class certification decision. On April 6, 2007, the Second Circuit denied plaintiffs' petition for rehearing. In light of the Second Circuit opinion, counsel for the issuer defendants informed the District Court that this settlement could not be approved because the defined settlement class, like the litigation class, could not be certified. On June 25, 2007, the District Court entered an order terminating the settlement agreement. On August 14, 2007, the plaintiffs filed their second consolidated amended class action complaints against the focus cases and on September 27, 2007, again moved for class certification. On November 12, 2007, certain of the defendants in the focus cases moved to dismiss the second consolidated amended class action complaints. On March 26, 2008, the District Court denied the motions to dismiss except as to Section 11 claims raised by those plaintiffs who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. Briefing on the class certification motion was completed in May 2008. That motion was withdrawn without prejudice on October 10, 2008.

On April 2, 2009, a stipulation and agreement of settlement among the plaintiffs, issuer defendants and underwriter defendants was submitted to the Court for preliminary approval. The Court granted the plaintiffs' motion for preliminary approval and preliminarily certified the settlement classes on June 10, 2009. The settlement fairness hearing was held on September 10, 2009. On October 5, 2009, the Court entered an opinion granting final approval to the settlement and directing that the Clerk of the Court close these actions. On August 26, 2010, based on the expiration of the tolling period stated in the agreements between the plaintiffs and the named Centra officers and directors, the plaintiffs filed a notice to terminate the tolling agreement and recommence litigation against the named Centra officers and directors. The plaintiffs stated to the Court that they do not intend to take any further action against the named Centra officers and directors at this time. Notices of appeal of the opinion granting final approval have been filed.

The Company, on behalf of Centra, intends to dispute these claims and defend the lawsuit vigorously.

Table of Contents**SABA SOFTWARE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

However, due to the inherent uncertainties of litigation and because the settlement remains subject to appeal, the ultimate outcome of the litigation is uncertain. An unfavorable outcome in litigation could materially and adversely affect the Company's business, financial condition and results of operations.

Litigation Relating to Claim of Patent Infringement by Centra

On August 19, 2003, a complaint was filed against Centra and two other defendants by EdiSync Systems, LLC, in the United States District Court for the District of Colorado (No. 03-D-1587 (OES)) (the Colorado District Court). The complaint alleges infringement of two patents for a remote multiple user editing system and method and seeks permanent injunctive relief against continuing infringement, compensatory damages in an unspecified amount, and interest, costs and expenses associated with the litigation. Centra filed an answer to the complaint denying all of the allegations. No amount has been accrued related to this matter and legal costs incurred in the defense of the matter are being expensed as incurred. Centra filed a request for reexamination of the patents at issue with the U.S. Patent and Trademark Office (the Patent Office). The Company's patent counsel is of the opinion that claims of the patents involved in the suit are invalid. The re-examination request was accepted by the Patent Office and the Colorado District Court approved the parties' motion to stay the court proceedings during the re-examination proceedings. A reexamination certificate has been issued for one of the patents that canceled all of the patent's claims, thereby rendering that patent of no further force or effect. The Patent Office issued a reexamination certificate for the other patent canceling all of the patent's original claims and allowing certain newly-added claims. The Company believes that it is free from liability for past actions, as the Company believes the newly-added claims would be enforceable only prospectively as of the issue date of the reexamination certificate. Centra has since filed a second reexamination request asking the Patent Office to reconsider the patentability of the newly-added claims in view of newly-discovered prior art and the Patent Office has granted that request. The Colorado District Court has again stayed the litigation pending the outcome of the second reexamination proceeding. The Company believes that it has meritorious defenses with respect to any future claims and intends to vigorously defend this action. However, due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the litigation. An unfavorable outcome of the litigation could materially and adversely affect the Company's business, financial condition and results of operations.

Litigation Relating to Claim of Patent Infringement by Saba

On November 19, 2007, a complaint was filed against the Company and ten other defendants by Gemini IP, LLC, in the United States District Court for the Eastern District of Texas (No. 07-CV-521) (the Texas District Court). The complaint alleges infringement of a patent directed to a method for processing client help requests using a computer network and seeks permanent injunctive relief against continuing infringement, compensatory damages in an unspecified amount, and interest, costs and expenses associated with the litigation. The Company filed an answer to the complaint denying all of the allegations. At the Company's request, the Patent Office instituted reexamination proceedings against the asserted patent and the Texas District Court stayed the action pending the outcome of those proceedings. On September 14, 2010, the Patent Office issued a Reexamination Certificate cancelling all of the patent's original claims that were asserted against the Company in the litigation. The Reexamination Certificate also includes several new claims that were added during the reexamination proceeding. It is presently unknown whether any of the newly-added claims will be asserted against the Company. The Company believes that it has meritorious defenses with respect to the asserted patent and intends to vigorously defend this action. However, due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the litigation. An unfavorable outcome of the litigation could materially and adversely affect the Company's business, financial condition and results of operations.

12. Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements (A Consensus of the FASB Emerging Issues Task Force) (ASU 2009-13), which amends existing accounting standards for revenue recognition for multiple-element arrangements.

Table of Contents**SABA SOFTWARE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

To the extent a deliverable within a multiple-element arrangement is not accounted for pursuant to other accounting standards, including ASC 985-605, Software-Revenue Recognition, ASU 2009-13 establishes a selling price hierarchy that allows for the use of an estimated selling price to determine the allocation of arrangement consideration to a deliverable in a multiple element arrangement where neither vendor-specific objective evidence nor third-party evidence is available for that deliverable. ASU 2009-13 is to be applied prospectively for revenue arrangements entered into or materially modified in the first quarter of fiscal 2012. The Company is currently evaluating the impact of the pending adoption of ASU 2009-13 on its consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update 2009-14, *Revenue Recognition (Topic 605) Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Include Software Elements* (ASU 2009-14). ASU 2009-14 excludes tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of ASC 985-605, *Software-Revenue Recognition*. ASU 2009-14 is required to be applied on a prospective basis to revenue arrangements entered into or materially modified in the first quarter of fiscal 2012. The Company is currently evaluating the impact of the pending adoption of ASU 2009-14 on its consolidated financial statements.

13. Related Party Transactions

During the three months ended August 31, 2010 and 2009, Saba licensed software and sold related support and services to Varian Medical Systems, Inc. (Varian) and Masimo Corporation (Masimo). An Executive Vice President of Varian and the Chairman and Chief Executive Officer of Masimo serve as directors on Saba's Board of Directors.

During the three months ended August 31, 2010 and 2009, the components of related party transactions were as follows:

(in thousands)	Sales to Related Party	
	Three months ended August 31,	
	2010	2009
Varian Medical Systems, Inc.	\$ 56	\$ 50
Masimo Corporation		4
Total	\$ 56	\$ 54

(in thousands)	Accounts Receivable	
	August 31, 2010	May 31, 2010
Varian Medical Systems, Inc.	\$ 32	\$ 52
Total	\$ 32	\$ 52

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ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes contained herein and the information included in our other filings with the Securities and Exchange Commission. This discussion includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements in this Quarterly Report on Form 10-Q other than statements of historical fact are forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties. Our actual results may differ materially from those projected or assumed in such forward-looking statements. Among the factors that could cause actual results to differ materially are the factors detailed under Part II, Item 1A: Risk Factors of this Quarterly Report on Form 10-Q. All forward-looking statements and risk factors included in this document are made as of the date of this report, based on information available to us as of such date. We assume no obligation to update any forward-looking statement or risk factor.

Forward-looking statements include statements regarding:

(i) in Part I, Item 1,

our belief that we are free from liability for past actions in connection with the litigation relating to the claim of patent infringement by Centra,

the merits of our litigation and our intent to dispute litigation claims and defend lawsuits vigorously,

the resolution and effect of pending litigation,

the effect of recent accounting pronouncements,

our estimate of future forfeiture rates in our stock-based compensation plans,

our anticipation that we will not pay any cash dividends in the foreseeable future,

expected future amortization related to intangible assets, and

our ultimate realized gain or loss with respect to currency fluctuations.

(ii) in Part I, Item 2,

our belief that subscription revenue will grow steadily for the foreseeable future,

our anticipation that a substantial majority of our customers will renew their annual contracts,

our belief that our customers' preference for cloud-based subscription services over perpetual licenses will continue to grow,

our anticipation that we will continue to add new subscription customers,

the likelihood that our results of operations will vary significantly from quarter to quarter,

our anticipation that we will continue to experience long sales cycles,

our plan to expand our sales coverage and marketing support, and,

the sufficiency of our available cash resources, combined with cash flows generated from revenues, to meet our presently anticipated working capital, capital expense and business expansion requirements, for at least the next 12 months.

(iii) in Part I, Item 3,

our exposure to interest rate risk and foreign currency risk, and

the effects of future changes in interest rates and foreign currency rates.

(iv) in Part II, Item 1A,

the possibility of future losses,

our expectation that we will continue to incur non-cash expenses relating to the amortization of purchased intangible assets,

our belief that quarter-to-quarter comparisons of our revenues and operating results are not necessarily meaningful and should not be relied upon as indicators of future performance,

maintaining and strengthening relationships with strategic partners,

our anticipation that revenues from the Saba People Suite, as well as related services will constitute substantially all of our revenue for the foreseeable future,

the likelihood significant fluctuations in our operating results,

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our plan to expand sales coverage and marketing support,

our plan to continue to expand and ramp our direct sales force,

our intention to continue to expand our international presence,

the expectation that the intensity of competition and the pace of change will increase in the future, which is likely to result in price reductions, reduced gross margins and loss of market share,,

our belief and intention regarding litigation to which we are subject,

periodically acquiring complementary businesses or technologies,

regularly releasing new products and new versions of existing products, and

issuance of a reexamination certificate canceling certain patent claims.

These forward-looking statements involve known and unknown risks and uncertainties. Our actual results may differ materially from those projected or assumed in such forward-looking statements. Among the factors that could cause actual results to differ materially are among others:

fluctuations in our quarterly results, including fluctuations that may result from any shift in customer preferences toward subscription services rather than software licenses,

incorrect estimates or assumptions,

unanticipated adverse results for pending litigation,

contraction of the economy and world markets,

lack of demand for information technologies from our customers,

unanticipated need for capital for operations,

lack of demand for our products,

inability to introduce new products,

unanticipated difficulties relating to our products,

unanticipated decrease in demand for our products and services,

unanticipated changes in domestic and foreign tax regulations,

unanticipated adverse changes in the international markets,

requirements for increased spending in research and development,

lack of demand for our products,

negative effects of foreign exchange rates,

inability to accurately predict the impact of new accounting pronouncements,

unanticipated difficulties integrating and developing products acquired through acquisitions, and

the factors detailed under Part II, Item 1A: Risk Factors of this Quarterly Report on Form 10-Q.

OVERVIEW

General

We are the premier provider of people systems, which constitute a new class of business-critical software that combines enterprise learning, people management and collaboration technologies. Our people systems enable organizations to mobilize and engage their people to drive new strategies and initiatives, align and connect people to accelerate the flow of business, and cultivate, capture and share individual and collective knowhow to effectively compete and succeed. Our solutions are delivered both on-premise and as software as a service in an internet-based cloud architecture, and are underpinned by global services capabilities encompassing strategic consulting, comprehensive implementation and education services and worldwide support.

The Saba People System is transformative in nature, catalyzing dramatic change in how work gets done while fostering a people-driven culture. The Saba People System enables organizations to realize unique benefits, including the following:

MOBILIZE quickly identify and communicate new strategies or challenges and engage the right people to address them:

Rapidly form and re-form teams

Identify and build expertise and new processes

Continuously develop and re-skill people

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Motivate and engage people by keeping them constantly connected and aware of new initiatives

ACCELERATE align and connect people to accelerate the flow of business:

Incent and reward people and teams around the right goals, ensuring that everyone is always aligned

Speed the flow of information to any person, anytime, anyplace, via multiple devices

Collect and disseminate continuous, real-time people feedback from across the organization

CULTIVATE ignite, cultivate and capture the collective people knowhow:

Enable individuals and teams to create, track, distribute, consume, and rate knowhow

Harness ideas and expertise from the extended value chain

Institutionalize organizational wisdom and make it discoverable by anyone, anytime, anywhere on multiple devices

Background

We commenced operations in April 1997 and, through March 1998, focused substantially all of our efforts on research activities, developing our products and building our business infrastructure. We shipped our first Saba Enterprise Learning products and began to generate revenues from software license fees, implementation and consulting services fees and support fees in April 1998.

Our corporate headquarters are located in Redwood Shores, California. We have an international presence in Australia, Canada, France, Germany, India, Japan and the United Kingdom through which we conduct various operating activities related to our business. In each of the non-U.S. jurisdictions in which we have subsidiaries, other than India, we have employees or consultants engaged in sales and services activities. In the case of our India subsidiary, our employees primarily engage in software development and quality assurance testing activities.

Sources of Revenue

We generate revenues from the sale of subscription services, software licenses and professional services.

Subscription Services

Subscription revenue includes revenue from our products delivered as software as a service in an internet-based cloud architecture and revenue from license updates and product support. Customers that desire to access our products in the cloud generally sign subscription agreements with terms typically ranging from one to three years. License updates and product support include the right to receive future unspecified updates for the applicable software product and technical support. We typically sell license updates and product support for an initial period of one year concurrently with the sale of the related software license. After the initial period, license updates and product support is renewable on an annual basis at the option of the customer. Our subscription revenue depends upon both our sales of additional subscription services and renewals of existing agreements. We believe that subscription revenue will grow steadily for the foreseeable future as we anticipate that a substantial majority of our customers will renew their annual contracts and we will continue to add new subscription customers.

Software Licenses

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We license our software solutions in multiple-element arrangements that include a combination of our software, license updates and product support and/or professional services. A significant amount of our license sales are for perpetual licenses. Our license revenue is affected by, among other things, the strength of general economic and business conditions, as well as customers' budgetary cycles and the competitive position of our software products. In addition, the sales cycle for our products is long, typically six to twelve months. The timing of a few large software license transactions can substantially affect our quarterly license revenue.

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Professional Services

We offer comprehensive services to assist our clients in the successful implementation of our solutions and to optimize our clients' use of our solutions. Consisting primarily of consulting and education services, these offerings are typically provided to customers that have purchased our products directly from us. These consulting and education services are generally provided over a period of three to nine months after the product purchase. Accordingly, our consulting and education services revenue varies directly with the levels of license revenue generated from our direct sales organization in the preceding three to nine month period. In addition, our consulting and education services revenue varies following our commercial release of significant software updates as our license customers may engage our services to assist with the implementation of their software update. We provide consulting services on a time-and-materials basis and on a fixed-fee basis.

Cost of Revenue

Our cost of revenue primarily consists of compensation, employee benefits and out-of-pocket travel-related expenses for our employees, and the fees of third-party subcontractors, who provide professional services. Cost of revenue also includes external hosting fees and depreciation and amortization charges related to the infrastructure required to deliver our products in the cloud, third-party license royalty costs, overhead allocated based on headcount and reimbursed expenses. The amortization of acquired developed technology, which comprised of the ratable amortization of technological assets acquired in an acquisition in 2006, is also included in the cost of revenue. Many factors affect our cost of revenue, including changes in the mix of products and services, pricing trends and changes in the amount of reimbursed expenses. Because cost as a percentage of revenues is higher for services than for software licenses, an increase in services, including subscription services, as a percentage of our total revenue would reduce gross profit as a percentage of total revenue.

In the case of selling both professional and cloud-based services, our professional services revenue is recognized ratably over the remaining subscription period concurrently with the associated subscription revenue, we also defer the direct costs related to the professional services and recognize them ratably over the applicable service period. We classify deferred revenue and deferred costs on our consolidated balance sheet as current if we expect to recognize such revenue or cost within the following twelve months. As of August 31, 2010, the deferred balance of the professional services revenue related to such subscription offerings and the related deferred costs was \$2.4 million and \$1.3 million, respectively. When the revenue from professional services is recognized ratably over the subscription period, we allocate the revenue to professional services revenue and to subscription revenue based on the vendor specific objective evidence (VSOE) of fair value for similar professional services that qualify as a separate element of the arrangement. Our judgment as to whether the consulting services qualify as a separate unit of accounting may materially affect the timing of our revenue recognition and our results of operations.

Operating Expenses

We classify all operating expenses, except amortization of purchased intangible assets and restructuring, to the research and development, sales and marketing, and general and administrative expense categories based on the nature of the expenses. Each of these three categories includes commonly recurring expenses such as salaries (including stock-based compensation), employee benefits, travel and entertainment costs, and allocated communication, rent and depreciation costs. We allocate communication, rent and depreciation costs to each of the functional areas that derive a benefit from such costs based upon their respective headcounts. The sales and marketing category of operating expenses also includes sales commissions and expenses related to public relations and advertising, trade shows and marketing collateral materials. The general and administrative category of operating expenses also includes allowances for doubtful accounts, and administrative and professional services fees.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated

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financial statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) as set forth in the Financial Accounting Standards Board's Accounting Standard Codification (the Codification) and consider the various staff accounting bulletins and other applicable guidance issued by the SEC. GAAP, as set forth within the Codification, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. While a number of accounting policies, methods and estimates affect our financial statements, areas that are particularly significant include revenue recognition policies, the allowance for doubtful accounts, the assessment of recoverability of goodwill and purchased intangible assets and restructuring costs. We have reviewed the critical accounting policies described in the following paragraphs with the Audit Committee of our Board of Directors.

Revenue recognition. We recognize license revenues in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 985-605, *Software-Revenue Recognition* . Under ASC 985-605, Saba recognizes license revenues when all of the following conditions are met:

persuasive evidence of an arrangement exists;

delivery has occurred;

the fee is fixed or determinable; and

collection is probable.

We recognize revenue earned on software arrangements involving multiple elements using the residual method. Under the residual method, revenue is allocated to undelivered elements based on vendor-specific objective evidence of fair value of such undelivered elements and the residual amounts of revenue are allocated to delivered elements. We have analyzed each element in our multiple element arrangements and determined that we have sufficient vendor-specific objective evidence (VSOE) to allocate revenues to certain subscription offerings and professional services. Accordingly, assuming all other revenue recognition criteria are met, revenues from perpetual licenses are recognized upon delivery using the residual method. We limit our assessment of VSOE for each element to the price charged when the same element is sold separately, or the price established by management, having the relevant authority to do so, for an element not yet sold separately.

Subscription revenues include revenue from the delivery of our products in the cloud and revenue from license updates and product support. Revenue from providing customers with access to our products in the cloud is recognized as a service arrangement ratably over the term of the arrangement upon delivery or on an as-used basis if defined in the contract. Certain of our cloud-based offerings are integrated offerings pursuant to which the customers' ability to access our software is not separable from the services necessary to operate the software and customers are not allowed to take possession of our software, in which case revenue is recognized under ASC 605-10. Our cloud-based offerings also include arrangements with customers that have separately licensed and taken possession of our software. When these offerings are part of a multiple element arrangement involving licenses, we recognize revenue in accordance with ASC 985-605 License updates and product support revenue is also recognized ratably over the term of the arrangement, typically 12 months.

License revenue from licenses with a term of three years or more is generally recognized on delivery if the other conditions of ASC 985-605 are satisfied. License revenue from licenses with a term of less than three years is generally recognized ratably over the term of the arrangement. In arrangements where term licenses are bundled with license updates and product support and such revenue is recognized ratably over the term of the arrangement, we allocate the revenue to license revenue and to license updates and product support revenue based on the VSOE of fair value for license updates and product support revenue on perpetual license of similar products. We do not grant our resellers the right of return and we do not recognize revenue from resellers until an end-user has been identified and the other conditions of ASC 985-605 are satisfied.

Professional service revenue is generally recognized as the services are performed. Although, we generally provide professional services on a time-and-materials basis, a portion of these services is provided on a fixed-fee basis. For services performed on a fixed-fee basis, revenue is generally recognized on the proportional performance

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of the project, with performance measured based on hours of work performed. For contracts that involve significant customization and implementation or consulting services that are essential to the functionality of the software, the license and services revenues are recognized over the service delivery period using the percentage-of-completion method or, if we are unable to reliably estimate the costs to complete the services, we use the completed contract method of accounting in accordance with ASC 985-605 and relevant guidance of ASC 605-35

Construction-Type and Certain Production Type Contracts . A contract is considered complete when all significant costs have been incurred and the item has been accepted by the customer.

If the requirements of ASC 985-605 are not met when we bill a customer or a customer pays us, the billed or paid amount is recorded as deferred revenue, a liability account. As the revenue recognition criteria of ASC 985-605 are satisfied, the requisite amounts are recognized as revenue.

In arrangements that include professional services and delivery of our products in the cloud, but not a license of our software, we recognize revenue for professional services as the services are performed if these professional services qualify as a separate element of the arrangement. If the professional services do not qualify as a separate element of the arrangement, the professional services revenue is recognized ratably over the longest subscription service period. Additionally, we defer the direct costs related to the professional services and recognize them ratably over the applicable subscription period. We classify deferred revenue and deferred costs on our consolidated balance sheet as current if we expect to recognize such revenue or cost within the following twelve months. When the revenue from professional services is recognized ratably over the subscription, we allocate the revenue to professional services revenue and to subscription revenue based on the VSOE of fair value for similar professional services that qualify as a separate element of the arrangement. Our judgment as to whether the professional services qualify as a separate unit of accounting may materially affect the timing of our revenue recognition and our results of operations.

Allowance for doubtful accounts. Accounts receivable are recorded net of allowance for doubtful accounts and totaled \$16.7 million as of August 31, 2010. The allowance for doubtful accounts, which totaled \$0.2 million as of August 31, 2010, is based on our assessment of the amount of probable credit losses in the existing accounts receivable. We determine the allowance based on the aging of the accounts receivable, the financial condition of our customers and their payment history, our historical write-off experience and other assumptions. Past due balances based on order terms and other specific accounts as necessary are reviewed monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than our historical experience, we may be required to increase the allowance for doubtful accounts.

Recoverability of goodwill and purchased intangible assets. We account for goodwill under ASC 350-20 *Goodwill*. Our goodwill balance at August 31, 2010 was \$36.1 million. We account for purchased intangible assets under ASC 360-30. Our purchased intangible assets balance at August 31, 2010 was \$4.1 million, net of accumulated amortization. The total expected future amortization related to purchased intangible assets will be approximately \$2.3 million and \$1.8 million in fiscal years 2011 and 2012, respectively.

ASC 350-20 prescribes a two-phase process for impairment testing of goodwill. The first phase requires us to test for impairment, while the second phase, if necessary, requires us to measure and allocate for the impairment. We consider Saba to be a single reporting unit. Accordingly, all of our goodwill is associated with the entire company. We perform the required impairment analysis of goodwill annually or on a more frequent basis if indicators of impairment arise or circumstances otherwise dictate. A significant and extended reduction in our enterprise fair value to below the recorded amount of our stockholders' equity could indicate a change in our business climate and under ASC 350-20, we could be required to write down the carrying value of our goodwill and record an expense for an impairment loss.

In accordance with ASC 350-30 and ASC 360-10 *Property, Plant and Equipment* , we review our long-lived asset groups, including property and equipment and other intangibles, for impairment whenever events indicate that their carrying amount may not be recoverable.

Share-based compensation. Under ASC 718-10 *Compensation - Stock Compensation*, we are required to estimate the awards that we ultimately expect to vest and to reduce share-based compensation expense for the effects

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of estimated forfeitures of awards over the expense recognition period. Although we estimate forfeitures based on historical experience, actual forfeitures in the future may differ from estimates. Under ASC 718-10, the forfeiture rate must be revised if actual forfeitures differ from our original estimates. We recognize share-based compensation expense for awards granted after our adoption date under the straight-line amortization method.

We estimate the fair value of employee stock options using the Black-Scholes-Merton pricing model. The fair value of an option is affected by our stock price on the date of grant as well as other assumptions including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption is based upon United States treasury interest rates appropriate for the expected life of the awards. We estimate the volatility of our common stock based upon our historical stock price volatility over the length of the expected term of the stock option. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. Our expected dividend rate is zero since we do not currently pay cash dividends on our common stock and do not anticipate doing so in the foreseeable future. For restricted stock units, stock compensation is calculated based on the fair market value of the stock on the award date.

Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements (A Consensus of the FASB Emerging Issues Task Force)* (ASU 2009-13), which amends existing accounting standards for revenue recognition for multiple-element arrangements. To the extent a deliverable within a multiple-element arrangement is not accounted for pursuant to other accounting standards, including ASC 985-605, *Software-Revenue Recognition*, ASU 2009-13 establishes a selling price hierarchy that allows for the use of an estimated selling price to determine the allocation of arrangement consideration to a deliverable in a multiple element arrangement where neither vendor-specific objective evidence nor third-party evidence is available for that deliverable. ASU 2009-13 is required to be applied prospectively for revenue arrangements entered into or materially modified in the first quarter of fiscal 2012. We are currently evaluating the impact of the pending adoption of ASU 2009-13 on our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update 2009-14, *Revenue Recognition (Topic 605) Applicability of AICPA Statement of Position 97-2 to Certain Arrangements That Include Software Elements* (ASU 2009-14). ASU 2009-14 excludes tangible products containing software components and non-software components that function together to deliver the product's essential functionality from the scope of ASC 985-605, *Software-Revenue Recognition*. ASU 2009-14 is required to be applied on a prospective basis to revenue arrangements entered into or materially modified in the first quarter of fiscal 2012. We are currently evaluating the impact of the pending adoption of ASU 2009-14 on our consolidated financial statements.

Table of Contents**RESULTS OF OPERATIONS****THREE MONTHS ENDED AUGUST 31, 2010 AND 2009****Revenues**

(dollars in thousands)	2010	Three months ended August 31, Percent of Total Revenues	2009	Percent of Total Revenues
Revenues:				
Subscription	\$ 14,895	56%	\$ 13,977	54%
License	4,450	17%	5,712	22%
Professional services	7,469	28%	6,122	24%
Total revenues	\$ 26,814	100%	\$ 25,811	100%

Total Revenues. Total revenues increased by \$1.0 million, or 4%, for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. As a percentage of total revenues, revenues from customers outside the United States represented 34% and 25% for the three months ended August 31, 2010 and 2009, respectively. The only foreign country in which revenues from customers located there represented more than 10% of total revenues was the United Kingdom, which represented 13% for each of the three months ended August 31, 2010 and 2009.

Subscription Revenue. Subscription revenue increased by \$0.9 million, or 7%, for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. The increase reflected an increase of subscription revenue from new customers as well as an increase in subscription revenue associated with subscription renewals.

License Revenue. License revenue decreased by \$1.3 million, or 22%, for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. The decrease in license revenue reflects our customers' growing preference to use our cloud-based subscription services rather than to purchase perpetual licenses.

Professional Services Revenue. Professional services revenue increased by \$1.3 million, or 22%, for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. The increase was primarily due to an increased demand for our professional services from our expanded customer base.

Cost of Revenues

(dollars in thousands)	2010	Three months ended August 31, Percent of Total Revenues	2009	Percent of Total Revenues
Cost of revenues				
Cost of subscription	\$ 3,920	15%	\$ 4,045	16%
Cost of license	247	1%	210	1%
Cost of professional services	5,426	20%	4,552	18%
Amortization of acquired developed technology	295	1%	295	1%
Total cost of revenues	\$ 9,888	37%	\$ 9,102	35%

The following table is a summary of gross margin:

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(dollars in thousands)	Three months ended August 31,	
	2010	2009
Gross margin:		
Subscription	\$ 10,975	\$ 9,932
<i>Percentage of subscription revenue</i>	<i>74%</i>	<i>71%</i>
License (including amortization of acquired developed technology)	3,908	5,207
<i>Percentage of license revenue</i>	<i>88%</i>	<i>91%</i>
Professional services	2,043	1,570
<i>Percentage of professional services revenue</i>	<i>27%</i>	<i>26%</i>
<i>Total</i>	<i>\$ 16,926</i>	<i>\$ 16,709</i>
<i>Percentage of total revenues</i>	<i>63%</i>	<i>65%</i>

Cost of Subscription Revenue. Cost of subscription revenue decreased by \$0.1 million, or 3%, for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. The decrease was the result of a decrease in third party hosting and professional services charges. The Subscription gross margin increased to 74% for the three months ended August 31, 2010 from 71% for the three months ended August, 31, 2009. The increase in subscription gross margin is primarily the result of the decrease in third party hosting services.

Cost of License Revenue. Cost of license revenue increased slightly for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. Gross margin on license revenue decreased to 88% for the three months ended August 31, 2010 from 91% for the three months ended August 31, 2009. The decrease in gross margin is primarily the result of a decrease in license revenue relative to the fixed cost of license revenue, including amortization of acquired technologies.

Cost of Professional Services Revenue. For the three months ended August 31, 2010, cost of professional services revenue increased \$0.9 million, or 19%, compared to the three months ended August 31, 2009. The increase in cost of professional services revenue was primarily the result of an increase in third party billable labor and compensation costs. The professional services gross margin increased to 27% for the three months ended August 31, 2010, from 25% for the three months ended August 31, 2009. The increase in gross margin is primarily due to our ability to better control variable costs on increased revenue compared to the same period in prior fiscal year when revenue decreases and our inability to reduce variable costs accordingly resulted in lower gross margins.

Table of Contents**Operating Expenses**

(dollars in thousands)	Three months ended August 31,			
	2010	Percent of Total Revenue	2009	Percent of Total Revenue
Operating expenses:				
Research and development	\$ 4,423	16%	\$ 4,222	16%
Sales and marketing	9,869	37%	6,788	26%
General and administrative	3,412	13%	3,843	15%
Restructuring		0%	(37)	0%
Amortization of purchased intangible assets	634	2%	634	2%
Total operating expenses	\$ 18,338	68%	\$ 15,450	60%

Research and development. Research and development expenses increased by \$0.2 million, or 5%, for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. The increase was primarily attributable to an increase in salaries and benefits of \$0.3 million offset by a decrease in facilities and telecommunications costs of \$0.1 million.

Sales and marketing. Sales and marketing expenses increased by \$3.1 million, or 45%, for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. The increase was primarily attributable to increases in salaries and benefits costs of \$1.9 million (related to increased headcount as well as a one-time \$0.1 million share-based compensation expense due to the vesting acceleration of options and restricted stock units and \$0.1 million in severance to the Chief Marketing Officer, upon termination), marketing related expenses of \$0.8 million, employee travel related expenses of \$0.2 million and recruiting expenses of \$0.2 million. These increases are in line with our plan to expand our sales coverage and marketing support to align with key growth initiatives.

General and administrative. General and administrative expenses decreased by \$0.4 million, or 11%, for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. The decrease was due to decreases in legal fees and accounting and tax services.

Amortization of purchased intangible assets. Amortization of purchased intangible assets remained unchanged for the three months ended August 31, 2010, compared to the three months ended August 31, 2009.

Restructuring. We did not incur restructuring expenses for the three months of fiscal year ended August 31, 2010. For the three months ended August 31, 2009, we adjusted prior period charges for a workforce reduction, consisting of severance and fringe benefits. The restructuring charges are classified as Restructuring in our consolidated statement of operations and totaled a reduction of approximately \$37,000 for the three months ended August 31, 2009.

Other Income and Expenses, Net

Interest income and other, net. Interest income and other, net consists of interest income and other non-operating expenses. Interest income and other, net decreased by \$0.2 million for the three months ended August 31, 2010 compared to the three months ended August 31, 2009. The decrease was attributable to a \$0.2 million net increase in foreign currency losses including \$0.1 million related to Indian rupee currency forward contracts.

Interest expense. Interest expense was \$2,000 for the three months ended August 31, 2010 and \$3,000 for the three months ended August 31, 2009. The decrease in interest expense was primarily due to lower average debt outstanding under our former bank credit facility. The credit facility matured on July 28, 2010.

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Provision for income taxes The provision for income taxes recorded for the three months ended August 31, 2010 and 2009 was an expense of \$165,000 and \$214,000, respectively. Income tax provision for both of these three months periods consists primarily of state taxes as well as foreign tax expense incurred as a result of local country profits. The decrease in provision expense from prior period is primarily related to the current quarter loss in the US jurisdiction.

As of August 31, 2010 and May 31, 2010, we have a valuation allowance against the full amount of any U.S. net deferred tax assets. We currently provide a valuation allowance against deferred tax assets when it is more likely than not that some portion, or all of our deferred tax assets, will not be realized.

DEFERRED REVENUES

Deferred revenues consisted of the following:

(in thousands)	August 31, 2010	May 31, 2010
Subscription	\$ 30,181	\$ 32,985
Professional services	3,883	3,610
Software licenses	365	399
 Total deferred revenues	 \$ 34,429	 \$ 36,994
 Deferred revenues, current	 \$ 31,647	 \$ 34,435
Deferred revenues, non-current	2,782	2,559
 Total deferred revenues	 \$ 34,429	 \$ 36,994

Deferred subscription revenue includes deferred software license updates and product support revenues as well as deferred revenues from products delivered in the cloud. Deferred subscription revenue represents contracts for which cash has been received plus billings for which the service has started but cash has not been received. Subscription contracts are typically billed on a per annum basis in advance and revenues are recognized ratably over the subscription period. Deferred professional services revenues include amounts invoiced for consulting and educational services, which have not yet been delivered. In addition, deferred professional services revenue includes amounts invoiced for services that have been delivered, but are not separable from services subscriptions. Revenues for services that are not separable from services subscriptions are deferred until performance has been completed and then recognized ratably over the longest period of the arrangement. Deferred revenues from new software licenses typically result from undelivered products or specified enhancements, term license agreements that are recognized over the related term, customer specific acceptance provisions, and software license transactions that cannot be segmented from consulting services or certain extended payment term arrangements. Our deferred revenue is generally at its lowest annual level at the end of the first and second fiscal quarters. We have disproportionately lower levels of subscription renewal billings in such quarters. Deferred revenues were \$30.9 million at August 31, 2009.

COMMISSIONS

Commissions are generally expensed as they are earned per the terms of the sales compensation plans.

Table of Contents**KEY OPERATING METRICS*****Billing***

We track operating metrics for invoicing, which represents our total billings and renewals for subscription revenue. For the quarter ended August 31, 2010, we invoiced \$25.5 million compared to \$23.4 million for the quarter ended August 31, 2009. Our renewal rate on subscription services on a dollar basis for the three months ended August 31, 2010 was 91% compared to 93% for the three months ended August 31, 2009.

FLUCTUATIONS OF QUARTERLY RESULTS

Our results of operations have in the past and will likely in the future vary significantly from quarter to quarter. If revenues fall below our expectations in a particular quarter, we will likely not be able to reduce our spending rapidly in response to the shortfall and our quarterly operating results are likely to be adversely affected. We anticipate that we will continue to experience long sales cycles. Therefore, the timing of future customer contracts could be difficult to predict, making it difficult to predict revenues between quarters. In addition, revenues from the sale of software licenses are generally recognized at the time of the sale transaction whereas revenue from the sale of subscription services is generally recognized over the life of the subscription contract. As a result, if a customer elects to purchase subscription services rather than a software license that transaction can lead to lower revenue recognition in the quarter in which the transaction occurs. Any shift in customer preferences toward subscription services rather than software licenses can adversely affect our quarterly results.

Other factors that could affect our quarterly operating results are described in the risk factor entitled "Fluctuations in our quarterly results could cause our stock price to experience significant fluctuations or declines" under Part II, Item: 1A *Risk Factors* of this Quarterly Report on Form 10-Q.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Three months ended August 31,	
	2010	2009
Net cash provided by operating activities	\$ 1,499	\$ 713
Net cash used in investing activities	\$ (288)	\$ (183)
Net cash used in financing activities	\$ (355)	\$ (4,923)

We have funded our operations through financing activities and our operations. Our most significant source of operating cash flows stems from customer purchases of our subscription, license and professional services. Our primary uses of cash from operating activities are for personnel and facilities related expenditures. As of August 31, 2010, we had \$33.2 million in available cash and cash equivalents.

Net Cash Provided By Operating Activities

Net cash provided by operating activities for the three months ended August 31, 2010 increased by \$0.8 million to \$1.5 million from \$0.7 million in net cash provided by operating activities for the three months ended August 31, 2009. The \$0.8 million increase was primarily attributable to increased cash flow due to accounts receivable of \$5.5 million which was comprised of an \$8.2 million increase in cash collections, partially offset by higher billings and an improvement of \$1.5 million due to a reduction in deferred revenue compared to the prior year quarter. These increases were offset by a reduction in cash flow due to a \$2.8 million decrease in net income for the three months ended August 31, 2010 compared to the three months ended August 31, 2009, a reduction of \$1.6 million in accrued compensation and related expenses, an increase of \$1.0 million due to an increase in prepaid expenses and \$0.9 million for a lower change in accounts payable.

Total accounts receivable billing days outstanding (BDO) was 64 days at August 31, 2010 and 68 days at

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May 31, 2010. The decrease in BDO is due to higher collections in the three months ended August 31, 2010 compared to the three months ended August 31, 2009. BDO is calculated using the current quarter total billings and calculating average daily billings per day. The accounts receivable aging balance at the end of the period is then divided by the average billing amount to determine the BDO at the end of the period. BDO is calculated using the current quarter total billings and calculating average daily billings per day. The accounts receivable aging balance at the end of the period is then divided by the average billing amount to determine the BDO at the end of the period.

Total accounts receivable days sales outstanding (DSO), was 69 days at August 31, 2010 and 75 days at May 31, 2010. Changes in accounts receivable have a significant impact on our cash flow. Items that can affect our accounts receivable DSO and BDO include: timing of license revenue and the proportion of that license revenue relative to our other types of revenue, timing of billing of our professional services revenue, contractual payment terms, client payment patterns (including approval or processing delays and cash management) and the effectiveness of our collection efforts.

Net Cash Used In Investing Activities

Net cash used in investing activities was \$0.3 million for the three months ended August 31, 2010 compared to net cash used in investing activities of \$0.2 million for the three months ended August 31, 2009. The net cash used in investing activities was wholly attributable to the purchases of property and equipment, primarily to enhance our true infrastructure necessary to deliver our cloud-based offerings.

Net Cash Used In Financing Activities

Net cash used in financing activities of \$0.4 million for the three months ended August 31, 2010 was primarily attributable to \$0.7 million in repurchase of common stock, partially offset by an increase of proceeds from issuance of common stock of \$0.4 million. Net cash used in financing activities of \$4.9 million for the three months ended August 31, 2009 was primarily attributable to a stock buyback of \$4.8 million associated with the repurchase of 1,384,920 shares and repayment of borrowings under our former credit facility and notes payable of \$0.1 million.

Contractual Obligations and Commitments

We currently anticipate that our available cash resources, combined with cash flows generated from revenues will be sufficient to meet our presently anticipated working capital, capital expense and business expansion requirements, for at least the next 12 months. However, we may be required, or seek, to raise additional funds in the future. Our future liquidity and capital requirements will depend on numerous factors, including our future revenues, the timing and extent of spending to support product development efforts and expansion of sales and marketing and general and administrative activities, the success of our existing and new product and service offerings and competing technological and market developments. There can be no assurance that additional funding, if needed, will be available on terms acceptable to us, if at all. In addition, any raising of additional funds could dilute our current stockholders' ownership interests.

During the quarter ended August 31, 2010, we entered into a non-cancelable three year contract for software services of which \$1.8 million remained outstanding as of August 31, 2010.

On September 7, 2010, we entered into a Third Amendment to Lease with Westport Office Park, LLC (the Landlord), which amends the Lease Agreement dated as of March 16, 1999, as amended, between us and the Landlord relating to the lease of the office space comprising our corporate headquarters. The Third Amendment to Lease, which became effective as of August 31, 2010, extended the lease termination date from May 31, 2014 to May 31, 2019. The Third Amendment to Lease also amended the Lease Agreement so that the base monthly rent payable from June 1, 2013 through May 31, 2014 under the Lease Agreement will be \$162,086, and the base monthly rent payable from June 1, 2014 through May 31, 2019 under the Lease Agreement will begin at \$96,768 on June 1, 2014 and thereafter increase annually by approximately \$3,000.

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As of August 31, 2010, other than the renewal of the non-cancelable three year contract for software services and the new amended lease, there were no material changes in capital leases, operating lease obligations, purchase obligations or any other long-term liabilities reflected on our condensed consolidated balance sheets compared to such obligations and liabilities as of May 31, 2010.

Off-Balance Sheet Arrangements

As of August 31, 2010, we did not have any off-balance sheet arrangements, as defined in Item 303(a) (4) (ii) of SEC Regulation S-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our borrowings and investments.

We do not believe that we currently have any material exposure to interest rate risk resulting from our investments. At August 31, 2010, we had available cash and cash equivalents totaling \$33.2 million. Of this amount, approximately \$10.2 million was invested in money market accounts bearing variable interest rates of between 0.04% and 5.5%. The remainder of our cash and cash equivalents is held in non-interest bearing accounts at several banks. Variable interest rate securities may produce less income than expected if interest rates fall. A 0.5% change in interest rates would not have a material impact on our financial statements.

Foreign Currency Risk

We provide our products and services to customers in the United States, Europe and elsewhere throughout the world. Sales are primarily made in U.S. dollars, and to a lesser but increasing extent, British pounds and Euros; however, as we continue to expand our operations, more of our contracts may be denominated in Australian dollars, Canadian dollars, Japanese yen or other foreign currencies. A strengthening of the U.S. dollar could make our products less competitive in foreign markets.

Our exposure to foreign exchange rate fluctuations also arises in part from inter-company accounts with our foreign subsidiaries. These inter-company accounts are typically denominated in the functional currency of the foreign subsidiary, and, when translated into U.S. dollars, have an impact on our operating results depending upon the movement in foreign currency rates. For the three months ended August 31, 2010, our total change of realized and unrealized losses compared to the prior year, due to movements in foreign currencies, primarily British pound, Japanese yen, Indian rupee and Australian dollar, were \$.01 million and \$0.3 million, respectively. As exchange rates vary, these foreign exchange results may vary and adversely or favorably impact operating results. An unfavorable change of 10% in foreign currency rates would not have a material impact on our financial statements.

Starting in the first quarter of fiscal 2011, we started a program that primarily utilizes foreign currency forward contracts, specifically in Indian rupee, to offset these risks so that increases or decreases in our foreign currency exposures are offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of cross-currency transactions that are entered into, the currency exchange rates associated with these exposures and changes in those rates, whether we have entered into foreign currency forward contracts to offset these exposures and other factors.

ITEM 4. CONTROLS AND PROCEDURES

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(a) Evaluation of disclosure controls and procedures.

Saba maintains disclosure controls and procedures, as such term is defined under Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. As we grow geographically and with new product offerings, we continue to create new processes and controls as well as improve our existing environment to increase efficiencies. Improvements may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 11 of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

ITEM 1A: RISK FACTORS

Set forth below and elsewhere in this Quarterly Report on Form 10-Q and in other documents we file with the SEC, are risks and uncertainties that could cause actual results to differ materially from the results expressed or implied by the forward-looking statements contained in this Quarterly Report. The fact that some of the risk factors may be the same or similar to our past filings means only that the risks are present in multiple periods. We believe that many of the risks detailed here and in our other SEC filings are part of doing business in our industry and will likely be present in all periods reported. The fact that certain risks are endemic to our industry does not lessen the significance of the risk. There are no material changes to the risk factors set forth under the title Risk Factors in our Annual Report on Form 10-K for the fiscal year ended May 31, 2010, except for a change to the risk factor entitled Fluctuations in our quarterly results could cause our stock price to experience significant fluctuations or declines .

While we achieved profitability during fiscal year 2010, we may incur future losses and cannot assure you that we will sustain profitability on a consistent basis.

We cannot be certain that we will realize sufficient revenues to sustain profitability on a quarterly or annual basis, especially if our recurring subscription business grows faster than expected relative to license sales. In addition, in the future, we expect to continue to incur non-cash expenses relating to the amortization of purchased intangible assets that will contribute to our net losses, along with any potential goodwill impairment. As of August 31, 2010, we had \$4.1 million of purchased intangible assets to be amortized as a result of our January 2006 acquisition of Centra Software, Inc. (Centra) and May 2005 acquisition of THINQ Learning Solutions, Inc. (THINQ) and our goodwill balance was \$36.1 million. Further, starting with the first quarter of fiscal 2007, we were required to record as an expense charges related to all current outstanding and future grants of stock options in our reported results from operations in accordance with ASC 718-10 Compensation Stock Compensation, which was issued by the FASB in December 2004. These non-cash expenses have made it and will continue to make it significantly more difficult for us to continue to achieve profitability. We may not be able to sustain profitability on a consistent basis.

The recent recession and global economic crisis may impact our business, operating results or financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price.

The recent recession and global economic crisis caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, public sector deficits and extreme volatility in credit, equity and fixed income markets, which have contributed to diminished expectations for the global economy. These macroeconomic developments have negatively affected, and could continue to negatively affect, our business, operating results or financial condition which, in turn, could adversely affect our stock price. A general weakening of, and related declining corporate confidence in, the global economy or the curtailment in government or corporate spending could cause current or potential customers to reduce their IT budgets or be unable to fund software or services purchases, which could cause customers to delay, decrease or cancel purchases of our products and services or cause customers not to pay us or to delay paying us for previously-purchased products and services.

Fluctuations in our quarterly results could cause our stock price to experience significant fluctuations or declines.

Our operating results have varied significantly in the past and will likely fluctuate significantly in the future. If

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revenues fall below our expectations in a particular quarter, we will likely not be able to reduce our spending rapidly in response to the shortfall and our quarterly operating results are likely to be adversely affected,

We anticipate that we will continue to experience long sales cycles. Therefore, the timing of future customer contracts could be difficult to predict, making it difficult to predict revenues between quarters. In addition, revenue from the sale of software licenses is generally recognized at the time of the sale transaction whereas revenue from the sale of subscription services is generally recognized over the life of the subscription contract. As a result, if a customer elects to purchase subscription services rather than a software license that transaction can lead to lower revenue recognition in the quarter in which the transaction occurs. Any shift in customer preferences toward subscription services rather than software licenses can adversely affect our quarterly results.

We have limited visibility into our future revenue, especially license revenue, which often has been heavily concentrated in the third month of each quarter. As a result, if we were to fail to close a sufficient number of transactions by the end of our quarter, particularly large license transactions, we would miss our revenue projections. If our plan to expand sales coverage and marketing support to align with key growth initiatives is not successful, we could miss our revenue and profit projections. In addition, our operating expenses are based in part on future revenue projections and are relatively fixed in the short-term. If we cannot meet our revenue projections, our business will be seriously harmed and net losses in a given quarter will be even larger than expected.

Other factors that could affect our quarterly operating results include:

The demand for our products and professional services and our efficiency in rendering our professional services;

The variability in the mix of the type of services delivered in any quarter and the extent to which third party contractors are used to provide such services;

The size and complexity of our license transactions and potential delays in recognizing revenue from license transactions;

The amount and timing of our operating expenses and capital expenditures;

The performance of our international business, which accounts for a substantial part of our consolidated revenues; and

Fluctuations in foreign currency exchange rates.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our revenues and operating results are not necessarily meaningful and should not be relied upon as indicators of future performance. It is possible that in some future quarter our operating results may be below the expectations of public market analysts or investors, which could cause the market price of our common stock to fall.

If we are unable to accurately forecast revenues, we may fail to meet stock analysts and investors expectations of our quarterly operating results, which could cause our stock price to decline.

We use a pipeline system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of all proposals, including the date when they estimate that a customer will make a purchase decision and the potential dollar amount of the sale. We aggregate these estimates periodically in order to generate a sales pipeline. We assess the pipeline at various points in time to look for trends in our business. While this pipeline analysis may provide us with some guidance in business planning and budgeting, these pipeline estimates are necessarily speculative and may not consistently correlate to revenues in a particular quarter or over a longer period of time, particularly in the recent global weak macroeconomic environment. Additionally, because we have historically recognized a substantial portion of our license revenues in the last month of each quarter and sometimes in the last few weeks of each quarter, we may not be able to adjust our cost structure in a timely manner in response to variations in the conversion of the sales pipeline into license revenues. Any change in the conversion rate of the pipeline into customer sales or in the pipeline itself could cause us to improperly budget for future expenses that are in line with our expected

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future revenues, which would adversely affect our operating margins and results of operations and could cause the price of our common stock to decline.

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Failure to adequately expand and ramp our direct sales force will impede our growth.

We need to continue to increase and develop our sales and marketing infrastructure in order to grow our customer base and our business. We plan to continue to expand and ramp our direct sales force both domestically and internationally. Identifying and recruiting these people and training them in the use of our products require significant time, expense and attention. This expansion will require us to invest significant financial and other resources. Our business will be seriously harmed if our efforts to expand and ramp our direct sales force do not generate a corresponding significant increase in revenue. In particular, if we are unable to hire, develop and retain talented sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, whether due to the global economic slowdown or for other reasons, we may not be able to significantly increase our revenue and grow our business.

Our subscription business depends substantially on customers renewing their agreements with us. Any decline in our customer renewals would harm our future operating results.

In order for us to improve our operating results, it is important that our customers renew their agreements with us when the contract term expires. Our subscription customers have no obligation to renew their contracts, and we cannot assure you that customers will renew subscriptions at the same or higher level of service, if at all. During our first fiscal quarter of 2011, 8% of our subscription business was not renewed, respectively. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our product offerings, pricing, the prices of competing products or services, completion of customer initiatives, mergers and acquisitions affecting our customer base, or reductions in our customers' spending levels. If our subscription customers do not renew their contracts or renew on less favorable terms, our revenue may decline.

Because we generally recognize revenue from the sale of our subscription solutions ratably over the term of the offering period, a significant downturn in our subscription business may not be immediately reflected in our operating results.

We generally recognize subscription revenue over the terms of our customer agreements, which typically range from one to three years. As a result, most of our quarterly subscription revenue results from agreements entered into during previous quarters. A decline in new or renewed subscriptions in any one quarter may not impact our financial performance in that quarter, but will negatively affect our revenue in future quarters. If a number of contracts expire and are not renewed in the same quarter, our revenue could decline significantly in that quarter and in subsequent quarters. Accordingly, the effect of significant declines in sales and market acceptance of our solutions may not be reflected in our short-term results of operations, making our results less indicative of our future prospects. It is also difficult for us to rapidly increase our subscription revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

If our efforts to attract new customers or to sell additional solutions to our existing customers are not successful, our revenue growth will be adversely affected.

To increase our revenue, we must continually add new customers and sell additional solutions to existing customers. If our existing and prospective customers do not perceive our solutions to be of sufficiently high value and quality, we may not be able to attract new customers or to increase sales to existing customers. Our ability to attract new customers and to sell new solutions to existing customers will depend in large part on the success of our sales and marketing efforts. However, our existing and prospective customers may not be familiar with some of our solutions, or may have traditionally used other products and services for some of their people management requirements. Our existing and prospective customers may develop their own solutions to address their people management requirements, purchase competitive product offerings or engage third-party providers of outsourced people management services.

A decline in the price of, or demand for, our products or our related services offerings, would seriously harm our revenues and operating margins.

We anticipate that revenues from the Saba People Suite as well as related services will constitute substantially all of our revenue for the foreseeable future. Consequently, a decline in the price of, or demand for, the Saba People Suite or failure to achieve broad market acceptance would seriously harm our business.

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Our products have a long sales cycle, which increases the cost of completing sales and renders completion of sales less predictable.

Due to the expense, broad functionality, and company-wide deployment of our products, the period between our initial contact with a potential customer and the purchase of our products and services is often long. To successfully sell our products and services, we generally must educate our potential customers regarding the use and benefits of our products and services. We may commit a substantial amount of time and resources to potential customers without assurance that any sales will be completed or revenues generated. Many of our potential customers are large enterprises that generally take longer to make significant business decisions. Our public sector customers, in particular, are subject to extensive procurement procedures that require many reviews and approvals. Our typical sales cycle has been approximately six to 12 months, making it difficult to predict the quarter in which we may recognize revenue. The delay or failure to complete sales in a particular quarter could reduce our revenues in that quarter. If our sales cycle were to unexpectedly lengthen in general or for one or more large orders, it would adversely affect the timing of our revenues. If we were to experience a delay on a large license order, it could harm our ability to meet our forecasts for a given quarter.

We experience seasonality in our sales and expense, which could cause our operating results to fluctuate from quarter to quarter.

We experience quarterly seasonality in the demand for our products and services. For example, revenue has historically been lower in our first fiscal quarter while expenses have been higher than in the immediately preceding fourth fiscal quarter. Contributing to this seasonality is the timing of our first fiscal quarter that occurs during the summer months when general business activities slow down in a number of territories where we conduct our operations, particularly Europe. Our commission structure and other sales incentives also tend to result in fewer sales in the first fiscal quarter than in the fourth fiscal quarter. These seasonal variations in our revenue are likely to lead to fluctuations in our quarterly operating results.

Reductions in information technology spending could limit our ability to grow our business.

Our operating results may vary based on changes in the information technology spending of our clients. The revenue growth and profitability of our business depend on the overall demand for enterprise applications and services. We sell our solutions primarily to large organizations whose businesses fluctuate with general economic and business conditions. As a result, decreased demand for enterprise applications and services, and in particular people systems, caused by a weakening global economy may cause a decline in our revenue. Historically, economic downturns have resulted in overall reductions in corporate information technology spending. In particular, people software may be viewed by some of our existing and potential clients as a lower priority and may be among the first expenditures reduced as a result of unfavorable economic conditions. In the future, potential clients may decide to reduce their information technology budgets by deferring or reconsidering product purchases, which would negatively impact our operating results.

We rely on our relationships with our strategic partners. If we do not maintain and strengthen these relationships, our ability to generate revenue and control expenses could be adversely affected, which could cause a decline in the price of our common stock.

We believe that our ability to increase the sales of our products depends in part upon maintaining and strengthening relationships with our current strategic partners and any future strategic partners. In addition to our direct sales force, we rely on established relationships with a variety of strategic partners, such as systems integrators, resellers, business process outsourcing partners (BPOs), human resource outsourcing partners (HROs) and distributors, for marketing, selling, implementing, and supporting our products in the United States and internationally.

Our strategic partners offer products from several different companies, including, in some cases, products that compete with our products. We have limited control, if any, as to whether these strategic partners devote adequate resources to promoting, selling, and implementing our products as compared to our competitors' products. We

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cannot guarantee that we will be able to strengthen our relationships with our strategic partners or that such relationships will be successful in generating additional revenue.

We may not be able to maintain our strategic partnerships or attract sufficient additional strategic partners, who have the ability to market our products effectively, are qualified to provide timely and cost-effective customer support and service, or have the technical expertise and personnel resources necessary to implement our products for our customers. In particular, if our strategic partners do not devote sufficient resources to implement our products, we may incur substantial additional costs associated with hiring and training additional qualified technical personnel to implement solutions for our customers in a timely manner. Furthermore, our relationships with our strategic partners may not generate enough revenue to offset the significant resources used to develop these relationships. If we are unable to leverage the strength of our strategic partnerships to generate additional revenues, our revenues and the price of our common stock could decline.

Implementation of accounting regulations and related interpretations and policies, particularly those related to revenue recognition, could cause us to defer recognition of revenue or recognize lower revenue or to report lower earnings per share.

While we believe that we are in compliance with ASC 985-605, Software Revenue Recognition, additional implementation guidelines, and changes in interpretations of such guidelines, could lead to unanticipated changes in our current revenue accounting practices that could cause us to defer the recognition of revenue to future periods or to recognize lower revenue. In addition, policies, guidelines and interpretations related to accounting for acquisitions, income taxes, facilities consolidation charges, allowance for doubtful accounts and other financial reporting matters require different judgments on complex matters that are often subject to multiple sources of authoritative guidance. To the extent that management's judgment is incorrect, it could result in an adverse impact on our financial statements. Further, the factual complexities of applying these policies, guidelines and interpretations to specific transactions can lead to unanticipated changes in revenue recognition with respect to such transactions, which may affect our revenue and results of operations.

The loss of our senior executives and key personnel would likely cause our business to suffer.

Our ability to implement a successful long-term strategy, strengthen our competitive position, expand our customer base, and develop and support our products depends to a significant degree on the performance of the senior management team and other key employees. The loss of any of these individuals could harm our business. Our success will depend in part on our ability to attract and retain additional personnel with the highly specialized expertise necessary to generate revenue and to engineer, design and support our products and services. Like other technology companies, we face intense competition for qualified personnel. We may not be able to attract or retain such personnel.

Intense competition in our target market could impair our ability to grow and achieve profitability on a consistent basis.

The market for our products and services is intensely competitive, dynamic and subject to rapid technological change. The intensity of the competition and the pace of change are expected to increase in the future. Increased competition is likely to result in price reductions, reduced gross 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 offered. We encounter competition with respect to different aspects of our solution from a variety of sources including:

Companies that offer human capital management solutions that provide one or more applications within the HCM market, such as learning management, performance management, talent management, compensation and recruiting, including SumTotal and Success Factors;

Companies that offer collaboration solutions, such as Microsoft, Adobe and Cisco;

Enterprise software vendors that offer human resources information systems and employee relationship management systems with training and performance modules, such as SAP and Oracle;

Potential customers' internal development efforts; and

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Companies that operate Internet-based marketplaces for the sale of on-line learning.

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We expect competition from a variety of companies.

Many of our competitors have longer operating histories, substantially greater financial, technical, marketing or other resources, or greater name recognition than we do, enabling them to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Such resources also enable our competitors to withstand prolonged periods of negative cash flows and unfavorable economic, political and market conditions. Competition could seriously impede our ability to sell additional products and services on terms favorable to us. Our current and potential competitors may develop and market new technologies that render our existing or future products and services obsolete, unmarketable or less competitive. Our current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with other partners, thereby increasing the availability of their services to address the needs of our current and prospective customers. We may not be able to compete successfully against our current and future competitors, and competitive pressures that we encounter may seriously harm our business.

The consolidation or acquisition of our competitors or other similar strategic alliances could weaken our competitive position or reduce our revenue.

There has been vendor consolidation in the market in which we operate. Additional consolidation within our industry may change the competitive landscape in ways that adversely affect our ability to compete effectively. Our competitors may also establish or strengthen cooperative relationships with our current or future BPO partners, HRO partners, systems integrators, third-party consulting firms or other parties with whom we have relationships, thereby limiting our ability to promote our products and limiting the number of consultants available to implement our solutions. Disruptions in our business caused by these events could reduce our revenue.

If we are unable to manage the complexity of conducting business globally, our international revenues may suffer.

International revenues accounted for 34%, and 25% of our revenues for the first three months of our fiscal 2011 and 2010, respectively. Although we intend to continue to expand our international presence, in the future we may not be able to successfully market, sell or distribute our products and services in foreign markets. Factors that could materially adversely affect our international operations, and our business and future growth include:

Difficulties in staffing and managing foreign operations, including language barriers;

Seasonal fluctuations in purchasing patterns in other countries, particularly depressed sales during July and August in European markets;

Difficulties in collecting accounts receivable in foreign countries, particularly European countries in which collections take considerably more time than the United States and collections are more difficult to effect;

Currency exchange rate fluctuations, particularly in countries where we sell our products in denominations other than U.S. dollars, such as in the United Kingdom, the Euro zone, Australia and Japan, or have exposures in inter-company accounts denominated in foreign currencies;

Exposure to tax regimes of multiple countries and potential increased tax exposure relating to in-country profits as well as audits and assessments relating to transfer pricing matters and other tax matters;

Costs attributable to development of internationalized versions of our products and marketing and sales materials;

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Increases in our cost of doing business in foreign jurisdictions in order to comply with international and U.S. laws and regulations that apply to our international operations (including the Foreign Corrupt Practices Act in the U.S. and local laws in foreign jurisdictions which prohibit corrupt payments to governmental officials, data privacy requirements, labor relations laws, tax laws, anti-competition regulations, import and trader restrictions, and export requirements);

The reduced protection for intellectual property rights in some countries;

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Greater difficulties in maintaining and enforcing U.S. accounting and public reporting standards, including in staffing and managing foreign operations with personnel sufficiently experienced in U.S. accounting and public reporting standards;

Tariffs, export controls and other trade barriers and unexpected changes thereto; and

Exposure to geopolitical instability, natural disasters and acts of war or terrorism.

In addition, the reallocation of certain design, development and testing functions from the United States to our lower-cost development centers in India intensifies our exposure to international uncertainties. In recent years, increased growth and development of the technology market in general, and in India specifically, has made it more difficult for us to hire and retain qualified technical employees and other personnel. In addition to the risks inherent in conducting international operations as described above, certain risks are particularly acute in India, such as employee turnover, increasing salaries and less reliable infrastructure.

A portion of our revenue is generated by sales to government entities, which are subject to a number of challenges and risks.

We derive a portion of our revenues from sales to U.S. and foreign federal, state and local governments and their respective agencies. Sales into government entities are subject to a number of risks. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will successfully sell our products and services to such governmental entity. Government entities may require contract terms that differ from our standard arrangements. In addition, government demand and payment for our products may be affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products. Most of our sales to government entities have been made indirectly through third-party prime contractors that resell our solutions. Government entities may have contractual or other legal rights to terminate contracts with our resellers for convenience or due to a default, and any such termination may adversely impact our future results of operations. Additionally, government contracts are generally subject to audits and investigations which could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

The success of our recently announced Saba People Cloud could be adversely impacted by deployment problems, security breaches, or system or telecommunication disruptions.

The Saba People Cloud, delivering Saba's people suites on Amazon Web Services, is new and could encounter unexpected problems. These problems could be attributable to our products, third party software, telecommunications failures, security breaches, or the cloud technology from Amazon Web Services or other hosting providers. Industry acceptance of cloud computing is still forming. Since cloud technology is new and requires that customer data reside outside of a customer's firewall of protection, many prospective customers could reject or delay adoption, thereby limiting the potential for this new offering. If the Saba People Cloud fails to keep pace with sales, customers may experience delays as we seek to obtain additional capacity, which could harm our reputation and adversely affect our revenue growth. Any disruption of service from the Saba People Cloud, or loss or compromise of customer orders or data, would adversely affect our adoption and renewal rates for the Saba People Cloud and adversely impact our ability to achieve our business plan and forecasted financial results.

Because a number of our products collect, store and report personal information of employees, privacy concerns could result in liability to us or inhibit sales of our products.

Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information. Because many of our products collect, store and report on personal information, any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy laws, regulations and policies, could result in liability to us, damage our reputation, inhibit sales and harm our business.

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Furthermore, the costs of compliance with, and other burdens imposed by, such laws, regulations and policies that are applicable to the businesses of our customers may limit the use and adoption of our products and reduce overall demand for them. Privacy concerns, whether or not valid, may inhibit market adoption of our products in certain industries.

The enactment of legislation implementing changes in U.S. taxation of international business activities or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Recently several tax bills have been introduced to reform U.S. taxation of international business activities. The current Administration has made public statements indicating that it has made the issue a priority and key members of the U.S. Congress have conducted hearings and proposed legislation. Accordingly, depending on the final form of legislation enacted, if any, these consequences may be significant for us due to the large scale of our international business activities. If any of these proposals are enacted into legislation, they could have material adverse consequences on the amount of tax we pay and thereby on our financial position and results of operations.

Currency exchange rate fluctuations could lower our revenue and net income.

During the first quarter of fiscal year 2011, we recognized approximately 34% percent of our revenue in markets outside the United States in each market's respective local currency. We provide our products and services to customers in the United States, Europe and elsewhere through the world. Sales are primarily made in U.S. dollars, and to an increasing extent, British pounds and Euros. As we continue to expand our operations, more of our contracts may be denominated in Australian dollars, Canadian dollars, Japanese yen and other foreign currencies. In preparing our financial statements, we translate revenues and expenses in foreign countries from their local currencies into U.S. dollars using average exchange rates. Because an increasing portion of our sales is in foreign countries, exchange rate fluctuations may have a significant effect on our sales and earnings. Our reported net earnings may be significantly affected by fluctuations in currency exchange rates, with earnings generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. As sales expand in countries where foreign currency transactions may be made, our operating results will increasingly be subject to the risks of exchange rate fluctuations and we may not be able to accurately estimate the impact that these changes may have on our future results of operations or financial condition. We may from time to time enter into foreign currency hedging contracts, which may create foreign currency losses. Since the beginning of fiscal 2011, we started a program that primarily utilized foreign currency forward contracts to offset some of these risks so that increases or decreases in our foreign currency exposures were offset by gains or losses on the foreign currency forward contracts in order to mitigate the risks and volatility associated with our foreign currency transactions. Our currency exposures typically arise from intercompany loans and other intercompany transactions that are expected to be cash settled in the near term. Our ultimate realized gain or loss with respect to currency fluctuations will generally depend on the size and type of cross-currency transactions that are entered into, the currency exchange rates associated with these exposures and changes in those rates, whether we have entered into foreign currency forward contracts to offset these exposures and other factors.

Future acquisitions may result in disruptions to our business if we fail to adequately integrate acquired businesses.

As part of our overall business strategy, we expect to continue periodically to acquire complementary businesses or technologies that will provide additional products or services offerings, additional industry expertise or an expanded geographic presence.

The pursuit of acquisitions involves a number of uncertainties, including selecting the appropriate products, technologies or companies to acquire and successfully complete the targeted transaction. Completed acquisitions could further result in the use of significant amounts of cash, the incurrence of debt or potentially dilutive issuances of equity securities which may reduce earnings per share. Further, acquisitions that we complete expose us to numerous risks, including:

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Difficulties in the assimilation of the operations, technologies, products and personnel of the acquired company;

The diversion of management's attention from other business concerns;

Risks of entering markets in which we have no or limited prior experience;

The potential loss of key employees, significant customers and strategic partners of the acquired company; and

Exposure to claims by terminated employees, stockholders of the acquired company or other third parties related to the acquisition. Although we generally obtain indemnification and other contractual protection against such claims, we cannot assure that they will be enforceable or sufficient to protect us.

Our business is subject to changing regulations regarding corporate governance and public disclosure that will increase both our costs and the risk of noncompliance.

As a public company, we incur significant legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act, and rules subsequently implemented by the SEC and The NASDAQ Stock Market, have imposed a variety of requirements and restrictions on public companies, including requiring changes in corporate governance practices. In addition, the SEC and the U.S. Congress are proposing additional significant corporate governance-related rules. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

We may incur impairments to goodwill or long-lived assets.

We are required to test goodwill for impairment annually or if a triggering event occurs in accordance with the provisions of ASC 350-20 *Goodwill and Other Intangible Assets*. We are also required to test long-lived assets for impairment if a triggering event occurs with the provisions of ASC 350-30 *General Intangibles other than Goodwill* and ASC 360-10 *Property, Plant and Equipment*. Such impairment could be caused by internal factors as well as external factors beyond our control.

Significant negative industry or economic trends, reduced estimates of future cash flows, disruptions to our business, slower growth rates or lack of growth in the areas in which we generate revenues could lead to an impairment charge for any of our intangible assets or goodwill. If, in any period, our stock price decreases to the point where the fair value of the Company, as determined by our market capitalization, is less than our book value, this too could indicate a potential impairment and we may be required to record an impairment charge in our statement of operations in that period which would cause our profits to decline.

We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if a significant decline in our stock price and/or market capitalization result in impairment to our goodwill, we may be required to record a charge to earnings in our financial statements during a period in which such impairment is determined to exist, which may negatively impact our results of operations. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance.

Delays in releasing new products or enhanced versions of our existing products could adversely affect our competitive position.

As part of our strategy, we expect to regularly release new products and new versions of our existing products. Even if our new products or new versions of our existing products contain the features and functionality our customers want, in the event we are unable to timely introduce these new products or product releases, our competitive position may be harmed. We cannot assure you that we will be able to successfully complete the development of currently planned or future products or product releases in a timely and efficient manner. Due to the complexity of our products, internal quality assurance testing and customer testing of pre-commercial releases may reveal product performance issues or desirable feature enhancements that could lead us to postpone the release of

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these products. In addition, the reallocation of resources associated with any postponement would likely cause delays in the development and release of other future products or enhancements to our currently available products. The reallocation of certain design, development and testing functions to our lower-cost development center heightens risks relating to product design, development, testing and introduction. Any delay in releasing future products or enhancements of our products could harm our business.

If we release products containing defects, we may need to halt further shipments, service levels may be reduced and our business and reputation would be harmed.

Products as complex as ours often contain unknown and undetected errors or performance problems. Although our products are subject to rigorous testing and quality control processes, serious defects are frequently found during the period immediately following introduction and initial shipment of new products or enhancements to existing products. Although we attempt to resolve all errors that we believe would be considered serious by our customers before shipment to them, our products are not error-free. These errors or performance problems could result in lost revenues, reduced service levels, delays in customer acceptance on professional services products and would be detrimental to our business and reputation. As is typical in the software industry, with each release we have discovered errors in our products after introduction. We will not be able to detect and correct all errors before releasing our products commercially and these undetected errors could be significant. We cannot assure you that undetected errors or performance problems in our existing or future products will not be discovered in the future or that known errors considered minor by us will not be considered serious by our customers, resulting in cancellation of orders, loss of customers, difficulties in achieving our sales goals, increased demands on our support services, a decrease in our revenues and service credits or refunds. To correct such errors, we may expend considerable time and resources to develop and release modifications to our software.

As a result of such errors, we may be subject to warranty and product liability claims that are costly or difficult to settle. Our products and services enable customers to manage critical business information. If product errors are alleged to cause or contribute to security and privacy breaches or misappropriation of confidential information, we may also be subject to significant liability. Although our license agreements contain provisions intended to limit our exposure to liability, we cannot assure you that these limits will be adequate, that they will be enforceable or, if enforceable, that they will be interpreted favorably by a court.

We face risks related to claims third parties that we infringe their intellectual property rights and other litigation.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights, particularly in the software and Internet-related industries. We have in the past been and are presently subject to intellectual property actions. For example, on August 19, 2003, EdiSync Systems, LLC filed a complaint against Centra in federal court in Denver, Colorado, alleging infringement of two patents for a remote multiple user editing system and method and seeking to enjoin us from continuing to sell our products, as well as unspecified compensatory damages. Centra filed an answer to the complaint denying all of the allegations, and instituted reexamination proceedings for the patents at issue with the Patent Office. Centra filed a request for reexamination of the patents at issue with the Patent Office. Our patent counsel is of the opinion that claims of the patents involved in the suit are invalid. The re-examination request was accepted by the Patent Office and the Colorado District Court approved the parties' motion to stay the court proceedings during the re-examination proceedings. A reexamination certificate has been issued for one of the patents that canceled all of the patent's claims, thus rendering that patent of no further force or effect. The Patent Office issued a reexamination certificate for the other patent canceling all of the patent's original claims and allowing certain newly-added claims. We believe we are free from liability for past actions, as we believe the newly-added claims would be enforceable only prospectively as of the issue date of the reexamination certificate. Centra has since filed a second reexamination request asking the Patent Office to reconsider the patentability of the newly-added claims in view of newly-discovered prior art and the Patent Office has granted that request. The Colorado District Court has again stayed the litigation pending the outcome of the second reexamination proceeding. Although we believe that we have meritorious defenses and intend to vigorously defend this action, we can give no assurance that we will be able to achieve a satisfactory outcome. We could become subject to additional intellectual property infringement claims as the number of our competitors grows and our products and services overlap with competitive offerings. Any of these claims, even if not meritorious, could be expensive to defend and could divert management's attention from

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operating our company. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial award of damages and to develop non-infringing technology, obtain a license or cease selling the products that contain the infringing intellectual property. We may be unable to develop non-infringing technology or obtain a license on commercially reasonable terms, if at all. We also may face other forms of litigation or claims as part of our business, which may expose us to additional costs and risks.

Our products include third party technology, the loss of which could materially harm our business.

We use licensed third party technology components in our products. Future licenses to this technology may not be available to us on commercially reasonable terms, or at all. The loss of or inability to obtain or maintain any of these technology licenses could result in delays in the introduction of new products or could force us to discontinue offering portions of our solutions until equivalent technology, if available, is identified, licensed and integrated.

Our use of open source technology could impose limitations on our ability to commercialize our products.

We use open source software in our application suite. Although we monitor our use of open source software closely, the terms of many open source licenses have not been interpreted by United States courts, and there is risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to re-engineer our technology or to discontinue offering all or a portion of our products in the event re-engineering cannot be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

We may not be able to adequately protect our proprietary technology, and our competitors may be able to offer similar products and services that would harm our competitive position.

Our success depends upon our proprietary technology. We rely primarily on copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to establish and protect our proprietary rights. As part of our confidentiality procedures, we enter into non-disclosure agreements with our employees. Despite these precautions, third parties could copy or otherwise obtain and use our technology without authorization, which may represent potential sales and revenue losses that are difficult to quantify. Policing unauthorized use of our technology is difficult, time-consuming and costly. Were we to discover instances of unauthorized use, there can be no assurance that we would be able to enforce our proprietary rights or obtain adequate recovery for our losses. In addition, we have seven patents issued in the United States and seven patent applications pending in the United States. We cannot assure you that any patents will be issued for any of the pending patent applications. Even for the issued patents, or any patent issued to us in the future, there can be no assurance that such patent will protect our intellectual property, or will not be challenged by third parties. Furthermore, effective protection of intellectual property rights is unavailable or limited in certain foreign countries. We cannot assure you that the protection of our proprietary rights will be adequate or that our competitors will not independently develop similar technology, duplicate our products and services or design around any patents or other intellectual property rights we hold.

Our disaster recovery plan does not include redundant systems, and a disaster could severely damage our operations.

Our disaster recovery plan does not include fully redundant systems for our services at an alternate site. A disaster could severely harm our business because our services could be interrupted for an indeterminate length of time. Our operations depend upon our ability to maintain and protect the computer systems needed for the day-to-day operation of the subscription business. A number of these computer systems are located on or near known earthquake fault zones. Although these systems are designed to be fault-tolerant, the systems are vulnerable to damage from fire, floods, earthquakes, power loss, telecommunications failures and other events. Additionally, we do not carry sufficient business insurance to compensate us for all potential losses that could occur.

We outsource the management and maintenance of a portion of our subscription business to third parties and will depend upon them to provide adequate management and maintenance services.

We rely on third parties to provide key components of our networks and systems. For instance, we rely on third-party Internet service providers to host our products for our subscription customers. We also rely on third-

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party communications service providers for the high-speed connections that link our networks and our Internet service providers. Web servers and office systems to the Internet. Our reliance on third party providers limits our ability to control critical customer service functions and communications systems. Any Internet or communications systems failure or interruption could result in disruption of our service or loss or compromise of customer orders and data. These failures, especially if they are prolonged or repeated, would make our services less attractive to customers and tarnish our reputation.

If our security measures are breached and unauthorized access is obtained to client data, clients may curtail or stop their use of our subscription solutions, which would harm our business, operating results and financial condition.

A portion of our subscription business involves the storage and transmission of confidential information of clients and their existing and potential employees, and security breaches could expose us to a risk of loss of, or unauthorized access to, this information, resulting in possible litigation and possible liability. Although we have never sustained such a breach, if our security measures were ever breached as a result of third party action, employee error, malfeasance or otherwise, and, as a result, an unauthorized party obtained access to this confidential data, our reputation could be damaged, our business may suffer and we could incur significant liability. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not discovered until launched against a target. As a result, 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 our security measures could be harmed and we could lose sales and clients.

Our stock price may fluctuate substantially.

For example, from the beginning of fiscal 2009 through August 31, 2010, the market price for our common stock has fluctuated between \$5.81 per share and \$0.91 per share. The market price for our common stock may be affected by a number of factors, including those described above and the following:

The announcement of new products and services or product and service enhancements by us or our competitors;

Actual or anticipated quarterly variations in our results of operations or those of our competitors;

Changes in earnings estimates or recommendations by securities analysts that may follow our stock;

Developments in our industry, including announcements of significant acquisitions or strategic partnerships; and

General market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In addition, the stock market in general, and The NASDAQ Stock Market technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies. Broad market and industry trends may also materially and adversely affect the market price of our common stock, regardless of our actual operating performance. Volatility in the market price and trading volume of our common stock may prevent our stockholders from selling their shares at a favorable price. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been initiated against that company. Class-action litigation could result in substantial costs and a diversion of management's attention and resources.

The anti-takeover provisions in our charter documents and our rights plan could delay or prevent a change in control.

Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws contain provisions that could make it harder for a third party to acquire us without the consent of our board of directors.

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For example, if a potential acquirer were to make a hostile bid for us, the acquirer would not be able to call a special meeting of stockholders to remove our board of directors or act by written consent without a meeting. In addition, our board of directors has staggered terms that make it difficult to remove all directors at once. The acquirer would also be required to provide advance notice of its proposal to remove directors at an annual meeting.

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The acquirer will not be able to cumulate votes at a meeting, which will require the acquirer to hold more shares to gain representation on the board of directors than if cumulative voting were permitted.

Our board of directors also has the ability to issue preferred stock that would significantly dilute the ownership of a hostile acquirer. In addition, Section 203 of the Delaware General Corporation Law limits business combination transactions with 15% stockholders that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if the offer may be considered beneficial by some stockholders.

In addition, on June 2, 2009, our board of directors authorized and declared a dividend of one right for each outstanding share of our common stock to stockholders of record at the close of business on June 15, 2009. Each right entitles the registered holder, subject to the terms of the rights agreement between us and the rights agent, to purchase from us one one-thousandth of a share (a unit) of Series A Preferred Stock, par value \$0.001 per share, at a purchase price of \$12.50 per unit, under circumstances described in the rights agreement. The purchase price, the number of units of preferred stock and the type of securities issuable upon exercise of the rights are subject to adjustment. The rights will expire at the close of business June 2, 2012 unless earlier redeemed or exchanged. Until a right is exercised, the holder thereof, as such, will have no rights as one of our stockholders, including the right to vote or to receive dividends. The rights are not immediately exercisable. Subject to the terms and conditions of the rights agreement, they will become exercisable ten business days after a person or group acquires, or commences a tender or exchange offer which would lead to the acquisition of, beneficial ownership of 15% or more of our outstanding common stock. Once a person or group acquires beneficial ownership of 15% or more of our outstanding common stock, subject to the terms of the rights agreement, each right not owned by that person or group or certain related parties will entitle its holder to purchase, at the right's then-current purchase price, units of Series A Preferred Stock or, at our option, shares of common stock or cash, property or other securities of our company having a market value equal to twice the then-current purchase price.

Our anti-takeover provisions as well as our rights agreement could have the effect of discouraging a third party from making a tender offer or otherwise attempting to gain control of us, even though the transactions could be profitable for our stockholders. If the acquirer was discouraged from offering to acquire us or prevented from successfully completing a hostile acquisition by our anti-takeover measures, our stockholders could lose the opportunity to sell their shares at a favorable price.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

a.) None.

b.) None

c.) The following table provides monthly detail regarding our share repurchases during the three months ended August 31, 2010:

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Cost for Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Cost for Number of Shares That May Yet Be Purchased Under the Plans or Programs
	(in thousands, except share and per share amounts)			
June 1 30, 2010				\$ 4,904
July 1 31, 2010	54,547 ⁽¹⁾	\$ 5.05	\$ 203	4,701
August 1 31, 2010	110,000	4.95	549	4,152
Total	164,547		\$ 752	\$ 4,152

- (1) Includes 14,547 shares of common stock pursuant to our restricted stock units program for an aggregate price of approximately \$0.1 million to satisfy tax withholding obligations that arose on the vesting of restricted stock units. The remaining 150,000 shares were repurchased pursuant to our share repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (REMOVED AND RESERVED)**ITEM 5. OTHER INFORMATION**

None.

ITEM 6. EXHIBITS

a. Exhibits

See Exhibit Index following the signature page, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SABA SOFTWARE, INC.

Dated: October 7, 2010

By: /s/ BOBBY YAZDANI
Bobby Yazdani
Chief Executive Officer and
Chairman of the Board
(Principal Executive Officer)

By: /s/ WILLIAM SLATER
William Slater
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Number	Document
3.1 ⁽¹⁾	Amended and Restated Certificate of Incorporation of the Company effective as of April 12, 2000.
3.2 ⁽²⁾	Amendment to Amended and Restated Certificate of Incorporation of the Company effective as of May 12, 2003.
3.3 ⁽³⁾	Amendment to Amended and Restated Certificate of Incorporation of the Company effective as of November 19, 2004.
3.4 ⁽⁴⁾	Certificate of Designation of the Series A Preferred Stock, as filed with the Secretary of Delaware on June 2, 2009.
3.5 ⁽⁵⁾	Amended and Restated Bylaws of the Company.
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5.
10.1	Third Amendment to Lease effective as of August 31, 2010, by and between Westport Office Park, LLC and Saba Software, Inc.
31.1	Certification of Bobby Yazdani, Chief Executive Officer and Chairman of the Board, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated January 8, 2010.
31.2	Certification of William Slater, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated January 8, 2010.
32.1	Certification of Bobby Yazdani, Chief Executive Officer and Chairman of the Board, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated January 8, 2010.
32.2	Certification of William Slater, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated January 8, 2010.

- (1) Incorporated by reference to Exhibit 3.2 previously filed with the Company's Registration Statement on Form S-1/A (Registration No. 333-95761) filed on March 3, 2000.
- (2) Incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2003.
- (3) Incorporated by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q for the period ended November 30, 2004.
- (4) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 2, 2009.
- (5) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 28, 2010.