SABA SOFTWARE INC
Form 10-K
August 12, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x   **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MAY 31, 2010**

                                                         or

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

                    For the Transition Period from   to   .

                    Commission file number: 001-34372

SABA SOFTWARE, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**94-3267638**
(State or Other Jurisdiction of	(I.R.S. Employer Identification Number)
Incorporation or Organization)	
2400 Bridge Parkway	
Redwood Shores, California	**94065-1166**
(Address of Principal Executive Offices)	(Zip Code)

                    (650) 581-2500

                    (Registrant s Telephone Number, including area code)

                    Securities Registered Pursuant to Section 12(b) of the Act:

(Title of Each Class)	(Name of Each Exchange on Which Registered)
Common Stock, par value $0.001 per share	**The Nasdaq Stock Market LLC**
	(Nasdaq Global Select Market)
Preferred Stock Purchase Rights	**The Nasdaq Stock Market LLC**
	(Nasdaq Global Select Market)

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or Section 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 x 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer ¨   Accelerated filer x   Non-Accelerated filer ¨   Smaller reporting company x

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of November 30, 2009, the last business day of the registrant s most recently completed second fiscal quarter, was approximately $104,946,956 (based on a closing sale price of $4.21 per share as reported for the Nasdaq Global Market). Shares of common stock beneficially held by each executive officer and director and by each person who beneficially owns 5% or more of the outstanding common stock have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant s common stock, $0.001 par value per share, outstanding as of July 31, 2010 was 28,174,855.

Documents Incorporated by Reference

Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Stockholders to be held on November 17, 2010 are incorporated by reference in Part III of this Form 10-K to the extent stated herein. Except as expressly incorporated by reference, the registrant s Proxy Statement shall not be deemed to be a part of this Form 10-K.

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SABA SOFTWARE, INC.

FISCAL YEAR 2010

FORM 10-K

ANNUAL REPORT

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CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

For purposes of this Annual Report on Form 10-K, the terms Saba, the Company, we, us and our refer to Saba Software, Inc. and its consolidated subsidiaries (unless the context indicates otherwise). This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements contained in this Annual Report on Form 10-K other than statements of historical fact are forward-looking statements for purposes of these provisions, including any statements of plans and objectives for future operations and any statement of assumptions underlying any of the foregoing. Statements that include the use of terminology such as may, will, expects, believes, plans, estimates, potential, or or the negative thereof or other comparable terminology are forward-looking statements. Forward-looking statements include, without limitation:

(i) in Item 1: *Business*, statements regarding our belief that we are uniquely positioned to provide a solution that supports and enables the people-driven enterprise; our belief that there are four distinct markets that are converging to solve the challenge of becoming a people-driven enterprise; competition; our belief that we offer the most comprehensive and flexible people systems platform; our belief regarding the principal competitive features affecting our market; our belief that we are the leader in our market space; registration of trademarks; and our belief and intention regarding litigation to which we are subject;

(ii) in Item 1A: *Risk Factors*, statements regarding 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; 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;

(iii) in Item 2: *Properties*, statements regarding the adequacy of our existing facilities to meet anticipated needs for the foreseeable future;

(iv) in Item 3: *Legal Proceedings*, statements regarding the financial impact of any proposed settlements; our intention to dispute claims against us; and the merits of claims against us;

(v) in Item 5: *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*, statements regarding our intention to retain our future earnings; and share repurchases pursuant to our share repurchase program, as well as our intention to finance any such share repurchases with funds from operations;

(vi) in Item 7: *Management s Discussion and Analysis of Financial Condition and Results of Operations:*, statements regarding 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 anticipation that we will continue to add new subscription customers; our anticipation that we will continue to experience long sales cycles; our anticipation of an increase in sales and marketing expenses in fiscal 2011, which we anticipate to be primarily related to headcount additions as we continue to expand our sales and marketing functions; the table summarizing our contractual obligations at May 31,

2010; the sufficiency of our available cash resources and cash flows generated from revenues to meet our presently anticipated working capital, capital expense and business expansion requirements for at least the next twelve months;

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the adequacy of tax provisions related to the examination of certain of our tax returns; our estimate of future forfeiture rates in stock-based compensation and our anticipation to not pay dividends in the foreseeable future;

(vii) in Item 7A: *Quantitative and Qualitative Disclosures About Market Risk* , statements regarding our exposure to interest rate risk and foreign currency risk; and the effects of future changes in interest rates and foreign currency rates;

(viii) in Item 8: *Financial Statements and Supplementary Data* , statements regarding our management s belief that financial risks associated with cash, cash equivalents and accounts receivable are minimal; the financial impact of a proposed settlement; the merits of our litigation; statements regarding total expected future amortization related to intangible assets; our estimate of future forfeiture rates in our stock-based compensation plans; the anticipated adjustments to total unrecognized stock-based compensation, and the adequacy of tax provisions related to the examination of certain of our tax returns.

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 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 the Saba products, unanticipated decrease in demand for our products and services, unanticipated changes in domestic and foreign tax regulations and the factors detailed under the heading Risk Factors in Item 1A of this Annual Report on Form 10-K. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement or risk factor.

PART I

ITEM 1:   BUSINESS

Overview

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 available both on-premise and in the cloud, 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

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

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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

We were incorporated in Delaware in April 1997 and are currently headquartered in Redwood Shores, California, with offices on five continents. Our Internet address is www.saba.com.

On the Investor Relations page of our web site www.saba.com/company/investor-relations, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: our Annual Report on Form 10-K; our Quarterly Reports on Form 10-Q; our Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The filings on our Investor Relations web page are available to be viewed free of charge. Information contained on our web site is not part of this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission. We assume no obligation to update or revise any forward-looking statements in this Annual Report on Form 10-K, whether as a result of new information, future events or otherwise, unless we are required to do so by law. A copy of this Annual Report on Form 10-K is available without charge upon written request to: Investor Relations, Saba Software, Inc., 2400 Bridge Parkway, Redwood Shores, California 94065.

Evolution of Our Market

Most of today s human capital management systems were built to support static human resources processes and strategies, top down management, and a culture focused on operations and automation rather than people optimization. Sequential steps that were consistent and repeatable were the keys to successful execution. Many systems were built to support these processes on highly rigid, linear, transactional frameworks, making them poorly suited for dynamic people-focused strategies and a networked work style. Even newer SaaS-based talent management systems are typically built to support individual processes such as recruiting or performance management, and do not provide the holistic people view required of today s human capital management systems.

The current business and economic climate continues to change with unprecedented speed and far-reaching impacts. Worldwide changes affecting organizations include:

Globalization new opportunities and challenges are arising from developing countries in a world that is more interconnected where employees, suppliers, customers or partners cross borders.

Economic Uncertainty economies have become permanently intertwined and the ongoing global financial crisis makes long term planning take a back seat to increasing restructuring and merger and acquisition activities.

Hyper-Competition the ubiquity of the Internet means every competitor has global reach and can be a fast follower or has the means to invent new business models.

Technology Disruption smart phones, the latest platform to invade the corporate world from the consumer world, are requiring companies to support multiple platforms simultaneously.

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Changing Workforce Dynamics today s workforce is more global, more mobile, more diverse and more technology savvy, which is forcing employers to rethink the way they attract, manage, retain and get the most out of their people.

While these trends are changing organizations from the outside, the workforce is simultaneously evolving to change organizations from the inside. Organizations are adopting a modern and networked way of working, where the norms are transparency, concurrent projects with real-time updates, and continuously connected people, including customers, contractors and partners, who can operate successfully in a fluid and fast changing environment.

We believe that we are uniquely positioned to provide a solution that supports and enables the people-driven enterprise in this rapidly evolving business and economic climate. We believe that four distinct markets are converging to solve the challenge of becoming a people-driven enterprise:

The Enterprise Learning Market: This market is comprised of software applications for the administration, documentation, tracking, and reporting of training programs, classroom and online events, e-learning programs, and training content.

The Enterprise Talent Management Market: This market is comprised of software applications for strategic talent management, including software applications for performance management, compensation management, talent acquisition and recruiting, training, career development, and succession planning.

The Enterprise Web Conferencing Market: This market is comprised of real-time collaboration tools that support interactions over a network between participants in multiple meeting formats.

The Enterprise Social Software Market: This market is comprised of social software used in business and commercial context, providing capabilities such as search, links, authoring, tags, recommendations, and content subscription.

We call the combination of these four markets People Systems .

Our Solutions

Saba People Systems leverage over 13 years of industry experience in building world-class, people-driven software solutions. Saba People Systems embody a single unified platform, information model and process model, and include modern collaboration technologies in each application service. As a result, Saba People Systems deliver a consistent experience across all people actions and processes as well as offer major cost, upgrade, and speed-to-deployment advantages. Based on open standards, Saba People Systems allow simplified and flexible deployment, integration and personalization options.

Saba People Systems are comprised of the Saba People Suite and global services capabilities encompassing strategic consulting, comprehensive implementation and education services, and worldwide support. The Saba People Suite includes products within the Saba Learning Suite, the Saba Performance Suite and the Saba Collaboration Suite. The Saba People Suite is available through both SaaS and on-premise delivery models.

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The key components of the Saba People Suite are illustrated in the following chart:

Saba Learning Suite

The Saba Learning Suite is a solution that provides comprehensive management systems for formal and informal learning so that organizations can identify, manage, develop, and measure the capabilities and knowhow of people throughout the organization and the supply chain, as well as empower employees to connect and contribute expertise.

Built to support the people processes of the world s most demanding organizations, this easy-to-use system serves to drive new revenues, create strategic alignment, and mobilize people across the global ecosystem of our customers employees, customers, partners, and suppliers. The Saba Learning Suite uses innovative technologies and mobile access to generate user engagement through mobility, ubiquity, and immediacy.

The Saba Learning Suite includes the following applications:

Saba Learning. Enables organizations to deliver and manage critical knowledge and skills to improve productivity and achieve business results; supports certifications with multiple learning pathways; provides flexible audit trails; and supports e-signatures to meet a wide variety of stringent regulatory requirements

Saba Learning Commerce. Provides support for optimized pricing, discounting schemes, marketing campaigns, branded certification programs, bundled training units and a variety of convenient payment methods for education businesses

Saba Content Management. Helps organizations capture, consolidate, organize, manage, share and reuse all types of learning content through a learning object repository and automated content and project-management processes

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Saba Publisher. Allows users to create new courses, or repurpose courses, and publish them in HTML or standard learning formats, such as AICC or SCORM, quickly and efficiently

Saba Anywhere. Provides a mobile platform that lets people take their learning on the go by downloading, viewing, and interacting with standards-based courseware and knowledge content anywhere, anytime, regardless of network connectivity

Saba Performance Suite

The Saba Performance Suite enables organizations to continuously align individuals   activities with key organizational goals, collect real-time performance feedback from the social network and establish a relevant performance review process that clarifies expectations, measures results, increases accountability, and identifies actionable improvements. The Saba Performance Suite enables organizations to establish a performance process that is proactive, collaborative and relevant for each individual employee. In addition, the Saba Performance Suite embeds a number of collaborative tools to foster connections with mentors and experts and enables cross-functional alignment of goals and activities.

The Saba Performance Suite includes the following applications:

Saba Performance Reviews. Establishes a strategic, relevant performance review process that allows multiple raters to provide feedback on individualized goals and competencies to improve the speed, quality, and relevance of performance feedback.

Saba Goals & Objectives. Provides real-time views into an organization s progress against goals and plans, allowing it to easily make adjustments to respond to changing requirements.

Saba Impressions. Delivers real-time feedback from the social network that is critical to rapid performance improvement.

Saba Workforce Planning. Provides organizations with the visibility needed to proactively plan their future workforce, increase overall agility and reduce risk.

Saba Succession. Focuses on the identification and development of key employees to mitigate the risks that occur when talent leaves the company.

Saba Compensation. Empowers managers with measures of employee success from various talent processes, both formal and informal, so that money is spent where it is needed most, and includes capabilities to support base and variable compensation plan design, compensation eligibility, and compensation allocation.

Saba Collaboration Suite

The recently announced Saba Collaboration Suite is designed to be a uniquely integrated solution that combines enterprise-class web conferencing and real-time communication with cutting-edge business networking capabilities to enrich the learning and performance business processes in the enterprise and to power real-time communication with presence, instant messaging, video-enabled channels, VoIP-enabled online meetings, and web conferences.

The Saba Collaboration Suite will include Saba Centra Web Conferencing, a Saba product that is currently available, and Saba Live, a new Saba product that is currently scheduled for general availability in the second half of calendar year 2010. Accordingly, the full Saba Collaboration Suite will be available upon general availability of Saba Live.

Saba Centra Web Conferencing.

Saba Centra Web Conferencing enables online virtual learning, training and meetings. Organizations can capture and share knowledge and exchange information with customers, partners, prospects and

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employees around the world in real-time. Saba Centra Web Conferencing helps organizations increase productivity and efficiency by helping to incorporate learning and knowledge transfer into business processes. It works with Windows, Apple Macintosh and Linux platforms and accelerates mission-critical initiatives that involve learning, training and general web conferencing. Saba Centra is also available with a rich participant interface on the Apple iPhone.

Saba Centra Web Conferencing includes the following key features:

Saba Centra Meeting. Helps eliminate the difficulties of complex meeting coordination and the time and expense of business travel.

Saba Centra Webinars. Equips the organization with an efficient and cost-effective way to reach and engage large audiences quickly.

Saba Centra Classroom. Enables live, interactive education sessions across many locations.

Saba Centra Web Conferencing is integrated with the Saba Learning Suite to provide seamless access to blended learning programs, knowledge assets and important documents. Using Saba Centra together with the Saba Learning Suite makes it easy for organizations to capture knowledge from subject matter experts and share that information with a single click. Powerful, unified search enables users to search across all formal and informal learning content. Saba Centra Web Conferencing is available on any PC, Mac, or Linux desktop with a very lightweight Web Access client that works across all major browsers. Saba Centra Web Conferencing is also available with a rich participant interface on your Apple iPhone.

Saba Live. Saba Live is designed to be an enterprise business networking solution that will include powerful Web 2.0 social tools integrated with presence, instant messaging, and real-time meetings powered by Saba Centra Web Conferencing.

Saba Live is designed to integrate a rich person profile, competency-driven expertise, Twitter-like performance feedback, blended learning, secure groups and workplace analytics. The Saba Collaboration Suite is intended to extend the functionality of Saba Live by integrating the full functionality of Saba Centra Web Conferencing, including enterprise-class training, webinars and online meetings.

Saba Services

We offer a comprehensive set of services to assist in the successful implementation and optimized use of our products. Saba has a highly trained and experienced services staff to support our customers around the world, with over 50% of our consultants based outside of North America. Our global services organization supports multiple offerings, including the following services:

Implementation and Consulting Services

Saba s Unified People Management Deployment Framework covers the entire customer lifecycle from initial business case assessment through ongoing application success measurement and provides a flexible, yet repeatable model for supporting successful design, deployment and support of Saba solutions. Our implementation and consulting services include the following specific services:

Strategic Services. Saba Strategic Services are designed to enable organizations to effectively link people-driven strategies to business strategies. Offerings include developing new people-driven strategies, change management and governance, developing and deploying competency models, measurement and evaluation strategies, as well as content integration and deployment.

Consulting Services. Our consulting services include definition of business objectives, design of phased plans for achieving these objectives, technical solution specifications, establishment of implementation timelines and resource requirements, installation of Saba solutions, systems configuration, data loading, custom report and notification design, website development, enterprise system integration and post-implementation assessment.

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Implementation Services Our implementation services include modular QuickStart packages, configured integration frameworks, upgrade assistance and footprint expansion.

Application Management Services Our application management services include system administration, functional help desk offerings, system optimization, and health checks and success criteria measurement.

Education Services. We provide a broad range of education services in a variety of formats, including instructor-led training and web and technology-based training. Course curricula, designed to enable customers to fully exploit the value of Saba solutions, include product training, project team training and technology training.

Customer Support

Our support services are designed to ensure that our customers have the latest available technology and access to the assistance necessary for their on-going success with our products. Saba s commitment to customer care extends far beyond basic issue resolution. Saba offers a full range of customer support options including dedicated account managers, 24x7 phone support, online support and access to customer communities for knowledge and best practice sharing.

Through Saba s online support portal, customers have access to documentation and a detailed knowledgebase to get to answers quickly and easily. As part of their relationship with Saba, customers also have access to an extensive array of resources that include Saba s account management team, customer communities, and more. For our larger global customers, Saba also offers premium support offerings featuring tailored, flexible support solutions built to meet the customers specific business requirements. These services range from extending support access hours, upgrading SLAs, and dedicating resources that operate as a customer s Saba team to proactively ensure success and business continuity.

Our Customers

Our customers include a wide spectrum of large, global enterprises and mid-size organizations for both private and public organizations. For each of the years ended May 31, 2010, 2009 and 2008, no single customer accounted for more than 10 percent of our total revenues. Based on total revenues, our customers are also leaders in their industries and their regions and represent many of the largest companies in the world.

Sales and Marketing

We sell our products to organizations through a worldwide direct sales force, combined with a global network of alliance and channel partners. Our direct sales efforts target large enterprises, including Global 2000 businesses, mid-size organizations, and government entities. Our channel sales efforts involve value-added resellers around the globe, as well as systems-integrator relationships. As of May 31, 2010, we had 118 sales and marketing employees in the United States, Australia, Canada, France, Germany, India, Japan, and UK. We incurred $33.4 million, $26.4 million and $36.6 million in sales and marketing expenses for the years ended May 31, 2010, 2009 and 2008, respectively.

We focus our marketing efforts on extending our market leadership, establishing market positioning, generating sales leads, supporting sales efforts, creating awareness of our solutions in the market and establishing strong brand awareness. Our marketing activities include public

relations, analyst relations, direct marketing, industry trade shows, online marketing, seminar programs, and customer community building, as well as strategic relationships with third party content and community providers.

Alliances

Saba s partnering strategy is to extend value to its customer base and the market by teaming up with the best-in-class global alliances and channel partners keenly focused on delivering superior results and customer satisfaction.

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The targeted nature of our partner program enables us to help partners better capture the momentum of the growing people systems marketplace. Through our partnership program, Saba and its partners leverage their collective strengths to offer integrated solutions that measure performance and improve profitability.

We have strategic alliance agreements with key global and regional value-added software resellers representing our solutions around the world, including IBM, HP and CAE. We also partner with global and regional consulting firms who act as advisors, systems integrators, and implementation partners for our solutions. These alliances and the associated training of qualified personnel in these organizations greatly increase the number of sales representatives and consulting professionals trained to implement our solutions.

We also have relationships with packaged content providers, custom content developers, and content authoring and learning delivery tool providers in order to increase the range of content offerings available to our customers. The Saba Content Alliance Program helps our content partners create and deliver learning content for use in conjunction with Saba solutions through the support of industry standards applicable to a broad variety of media formats, including Web-based training, computer-based training, video and asynchronous and synchronous delivery, as well as through the support of traditional forms of learning such as instructor-led classes, seminars, and workshops. In support of this program, we also operate a content developers   resource center and testing lab that provides our content partners with direct access to our systems for standards compliance testing.

Technology

Product Architecture

Our proven product architecture coupled with our development processes facilitates the rapid development, deployment and configuration of enterprise scale solutions for people management. Our platforms use the latest industry standards and technologies including J2EE, J2ME, AJAX, web services, virtualization, and learning industry standards to deliver innovative, configurable features for our OnPremise and SaaS customers. Our solutions fully support cloud-based deployments.

We continue to provide a fully J2EE-compliant application platform. This helps accelerate application development by leveraging the transaction management, persistence management and resource pooling capabilities of standard J2EE application servers so that application developers can focus on building business logic and user interfaces. During the course of fiscal year 2010, we fully migrated to the AGILE development methodology with all programs now being delivered under this framework.

Key features of the Saba platform are described below:

> *Open and Standards Based.* The core Saba architecture is based on a current reference J2EE implementation. We leverage third-party, industry-leading and standards-based platforms wherever possible. To offer our customers maximum choice, we support a wide number of J2EE application servers (including JBoss, Websphere and Weblogic), database platforms (including Oracle, IBM DB2 and Microsoft SQL Server) and operating systems (including Linux, Windows, AIX, and HP-UX). Our architecture supports both OnPremise and cloud-based deployments, allowing us to provide the broadest possible choice to our customers.

Security. Saba solutions offer highly secure environments through which organizations manage their people management processes. A granular security model supports the highly complex business structures and processes used by our customers and can be easily configured to meet their needs. Our security implementation has been subject to rigorous validation by a number of customers and third parties.

Scalability. Saba offers a highly scalable solution able to meet the needs of many thousands of concurrent users both OnPremise and in the cloud. Scalability is accomplished through a variety of techniques including clustering, distributed caching, virtualization, session failover management and off-line

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processing for asynchronous processes. We maintain a dedicated performance lab which works with our internal development teams and with our customers to ensure that our solutions meet the complex and varying usage demands that are placed on them.

Configurability and Extensibility. The Saba platform offers a highly configurable application environment. Business processes, system features and user experiences can be easily configured to meet the needs of our diverse customer base. Where more complex requirements exist, the Saba platform provides a complete set of development tools and Application Programming Interface (API) which can be used to extend system functionality.

Integration Ready. Saba solutions are deployed in complex IT ecosystems where integrations with other systems are commonly required. We provide for such integrations by delivering open and standards based solutions, based on common technologies such as J2EE, SAML, XML, SOAP and JAAS. In addition, we provide a series of documented Web Services and APIs to facilitate tight data and application integration.

Compelling User Experiences. The Saba solution provides a variety of user experiences through standard web browsers via embedded portlets, online and offline clients and through integrations with other business applications such as Microsoft Outlook, Lotus Notes and the WebSphere Portal infrastructure. This allows users to use Saba wherever they work. We make extensive use of rich internet application technologies (such as AJAX, CSS, Javascript, Flash, and high quality VOIP) to deliver more engaging and intuitive user experiences.

Learning Standards. We continue to be active participants in the main learning standards bodies including ADL, IMS and AICC. We also continue to ensure our solutions are compliant with the most current versions of the standards delivered by these organizations.

Multiple language support. Saba s platform is fully internationalized and is, therefore, independent of any particular language, script, culture, and coded character set. We currently provide a number of localized versions of our solutions and support over 26 languages.

Research and Development

Our research and development operations are organized around software platform and applications development initiatives. These two development activities share resources and collaborate on design and development. Core teams are responsible for platform and infrastructure development, application development, user interface and application design, enterprise connectivity, internet applications and design, quality assurance, documentation and release management. As of May 31, 2010, we had 167 research and development employees in the United States and India. We incurred $17.8 million, $17.4 million and $16.5 million in research and development expenses for the years ended May 31, 2010, 2009 and 2008, respectively.

We adhere to a well-defined and managed software development lifecycle model. This model, which makes increasing use of agile development practices, defines how we envision, plan, develop and test our products. It further defines the detailed phases of the project, the specific milestones to be achieved and the policies to be followed and documented. We continue to make extensive investments in the development tools and processes to support our development model.

We conduct our development efforts at multiple sites in the United States and India, which enables continuous development 24 hours per day.

Competition

The market for our products and services is intensely competitive, dynamic and subject to rapid change. The intensity of competition and the pace of change are expected to increase in the future. Competitors vary in size and in the scope and breadth of the products and services they offer. Although we believe that we offer the

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most comprehensive and flexible people systems we encounter competition with respect to different aspects of our solutions from a variety of sources including:

companies that offer solutions that provide one or more applications within the people systems market, such as leaning management, performance management, talent management, compensation and recruiting, including SumTotal and Success Factors;

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

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

companies that operate internet-based marketplaces for the sale of online learning.

We expect additional competition from other established and emerging companies as the market for people systems solutions continues to evolve. 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.

We believe the principal competitive features affecting our market include:

breadth and depth of the solution;

a significant installed base of Global 2000 and government customers;

the ability to support all forms of content offerings;

the ability to meet the requirements of the world s largest organizations, including support for global deployments;

the ability to support a broad range of extended-enterprise users, including employees, partners, customers and suppliers;

the ability to offer a choice of deployment options;

product quality and performance;

product features and functions;

customer service and support;

ease of implementation;

core technology;

price to performance ratio; and

partner ecosystem.

Although we believe that we are a leader in our market space and that our solutions currently compete favorably with respect to these factors, our market is relatively new and is changing rapidly. We may not be able to maintain our competitive position against current and potential competitors, especially those with significantly greater financial, technical, service, support, marketing and other resources.

Proprietary Rights

Proprietary rights are important to our success and our competitive position. To protect our proprietary rights, we rely on copyright, trademark, patent and trade secret laws, confidentiality procedures and contractual provisions.

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We license our products and provide subscription services (which include license updates and product support, and cloud-based services) rather than sell our software license products and require our customers to enter into written agreements, which impose restrictions on the use, access, copying and disclosure of our software. In addition, we seek to avoid disclosure of our trade secrets through a number of means, including but not limited to, requiring those persons with access to our proprietary information to execute confidentiality agreements with us. These contractual provisions, however, may be unenforceable under the laws of some jurisdictions and foreign countries.

We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. In addition, we have seven patents issued in the United States and multiple patent applications pending in the United States. We cannot be assured 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 patents (i) will protect our intellectual property, or (ii) will not be challenged by third parties. Furthermore, other parties may independently develop similar or competing technologies or design around any patents that may be issued to us. It is possible that any patent issued to us may not provide any competitive advantages, that we may not develop future proprietary products or technologies that are patentable, and that the patents of others may seriously limit our ability to do business. In this regard, we have not performed any comprehensive analysis of patents of others that may limit our ability to conduct our business.

We have obtained registration of various trademarks, including Saba and the Saba S-design logo, in the United States and in certain other countries. In addition, we have registration applications pending in various countries. We will continue to register additional trademarks as appropriate. There can be no assurance that we will be successful in obtaining registration of the trademarks for which we have applied. Even for any registered trademarks that we have obtained, or may obtain in the future, the trademarks may be successfully challenged by others or invalidated. If the applications are not approved because third parties own the trademarks, or if our registered trademarks are successfully challenged or invalidated, the use of the trademarks will be restricted unless we enter into arrangements with third parties that may be unavailable on commercially reasonable terms.

We cannot assure you that any of our proprietary rights with respect to our products or services will be viable or of value in the future sinc