SABA SOFTWARE INC
Form 10-Q
April 08, 2009
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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 February 28, 2009

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to __________.

000-30221

(Commission File number)

SABA SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**94-3267638**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
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)

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 x No ¨

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

Large accelerated filer ¨	Accelerated filer x	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 x

On March 31, 2009, 29,197,151 shares of the registrant s Common Stock, $.001 par value, were outstanding.

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FORM 10-Q

QUARTER ENDED FEBRUARY 28, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SABA SOFTWARE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	February 28, 2009 (Unaudited)	May 31, 2008*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,028	$ 16,624
Restricted cash	360	360
Accounts receivable, net	22,690	22,095
Prepaid expenses and other current assets	2,151	2,893
Total current assets	45,229	41,972
Property and equipment, net	5,189	5,239
Goodwill	37,480	37,708
Purchased intangible assets, net	9,672	12,459
Other assets	1,416	1,553
Total assets	$ 98,986	$ 98,931
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,597	$ 4,017
Accrued compensation and related expenses	5,113	5,912
Accrued expenses	3,518	4,568
Deferred revenue	31,908	29,257
Current portion of debt and lease obligations	709	658
Total current liabilities	44,845	44,412
Deferred revenue	2,412	2,028
Other long term liabilities	1,231	1,386
Accrued rent	2,271	2,363
Debt and lease obligations, less current portion		254
Total liabilities	50,759	50,443
Commitments and contingencies		
Stockholders equity:		
Preferred stock, issuable in series: $0.001 par value: 5,000,000 authorized shares at February 28, 2009 and May 31, 2008; none issued or outstanding		
Common stock, $0.001 par value: 50,000,000 authorized; 29,300,148 shares issued at February 28, 2009 and 29,227,656 shares issued at May 31, 2008	30	30
Additional paid-in capital	257,365	255,637

Treasury stock: 102,997 shares at February 28, 2009 and May 31, 2008, at cost	(232)	(232)
Accumulated deficit	(208,108)	(206,875)
Accumulated other comprehensive income	(828)	(72)
Total stockholders equity	48,227	48,488
Total liabilities and stockholders equity	$ 98,986	$ 98,931

* Derived from audited financial statements included in the Company s Annual Report on Form 10-K for the year ended May 31, 2008 filed with the United States Securities and Exchange Commission.

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SABA SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three months ended		Nine months ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Revenues:				
License	$ 4,725	$ 6,000	$ 10,654	$ 16,434
License updates and product support	8,500	8,483	25,915	26,250
OnDemand	5,327	4,583	15,569	13,512
Professional services	7,594	8,348	25,133	23,402
Total revenues	26,146	27,414	77,271	79,598
Cost of revenues:				
Cost of license	178	210	622	631
Cost of license updates and product support	1,903	2,230	6,095	6,606
Cost of OnDemand	2,157	1,784	7,039	5,001
Cost of professional services	5,509	5,718	16,900	16,296
Amortization of acquired developed technology	295	295	883	883
Total cost of revenues	10,042	10,237	31,539	29,417
Gross profit	16,104	17,177	45,732	50,181
Operating expenses:				
Research and development	4,346	4,060	13,238	12,282
Sales and marketing	5,673	8,489	19,601	28,193
General and administrative	3,389	3,608	11,625	10,698
Restructuring	277		252	
Amortization of purchased intangible assets	634	634	1,903	1,903
Total operating expenses	14,319	16,791	46,619	53,076
Income (loss) from operations	1,785	386	(887)	(2,895)
Interest income and other (expense), net	(29)	112	381	370
Interest expense	(6)	(29)	(27)	(146)
Income (loss) before provision for income taxes	1,750	469	(533)	(2,671)
Provision for income taxes	(415)	(311)	(701)	(561)
Net income (loss)	$ 1,335	$ 158	$ (1,234)	$ (3,232)
Basic net income (loss) per share	$ 0.05	$ 0.01	$ (0.04)	$ (0.11)
Diluted net income (loss) per share	$ 0.05	$ 0.01	$ (0.04)	$ (0.11)
Shares used in computing basic net income (loss) per share	29,186	29,080	29,167	28,980
Shares used in computing diluted net income (loss) per share	29,247	29,351	29,167	28,980

See Accompanying Notes to Condensed Consolidated Financial Statements.

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SABA SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine months ended	
	February 28, 2009	**February 29, 2008**
Operating activities:		
Net loss	$ (1,234)	$ (3,232)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,852	1,358
Amortization of purchased intangible assets	2,786	3,008
Share-based compensation expense	1,578	2,481
Loss on disposal of property and equipment		1
Changes in operating assets and liabilities:		
Accounts receivable	(1,641)	(2,110)
Prepaid expenses and other current assets	604	36
Other assets	262	(424)
Accounts payable	(267)	(1,518)
Accrued compensation and related expenses	(263)	(117)
Accrued expenses	(702)	118
Accrued rent	(104)	(145)
Deferred revenue	4,648	2,673
Net cash provided by operating activities	7,519	2,129
Investing activities:		
Purchases of property and equipment	(2,030)	(2,788)
Net cash used in investing activities	(2,030)	(2,788)
Financing activities:		
Proceeds from issuance of common stock under employee stock plans	150	1,215
Repayments on borrowings under credit facility	(298)	(3,623)
Repayments on note payable	(43)	(74)
Net cash used in financing activities	(191)	(2,482)
Effect of exchange rate changes on cash	(1,894)	28
Increase (decrease) in cash and cash equivalents	3,404	(3,113)
Cash and cash equivalents, beginning of period	16,624	18,088
Cash and cash equivalents, end of period	$ 20,028	$ 14,975
Supplemental disclosure of other cash flow information:		
Cash paid out for income taxes, net of refunds	$ 516	$ 361
Cash paid for interest	$ 5	$ 26

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 February 28, 2009, the condensed consolidated statements of operations for the three and nine months ended February 28, 2009 and February 29, 2008 and the condensed consolidated statements of cash flows for the nine months ended February 28, 2009 and February 29, 2008 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 February 28, 2009, and the Company s results of operations for the three and nine months ended February 28, 2009 and February 29, 2008 and cash flows for the nine months ended February 28, 2009 and February 29, 2008.

These unaudited condensed consolidated financial statements should be read in conjunction with Saba s audited condensed consolidated financial statements included in Saba s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on August 14, 2008. The results of operations for the three and nine months ended February 28, 2009 are not necessarily indicative of results for the entire fiscal year ending May 31, 2009 or for any future period.

The condensed consolidated balance sheet at May 31, 2008 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.

2. Summary of Significant Accounting Policies

Revenue Recognition

Saba recognizes license revenues addressed below in accordance with the provisions of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*. Under SOP 97-2, as amended, 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.

SOP 97-2, as amended, requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the 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 OnDemand offerings, license updates and product support and professional services. Accordingly, assuming all other revenue recognition criteria are met, revenues from perpetual licenses are recognized upon delivery using the residual method in accordance with SOP 98-9. 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.

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License revenues from licenses with a term of three years or more are generally recognized on delivery if the other conditions of SOP 97-2 are satisfied. 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 SOP 97-2 are satisfied. License revenues from licenses with a term of less than three years are generally recognized ratably over the term of the arrangement. License updates and product support revenue is recognized ratably over the term of the arrangement, typically 12 months. 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 provides professional services on a time and materials and on a fixed-fee basis. Revenue related to professional services is generally recognized as the services are performed. For services performed on a fixed-fee basis, revenue is 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 professional 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 the Company is unable to reliably estimate the costs to complete the services, Saba uses the completed contract method of accounting in accordance with SOP 97-2 and relevant guidance of SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. A contract is considered complete when all significant costs have been incurred or the item has been accepted by the customer.

Revenue from Saba s OnDemand offerings is recognized as a service arrangement whereby the revenue is recognized ratably over the term of the arrangement or on an as-used basis if defined in the contract. Certain of the Company s OnDemand 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 the SEC s Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*. Saba s OnDemand offerings also include arrangements with customers that have separately licensed and taken possession of the Company s software. When these OnDemand offerings are part of a multiple element arrangement involving licenses, Saba recognizes revenue in accordance with SOP 97-2.

If the requirements of SOP 97-2 are not met when Saba bills a customer or a customer pays Saba, the billed or paid amount is recorded as deferred revenue, a liability account. As the revenue recognition principals of SOP 97-2 are satisfied the requisite amounts are recognized as revenue. In arrangements that include professional services and OnDemand offerings, but not a license of the Company s software, Saba recognizes consulting 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 related revenues are combined with the subscription revenue and recognized ratably over the subscription service period. Additionally, Saba defers the direct costs related to the professional services and recognizes them ratably over the applicable service period. Saba categorizes deferred revenues and deferred costs on its condensed 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 service period, Saba allocates the revenue to professional services revenue and to OnDemand revenue based on the VSOE of fair value for similar professional services that qualify as a separate element of an arrangement. Saba s 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.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 establishes three levels of inputs that may be used to measure fair value:

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

SABA SOFTWARE, INC.

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(Unaudited)

Level 2: inputs other than Level 1 that are observable, either directly and 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 value of the assets or liabilities.

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets and liabilities measured at fair value on a recurring basis, excluding accrued interest components consisted of the following types of instruments as of February 28, 2009 (Level 1 input is defined above):

(in thousands)	Fair Value Measurements Using Input Type Level 1
Assets:	
Money market funds (included in cash equivalents)	$ 7,782
Total financial assets	$ 7,782

Our valuation techniques used to measure the fair values of our money market funds were derived from quoted market prices.

3. Share-Based Compensation

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 Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, 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. For RSUs, stock compensation is calculated based on the fair market value of the stock on the award date. 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 the awards; the Company s expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends. The Company estimates the expected term of share-based awards granted based, in part, on the Company s historical option term experience and, prior to December 31, 2007, by applying the simplified method in accordance with the SEC s Staff Accounting Bulletin No. 107 (SAB No. 107) *Share-Based Payment*, which provides supplemental implementation guidance for SFAS 123R. We estimate the volatility of the Company s common stock based upon the Company s 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

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(Unaudited)

from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and records share-based compensation expense only for those awards that are expected to vest. The Company also considers, each quarter, whether there have been any significant changes in facts and circumstances that would affect its forfeiture rate. The expected term of the 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 and nine months ended February 28, 2009 and February 29, 2008, respectively, under the Company s stock incentive plans and stock purchased under the Company s employee stock purchase plan:

	Three months ended		Nine months ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Stock Options:				
Expected volatility	59%	46%	54%	47%
Risk-free interest rates	1.42%	1.7%	2.19%	3%
Expected term (years)	4.1	2.6	3.9	3.6
Expected dividend yield	0%	0%	0%	0%
Employee Stock Purchase Plan:				
Expected volatility	77%	45%	63%	45%
Risk-free interest rates	0.45%	3.3%	1.4%	4.1%
Expected term (years)	0.5 2.0	0.5 2.0	0.5 2.0	0.5 2.0
Expected dividend yield	0%	0%	0%	0%

The following table summarizes the stock-based compensation expense for stock options and the Company s employee stock purchase plan shares that was recorded in the Company s results of operations in accordance with SFAS 123R for the three and nine months ended February 28, 2009 and February 29, 2008, respectively.

	Three months ended		Nine months ended	
(in thousands)	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Cost of revenues	$ 92	$ 94	$ 280	$ 306
Research and development	95	105	290	370
Sales and marketing	166	204	523	761
General and administrative	142	154	485	1,044
Share-based compensation expense included in net income (loss)	$ 495	$ 557	$ 1,578	$ 2,481

Included in the share-based compensation expense allocated to general and administrative expense for the nine months ended February 29, 2008 was a non-cash charge of $632,000 related to an employment agreement amendment which modified the events that trigger accelerated vesting of options and allowed for an extension to standard exercise terms. The modification of terms created incremental compensation costs when remeasured based on the then current circumstances. Those current assumptions ranged as follows: expected volatility of 42% to 49%; risk free interest rates of 4.9% to 5.0%; and expected term (years) of 0.75 to 3.5.

Historically the Company granted stock options and commenced awarding (RSUs) during the fiscal third quarter ended February 28, 2009. The stock-based compensation expense for RSUs that was recorded in the Company s results of operations in accordance with SFAS 123R for the three and nine months ended February 28, 2009 was $9,000.

During the three months ended February 28, 2009, the Company s Board of Directors granted RSU awards under its 2000 Stock Incentive Plan. The RSUs vest in four annual installments commencing on the one year anniversary of the date of the award. Awards granted during the three months end February 28, 2009 totaled 360,200 restricted stock units. As of February 28, 2009, none of the RSUs were vested.

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The weighted average estimated fair value of options granted was $0.56 per share in the third quarter of fiscal 2009 and $1.75 per share in the corresponding quarter fiscal 2008. The weighted average estimated fair value of RSUs granted was $1.30 per share in the third quarter of fiscal 2009 and none in the corresponding quarter fiscal of 2008.

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 SFAS No. 128, *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 as well as any contingently issuable shares in escrow for which specific conditions have not yet been met. Dilutive potential common shares consist of the shares issuable upon the exercise of stock options and the 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 units awards and common stock subject to repurchase. The calculations of basic and diluted net income (loss) per share are as follows:

	Three months ended		Nine months ended	
(in thousands, except per share data)	**February 28, 2009**	**February 29, 2008**	**February 28, 2009**	**February 29, 2008**
Net income (loss)	$ 1,335	$ 158	$ (1,234)	$ (3,232)
Weighted-average shares of common stock used in computing diluted net income (loss) per share	29,186	29,080	29,167	28,980
Effect of dilutive employee stock options	61	271		
Weighted-average shares of common stock used in computing diluted net income (loss) per share	29,247	29,351	29,167	28,980
Basic net income (loss) per share	$ 0.05	$ 0.01	$ (0.04)	$ (0.11)
Diluted net income (loss) per share	$ 0.05	$ 0.01	$ (0.04)	$ (0.11)

Weighted average potential common shares of 4.0 million and 4.1 million for the three months ended February 28, 2009 and February 29, 2008, respectively, and 3.9 million and 3.7 million for the nine months ended February 28, 2009 and February 29, 2008, have been excluded from the computation of diluted net loss per share because their inclusion would be anti-dilutive.

5. Comprehensive Income (Loss)

Saba reports comprehensive income (loss) in accordance with SFAS No. 130, *Reporting Comprehensive Income*. The following table sets forth the calculation of comprehensive income (loss) for all periods presented:

Three months ended	Nine months ended

(in thousands)	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Net income (loss)	$ 1,335	$ 158	$ (1,234)	$ (3,232)
Foreign currency translation (loss) gain	(177)	(2)	(754)	28
Comprehensive income (loss)	$ 1,158	$ 156	$ (1,988)	$ (3,204)

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SABA SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Goodwill and Purchased Intangible Assets

Purchased intangible assets consist of acquired developed technology, customer relationships, trade names and customer backlog acquired as part of a purchase business combination. The intangible assets are stated at cost less accumulated amortization and are being amortized on a straight-line basis over their estimated useful lives of two to seven years.

There were no additions to intangible assets during the three and nine months ended February 28, 2009. The following tables provide a summary of the carrying amounts of purchased intangible assets that continue to be amortized:

	February 28, 2009			
(in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Useful Life**
Customer backlog	$ 740	$ (740)	$	2.4 Years
Customer relationships	14,920	(7,820)	7,100	6.3 Years
Tradenames	820	(506)	314	5.0 Years
Acquired developed technology	5,890	(3,632)	2,258	5.0 Years
Total	$ 22,370	$ (12,698)	$ 9,672	

	May 31, 2008			
(in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Useful Life**
Customer backlog	$ 740	$ (740)	$	2.4 Years
Customer relationships	14,920	(6,040)	8,880	6.3 Years
Tradenames	820	(383)	437	5.0 Years
Acquired developed technology	5,890	(2,748)	3,142	5.0 Years
Total	$ 22,370	$ (9,911)	$ 12,459	

The total expected future amortization related to purchased intangible assets will be approximately $929,000 for the remainder of fiscal 2009 and $3,716,000, $3,268,000 and $1,759,000 in fiscal years 2010 through 2012, respectively. All tangible assets will 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 2008 and concluded that goodwill was not impaired. Through the nine month period ended February 28, 2009, 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. Through the nine month period ended February 28, 2009, there were no indicators of impairment of intangible assets.

For the three and nine months ended February 28, 2009, goodwill decreased $194,000 and $229,000 respectively, as a result of an adjustment to an acquired company s tax attribute, previously not valued. There were no changes to the carrying amount of goodwill for the three and nine months ended February 29, 2008.

7. Debt and Other Obligations

Credit Facility

Saba does not currently have a credit facility. The prior facility expired January 31, 2009. The expired facility provided for (i) a term loan in a principal amount of $6,500,000, (ii) a receivables borrowing base revolving credit line in an aggregate principal amount of up to $7,500,000 at any time outstanding, which included a sub-limit

SABA SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

of up to $5,000,000 for letters of credit, cash management and foreign exchange services and (iii) an equipment facility up to a principal amount of $3,000,000. Except for outstanding obligations of $331,000 under the equipment facility as of February 28, 2009, no other amounts are outstanding under the expired facility. The equipment facility s term begins with the date of each advance under the contract. The Company obtained advances on November 30, 2006 and February 28, 2007 which mature on November 30, 2009 and February 28, 2010, respectively. The equipment facility is required to be repaid in 36 equal monthly installments of principal, plus interest. The interest rate applicable to the loans under the equipment facility is the bank s prime rate plus 0.25%.

The credit facility, which is currently an equipment facility, is secured by all of the Company s personal property other than its intellectual property. The credit facility includes certain negative covenants restricting or limiting the ability of the Company and its subsidiaries to, among other things: encumber its intellectual property; incur additional indebtedness; create liens on its property; make certain investments and acquisitions; merge or consolidate with any other entity; convey, sell, lease, transfer or otherwise dispose of assets; change its business; experience a change of control; pay dividends, distributions or make other specified restricted payments; and enter into certain transactions with affiliates. Such restrictions and limitations are subject to usual and customary exceptions contained in credit agreements of this nature. In addition, the credit facility requires the Company to satisfy a minimum consolidated EBITDA covenant on a quarterly basis and a minimum liquidity covenant on a monthly basis. EBITDA, or earnings before income tax, depreciation and amortization, also excludes share-based compensation and includes the estimated revenue that would have been recorded related to Centra Software, Inc (Centra) deferred revenue fair value adjustment. As of February 28, 2009, the Company was in compliance with the liquidity and EBITDA covenants. If the Company violates any of these restrictive covenants or otherwise breaches the credit facility agreement, the Company may be required to repay the obligations under the credit facility prior to their stated maturity date and the bank may be able to foreclose on any collateral provided by the Company.

8. Restructuring

During the three months ended February 28, 2009, management approved and initiated a plan to restructure and eliminate approximately 5% of the workforce across all functions (the 2009 Plan). The restructuring program was implemented under the provisions of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The total estimated restructuring costs associated with the 2009 Plan is $426,000 and will be recorded over the third and fourth quarters of fiscal 2009 as they are incurred. During the third quarter ended February 28, 2009, the Company eliminated 23 positions and charges for the workforce reduction consisted primarily of severance and fringe benefits. The restructuring charges are classified as restructuring in the statement of operations and totaled approximately $277,000 during the three months ended February 28, 2009 of which approximately $229,000 had been paid as of February 28, 2009. The remaining restructuring balance of approximately $150,000 is expected to be incurred in the fourth quarter. Any changes to the estimates of executing the 2009 Plan will be reflected in future results of operations.

During fiscal 2006, as part of the acquisition of Centra management approved and initiated a plan to restructure and eliminate duplicative pre-merger activities and reduce the Company s cost structure (the Centra Restructuring). Total restructuring costs associated with exiting activities were estimated to be approximately $2.4 million. All activities including payments of liabilities related to the restructuring have occurred.

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SABA SOFTWARE, INC.

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The components of accrued restructuring charges and movements within these components through February 28, 2009 for the new restructuring were as follows:

	Workforce Reduction Charges	Facilities Related Charges	Total
Activity for the three months ended February 28, 2009 -			
Expense additions	$ 277		$ 277
Deductions cash payments	(230)		(230)
Adjustments			
Accrual as of February 28, 2009	$ 47	$	$ 47

(in thousands)	Workforce Reduction Charges	Facilities Related Charges	Total
Accrual as of May 31, 2007	$ 92	$ 354	$ 446
Activity for the year ended May 31, 2008 -			
Deductions cash payments	(83)	(312)	(395)
Adjustments	(9)		(9)
Accrual as of May 31, 2008		42	42
Activity for the six months ended November 30, 2008			
Deductions cash payments		(18)	(18)
Adjustments		(24)	(24)
Accrual as of November 30, 2008	$	$	$

9. Guarantees

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.

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.

10. Income Taxes

Income tax expense for the three and nine months ended February 28, 2009 was $415,000 and $701,000, respectively, and $311,000 and $561,000 during three and nine months ended February 29, 2008, respectively. The provision for income taxes recorded for all periods were comprised primarily of foreign income taxes and also included a provision for federal alternative minimum tax and state income taxes. Additionally, the provision for income taxes for the three and nine months ended February 28, 2009 was impacted by the utilization of net operating losses from acquired entities of $194,000 and $194,000 that had previously full valuation allowances.

During the third quarter of fiscal year 2009, the unrecognized tax benefit increased slightly by $16,000.

As of February 28, 2009 and May 31, 2008, respectively, the Company has established a valuation allowance against the full amount of any 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.

SABA SOFTWARE, INC.

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11. Segment Information

Saba operates in a single operating segment, providing software and services that drive organizational excellence by bringing a disciplined approach to aligning, developing, and managing people across the entire organization. The United Kingdom operations represented 11% of total revenues by country for the three months ended February 28, 2009 and 12% for the three months ended February 29, 2008. The United Kingdom operations represented 13% for the nine months ended February 28, 2009 and 12% for the nine months ended February 29, 2008.

12. 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 it under Rule 10b-5, due to the insufficiency of the allegations against the defendants. 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.

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,

SABA SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 February 25, 2009, liaison counsel for the plaintiffs informed the district court that a settlement has been agreed to in principle, subject to formal approval by the parties, and preliminary and final approval by the court.

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. If the Court grants the motion for preliminary approval, notice will be given to all class members of the settlement, a fairness hearing will be held and if the Court determines that the settlement is fair to the class members, the settlement will be approved. There can be no assurance that this proposed settlement will be approved and implemented in its current form, or at all.

Due to the inherent uncertainties of litigation and because the settlement approval process is at a preliminary stage, the ultimate outcome of the matter is uncertain.

The Company intends to dispute these claims and defend the law suit vigorously. However, due to the inherent uncertainties of litigation, 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 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, the plaintiffs dismissed, without prejudice, the claims against the named Centra officers and directors in the above-referenced action. 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.

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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 February 25, 2009, liaison counsel for the plaintiffs informed the district court that a settlement has been agreed to in principle, subject to formal approval by the parties, and preliminary and final approval by the court.

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. If the Court grants the motion for preliminary approval, notice will be given to all class members of the settlement, a fairness hearing will be held and if the Court determines that the settlement is fair to the class members, the settlement will be approved. There can be no assurance that this proposed settlement will be approved and implemented in its current form, or at all.

Due to the inherent uncertainties of litigation and because the settlement approval process is at a preliminary stage, the ultimate outcome of the matter is uncertain.

On December 28, 2007, the underwriter defendants moved to strike class allegations in 26 cases, including Centra s, in which the plaintiffs failed to identify proposed class representatives, and the issuer defendants joined in the motion. On May 13, 2008, the District Court granted the motion in part and struck the class allegations in eight cases in which the proposed class representative was not a member of the class. The District Court denied the motion with respect to the remaining 18 cases, including Centra s case. For those 18 cases, the District Court ordered the plaintiffs to notify the defendants and the District Court of the identity of the putative class representatives and the basis of each putative representative s claim, and indicate whether the putative representatives are members of the proposed class. On April 2, 2009, the plaintiffs submitted a list of proposed class representatives for each action in conjunction with the motion for preliminary approval of the settlement.

The Company, on behalf of Centra, intends to dispute these claims and defend the law suit vigorously. However, due to the inherent uncertainties of litigation, 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.

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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 has 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. Soon after the suit was filed, Centra instituted reexamination proceedings for the patents at issue with the U.S. Patent and Trademark Office (the Patent Office) and the case was stayed by the Colorado District Court pending the outcome of the reexamination proceedings. The Company s patent counsel is of the opinion that claims of the patents involved in the suit are invalid. A reexamination certificate has issued for one of the patents that canceled all of the patent s claims, thus rendering that patent of no further force or effect. On January 23, 2009, the Patent Office issued a Notice of Intent to Issue a Reexamination Certificate for the other patent which indicated that all of the patent s original claims will be cancelled and specified that a set of newly-added claims has been determined to be patentable. In view of that development, the Colorado District Court lifted the stay of the case on February 13, 2009. On March 16, 2009, EdySync s patent attorney submitted a petition to the PTO requesting that the reexamination proceeding be reopened to allow the examiner to assess the patentability of the claims over a newly-submitted prior art reference. If the petition is granted, the PTO could issue another office action rejecting the newly-presented claims over the reference. If the petition is denied, the Company expects that a reexamination certificate will issue that will cancel all of the patents original claims and indicate that only the newly-added claims are patentable. If that happens, the Company believes it will be free from liability for past actions, as the newly-added claims would be enforceable only prospectively as of the issue date of the anticipated reexamination certificate. 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 has filed an answer to the complaint denying all of the allegations. At the Company s request, the United States Patent and Trademark Office (the Patent Office) has instituted reexamination proceedings against the asserted patent and the Texas District Court has stayed the action pending the outcome of those proceedings. On February 12, 2009, the Patent Office issued an office action rejecting all of the patent s claims on the grounds identified in the reexamination request. 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.

Other Litigation

The Company is also a party to various legal disputes and proceedings arising from the ordinary course of general business activities. While, in the opinion of management, resolution of these matters is not expected to have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to the Company.

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13. Recent Accounting Pronouncements

In November 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 08-6, *Equity Method Investment Accounting Considerations*. EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company does not currently have any investments that are accounted for under the equity method. The pending adoption of EITF 08-6 is not expected to have an impact on the consolidated financial statements of the Company.

In November 2008, the FASB ratified Emerging Issues Task Force Issue No. 08-7, *Accounting for Defensive Intangible Assets*. EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The pending adoption of EITF 08-7 is not expected to have an impact on the consolidated financial statements of the Company.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*. Collectively, the Staff Positions defer the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amended the scope of SFAS No. 157. The Company adopted SFAS No. 157 except for those items specifically deferred under FSP No. FAS 157-2. The adoption of SFAS No. 157 did not have a material impact on the Company s condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 allows entities to voluntarily choose, at specified election dates, to measure certain financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS No. 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. Adoption of SFAS No. 159 did not have a material impact on the Company s condensed consolidated financial statements.

In June 2007, the FASB ratified EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*. EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 did not have a material impact on the Company s condensed consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*, and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) (as defined below) when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS No. 142 s entity-specific factors. FSP No. FAS 142-3 is effective for the Company beginning June 1, 2009.

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In December 2007, the FASB issued SFAS No. 141 (revised) (SFAS No. 141(R)), *Business Combinations*. SFAS No. 141(R) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company will be required to adopt SFAS No. 141(R) in the first quarter of fiscal year 2010.

14. Related Party Transactions

An Executive Vice President of Varian Medical Systems, Inc. (Varian), the Chairman and Chief Executive Officer of Masimo Corporation (Masimo) and a member of Duck Creek Technologies, Inc. s Board of Directors serve as directors on Saba s Board of Directors.

During the three and nine months ended February 28, 2009, Saba licensed its software and sold related support and services to Varian in the aggregate amounts of $50,000 and $169,000, respectively, Masimo in the aggregate amounts of $4,100 and $6,700, respectively, and Duck Creek in the aggregate amount of $24,000 and $28,000, respectively.

For the three and nine months ended February 29, 2008, Saba licensed its software and sold related support and services to Varian in the aggregate of $47,000 and $216,000, Duck Creek in the aggregate amounts of $1,000 and $17,000 and Masimo in the aggregate amounts of $61,000 and $102,000, respectively.

At February 28, 2009, Saba s accounts receivable included $73,000 due from Varian, $12,000 due from Masimo and $6,000 due from Duck Creek. At May 31, 2008, Saba s accounts receivable included $29,000 due from Masimo, $20,000 due from Varian and $1,600 due from Duck Creek.

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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,

- *future amortization related to intangible assets,*
- *our anticipation that we will not pay any cash dividends in the foreseeable future,*
- *the resolution and effect of pending litigation,*
- *the effect of recent accounting pronouncements*
- *our expectation that the remaining restructuring balance will be incurred in the fourth quarter, and*
- *our expectation that the Patent Office will issue a reexamination certificate that will cancel all of the patent s original claims and indicate that only the newly added claims are patentable.*

(ii) in Part I, Item 2,

- *our belief that the acquisition of Centra strengthened our competitive position and provided us with a broader and deeper product offering,*
- *our expectation that the Saba Enterprise Suite and Saba Centra product suite will generate substantially all of our license revenues for the foreseeable future,*
- *our belief that OnDemand revenue will continue to grow for the foreseeable future,*
- *our belief that license updates and product support revenue will continue to grow for the foreseeable future due to our expanded customer base,*

our anticipation that a substantial majority of our customers will renew their annual contracts and the sale of new licenses will increase the number of customers that purchase license updates and product support,

our expectations relating to future amortization expenses,

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

our expectation that recent accounting pronouncements will not impact our consolidated financial statements,

our anticipation that our available cash resources and credit facilities, 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, and

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

(iii) in Part II,

Item 1A,

our expectation that we will derive substantially all of our revenues for the foreseeable future from the licensing of the Saba Enterprise Suite and the Saba Centra product suite and providing related services,

our expectation to continue to incur non-cash expenses relating to the amortization of purchased intangible assets along with any potential goodwill impairment,

our expectation that our operating results will fluctuate significantly in the future,

our success depending on our ability to attract and retain additional personnel,

our expectation that competition and the pace of change will increase in the future,

our intention to expand our international presence in the future,

our expectation to continue to acquire complementary businesses or technologies,

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our expectation to regularly release new products and new versions of our existing products,

our belief regarding the Edisync Systems litigation,

our belief that our success depends on our proprietary technology, and

our belief that our success depends on the acceptance and successful integration by customers of our products.

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:

defects and other problems with our products,

unanticipated adverse changes in the international markets,

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,

requirements for increased spending in research and development,

unanticipated need for capital for operations,

lack of demand for our products,

negative effects of amortization rates

inability to accurately predict the impact of new accounting pronouncements,

unanticipated difficulties integrating and developing products acquired through acquisitions, *inability to introduce new products, and*

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

OVERVIEW

General

We help organizations manage their most important asset their people. We provide the premier software platform for enterprise learning, collaboration, performance, and talent management, as well as license updates and product support, OnDemand, implementation, training, and consulting services. Our people management solutions drive organizational excellence by bringing a disciplined approach to aligning, developing and managing people across the entire organization.

By using Saba products to manage their extended workforce, our customers achieve demonstrably higher levels of performance through:

Increased productivity, sales and service effectiveness;

Reduced personnel development and training costs; and

Improved organizational agility and execution.

Our solutions help our customers through the implementation of a management system for aligning goals, developing and motivating people and measuring results. By implementing our solutions, organizations are better equipped to: align their workforce around the organization s business objectives; effectively manage growing regulatory requirements; increase sales and channel readiness; accelerate the productivity of new people joining the extended enterprise of employees, customers, partners, and suppliers; increase both the speed of customer acquisition and long-term customer loyalty; shorten time-to-market of new products; and improve visibility into organizational performance.

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.

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On May 5, 2005, we completed the acquisition of THINQ Learning Solutions, Inc. (THINQ), a provider of enterprise learning management solutions which allowed us to expand our customer base and provided greater scale to increase our investment in research and development to accelerate innovation and increase stockholder value.

On January 31, 2006, we completed the acquisition of Centra Software, Inc. (Centra), a provider of online learning and training software and services. We believe our acquisition of Centra strengthened our competitive position in the human capital management market and provided us with a broader and deeper product offering. In addition, as a result of the acquisition our customer base substantially increased. The Centra acquisition included total purchase consideration of $62.3 million.

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 software licenses, OnDemand services, annual license updates and product support and professional services.

Software Licenses

We license our software solutions in multi-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. To date, a substantial majority of our software license revenue has been derived from the Saba Learning product suite. For the foreseeable future, we expect the Saba Enterprise Suite and Saba Centra product suite to generate substantially all of our software license revenue. Our license revenue is affected by 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.

OnDemand

OnDemand revenue includes revenue derived from term-based managed application services. These services are provided pursuant to customer agreements with terms typically ranging from one to three years. The associated OnDemand revenue is recognized ratably over the term of the agreement. We believe that OnDemand revenue will continue to grow for the foreseeable future as we anticipate that a substantial majority of our customers will renew their contracts on expiration and that we will continue to add new OnDemand customers.

Licenses Updates and Product Support

License updates and product support includes 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 license updates and product support revenue depends upon both our sales of additional software licenses and annual renewals of existing license updates and product support agreements. We believe that license updates and product support revenue will grow steadily for the foreseeable future as we anticipate that a substantial majority of our customers will renew their annual contracts and the sale of new software licenses will increase the number of customers that purchase license updates and product support.

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Professional Services

Our professional services business consists of consulting, education and strategic services. Consulting and education services are typically provided to customers that license software directly from us. These consulting and education services are generally provided over a period of three to nine months after licensing the software. Generally, consulting services related to software implementation are not considered essential to the functionality of the software. 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 customers generally 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. Strategic services are less dependent than consulting and education services on the sale of our licenses. Strategic services present additional opportunities that arise at different times throughout a customer life cycle. In arrangements that include professional services and OnDemand offerings, 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 related revenue is combined with the subscription revenue and recognized ratably over the subscription service period.

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, OnDemand services and license update and product support to our clients. Cost of revenue also includes external hosting fees and depreciation and amortization charges related to the OnDemand infrastructure, third-party license royalty costs, overhead allocated based on headcount and reimbursed expenses. The amortization of acquired developed technology, comprised of the ratable amortization of technological assets acquired in the acquisition of Centra 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 OnDemand services, as a percentage of our total revenue would reduce gross profit as a percentage of total revenue.

Additionally, when our professional services revenue is combined with our OnDemand subscription revenue, we also defer the direct costs related to the professional services and recognize them ratably over the applicable service period. We categorize 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 February 28, 2009, the deferred balance of the professional services revenue related to such OnDemand offerings and the related deferred costs was $1.5 million and $936,000, respectively. When the revenue from professional services is recognized ratably over the subscription service period, we allocate the revenue to professional services revenue and to OnDemand 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 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, restructuring and in-process research and development, 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 financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue addressed below in accordance with the provisions of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions*. Under SOP 97-2, as amended, we recognize revenue 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.

SOP 97-2, as amended, requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the elements. We have analyzed each element in our multiple element arrangements and determined that we have sufficient VSOE to allocate revenues to certain OnDemand offerings, license updates and product support and professional services. Accordingly, assuming all other revenue recognition criteria are met, revenues from perpetual licenses are recognized upon delivery using the residual method in accordance with SOP 98-9. We limit our 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.

License revenues from licenses with a term of three years or more are generally recognized on delivery if the other conditions of SOP 97-2 are satisfied. 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 SOP 97-2 are satisfied. License revenues from licenses with a term of less than three years are generally recognized ratably over the term of the arrangement. License updates and product support revenue is also recognized ratably over the term of the arrangement, typically 12 months. 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 licenses of similar products.

We provide professional services on a time and materials and fixed-fee basis. Revenue related to professional services is generally recognized as the services are performed. 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 professional 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 we are unable to reliably estimate the costs to complete the services, we use the completed contract method of accounting in accordance with SOP 97-2 and relevant guidance of SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. A contract is considered complete when all significant costs have been incurred or the item has been accepted by the customer.

Revenue from our OnDemand offerings is recognized as a service arrangement whereby the revenue is recognized ratably over the term of the arrangement or on an as-used basis if defined in the contract. Certain of our OnDemand 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 the SEC s Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*. Our OnDemand offerings also include arrangements with customers that have separately licensed and taken possession of our software. When these OnDemand offerings are part of a multiple element arrangement involving licenses, we recognize revenue in accordance with SOP 97-2.

If the requirements of SOP 97-2 are not met when a customer pays us, the paid amount is recorded as deferred revenue, a liability account. As the revenue recognition principals of SOP 97-2 are satisfied, the requisite amounts are recognized as revenue. In arrangements that include professional services and OnDemand offerings, 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 related revenues are combined with the subscription revenue and recognized ratably over the subscription service period. Additionally, we defer the direct costs related to the professional services and recognize them ratably over the applicable service period. We categorize deferred revenue and deferred costs on our condensed consolidated balance sheet as current if we expect to recognize such revenue or cost within the following twelve months. As of February 28, 2009, the deferred balance of the professional services revenue related to such OnDemand offerings and the related deferred costs was $1.5 million and $936,000, respectively. When the revenue from professional services is recognized ratably over the subscription service period, we allocate the revenue to professional services revenue and to OnDemand 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 consulting 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 $22.7 million as of February 28, 2009. The allowance for doubtful accounts, which totaled $229,000 as of February 28, 2009, 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.

Impairment of goodwill and purchased intangible assets. We account for goodwill under Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Our goodwill balance at February 28, 2009 was $37.5 million, including $22.7 million and $9.5 million recorded as a result of our acquisitions of Centra and THINQ, respectively. Our goodwill balance at May 31, 2008 was $37.7 million including $22.9 million and $9.5 million recoded as a result of our acquisitions of Centra and THINQ respectively. We account for purchased intangible assets under SFAS No. 144. As of February 28, 2009, our purchased intangible assets balance was $9.7 million, net of accumulated amortization. The total expected future amortization related to purchased intangible assets will be approximately $929,000 for the remainder of fiscal 2009 and $3,716,000, $3,268,000 and $1,759,000 in fiscal years 2010 through 2012, respectively.

SFAS No. 142 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment; while the second phase, if necessary, measures 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 or 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 SFAS 142, we could be required to write down the carrying value of our goodwill and record an expense for an impairment loss.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, 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.

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Share-based compensation. On June 1, 2006, we adopted SFAS 123R, *Share-Based Payment*, under the modified prospective method. SFAS 123R generally requires share-based payments to employees to be recognized in our consolidated statements of operations based on their fair values. Prior to June 1, 2006, we accounted for our share-based compensation plans under the intrinsic value method of accounting as defined by Accounting Principles Board (APB) Opinion No. 25, (APB 25), *Accounting for Stock Issued to Employees* and applied the disclosure provisions of SFAS 123R, *Accounting for Stock-Based Compensation, as amended*. Under APB 25, we generally did not recognize any compensation expense for stock options granted to employees or outside directors as the exercise price of our options was equivalent to the market price of our common stock on the date of grant. For pro forma disclosures of share-based compensation prior to June 1, 2006, the estimated fair values for options granted and options assumed were amortized using the accelerated expense attribution method. In addition, we reduced pro forma share-based compensation expense for actual forfeitures in the periods they occurred. In March 2005, the SEC issued SAB 107, which provides supplemental implementation guidance for SFAS 123R. We applied the provisions of SAB 107 in our adoption of SFAS 123R.

Upon our adoption of SFAS 123R, we were required to estimate the awards that we ultimately expect to vest and to reduce share-based compensation expense for the effects of estimated forfeitures of awards over the expense recognition period. Although we estimate forfeitures based on historical experience, forfeitures in the future may differ. Under SFAS 123R, the forfeiture rate must be revised if actual forfeitures differ from our original estimates. Also in connection with our adoption of SFAS 123R, we elected to recognize 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 (BSM) pricing model. The fair value of an award 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. For RSUs, stock compensation is calculated based on the fair market value of the stock on the award date. 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.

Recent Accounting Pronouncements

In November 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 08-6, *Equity Method Investment Accounting Considerations*. EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We do not currently have any investments that are accounted for under the equity method. The pending adoption of EITF 08-6 is not expected to have an impact on our consolidated financial statements.

In November 2008, the FASB ratified Emerging Issues Task Force Issue No. 08-7, *Accounting for Defensive Intangible Assets*. EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The pending adoption of EITF 08-7 is not expected to have an impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FASB Staff Position

No. FAS 157-2, *Effective Date of FASB Statement No. 157*. Collectively, the Staff Positions defer the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value on a recurring basis at least annually, and amend the scope of SFAS No. 157. We adopted SFAS No. 157 except for those items specifically deferred under FSP No. FAS 157-2. The adoption of SFAS No. 157 did not have a material impact on our condensed consolidated financial statements and we are currently evaluating the impact of the full adoption of SFAS No. 157 on our condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 allows entities to voluntarily choose, at specified election dates, to measure certain financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS No. 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. Adoption of SFAS No. 159 did not have a material impact on our condensed consolidated financial statements.

In June 2007, the FASB ratified EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*. EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. EITF 07-3 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 did not have a material impact on our condensed consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets, and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142 s entity-specific factors. FSP No. FAS 142-3 is effective for us beginning June 1, 2009.

In December 2007, the FASB issued SFAS No. 141 (revised) (SFAS No. 141(R)), *Business Combinations*. SFAS No. 141(R) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We will be required to adopt SFAS No. 141(R) in the first quarter of fiscal year 2010.

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RESULTS OF OPERATIONS

THREE AND NINE MONTHS ENDED FEBRUARY 28, 2009 AND FEBRUARY 29, 2008

Revenues

	Three months ended			
(dollars in thousands)	February 28, 2009	Percent of Total Revenues	February 29, 2008	Percent of Total Revenues
Revenues:				
License	$ 4,725	18%	$ 6,000	22%
License updates and product support	8,500	33%	8,483	31%
OnDemand	5,327	20%	4,583	17%
Professional services	7,594	29%	8,348	30%
Total revenues	$ 26,146	100%	$ 27,414	100%

	Nine months ended			
(dollars in thousands)	February 28, 2009	Percent of Total Revenues	February 29, 2008	Percent of Total Revenues
Revenues:				
License	$ 10,654	14%	$ 16,434	21%
License updates and product support	25,915	34%	26,250	33%
OnDemand	15,569	20%	13,512	17%
Professional services	25,133	32%	23,402	29%
Total revenues	$ 77,271	100%	$ 79,598	100%

Total Revenues. Total revenues decreased by $1.3 million, or 5%, during the three months ended February 28, 2009 compared to the three months ended February 29, 2008. Total revenues decreased by $2.3 million, or 3%, during the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. As a percentage of total revenues, revenues from customers outside the United States represented 30% for the three months ended February 28, 2009 and 25% for the three months ended February 29, 2008. The only country that consisted of more than 10% of total revenue was the United Kingdom, which represented 11% for the three months ended February 28, 2009 and 12% for the three months ended February 29, 2008.As a percentage of total revenues, revenues from customers outside the United States represented 28% for the nine months ended February 28, 2009 and 29% for the nine months ended February 29, 2008. The United Kingdom represented 13% for the nine months ended February 28, 2009 and 12% for the nine months ended February 29, 2008.

License Revenue. License revenue decreased by $1.3 million, or 21%, during the three months ended February 28, 2009 compared to the three months ended February 29, 2008. License revenue decreased by $5.8 million, or 35%, during the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. The decreases are primarily attributable to generally weak business conditions throughout the private and public sectors as a result of the recessionary economic environment and a continued shift from license to OnDemand transactions.

License Updates and Product Support Revenue. License updates and product support revenue increased slightly by $17,000 during the three months ended February 28, 2009 compared to the three months ended February 29, 2008. License updates and product support revenue decreased by $335,000, or 1%, during the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. The decrease for the nine months period is primarily attributable to the strengthening of the U.S. dollar against foreign currencies as well as product support revenue recognized during the first nine months of fiscal 2008 which included a favorable impact at approximately $290, 000 due to renewals for major customers that were renewed late. We recognize the portion of revenue associated with the period that has lapsed upon renewal.

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OnDemand Revenue. OnDemand revenue increased by $744,000, or 16%, during the three months ended February 28, 2009 compared to the three months ended February 29, 2008. OnDemand revenue increased by $2.1 million, or 15%, during the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. The increases are primarily attributable to a high rate of OnDemand renewals and increased demand for Saba Enterprise OnDemand offerings. Our renewal rate for our OnDemand business for the third quarter was 74% compared to 94% for the same period of the prior year and on a year to date basis was 82% compared to 90% in the prior year.

Professional Services Revenue. Professional services revenue decreased by $754,000, or 9%, during the three months ended February 28, 2009 compared to the three months ended February 29, 2008 which included $900,000 in revenue from the completion of a consulting arrangement accounted for as a completed contract under SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Professional services revenue increased by $1.7 million, or 7%, during the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. The nine-month increase is due to higher demand for our consulting services for upgrades and expansions from our existing customer base.

International revenue as a percentage of total revenues and the mix of license, OnDemand and services revenue as a percentage of total revenues have varied significantly primarily due to the variability of new license sales.

Cost of Revenues

(dollars in thousands)	Three months ended February 28, 2009	Percent of Total Revenues	February 29, 2008	Percent of Total Revenues
Cost of revenues:				
Cost of license	$ 178	1%	$ 210	1%
Cost of license updates and product support	1,903	7%	2,230	8%
Cost of OnDemand	2,157	8%	1,784	6%
Cost of professional services	5,509	21%	5,718	21%
Amortization of acquired developed technology	295	1%	295	1%
Total cost of revenues	$ 10,042	38%	$ 10,237	37%

(dollars in thousands)	Nine months ended February 28, 2009	Percent of Total Revenues	February 29, 2008	Percent of Total Revenues
Cost of revenues:				
Cost of license	$ 622	1%	$ 631	1%
Cost of license updates and product support	6,095	8%	6,606	8%
Cost of OnDemand	7,039	9%	5,001	6%
Cost of professional services	16,900	22%	16,296	21%
Amortization of acquired developed technology	883	1%	883	1%
Total cost of revenues	$ 31,539	41%	$ 29,417	37%

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The following table is a summary of gross margin:

	Three months ended	
(dollars in thousands)	**February 28, 2009**	**February 29, 2008**
Gross margin:		
License (including amortization of acquired developed technology)	$ 4,252	$ 5,495
Percentage of license revenue	*90%*	*92%*
License updates and product support	6,597	6,253
Percentage of license updates and product support revenue	*78%*	*74%*
OnDemand	3,170	2,799
Percentage of OnDemand revenue	*60%*	*61%*
Professional services	2,085	2,630
Percentage of professional services revenue	*27%*	*32%*
Total	$ 16,104	$ 17,177
Percentage of total revenues	*62%*	*63%*

	Nine months ended	
(dollars in thousands)	**February 28, 2009**	**February 29, 2008**
Gross margin:		
License (including amortization of acquired developed technology)	$ 9,149	$ 14,920
Percentage of license revenue	*86%*	*91%*
License updates and product support	19,820	19,644
Percentage of license updates and product support revenue	*76%*	*75%*
OnDemand	8,530	8,511
Percentage of OnDemand revenue	*55%*	*63%*
Professional services	8,233	7,106
Percentage of professional services revenue	*33%*	*30%*
Total	$ 45,732	$ 50,181
Percentage of total revenues	*59%*	*63%*

Cost of License Revenue. Cost of license revenue decreased slightly by $32,000 or 15% during the three months ended February 28, 2009 when compared to the three months ended February 29, 2008 due to a decrease in sales volume related license product costs. Cost of license revenue decreased slightly by $9,000, or 1%, during the nine months ended February 28, 2009 when compared to the nine months ended February 29, 2008. Gross margin on license revenue decreased to 90% during the three months ended February 28, 2009 from 92% during the three months ended February 29, 2008. Gross margin on license revenue decreased to 86% during the nine months ended February 28, 2009 from 91% during the nine months ended February 29, 2008. The decreases in gross margins are primarily the result of the decreases in license revenues relative to amortization of acquired technologies and fixed third party license royalty costs.

Cost of License Updates and Product Support Revenue. Cost of license updates and product support revenue decreased $327,000, or 15%, during the three months ended February 28, 2009 when compared to the three months ended February 29, 2008. The decrease was primarily the result of a decrease in salaries and related benefits of $178,000 through reduced headcount as a result of attrition and restructuring as well as a two weeks mandatory shutdown in December 2008. Cost of license updates and product support revenue decreased $511,000, or 8%, during the nine months ended February 28, 2009 when compared to the nine months ended February 29, 2008. The decrease was primarily the result of a decrease in salaries and related benefits of $291,000 due to attrition, restructuring and a two week shutdown in December 2008. Gross margin on license updates and product support was 78% during the three months ended February 28, 2009 and 74% during the three months ended February 29, 2008. Gross margin on license updates and product support was 76% during the nine months ended February 28, 2009 and 75% during the nine months ended February 29, 2008. The increases in gross margins are primarily due to cost reductions when compared to the prior year period.

Cost of OnDemand Revenue. Cost of OnDemand revenue increased by $373,000, or 21%, during the three months ended February 28, 2009 compared to the three months ended February 29, 2008. The increase in the cost of OnDemand revenue was due primarily to increases in salaries and benefits of $191,000, external hosting services of $184,000 and depreciation of computer equipment used in our OnDemand environments of $149,000, partially offset by a decrease in third party consulting fees of $133,000. Cost of OnDemand revenue increased by $2.0 million, or 41%, during the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. The increase in the cost of OnDemand revenue was primarily due to increases in external hosting fees of

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$628,000 salaries and benefits of $621,000, depreciation of computer equipment used in our OnDemand environments of $497,000 and facilities and related costs of $143,000. The OnDemand gross margin decreased to 60% during the three months ended February 28, 2009 from 61% during the three months ended February 29, 2008. The OnDemand gross margin decreased to 55% during the nine months ended February 28, 2009 from 63% during the three months ended February 29, 2008. The decreases in OnDemand gross margins were the result of our continued investment to support anticipated growth in our OnDemand business.

Cost of Professional Services Revenue. For the three months ended February 28, 2009, cost of professional services revenue decreased $209,000, or 4%, compared to the three months ended February 29, 2008. The decrease in cost of professional services revenue was primarily the result of decreases in employees travel and related expenses of $195,000, facilities and telecommunication costs of $76,000 and salaries and related benefits of $65,000, offset by an increase in third party consultants of $128,000. For the nine months ended February 28, 2009, cost of services revenue increased $604,000, or 4%, compared to the nine months ended February 29, 2008. The increase during the nine months ended February 29, 2008 was primarily attributable to increases in salaries and related expenses of $665,000, third party consultants of $439,000 and facility and telecommunication related costs of $98,000, partially offset by a decrease in travel expenses of $466,000 and a net deferral of $132,000 resulting from the deferral of the direct costs related to professional services combined with OnDemand subscriptions and the quarterly amortization of those deferred costs. The professional services gross margin decreased from 32% during the three months ended February 29, 2008 to 27% during the three months ended February 28, 2009 due primarily to a higher cost of delivering services for international customers. The professional services gross margin increased from 30% during the nine months ended February 29, 2008 to 33% during the nine months ended February 28, 2009. The increases in gross margins are primarily attributable to higher realization rates in professional services.

Operating Expenses

	Three months ended			
(dollars in thousands)	**February 28, 2009**	**Percent of Total Revenue**	**February 29, 2008**	**Percent of Total Revenue**
Operating expenses:				
Research and development	$ 4,346	17%	$ 4,060	15%
Sales and marketing	5,673	22%	8,489	31%
General and administrative	3,666	14%	3,608	13%
Amortization of purchased intangible assets	634	2%	634	2%
Total operating expenses	$ 14,319	55%	$ 16,791	61%

	Nine months ended			
(dollars in thousands)	**February 28, 2009**	**Percent of Total Revenue**	**February 29, 2008**	**Percent of Total Revenue**
Operating expenses:				
Research and development	$ 13,238	17%	$ 12,282	15%
Sales and marketing	19,601	25%	28,193	35%
General and administrative	11,877	15%	10,698	13%
Amortization of purchased intangible assets	1,903	3%	1,903	2%
Total operating expenses	$ 46,619	60%	$ 53,076	65%

Research and development. Research and development expenses increased by $286,000, or 7%, for the three months ended February 28, 2009 compared to the three months ended February 29, 2008. The increase was primarily due to increases in salaries and related benefits of $244,000 and third party consulting fees of $194,000, partially offset by a decrease in facilities related expenses of $152,000. Research and development expenses increased $956,000, or 8%, for the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. The increase was primarily due to increases in salaries and related benefits of $680,000, third party consulting fees of $335,000, and software and equipment maintenance of $107,000, partially offset by a decrease in facilities related expenses of $167,000.

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Sales and marketing. Sales and marketing expenses decreased by $2.8 million, or 33%, for the three months ended February 28, 2009 compared to the three months ended February 29, 2008. The decrease was primarily attributable to a decrease in salaries and related benefits of $2.0 million due to lower headcount and decreases in facilities related expenses of $432,000, employees travel of $371,000, and direct marketing and events of $273,000, partially offset by an increase in third party consulting fees of $167,000 and advertising and public relations expenses of $83,000. Sales and marketing expenses decreased $8.6 million, or 30%, for the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. The decrease was primarily attributable to a decrease in salaries and related benefits of $5.9 million due to lower headcount, and decreases in marketing programs of $717,000, facilities related expenses of $966,000, employee travel of $530,000 and recruiting expenses of $211,000.

General and administrative. General and administrative expenses decreased by $219,000, or 6%, for the three months ended February 28, 2009 compared to the three months ended February 29, 2008. The decrease was due to decreases in salaries and related benefits of $227,000 and third party consulting of $77,000, partially offset by an increase in facilities related expenses of $85,000. General and administrative expenses increased $927,000, or 11%, for the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. The increase was due to increases in facilities related expenses of $829,000 and legal fees of $729,000, partially offset by a decrease in share-based compensation expense of $631,000 related to the acceleration of vesting of options during the three months period ended August 31, 2007. During the three months ended August 31, 2008, we incurred $672,000 of non-recurring general and administrative costs primarily related to legal and accounting fees associated with the evaluation of strategic transactions.

Amortization of purchased intangible assets. Amortization of purchased intangible assets was consistent for the three months ended February 28, 2009 compared to the three months ended February 29, 2008, and for the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008. Future amortization expense over each of the next four years is currently expected to be approximately $929,000 for the remainder of fiscal 2009 and range from $3.7 million in fiscal 2010 to $1.8 million in fiscal 2012. We review our intangible assets and the estimated remaining useful lives of those intangible assets for impairment when events or changes in circumstances indicate that the carrying amount might not be recoverable. Any impairment or reduction in our estimate of remaining useful lives could result in decreased amortization expense in future periods.

Restructuring. During the second quarter of fiscal year 2009, Saba management began discussions on ways to decrease costs during the third and future quarters. The results of these discussions were a plan to decrease headcount across the Company by 5% by eliminating positions. The plan was finalized in December 2008. During the third quarter ended February 28, 2009, the Company eliminated 23 positions and charges for the workforce reduction consisted primarily of severance and fringe benefits. The restructuring charges are classified as restructuring in the statement of operations and totaled approximately $277,000 during the three months ended February 28, 2009 of which approximately $230,000 had been paid as of February 28, 2009. The remaining restructuring balance of approximately $150,000 is expected to be incurred in the fourth quarter. Any changes to the estimates of executing the restructuring will be reflected in future results of operations.

Other Income and Expenses

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 $141,000 for the three months ended February 28, 2009 compared to the three months ended February 29, 2008. This decrease was primarily attributable to realized and unrealized gains on certain foreign denominated transactions of $101,000 and a decrease in interest income of $39,000. For the nine months ended February 28, 2009 compared to the nine months ended February 29, 2008, interest income and other, net increased $11,000. This increase was primarily attributable to gains on certain foreign denominated transactions of $135,000 offset by a decrease in interest income of $124,000.

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Interest expense. Interest expense was $6,000 for the three months ended February 28, 2009 and $29,000 for the three months ended February 29, 2008. The decrease in interest expense during the three months ended February 28, 2009 compared to the three months ended February 29, 2008 was primarily due to the lower average debt outstanding under our bank credit facility. Interest expense was $27,000 for the nine months ended February 28, 2009 and $146,000 for the nine months ended February 29, 2008. The decreases in interest expense during the nine months fiscal 2009 compared to the nine months of fiscal 2008 were primarily due to the lower average debt outstanding under our equipment facility.

Provision for income taxes The provision for income taxes recorded for the three and nine months ended February 28, 2009 comprised primarily of foreign income taxes and also included a provision for federal alternative minimum tax and state income taxes. The provision for income taxes for the nine months ended February 28, 2009 was impacted by the utilization of net operating losses from acquired entities of $194,000, the benefit of which was recorded as goodwill. Income tax expense for the three and nine months ended February 28, 2009 was $415,000 and $701,000, respectively, as compared to $311,000 and $561,000 during the three and nine months ended February 29, 2008.

During the third quarter of fiscal 2009, the unrecognized tax benefit increased slightly by $16,000.

As of February 28, 2009 and May 31, 2008, we had established a valuation allowance against the full amount of any 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)	February 28, 2009	May 31, 2008
Software license updates and product support	$ 19,440	$ 18,219
OnDemand	11,284	9,529
Professional services	2,519	2,796
Software licenses	1,077	741
Total deferred revenues	$ 34,320	$ 31,285
Deferred revenues, current	$ 31,908	$ 29,257
Deferred revenues, non-current	2,412	2,028
Total deferred revenues	$ 34,320	$ 31,285

Deferred software license updates and product support revenues represent customer billings made in advance for annual support contracts. Software license updates and product support contracts are typically billed on a per annum basis in advance and revenues are recognized ratably over the support periods. Deferred OnDemand revenue represents customer billings made in advance and recognized ratably over the OnDemand service term. Deferred professional services revenue includes prepayments for consulting, education, strategic services and professional services, not separable from the OnDemand subscription business. Revenue for these services is recognized as the services are performed. Deferred new software license revenues 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 second quarter. We have a disproportionately higher level of renewal billings for software license updates and product support in out third fiscal quarter.

COMMISSIONS

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

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KEY OPERATING METRICS

Billing

We track operating metrics for invoicing, which represents our total billings, and renewal rates for enterprise software maintenance and OnDemand services. For the quarter ended February 28, 2009, we invoiced $32.8 million compared to $30.4 million for the quarter ending February 29, 2008. We invoiced $84.7 million compared to $87.4 million for nine months ended February 29, 2008. Our renewal rate on a dollar basis on enterprise software maintenance for the third quarter of fiscal 2009 was 94% compared to 91% for the third quarter of fiscal 2008 and on a year to date basis was 94% during the first three quarters of fiscal 2009 compared to 93% for the first three quarters of fiscal 2008. Our renewal rate on a dollar basis for our OnDemand business for the quarter ended February 28, 2009 was 74% compared to 94% during the quarter ended February 29, 2008. The nine month period ended February 28, 2009 was 82% compared to 90% for the nine month period ended February 29, 2008. Our OnDemand renewal rate on a dollar basis for the quarter ended February 28, 2009 fell principally as a result of non renewals for our Centra product due to budget cuts by customers.

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, we will likely not be able to reduce our spending rapidly in response to the shortfall and operating losses will increase. 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.

Factors that could affect our quarterly operating results are described under Part II, Item: 1A *Risk Factors* of this Quarterly Report on Form 10-Q.

LIQUIDITY AND CAPITAL RESOURCES

	Nine months ended	
(in thousands)	**February 28, 2009**	**February 29, 2008**
Net cash provided by operating activities	$ 7,519	$ 2,129
Net cash used in investing activities	$ (2,030)	$ (2,788)
Net cash used in financing activities	$ (191)	$ (2,482)

We have funded our operations through financing activities and our operations and our most significant source of operating cash flows stems from customer purchases of our license, license updates and product support, OnDemand and professional services. Our primary uses of cash from operating activities are for personnel and facilities related expenditures. As of February 28, 2009, we had $20 million in available cash and cash equivalents.

Net Cash Provided By Operating Activities

Net cash provided by operating activities during the nine months ended February 28, 2009 was $7.5 million compared to $2.1 million used in operating activities during the nine months ended February 29, 2008. Net cash used by operating activities during the nine months ended February 28, 2009 was primarily a result of adjusting our net loss of $1.2 million for non-cash expenses related to share-based compensation of $1.6 million, depreciation and amortization of $4.6 million, an increase in prepaids of $604,000, deferred revenue of $4.7 million and other assets of $262,000 and decreases due to accounts receivable of $1.6 million, accrued expenses of $965,000, accounts payable of $267,000 other assets of $262,000 and deferred rent of $104,000.

Net cash provided by operating activities during the nine months ended February 29, 2008 was $2.1 million, primarily a result of adjusting our net loss of $3.2 million for non-cash expenses related to share-based compensation of $2.5 million and depreciation and amortization of $4.3 million, an increase in deferred revenue of $2.7 million and decreases due to accounts receivable of $2.1, accounts payable of $1.5 million, other assets of $388,000 and deferred rent of $144,000.

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Total accounts receivable days sales outstanding (DSO), based on a rolling four quarter calculation, was 73 days at February 28, 2009 and 75 days at May 31, 2008. In addition to the DSO calculation, we have an operating metric for accounts receivable which is billing days outstanding (BDO) that was 63 days at February 28, 2009 and 68 days at May 31, 2008. BDO is calculated using the current quarter total billings and calculating an average daily billings per day. The accounts receivable 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. 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 $2.0 million during the nine months ended February 28, 2009 compared to net cash used in investing activities of approximately $2.8 million for the nine months ended February 29, 2008. The net cash used in investing activities was wholly attributable to the purchases of property and equipment, primarily to enhance our OnDemand infrastructure.

Net Cash Used In Financing Activities

Net cash used in financing activities of $191,000 during the nine months ended February 28, 2009 was primarily attributable to repayments on borrowings under our credit facility and notes payable of $341,000, partially offset by proceeds from stock issuance of $151,000. Net cash used in financing activities of $2.5 million during the nine months ended February 29, 2008 was primarily attributable to net repayments on our credit facility of $3.7 million, partially offset by the issuance of common stock of $1.2 million. The term loan and the revolving credit line matured January 31, 2009.

Contractual Obligations and Commitments

Saba does not currently have a credit facility loan other than amounts outstanding under an expired equipment facility. The prior facility expired January 31, 2009. The expired facility provided for a term loan, a receivables borrowing base revolving credit line and an equipment facility.

As of February 28, 2009, we were in compliance with our liquidity and EBITDA covenants. As of February 28, 2009, 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 as compared to such obligations and liabilities as of May 31, 2008.

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 could choose, to raise additional funds at any time. 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.

During the quarter ended February 28, 2009, we entered into a non-cancelable three year contract for software services of which $909,000 remained as of February 28, 2009.

Off-Balance Sheet Arrangements

As of February 28, 2009, 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. Saba does not currently have a credit facility other than amounts outstanding under an expired equipment facility. The expired facility terminated January 31, 2009. The credit facility provided for (i) a term loan in a principal amount of $6,500,000, (ii) a receivables borrowing base revolving credit line in an aggregate principal amount of up to $7,500,000, which includes a sub-limit of up to $5,000,000 for letters of credit, cash management and foreign exchange services, and (iii) an equipment facility up to a principal amount of $3,000,000. The term loan and the revolving credit line expired January 31, 2009. Except for outstanding obligations of $331,000 under the equipment facility as of February 28, 2009, no other amounts are outstanding under the expired facility. The equipment facility s term begins with the date of each advance under the contract. We obtained advances on November 30, 2006 and February 28, 2007 and mature on November 30, 2009 and February 28, 2010, respectively. The equipment facility is required to be repaid in 36 equal monthly installments of principal, plus interest. The interest rate applicable to the loans under the equipment facility is the bank s prime rate plus 0.25%.

The credit facility which is currently an equipment facility, is secured by all of our personal property other than our intellectual property. The credit facility includes certain negative covenants restricting or limiting the ability of us and our subsidiaries to, among other things: incur additional indebtedness; create liens on the property of the Company and its subsidiaries; make certain investments and acquisitions; merge or consolidate with any other entity; convey, sell, lease, transfer or otherwise dispose of assets; change its business; experience a change of control; pay dividends, distributions or make other specified restricted payments; and enter into certain transactions with affiliates. Such restrictions and limitations are subject to usual and customary exceptions contained in credit agreements of this nature. In addition, the credit facility required us to satisfy a minimum consolidated EBITDA covenant on a quarterly basis, and a minimum liquidity covenant on a monthly basis. EBITDA also excluded share-based compensation and included the estimated revenue that would have been recorded related to the Centra deferred revenue fair value adjustment.

The credit facility also contains usual and customary events of default (subject to certain threshold amounts and grace periods). If an event of default occurs and is continuing, we may be required to repay the obligations under the credit facility prior to their stated maturity date and the bank may be able to foreclose on any collateral provided by us.

At February 28, 2009, we had available cash and cash equivalents totaling $20 million. Of this amount, approximately $7.8 million was invested in money market accounts bearing variable interest rates of between 0.00% and 0.88%. 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. We do not use derivative instruments to manage risks associated with foreign currency transactions in order to minimize the impact of changes in foreign currency exchange rates on earnings.

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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. During the three months ended February 28, 2009, our total realized and unrealized losses due to movements in foreign currencies, primarily British pounds, Japanese yen and Australian dollars, were $58,000. 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.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

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. 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.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such material 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, particularly during the period when our periodic reports are being prepared and that our internal controls for financial reporting are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with US GAAP.

(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 material set forth in Note 12 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this quarterly report on Form 10-Q 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, 2008, except for the addition of the Risk Factors entitled The effects of the recent global economic crisis may impact our business, operating results or financial condition, Our common stock could be delisted from The NASDAQ Global Market, which could negatively impact the price of our common stock and our ability to access the capital markets, We may incur impairments to goodwill or long lived assets and Changes in foreign currency exchange or interest rates could affect our revenues and costs.

The effects of the recent global economic crisis may impact our business, operating results or financial condition.

The recent global economic crisis has caused a 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 could negatively affect our business, operating results or financial condition in a number of ways. For example, current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services or to not pay us or to delay paying us for previously purchased products and services. The weak macroecomomic environment also limits our visibility into future purchases by our customers and renewals of existing agreements, which may necessitate changes to our business model.

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. For instance, for the first three quarters of fiscal 2009 and for fiscal 2008, our quarterly revenues have fluctuated between approximately $28.2 million and $25.3 million and our quarterly results have fluctuated between net income of approximately $1.3 million and a net loss of approximately $2.4 million. Our quarterly operating results are particularly affected by the number of customers licensing our products during any quarter and the size of such licensing transactions. 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. 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 would be seriously harmed and net losses in a given quarter would be even larger than expected.

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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 our revenues and bookings in any quarter;

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.

We have a history of losses, expect future losses and cannot assure you that we will maintain profitability in the future.

We expect to continue to derive substantially all of our revenues for the foreseeable future from the licensing of the Saba Enterprise Suite and the Saba Centra product suite and providing related services, including license updates and product support, OnDemand, implementation, training and consulting services. Except for three quarters, we have not been profitable on a quarterly or annual basis in the past. We cannot be certain that we will realize sufficient revenues to achieve or sustain profitability on a quarterly or annual basis, especially if our recurring OnDemand 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 February 28, 2009, we had $9.7 million of purchased intangible assets to be amortized as a result of our January 2006 acquisition of Centra and May 2005 acquisition of THINQ and our goodwill balance was $37.5 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 and RSUs in our reported results from operations in accordance with SFAS No. 123R, which was issued by FASB in December 2004. These non-cash expenses have made it, and these and any similar expenses in the future, will continue to make it significantly more difficult for us to achieve profitability. We may not be able to sustain US GAAP profitability.

Our OnDemand business depends substantially on customers renewing their agreements and purchasing additional products or users from 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 OnDemand customers renew their agreements with us when the initial contract term expires and also purchase additional products or additional users. Our OnDemand customers have no obligation to renew their subscriptions after the initial subscription period, and we cannot assure you that customers will renew subscriptions at the same or higher level of service, if at all. In the past, some of our OnDemand customers have elected not to renew their agreements with us. 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 OnDemand customers do not renew their subscriptions, renew on less favorable terms or fail to purchase additional products or users, our revenue may decline, and we may not realize significantly improved operating results from our customer base.

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

We generally recognize OnDemand revenue over the terms of our customer agreements, which typically range from one to three years. As a result, most of our quarterly OnDemand 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 OnDemand revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

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

To date, Saba Enterprise Learning products and related services have accounted for a majority of our revenues. We anticipate that revenues from the Saba Enterprise suite and the Saba Centra product suite, as well as related services, will constitute substantially all of our revenues for the foreseeable future. Consequently, a decline in the price of, or demand for, the Saba Enterprise suite, the Saba Centra product suite and related services or failure to achieve broad market acceptance would seriously harm our business.

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

The period between our initial contact with a potential customer and the purchase of our products and services is often long. A customer s decision to purchase our products and services requires the commitment to increase performance through human capital management, involves a significant allocation of resources, and is influenced by a customer s budgetary cycles. 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 order, it could harm our ability to meet our forecasts for a given quarter.

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

During the first nine months of fiscal year 2009, we recognized approximately 28% 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 a lesser but 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.

Our performance depends on a new market: human capital management.

The market for software solutions that automate human capital management is at an early stage of development and rapidly evolving. Substantially all of our revenues are attributable to product suites and services in this market.

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If this market fails to develop further or develops more slowly than we expect, our business would be harmed. If the market grows, the prices of our products and services may decline rapidly as alternative products and services are introduced into the market. In addition, our products may become obsolete if we fail to anticipate or adapt to evolving technology standards, or if we fail to identify the challenges and risks in this new market or successfully address these risks.

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

We experience quarterly seasonality in the licensing of our products and delivery of our services. For example, revenue has historically been lower in our first fiscal quarter 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 application software 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 application software and services, and in particular human capital management solutions, 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, human capital management 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.

Changes in 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 Statement of Position 97-2, *Software Revenue Recognition*, as amended, the accounting profession continues to discuss a wide range of potential interpretations. 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.

Standards for compliance with Sarbanes-Oxley Section 404 are burdensome, and if we fail to comply in a timely manner, our business could be harmed and our stock price could decline.

Pursuant to Sarbanes-Oxley Section 404, our management is required to report on and our independent registered public accounting firm to attest to, the effectiveness of our internal controls over financial reporting, at least annually. The rules governing the standards that must be met for management to assess our internal controls over financial reporting are complex. Currently, the rules require significant documentation, testing and possible remediation of our internal controls over financial reporting. The process of reviewing, documenting and testing our internal controls over financial reporting will likely continue to result in increased expenses and the devotion of significant management and other internal resources. If we are not successful in attracting and retaining experienced personnel in our accounting and finance organization, we will not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective and the price of our stock may suffer. In addition, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Our management does not expect that our internal controls and procedures will prevent all errors and all fraud, if any, because, in addition to resource constraints, there are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. If our management is unable to assert that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls) we may not be able to timely file, or file at all, our periodic financial reports and thus we would be subject to delisting and adverse consequences under state and federal securities laws. Even if we are able to file such reports, investor confidence in the accuracy and completeness of our financial reports may be lost, leading to an adverse effect on the price of our stock.

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, including Bobby Yazdani, our Chief Executive Officer. 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 software 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 they offer. We encounter competition with respect to different aspects of our solution from a variety of sources including:

- Companies that offer training, learning, performance, content, resource, talent and staffing management systems, such as SumTotal;
- Companies that offer collaboration solutions, such as Microsoft 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;
- Companies that operate Internet-based marketplaces for the sale of on-line learning; and
- Internet portals that offer learning content, performance support tools or recruiting, talent and staffing management services.

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.

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

Revenues from customers located outside the United States accounted for 28% and 28% of our revenue for the first nine months of our fiscal 2009 and 2008, 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;
- Difficulties in maintaining control over product development and quality, and timing of product releases;
- Seasonal fluctuations in purchasing patterns in other countries, particularly declining 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;
- Costs attributable to development of internationalized versions of our products and marketing and sales materials;
- The burdens of complying with a wide variety of foreign laws and reduced protection for intellectual property rights in some countries;
- Tariffs, export controls and other trade barriers; 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, certain risks are particularly acute in India, such as employee turnover, increasing salaries and less reliable infrastructure.

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

We acquired Centra Software, Inc. in January 2006 and THINQ Learning Solutions, Inc. in May 2005. As part of our overall business strategy, we expect to continue to periodically acquire complementary businesses or technologies that will provide additional products or services offerings, additional industry expertise or an expanded geographic presence. The consideration and negotiation of potential acquisitions, regardless of whether they are completed, could require us to incur substantial expense and divert management s attention from other business concerns.

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. Acquisitions that we complete expose us to numerous risks, including:

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;

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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.

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 SFAS No. 142 Goodwill and Other Intangible Assets. We are also required to test long-lived assets for impairment if a triggering event occurs in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Such impairment could be caused by internal factors as well as external factors beyond our control.

Significant negative industry or economic trends, including the lack of recovery in the market price of our common stock, 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.

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. 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.

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 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 new 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 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 or delays in customer acceptance 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 and a decrease in our revenues. 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 that these limits will be adequate, that they will be enforceable or, if enforceable, that they will be interpreted favorably by a court.

Claims by third parties that we infringe their intellectual property rights may result in costly 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 filed a request for reexamination of the patents at issue with the Patent Office. The reexamination request was accepted by the Patent Office and the court has approved the parties motion to stay the court proceedings during the reexamination proceedings. The Patent Office issued a non-final rejection of all claims in each of the patents. EdiSync elected not to respond to the rejection of the claims in one of the two patents, and the Patent Office has accordingly issued a Notice of Intent to Issue a Reexamination Certificate canceling all of the claims in that patent, thus rendering it of no further force or effect. 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 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.

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.

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 five 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. If we cannot protect our intellectual property rights against unauthorized copying or use, or other misappropriation we may not remain competitive.

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 OnDemand 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 our OnDemand 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 OnDemand customers. We also rely on third-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 OnDemand solutions, which would harm our business, operating results and financial condition.

Our OnDemand solutions involve 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.

We depend upon continuing relationships with third-party integrators who support our solutions.

Our success depends upon the acceptance and successful integration by customers of our products. We often rely on third-party systems integrators to assist with implementation of our products. We must continue to rely on these systems integrators even as we increase the size of our professional services group. If large systems integrators fail to continue to support our solution or commit resources to us, if any of our customers are not able to successfully integrate our solution or if we are unable to adequately train our existing systems integration partners, our business, operating results and financial condition could suffer. Although we make reasonable efforts to ensure that our third party providers perform to our standards, we have only limited control over the level and quality of service provided by our current and future third-party integrators.

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Our stock price may fluctuate substantially.

For example, from the beginning of fiscal 2005 through February 28, 2009, the market price for our common stock has fluctuated between $7.75 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 Global Market (formerly the Nasdaq National 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 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.

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. 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.

Our Board of Directors could choose not to negotiate with an acquirer that it did not feel was in our strategic interests. 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

On April 8, 2009, the Company entered into amended and restated employment agreements with each of Bobby Yazdani, the Company s Chief Executive Officer, Bill Slater, the Company s Chief Financial Officer, and Peter Williams, the Company s Executive Vice President, Corporate Development.

The amended and restated employment agreements include updated provisions to address compliance with Section 409A of the Internal Revenue Code of 1986, as amended. In addition, the terms amended by each amended and restated employment agreement include, but are not limited to, the following:

Mr. Yazdani s Amended and Restated Employment Agreement

The definition of the term Good Reason was amended to include a Change of Control (as defined in the amended and restated employment agreement), and, in conjunction with such amended definition, a provision was included to provide for acceleration of vesting of outstanding stock options in the event that such options are not Assumed or Replaced (each as defined in the amended and restated employment agreement) in connection with a Change of Control.

Mr. Slater s Amended and Restated Employment Agreement

Outstanding options may be exercised for up to 6 months after termination of employment other than for Cause (as defined in the amended and restated employment agreement), subject to the terms of the option plan.

The benefits afforded Mr. Slater upon a termination by the Company without Cause were extended to a termination by Mr. Slater for Good Reason (as defined in the amended and restated employment agreement) and such benefits were expanded to include (i) the Target Bonus (as defined in the amended and restated employment agreement), pro rated based on the number of days actually elapsed through the date of termination in the bonus period in which such termination occurs, (ii) a payment equal to six months plus one additional month for every year of service up to 12 months of the then current base salary, and (iii) 12 months acceleration of shares subject to outstanding stock options.

The benefits afforded Mr. Slater upon a termination by the Company without Cause at the time of or within 12 months after a Change of Control (as defined in the amended and restated employment agreement) were extended to include a termination by Mr. Slater for Good Reason at the time of or within 12 months after a Change of Control, and such benefits were expanded to include: (i) a payment equal to 12 months of the then current base salary and (ii) the Target Bonus amount.

The period during which Mr. Slater agreed to certain non-solicit and non-compete obligations was revised to provide that such obligations will remain in effect for a period equal to the period during which Mr. Slater is entitled to receive severance benefits.

Mr. Williams Amended and Restated Employment Agreement

The definition of the term Good Reason was amended to include a Change of Control (as defined in the amended and restated employment agreement), and, in conjunction with such amended definition, a provision was included to provide for acceleration of vesting of outstanding stock options in the event that such options are not Assumed or Replaced (each as defined in the amended and restated employment agreement) in connection with a Change of Control. In addition, the terms of the prior amendment to Mr. Williams employment agreement are included in the amended and restated employment agreement.

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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, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		SABA SOFTWARE, INC.
Dated: April 8, 2009	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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EXHIBIT INDEX

Exhibit 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)]	Amended and Restated Bylaws of the Company effective as of August 24, 2006.
3.5[(5)]	Amendment to Amended and Restated Bylaws of the Company, effective as of November 27, 2007.
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4.
10.14	Amended and Restated Employment Agreement, effective April 8, 2009, by and between the Company and Bobby Yazdani.
10.15	Amended and Restated Employment Agreement, effective April 8, 2009, by and between the Company and Peter E. Williams III.
10.21	Amended and Restated Employment Agreement, effective April 8, 2009, by and between the Company and William Slater.
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 April 8, 2009.
31.2	Certification of William Slater, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 8, 2009.
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 April 8, 2009.
32.2	Certification of William Slater, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 8, 2009.

(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 August 28, 2006.

(5) Incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed November 28, 2007.