

SABA SOFTWARE INC
Form 10-K
August 13, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MAY 31, 2007

or

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

For the Transition Period from _____ to _____.

Commission file number: 000-30221

SABA SOFTWARE, INC.

(Exact Name of Registrant as Specified in its Charter)

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Delaware
(State or Other Jurisdiction of

94-3267638
(I.R.S. Employer Identification Number)

Incorporation or Organization)

2400 Bridge Parkway

Redwood Shores, California
(Address of Principal Executive Offices)

94065-1166
(Zip Code)

(650) 581-2500

(Registrant's Telephone Number, including area code)

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

Common Stock, par value \$0.001 per share

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

None

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-Accelerated filer

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

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The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of November 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$94,900,000 (based on a closing sale price of \$5.40 per share as reported for the Nasdaq Global Market (formerly the Nasdaq National Market)). Shares of common stock beneficially held by each executive officer and director and by each person who beneficially owns 5% or more of the outstanding common stock have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock, \$.001 par value per share, outstanding as of July 31, 2007 was 28,984,588.

Documents Incorporated by Reference

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on November 2, 2006 are incorporated by reference in Part III of this Form 10-K to the extent stated herein. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be a part of this Form 10-K.

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MAY 31, 2007

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PART I

FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements contained in this Annual Report on Form 10-K other than statements of historical fact are forward-looking statements for purposes of these provisions, including any statements of plans and objectives for future operations and any statement of assumptions underlying any of the foregoing. Statements that include the use of terminology such as may, will, expects, believes, plans, estimates, potential, or continue, or the negative thereof or other comparable terminology are forward-looking statements. Forward-looking statements include:

(i) in Item 1, statements regarding competition, our belief that we offer the most comprehensive and flexible Human Capital Management platform, our belief that we are the leader in our market space and registration of trademarks;

(ii) in Item 1A, statements regarding our expectation that we will derive substantially all of our revenues for the foreseeable future from the Saba Enterprise suite and the Saba Centra product suite, the incurrence of non-cash expenses relating to the amortization of purchased intangible assets, our expectations to incur losses for the foreseeable future, our belief that quarter-to-quarter comparisons of our revenues and operating results are not necessarily meaningful and should not be relied upon as indicators of future performance, expanding our international presence, acquiring complementary businesses or technologies, regularly releasing new products, and the merits of litigation;

(iii) in Item 2, statements regarding the adequacy of our existing facilities to meet anticipated needs,

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

(v) in Item 5, statements regarding our intention to retain our future earnings;

(vi) in Item 7, statements regarding the benefits of the acquisition of Centra, our expectation that the Saba Enterprise Suite and Saba Centra product suite will generate substantially all of our revenues in the foreseeable future, our belief that the revenue generated from OnDemand will continue to grow, our expectation that license updates and product support revenue will continue to grow, our belief that we will not use certain technology in future offerings, the effects of our restructuring efforts, our anticipation that the negative impact of seasonality on our first quarter will continue, our anticipation that we will continue to experience long sales cycles, the table summarizing our contractual obligations at May 31, 2007, the sufficiency of our available cash resources, credit facility and cash flows generated from revenues over the next twelve months, the adequacy of tax provisions related to the examination of certain of our tax returns, our estimate of future forfeiture rates in stock-based compensation and our anticipation to not pay dividends in the foreseeable future;

(vii) in Item 7A, statements regarding the effects of future changes in interest rates and foreign currency rates; and

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(viii) in Item 8, statements regarding our anticipation that revenues from Saba Enterprise Suite and Saba Centra product suite will constitute substantially all of our revenues for the foreseeable future, our management's belief that financial risks associated with cash, cash equivalents and accounts receivable are minimal, the financial impact of a proposed settlement, the merits of our litigation, statements regarding total expected future amortization related to intangible assets, our estimate of future forfeiture rates in our stock-based compensation plans, the anticipated adjustments to total unrecognized stock-based compensation, and the adequacy of tax provisions related to the examination of certain of our tax returns.

These forward-looking statements involve known and unknown risks and uncertainties. Our actual results may differ materially from those projected or assumed in such forward-looking statements. Among the factors

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that could cause actual results to differ materially are incorrect estimates or assumptions, unanticipated adverse results for pending litigation, contraction of the economy and world markets, lack of demand for information technologies from our customers, unanticipated need for capital for operations, lack of demand for our products, inability to introduce new products, unanticipated difficulties relating to the Human Capital Management software suite, unanticipated decrease in demand for our OnDemand product, unanticipated changes in domestic and foreign tax regulations and the factors detailed under the heading "Risk Factors" in Item 1A of this Annual Report on Form 10-K. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement or risk factor.

ITEM 1: BUSINESS

Overview

Saba helps 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. Saba's people management solutions drive organizational excellence by bringing a disciplined approach to aligning, developing and managing people across the entire organization.

By using Saba 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.

We were incorporated in Delaware in April 1997. Our headquarters are located at 2400 Bridge Parkway, Redwood Shores, California 94065, and our telephone number is +1 (650) 696-3840. Our Internet address is www.saba.com. On the Investor Relations page of our web site we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: our Annual Report on Form 10-K; our Quarterly Reports on Form 10-Q; our Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The filings on our Investor Relations web page are available to be viewed free of charge. Information contained on our web site is not part of this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission. We assume no obligation to update or revise any forward-looking statements in this Annual Report on Form 10-K, whether as a result of new information, future events or otherwise, unless we are required to do so by law. A copy of this Annual Report on Form 10-K is available without charge upon written request to: Investor

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Relations, Saba Software, Inc., 2400 Bridge Parkway, Redwood Shores, California 94065.

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Products and Services

Saba offers the Saba® Enterprise Suite, the Saba® Centra product suite and a range of professional, education and customer support services.

Saba Enterprise Suite

Saba Enterprise Suite is built on a common platform, which simplifies development of a comprehensive Human Capital Management solution featuring:

a seamless user experience;

lower implementation costs;

simplified reporting; and

a common repository of people information, business objects and competencies.

The common foundation makes Saba easier to deploy by allowing customers to choose which components the organization needs today, and allowing customers to build a unified solution as their business needs change or grow.

By leveraging web services and a service-oriented architecture, Saba products can easily integrate into customers' existing IT environments.

The Saba Enterprise Suite consists of:

Saba Learning Suite. A comprehensive enterprise learning and learning content management solution that gives organizations and their people the tools they need to develop skills and competencies and improve productivity;

Saba Performance Suite. Enables organizations to continuously align people's daily activities with key organizational goals and establish a relevant performance review process that clarifies expectations and improves accountability;

Saba Talent Suite. Enables organizations to reduce risk by proactively planning for successions as well as identifying, developing, tracking and managing future leaders;

Saba Business Intelligence. Delivers greater visibility into the impact of Human Capital Management (HCM) initiatives and business results, as well as how well people are aligned to the goals of the organization; and

Saba Collaboration. Facilitates enabled learning and knowledge transfer between individuals and subject matter experts in informal settings or in conjunction with learning events and allows the organization to build and manage communities of practice, create repositories of institutional knowledge and leverage the collective intelligence of the workforce. Saba Collaboration includes tools such as chat rooms, threaded discussions, wikis and document sharing, and is integrated with Saba Centra to allow creation of knowledge assets based on web conference sessions that build the organization's knowledge base over time.

Languages. The Saba Enterprise Suite is available in the following languages: American English, Brazilian Portuguese, British/International English, Canadian French, Continental French, Continental Spanish, Danish, Dutch, German, Greek, Hungarian, Indonesian (Bahasan), Italian, Japanese, Korean, Mexican Spanish, Norwegian, Polish, Russian, Simplified Chinese, Swedish, and Traditional Chinese.

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Saba Learning Suite

The Saba Learning Suite is a family of products designed to deliver configurable, targeted functionality in a single solution that addresses five key enterprise learning areas:

Regulatory Compliance. Allows a regulated organization to track required certifications and qualification programs and effectively respond to compliance audits;

Sales and Channel Readiness. Enables sales organizations and distributors to rapidly gain the skills and knowledge required to build a sales pipeline and win business for new products;

Channel Certification. Focuses on qualifying channel partners to consistently represent an organization's products and brands and deliver a quality customer experience;

Customer Education. Supports an organization's ability to generate revenue and increase customer loyalty through the sale and distribution of training; and

Corporate Universities. Provides the ability to develop employees' skills and competencies to effectively execute organizational objectives and gain competitive advantage.

By implementing multiple enterprise learning solutions in a single system, organizations can lower the overall cost of supporting enterprise-wide learning processes, leverage internally-created content and subject-matter experts in multiple areas and create a common pool of knowledge for and about people. This unified solution also offers the flexibility to change processes and develop new opportunities from a common foundation, while creating the visibility needed to operate as an integrated virtual enterprise.

The Saba Learning Suite combines enterprise learning with collaboration for informal learning, synchronous learning, analytics and content creation and management. It also provides support for blended learning and is available in 22 languages for global deployment. The Saba Learning Suite is also integrated with Saba Centra for virtual classroom and informal learning. The Saba Learning Suite includes the following applications:

Saba Learning. Enables global organizations to deliver and manage critical knowledge and skills to improve productivity and achieve business results;

Saba Certification Management. Supports building and management of complex certifications with multiple learning pathways. Provides flexible audit trails and supports e-signatures to meet a wide variety of stringent regulatory requirements;

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

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

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

Saba Centra. Provides the ability to engage with groups in live, interactive education sessions across many locations. Allows users to share knowledge and record sessions for informal learning; and

Saba VLE Connectors. Provides web-services-based integration between Saba and third-party virtual learning environments, supporting an enterprise's ability to create and manage virtual learning from within Saba. VLE Connectors are not required for Saba Centra, since it is an integrated component of the Saba Learning Suite.

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Saba Performance Suite

Saba Performance Suite helps improve organizational performance by aligning the workforce around the organization's most important business objectives. Saba Performance Suite provides real-time visibility into an organization's progress against goals, allowing leaders to make ongoing adjustments and respond to changing requirements. With Saba Performance Suite, companies and government agencies of all sizes can automate all the processes associated with managing performance across the extended enterprise of employees, customers, partners and suppliers. These processes include:

Goal and objective management. Enables creation, distribution and management of goals and objectives throughout the extended enterprise;

Goal alignment. Provides line-of-sight visibility to ensure that individual and team goals are aligned to the organization's goals and that the organization is executing against its most important objectives;

Initiative management. Enables management and tracking of goals in support of a cross-functional initiative;

Performance reviews. Provides highly flexible, multi-level review and assessment functionality; and

Performance planning. Enables creation of performance plans that combine performance goals, career development goals and recommended learning.

Saba Talent Suite

Saba Talent Suite is a solution that provides the ability to track and manage processes that relate to the development of talent across the organization. The Saba Talent Suite enables organizations to create succession plans for key positions, as well as develop key talent for the demands of future positions. Candidates identified as potential successors to key roles are not just assessed and ranked, but are provided with guidance to prepare them for the position, enabling organizations to develop the skilled individuals they need to be successful. In addition, Saba Talent Suite provides organizations with the following capabilities:

Talent Profiles. Create and manage detailed talent profiles of people in the organization. These profiles are based on data in HR Information Systems, can be supplemented by employees and managers, and are enhanced automatically as employees complete learning and performance plans.

Talent Pools. Assess bench strength for key positions and/or targeted career development opportunities. Fit to pool criteria is automatically assessed, allowing dynamic tracking of readiness of pool candidates.

Extensible 9-Box Analysis. Graphically view key metrics on selected talent in order to devise the most appropriate development strategies.

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Career Development. Develop top performers for future responsibilities and assign goals and competencies to pool candidates. It allows employees to self-manage careers by designating career goals and understanding required competencies to be eligible for the desired positions. It also provides the user with a learning plan to fill a competency gap.

Organization Chart View. View competency, performance and potential metrics in an organization chart view to understand key strengths and weaknesses across the enterprise.

Saba Centra

Saba Centra enables online virtual learning and training. Organizations can share knowledge and exchange information with customers, partners, prospects and employees around the world in real-time. Centra helps organizations increase productivity and efficiency by helping to incorporate learning and knowledge transfer into business processes. Saba Centra works with the Windows and Apple Macintosh platforms and helps to accelerate mission-critical initiatives that involve learning, training, and general web conferencing.

Saba Centra Live for Virtual Classes. Enables employees to engage with groups in live, interactive education sessions across many locations;

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Saba Centra Live Virtual Classes for Universities and Schools. Brings instructors and students together online in interactive, online classes and degree programs to help provide the interaction of a typical classroom;

Saba Centra Live for Web Seminars. Equips the organization with a fast, efficient and cost-effective way to reach and engage large audiences quickly;

Saba Centra Live for eMeetings. Helps eliminate the difficulties of complex meeting coordination and the time and expense of business travel; and

Saba Centra Knowledge Center . Provides on-demand access to blended learning programs, knowledge assets and important documents. Saba Centra Knowledge Center includes a searchable library of content and learning activities and enables the design of personalized tracks of essential corporate or training materials and recorded events tailored to job roles, skill levels or knowledge gaps.

Saba Services

We offer comprehensive services to assist in the successful implementation of our products. As of May 31, 2007, we employed approximately 216 people worldwide in services-related activities.

Our global services organization supports multiple offerings, including:

Professional Services.

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

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

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

OnDemand Services. We provide flexible deployment options that allow our customers to begin using their chosen solutions with exceptional speed and flexibility while reducing their IT infrastructure and resource investment. Customers can minimize the time required to get their organization up and running with Saba products, and avoid unforeseen complications. We offer a variety of OnDemand Services, including:

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Saba Centra OnDemand;

Saba Learning OnDemand;

Saba Performance OnDemand, and

Saba Hosting services, which include security administration and backup and recovery services.

License Updates and Product Support Services. Our License Updates and Product Support services are designed to ensure that our customers have the latest technology available to them and to assist them in ensuring on-going success with our products. We provide a range of product support options, allowing

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customers to utilize their own resources to the degree desired and leverage their existing investments in customer support or to count on Saba to provide the support services needed. Options include enterprise support, an end-user help desk and on-site support.

Our Customers

Our customers include a wide spectrum of large, global enterprises and small- to mid-size organizations in the automotive, communications, computer software and hardware, electronics, consumer package goods, energy, financial services, health care, manufacturing, medical equipment, pharmaceutical, professional services, retail and transportation industries, as well as government and other public sector organizations. Based on total revenues, our customers also are leaders in their regions, representing two of the top five companies in Europe, the top three companies in Germany and the largest company in Brazil. In the public sector, our customers include the Army University Access Online, the Federal Law Enforcement Training Center and several branches of the U.S. Government. In fiscal 2007, 2006 and 2005, no customer accounted for more than 10 percent of total revenues.

Alliances

As of May 31, 2007, we had strategic alliance agreements with a number of global and regional consulting firms who act as systems integrators and implementation partners for our solutions. These alliances and the associated training of qualified personnel in these organizations greatly increase the number of consulting professionals trained to implement our solutions. We have several hundred trained consultants including third-party consultants. Additionally, systems integrators provide opportunities for our sales managers to gain entry to executive levels at our target accounts.

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

Sales and Marketing

We license our products and sell our OnDemand services to organizations through a worldwide direct sales force and global network of alliance partners. Our direct sales efforts target large enterprises, including Global 2000 businesses, mid-size organizations and government entities. As of May 31, 2007, we had 103 sales and marketing professionals. Our channel sales efforts involve value-added resellers around the globe, as well as systems-integrator relationships.

We focus our marketing efforts on extending our market leadership, establishing market positioning, generating sales leads, supporting sales efforts, creating awareness of our solutions in the market and establishing strong brand awareness. Our marketing activities include public relations, analyst relations, direct marketing, advertising, industry trade shows, online marketing, seminar programs, and customer community building.

Technology

Product Architecture

Our J2EE product architecture coupled with our development processes facilitates the rapid development, deployment and configuration of enterprise scale solutions for Human Capital Management. Our platforms use

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the latest industry standards and technologies including AJAX, XML, SOAP, Enterprise Java Beans, web services and learning industry standards to deliver innovative, configurable features for our enterprise and OnDemand customers.

We provide a fully J2EE-compliant application platform. This helps accelerate application development by leveraging the transaction management, persistence management and resource pooling capabilities of standard J2EE-compliant application servers so application developers can focus on building business logic and user interfaces. Key features of the Saba platform include:

Open and Standards Based. The core Saba architecture is based on a reference J2EE implementation. We leverage third-party, industry-leading and standards-based platforms wherever possible. We typically support more than one platform to offer our customers the maximum choice for their deployments. For example we currently support a number of J2EE application servers including JBoss, IBM Websphere, Oracle Application Server and BEA Weblogic and a variety of database platforms including Oracle, IBM DB2 and Microsoft SQL Server;

Security. The Saba solution offers a highly secure environment through which organizations manage their human capital. An increasingly granular security model supports the highly complex business structures and processes used by our customers and can be easily configured to meet their needs. Our security implementation has been subject to rigorous validation by a number of customers and third parties;

Scalability. Saba offers a highly scalable solution able to meet the needs of many thousands of concurrent users both behind the enterprise firewall and OnDemand. Scalability is accomplished through a variety of techniques including clustering, distributed caching, session failover management and off-line processing for asynchronous processes. We maintain a dedicated performance testing group who work our internal development teams and with our customers to ensure that our solutions meet the usage demands that are placed on them;

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

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

Compelling User Experiences. The Saba solution provides a variety of user experiences through standard web browsers via embedded portlets and through integrations with other business applications such as Microsoft Outlook, Lotus Notes, and SAP Enterprise Portal. This allows users to use Saba where they work. We are making extensive use of rich internet application technologies (such as AJAX) to deliver more engaging and intuitive user experiences;

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

Multiple language support. The core foundation is designed to support multiple languages. Currently our solutions support 22 languages.

Research and Development

Our research and development operations are organized around software platform and applications development initiatives. These two development activities share resources and collaborate on design and development. Core teams are responsible for platform and infrastructure development, application development,

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user interface and application design, enterprise connectivity, Internet applications and design, quality assurance, documentation and release management. As of May 31, 2007, we had 94 research and development employees in the United States and India. We incurred \$17.1 million, \$14.4 million and \$9.2 million in research and development expenses during the years ended May 31, 2007, 2006 and 2005, respectively.

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

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

Competition

The market for our products and services is intensely competitive, dynamic and subject to rapid change. The intensity of competition and the pace of change are expected to increase in the future. Competitors vary in size and in the scope and breadth of the products and services they offer. Although we believe that we offer the most comprehensive and flexible Human Capital Management platform, we encounter competition with respect to different aspects of our solutions from a variety of sources including:

Companies that offer training, learning, performance, content, resource, talent and staffing management systems, such as SumTotal and other private companies;

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 online learning; and

Internet portals that offer learning content, performance support tools or recruiting, talent and staffing management services.

We expect additional competition from other established and emerging companies as the market for human capital management solutions continues to evolve. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any one of which could seriously harm our business.

We believe the principal competitive features affecting our market include:

Breadth and depth of the solution;

A significant installed base of Global 2000 and government customers;

The ability to support all forms of content offerings;

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

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

The ability to offer a choice of deployment options;

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Product quality and performance;

Product features and functions;

Customer service and support;

Ease of implementation;

Core technology; and

Price to performance ratio.

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

Proprietary Rights

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

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

We seek to protect our software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection. In addition, we have seven patents issued in the United States and five patent applications pending in the United States. We cannot be assured that any patents will be issued for any of the pending patent applications. Even for the issued patents, or any patent issued to us in the future, there can be no assurance that such patents (i) will protect our intellectual property, or (ii) will not be challenged by third parties. Furthermore, other parties may independently develop similar or competing technologies or design around any patents that may be issued to us. It is possible that any patent issued to us may not provide any competitive advantages, that we may not develop future proprietary products or technologies that are patentable, and that the patents of others may seriously limit our ability to do business. In this regard, we have not performed any comprehensive analysis of patents of others that may limit our ability to conduct our business.

We have obtained registration of various trademarks, including Saba and the Saba S-design logo, in the United States and in certain other countries. In addition, we have registration applications pending in various countries. We will continue to register additional trademarks as appropriate. There can be no assurance that we will be successful in obtaining registration of the trademarks for which we have applied. Even for

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any registered trademarks that we have obtained, or will obtain, the trademarks may be successfully challenged by others or invalidated. If the applications are not approved because third parties own the trademarks, or if our registered trademarks are successfully challenged or invalidated, the use of the trademarks will be restricted unless we enter into arrangements with third parties that may be unavailable on commercially reasonable terms.

We cannot assure you that any of our proprietary rights with respect to our products or services will be viable or of value in the future since the validity, enforceability and type of protection of proprietary rights in Internet-related industries are uncertain and still evolving.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our

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products is difficult, and while we are unable to determine the extent to which piracy of our software products exists, software piracy can be expected to be a persistent problem. In addition, the laws of some foreign countries do not protect proprietary rights to as great an extent as do the laws of the United States, and effective copyright, trademark and trade secret protection may not be available in those jurisdictions. Our means of protecting our proprietary rights may not be adequate to protect us from the infringement or misappropriation of such rights by others.

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. 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 U.S. Patent and Trademark Office. The reexamination request was accepted by the Patent Office and the District 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.

Employees

As of May 31, 2007, we had a total of 573 employees, including 94 in research and development, 103 in sales and marketing, 216 in services-related activities, 98 in operations, and 62 in administration and finance. Of these employees, 333 were located in North America and 240 were located outside of North America. None of our employees is represented by a collective bargaining agreement, and we have not experienced any work stoppages. We consider our relations with our employees to be good. Our future success depends on our continuing ability to attract and retain highly qualified technical, sales and senior management personnel.

ITEM 1A: RISK FACTORS

We have a history of losses, expect future losses and cannot assure you that we will achieve profitability on a consistent basis.

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 one quarter, we have not been GAAP profitable and we may not again achieve GAAP profitability. We cannot be certain that we will realize sufficient revenues to achieve or sustain profitability, 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 May 31, 2007, we had \$16.4 million of purchased intangible assets to be amortized as a result of our January 2006 acquisition of Centra

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Software, Inc. (Centra) and May 2005 acquisition of THINQ Learning Solutions, Inc. (THINQ) and our goodwill balance was \$38.3 million. Further, starting with the first quarter of fiscal 2007, we were required to record as an expense charges related to all current outstanding and future grants of stock options in our reported results from operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) (No. 123R), *Share Based Payments*, which was issued by the Financial Accounting Standards Board (FASB) in December 2004. These non-cash expenses have made it and will continue to make it significantly more difficult for us to achieve profitability. If we achieve GAAP profitability, we may not be able to sustain it on a consistent basis.

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, in fiscal 2007, 2006 and 2005, our quarterly revenues have fluctuated between approximately \$26.2 million and \$9.3 million and our quarterly results fluctuated between net income of approximately \$131,000 and a net loss of approximately \$3.5 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.

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;