

SABA SOFTWARE INC  
Form 10-Q  
October 15, 2004  
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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-Q

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

For the quarterly period ended August 31, 2004

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

00030221

(Commission File number)

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## 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

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incorporation or organization)

Identification No.)

2400 Bridge Parkway,

Redwood Shores, CA  
(Address of principal executive offices)

94065-1166  
(Zip Code)

(650) 696-3840

(Registrant's telephone number, including area code)

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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 Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

On October 11, 2004, 16,119,628 shares of the registrant's Common Stock, \$.001 par value, were outstanding.

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**SABA SOFTWARE, INC.**

**FORM 10-Q**

**QUARTER ENDED AUGUST 31, 2004**

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**Table of Contents****PART 1: FINANCIAL INFORMATION****Item 1. Financial Statements****SABA SOFTWARE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)****(unaudited)**

	<b>August 31, 2004</b>	<b>May 31, 2004</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 17,003	\$ 16,628
Short-term investments		150
Accounts receivable, net	8,254	6,648
Prepaid expenses and other current assets	1,050	1,030
	<u>          </u>	<u>          </u>
Total current assets	26,307	24,456
Property and equipment, net	885	1,040
Goodwill, net	5,288	5,288
Purchased intangible assets, net		2
Other assets	945	955
	<u>          </u>	<u>          </u>
Total assets	\$ 33,425	\$ 31,741
	<u>          </u>	<u>          </u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,475	\$ 1,625
Accrued compensation and related expenses	2,084	2,533
Accrued expenses	3,394	4,175
Deferred revenue	8,778	9,265
Borrowings under bank line of credit		3,500
Current portion of debt and lease obligations	776	752
	<u>          </u>	<u>          </u>
Total current liabilities	16,507	21,850
Deferred revenue	165	179
Accrued rent	2,545	2,520
Debt and lease obligations, less current portion	516	671
	<u>          </u>	<u>          </u>
Total liabilities	19,733	25,220
Stockholders' equity:		
Preferred stock, issuable in series: \$0.001 par value; 5,000 authorized shares at August 31, 2004; none issued or outstanding		

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Common stock: \$0.001 par value; 200,000 authorized shares at August 31, 2004; 16,207 shares issued at August 31, 2004 and 13,504, shares issued at May 31, 2004

	56	54
Additional paid-in capital	200,784	191,925
Treasury stock: 103 shares held at August 31, 2004 and at May 31, 2003, at cost	(232)	(232)
Accumulated deficit	(186,689)	(185,012)
Accumulated other comprehensive loss	(227)	(214)
	<hr/>	<hr/>
Total stockholders' equity	13,692	6,521
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 33,425	\$ 31,741
	<hr/>	<hr/>

*See Accompanying Notes to Condensed Consolidated Financial Statements.*

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

	<b>Three Months Ended</b>	
	<b>August 31, 2004</b>	<b>August 31, 2003</b>
<b>Revenues:</b>		
License	\$ 2,522	\$ 1,552
Services	6,791	6,661
<b>Total revenues</b>	<b>9,313</b>	<b>8,213</b>
<b>Cost of revenues:</b>		
Cost of license	79	85
Cost of services	3,015	3,398
Amortization of acquired developed technology	2	97
<b>Total cost of revenues</b>	<b>3,096</b>	<b>3,580</b>
<b>Gross profit</b>	<b>6,217</b>	<b>4,633</b>
<b>Operating expenses:</b>		
Research and development	2,365	2,651
Sales and marketing	4,337	4,701
General and administrative	1,132	1,302
Amortization of purchased intangible assets		42
Settlement of litigation		1,701
<b>Total operating expenses</b>	<b>7,834</b>	<b>10,397</b>
<b>Loss from operations</b>	<b>(1,617)</b>	<b>(5,764)</b>
Interest income (expense) and other, net	(18)	(79)
<b>Loss before provision for income taxes</b>	<b>(1,635)</b>	<b>(5,843)</b>
Provision for income taxes	(42)	(45)
<b>Net loss</b>	<b>\$ (1,677)</b>	<b>\$ (5,888)</b>
<b>Basic and diluted net loss per share</b>	<b>\$ (0.12)</b>	<b>\$ (0.44)</b>
<b>Shares used in computing basic and diluted net loss per share</b>	<b>14,026</b>	<b>13,297</b>

*See Accompanying Notes to Condensed Consolidated Financial Statements.*



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

	<b>Three months ended</b>	
	<b>August 31,</b>	<b>August 31,</b>
	<b>2004</b>	<b>2003</b>
<b>Operating activities:</b>		
Net loss	\$ (1,677)	\$ (5,888)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	233	473
Amortization of purchased intangible assets	2	42
Amortization of acquired developed technology		97
Amortization of deferred stock compensation		30
Changes in operating assets and liabilities:		
Accounts receivable	(1,615)	2,694
Prepaid expenses and other current assets	(20)	(96)
Other assets	10	(10)
Accounts payable	(150)	(333)
Accrued expenses	(1,230)	1,571
Accrued rent	25	(17)
Deferred revenue	(501)	(2,214)
Other liabilities		(34)
Net cash used in operating activities	(4,923)	(3,685)
<b>Investing activities:</b>		
Proceeds from redemptions and maturities of short-term investments	146	2,309
Purchases of property and equipment	(78)	(13)
Net cash provided by investing activities	68	2,296
<b>Financing activities:</b>		
Proceeds from issuance of common stock under stock plans	77	58
Proceeds from issuance of common stock in private placement, net of issuance costs	8,784	1,772
Borrowings under credit facility, net of issuance costs	57	
Repayments on borrowings under the credit facility	(3,660)	(124)
Repayments on note payable	(17)	(18)
Principal payments under capital lease obligations	(11)	(8)
Net cash provided by financing activities	5,230	1,680
Increase in cash and cash equivalents	375	291
Cash and cash equivalents, beginning of period	16,628	17,566
Cash and cash equivalents, end of period	17,003	17,857
Short-term investments, end of period		1,319



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Total cash, cash equivalents and short-term investments, end of period	\$ 17,003	\$ 19,176
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*See Accompanying Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****SABA SOFTWARE, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Saba Software, Inc. and its subsidiaries (Saba) and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary to fairly state Saba's consolidated financial position, results of operations, and cash flows as of and for the dates and periods presented.

These unaudited condensed consolidated financial statements should be read in conjunction with Saba's audited consolidated financial statements included in Saba's Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 30, 2004. The results of operations for the three months ended August 31, 2004 are not necessarily indicative of results for the entire fiscal year ending May 31, 2005 or for any future period.

The condensed consolidated balance sheet at May 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

**2. Basic and Diluted Net Loss Per Share**

Basic and diluted net loss per share information for all periods is presented under the requirements of Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Basic earnings per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less shares that may be repurchased, and excludes any dilutive effects of options and warrants. Potentially dilutive issuances have been excluded from the computation of diluted net loss per share, as their inclusion would be anti-dilutive. The calculations of basic and diluted net loss per share are as follows:

	<b>Three months ended</b>	
	<b>August 31, 2004</b>	<b>August 31, 2003</b>
	<b>(in thousands except per share data)</b>	
Net loss	\$ (1,677)	\$ (5,888)

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Weighted-average shares of common stock outstanding	14,031	13,342
Weighted-average shares of common stock subject to repurchase	(5)	(45)
	<u>          </u>	<u>          </u>
Weighted-average shares of common stock used in computing basic and diluted net loss per share	14,026	13,297
	<u>          </u>	<u>          </u>
Basic and diluted net loss per share	\$ (0.12)	\$ (0.44)
	<u>          </u>	<u>          </u>

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

	<b>Three months ended</b>	
	<b>August 31,</b>	<b>August 31,</b>
	<b>2004</b>	<b>2003</b>
	<b>(in thousands)</b>	
Net loss		\$ (1,677)