

SABA SOFTWARE INC
Form DEF 14A
October 24, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, For Use of the Commission Only

(as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to §240-14a-12

SABA SOFTWARE, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

2400 Bridge Parkway

Redwood Shores, California 94065-1166

October 24, 2006

To our Stockholders:

You are cordially invited to attend the annual meeting of stockholders of Saba Software, Inc. (Saba). The annual meeting will be held on Tuesday, November 28, 2006, at 9:00 a.m., Pacific Time, at our corporate headquarters located at 2400 Bridge Parkway, Redwood Shores, California 94065-1166.

The actions expected to be taken at the annual meeting are described in detail in the attached proxy statement and notice of annual meeting of stockholders.

Included with the proxy statement is a copy of our annual report on Form 10-K, and our Form 10-K/A amendment thereto, for the fiscal year ended May 31, 2006. We encourage you to read our Form 10-K and our Form 10-K/A. They include information on our operations, markets, products and services, as well as our audited financial statements.

Please use this opportunity to take part in the affairs of Saba by voting on the business to come before this meeting. Whether or not you plan to attend the meeting, please complete, sign, date and return the accompanying proxy in the enclosed postage-paid envelope. Returning the proxy does NOT deprive you of your right to attend the meeting and to vote your shares in person for the matters acted upon at the meeting.

We look forward to seeing you at the annual meeting.

Sincerely,

/s/ BOBBY YAZDANI

Bobby Yazdani

Chairman of the Board and

Chief Executive Officer

SABA SOFTWARE, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held November 28, 2006

To our Stockholders:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Saba Software, Inc., a Delaware corporation, will be held at our corporate headquarters located at 2400 Bridge Parkway, Redwood Shores, California 94065-1166, on Tuesday, November 28, 2006, at 9:00 a.m., Pacific Time, for the following purposes:

1. **ELECTION OF DIRECTORS.** To elect two Class III Directors to serve until the 2009 annual meeting of stockholders or until their respective successors have been elected or appointed.
2. **RATIFY THE APPOINTMENT OF INDEPENDENT AUDITORS.** To ratify the appointment by the Board of Directors of Ernst & Young LLP as our independent auditors for the fiscal year ending May 31, 2007.
3. **OTHER BUSINESS.** To transact such other business as may properly come before the annual meeting and any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement, which is attached and made a part hereof.

The Board of Directors has fixed the close of business on October 6, 2006 as the record date for determining the stockholders entitled to notice of, and to vote at, the annual meeting and any adjournment or postponement thereof. Only stockholders of record at the close of business on that date will be entitled to notice of, and to vote at, the annual meeting.

By Order of the Board of Directors,

/s/ PETER E. WILLIAMS III

Peter E. Williams III

Chief Financial Officer and Secretary

Redwood Shores, California

October 24, 2006

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING IN PERSON, YOU ARE URGED TO MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE IN THE POSTAGE-PREPAID ENVELOPE PROVIDED TO ENSURE YOUR REPRESENTATION AND THE PRESENCE OF A QUORUM AT THE ANNUAL MEETING. IF YOU SEND IN YOUR PROXY CARD AND THEN DECIDE TO ATTEND THE ANNUAL MEETING TO VOTE YOUR SHARES IN PERSON, YOU MAY STILL DO SO. YOUR PROXY IS REVOCABLE IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN THE PROXY STATEMENT.

SABA SOFTWARE, INC.

2400 Bridge Parkway

Redwood Shores, California 94065-1166

PROXY STATEMENT

November 28, 2006

Annual Meeting of Stockholders

General Information

This proxy statement is furnished to stockholders of Saba Software, Inc., a Delaware corporation, in connection with the solicitation by our Board of Directors of proxies in the accompanying form for use in voting at our annual meeting of stockholders to be held on Tuesday, November 28, 2006, at 9:00 a.m., Pacific Time, at our corporate headquarters located at 2400 Bridge Parkway, Redwood Shores, California 94065-1166, and any adjournment or postponement thereof. The shares represented by the proxies received, properly marked, dated, executed and not revoked will be voted at the annual meeting for the purposes set forth in the accompanying notice of annual meeting of stockholders.

The proxy holders will vote all proxies in accordance with the instructions contained in the proxy and, if no choice is specified, the proxy holders will vote in favor of the proposals set forth herein. Proxies will confer upon the proxy holders discretionary authority to vote upon matters that the Board does not know as of the date hereof but may be presented at the annual meeting, as well as the authority to adjourn or postpone the annual meeting in order to assure that all stockholders who wish to vote on the matter will be able to cast their votes and to act upon other matters incident to the conduct of the meeting.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is exercised by delivering to us (to the attention of Peter E. Williams III, our Chief Financial Officer and Secretary) a written notice of revocation or a duly executed proxy bearing a later date, or by attending the annual meeting and voting in person.

Solicitation and Voting Procedures

The proxy statement and the enclosed proxy card are being mailed to the stockholders on or about October 24, 2006. This proxy statement and the accompanying proxy card are for use by the stockholders.

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The close of business on October 6, 2006 has been fixed as the record date for determining the holders of shares of our common stock entitled to notice of, and to vote, at the annual meeting. As of the close of business on the record date, we had 28,200,503 shares of common stock outstanding and entitled to vote at the annual meeting. The presence at the annual meeting of a majority, or 14,100,252, of these shares of our common stock, either in person or by proxy, will constitute a quorum for the transaction of business at the annual meeting. Each outstanding share of common stock on the record date is entitled to one vote on all matters.

All expenses in connection with the solicitation of proxies will be borne by us. These costs will include the expense of preparing and mailing proxy materials for the annual meeting and reimbursements paid to brokerage firms and others for their expenses incurred in forwarding solicitation material regarding the annual meeting to beneficial owners of our common stock. We may conduct further solicitation personally, by telephone or by facsimile through our officers, directors and employees, none of whom will receive additional compensation for assisting with the solicitation.

An automated system administered by ADP-Investor Communication Services and Mellon Investor Services will tabulate votes cast by proxy at the annual meeting, and one of our officers, duly appointed by the Board of Directors, will tabulate votes cast in person at the annual meeting.

Under the General Corporation Law of the State of Delaware, abstentions and broker non-votes are each included in the determination of the number of shares present and voting, and each is tabulated separately. However, broker non-votes are not counted for purposes of determining the number of votes cast with respect to a particular proposal and, therefore, will have no effect on the result of the vote. A broker non-vote occurs when a broker submits a proxy card with respect to shares of common stock held in a fiduciary capacity (typically referred to as being held in street name) but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include, among others, the election of directors and ratification of auditors. Non-routine matters include, among others, approval of actions with respect to a company's certificate of incorporation, bylaws or stock option plan. In determining whether a proposal has been approved, other than the election of directors, abstentions have the same effect as votes against the proposal. As a result, with respect to proposal 1, which requires a plurality vote, and proposal 2, which requires the affirmative vote of a majority of our common stock represented at the meeting and entitled to vote, broker non-votes have no effect and abstentions have the same effect as negative votes.

The shares represented by properly executed proxy cards will be voted at the annual meeting as indicated or, if no instructions are given, in favor of proposals 1 and 2. We do not presently know of any other business that may come before the annual meeting.

Householding of Annual Meeting Materials

Some brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one (1) copy of this proxy statement and annual report may have been sent to multiple stockholders in a stockholder's household. We will promptly deliver a separate copy of either document to any stockholder who contacts our investor relations department by telephone at (650) 581-2500 requesting such copies. Householding will continue until you notify our investor relations department by telephone or by mail at 2400 Bridge Parkway, Redwood Shores, California 94065-1166 that you wish to continue to receive separate annual reports and proxy statements. If a stockholder is receiving multiple copies of the proxy statement and annual report at the stockholder's household and would like to receive a single copy of the proxy statement and annual report for a stockholder's household in the future, stockholders should contact their broker, other nominee record holder, or our investor relations department to request mailing of a single copy of the proxy statement and annual report.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The number of directors on the Board of Directors is currently fixed at seven. Our Certificate of Incorporation divides our Board of Directors into three classes designated Class I, Class II and Class III. The members of each class of directors serve staggered three-year terms. The Board of Directors is currently composed of two Class I Directors: Joe E. Kiani and Clifton T. Weatherford; two Class II Directors: Bobby Yazdani and Dow R. Wilson; and three Class III Directors: Douglas M. Ferguson, Lawrence D. Lenihan, Jr. and Leon Navickas. The term of office of the Class III Directors expires at this annual meeting, the term of office of the Class I Directors expires at the 2007 annual meeting and the term of office of the Class II Directors expires at the 2008 annual meeting. At each annual meeting of stockholders, directors will be elected for a full term of three years to succeed those directors whose terms are expiring. Directors will be elected by a plurality of votes cast.

The Board of Directors has passed a resolution decreasing the size of the Board from seven to six directors effective immediately preceding the annual meeting of stockholders, and the number of Class III directors will correspondingly be reduced from three to two. Accordingly, at the annual meeting, the stockholders will elect two Class III Directors, each to serve a three year term until the election and qualification of a successor at the 2009 annual meeting of stockholders, until a successor is otherwise duly elected or appointed and qualified or until the director's earlier resignation or removal. The Board of Directors has nominated Douglas M. Ferguson and Lawrence D. Lenihan, Jr. for election as Class III Directors. The Corporate Governance and Nominating Committee approved Messrs. Ferguson and Lenihan as Class III Director nominees to be voted upon at the annual meeting. The Board has no reason to believe that any nominee will be unable or unwilling to serve as a nominee or as a director, if elected.

Certain information about Messrs. Ferguson and Lenihan, the Class III Director nominees, is furnished below:

Douglas M. Ferguson has been a Director of Saba since February 2006. Mr. Ferguson served on the Board of Directors of Centra Software, Inc., a provider of software and services for online learning and training, prior to its acquisition by Saba in January 2006. For the past five years, Mr. Ferguson has been leading and directing strategic and operational management effectiveness for clients in the high-tech, healthcare and manufacturing industries. Since June 2001, he has served as the Executive Director of Gunnison Partners, a technology strategy management services firm. During this period, he collaborated with Innovation Management Inc., a member of the Monitor Group, a consulting firm, where he served as a partner from April 2003 to February 2005, in addition to his duties at Gunnison Partners. From March 2000 to June 2001, Mr. Ferguson held executive positions at Cambridge Technology Partners, a provider of business services, most recently as Vice President of Demand Generation. He is currently a trustee of the Yale-China Association. Mr. Ferguson holds a B.A. from Yale University and an M.A.L.D. from Fletcher School of Law and Diplomacy. Mr. Ferguson serves on the Board of Directors Corporate Governance and Nominating Committee.

Lawrence D. Lenihan, Jr. has been a Director of Saba since August 2004. Mr. Lenihan is a managing general partner and co-head of the Pequot venture funds and the Pequot private equity funds, which funds Mr. Lenihan joined in 1996. Previously, Mr. Lenihan was a principal with Broadview Associates, L.L.C., an investment banking firm, where he was a senior member of the mergers and acquisitions team. Prior to joining Broadview, Mr. Lenihan held various positions within IBM, an information technology, business and technology services, consulting services and information technology research company. Mr. Lenihan is also a Director of First Advantage Corporation, a risk mitigation and business solutions provider. Mr. Lenihan holds a B.S. from Duke University and a M.B.A. from the Wharton School of Business at the University of Pennsylvania. Mr. Lenihan serves on the Board of Directors Audit, Compensation and Corporate Governance and Nominating Committees.

Required Vote

The affirmative vote of a plurality of all the votes represented in person or by proxy at the annual meeting is required to approve the foregoing proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THE ELECTION OF THE NOMINEES NAMED ABOVE.

Meetings and Committees of the Board of Directors

During our fiscal year ended May 31, 2006, the Board of Directors met eight times. No current director attended fewer than 75% of all the meetings of the Board of Directors and its committees on which he served after becoming a member of the Board of Directors. The Board of Directors has three standing committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. The Company encourages, but does not require, its Board members to attend the annual stockholders meeting. None of the Company's directors attended the 2005 annual meeting of stockholders. The Board of Directors has determined that a majority of its members, Messrs. Ferguson, Kiani, Lenihan, Navickas, Weatherford and Wilson, are independent as that term is defined in Rule 4200 of the listing standards of the Marketplace Rules of the NASDAQ Stock Market, Inc. (NASDAQ).

The Audit Committee

During our fiscal year ended May 31, 2006, the Audit Committee held nine meetings. Messrs. Lenihan, Navickas and Weatherford are the current members of our Audit Committee. The Audit Committee oversees the accounting and financial reporting processes of Saba and audits of the financial statements of Saba. The Audit Committee reviews, acts on and reports to our Board of Directors with respect to various auditing and accounting matters. The Audit Committee reviews and monitors the corporate financial reporting and the external audits of Saba, including, among other things, our internal control functions, the results and scope of the annual audit and other services provided by our independent auditors and our compliance with legal matters that have significant impact on our financial reports. In addition, the Audit Committee is responsible for the appointment, compensation and oversight of our independent auditors. See Report of the Audit Committee of the Board of Directors. Our Board adopted and approved a charter for the Audit Committee on October 21, 1999. The charter for the Audit Committee was amended to reflect relevant provisions of the Sarbanes-Oxley Act of 2002 and The NASDAQ Stock Market rules. A copy of the Audit Committee charter, as amended to date, is attached to this Proxy Statement, and can be viewed on our website under Investor Relations Corporate Governance at www.saba.com.

The Audit Committee is composed solely of non-employee directors, as such term is defined in Rule 16b-3 under the Exchange Act and the Board of Directors has determined that all members of the Audit Committee are independent as that term is defined in Rule 4200(a)(15) of the Marketplace Rules of the NASDAQ Stock Market, Inc. The Board has further determined that Mr. Weatherford, Chairman of the Audit Committee, is an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Exchange Act and is independent as defined by Item 7(d)(3)(iv) of Schedule 14A of the Exchange Act.

The Compensation Committee

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During our fiscal year ended May 31, 2006, the Compensation Committee held one meeting. Messrs. Kiani, Lenihan and Navickas are the current members of our Compensation Committee. The Compensation Committee establishes salaries, incentives and other forms of compensation for executive officers and other key employees. This committee also administers our incentive compensation and benefit plans. A copy of the Compensation Committee charter, as amended to date, can be viewed on our website under Investor Relations Corporate Governance at www.saba.com.

The Corporate Governance and Nominating Committee

During our fiscal year ended May 31, 2006, the Corporate Governance and Nominating Committee held two meetings. The current members of the Corporate Governance and Nominating Committee are Messrs. Ferguson, Kiani and Lenihan. The Corporate Governance and Nominating Committee oversees the operation of the Board, the selection, nomination, evaluation and education of directors, and the establishment and implementation of our policies and programs regarding internal governance and legal and ethical conduct. Prior to our annual meeting of stockholders, the Corporate Governance and Nominating Committee, pursuant to guidelines designed to highlight the necessary qualifications, assists the existing Board in selecting the candidates who will be presented to our stockholders for election to serve on our Board of Directors. The Corporate Governance and Nominating Committee will consider and make recommendations to the Board of Directors regarding any stockholder recommendations for candidates to serve on the Board of Directors. However, it has not adopted a formal process for that consideration because it believes that the informal consideration process will be adequate given the historical absence of stockholder proposals. The Corporate Governance and Nominating Committee will review periodically whether a more formal policy should be adopted. Stockholders wishing to recommend candidates for consideration by the Corporate Governance and Nominating Committee may do so by writing to our Corporate Secretary, 2400 Bridge Parkway, Redwood Shores, California 94065-1166, providing the candidate's name, biographical data and qualifications, a document indicating the candidate's willingness to act if elected, and evidence of the nominating stockholder's ownership of our Common Stock at least 120 days prior to the next annual meeting to assure time for meaningful consideration by the Corporate Governance and Nominating Committee. There are no differences in the manner in which the Corporate Governance and Nominating Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder. During our fiscal year ended May 31, 2006, we did not pay any third party to identify or assist in identifying or evaluating potential nominees. Recently, we retained a third party to assist the Corporate Governance and Nominating Committee in the identification of potential board candidates for a fee of \$10,000 plus expenses.

The Corporate Governance and Nominating Committee operates under a written charter setting forth the functions and responsibilities of the committee. A copy of the Corporate Governance and Nominating Committee charter, as amended to date, can be viewed on our website under Investor Relations Corporate Governance at www.saba.com.

In reviewing potential candidates for the Board of Directors, the Corporate Governance and Nominating Committee considers the individual's experience in human capital development and management solutions and related industries, the general business or other experience of the candidate, our needs for an additional or replacement director, the personality of the candidate, the candidate's interest in our business, as well as numerous other subjective criteria. Of greatest importance is the individual's integrity, willingness to get involved and ability to bring to us experience and knowledge in areas that are most beneficial to us as a company. The Board intends to continue to evaluate candidates for election to the Board of Directors on the basis of the foregoing criteria.

All members of the Corporate Governance and Nominating Committee are independent directors within the meaning of Rule 4200 of the Marketplace Rules of the NASDAQ Stock Market, Inc.

Communication between Stockholders and Directors

Our Board of Directors currently does not have a formal process for stockholders to send communications to the Board of Directors. Nevertheless, every effort has been made to ensure that the views of stockholders are heard by the Board or individual directors, as applicable, and that appropriate responses are provided to stockholders on a timely basis. The Board of Directors does not recommend that formal communication procedures be adopted at this time because it believes that informal communications are sufficient to communicate questions, comments and observations that could be useful to the Board. However, stockholders

wishing to formally communicate with the Board of Directors may send communications directly to Bobby Yazdani, Chairman of the Board, c/o Saba Software, Inc., 2400 Bridge Parkway, Redwood Shores, California 94065-1166.

Corporate Governance

The Company has formal corporate governance standards in place. The Board has reviewed the provisions of the Sarbanes-Oxley Act of 2002, the rules of the Securities and Exchange Commission and the NASDAQ Stock Market, Inc. corporate governance listing standards regarding corporate governance policies and procedures. The Board believes the Company is in compliance with such rules and listing standards. The following chart sets forth certain information concerning members of the Board and their compliance with governance policies and standards in fiscal year 2006:

Director	I Independent, E Employee	Corporate Governance	Audit	Compensation Committee	% Board Mtg s Attended	Qualified Financial Expert	Audit Committee Independence	Financially Literate
		& Nominating Committee	* Chair		Yes	Yes	Yes	Yes
Bobby Yazdani	E				100			Yes
Douglas M. Ferguson	I	Yes			100			Yes
Joe E. Kiani	I	Yes		Yes	100			Yes
Lawrence D. Lenihan, Jr.	I	Yes	Yes	Yes	75		Yes	Yes
Leon Navickas	I		Yes	Yes	100		Yes	Yes
Clifton T. Weatherford	I		Yes*		100	Yes	Yes	Yes
Dow R. Wilson	I				(1)			Yes

(1) Mr. Wilson joined the Board of Directors in August 2006.

Access to Corporate Governance Policies

We have adopted a Code of Ethics that applies to, among others, our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, which is designed to qualify as a code of ethics within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The Code of Ethics is available on our website under Investor Relations Corporate Governance at www.saba.com. To the extent required by law, any amendments to, or waivers from, any provision of the Code of Ethics will be promptly disclosed to the public. To the extent permitted by such legal requirements, we intend to make such public disclosure by posting the relevant material on our website in accordance with Securities and Exchange Commission rules.

Copies of our committee charters and Code of Ethics will be provided to any stockholder upon written request directed to Investor Relations, Saba Software, Inc., 2400 Bridge Parkway, Redwood Shores, California 94065-1166.

Compensation of Directors

Each non-employee director receives an annual retainer of \$20,000 and an additional \$1,000 per Board meeting attended in person. The Chairman of our Audit Committee receives an additional annual retainer of \$25,000 and other members of the Audit Committee receive an additional annual retainer of \$2,500. Members of the Compensation Committee and the Corporate Governance and Nominating Committee receive an additional annual retainer of \$2,000. We reimburse all non-employee directors for their reasonable expenses incurred in attending meetings of the Board of Directors. Members of the Board who are not employees of the Company are eligible to receive stock options under the Company's 2000 Stock Incentive Plan. During the fiscal year ended May 31, 2006, an option to purchase 8,750 shares of common stock was granted to the Chairman of the Audit Committee, an option to purchase 7,500 shares of common stock was granted to each of the other members of the Audit Committee and an option to purchase 5,000 shares of common stock was granted to directors who were not members of the Audit Committee. These options are immediately vested and have an exercise price equal to the most recent closing price at the time of grant.

Below are options we have granted to non-employee members of our Board of Directors during our fiscal year ended May 31, 2006:

<u>Name</u>	<u>Grant Date</u>	<u>Number of Options Granted</u>	<u>Exercise Price Per Share</u>
Douglas M. Ferguson	February 1, 2006	5,000	\$ 5.04
Joe E. Kiani	December 15, 2005	7,500	\$ 4.16
Lawrence D. Lenihan, Jr.	December 15, 2005	5,000	\$ 4.16
Leon Navickas	February 1, 2006	7,500	\$ 5.04
Clifton T. Weatherford	December 15, 2005	8,750	\$ 4.16
Dow R. Wilson (1)			
Douglas Allred (2)	December 15, 2005	5,000	\$ 4.16
Michael Moritz (2)	December 15, 2005	7,500	\$ 4.16

- (1) Mr. Wilson joined the Board of Directors in August 2006 and received an option to purchase 20,000 shares of common stock at an exercise price of \$5.07 per share.
- (2) Messrs. Allred and Moritz resigned from the Board of Directors in January 2006.

Compensation Committee Interlocks and Insider Participation

No members of our Compensation Committee are officers or employees of Saba. No interlocking relationship exists between our Board of Directors or Compensation Committee and the Board of Directors or compensation committee of any other company, nor has such an interlocking relationship existed in the past.

Relationships Among Directors or Executive Officers

There are no family relationships among any of the directors or executive officers of the Company.

PROPOSAL NO. 2**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

Ernst & Young LLP served as our independent auditors for the fiscal year ended May 31, 2006, and the Board of Directors, upon the recommendation of the Audit Committee, has selected Ernst & Young LLP, independent registered public accounting firm, to audit our financial statements for the fiscal year ending May 31, 2007 and recommends that the stockholders ratify such selection. Unless otherwise instructed, the proxy holders will vote the proxies they receive for the ratification of Ernst & Young LLP as the independent auditors for the fiscal year ending May 31, 2007. In the event that ratification of this selection of auditors is not approved by a majority of the shares of Common Stock entitled to vote and voting at the Annual Meeting, we will review our future selection of auditors. Representatives of Ernst & Young LLP will be present at the Annual Meeting, will have the opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

We have been informed by Ernst & Young LLP that they are not aware of any relationships between Ernst & Young LLP and our company that, in their professional judgment, may reasonably be thought to bear on their independence.

Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of our annual financial statements for the years ended May 31, 2006 and May 31, 2005 and fees billed for other services rendered by Ernst & Young LLP during those periods.

	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
Audit Fees(1)	\$ 1,032,182	\$ 593,420
Audit-Related Fees(2)	\$ 208,810	\$
Tax Fees(3)	\$ 214,341	\$ 146,889
All Other Fees(4)	\$ 1,500	\$ 1,500

- (1) Audit Fees consist of fees billed for professional services rendered for the audit of Saba's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements, including registration statements.
- (2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees. These fees include amounts for due diligence procedures related to the acquisition of Centra Software, Inc.
- (3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advisor and tax planning (domestic and international). These services include assistance regarding federal, state and international tax compliance and tax planning.
- (4) All Other Fees consist of fees for products and services other than the services reported above.

In making its recommendation to ratify the appointment of Ernst & Young LLP as Saba's independent auditors for the fiscal year ending May 31, 2007, the Audit Committee has considered whether services other than audit and audit-related services provided by Ernst & Young LLP are compatible with maintaining the independence of Ernst & Young LLP.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The

Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval is generally provided for up to one (1) year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the independent auditor is required to provide detailed back-up documentation at the time of approval.

Required Vote

The affirmative vote of a majority of all the votes represented in person or by proxy at the annual meeting is required to ratify the foregoing proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING MAY 31, 2007.

MANAGEMENT
Executive Officers and Directors

The following table sets forth certain information with respect to our executive officers and directors as of October 6, 2006:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Bobby Yazdani	43	Chief Executive Officer and Chairman of the Board
Peter E. Williams III	45	Chief Financial Officer and Secretary
Mark D. Frost	48	Chief Operating Officer
Douglas M. Ferguson(3)	49	Director
Joe E. Kiani(2)(3)	42	Director
Lawrence D. Lenihan, Jr.(1)(2)(3)	41	Director
Leon Navickas(1)(2)	50	Director
Clifton T. Weatherford(1)	60	Director
Dow R. Wilson	47	Director

-
- (1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of the Corporate Governance and Nominating Committee

Bobby Yazdani founded Saba, has been a Director of Saba since our inception in April 1997 and has served as Saba's Chairman of the Board and Chief Executive Officer since September 2003. From February 2003 through September 2003, Mr. Yazdani served as Saba's President and Chief Operating Officer. From April 1997 until February 2003, Mr. Yazdani served as Saba's Chairman of the Board and from April 1997 until March 2002, Mr. Yazdani served as Chief Executive Officer. From 1988 until founding Saba, Mr. Yazdani served in various positions at Oracle, most recently as Senior Director. Mr. Yazdani holds a B.A. from the University of California, Berkeley.

Peter E. Williams III has served as our Chief Financial Officer since March 2004 and has served as our Secretary since our inception in April 1997. Mr. Williams served as our Vice President, Corporate Development and General Counsel from October 1999 through March 2004. Mr. Williams was a partner at Morrison & Foerster LLP, an international law firm, from January 1995 until March 2000. Mr. Williams holds B.A. degrees from the University of California, Los Angeles and a J.D. from Santa Clara University.

Mark D. Frost has served as our Chief Operating Officer since September 2005. Prior to joining Saba, from 2003 to 2005, Mr. Frost served as the Group Vice President and General Manager of the Human Capital Management (HCM) product division at PeopleSoft. Prior to PeopleSoft, from 2001 to 2003, Mr. Frost served as Vice President and General Manager of Product Operations at Documentum, Inc., an enterprise content management and collaboration software solutions company. Mr. Frost has also served as the Chief Operating Officer at Objectstream, as well as having held Vice President of Engineering roles at several companies including Neovista, Envirotech and Systems Control. Mr. Frost holds a B.A. in Computer Science from the University of California, Berkeley.

Douglas M. Ferguson has been a Director of Saba since February 2006. Mr. Ferguson served on the Board of Directors of Centra Software, Inc., a provider of software and services for online learning and training, prior to its acquisition by Saba in January 2006. For the past five years, Mr. Ferguson has been leading and directing strategic and operational management effectiveness for clients in the high-tech, healthcare and manufacturing industries. Since June 2001, he has served as the Executive Director of Gunnison Partners, a technology strategy management services firm. During this period, he collaborated with Innovation Management Inc., a member of the Monitor Group, a consulting firm, where

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he served as a partner from April 2003 to February 2005, in addition to his duties at Gunnison Partners. From March 2000 to June 2001, Mr. Ferguson held executive positions at

Cambridge Technology Partners, a provider of business services, most recently as Vice President of Demand Generation. He is currently a trustee of the Yale-China Association. Mr. Ferguson holds a B.A. from Yale University and an M.A.L.D. from Fletcher School of Law and Diplomacy. Mr. Ferguson serves on the Board of Directors Corporate Governance and Nominating Committee.

Joe Kiani has been a Director of Saba since July 1997. Mr. Kiani is the Founder of Masimo Corporation, a provider of signal processing and sensor technology to the medical device industry, and has served as its Chief Executive Officer and Chairman of the Board since Masimo's inception in 1989. Mr. Kiani holds a B.S. and M.S. from San Diego State University. Mr. Kiani serves on the Board of Directors Compensation and Corporate Governance and Nominating Committees.

Lawrence D. Lenihan, Jr. has been a Director of Saba since August 2004. Mr. Lenihan is a managing general partner and co-head of the Pequot venture funds and the Pequot private equity funds, which funds Mr. Lenihan joined in 1996. Previously, Mr. Lenihan was a principal with Broadview Associates, L.L.C., an investment banking firm, where he was a senior member of the mergers and acquisitions team. Prior to joining Broadview, Mr. Lenihan held various positions within IBM, an information technology, business and technology services, consulting services and information technology research company. Mr. Lenihan is also a Director of First Advantage Corporation, a risk mitigation and business solutions provider. Mr. Lenihan holds a B.S. from Duke University and a M.B.A. from the Wharton School of Business at the University of Pennsylvania. Mr. Lenihan serves on the Board of Directors Audit, Compensation and Corporate Governance and Nominating Committees.

In August 2004, Mr. Lenihan was appointed to serve as a director on our Board of Directors in connection with a private placement of our common stock with funds affiliated with Pequot Capital Management, Inc. (the Pequot Funds). From and after the closing of the private placement, for so long as the Pequot Funds beneficially hold at least seventy-five percent of the common stock purchased by the Pequot Funds in the private placement, we have agreed to use our best efforts to cause: (i) Mr. Lenihan to remain a Class III director; (ii) Mr. Lenihan to be nominated and elected to our Board of Directors in any election of directors; and (iii) any vacancy, should Mr. Lenihan cease for any reason to be a member of our Board of Directors, to be filled by a replacement designated by the Pequot Funds and reasonably acceptable to us.

Leon Navickas has been a Director of Saba since February 2006. Mr. Navickas founded Centra Software, Inc., a provider of software and services for online learning and training, and from April 1995 through the date of its acquisition by Saba in January 2006 served as Centra's Chairman of the Board. Since Centra's inception in 1995, Mr. Navickas served in a number of executive positions, including Chief Executive Officer from May 2005 to January 2006, Chief Strategy Officer from July 2003 to September 2004 and President from April 1995 to July 2003. Mr. Navickas served as General Manager of Research and Development at Lotus Development Corp. from 1983 to 1995. Mr. Navickas also serves on the board of trustees of the Massachusetts Software Council, a public policy organization that represents the interests of Massachusetts software companies. Mr. Navickas holds a B.A. from Boston College and an M.A. from Boston University. Mr. Navickas serves on the Board of Directors Audit and Compensation Committees. Mr. Navickas' term as a director will end immediately preceding the 2006 annual meeting of stockholders.

Clifton T. Weatherford has been a Director of Saba since March 2003. Until his retirement in December 2002, Mr. Weatherford served as Executive Vice President and Chief Financial Officer of Business Objects, a provider of business intelligence software, since August 1997. Mr. Weatherford serves as a Director of Synplicity Inc, a provider of software for the design and verification of semiconductors; Advanced Analogic Technologies, Inc., maker of analog and power semiconductors; SMART Modular Technologies, a manufacturer of memory products; and Tesco Corporation, a global provider of technology-based solutions to the upstream energy industry. Mr. Weatherford holds a B.B.A. from the University of Houston. Mr. Weatherford serves as the Chairman of the Audit Committee and as the Committee's financial expert.

Dow R. Wilson has been a Director of Saba since August 2006. Mr. Wilson is Executive Vice President of Varian Medical Systems, a company that designs and manufactures advanced equipment and software products for treating cancer with radiation, and President of its Oncology Systems division. Mr. Wilson joined Varian in 2005, following a 19-year career with General Electric, a diversified industrial corporation, in a variety of senior management positions in both the United States and Europe. Most recently, Mr. Wilson served as CEO for GE Healthcare-Information and Patient Monitoring Technologies. Prior to that, he served as Global General Manager for a number of GE's imaging businesses, including, X-ray, Functional Imaging, and Computed Tomography. He also ran GE's Lexan Sheet business in Europe. Mr. Wilson holds a B.A. from Brigham Young University and an M.B.A. from the Amos Tuck School of Business at Dartmouth College.

**SECURITY OWNERSHIP OF
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to us with respect to beneficial ownership of our common stock as of September 1, 2006 by:

each person who is known by us to beneficially own more than 5% of our outstanding shares of common stock,

each of our directors,

each of the named executive officers appearing in the summary compensation table below (the "Named Executive Officers"), and

all current executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of September 1, 2006 are deemed outstanding. Percentage of beneficial ownership as of September 1, 2006 is based on 28,583,607 shares of common stock. To our knowledge, except as set forth in the footnotes to this table and subject to applicable community property laws, each person named in the table has sole voting and investment power with respect to the shares set forth opposite such person's name. Except as otherwise indicated, the address of each of the persons in this table is: c/o Saba Software, Inc., 2400 Bridge Parkway, Redwood Shores, California 94065-1166.

<u>Name</u>	<u>Shares Beneficially Owned</u>	
	<u>Number</u>	<u>Percent</u>
Lawrence D. Lenihan, Jr.(1) 500 Nyala Farm Road Westport, CT 06880	2,779,840	9.8%
Entities Affiliated with Pequot Capital Management, Inc.(2) 500 Nyala Farm Road Westport, CT 06880	2,769,840	9.8%
Bobby Yazdani(3) Diker Management, LLC(4) 745 Fifth Avenue, Suite 1409 New York, New York 10151	1,817,615	6.3%
Diker GP, LLC(4)	1,751,666	6.1%
Diker GP, LLC(4)	1,623,831	5.7%

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ZF Partners LP(5)	1,496,040	5.2%
One Ferry Building, Suite 255		
San Francisco, California 94111		
Fuller & Thaler Asset Management, Inc.(6)	1,426,993	5.0%
411 Borel Avenue, Suite 402		
San Mateo, CA 94402		
Entities Affiliated with Sequoia Capital(7)	1,162,789	4.1%
3000 Sand Hill Road, Suite 280		
Menlo Park, CA 94025		
Leon Navickas (8)	628,293	2.2%
Peter E. Williams III(9)	250,875	*
Joe E. Kiani(10)	118,450	*
Mark D. Frost (11)	60,750	*
Clifton T. Weatherford(12)	35,000	*
Douglas M. Ferguson(13)	13,110	*
Dow R. Wilson	-0-	*