SABA SOFTWARE INC
Form 424B3
December 23, 2005
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Registration Statement No. 333-125778

PROSPECTUS

1,799,920 Shares

Saba Software, Inc.

Common Stock

This prospectus relates to up to 1,799,920 shares of our common stock that the selling security holders named in this prospectus may offer for sale from time to time. The selling security holders acquired these shares from us in connection with our acquisition of THINQ Learning Solutions, Inc. completed on May 5, 2005.

Our common stock is traded on the Nasdaq National Market under the symbol SABA. On December 20, 2005, the last reported sales price for our common stock on the Nasdaq National Market was $4.20 per share.

See Risk Factors beginning on page 5 of this Prospectus for factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is December 23, 2005.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus or any prospectus supplement. This prospectus is not an offer of these securities in any jurisdiction where an offer and sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of our common stock.

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PROSPECTUS SUMMARY

We are a leading provider of human capital development and management solutions, which are designed to increase organizational performance through the implementation of a management system for aligning, developing and managing people. Our solutions can help large enterprises to efficiently manage regulatory compliance, increase sales and channel readiness, accelerate time-to-competency of people across the extended enterprise, increase speed of customer acquisition, shorten time-to-market of new products and increase visibility into organizational performance. Our leadership position is supported by publicly available reports published by independent, third-party analysts that research vendors in our industry and rank them based on a number of factors, including product offerings, technology and customer base.

On May 5, 2005, Storm Acquisition Corporation, a Delaware corporation that is our wholly owned indirect subsidiary (Storm Acquisition), merged with and into THINQ Learning Solutions, Inc., a privately held Delaware corporation (THINQ), under the terms of an Agreement and Plan of Merger dated March 24, 2005 (the Merger Agreement). In connection with the merger, shares of capital stock of THINQ owned by the selling security holders were converted into shares of our common stock and THINQ became our wholly owned indirect subsidiary. This prospectus relates to up to an aggregate of 1,799,920 shares of common stock, $0.001 par value, that we expect to issue to the former shareholders and management of THINQ. We agreed to register these shares of common stock with the Securities and Exchange Commission (the SEC) in connection with the merger. Up to 100,000 additional shares of common stock may be issued over a three-year period pursuant to an earn-out provision. A stock certificate representing 635,010 shares of our common stock will be held in escrow as security for indemnification and other obligations described in the Merger Agreement. Such escrow shares will be released, if at all, at various times through the date that our Annual Report on Form 10-K for the fiscal year ended May 31, 2006 is required to be filed with the SEC.

The shares being registered in this registration statement represent approximately 10% of our common stock outstanding as of December 20, 2005.

The selling security holders may sell any or all of the shares, subject to federal and state securities laws, but are under no obligation do so. As described in the Merger Agreement, certain of the selling security holders have entered into a lock-up agreement pursuant to which they have agreed not to sell their shares of our common stock for up to a year following the closing of the merger. The price at which the selling security holders may sell the shares of our common stock will be determined by the prevailing market for the shares or in negotiated transactions. See Selling Security Holders beginning on page 12 of this prospectus.

We were incorporated in Delaware in April 1997. We have incurred significant losses and negative cash flows from operations since our inception. We have not achieved profitability and cannot be certain that we will realize sufficient revenues to achieve or sustain profitability.

Our headquarters are located at 2400 Bridge Parkway, Redwood Shores, California 94065, and our telephone number is (650) 696-3840.

RECENT DEVELOPMENTS

On October 6, 2005 we announced that we had signed a definitive agreement to acquire Centra Software, Inc. for a combination of our common stock and cash. Centra provides software and services for online learning and training and enables groups to work faster and more effectively by automating critical learning and training initiatives online through virtual classrooms, online meetings and Web conferences. Saba believes that the merger will provide Saba with increased breadth and depth across its products and market segments and that

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Centra s expertise in collaborative applications will strengthen Saba s enterprise application suite. In addition, Centra s delivery of its solution through an application service provider offering would be additive to Saba s On-Demand enterprise application offering, resulting in what Saba believes will be the broadest suite of integrated human capital management software applications serving multiple market segments. The merger transaction has been approved by the Boards of Directors of both companies but is subject to stockholder approval and other customary closing conditions. Once approved, the consideration to be received by the stockholders of Centra will be $0.663 per share in cash and 0.354 per share in Saba common stock for each share of Centra common stock held. The number of shares of Saba common stock that Saba will be obligated to issue in the merger is expected to equal approximately 36% of the Saba common stock outstanding before the merger. The merger is subject to customary conditions to closing, including approval of the holders of our common stock and approval of the holders of Centra s common stock. Holders of approximately 30% of the outstanding shares of our common stock and holders of approximately 12% of the outstanding shares of Centra common stock have entered into voting agreements under which they have agreed to vote their shares in favor of the merger. The closing of the merger is expected to occur during the third quarter of our fiscal year ending May 31, 2006. The merger is intended to qualify as a tax-free reorganization under Section 386(a) of the Internal Revenue Code of 1986, as amended.

On November 14, 2005, together with Centra, we filed a joint proxy statement/prospectus on Form S-4 with the SEC in connection with the proposed merger. We amended the joint proxy statement/prospectus on December 15, 2005 and it was declared effective by the SEC on December 19, 2005. Investors and security holders are urged to read the joint proxy statement/prospectus and any other relevant documents filed with the SEC because they contain important information regarding Saba, Centra, and the proposed merger. Saba and Centra intend to mail the joint proxy statement/prospectus to their respective stockholders on or about December 23, 2005. Investors and security holders will be able to obtain a copy of the joint proxy statement/prospectus and other documents filed by Saba and Centra with the SEC free of charge at the website maintained by the SEC at http://www.sec.gov.

Investors and security holders should consider the following risks related to the merger, as well as the other information regarding the merger that Saba has included or incorporated by reference into this prospectus.

Completion of the merger may result in dilution of future earnings per share to the stockholders of Saba.

The completion of the merger may not result in improved earnings per share of Saba or a financial condition superior to that which would have been achieved by Saba on a stand-alone basis. The merger could fail to produce the benefits that Saba anticipates, or could have other adverse effects that Saba does not foresee. In addition, some of the assumptions that Saba has made, such as the achievement of operating synergies, may not be realized. In this event, the merger could result in a reduction of earnings per share of Saba as compared to the earnings per share that would have been achieved by Saba if the merger had not occurred.

Sales of substantial amounts of Saba common stock in the open market by Centra stockholders could depress Saba s stock price.

Other than shares held by affiliates of Centra or Saba, shares of Saba common stock that are issued to stockholders of Centra will be freely tradable by the stockholders of Centra without restrictions or further registration under the Securities Act. If the merger with Centra closes and if Centra s stockholders sell substantial amounts of Saba common stock in the public market following the merger, the market price of Saba common stock may decrease substantially.

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If Saba and Centra are not successful in integrating their organizations, the anticipated benefits of the merger may not be realized.

Achieving the anticipated benefits of the merger will depend, in part, on the integration of technology, operations and personnel of Saba and Centra. Saba cannot assure that the integration will be successful or that the anticipated benefits of the merger will be fully realized. The challenges involved in this integration include the following:

- satisfying the needs of the combined company s customers in a timely and efficient manner;
- persuading the employees that Saba s and Centra s business cultures are compatible and retaining the combined company s key personnel;
- realizing anticipated cost synergies within the expected time period;
- maintaining the dedication of Saba s and Centra s management resources to integration activities without diverting attention from the day-to-day business of the combined company;
- maintaining Saba s and Centra s management s ability to focus on anticipating, responding to or utilizing changing technologies in Saba s and Centra s industry;
- maintaining Saba s and Centra s key supplier relationships; and
- competing with the introduction of new, disruptive technologies to the marketplace which could reduce Saba s and Centra s market share prior to the successful integration of the two companies.

In addition, after the merger, Saba intends to more tightly integrate Centra s products and intellectual property with Saba s products and intellectual property. This may result in longer product development cycles, which may cause the revenue and operating income of Centra and the revenue and operating income of Saba s businesses that are collaborating with Centra to fluctuate and fail to meet expectations.

It is not certain that Saba and Centra can be successfully integrated in a timely manner or at all or that any of the anticipated benefits will be realized. In addition, Saba cannot assure that there will not be substantial unanticipated costs associated with the integration process, that integration activities will not result in a decrease in revenues or a decrease in the value of Saba common stock, or that there will not be other material adverse effects from Saba s integration efforts.

If Saba is unable to successfully integrate Centra, or if the benefits of the merger do not meet the expectations of financial or industry analysts, the market price of Saba common stock may decline.

Failure to retain key employees could diminish the benefits of the merger.

The successful combination of Saba and Centra will depend in part on the retention of key personnel. Saba has entered into employment agreements with three of Centra s officers, Richard Cramer, John Walsh and Michelle Caggiano. However, there can be no assurance that Saba will be able to retain Centra s key personnel, or that Saba will realize the anticipated benefits of the merger in any event.

Customer and employee uncertainty related to the merger could harm the combined company.

Customers of Saba or Centra may, in response to the announcement of the merger, delay or defer purchasing decisions. Any delay or deferral in purchasing decisions by Saba s or Centra s customers could seriously harm the business of the combined company. Similarly, Saba and Centra employees may experience uncertainty about their future role with the combined company until or after strategies with regard to the combined company are announced or executed. This may adversely affect the combined company s ability to attract and retain key

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management, marketing, sales, customer support and technical personnel, which could harm the combined company.

Saba and Centra expect to incur significant costs associated with the merger.

Saba and Centra estimate that they will incur direct transaction costs of approximately $3.7 million associated with the merger which will be capitalized as part of the overall purchase cost. Saba and Centra believe the combined entity may incur charges to operations, which are not reasonably capable of estimation at this time, in the quarter in which the merger is completed or the following quarters, to reflect costs associated with integrating the two companies. There is no assurance that the combined company will not incur additional material charges in subsequent quarters to reflect additional costs associated with the merger.

If the merger is not completed, Saba s and Centra s stock prices and future business and operations could be harmed.

If the merger is not completed, Saba and Centra may be subject to the following material risks, among others:

- the prices of Saba and Centra common stock may change to the extent that the current market prices of Saba and Centra common stock reflect an assumption that the merger will be completed;
- Saba s and Centra s costs related to the merger, such as legal, accounting and some of the fees of their financial advisors, must be paid even if the merger is not completed; and
- under some circumstances (more fully described under the heading, Terms of the Merger Agreement Expenses; Payment of Termination Fees on page 85 of the joint proxy statement/prospectus), Saba may be required to pay Centra a termination fee of $1,798,625 if the merger agreement is terminated by Centra under certain circumstances and Centra may be required to pay Saba a termination fee of $1,798,625 if the merger agreement is terminated by Saba under certain circumstances.

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RISK FACTORS

Except for the historical information contained in this prospectus or incorporated by reference, this prospectus (and the information incorporated by reference in this prospectus) contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed here or incorporated by reference. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the following section, as well as those discussed elsewhere in this prospectus and in any other documents incorporated by reference.

Investment in our shares involves a degree of risk. You should consider the following discussion of risks as well as other information in this prospectus and the incorporated documents before purchasing any shares. Each of these risk factors could adversely affect our business, operating results, prospects and financial condition, as well as adversely affect the value of an investment in our common stock.

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this prospectus that are not historical facts are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). Words such as estimate, project, plan, intend, expect, believe and similar expressions are intended to identify forward-statements. All forward-looking statements are necessarily only estimates of future results and there can be no assurance that actual results will not differ materially from expectations, and, therefore, investors are cautioned not to place undue reliance on such statements. Set forth below is a discussion of certain factors, which could cause our actual results to differ materially from the results projected or suggested in such forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and that this list should not be considered a complete statement of all potential risks and uncertainties. We undertake no obligation to update any forward-looking statements as a result of future events or developments.

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

We have incurred significant losses and negative cash flows from operations since our inception. We have not achieved profitability and cannot be certain that we will realize sufficient revenues to achieve or sustain profitability. We expect to derive substantially all of our revenues for the foreseeable future from the licensing of Saba Enterprise Learning and providing related services. Over the longer term, we expect to derive revenues from new products such as Saba Enterprise Performance and related services. 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 August 31, 2005, we had $4.8 million of purchased intangible assets to be amortized as a result of our May 2005 acquisition of THINQ Learning Solutions, Inc., and our remaining goodwill balance was $15.2 million. As a result, we expect to incur losses for the foreseeable future. We will need to generate significantly higher revenues and manage expenses in order to achieve profitability or control negative cash flows. If we achieve profitability, we may not be able to sustain it on a consistent basis.

Fluctuations in our 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 the last two fiscal years, our quarterly revenues have fluctuated between approximately $12.0 million and $7.8 million and our quarterly net loss has fluctuated between approximately $500,000 and $5.9 million. Our quarterly operating results are likely to be particularly affected by the number of customers licensing our products during any quarter and the size of such licensing transactions. As a result, we have limited visibility into our

future revenue, especially license revenue, which often has been heavily concentrated in the third month of each quarter. Since we forecast our expenses based in part on future revenue projections, our operating results would be adversely affected if we cannot meet those revenue projections.

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 license and services revenue in any quarter;
- the variability in the mix of the type of services delivered in any quarter and the extent to which third party contractors are used to provide such services;
- the size and complexity of our license transactions and potential delays in recognizing revenue from license transactions;
- the amount and timing of our operating expenses and capital expenditures; the performance of our international business, which accounts for a substantial part of our consolidated revenues; and
- fluctuations in foreign currency exchange rates.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our revenues and operating results are not necessarily meaningful and should not be relied upon as indicators of future performance. It is possible that in some future quarter our operating results may be below the expectations of public market analysts or investors, which could cause the market price of our common stock to fall.

Our operating expenses are based on our expectations of future revenues and are relatively fixed in the short-term. During fiscal 2004 and fiscal 2003, we took actions to reduce our operating expenses and, while we may from time to time reduce operating expenses in response to variability in our revenues, including variability caused by downturns in the United States and/or international economies, over the long term, we generally expect to increase our operating expenses to expand our sales and marketing operations, fund greater levels of research and development, develop new alliances, increase our services and support capabilities and improve our operational and financial systems. If our revenues do not increase along with these expenses, our business would be seriously harmed and net losses in a given quarter would be even larger than expected. We may undertake future restructuring to align such expenses with revenues.

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

The period between our initial contact with a potential customer and the purchase of our products and services is often long. A customer s decision to purchase our products and services requires the commitment to increase performance through human capital development and management, involves a significant allocation of resources, and is influenced by a customer s budgetary cycles. To successfully sell our products and services, we generally must educate our potential customers regarding the use and benefits of our products and services. We may commit a substantial amount of time and resources to potential customers without assurance that any sales will be completed or revenues generated. Many of our potential customers are large enterprises that generally take longer to make significant business decisions. Our public sector customers, in particular, are subject to extensive procurement procedures that require many reviews and approvals. Our typical sales cycle has been approximately six to 12 months, making it difficult to predict the quarter in which we may recognize revenue. The delay or failure to complete sales in a particular quarter could reduce our revenues in that quarter. If our sales cycle were to unexpectedly lengthen in general or for one or more large orders, it would adversely affect the timing of our revenues. If we were to experience a delay on a large order, it could harm our ability to meet our forecasts for a given quarter.

A decline in the price of, or demand for, our main product, Saba Enterprise Learning, or our related services offerings, would seriously harm our revenues and operating margins.

To date, Saba Enterprise Learning and related services have accounted for a substantial majority of our revenues. We anticipate that revenues from Saba Enterprise Learning and related services will continue to

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constitute a substantial majority of our revenues for the foreseeable future. Consequently, a decline in the price of, or demand for, Saba Enterprise Learning or failure to achieve broad market acceptance would seriously harm our business. If our new products, including Saba Enterprise Performance, fail to achieve market acceptance, our reliance on Saba Enterprise Learning will deepen.

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

We experience quarterly seasonality in the licensing of our products and delivery of our services. For example, revenue has historically been lower in our first fiscal quarter than in the immediately preceding fourth fiscal quarter. Contributing to this seasonality is the timing of our first fiscal quarter that occurs during the summer months when general business activities slow down in a number of territories where we conduct our operations, particularly Europe. Our commission structure and other sales incentives also tend to result in fewer sales in the first fiscal quarter than in the fourth fiscal quarter. These seasonal variations in our revenue are likely to lead to fluctuations in our quarterly operating results.

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

The market for software solutions that automate human capital development and management is at an early stage of development and rapidly evolving. Substantially all of our revenues are attributable to the suite of products and services in this market. If this market fails to develop or develops more slowly than we expect our business would be harmed. If the market grows, the prices of our products may decline rapidly as alternative products are introduced into the market. In addition, our products may become obsolete if we fail to anticipate or adapt to evolving technology standards, or if we fail to identify the challenges and risks in this new market or successfully address these risks.

Changes in accounting regulations and related interpretations and policies, particularly those related to revenue recognition, could cause us to defer recognition of revenue or recognize lower revenue or to report lower earnings per share.

While we believe that we are in compliance with Statement of Position 97-2, *Software Revenue Recognition*, as amended, the American Institute of Certified Public Accountants continues to issue implementation guidelines for these standards and the accounting profession continues to discuss a wide range of potential interpretations. Additional implementation guidelines, and changes in interpretations of such guidelines, could lead to unanticipated changes in our current revenue accounting practices that could cause us to defer the recognition of revenue to future periods or to recognize lower revenue.

The Financial Accounting Standards Board (FASB) has adopted Statement No. 123R, which requires us to recognize as an expense stock-based compensation to employees based on their fair values, and eliminates the ability to account for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25. As a result, when we record an expense for our stock-based compensation plans using the fair value method beginning in fiscal year 2007, we will have significant compensation charges. For example, for the fiscal years 2005, 2004 and 2003, had we accounted for stock-based compensation plans under Statement No. 123R, we estimate that, diluted loss per share, using the fair value method, would have been increased by $0.50, $0.89 and $1.02 per share, respectively.

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business, operating results and stock price.

We are in the process of documenting and testing our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires an annual management assessment of the design and effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing this assessment. If the Company is deemed to be an accelerated filer as of November 30, 2006, we

will be required to comply with Section 404 of the Sarbanes-Oxley Act for the fiscal year ending May 31, 2007. Otherwise, we will be required to comply with Section 404 of the Sarbanes-Oxley Act for the fiscal year ending May 31, 2008. During the course of our testing we may identify significant deficiencies or material weaknesses which we may not be able to remediate prior to our fiscal year end. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

The loss of our senior executives and key personnel would likely cause our business to suffer.

Our ability to implement a successful long-term strategy, strengthen our competitive position, expand our customer base, and develop and support our products depends to a significant degree on the performance of the senior management team and other key employees. The loss of any of these individuals could harm our business. We do not have employment agreements with any of our executives or other key employees, and we do not maintain key person life insurance for any officers or key employees.

Intense competition in our target market could impair our ability to grow and achieve profitability.

The market for our products and services is intensely competitive, dynamic, and subject to rapid technological change. The intensity of the competition and the pace of change are expected to increase in the future. Increased competition is likely to result in price reductions, reduced gross margins and loss of market share, any one of which could seriously harm our business. Competitors vary in size and in the scope and breadth of the products and services offered. We encounter competition with respect to different aspects of our solution from a variety of sources including:

- companies that market and license training, learning, performance, content, resource, talent, and staffing management systems;
- enterprise software vendors that offer human resources information systems and employee relationship management systems with training and performance modules;
- potential customers internal development efforts;
- companies that operate Internet-based marketplaces for the sale of on-line learning;
- companies that operate Internet-based marketplaces for the sale of goods and services and could potentially decide to evolve their marketplaces to include content offerings; and
- Internet portals that offer learning content, performance support tools or recruiting services.

We expect competition from a variety of companies.

Many of our competitors have longer operating histories, substantially greater financial, technical, marketing or other resources, or greater name recognition than we do, enabling them to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Such resources also enable our competitors to withstand prolonged periods of negative cash flows and unfavorable economic, political, and market conditions. Competition could seriously impede our ability to sell additional products and services on terms favorable to us. Our current and potential competitors may develop and market new technologies that render our existing or future products and services obsolete, unmarketable or less competitive. Our current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with other partners, thereby increasing the availability of their services to address the needs of our current and prospective customers. We may not be able to compete successfully against our current and future competitors, and competitive pressures that we encounter may seriously harm our business.

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Our past and future acquisitions may result in disruptions to our business if we fail to adequately integrate acquired businesses.

In 2001, we acquired Human Performance Technologies, Inc. and Ultris Inc. and in May 2005 we acquired THINQ Learning Solutions, Inc. We cannot assure that the THINQ acquisition will advance our long-term strategy. We may incur greater than anticipated costs from assuming obligations to support THINQ products, diverting resources from new products. THINQ customers may decline to upgrade to Saba Enterprise Learning, instead adopting competitors software. In addition, THINQ s suppliers, distributors and key technical, sales and senior management personnel may terminate their relationship with us. As part of our overall business strategy, we expect to continue to acquire complementary businesses or technologies that will provide additional products or services offerings, additional industry expertise or an expanded geographic presence. In line with that strategy, on October 6, 2005, we announced our agreement to acquire Centra Software, Inc. These acquisitions could result in the use of significant amounts of cash, the incurrence of debt, or potentially dilutive issuances of equity securities which may reduce earnings per share. In addition, any acquisition may increase the risk of future write-offs for acquired in-process research and development, write-offs for the impairment of goodwill or long-lived assets, or amortization of expenses related to intangible assets, any of which could materially adversely affect our business and our operating results. For example, as of August 31, 2005, our remaining goodwill balance was $15.2 million. Acquisitions that we complete expose us to numerous risks, including:

difficulties in the assimilation of the operations, technologies, products and personnel of the acquired company;

the diversion of management s attention from other business concerns;

risks of entering markets in which we have no or limited prior experience; and

the potential loss of key employees, significant customers and strategic partners of the acquired company; and

exposure to claims by terminated employees, stockholders of the acquired company or other third parties related to the acquisition. Although we generally obtain indemnification and other contractual protection against such claims, we cannot assure that they will be enforceable or sufficient to protect us.

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

International revenues accounted for 42% of our revenues in fiscal 2005 and 44% of our revenues in fiscal 2004. Although we intend to continue to expand our international presence, in the future we may not be able to successfully market, sell or distribute our products and services in foreign markets. The reallocation of certain design, development and testing functions from the United States to our lower-cost development center in India intensifies our exposure to international uncertainties. Factors that could materially adversely affect our international operations, and our business and future growth include:

difficulties in staffing and managing foreign operations, including language barriers;

difficulties in maintaining control over product development and quality, and timing of product releases;

seasonal fluctuations in purchasing patterns in other countries, particularly declining sales during July and August in European markets;

difficulties in collecting accounts receivable in foreign countries, particularly European countries in which collections take considerably more time than the United States and collections are more difficult to effect;

currency exchange rate fluctuations, particularly in countries where we sell our products in denominations other than U.S. dollars, such as in the United Kingdom, the euro zone, and Japan, or have exposures in intercompany accounts denominated in foreign currencies;

- costs attributable to development of internationalized versions of our products and marketing and sales materials;
- the burdens of complying with a wide variety of foreign laws and reduced protection for intellectual property rights in some countries;
- tariffs, export controls, and other trade barriers, and
- exposure to geopolitical instability, natural disasters and acts of war or terrorism.

Delays in releasing new products or enhanced versions of our existing products could adversely affect our competitive position.

As part of our strategy, we expect to regularly release new products and new versions of our existing products. Even if our new products or new versions of our existing products contain the features and functionality our customers want, in the event we are unable to timely introduce these new products or product releases, our competitive position may be harmed. We cannot assure you that we will be able to successfully complete the development of currently planned or future products or product releases in a timely and efficient manner. Due to the complexity of our products, internal quality assurance testing and customer testing of pre-commercial releases may reveal product performance issues or desirable feature enhancements that could lead us to postpone the release of these products. In addition, the reallocation of resources associated with any postponement would likely cause delays in the development and release of other future products or enhancements to our currently available products. The reallocation of certain design, development and testing functions to our new lower-cost development center heightens risks relating to product design, development, testing, and introduction. Any delay in releasing future products or enhancements of our products could harm our business.

If we release products containing defects, we may need to halt further shipments and our business and reputation would be harmed.

Products as complex as ours often contain unknown and undetected errors or performance problems. Although our products are subject to rigorous testing and quality control processes, serious defects are frequently found during the period immediately following introduction and initial shipment of new products or enhancements to existing products. Although we attempt to resolve all errors that we believe would be considered serious by our customers before shipment to them, our products are not error-free. These errors or performance problems could result in lost revenues or delays in customer acceptance and would be detrimental to our business and reputation. As is typical in the software industry, with each release we have discovered errors in our products after introduction. We will not be able to detect and correct all errors before releasing our products commercially and these undetected errors could be significant. We cannot assure you that undetected errors or performance problems in our existing or future products will not be discovered in the future or that known errors considered minor by us will not be considered serious by our customers, resulting in cancellation of orders, loss of customers, difficulties in achieving our sales goals, increased demands on our support services, and a decrease in our revenues. To correct such errors, we may expend considerable time and resources to develop and release modifications to our software.

As a result of such errors, we may be subject to warranty and product liability claims that are costly or difficult to settle. Our products and services enable customers to manage critical business information. If product errors are alleged to cause or contribute to security and privacy breaches or misappropriation of confidential information, we may also be subject to significant liability. Although our license agreements contain provisions intended to limit our exposure to liability, we cannot assure that they will be enforceable or, if enforceable, interpreted favorably by a court.

Claims by third parties that we infringe their intellectual property rights may result in costly litigation.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights, particularly in the software and Internet-related industries. We have in the past been subject to an intellectual property action. In our market, one company initiated patent infringement actions

against us and at least four other companies in 2002. In September 2003, we settled the action against us and recorded a charge of $1.7 million. We have paid all amounts due under this settlement. 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 the 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. In addition, agreements with our customers typically include indemnity provisions requiring us to hold these customers harmless against specified losses arising from third party claims that our products infringe the intellectual property rights of such other third parties. It is not possible to determine the maximum potential amount of liability under any indemnification obligations, whether or not asserted, due to the unique facts and circumstances that are likely to be involved in each particular claim.

We may not be able to adequately protect our proprietary technology, and our competitors may be able to offer similar products and services that would harm our competitive position.

Our success depends upon our proprietary technology. We rely primarily on copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to establish and protect our proprietary rights. As part of our confidentiality procedures, we enter into non-disclosure agreements with our employees. Despite these precautions, third parties could copy or otherwise obtain and use our technology without authorization, which may represent potential sales and revenue losses that are difficult to quantify. Policing unauthorized used of our technology is difficult, time-consuming, and costly. Were we to discover instances of unauthorized use, there can be no assurance that we would be able to enforce our proprietary rights or obtain adequate recovery for our losses. In addition, we have four patents issued in the United States and five patent applications pending in the United States. We cannot assure you that any patents will be issued for any of the pending patent applications. Even for the issued patents, or any patent issued to us in the future, there can be no assurance that such patent will protect our intellectual property, or will not be challenged by third parties. Furthermore, effective protection of intellectual property rights is unavailable or limited in certain foreign countries. We cannot assure you that the protection of our proprietary rights will be adequate or that our competitors will not independently develop similar technology, duplicate our products and services or design around any patents or other intellectual property rights we hold.

Our disaster recovery plan does not include redundant systems, and a disaster could severely damage our operations.

Our disaster recovery plan does not include fully redundant systems for our services at an alternate site. A disaster could severely harm our business because our services could be interrupted for an indeterminate length of time. Our operations depend upon our ability to maintain and protect the computer systems needed for the day-to-day operation of Saba Learning ASP Edition and our hosting services. A number of these computer systems are located on or near known earthquake fault zones. Although these systems are designed to be fault-tolerant, the systems are vulnerable to damage from fire, floods, earthquakes, power loss, telecommunications failures, and other events. Additionally, we do not carry sufficient business insurance to compensate us for all potential losses that could occur.

We outsource the management and maintenance of our hosted and ASP solutions to third parties and will depend upon them to provide adequate management and maintenance services.

We rely on third parties to provide key components of our networks and systems. For instance, we rely on third-party Internet service providers to host our products for customers who desire to have these solutions hosted. We also rely on third-party communications service providers for the high-speed connections that link our and our Internet service providers Web servers and office systems to the Internet. Our reliance on third party

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providers limits our ability to control critical customer service functions and communications systems. Any Internet or communications systems failure or interruption could result in disruption of our service or loss or compromise of customer orders and data. These failures, especially if they are prolonged or repeated, would make our services less attractive to customers and tarnish our reputation.

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

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

We may not be able to secure necessary funding in the future; additional funding may result in dilution to our stockholders.

We require substantial working capital to fund our business. We have had significant operating losses and negative cash flow from operations since inception and expect this to continue for the foreseeable future. We expect to use our available cash resources and credit facilities primarily to fund sales and marketing activities, research and development, and continued operations, and possibly make future acquisitions. We believe that our existing capital resources will be sufficient to meet our capital requirements for the next twelve months. However, if our capital requirements increase materially from those currently planned or if revenues fail to materialize, we may require additional financing sooner than anticipated. If additional funds are raised through the issuance of equity securities, the percentage ownership of our stockholders will be reduced, stockholders may experience dilution, or such equity securities may have rights, preferences or privileges senior to those of the holders of our common stock. Alternatively, or in addition to equity financing, we may incur additional debt to raise funds. Additional equity or debt financing may not be available when needed on terms favorable to us or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures.

Our stock price may fluctuate substantially.

In the last two fiscal years, the market price for our common stock has fluctuated substantially. The market price for our common stock may be affected by a number of factors, including those described above and the following:

- the announcement of new products and services or product and service enhancements by us or our competitors;
- actual or anticipated quarterly variations in our results of operations or those of our competitors;
- changes in earnings estimates or recommendations by securities analysts that may follow our stock;

- developments in our industry, including announcements of significant acquisitions or strategic partnerships; and

- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In addition, the stock market in general, and Nasdaq National Market technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the

operating performance of particular companies. Broad market and industry trends may also materially and adversely affect the market price of our common stock, regardless of our actual operating performance. Volatility in the market price and trading volume of our common stock may prevent our stockholders from selling their shares profitably. In the past, following periods of volatility in the market price of a company s securities, securities class-action litigation has often been initiated against that company. Class-action litigation could result in substantial costs and a diversion of management s attention and resources.

The anti-takeover provisions in our charter documents could delay or prevent a change in control.

Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws contain provisions that could make it harder for a third party to acquire us without the consent of our board of directors.

For example, if a potential acquiror were to make a hostile bid for us, the acquiror would not be able to call a special meeting of stockholders to remove our board of directors or act by written consent without a meeting. In addition, our board of directors has staggered terms that make it difficult to remove all directors at once. The acquiror would also be required to provide advance notice of its proposal to remove directors at an annual meeting. The acquiror will not be able to cumulate votes at a meeting, which will require the acquiror to hold more shares to gain representation on the board of directors than if cumulative voting were permitted.

Our board of directors also has the ability to issue preferred stock that would significantly dilute the ownership of a hostile acquiror. In addition, Section 203 of the Delaware General Corporation Law limits business combination transactions with 15% stockholders that have not been approved by the board of directors. These provisions and other similar provisions make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if the offer may be considered beneficial by some stockholders.

Our board of directors could choose not to negotiate with an acquiror that it did not feel was in our strategic interests. If the acquiror was discouraged from offering to acquire us or prevented from successfully completing a hostile acquisition by our anti-takeover measures, our stockholders could lose the opportunity to sell their shares at a favorable price.

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WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement we filed with the SEC. You should rely only on the information contained in this prospectus or incorporated by reference in this prospectus. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front page of this prospectus, regardless of the time of delivery of this prospectus or any sale of common stock.

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read, without charge, and copy the documents we file at the SEC s public reference room in Washington, D.C. You can request copies of these documents by writing to the SEC and paying a fee for the copying cost. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings also are available to the public at no cost from the SEC s website at http://www.sec.gov.

The SEC allows us to incorporate by reference certain information that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file with the SEC after the date of this prospectus will update automatically, supplement and/or supersede this information. Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We incorporate by reference the filed documents listed below, except as superseded, supplemented or modified by this prospectus:

- our Registration Statement on Form S-4 filed with the Commission on November 14, 2005, as amended on December 15, 2005;
- our Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2005;
- our Annual Report on Form 10-K for the fiscal year ended May 31, 2005, as amended;
- our Current Reports on Form 8-K filed with the Commission on September 22, 2005, September 29, 2005, October 3, 2005, October 6, 2005, and November 14, 2005; and
- the description of our common stock contained in our Form 8-A filed with the Commission on April 5, 2000.

All documents that we file after the date of this prospectus pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus.

The reports and other documents that we file after the date of this prospectus will update, supplement and supersede the information in this prospectus. You may request and obtain a copy of these filings, at no cost, by writing or telephoning us at the following address or phone number:

Saba Software, Inc.

2400 Bridge Parkway

Redwood Shores, California 94065-1166

Tel: (650) 696-3840

Attn: Yvonne Selner

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the documents that we incorporate by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as anticipate, estimate, plans, projects, continuing, ongoing, expects, management bel believe, we intend and similar words or phrases. Accordingly, these statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this prospectus.

The risk factors beginning on page 2 of this prospectus could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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SELLING SECURITY HOLDERS

We are registering for resale shares of our common stock held by the selling security holders identified below. Only security holders that are named as selling security holders or transferees, donees and pledgees of those named holders can use this prospectus. Information regarding other selling security holders that are unnamed in the prospectus prior to effectiveness may only be added by post-effective amendment to the registration statement of which this prospectus is a part. The selling security holders received the shares from us in connection with the merger of Storm Acquisition with and into THINQ that we closed on May 5, 2005.

We are registering the shares to permit the selling security holders identified below and any pledgees, donees, transferees and other successors-in-interest that receive the shares from such holders after the date of this prospectus to resell the shares when and as they deem appropriate. The following table sets forth:

- the name of the selling security holders,
- the number and percent of shares of our common stock that the selling security holders beneficially owned prior to the offering for resale of the shares under this prospectus, and
- the number of shares of our common stock that may be offered for resale for the account of the selling security holders under this prospectus.

None of the selling security holders named in this prospectus are broker-dealers. Selling security holders that are affiliated with registered broker-dealers are identified below and their affiliation is briefly described below. At the time of the purchase of the securities to be resold, the selling security holders had no arrangements or understandings, directly or indirectly, with any person to distribute the securities.

The number of shares in the column Shares of Common Stock Offered represents all of the shares that the selling security holders may offer under this prospectus. The selling security holders named below may from time to time offer all, some or none of their shares of common stock offered by this prospectus. We do not know how long the selling security holders will hold the shares before selling them or how many shares they will sell and we currently have no agreements, arrangements or understandings with the selling security holders regarding the sale of any of the resale shares. The shares offered by this prospectus may be offered from time to time by the selling security holders listed below. Since the selling security holders may sell all, some or none of their shares, we cannot estimate the number or percentage of shares of common stock that each selling security holder will own upon completion of the offering to which this prospectus relates. In addition, the selling security holders listed below may have sold, transferred or otherwise disposed of all or a portion of their shares since the date on which the information regarding the shares was provided, in transactions exempt from the registration requirements of the Securities Act.

This table is prepared solely based on information supplied to us by the selling security holders identified below, as of December 20, 2005, and assumes the sale of all of the resale shares. Information about the selling security holders may change from time to time. Any changed information will be set forth in prospectus supplements, if and when necessary. The applicable percentages of beneficial ownership are based on an aggregate of 17,953,253 shares of our common stock issued and outstanding on December 20, 2005, adjusted as may be required by rules promulgated by the SEC. In compliance with the SEC rules, for purposes of calculating the percentage of common stock outstanding, any securities not outstanding which are subject to options, warrants or conversion privileges are deemed outstanding for the purposes of computing the percentage of outstanding securities owned by the selling security holders. Beneficial ownership includes shares of outstanding common stock and shares of common stock that a person has the right to acquire within 60 days from December 20, 2005. Unless otherwise indicated, the selling security holders have the sole power to direct the voting and investment over the shares owned by them.

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Name of Beneficial Owner	Shares of Common Stock Beneficially Owned		Shares of Common Stock Offered
	Number	Percent	
AdasePartners LP a Limited Partnership (1)	5,027	*	5,027
Amar Dhaliwal (2)	14,757	*	9,757
Arthur Bruno	501	*	501
AT Investors LLC a Limited Liability Company (1)	1,004	*	1,004
BCI Growth V LP (3)	192,973	**1.1%**	192,973
BCI Investors LLC (3)	3,144	*	3,144
Beagle Limited (4)	9,300	*	9,300
Bessec Ventures IV LP (5)	34,193	*	34,193
Bessemer Venture Partners IV LP (5)	51,291	*	51,291
Blue Rock Capital LP (6)	29,415	*	29,415
Celerity Ventures LLC (7)	7,542	*	7,542
Charles Burke	250	*	250