

SABA SOFTWARE INC
Form 10-Q
April 15, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2002

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

For the transition period from _____ to _____

0-19395
(Commission File number)

SABA SOFTWARE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3267638
(I.R.S. Employer
Identification No.)

2400 Bridge Parkway,
Redwood Shores, CA
(Address of principal executive offices)

94065-1166
(Zip Code)

(650) 696-3840
(Registrant's telephone number, including area code)

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

On March 31, 2002, 48,159,154 shares of the Registrant's Common Stock, \$.001 par value, were outstanding.

SABA SOFTWARE, INC.
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PART 1: FINANCIAL INFORMATION**Item 1. Financial Statements**

SABA SOFTWARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	FEBRUARY 28, 2002		MAY 31, 2001	
ASSETS				
Current assets:				
Cash and cash equivalents	\$	10,983	\$	11,833
Short-term investments		13,241		22,500
Accounts receivable, net		9,793		19,079
Prepaid expenses and other current assets		1,006		1,406
Total current assets		35,023		54,818
Property and equipment, net		5,597		7,997
Goodwill, net		5,919		
Purchased intangible assets, net and other assets		4,336		5,296
Total assets	\$	50,875	\$	68,111
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	\$	1,762	\$	4,479
Accrued expenses		8,107		12,870
Deferred revenue		9,352		16,900
Current portion of capital lease obligations		1,551		1,613
Total current liabilities		20,772		35,862
Deferred revenue		130		506
Notes payable and other long-term liabilities		2,776		2,107
Capital lease obligations, less current portion		619		1,677
Total liabilities		24,297		40,152
Stockholders equity:				
Preferred stock, issuable in series: \$0.001 par value; 5,000,000 authorized shares at February 28, 2002 and May 31, 2001; none issued or outstanding				
Common stock: \$0.001 par value; 200,000,000 authorized shares at February 28, 2002 and May 31, 2001; 48,141,407 shares issued at February 28, 2002 and 45,997,508 shares issued at May 31, 2001				
		48		46
Additional paid-in capital		183,035		165,858
Deferred stock compensation		(4,488)		(7,448)
Notes receivable from stockholders		(637)		(806)
Treasury stock: 337,500 shares at February 28, 2002 and 225,000 shares at May 31, 2001, at cost				
		(101)		(67)
Accumulated deficit		(151,334)		(129,655)
Accumulated other comprehensive income		55		31

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Total stockholders' equity		26,578		27,959
Total liabilities and stockholders' equity	\$	50,875	\$	68,111

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED FEBRUARY 28,		NINE MONTHS ENDED FEBRUARY 28,	
	2002	2001	2002	2001
Revenues:				
License	\$ 6,213	\$ 6,896	\$ 19,985	\$ 17,024
Services	6,641	7,627	20,881	20,570
Total revenues	12,854	14,523	40,866	37,594
Cost of revenues:				
Cost of license	38	12	127	20
Cost of services	2,815	5,674	10,420	16,150
Amortization of acquired developed technology	388		1,148	
Total cost of revenues	3,241	5,686	11,695	16,170
Gross profit	9,613	8,837	29,171	21,424
Operating expenses:				
Research and development	3,331	4,534	11,339	15,542
Sales and marketing	6,135	13,973	23,438	40,050
General and administrative	1,416	2,541	5,097	7,629
Amortization of deferred stock compensation and other stock charges	1,539	3,273	5,848	12,821
Amortization of goodwill and purchased intangible assets	904		2,753	
Acquired in-process research and development			2,199	
Total operating expenses	13,325	24,321	50,674	76,042
Loss from operations	(3,712)	(15,484)	(21,503)	(54,618)
Interest (expense) income and other, net	(7)	406	(63)	2,339
Loss before provision for income taxes	(3,719)	(15,078)	(21,566)	(52,279)
Provision for income taxes	68		113	65
Net loss	\$ (3,787)	\$ (15,078)	\$ (21,679)	\$ (52,344)
Basic and diluted net loss per share	\$ (0.08)	\$ (0.35)	\$ (0.47)	\$ (1.24)
Shares used in computing basic and diluted net loss per share	46,832	42,863	46,202	42,243

See Accompanying Notes to Condensed Consolidated Financial Statements.

SABA SOFTWARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine months ended February 28,	
	2002	2001
Operating activities:		
Net loss	\$ (21,679)	\$ (52,344)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,618	2,029
Amortization of goodwill and purchased intangible assets	2,753	
Amortization of acquired developed technology	1,148	
Amortization of deferred stock compensation	5,752	12,821
Acquired in-process research and development	2,199	
Write-off of property and equipment	325	
Issuance of common stock for services	57	
Compensation expense resulting from acceleration of vesting of common stock	39	
Changes in operating assets and liabilities:		
Accounts receivable	9,300	(8,677)
Prepaid expenses and other current assets	367	(249)
Accounts payable	(2,671)	(1,396)
Accrued expenses	(4,835)	6,745
Deferred revenue	(7,924)	5,320
Other liabilities	670	622
Net cash used in operating activities	(11,881)	(35,129)
Investing activities:		
Purchases of short-term investments	(21,686)	(35,382)
Proceeds from redemptions and maturities of short-term investments	30,955	16,092
Purchases of property and equipment	(480)	(1,624)
Decrease (increase) in other assets	293	(140)
Net cash provided by (used in) investing activities	9,082	(21,054)
Financing activities:		
Proceeds from issuance of common stock	3,004	2,713
Repurchase of common stock	(4)	
Principal payments under capital lease obligations	(1,190)	(977)
Collections on notes receivable from stockholders	139	182
Net cash provided by financing activities	1,949	1,918
Decrease in cash and cash equivalents	(850)	(54,265)
Cash and cash equivalents, beginning of period	11,833	74,033
Cash and cash equivalents, end of period	10,983	19,768

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Short-term investments, end of period		13,241		24,226
Total cash, cash equivalents and short-term investments, end of period	\$	24,224	\$	43,994

Supplemental disclosure of non-cash transactions:

Equipment purchased under capital lease obligations	\$		\$	1,737
Common stock issued for acquisition	\$	14,078	\$	

See Accompanying Notes to Condensed Consolidated Financial Statements.

SABA SOFTWARE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Saba Software, Inc. and its subsidiaries (Saba) and, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of Saba's consolidated financial position, results of operations and cash flows as of and for the dates and periods presented. The condensed consolidated balance sheet as of May 31, 2001 has been prepared from Saba's audited consolidated financial statements.

These unaudited condensed consolidated financial statements should be read in conjunction with Saba's audited consolidated financial statements included in Saba's Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 29, 2001. The results of operations for the three and nine months ended February 28, 2002 are not necessarily indicative of results for the entire fiscal year ending May 31, 2002 or for any future period.

2. Basic and Diluted Net Loss Per Share

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

The calculations of basic and diluted net loss per share are as follows (in thousands, except per share amounts):

**Three months ended
February 28,**

**Nine months ended
February 28,**