AMERCO /NV/
Form 10-Q/A
February 18, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from ____________________ to ____________________

Commission File Number	Registrant, State of Incorporation Address and Telephone Number	I.R.S. Employer Identification No.
1-11255	AMERCO (A Nevada Corporation) 1325 Airmotive Way, Ste. 100 Reno, Nevada 89502-3239 Telephone (775) 688-6300	88-0106815
2-38498	U-Haul International, Inc. (A Nevada Corporation) 2727 N. Central Avenue Phoenix, Arizona 85004 Telephone (602) 263-6645	86-0663060

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 [X] No [ ].

20,514,958 shares of AMERCO Common Stock, $0.25 par value were outstanding at September 30, 2002.

5,385 shares of U-Haul International, Inc. Common Stock, $0.01 par value, were outstanding at November 11, 2002.

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SUBSIDIARIES

Condensed Consolidated Balance Sheets

Assets	September 30, 2002	March 31, 2002
	(Unaudited)	
	(in thousands)	
Cash and cash equivalents	$ 42,455	$ 47,651
Receivables	284,512	279,914
Inventories, net	69,687	76,519
Prepaid expenses	43,916	31,069
Investments, fixed maturities	894,295	994,875

Investments, other	239,287	250,458
Other assets	150,708	178,066
	1,724,860	1,858,552
Property, plant and equipment, at cost:		
Buildings and improvements	716,346	703,841
SACH Buildings and improvements	468,804	458,077
Rental trucks	1,119,666	1,071,604
Other property, plant and equipment	624,188	626,391
SACH other property, plant and equipment	266,778	266,172
	3,195,782	3,126,085
Less accumulated depreciation	(1,257,013)	(1,211,182)
Total property, plant and equipment	1,938,769	1,914,903
Total Assets	$ 3,663,629	$ 3,773,455

The accompanying notes are an integral part of these consolidated financial statements.

AMERCO AND CONSOLIDATED SUBSIDIARIES AND SAC HOLDING CORPORATIONS AND CONSOLIDATED SUBSIDIARIES

Condensed Consolidated Balance Sheets, Continued

Liabilities and Stockholders' Equity	September 30, 2002 (Unaudited)	Mar 2
	(in thousands)	
Liabilities:		
AMERCO's notes and loans payable	$ 908,509	$ 1,
SAC Holdings notes and loans payable	579,403	
Policy benefits and losses, claims and loss expenses payable	703,304	
Liabilities from premium deposits	610,248	
Other liabilities	295,032	
Total liabilities	3,096,496	3,
Commitments and Contingent Liabilities		
Stockholders' equity:		
Serial preferred stock -		
Series A preferred stock	--	
Series B preferred stock	--	
Serial common stock -		
Series A common stock	1,441	
Common stock	9,122	
Additional paid-in-capital	265,881	
Accumulated other comprehensive loss	(53,082)	
Retained earnings	792,484	

Cost of common shares in treasury, net	(435,555)	(
Unearned ESOP shares	(13,858)	
Total stockholders' equity	567,133	
Total Liabilities and Stockholders' Equity	$ 3,663,629	$ 3,

The accompanying notes are an integral part of these consolidated financial statements.

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND SAC HOLDING CORPORATION AND CONSOLIDATED SUBSIDIARIES

Condensed Consolidated Statements of Earnings

Six months ended September 30, (Unaudited)

	2002	20
	(in thousands, except share and per	
Revenues		
Rental revenue	$ 788,904	$ 7
Net sales	130,635	1
Premiums	163,016	2
Net investment and interest income	25,356	
Total revenues	1,107,911	1,1
Costs and expenses		
Operating expenses	546,267	5
Cost of sales	65,522	
Benefits and losses	140,433	1
Amortization of deferred policy acquisition costs	21,642	
Lease expense	88,055	
Depreciation, net	64,904	
Total costs and expenses	926,823	9
Earnings from operations	181,088	1
Interest expense	54,887	
Pretax earnings	126,201	
Income tax expense	(45,108)	(
Net earnings	$ 81,093	$
Less: preferred stock dividends	(6,482)	
Earnings available to common shareholders	$ 74,611	$
Basic and diluted earnings per common share:	$ 3.59	$
Basic and diluted average common shares outstanding:	20,779,543	21,1

The accompanying notes are an integral part of these consolidated financial statements.

AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
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Condensed Consolidated Statements of Comprehensive Income

Six months ended September 30,
(Unaudited)

	2002	2001
	(in thousands)	
Comprehensive income:		
Net earnings	$ 81,093	$ 56,639
Changes in other comprehensive income:		
Foreign currency translation	(3,381)	(4,617)
Fair market value of cash flow hedge	--	(647)
Unrealized loss on investments	(17,317)	(4,374)
Total comprehensive income	$ 60,395	$ 47,001

The accompanying notes are an integral part of
these consolidated financial statements.

AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
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Condensed Consolidated Statements of Earnings

Quarters ended September 30,
(Unaudited)

	2002	2
	(in thousands, except share and per	
Revenues		
Rental revenue	$ 413,050	$
Net sales	62,447	
Premiums	75,466	
Net investment and interest income	11,591	
Total revenues	562,554	
Costs and expenses		
Operating expense	283,481	
Cost of sales	32,219	
Benefits and losses	64,015	
Amortization of deferred policy acquisition costs	11,314	

Lease expense	47,232	
Depreciation, net	32,820	
Total costs and expenses	471,081	
Earnings from operations	91,473	
Interest expense	27,955	
Pretax earnings	63,518	
Income tax expense	(22,964)	
Net earnings	$ 40,554	$
Less: Preferred Stock Dividends	(3,241)	
Earnings available to common shareholders	$ 37,313	$
Basic and diluted earnings per common share	$ 1.79	$
Basic and diluted average common shares outstanding:	20,804,016	21,

The accompanying notes are an integral part of these consolidated financial statements.

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AMERCO AND CONSOLIDATED SUBSIDIARIES
SAC HOLDING CORPORATIONS AND CONSOLIDATED SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

Quarters ended September 30,
(Unaudited)

	2002	2001
	(in thousands)	
Comprehensive income:		
Net earnings	$ 40,554	$ 35,738
Changes in other comprehensive income:		
Foreign currency translation	(4,416)	(6,114)
Fair market value of cash flow hedge	--	(1,004)
Unrealized loss on investments	(9,315)	(13,163)
Total comprehensive income	$ 26,823	$ 15,457

The accompanying notes are an integral part of these consolidated financial statements.

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six months ended September 30,
(Unaudited)

	2002	2001
	(in thousands)	
Net cash provided by operating activities	$ 108,718	$ 43,912
Cash flows from investing activities:		
Purchases of investments:		
Property, plant and equipment	(122,918)	(108,224)
Fixed maturities	(134,993)	(92,465)
Real estate	(29,391)	(36)
Mortgage loans	--	(561)
Proceeds from sale of investments:		
Property, plant and equipment	46,030	60,945
Fixed maturities	202,255	75,973
Mortgage loans	10,450	6,889
Other investments	35,509	38,751
Net cash provided (used) by investing activities	6,942	(18,728)
Cash flows from financing activities:		
Net change in short-term borrowings	(12,500)	(77,494)
Principal borrowings (payments) on notes	(150,014)	26,861
Investment contract deposits	89,083	74,159
Investment contract withdrawals	(51,262)	(65,079)
Other financing activities	3,837	(3,166)
Net cash used by financing activities	(120,856)	(44,719)
Increase (decrease) in cash and cash equivalents	(5,196)	(19,535)
Cash and cash equivalents at beginning of period	47,651	52,788
Cash and cash equivalents at end of period	$ 42,455	$ 33,253
Cash paid for interest	$ 53,302	$ 56,149
Cash paid for income taxes	$ 8,000	$ --

The accompanying notes are an integral part of
these consolidated financial statements.

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
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Notes to Condensed Consolidated Financial Statements

September 30, 2002, March 31, 2002 and September 30, 2001
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

AMERCO, a Nevada corporation (AMERCO), is the holding company for U-Haul International, Inc. (U-Haul), which conducts moving and storage operations; Amerco Real Estate Company (Real Estate), which conducts real estate operations; Republic Western Insurance Company (RepWest), which conducts property and casualty insurance operations; and Oxford Life Insurance Company (Oxford), which conducts life insurance operations.

SAC Holding Corporation and SAC Holding II Corporation (collectively referred to as SAC Holdings) are Nevada corporations owned by Mark V. Shoen. Mark V. Shoen is the beneficial owner of 16.3% of AMERCO's common stock and is an executive officer of U-Haul.

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of AMERCO and its wholly-owned subsidiaries and SAC Holdings and their subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. AMERCO has made significant loans to SAC Holdings and is entitled to participate in SAC Holdings' excess cash flow (after senior debt service). All of the equity interest of SAC Holdings is owned by Mark V. Shoen, a significant shareholder and executive officer of AMERCO. AMERCO does not have an equity ownership interest in SAC Holdings, except for investments made by RepWest and Oxford in a SAC Holdings-controlled limited partnership which holds Canadian self-storage properties. SAC Holdings are not legal subsidiaries of AMERCO. AMERCO is not liable for the debts of SAC Holdings and there are no default provisions in AMERCO indebtedness that cross-default to SAC Holdings' obligations. The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in AMERCO's annual financial statements and notes. For a more detailed presentation of the accounts and transactions of AMERCO, refer to AMERCO's Form 10-K.

The condensed consolidated balance sheet as of September 30, 2002 and the related condensed consolidated statements of earnings, comprehensive income, and cash flows for the six months and quarters ended September 30, 2002 and 2001 are unaudited. In our opinion, all adjustments necessary for a fair presentation of such condensed consolidated financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The accounts of AMERCO and SAC Holdings are consolidated due to SAC Holdings majority owner not qualifying as an independent third party to AMERCO and not maintaining a substantive residual equity investment, exclusive of unrealized appreciation of real estate held by SAC Holdings subsidiaries, in SAC Holdings during the entire period.

The operating results and financial position of RepWest and Oxford have been consolidated on the basis of a calendar year and, accordingly, are determined on a one quarter lag for financial reporting purposes. There were no effects related to intervening events, which would materially affect the consolidated financial position or results of operations for the financial statements presented herein except for a transfer of $7.5 million in cash and $65.5 million in

real estate from the non-insurance operating entities to the insurance companies. These transferred assets and any related income or depreciation expense derived therefrom are not included in the consolidated financial statements of AMERCO and SAC Holdings as of September 30, 2002.

Certain reclassifications have been made to the financial statements for the six months and the quarter ended September 30, 2001 to conform with the current period's presentation.

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
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Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

2. INVESTMENTS

A comparison of amortized cost to estimated market value for fixed maturities is as follows:

June 30, 2002 Consolidated Held-to-Maturity	Par Value or number of shares	Amortized cost	Gross unrealize gains
			(in thousan
U.S. treasury securities and government obligations	$ --	$ 3,610	$ 164
U.S. government agency mortgage-backed securities	$ --	11,245	265
Corporate securities	$ 43,607	43,704	1,591
Mortgage-backed securities	$ 35,264	34,827	699
Redeemable preferred stocks	4,541	114,674	247
		$ 208,060	$ 2,966

June 30, 2002 Consolidated Available-for-Sale	Par Value or number of shares	Amortized cost	Gross unrealize gains
			(in thousan
U.S. treasury securities and government obligations	$ 42,760	$ 43,280	$ 1,812
U.S. government agency mortgage-backed securities	$ 31,620	31,364	725
Obligations of states and political subdivisions	$ 15,925	16,065	660
Corporate securities	$ 608,680	604,300	14,257
Mortgage-backed securities	$ 31,270	31,203	1,013
Redeemable preferred stocks	1,260	31,834	281
Redeemable common stocks	633	7,900	--
		765,946	18,748
Total		$ 974,006	$ 21,714

AMERCO AND CONSOLIDATED SUBSIDIARIES AND
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Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

3. CONTINGENT LIABILITIES AND COMMITMENTS

During the six months ended September 30, 2002, a subsidiary of AMERCO entered into two transactions whereby the subsidiary sold rental trucks and trailers to unrelated third parties, which were subsequently leased back to an AMERCO subsidiary. AMERCO has guaranteed approximately $3.3 million of residual values at September 30, 2002 for these assets at the end of the lease. Following are the lease commitments for the leases executed during the six months and quarter ended September 30, 2002, and subsequently which have a term of more than one year:

Year ending March 31,	Lease Commitments
2003	$ 708
2004	1,415
2005	1,415
2006	1,415
2007	1,415
Thereafter	4,753
	$11,121

In the normal course of business, AMERCO is a defendant in a number of suits and claims. AMERCO is also a party to several administrative proceedings arising from state and local provisions that regulate the removal and/or clean-up of underground fuel storage tanks. In our opinion, none of such suits, claims or proceedings involving AMERCO, individually, or in the aggregate, are expected to result in a material loss.

Compliance with environmental requirements of federal, state and local governments significantly affects Real Estate's business operations. Among other things, these requirements regulate the discharge of materials into the water, air and land and govern the use and disposal of hazardous substances. Real Estate is aware of issues regarding hazardous substances on some of its properties. Real Estate regularly makes capital and operating expenditures to stay in compliance with environmental laws and has put in place a remedial plan at each site where it believes such a plan is necessary. Since 1988, Real Estate has managed a testing and removal program for underground storage tanks. Under this program, over 3,000 tanks have been removed at a cost of approximately $44.5 million.

A subsidiary of U-Haul, INW Company (INW), owns one property located within two different state hazardous substance sites in the State of Washington. The sites are referred to as the "Yakima Valley Spray Site" and the Yakima Railroad Area." INW has been named as a"potentially responsible party" under state law with respect to this property as it relates to both sites. As a result of the cleanup costs of approximately $5.5 to $10.0 million required by the State of Washington, INW filed for reorganization under federal bankruptcy laws in May of 2001. The potential liability to INW could be in the range of $2.0 million to $5.5 million.

Based upon the information currently available, compliance with the environmental laws and the costs of investigation and cleanup of known hazardous waste sites are not expected to have a material adverse affect on AMERCO's financial position of operating results.

We are currently under IRS examination for the years 1996-1997. The IRS has proposed adjustments to our 1997 and 1996 tax returns in the amount of $233.1 million and $99.0 million, respectively. Nearly all of the adjustments

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relate to denials of deductions that we took for costs incurred in resolution of prior litigation with certain members of the Shoen family and their corporations. We believe these income tax deductions are appropriate and we are vigorously contesting the IRS adjustments. We estimate that if we are unsuccessful in our challenge in all respects, based on our March 31, 2002 tax position, we could incur tax exposure totaling approximately $90.0 million plus interest.

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
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Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

4. NEW ACCOUNTING STANDARDS

In July 2002, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets.

SFAS 141 supercedes Accounting Principles Board Opinion No. 16 (APB 16), Business Combinations. The most significant changes made by SFAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) establishing specific criteria for the recognition of intangible assets separately from goodwill, and (3) requiring unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized).

SFAS 142 supercedes APB 17, Intangible Assets. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the post-acquisition accounting). The provisions of SFAS 142 will be effective for fiscal years beginning after December 15, 2002. The most significant changes made by SFAS 142 are: (1) goodwill and indefinite lived intangible assets will no longer be amortized, (2) goodwill will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, and (4) the amortization period of intangible assets with finite lives will no longer be limited to forty years.

Implementation of SFAS Nos. 141 and 142 did not affect the consolidated financial position or results of operations.

Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations", requires recognition of the fair value of liabilities associated with the retirement of long-lived assets when a legal obligation to incur such costs arises as a result of the acquisition, construction, development and/or the normal operation of a long-lived asset. Upon recognition of the liability, a corresponding asset is recorded at present value and accreted over the life of the asset and depreciated over the remaining life of the long-lived asset. SFAS 143 defines a legal obligation as one that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. SFAS 143 is effective for fiscal years beginning after June 15, 2002.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. We have adopted this statement effective April 1, 2002 and it did not affect our consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of No. 4, (Reporting Gains and Losses from Extinguishment of Debt), No. 44 (Accounting for Intangible Assets of Motor Carriers), No. 64, (Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements), Amendment of FASB Statement No. 13 (Accounting for Leases) and Technical Corrections. This statement eliminates the current requirement that gains and losses on debt extinguishement must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in accordance with the current GAAP criteria for extraordinary classification. In addition, SFAS 145 eliminates an inconsistency in lease accounting by

requiring that modification of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. The statement also contains other nonsubstantive corrections to authoritative accounting literature. The changes related to debt extinguishment will be effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting will be effective for transactions occurring after May 15, 2002. Management recognizes the need to reclassify debt extinguishments previously reported as extraordinary.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, (SFAS 146) "Accounting for Costs Associated with Exit or

Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally Emerging Issues Task Force (EITF) Issue No. 94-3. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amount recognized. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company intends to adopt the Statement at that time.

AMERCO AND CONSOLIDATED SUBSIDIARIES AND
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Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

5. CONSOLIDATING INDUSTRY SEGMENT AND GEOGRAPHIC AREA DATA

AMERCO has four industry segments represented by moving and storage operations (AMERCO and U-Haul), real estate (Real Estate), property and casualty insurance (RepWest), and life insurance (Oxford). SAC Holdings consist of one moving and storage industry segment.

Consolidating balance sheets by industry segment are as follows:

	AMERCO	U-Haul	Total U-Haul Moving and Storage Operations	Re
SEPTEMBER 30, 2002				
ASSETS				
Cash and cash equivalents	$ 10,422	19,477	29,899	
Receivables	16	33,171	33,187	
Inventories, net	--	65,491	65,491	
Prepaid expenses	93	42,282	42,375	
Investments, fixed maturities	--	--	--	
Investments, other	10,000	259,675	269,675	
Other assets	1,953,504	(28,972)	1,924,532	
	1,974,035	391,124	2,365,159	
Property, plant and equipment, at cost:				
Buildings and improvements	--	127,446	127,446	
SACH buildings and improvements	--	--	--	
Rental trucks	--	1,119,666	1,119,666	
Other property, plant and equipment	396	465,976	466,372	
SACH other property, plant and equipment	--	--	--	
	396	1,713,088	1,713,484	
Less accumulated depreciation	(308)	(957,979)	(958,287)	

Total property, plant and equipment	88	755,109	755,197	
TOTAL ASSETS	$ 1,974,123	1,146,233	3,120,356	

	Property and Casualty Insurance	Life Insurance	Eliminations
SEPTEMBER 30, 2002			
ASSETS			
Cash and cash equivalents	5,789	6,247	--
Receivables	233,827	33,162	--
Inventories, net	--	--	--
Prepaid expenses	--	--	--
Investments, fixed maturities	313,096	581,199	--
Investments, other	88,243	210,850	(65,411)
Other assets	145,907	81,884	(2,040,970)
	786,862	913,342	(2,106,381)
Property, plant and equipment, at cost:			
Buildings and improvements	--	--	--
SACH buildings and improvements	--	--	--
Rental trucks	--	--	--
Other property, plant and equipment	--	--	--
SACH other property, plant and equipment	--	--	--
	--	--	--
Less accumulated depreciation	--	--	--
Total property, plant and equipment	--	--	--
TOTAL ASSETS	786,862	913,342	(2,106,381)

	SACH Moving and Storage Operations	Eliminations	Total Consolidated
SEPTEMBER 30, 2002			
ASSETS			
Cash and cash equivalents	10	--	42,455
Receivables	(480)	(19,520)	284,512
Inventories, net	4,192	--	69,687
Prepaid expenses	1,530	--	43,916
Investments, fixed maturities	--	--	894,295
Investments, other	17,391	(376,119)	239,287

Other assets	30,380	--	150,708
	53,023	(395,639)	1,724,860
Property, plant and equipment, at cost:			
Buildings and improvements	--	--	716,346
SACH buildings and improvements	723,834	(255,030)	468,804
Rental trucks	--	--	1,119,666
Other property, plant and equipment	--	--	624,188
SACH other property, plant and equipment	266,778	--	266,778
	990,612	(255,030)	3,195,782
Less accumulated depreciation	(46,915)	(1,132)	(1,257,013)
Total property, plant and equipment	943,697	(256,162)	1,938,769
TOTAL ASSETS	996,720	(651,801)	3,663,629

	AMERCO	U-Haul	Total U-Haul Moving and Storage Operations	Re
SEPTEMBER 30, 2002				
LIABILITIES				
AMERCO's notes and loans payable	$ 933,026	14,790	947,816	
SAC Holdings notes and loans payable	--	--	--	
Policy benefits and losses, claims and loss expenses payable	--	--	--	
Liabilities from premium deposits	--	--	--	
Other liabilities	301,019	494,370	795,389	
Total liabilities	1,234,045	509,160	1,743,205	
Minority Interest	--	--	--	
STOCKHOLDERS' EQUITY				
Serial preferred stock -				
Series A preferred stock	--	--	--	
Series B preferred stock	--	--	--	
Serial common stock -				
Series A common stock	1,441	--	1,441	
Common stock	9,122	540	9,662	
Additional paid-in-capital	405,794	130,465	536,259	
Accumulated other comprehensive loss	(53,082)	(43,185)	(96,267)	
Retained earnings	794,961	563,131	1,358,092	
Cost of common shares in treasury	(418,178)	--	(418,178)	
Unearned ESOP shares	20	(13,878)	(13,858)	
Total stockholders' equity	740,078	637,073	1,377,151	

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,974,123	1,146,233	3,120,356	

	Property and Casualty Insurance	Life Insurance	Eliminations
SEPTEMBER 30, 2002			
LIABILITIES			
AMERCO's notes and loans payable	--	--	(39,500)
SAC Holdings notes and loans payable	--	--	--
Policy benefits and losses, claims and loss expenses payable	524,889	178,415	--
Liabilities from premium deposits	--	610,248	--
Other liabilities	52,081	11,601	(879,691)
Total liabilities	576,970	800,264	(919,191)
Minority Interest	--	--	--
STOCKHOLDERS' EQUITY			
Serial preferred stock -			
Series A preferred stock	--	--	--
Series B preferred stock	--	--	--
Serial common stock -			
Series A common stock	--	--	--
Common stock	3,300	2,500	(6,341)
Additional paid-in-capital	67,175	15,168	(360,289)
Accumulated other comprehensive loss	6,744	(9,483)	45,924
Retained earnings	132,673	104,893	(866,484)
Cost of common shares in treasury	--	--	--
Unearned ESOP shares	--	--	--
Total stockholders' equity	209,892	113,078	(1,187,190)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	786,862	913,342	(2,106,381)

	SACH Moving and Storage Operations	Eliminations	Total Consolidated
SEPTEMBER 30, 2002			
LIABILITIES			
AMERCO's notes and loans payable	--	--	908,509

SAC Holdings notes and loans payable	967,055	(387,652)	579,403
Policy benefits and losses, claims and loss expenses payable	--	--	703,304
Liabilities from premium deposits	--	--	610,248
Other liabilities	44,686	(122,580)	295,032
Total liabilities	1,011,741	(510,232)	3,096,496
Minority Interest	8,961	(8,961)	--
STOCKHOLDERS' EQUITY			
Serial preferred stock -			
Series A preferred stock	--	--	--
Series B preferred stock	--	--	--
Serial common stock -			
Series A common stock	--	--	1,441
Common stock	--	--	9,122
Additional paid-in-capital	28,282	(167,495)	265,881
Accumulated other comprehensive loss	(14,751)	14,751	(53,082)
Retained earnings	(46,474)	46,474	792,484
Cost of common shares in treasury	--	(17,377)	(435,555)
Unearned ESOP shares	--	--	(13,858)
Total stockholders' equity	(32,943)	(123,647)	567,133
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	987,759	(642,840)	3,663,629

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

5. CONSOLIDATING INDUSTRY SEGMENT AND GEOGRAPHIC AREA DATA, CONTINUED

Consolidating balance sheets by industry segment are as follows:, continued

	AMERCO	U-Haul	Total U-Haul Moving and Storage Operations	Real Estate	Property and Casualt Insuranc
MARCH 31, 2002					
ASSETS					
Cash and cash equivalents	$ 71	29,823	29,894	576	5,912
Receivables	7	17,970	17,977	5,020	230,228
Inventories, net	--	72,323	72,323	4	--
Prepaid expenses	112	44,461	44,573	11	--
Investments, fixed maturities	--	--	--	--	362,569
Investments, other	10,000	264,984	274,984	95,245	95,918
Other assets	2,017,383	31,993	2,049,376	4,401	125,193

	2,027,573	461,554	2,489,127	105,257	819,820
Property, plant and equipment, at cost:					
Buildings and improvements	--	124,059	124,059	579,782	--
SACH buildings and improvements	--	--	--	--	--
Rental trucks	--	1,071,604	1,071,604	--	--
Other property, plant and equipment	395	465,215	465,610	160,781	--
SACH other property, plant and equipment	--	--	--	--	--
	395	1,660,878	1,661,273	740,563	--
Less accumulated depreciation	(299)	(923,685)	(923,984)	(248,525)	--
Total property, plant and equipment	96	737,193	737,289	492,038	--
TOTAL ASSETS	$ 2,027,669	1,198,747	3,226,416	597,295	819,820

	AMERCO Consolidated	SACH Moving and Storage Operations	Eliminations	Total Consolidated
MARCH 31, 2002				
ASSETS				
Cash and cash equivalents	47,641	10	--	47,651
Receivables	279,914	--	--	279,914
Inventories, net	72,327	4,192	--	76,519
Prepaid expenses	44,584	--	(13,515)	31,069
Investments, fixed maturities	994,575	--	--	994,875
Investments, other	613,573	30,090	(393,205)	250,458
Other assets	165,839	25,694	(13,467)	178,066
	2,218,753	59,986	(420,187)	1,858,552
Property, plant and equipment, at cost:				
Buildings and improvements	703,841	--	--	703,841
SACH buildings and improvements	(1)	713,108	(255,030)	458,077
Rental trucks	1,071,604	--	--	1,071,604
Other property, plant and equipment	626,391	--	--	626,391
SACH other property, plant and equipment	--	266,172	--	266,172
	2,401,835	979,280	(255,030)	3,126,085
Less accumulated depreciation	(1,172,509)	(37,541)	(1,132)	(1,211,182)
Total property, plant and				

equipment	1,229,326	941,739	(256,162)	1,914,903
TOTAL ASSETS	3,448,079	1,001,725	(676,349)	3,773,455
	=========	=========	========	=========

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

5. CONSOLIDATING INDUSTRY SEGMENT AND GEOGRAPHIC AREA DATA, CONTINUED

Consolidating balance sheets by industry segment are as follows:, continued

	AMERCO	U-Haul	Total U-Haul Moving and Storage Operations	Real Estate	Pro a Ca Ins
MARCH 31, 2002					
LIABILITIES					
AMERCO's notes and loans payable	$ 1,030,805	14,793	1,045,598	204	
SAC Holdings notes and loans payable	--	--	--	--	
Policy benefits and losses, claims and loss expenses payable	--	--	--	--	
Liabilities from premium deposits	--	--	--	--	
Other liabilities	310,464	608,236	918,700	398,656	
Total liabilities	1,341,269	623,029	1,964,298	398,860	
Minority Interest	--	--	--	--	
STOCKHOLDERS' EQUITY					
Serial preferred stock -					
Series A preferred stock	--	--	--	--	
Series B preferred stock	--	--	--	--	
Serial common stock -					
Series A common stock	1,441	--	1,441	--	
Common stock	9,122	540	9,662	1	
Additional paid-in-capital	405,794	130,465	536,259	147,347	
Accumulated other comprehensive loss	(32,384)	(39,804)	(72,188)	--	
Retained earnings	719,178	498,689	1,217,867	51,087	
Cost of common shares in treasury	(416,771)	--	(416,771)	--	
Unearned ESOP shares	20	(14,172)	(14,152)	--	
Total stockholders' equity	686,400	575,718	1,262,118	198,435	
TOTAL LIABILITIES AND					

STOCKHOLDERS' EQUITY	$ 2,027,669	1,198,747	3,226,416	597,295

	AMERCO Consolidated	SACH Moving and Storage Operations	Eliminations	Tota Consolida
MARCH 31, 2002				
LIABILITIES				
AMERCO's notes and loans payable	1,045,802	--	--	1,045,80
SAC Holdings notes and loans payable	--	957,378	(399,617)	557,76
Policy benefits and losses, claims and loss expenses payable	729,343	--	--	729,34
Liabilities from premium deposits	572,793	--	--	572,79
Other liabilities	430,920	54,953	(117,223)	368,65
Total liabilities	2,778,858	1,012,331	(516,841)	3,274,34
Minority Interest	--	8,913	(8,913)	-
STOCKHOLDERS' EQUITY				
Serial preferred stock -				
Series A preferred stock	--	--	--	-
Series B preferred stock	--	--	--	-
Serial common stock -				
Series A common stock	1,441	--	--	1,44
Common stock	9,122	--	--	9,12
Additional paid-in-capital	405,794	28,281	(166,363)	267,71
Accumulated other comprehensive loss	(32,384)	(2,385)	2,385	(32,38
Retained earnings	716,171	(45,415)	45,858	716,61
Cost of common shares in treasury	(416,771)	--	(32,476)	(449,24
Unearned ESOP shares	(14,152)	--	--	(14,15
Total stockholders' equity	669,221	(19,519)	(150,596)	499,10
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	3,448,079	1,001,725	(676,349)	3,773,45

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

5. CONSOLIDATING INDUSTRY SEGMENT AND GEOGRAPHIC AREA DATA, CONTINUED

Consolidating income statements by industry segment are as follows:, continued

	AMERCO	U-Haul	Total U-Haul Moving and Storage Operations	Real Estate	Property and Casualty Insurance
SIX MONTHS ENDED SEPTEMBER 30, 2002					
Revenues					
Rental revenue	$ --	711,494	711,494	29,709	--
Net sales	--	102,673	102,673	35	--
Premiums	--	--	--	--	86,319
Net investment and interest income	10,214	15,963	26,177	4,984	15,257
Total revenues	10,214	830,130	840,344	34,728	101,576
Costs and expenses					
Operating expenses	5,134	503,428	508,562	(1,884)	12,647
Cost of sales	--	53,065	53,065	16	--
Benefits and losses	--	--	--	--	79,945
Amortization of deferred policy acquisition costs	--	--	--	--	11,521
Lease expense	463	80,037	80,500	4,732	--
Depreciation, net	8	50,843	50,851	4,263	--
Total costs and expenses	5,605	687,373	692,978	7,127	104,113
Earnings from operations	4,609	142,757	147,366	27,601	(2,537)
Interest expense	26,409	6,125	32,534	8,797	--
Pretax earnings	(21,800)	136,632	114,832	18,804	(2,537)
Income tax expense	30,960	47,964	78,924	6,581	(960)
Net earnings	(52,760)	88,668	35,908	12,223	(1,577)
Less: preferred stock dividends	6,482	--	6,482	--	--
Earnings available to common shareholders	$(59,242)	88,668	29,426	12,223	(1,577)

	AMERCO Consolidated	SACH Moving and Storage Operations	Eliminations	Total Consolidated
SIX MONTHS ENDED SEPTEMBER 30, 2002				

Revenues				
Rental revenue	710,858	84,391	(6,345)	$ 788,904
Net sales	102,708	27,927	--	130,635
Premiums	163,016	--	--	163,016
Net investment and interest income	42,547	--	(17,191)	25,356
Total revenues	1,019,129	112,318	(23,536)	1,107,911
Costs and expenses				
Operating expenses	502,388	50,224	(6,345)	546,267
Cost of sales	53,081	12,441	--	65,522
Benefits and losses	140,433	--	--	140,433
Amortization of deferred policy acquisition costs	21,642	--	--	21,642
Lease expense	85,232	--	2,823	88,055
Depreciation, net	55,114	9,790	--	64,904
Total costs and expenses	857,890	72,455	(3,522)	926,823
Earnings from operations	161,239	39,863	(20,014)	181,088
Interest expense	32,132	40,068	(17,313)	54,887
Pretax earnings	129,107	(205)	(2,701)	126,201
Income tax expense	45,256	851	(999)	45,108
Net earnings	83,851	(1,056)	(1,702)	81,093
Less: preferred stock dividends	6,482	--	--	6,482
Earnings available to common shareholders	77,369	(1,056)	(1,702)	$ 74,611

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

5. CONSOLIDATING INDUSTRY SEGMENT AND GEOGRAPHIC AREA DATA, CONTINUED

Consolidating income statements by industry segment are as follows:, continued

	AMERCO	U-Haul	Total U-Haul Moving and Storage Operations	Real Estate	Property and Casualty Insurance
SIX MONTHS ENDED SEPTEMBER 30, 2001					

Revenues					
Rental revenue	$ --	702,443	702,443	34,855	--
Net sales	--	118,243	118,243	29	--
Premiums	--	--	--	--	128,265
Net investment and interest	--				
income	60,999	12,659	73,658	4,800	15,865
Total revenues	60,999	833,345	894,344	39,684	144,130
Costs and expenses					
Operating expenses	2,870	518,135	521,005	(3,241)	28,763
Cost of sales	--	65,150	65,150	16	--
Benefits and losses	--	--	--	--	122,638
Amortization of deferred policy acquisition costs	--	--	--	--	11,641
Lease expense	385	83,325	83,710	6,515	--
Depreciation, net	(509)	47,363	46,854	(6,023)	--
Total costs and expenses	2,746	713,973	716,719	(2,733)	163,042
Earnings from operations	58,253	119,372	177,625	42,417	(18,912)
Interest expense	74,550	7,130	81,680	19,724	--
Pretax earnings	(16,297)	112,242	95,945	22,693	(18,912)
Income tax expense	32,886	40,112	72,998	7,943	(6,687)
Net earnings	(49,183)	72,130	22,947	14,750	(12,225)
Less: preferred stock dividends	6,482	--	6,482	--	--
Earnings available to common shareholders	$(55,665)	72,130	16,465	14,750	(12,225)

	AMERCO Consolidated	SACH Moving and Storage Operations	Eliminations	Total Consolidated
SIX MONTHS ENDED SEPTEMBER 30, 2001				
Revenues				
Rental revenue	700,981	53,007	(7,081)	$ 746,907
Net sales	118,272	12,320	--	130,592
Premiums	202,880	--	--	202,880
Net investment and interest income	46,149	--	(14,667)	31,482
Total revenues	1,068,282	65,327	(21,748)	1,111,861
Costs and expenses				
Operating expenses	533,543	29,046	(3,942)	558,647
Cost of sales	65,224	5,947	--	71,171
Benefits and losses	180,773	--	--	180,773
Amortization of deferred policy acquisition costs	20,933	--	--	20,933
Lease expense	94,563	389	(3,739)	91,213

Depreciation, net	40,855	5,013	(161)	45,707
Total costs and expenses	935,891	40,395	(7,842)	968,444
Earnings from operations	132,391	24,932	(13,906)	143,417
Interest expense	40,396	27,283	(15,162)	52,517
Pretax earnings	91,995	(2,351)	1,256	90,900
Income tax expense	36,896	111	(2,746)	34,261
Net earnings	55,099	(2,462)	4,002	56,639
Less: preferred stock dividends	6,482	--	--	6,482
Earnings available to common shareholders	48,617	(2,462)	4,002	$ 50,157

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND

SAC HOLDING CORPORATIONS AND CONSOLIDATED

SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued

(Unaudited)

5. CONSOLIDATING INDUSTRY SEGMENT AND GEOGRAPHIC AREA DATA, CONTINUED

Consolidating cash flow statements by industry segment are as follows:

	AMERCO	U-Haul	Total U-Haul and Moving Storage Operations	Real Estate	Pro a Cas Ins
SIX MONTHS ENDED SEPTEMBER 30, 2002					
Net cash flows provided by (used in) operating activities	$ 121,336	60,605	181,941	8,167	(4
Cash flows from investing activities:					
Purchases of investments:					
Property, plant and equipment	--	(111,445)	(111,445)	(11,473)	
Fixed maturities	--	--	--	--	
Real estate	--	--	--	--	(
Mortgage loans	--	--	--	--	
Proceeds from sale of investments:					
Property, plant and					

equipment	--	42,685	42,685	3,345	
Fixed maturities	--	--	--	--	4
Mortgage loans	--	--	--	--	
Other investments	--	5,308	5,308	587	1
Net cash provided by (used in) investing activities	--	(63,452)	(63,452)	(7,541)	4
Cash flows from financing activities:					
Net change in short-term borrowings	5,000	--	5,000	--	
Principal repayments	(150,000)	(3)	(150,003)	(11)	
Investment contract deposits	--	--	--	--	
Investment contract withdrawals	--	--	--	--	
Other financing activities	34,015	(7,498)	26,517	(680)	
Net cash provided by (used in) financing activities	(110,985)	(7,501)	(118,486)	(691)	
Increase (decrease) in cash and cash equivalents	10,351	(10,348)	3	(65)	
Cash and cash equivalents at the beginning of period	71	29,824	29,895	576	
Cash and cash equivalents at the end of period	$ 10,422	19,476	29,898	511	

	AMERCO Consolidated	SACH Moving and Storage Operations	Eliminations	Total Consolidated
SIX MONTHS ENDED SEPTEMBER 30, 2002				
Net cash flows provided by (used in) operating activities	108,718	--	--	108,718
Cash flows from investing activities:				
Purchases of investments:				
Property, plant and equipment	(122,918)	--	--	(122,918)
Fixed maturities	(134,993)	--	--	(134,993)
Real estate	(29,391)	--	--	(29,391)
Mortgage loans	--	--	--	--
Proceeds from sale of investments:				
Property, plant and equipment	46,030	--	--	46,030
Fixed maturities	202,255	--	--	202,255
Mortgage loans	10,450	--	--	10,450
Other investments	35,509	--	--	35,509
Net cash provided by (used in) investing activities	6,942	--	--	6,942
Cash flows from financing activities:				
Net change in short-term borrowings	(12,500)	--	--	(12,500)
Principal repayments	(150,014)	--	--	(150,014)
Investment contract deposits	89,083	--	--	89,083
Investment contract withdrawals	(51,262)	--	--	(51,262)

Other financing activities	3,837	--	--	3,837
Net cash provided by (used in) financing activities	(120,856)	--	--	(120,856)
Increase (decrease) in cash and cash equivalents	(5,196)	--	--	(5,196)
Cash and cash equivalents at the beginning of period	47,641	10	--	47,651
Cash and cash equivalents at the end of period	42,445	10	--	42,455

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AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

5. CONSOLIDATING INDUSTRY SEGMENT AND GEOGRAPHIC AREA DATA, CONTINUED

Consolidating cash flow statements by industry segment are as follows, continued:

	AMERCO	U-Haul	Total U-Haul and Moving Storage Operations	Real Estate	Pro a Cas Ins
SIX MONTHS ENDED SEPTEMBER 30, 2001					
Net cash flows provided by (used in) operating activities	$ 72,975	41,090	114,065	(57,569)	(2
Cash flows from investing activities:					
Purchases of investments:					
Property, plant and equipment	(2)	(108,283)	(108,285)	17,020	
Fixed maturities	--	--	--	--	(
Real estate	--	--	--	--	
Mortgage loans	--	--	--	(561)	
Proceeds from sale of investments:					
Property, plant and equipment	669	36,751	37,420	16,469	
Fixed maturities	--	--	--	--	1
Mortgage loans	--	54	54	194	
Other investments	220	10,612	10,832	23,956	1
Net cash provided by (used in) investing activities	887	(60,866)	(59,979)	57,078	2
Cash flows from financing activities:					
Net change in short-term borrowings	(77,494)	--	(77,494)	--	
Principal repayments	16,224	--	16,224	(4)	

Investment contract deposits	--	--	--	--
Investment contract withdrawals	--	--	--	--
Other financing activities	(12,642)	9,476	(3,166)	--
Net cash provided by (used in) financing activities	(73,912)	9,476	(64,436)	(4)
Increase (decrease) in cash and cash equivalents	(50)	(10,300)	(10,350)	(495)
Cash and cash equivalents at the beginning of period	114	21,814	21,928	988
Cash and cash equivalents at the end of period	$ 64	11,514	11,578	493

	AMERCO Consolidated	SACH Moving and Storage Operations	Eliminations	Total Consolidated
SIX MONTHS ENDED SEPTEMBER 30, 2001				
Net cash flows provided by (used in) operating activities	43,912	--	--	43,912
Cash flows from investing activities:				
Purchases of investments:				
Property, plant and equipment	(108,224)	--	--	(108,224)
Fixed maturities	(92,465)	--	--	(92,465)
Real estate	(36)	--	--	(36)
Mortgage loans	(561)	--	--	(561)
Proceeds from sale of investments:				
Property, plant and equipment	60,945	--	--	60,945
Fixed maturities	75,973	--	--	75,973
Mortgage loans	6,889	--	--	6,889
Other investments	38,751	--	--	38,751
Net cash provided by (used in) investing activities	(18,728)	--	--	(18,728)
Cash flows from financing activities:				
Net change in short-term borrowings	(77,494)	--	--	(77,494)
Principal repayments	26,861	--	--	26,861
Investment contract deposits	74,159	--	--	74,159
Investment contract withdrawals	(65,079)	--	--	(65,079)
Other financing activities	(3,166)	--	--	(3,166)
Net cash provided by (used in) financing activities	(44,719)	--	--	(44,719)
Increase (decrease) in cash and cash equivalents	(19,535)	--	--	(19,535)
Cash and cash equivalents at the beginning of period	52,778	10	--	52,788
Cash and cash equivalents at the end of period	33,243	10	--	33,253

AMERCO AND CONSOLIDATED SUBSIDIARIES AND
SAC HOLDING CORPORATIONS AND CONSOLIDATED
SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements, Continued
(Unaudited)

5. INDUSTRY SEGMENT AND GEOGRAPHIC AREA DATA, CONTINUED

Geographic Area Data - (All amounts are in U.S. $'s)	United States	Canada	Consolidated	United States
	Six months ended			
	(in thousands)			
SEPTEMBER 30, 2002				
Total revenues	$ 1,078,943	$ 28,968	$ 1,107,911	$ 547,544
Depreciation/amortization	83,426	2,670	86,096	42,087
Interest expense	52,542	2,345	54,887	26,744
Pretax earnings	119,665	6,536	126,201	59,961
Income tax	(45,108)	--	(45,108)	(22,964)
Identifiable assets	3,614,557	49,072	3,663,629	3,614,557
September 30, 2001				
Total revenues	$ 1,084,162	27,699	1,111,861	556,572
Depreciation/amortization	81,024	2,134	83,158	23,377
Interest expense	50,423	2,094	52,517	25,883
Pretax earnings	83,915	6,985	90,900	54,205
Income tax	(34,261)	--	(34,261)	(22,415)
Identifiable assets	3,565,292	38,378	3,603,670	3,565,292

6. SUBSEQUENT EVENTS

On October 15, 2002 the Company failed to make a $100 million principal payment and a $3.6 million interest payment due to the Series 1997-C Bond Backed, Asset Trust. On that date, the Company also failed to pay $26.5 million in the aggregate to Citibank and Bank of America in connection with the Series 1997-C bonds. This expense will be recognized in the third fiscal quarter.

As a result of the foregoing, the Company is in default with respect to its other credit arrangements which contain cross-default provisions, including its 3-Year Credit Agreement dated June 28, 2002 (the "Credit Agreement"). In addition to the cross-default under the Credit Agreement, the Company is also in default under that agreement as a result of its failure to obtain incremental net cash proceeds and/or availability from additional financings in the aggregate amount of at least $150.0 million prior to October 15, 2002. The total amount of obligations currently in default (either directly or as a result of a cross-default) is approximately $1,175.4 million.

On November 11, 2002, AMERCO announced that it will not be making the dividend payment to the holders of its Series A 8 1/2% preferred stock due December 1, 2002.

7. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the quarter and six months ended September 30, 2002 and 2001, the Company purchased $396,000 and $1.22 million, respectively of printing from Form Builders, Inc. Mark V. Shoen, his daughter and Edward J. Shoen's sons are major stockholders of Form Builders, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We may make additional written or oral forward-looking statements from time to time in filings with the Securities and Exchange Commission or otherwise. We believe such forward-looking statements are within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, projections of revenues, income or loss, estimates of capital expenditures, our plans and intentions regarding the recapitalization of our balance sheet and the payment of dividends arrearages, plans for future operations, products or services, financing needs and plans, our perceptions of our legal positions and anticipated outcomes of pending litigation against us, and liquidity as well as assumptions relating to the foregoing. The words "believe", "expect", "anticipate", "estimate", "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. Some of the important factors that could cause our actual results, performance or financial condition to differ materially from our expectations are: fluctuations in our costs to maintain and update our fleet and facilities; our inability to refinance our debt; our ability to successfully recapitalize our balance sheet and cure existing defaults of our debt agreements, our ability to continue as a going concern, changes in government regulations, particularly environmental regulations; our credit ratings; the availability of credit; changes in demand for our products; changes in the general domestic economy; the degree and nature of our competition; the resolution of pending litigation against the company; changes in accounting standards; and other factors described in this Quarterly Report on Form 10-Q or the other documents we file with the Securities and Exchange Commission. The above factors, the following disclosures, as well as other statements in this report and in the Notes to Consolidated Financial Statements, could contribute to or cause such differences, or could cause AMERCO's stock and note prices to fluctuate dramatically.

GENERAL

Information on industry segments is incorporated by reference from -- Notes 1, 3 and 8 of "Notes to Condensed Consolidated Financial Statements". The notes discuss the principles of consolidation, summarized consolidated financial information and industry segment and geographical area data, respectively. In consolidation, all intersegment premiums are eliminated and the benefits, losses and expenses are retained by the insurance companies.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, estimates are reevaluated, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. These areas include allowances for doubtful accounts, revenue earning vehicles and buildings, self-insured liabilities, income taxes and commitments and contingencies. Our estimates are based on historical experience, observance of trends in particular areas, information and/or valuations available from outside sources and on various other assumptions that we believe to be reasonable under the circumstances and which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts may differ from these estimates under different assumptions and conditions.

Accounting policies are considered critical when they are significant and involve difficult, subjective or complex judgments or estimates. We considered the following to be critical accounting policies:

Principles of consolidation -- The consolidated financial statements include the accounts of AMERCO and its wholly-owned subsidiaries and SAC Holdings and the wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. AMERCO does not have an equity ownership interest in SAC Holdings or any of SAC Holdings' subsidiaries, except for investments made by Repwest and Oxford in a SAC Holdings-controlled limited partnership which holds Canadian self-storage properties. SAC Holdings are not legal subsidiaries of AMERCO. AMERCO is not liable for the debts of SAC Holding and there are no default provisions in AMERCO indebtedness that cross-default to SAC Holding's obligations.

Revenue earning vehicles and buildings -- Depreciation is recognized in amounts expected to result in the recovery of estimated residual values upon disposal (i.e. no gains or losses). In determining the depreciation rate, we review historical disposal experience and holding periods, and trends in the market. Due to longer holding periods on trucks and the resulting increased possibility of changes in the economic environment and market conditions, these estimates are subject to a greater degree of risk.

Long-lived assets and intangible assets -- We review carrying value whenever events or circumstances indicate the carrying values may not be recoverable through projected undiscounted future cash flows. The events could include significant underperformance relative to expected, historical or projected future operating results, significant changes in the manner of using the assets, overall business strategy, significant negative industry or economic trends and non-compliance with significant debt agreements.

Investments -- In determining if and when a decline in market value below amortized cost is other than temporary, we review quoted market prices, dealer quotes or a discounted cash flow analysis. Permanent declines in value are recognized in the current period operating results to the extent of the decline.

Insurance Revenue and Expense Recognition -- Premiums are recognized as revenue as earned over the terms of the respective policies. Benefits and expenses are matched with recognized premiums to result in recognition over the life of the contracts. This match is accomplished by recording a provision for future policy benefits and unpaid claims and claim adjustment expenses and by amortizing deferred policy acquisition costs. Charges related to services to be performed are deferred until earned. The amounts received in excess of premiums and fees are included in other policyholder funds in the consolidated balance sheets.

Unearned premiums represent the portion of premiums written which relates to the unexpired term of policies. Liabilities for health and disability and other policy claims and benefits payable represent estimates of payments to be made on insurance claims for reported losses and estimates of losses incurred but not yet reported. These estimates are based on past claims experience and current claim trends as well as social and economic conditions such as changes in legal theories and inflation. Due to the nature of underlying risks and the high degree of uncertainty associated with the determination of the liability for future policy benefits and claims, the amounts to be ultimately paid to settle liabilities cannot be precisely determined and may vary significantly from the estimated liability.

Acquisition costs related to insurance contracts have been deferred to accomplish matching against future premium revenue. The costs are charged to current earnings to the extent it is determined that future premiums are not adequate to cover amounts deferred.

RESULTS OF OPERATIONS

SIX MONTHS ENDED SEPTEMBER 30, 2002 VERSUS SIX MONTHS ENDED SEPTEMBER 30, 2001

U-HAUL MOVING AND STORAGE OPERATIONS

Revenues consist of rental revenues and net sales. Total rental revenue are $711.5 million and $702.4 million for the six months ended September 30, 2002 and 2001, respectively.

Net sales revenues were $102.6 million and $118.2 million for the six months ended September 30, 2002 and 2001, respectively. The decrease reflects the sale of stores to SAC Holdings.

Cost of sales are $53.1 million and $65.1 million for the six months ended September 30, 2002 and 2001, respectively. The decrease is due to the sale of stores to SAC Holdings.

Operating expenses before intercompany eliminations were $508.6 million and $521.0 million for the six months ended September 30, 2002 and 2001, respectively. Operating expenses declined due to the sale of stores to SAC Holdings.

Lease expense was $80.5 million and $83.7 million for the six months ended September 30, 2002 and 2001, respectively. This decrease reflects a decline in the number of leased rental trucks.

Net depreciation expense was $50.8 million and $46.9 million for the six months ended September 30, 2002 and 2001, respectively.

Operating profit before intercompany eliminations was $147.3 million and $177.6 million for the six months ended September 30, 2002 and 2001, respectively. The increase is due to improved operations.

SAC MOVING AND STORAGE OPERATIONS

Revenues consist of rental revenues and net sales. Total rental revenue is $84.4 million and $53.0 million for the six months ended September 30, 2002 and

2001, respectively. Storage revenues increased $19.7 million due to increased facility capacity through the acquisition of new locations from U-Haul and increased storage rates. Sales increased $15 million due to the addition of stores.

Net sales revenues were $27.9 million and $12.3 million for the six months ended September 30, 2002 and 2001, respectively. This reflects the acquisition of additional stores.

Cost of sales are $12.4 million and $5.9 million for the six months ended September 30, 2002 and 2001, respectively.

Operating expenses before intercompany eliminations were $50.2 million and $29.0 million for the six months ended September 30, 2002 and 2001, respectively. The increase is due to more stores in operation.

Net depreciation expense was $9.8 million and $5.0 million for the six months ended September 30, 2002 and 2001, respectively. The increase is due to the addition of stores.

Operating profits were $39.9 million and $24.9 million for the six months ended September 30, 2002 and 2001, respectively.

AMERCO'S REAL ESTATE OPERATIONS

Rental revenue before intercompany eliminations was $29.7 million and $34.9 million for the six months ended September 30, 2002 and 2001, respectively. Intercompany revenue was $28.3 and $33.6 million for the six months ended September 30, 2002 and 2001, respectively.

Net investment and interest income was $5.0 million and $4.8 million for the six months ended September 30, 2002 and 2001, respectively.

Lease expense was $4.7 million and $6.5 for the six months ended September 30, 2002 and 2001, respectively.

Net depreciation expense was $4.3 million and $(6.0) million for the six month ended September 30, 2002 and 2001, respectively.

Gains on asset sales during fiscal year 2001 resulted in the negative depreciation expense.

Operating profit before intercompany eliminations was $27.6 million and $42.4 million for the six months ended September 30, 2002 and 2001, respectively.

PROPERTY AND CASUALTY

RepWest's premiums were $86.3 million and $128.3 million for the six months ended June 30, 2002 and 2001, respectively. General agency premiums were $34.2 million and $62.8 million for the six months ended June 30, 2002 and 2001, respectively. The decrease from 2001 to 2002 was the result of the elimination of RepWest's direct Non-Standard Auto and Homeowners business, as well as additional quota share reinsurance on transportation business. Assumed treaty reinsurance premium was $20.4 million and $31.7 million for the six months ended June 30,2002 and 2001, respectively. Rental industry premiums were $18.7 million and $17.8 million for the six months ended June 30, 2002 and 2001, respectively.

Net investment income was $15.3 million and $15.9 million for the six months ended June 30, 2002 and 2001, respectively. The decrease is attributable to lower annual average invested assets.

Benefits and losses incurred were $79.9 million and $122.6 million for the six months ended June 30, 2002 and 2001, respectively. This decrease is attributable to lowered premium writings resulting in less exposure primarily in the non-standard auto and home lines.

The amortization of deferred acquisition costs (DAC) was $11.5 million and $11.6 million for the six months ended June 30, 2002 and 2001, respectively.

Operating expenses were $12.6 million and $28.8 million for the six months ended June 30, 2002 and 2001, respectively. The decrease is a result of decreased commissions on decreased premium writings as well as decreased general and administrative expenses.

Operating loss before intercompany eliminations was $2.5 million and $18.9 million for the six months ended June 30, 2002 and 2001, respectively. The decrease is the result of decreased expenses and the cancellation of multiple unprofitable lines of business.

LIFE INSURANCE

Net premiums were $80.7 million and $77.5 million for the six months ended June 30, 2002 and 2001, respectively. Oxford increased Medicare supplement premiums by $5.1 million through direct writings and rate management activity. Whole life sales increased $0.6 million from the same period in

2001. Credit insurance premiums decreased $1.7 million for the six months from the previous year. Other business segments had premium decreases totaling $0.8 million. Oxford experienced a ratings decline that will result in a reduction in annuity sales going forward.

Net investment income before intercompany eliminations decreased $5.4 million to $7.8 million due to realized losses on fixed maturities and write downs of fixed maturities whose decline in value is deemed to be other than a temporary decline in value.

Benefits incurred were $60.5 million and $58.1 million for the six months ended June 30, 2002 and 2001, respectively. Medicare supplement incurred benefits increased $3.1 million from a larger population. Credit life and disability benefits increased $0.3 million due to increased frequency. Other health segments had benefits decreases totaling $1.0 million.

Amortization of deferred acquisition costs (DAC) and the value of business acquired (VOBA) was $10.1 million and $9.3 million for the six months ended June 30, 2002 and 2001, respectively. The increase is from the Medicare supplement and annuity segments.

Operating expenses were $19.8 million and $19.4 million for the six months ended June 30, 2002 and 2001, respectively. General and administrative expenses net of fees collected increased $0.4 million.

Operating profit/(loss) before intercompany eliminations was $(2.0) million and $3.9 million for the six months ended June 30, 2002 and 2001, respectively.

QUARTER ENDED SEPTEMBER 30, 2002 VERSUS QUARTER ENDED SEPTEMBER 30, 2001

U-HAUL MOVING AND STORAGE OPERATIONS

Revenues consist of rental revenues and net sales. Total rental revenue was $370.5 million and $365.8 million for the quarters ended September 30, 2002 and 2001, respectively. Storage revenues decreased $3.3 million due to sale of stores to SAC Holdings. Improved pricing contributed to the increase.

Net sales revenues were $49.1 million and $55.8 million for the quarters ended September 30, 2002 and 2001, respectively. The decline in sales is the result of fewer stores operating during fiscal year 2002.

Cost of sales was $25.9 million and $31.3 million for the quarters ended September 30, 2002 and 2001, respectively. The decrease is the result of a reduction in the number of stores in operation.

Operating expenses before intercompany eliminations were $262.7 million and $266.6 million for the quarters ended September 30, 2002 and 2001, respectively.

Lease expense was $41.4 million and $40.7 million for the quarters ended September 30, 2002 and 2001, respectively.

Net depreciation expense was $25.5 million and $20.3 million for the quarters ended September 30, 2002 and 2001, respectively.

Operating profit before intercompany eliminations was $69.1 million and $67.9 million for the quarters ended September 30, 2002 and 2001, respectively.

SAC MOVING AND STORAGE OPERATIONS

Revenues consist of rental revenues and net sales. Total rental revenue was $33.6 million and $22.7 million for the quarters ended September 30, 2002 and 2001, respectively. Storage revenues increased $11.0 million due to increased facility capacity through the acquisition of locations and increased storage rates.

Net sales revenues were $13.4 million and $5.9 million for the quarters ended September 30, 2002 and 2001, respectively. The increase is due to the increase in the number of stores in operation.

Cost of sales was $6.4 million and $3.3 million for the quarters ended September 30, 2002 and 2001, respectively. The increase is attributable to the increased sales volume.

Net depreciation expense was $5.2 million and $2.1 million for the quarters ended September 30, 2002 and 2001, respectively. Depreciation expense has increased as a result of the addition of storage properties.

Operating profit/(loss) was $144,000 and ($1.6 million) for the quarters ended September 30, 2002 and 2001, respectively.

AMERCO'S REAL ESTATE OPERATIONS

Rental revenue before intercompany eliminations was $16.6 million and $19.9 million for the quarters ended September 30, 2002 and 2001, respectively. Intercompany revenue was $13.7 and $16.4 million for the quarters ended September 30, 2002 and 2001, respectively.

Net investment and interest income was $2.2 million and $2.9 million for the quarters ended September 30, 2002 and 2001, respectively. This decrease correlates to a reduction in Real Estate's average note and mortgage receivables balance outstanding.

Lease expense was $2.7 million and $3.0 million for the quarters ended September 30, 2002 and 2001, respectively.

Net depreciation expense was $2.1 million and $2.8 million for the quarters ended September 30, 2002 and 2001, respectively. The decrease from 2001 to 2002 reflected a loss on the disposition of assets for 2001 of $0.6 million.

Operating profit before intercompany eliminations was $9.4 million and $30.6 million for the quarters ended September 30, 2002 and 2001, respectively.

PROPERTY AND CASUALTY

RepWest's premiums were $39.7 million and $66.1 million for the quarters ended June 30, 2002 and 2001, respectively. General agency premiums were $14.0 million and $33.2 million for the quarters ended June 30, 2002 anr employee stock plans

187

97

Proceeds from issuance of common stock in private placement, net of issuance costs

8,669

Borrowings, under credit facility, net of issuance costs

270

Repayments on borrowings under credit facility

(1,206
)

(3,832
)

Repayments on note payable

(36
)

(34
)

Principal payments under capital lease obligations

(11
)

Net cash (used in) provided by financing activities

(1,055
)

5,159

Decrease in cash and cash equivalents

(1,694
)

(1,824

)

Cash and cash equivalents, beginning of period

15,408

16,628

Cash and cash equivalents, end of period

$
13,714

$
14,804

See Accompanying Notes to Condensed Consolidated Financial Statements.

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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 wholly owned subsidiaries (Saba) and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) necessary to fairly state Saba s consolidated financial position, results of operations, and cash flows as of and for the dates and periods presented.

These unaudited condensed consolidated financial statements should be read in conjunction with Saba s audited condensed consolidated financial statements included in Saba s Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 29, 2005. The results of operations for the three and six months ended November 30, 2005 are not necessarily indicative of results for the entire fiscal year ending May 31, 2006 or for any future period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepts in the United States have been condensed or omitted. The condensed consolidated balance sheet at May 31, 2005 has been derived from the audited financial statements at that date.

2. Basic and Diluted Net Income (Loss) Per Share

Basic and diluted net income (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 net income (loss) per share has been computed using the weighted-average number of shares of common stock outstanding during the period, less the weighted-average number of shares that may be repurchased. Basic earnings per share excludes any dilutive effects of stock options as well as any contingently issuable shares. (Contingently issuable shares are shares that would be issuable if the end of the reporting period were the end of the contingency period.)

Diluted net income per share for the three months ended November 30, 2005 is calculated by dividing net income by the weighted-average number of shares of common stock outstanding, plus shares of potential common stock. Potential common stock includes shares of common stock which are issuable upon the exercise of stock options (using the treasury stock method, which assumes the Company will buy back its own common stock with proceeds from the option exercises) as well as any contingently issuable shares. For all other periods presented, diluted net loss per share excludes shares of potential common stock since the effect is anti-dilutive.

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

	Three months ended		Six months ended	
	November 30, 2005	November 30, 2004	November 30, 2005	November 30, 2004
Net income (loss)	$ 131	$ (682)	$ (1,491)	$ (2,359)
Weighted-average shares of common stock outstanding	17,523	16,109	17,407	15,064
Weighted-average shares of common stock subject to repurchase		(2)		(3)
Weighted-average shares of common stock used in computing basic net loss per share	17,523	16,107	17,407	15,061
Effect of dilutive employee stock options	144			
Effect of contingently issuable shares	415			
Weighted-average shares of common stock used in computing diluted net loss per share	18,082	16,107	17,407	15,061
Basic net income (loss) per share	$ 0.01	$ (0.04)	$ (0.09)	$ (0.16)
Diluted net income (loss) per share	$ 0.01	$ (0.04)	$ (0.09)	$ (0.16)

3. Comprehensive Loss

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

	Three months ended		Six months ended	
	November 30, 2005	November 30, 2004	November 30, 2005	November 30, 2004
Net income (loss)	$ 131	$ (682)	$ (1,491)	$ (2,359)
Foreign currency translation gain	(36)	49	(165)	40
Unrealized loss on investments				(4)
Comprehensive income (loss)	$ 95	$ (633)	$ (1,656)	$ (2,323)

4. Pending Acquisition of Centra Software, Inc.

On October 6, 2005 Saba announced that it had signed a definitive agreement to acquire Centra Software, Inc. (Centra) for a combination of Saba stock and cash. The 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 per share to be received by the stockholders of Centra will be $0.663 per share in cash and 0.354 per share in Saba stock for each share of Centra stock held. The total estimated purchase price for Centra of approximately $58.3 million will consist of (i) approximately $19.1 million in cash, (ii) $37.3 million in Saba s common stock (assuming the issuance of approximately 10.2 million shares of Saba common stock to Centra stockholders), and (iii) acquisition related expenses of approximately $1.8 million, consisting primarily of fees due to financial advisors and other professionals. Separate special meetings of stockholders of both Saba and Centra are expected to be held on January 26, 2006 to vote upon the proposed merger.

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5. Goodwill and Purchased Intangible Assets

Business Combinations

On May 5, 2005, Saba acquired THINQ Learning Solutions, Inc. (THINQ), a provider of enterprise management solutions.

Under the terms of the merger agreement, the aggregate consideration payable by Saba Software, Inc (the Company) is 1,700,000 shares of Company common stock and cash of $100,000. The 1,700,000 shares are subject to a post-closing balance sheet adjustment. As of May 31, 2005, approximately 635,000 shares of the Company were held in escrow in connection with this transaction, consisting of approximately 360,000 shares for stockholders indemnification obligations for general liability and approximately 275,000 shares for post-closing balance sheet adjustments including certain accounts receivable. During the quarter ended August 31, 2005, Saba released 220,000 shares from escrow related to cash received on certain accounts receivable. In addition, up to an additional 100,000 shares of Company common stock may be issued in three equal installments over a three-year period pursuant to an earn-out provision that is based on the number of THINQ customers that migrate to the Saba platform. These shares, if issued, will be accounted for in the periods in which they are earned.

The THINQ acquisition was accounted for as a purchase business combination. Assets acquired and liabilities assumed were recorded at their fair values as of May 5, 2005. The total preliminary purchase price was $9.3 million, including acquisition-related transaction costs.

The preliminary allocation of the purchase price was based upon a preliminary valuation, and our estimates and assumptions are subject to change upon the finalization of the valuation. We have identified certain pre-acquisition contingencies, but we have yet to conclude whether the fair values for such contingencies are determinable. The primary area of the purchase price allocation that is not yet finalized relates to income taxes related to certain of our acquired foreign subsidiaries. If information becomes available to the Company prior to the end of the purchase price allocation period that would indicate that a liability is probable and the amount can be reasonably estimated, such liability will be included in the final purchase price allocation and goodwill will be increased.

Goodwill represents the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired. Goodwill amounts are not amortized, but rather are tested for impairment at least annually. In the event that Saba determines that the value of goodwill has become impaired, the Company will incur an accounting charge for the amount of impairment during the fiscal quarter in which such determination is made. Goodwill is not deductible for income tax purposes.

Purchased Intangible Assets

Purchased intangible assets consist of intellectual property, customer base and non-competition agreements acquired as part of a purchase business combination. The intangible assets are stated at cost less accumulated amortization and are being amortized on a straight-line basis over their estimated useful lives of three to seven years.

There were no additions to intangible assets during the six months ended November 30, 2005. The following table provides a summary as of November 30, 2005 of the carrying amounts of purchased intangible assets that continue to be amortized:

	November 30, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)	
Customer Backlog	$ 300	$ 57	$ 243
Customer Relations	4,750	389	4,361
Total	$ 5,050	$ 446	$ 4,604

Changes to net carrying values for intangible assets for the six months ended November 30, 2005 were as follows:

Customer Backlog	
Net carrying value, May 31, 2005	$ 293
Amortization expense	(50)
Net carrying value, November 30, 2005	$ 243
Customer Relations	
Net carrying value, May 31, 2005	$ 4,701
Amortization expense	(340)
Net carrying value, November 30, 2005	$ 4,361

The total expected future amortization related to purchased intangible assets will be approximately $389,000 for the remainder of fiscal 2005 and $779,000, $771,000, $679,000, and $679,000 in fiscal years 2007 through 2010, respectively, and $1.3 million thereafter.

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SABA SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

There was no change to goodwill during the first two quarters of either fiscal 2006 or 2005.

6. Credit Facility

Since August 2002, Saba has maintained a credit facility with a bank. The current credit facility grants Saba access to a revolving line of credit of $250,000, a new equipment term loan of up to $500,000 and a new term loan of up to $4.5 million. Borrowings on the revolving line of credit and new equipment term loan credit facilities may be made through March, 2006.

On November 10, 2005, the Company amended the credit facility with the bank. The amended credit facility requires the Company to maintain a minimum balance of unrestricted cash and cash equivalents of (a) $11 million as of any fiscal quarter end through May 31, 2006, (b) $10 million for any date that is not a fiscal quarter from May 5, 2005 through September 15, 2005 and from December 1, 2005 through May 31, 2006, (c) $8 million for any date that is not a fiscal quarter end from September 16, 2005 through November 29, 2005 (d) $9 million at any time during the period from June 1, 2006 through May 31, 2007, and (e) $7.5 million for any date thereafter.

As of November 30, 2005, Saba had no outstanding borrowings under the revolving line of credit and was in compliance with all of the covenants related to this credit facility. On January 13, 2006, the Company further amended the credit facility to require the Company to maintain a minimum balance of unrestricted cash and cash equivalents of (a) $11 million as of any fiscal quarter end through May 31, 2006, (b) $10 million for any date that is not a fiscal quarter from May 5, 2005 through September 15, 2005 and from March 1, 2006 through May 30, 2006, (c) $8 million for any date that is not a fiscal quarter end from September 16, 2005 through November 29, 2005, (d) $7.5 million for any date that is not a fiscal quarter end from December 1, 2005 through February 27, 2006 (e) $9 million at any time during the period from May 31, 2006 through May 30, 2007, and (f) $7.5 million for any date thereafter.

Saba has and expects to continue to comply with the end of quarter cash covenants included in the credit facility. However, because of the variability in timing of accounts payable and accounts receivable within a quarter, the amendments to the credit facility have been and may continue to be necessary for Saba to remain compliant with the intra-quarter cash covenants. As a result of this intra-quarter variability, in the next twelve months Saba may not be compliant with the intra-quarter cash covenant and as a result, all outstanding amounts payable under the credit facility have been classified as a current liability in the accompanying balance sheet.

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7. Restructuring

During fiscal 2004 and prior years, Saba implemented restructuring programs to reduce expenses to align its operations and cost structure with market conditions. The restructuring programs during fiscal 2004 were implemented under the provisions of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, while the restructuring programs during fiscal 2003 and fiscal 2002 were implemented under EITF No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The restructuring programs included worldwide workforce reductions across all functions and consolidation of excess facilities. Workforce reduction charges consist primarily of severance and fringe benefits. A summary of the movements on the restructuring accrual during the six months ended November 30, 2005 is outlined as follows:

	Workforce Reduction Charges	Facilities Related Charges	Total
		(in thousands)	
Accrual as of May 31, 2005	$ 22	$ 251	$ 273
Deductions cash payments		(86)	(86)
Accrual as of August 31, 2005	$ 22	$ 165	$ 187
Deductions cash payments		(77)	(77)
Accrual as of November 30, 2005	$ 22	$ 88	$ 110

It is expected that the remaining workforce reduction payments will be made by the end of fiscal 2006. Amounts related to the excess facility charge will be paid over the remaining lease periods through the end of fiscal 2006.

8. Stock Options and Equity Instruments Exchanged for Services

Saba accounts for employee stock options using the intrinsic value method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees while adhering to the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation and SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure. The fair value of options, warrants and restricted stock issued for services rendered by non-employees or assets acquired is determined using the Black-Scholes-Merton option-pricing model. To calculate the expense or asset value, Saba uses either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. The following table illustrates the effect on net loss and net loss per share had compensation cost for Saba s stock compensation plans been determined using the fair value method required by SFAS No. 123 (in thousands, except per share amounts):

	Three months ended	Six months ended
	November 30,	November 30,

	2005	2004	2005	2004
Net income (loss)	$ 131	$ (682)	$ (1,491)	$ (2,359)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(983)	(2,038)	(1,940)	(4,654)
Pro forma net loss	$ (852)	$ (2,720)	$ (3,431)	$ (7,013)
Basic net income (loss) per share	$ 0.01	$ (0.04)	$ (0.09)	$ (0.16)
Pro forma basic net loss per share	$ (0.05)	$ (0.17)	$ (0.20)	$ (0.47)
Shares used in calculating basic net income (loss) per share	17,523	16,107	17,407	15,061
Diluted net income (loss) per share	$ 0.01	$ (0.04)	$ (0.09)	$ (0.16)
Shares used in calculating diluted net income (loss) per share	18,082	16,107	17,407	15,061
Pro forma diluted net (loss) per share	$ (0.05)	$ (0.17)	$ (0.20)	$ (0.47)
Shares used in calculating pro forma diluted net loss per share	17,523	16,107	17,407	15,061

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The value of stock-based awards on the date of grant using the Black-Scholes-Merton option pricing model was calculated using the assumptions in the following table:

	Three months ended		Six months ended	
	November 30,		November 30,	
	2005	2004	2005	2004
Employee Options				
Dividend Yield	0%	0%	0%	0%
Volatility	1.26	1.33	1.29	1.34
Risk Free rate of interest	4.42%	3.25%	4.42%	3.25%
Expected lives of options (in years)	2.27	2.30	2.29	2.35

	Three months ended		Six months ended	
	November 30,		November 30,	
	2005	2004	2005	2004
Employee Stock Purchase Plan				
Dividend Yield	0%	0%	0%	0%
Volatility	.96	.76	.96	.76
Risk Free rate of interest	3.65%	2.13%	3.65%	2.13%
Expected lives of purchase option (in years)	.5	.5	.5	.5

9. Guarantees

Saba enters into license agreements that generally provide indemnification for its customers against intellectual property claims. To date, Saba has not incurred any costs as a result of such indemnifications and has not accrued any liabilities related to such obligations in its consolidated financial statements.

Saba s license agreements also generally include a warranty that its software products will substantially operate as described in the applicable program documentation for a period of generally 90 days after delivery. To date, Saba has not incurred or accrued any material costs associated with these warranties.

10. Segment Information

Saba provides software and services that increase business performance through human capital development and management. Since management s primary form of internal reporting is aligned with the offering of these software products and services, we believe that we operate in one segment for financial reporting purposes.

During the second quarter of 2006, one customer accounted for 25% of our revenue. No customer had an account receivable balance of 10% or greater of our total accounts receivable balance as of November 30, 2005.

11. Legal Matters

In November 2001, a complaint was filed in the United States District Court for the Southern District of New York against us, certain of our officers and directors, and certain underwriters of our initial public offering. The complaint was purportedly filed on behalf of a class of certain persons who purchased our common stock between April 6, 2000 and December 6, 2000. The complaint alleges violations by us and our officers and directors of Section 11 of the Securities Act of 1933, Section 10(b) of the Exchange Act of 1934, and other related provisions in connection with certain alleged compensation arrangements entered into by the underwriters in connection with the offering. An amended complaint was filed in April 2002. Similar complaints have been filed against hundreds of other issuers that have had initial public offerings since 1998. The complaints allege that the prospectus and the registration statement for the offering failed to disclose that the underwriters allegedly solicited and received excessive commissions from investors and that some investors in the IPO offering agreed with the underwriters to buy additional shares in the aftermarket in order to inflate the price of our stock. The complaints were later consolidated into a single action. The complaint seeks unspecified damages, attorney and expert fees, and other unspecified litigation costs.

On July 1, 2002, the underwriter defendants in the consolidated actions moved to dismiss all of the actions, including the action involving us. On July 15, 2002, we, along with other non-underwriter defendants in the coordinated cases, also moved to dismiss the litigation. On February 19, 2003, the Court ruled on the motions. The Court granted our motion to dismiss the claims against us under Rule 10b-5, due to the insufficiency of the allegations against us. The Court also granted the motion of the individual defendants, Bobby Yazdani and Terry Carlitz, our Chief Executive Officer and Chairman of the Board and our former Chief Financial Officer and a member of our board of directors, to dismiss the claims against them under Rule 10b-5 and Section 20 of the Exchange Act. The motions to dismiss the claims under Section 11 of the Securities Act were denied as to virtually all of the defendants in the consolidated cases, including us.

On July 16, 2003, a committee of our board of directors conditionally approved a proposed partial settlement with the plaintiffs in this matter. The settlement would provide, among other things, a release of us and of the individual defendants for the conduct alleged in the action to be wrongful in the amended complaint. We would agree to undertake other responsibilities under the partial settlement, including agreeing to assign away, not assert, or release certain potential claims we may have against our underwriters. Any direct financial impact of the proposed settlement is expected to be borne by our insurers.

In June 2004, an agreement of settlement was submitted to the Court for preliminary approval. The Court granted the preliminary approval motion on February 15, 2005, subject to certain modifications. On August 31, 2005 the Court issued a preliminary order further approving the modifications to the settlement and certifying the settlement classes. The Court also appointed the notice administrator for the settlement and ordered that notice of the settlement be distributed to all settlement class members by January 15, 2006. The settlement fairness hearing has been set for April 26, 2006. Following the hearing, if the Court determines that the settlement is fair to the class members, the settlement will be approved. There can be no assurance that this proposed settlement will be approved and implemented in its current form, or at all.

If the settlement process fails, we intend to dispute these claims and defend the law suit vigorously. However, due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of the litigation. An unfavorable outcome in litigation could materially and adversely affect our business, financial condition and results of operations.

We are also party to various legal disputes and proceedings arising from the ordinary course of general business activities. While, in the opinion of management, resolution of these matters is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows, the ultimate outcome of any litigation is uncertain. Were an unfavorable outcome to occur, the impact could be material to us.

12. Recent Accounting Pronouncements

On December 16, 2004 the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards 123R (SFAS), *Share-Based Payment,* which replaces SFAS 123, *Accounting for Stock Based Compensation* and Accounting Practice Bulletin (APB) 25*, Accounting for Stock Issued to Employees.* SFAS123R requires that any share based payment made to an employee, including stock options and shares purchased under employee stock purchase plans, is recognized in the financial statements based on fair value. Under the terms of SFAS 123R, the fair value of any equity award is estimated at the grant date and is recognized as compensation cost over the service period for all awards that are subject to a vesting period. SFAS123R requires that fair value be estimated using an option pricing model that takes into account at least the following items: the exercise price, the expected term of the option, the current price of the underlying share, the expected volatility of the price of the underlying share, the expected dividends on the underlying share and the risk free rate of interest.

We are required to adopt SFAS 123(R) in the first quarter of fiscal 2007. The effects of the adoption of SFAS 123R on our results of operations and financial condition are dependent upon a number of factors, including the number of employee options which may be granted in the future, the future market value and volatility of our stock price, movements in the risk free rate of interest, stock option exercise and forfeiture patterns and the stock option valuation model used to estimate the fair value of each option. As a result of these variables it is not possible at this time to accurately estimate the effect that the adoption of SFAS123R will have on our future results of operations. However, we expect the adoption of FAS 123 (R) to have a material adverse impact on our net income (loss) and net income (loss) per share. Note 8 in the Notes to Condensed Consolidated Financial Statements contained elsewhere in this Form 10-Q provides an indication of the effects of using one option-pricing model, the Black-Scholes-Merton option pricing model, which was developed for use in estimating the fair value of traded options, on our current results of operations using the assumptions detailed therein to estimate the fair value of employee stock options and employee stock purchase plan shares upon the results of our operations for the three and six months ended November 30, 2005 and November 30, 2004.

On June 7, 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, a replacement of APB No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition of a cumulative effect adjustment within net income of the period of the change. SFAS 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however it does not change the transition provisions of any existing accounting pronouncements. We do not believe adoption of SFAS 154 will have a material effect on our consolidated financial position, results of operations or cash flows.

On June 29, 2005, the FASB ratified the EITF s Issue No. 05-06*, Determining the Amortization Period for Leasehold Improvements*. Issue 05-06 provides that the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured upon the acquisition or the purchase. The provisions of Issue 05-06 are effective on a prospective basis for leasehold improvements purchased or acquired beginning in the second quarter of fiscal 2006. We do not believe the adoption of Issue 05-06 will have a material effect on our consolidated financial position, results of operations or cash flows.

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ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and related notes contained herein and the information included in our annual report on Form 10-K for our fiscal year ended May 31, 2005 and in our other filings with the Securities and Exchange Commission. This discussion includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the Securities Act) and Section 21E of the Securities and Exchange Act of 1934 (the Exchange Act). All statements in this Quarterly Report on Form 10-Q other than statements of historical fact are forward-looking statements for purposes of these provisions, including any statements of the plans and objectives for future operations and any statement of assumptions underlying any of the foregoing. Statements that include the use of terminology such as may, will, expects, believes, plans, estimates, potential, or continue, or the negative thereof or other comparable terminology are forward-looking statements.

Forward-looking statements include:

(i) in Part I, Item 1,

statements regarding future amortization related to intangible assets,

statements regarding workforce reduction payments and payments related to the excess facility charge,

statements regarding operation in one segment for financial reporting purposes,

statements regarding the resolution and effect of pending litigation,

statements regarding the effect of recent accounting changes,

statements regarding our compliance with debt covenants and maturities,

(ii) in Part I, Item 2,

statements regarding the effect of the ThinQ acquisition and increased support revenues resulting from the acquisition,

statements that the timing of a few large software license transactions can substantially affect quarterly revenue,

our belief that support revenue will continue to grow, *statements regarding continued investment in areas that we believe accelerate growth,*

that business conditions may require us to adopt additional restructuring programs,

that many of our customers have not resumed previous levels of expenditures on information technologies,

expectations regarding research and development expenses to increase,

statements regarding the impact of seasonality on operating results,

statements regarding the adequacy of our tax provision,

statements regarding our compliance with debt covenants and maturities,

our anticipation that we will continue to experience long sales cycles,

the sufficiency of our cash resources, credit facilities and cash flows to meet working capital requirements, capital expense and business expansion requirements for at least the next 12 months,

our expectation to derive substantially all of our revenues for the foreseeable future from the licensing of Saba Enterprise Learning and providing related services,

our expectation to derive revenues from new products over the long term,

our expectation to continue to incur non-cash expenses relating to the amortization of purchased intangible assets along with any potential goodwill impairment,

that our operating results will fluctuate significantly in the future,

our expectation to increase our operating expenses,

our expectation to incur losses for the foreseeable future,

statements regarding future restructuring changes,

statements regarding committing time and resources to potential customers,

the impact of SFAS No. 123R and Statement of Position 97-2, *the impact of the adoption of SFAS 154 and Issue 05-06,*

statements regarding internal controls over financial reporting,

statements regarding the effect on our business because of loss of key personnel,

statements regarding the effect of our competitors,

statements regarding defects and errors in our products,

our intention to expand our international presence in the future,

statements regarding our inability to develop non-infringing technology or obtain a license on commercially reasonable terms,

the effect of a communications systems failure,

statements regarding our dependence on third-party system integrators,

our expectation of continued operating losses and negative cash flow from operations,

our expectations to use cash resources and credit facilities to fund sales and marketing activities, research and development activities and continued operations,

our expectations that our existing capital resources will be sufficient to meet our capital requirements,

our expectation to continue to acquire complementary businesses or technologies,

that the acquisition of THINQ and any future acquisitions would result in the use of significant amounts of cash, potentially dilutive issuance of equity securities, and/or the incurrence of debt,

(iii) in Part I, Item 3,

that more of our contracts may be denominated in foreign currency,

statements regarding our compliance with debt covenants and maturities and

(iv) in Part II, Item 1,

statements regarding the resolution and effect of pending litigation.

These forward-looking statements involve known and unknown risks and uncertainties. Our actual results may differ materially from those projected or assumed in such forward-looking statements. Among the factors that could cause actual results to differ materially are incorrect estimates or assumptions, unanticipated adverse results for pending litigation, contraction of the economy and world markets, lack of demand for information technologies from our customers, requirements for increased spending in research and development, unanticipated need for capital for operations, lack of demand for our products, inability to introduce new products and the factors detailed under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Impact Future Operating Results. All forward-looking statements and risk factors included in this document are made as of the date of this report, based on information available to us as of such date. We assume no obligation to update any forward-looking statement or risk factor.

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Overview

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide readers with an understanding of the Company. The following are included in our MD&A:

- Overview of our Business and Industry;
- Critical Accounting Policies;
- Results of Operations;
- Liquidity and Capital Resources; and
- Risk Factors.

OVERVIEW OF OUR BUSINESS AND INDUSTRY

Business, Principal Products, and Locations

We are a leading provider of human capital management solutions, which are designed to increase organizational performance through the implementation of a management system for aligning goals, developing and motivating people and measuring results. Our solutions can help large enterprises to align the workforce around the organization s business objectives, 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.

We commenced operations in April 1997 and, through March 1998, focused substantially all of our efforts on research activities, developing our products and building our business infrastructure. We shipped our first Saba Learning products and began to generate revenues from software license fees, implementation and consulting services fees and support fees in April 1998. In August 2003, we shipped our generally available version of Saba Performance.

On May 5, 2005, we completed the acquisition of THINQ Learning Solutions, Inc. (THINQ), a provider of enterprise learning management solutions. Under the terms of the merger agreement, the aggregate consideration payable by us was up to 1,700,000 shares of common stock and the cash portion of the consideration was $100,000. The 1,700,000 shares are subject to a post-closing balance sheet adjustment. In addition, up to an additional 100,000 shares of our common stock may be issued over a three-year period pursuant to an earn-out provision. Assets acquired and liabilities assumed in the acquisition were recorded at their fair values as of May 5, 2005. The total preliminary purchase price, including acquisition-related transaction costs, was $9.3 million. We believe our acquisition of THINQ supports our long-term strategic direction, strengthens our competitive position in the Human Capital Management market, expands our customer base and provides greater scale to increase our investment in research and development to accelerate innovation and increase stockholder value.

Substantially all of our revenues are derived from the sale of perpetual licenses of our software products and related product-support and professional services. Specifically, we license our software solutions in multi-element arrangements that include a combination of our software, product support and/or professional services. To date, a substantial majority of our software license revenue has been derived from Saba Learning. Our license revenue is affected by the strength of general economic and business conditions, as well as customers budgetary cycles and the competitive position of our software products. In addition, the sales cycle for our products is long, typically six to 12 months. The timing of a few large software license transactions can substantially affect our quarterly license revenue.

Product support includes technical support and future updates for the applicable software product. We typically sell support for an initial period of one year concurrently with the sale of the related software license. After the initial period, support is renewable on an annual basis at the option of the customer. Accordingly, our support revenue depends upon both our sale of additional software licenses and annual renewals of existing support agreements. In addition, we expect support revenue to increase to reflect support provided to an expanded customer base resulting from the THINQ acquisition. As a result of the acquisition, we recorded adjustments totaling $1.4 million to reduce THINQ s support obligations to its estimated fair value as of May 5, 2005. As former THINQ customers renew these support contracts, we will recognize the full value of the support contracts as deferred revenues and recognize the related revenue ratably over the contract period.

The growth rate of support revenue does not necessarily correlate directly to the growth rate of license revenue as the support renewal rate has a greater impact on support revenue as our installed base of customers grows. For example, if license revenues remained constant, support revenue would continue to grow as a result of the incremental support revenue associated with new license sales, assuming renewal rates stayed relatively constant. We believe that support revenue will continue to grow as we anticipate that a substantial majority of our customers, as well as former THINQ customers, will renew their annual contracts and the sale of new software licenses will increase the number of customers that purchase support.

Our professional services offerings include (i) implementation services, (ii) education services for our customers regarding how to use our software, and (iii) hosting services that enable customers that separately purchase software licenses to access and use the software on computers operated by or for us. Our implementation and education services are typically initiated and provided to customers that license software directly from us over a period of three to nine months after licensing the software. Accordingly, our implementation and education services revenue varies directly with the levels of license revenue generated from our direct sales organization in the preceding three to nine-month period. In addition, our implementation and education services revenue varies following our commercial release of significant software updates as our customers generally engage our services to assist with the implementation and education of their software upgrade. Although we primarily provide implementation services on a time and materials basis, a significant portion of these services is provided on a fixed fee basis. Hosting services are generally provided pursuant to annual agreements and the associated revenue is recognized ratably over the hosting term.

Our corporate headquarters are located in Redwood Shores, California. We have an international presence in India, France, Japan, Germany, the United Kingdom, Canada and Australia through which we conduct various operating activities related to our business. In each of the non-U.S. jurisdictions in which we have subsidiaries, we have employees or consultants engaged in sales and services activities. In the case of our India subsidiary, our employees primarily engage in software development and quality assurance testing activities.

Significant Trends and Developments in Our Business

Since we commenced operations in 1997 and continuing throughout fiscal 2001, our business grew rapidly. During fiscal 2002 and continuing through the first three quarters of fiscal 2004, our revenues declined as a result of a deterioration in the overall economy and information technology industry. Beginning in the later part of fiscal 2004, many key indicators began to demonstrate signs of an economic recovery. Consistent with these indicators, our business began to improve during the fourth quarter of fiscal 2004 and throughout the first two quarters of fiscal 2006.

During fiscal 2004, fiscal 2003 and fiscal 2002, in response to the global economic slowdown, we implemented restructuring programs to reduce expenses to

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align our operations and cost structure with market conditions. The restructuring programs included worldwide workforce reductions across all functions and consolidation of excess facilities. Although we do not have any current plans to implement additional restructuring programs, business conditions may require us to reduce or otherwise adjust our workforce or consolidate excess facilities in the future. There were no restructuring programs implemented in fiscal 2005 or in the first two quarters of fiscal 2006.

Despite these recent improvements in macro-economic trends, we believe many of our customers have not resumed previous levels of expenditures on information technologies, particularly enterprise software. We attribute this continued level of depressed spending on enterprise software to customers concerns regarding the sustainability of the current economic recovery and the current geopolitical environment.

In order to achieve profitability, we will need to generate significantly higher revenue and continue to manage our expenses. Our ability to generate higher revenues and achieve profitability depends on many factors, including the demand for our products and services, the level of product and price competition, market acceptance of our new products, general economic conditions and the successful integration of THINQ. In this regard, we continue to invest in areas that we believe can accelerate revenue growth and to manage expenses to align our operations and cost structure with market conditions.

On October 6, 2005 we announced that we had signed a definitive agreement to acquire Centra Software, Inc. (Centra) for a combination of Saba stock and cash. The 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 per share to be received by the stockholders of Centra will be $0.663 per share in cash and 0.354 per share in Saba stock for each share of Centra stock held. The total estimated purchase price for Centra of approximately $58.3 million will consist of (i) approximately $19.1 million in cash, (ii) $37.3 million in Saba s common stock (assuming the issuance of approximately 10.2 million shares of Saba common stock to Centra stockholders), and (iii) acquisition related expenses of approximately $1.8 million, consisting primarily of fees due to financial advisors and other professionals. Separate special meetings of stockholders of both Saba and Centra are expected to be held on January 26, 2006 to vote upon the proposed merger.

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CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. However, future events are subject to change and the best estimates and judgments routinely require adjustment. While there are a number of accounting policies, methods and estimates affecting our financial statements, areas that are particularly significant include revenue recognition policies, the allowance for doubtful accounts, the assessment of recoverability of goodwill and purchased intangible assets and restructuring costs. We have reviewed the critical accounting policies described in the following paragraphs with our Audit Committee.

Revenue Recognition. We recognize revenues in accordance with the provisions of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions. Under SOP 97-2, as amended, we recognize revenues when all of the following conditions are met:

- persuasive evidence of an agreement exists;
- delivery of the product has occurred;
- the fee is fixed or determinable; and
- collection of these fees is probable.

SOP 97-2, as amended, requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on the relative fair values of the elements. We have analyzed each element in our multiple-element arrangements and determined that we have sufficient vendor-specific objective evidence (VSOE) to allocate revenues to support, consulting, hosting and education services. Accordingly, assuming all other revenue recognition criteria are met, revenues from perpetual licenses are recognized upon delivery using the residual method in accordance with SOP 98-9. We limit our assessment of VSOE for each element to either the price charged when the same element is sold separately or the price established by management, having the relevant authority to do so, for an element not yet sold separately.

License revenues are generally recognized on delivery if the other conditions of SOP 97-2 are satisfied. We do not grant our resellers the right of return and we do not recognize revenue from resellers until the end-user has been identified. Support revenue is recognized ratably over the support term, typically 12 months, and revenue related to implementation, consulting, education and other services is generally recognized as the services are performed. Although we primarily provide implementation and consulting services on a time and materials basis, a significant portion of these services is provided on a fixed-fee basis. For contracts that involve significant customization and implementation or consulting services that are essential to the functionality of the software, the license and services revenues are recognized over the service delivery period using the percentage-of-completion method. We use labor hours incurred as a percentage of total expected hours as the measure of progress towards completion.

We recognize revenue from multiple element arrangements involving licenses and hosting services in accordance with SOP 97-2, Software Revenue Recognition, as these arrangements are with customers that have separately licensed and taken possession of our software independent of the hosting services. Revenue from our application service provider offerings is recognized under SAB 104, Revenue Recognition, as these arrangements are integrated offerings pursuant to which the customers ability to access our software is not separable from the services necessary to operate the software and customers are not allowed to take possession of our software. Revenue from both our hosting services and application service provider offerings are recognized as service arrangements, whereby the revenue is recognized ratably over the term of the arrangement.

Allowance for doubtful accounts. Accounts receivable are recorded net of allowance for doubtful accounts and totaled approximately $13.7 million as of November 30, 2005. The allowance for doubtful accounts, which totaled approximately $279,000 as of November 30, 2005, is based on our assessment of the collectibility of specific customer accounts historical experience and the aging of the accounts receivable. If there is a deterioration of a major customer s credit worthiness or actual defaults are higher than our historical experience, we may be required to increase the allowance for doubtful accounts.

Recoverability of goodwill and purchased intangible assets. We adopted SFAS No. 142, Goodwill and Other Intangible Assets. and accordingly, we do not amortize goodwill. We have evaluated our purchased intangible assets and determined that all such assets have determinable lives. Our goodwill balance at November 30, 2005 was $15.2 million, including $9.9 million recorded as a result of our acquisition of THINQ. Amortization of purchased intangible assets was $195,000 and $389,000 for the three and six-month periods of fiscal 2006 and zero dollars and $2,000 for the same periods, respectively, in fiscal 2005. As of November 30, 2005, our net purchased intangible assets balance was $4.6 million and relates entirely to the THINQ acquisition.

SFAS No. 142 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment; while the second phase, if necessary, measures the impairment. We consider Saba to be a single reporting unit. Accordingly, all of our goodwill is associated with the entire company. We perform the required impairment analysis of goodwill annually, or on an interim basis if circumstances dictate. Any reduction of enterprise fair value below the recorded amount of stockholders equity could require us to write down the value of and record an expense for an impairment loss.

Restructuring costs. The total accrued restructuring balance as of November 30, 2005 was $110,000, which was comprised primarily of facilities-related charges. The assumptions we have made are based on the current market conditions in the various areas where we have vacant space and necessarily entail a high level of management judgment. These market conditions can fluctuate greatly due to factors such as changes in property occupancy rates and rental prices charged for comparable properties. These changes could materially affect our accrual. If, in future periods, it is determined that we have over-accrued for restructuring charges for the consolidation of facilities, the reversal of such over-accrual would have a favorable impact on our results of operations in the period this was determined and would be recorded as a credit to restructuring costs. Conversely, if it is determined that our accrual is insufficient, an additional charge would have an unfavorable impact on our results of operations in the period this was determined.

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RESULTS OF OPERATIONS

THREE AND SIX MONTHS ENDED NOVEMBER 30, 2005 AND NOVEMBER 30, 2004

Revenues

	Three months ended November 30, 2005	Percent of Total Revenue	Three months ended November 30, 2004	Percent of Total Revenue
Revenues				
License	$ 5,124	32%	$ 3,318	32%
Services	11,108	68%	7,019	68%
Total revenues	$ 16,232	100%	$ 10,337	100%

	Six months ended November 30, 2005	Percent of Total Revenue	Six months ended November 30, 2004	Percent of Total Revenue
Revenues				
License	$ 8,520	29%	$ 5,840	30%
Services	21,340	71%	13,810	70%
Total revenues	$ 29,860	100%	$ 19,650	100%

Total Revenues. Total revenues increased by 57% during the three months ended November 30, 2005 compared to the three months ended November 30, 2004. This increase was the result of increases in both license and services revenue. Total revenues increased by 52% during the six months ended November 30, 2005 compared to the three months ended November 30, 2004.

As a percentage of total revenues, revenues from customers outside the United States represented 28% for the three months ended November 30, 2005 and 48% for the three months ended November 30, 2004. As a percentage of total revenues, revenues from customers outside the United States represented 29% for the six months ended November 30, 2005 and 51% for the six months ended November 30, 2004. During the three months and six months ended November 30, 2005, one customer represented 15% and 25%, respectively, of revenues for the three and six month periods ended November 30, 2005. During the three months and six months ended November 30, 2004, no customer represented more than 10% of our total revenues.

License Revenue. License revenue increased by 54% during the three months ended November 30, 2005 compared to the three months ended November 30, 2004. The increase in the license revenue dollars for the three month period ended November 30, 2005 was attributable to an increase in the average selling price of new license sales during the quarter.

License revenue increased by 46% during the six months ended November 30, 2005 compared to the six months ended November 30, 2004. The increase in the license revenue dollars for the six month period ended November 30, 2005 was attributable to an increase in the average selling price of new license sales during the six-month period.

Services Revenue. Service revenue increased by 58% during the three months ended November 30, 2005 compared to the three months ended November 30, 2004. The increase in services revenue during the three months ended November 30, 2005 is attributable to an increase in consulting revenue of approximately $1.9 million and an increase in maintenance revenue of approximately $1.5 million. The increase in consulting revenue is attributable to an increase in the number of consulting projects resulting in part from projects assumed as the result of the acquisition of THINQ. The increase in maintenance revenue results from new maintenance contracts as a result of the acquisition of THINQ, continued growth in our license base as well as a slight increase in maintenance pricing in fiscal 2005 and 2006.

Service revenue increased by 55% during the six months ended November 30, 2005 compared to the six months ended November 30, 2004. The increase in services revenue during the six months ended November 30, 2005 is attributable to an increase in consulting revenue of approximately $2.5 million and an increase in maintenance revenue of approximately $4.1 million. The increase in consulting revenue is attributable to an increase in the number of consulting projects resulting in part from projects assumed as the result of the acquisition of THINQ. The increase in maintenance revenue results from new maintenance contracts as a result of the acquisition of THINQ, a continual growth in our license base as well as a slight increase in maintenance pricing in fiscal 2005 and 2006.

International revenue as a percentage of total revenues and the mix of license and services revenue as a percentage of total revenues have varied significantly primarily due to variability in new license sales**.**

Cost of Revenues

	Three months ended			
	November 30, 2005	Percent of Total Revenue	November 30, 2004	Percent of Total Revenue
	(dollars in thousands)			
Cost of revenues:				
Cost of license	$ 34	%	$ 97	1%
Cost of services	5,505	34%	3,144	30%
Total cost of revenues	$ 5,539	34%	$ 3,241	31%

	Six months ended

	November 30, 2005	Percent of Total Revenue	November 30, 2004	Percent of Total Revenue
	(dollars in thousands)			
Cost of revenues:				
Cost of license	$ 293	1%	$ 176	1%
Cost of services	10,547	35%	6,159	31%
Amortization of acquired developed technology		%	2	%
Total cost of revenues	$ 10,840	36%	$ 6,337	32%

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Cost of License Revenue. Our cost of license revenue includes the cost of manuals and product documentation, production media, shipping costs and royalties to third parties. Cost of license revenue decreased $63,000 in the second quarter of fiscal 2005 compared to the same period in fiscal 2004. As a percentage of license revenue, cost of license revenue was approximately 1% and 3%, respectively, for the three months ended November 30, 2005 and 2004, respectively. The decrease in both dollars and percent of license revenues was due to a decrease in the number of third-party products sold during the three months ended November 30, 2005.

Cost of license revenue increased $117,000 for the first six months of fiscal 2005 compared to the same period in fiscal 2004. As a percentage of license revenue, cost of license revenue was approximately 3% for both the six months ended November 30, 2005 and 2004, respectively. This increase in dollars is primarily due to an increase in the amount of third party royalties incurred in the first quarter of fiscal 2005.

Cost of Services Revenue. Our cost of services revenue includes salaries and related expenses for our professional services and support organizations, as well as third-party subcontractors, hosting costs and billed expenses. For the three months ended November 30, 2005 cost of services revenue increased $2.4 million, or 75%, compared to the three months ended November 30, 2004. As a percent of services revenues, cost of services revenue increased from 45% for the three months ended November 30, 2004 to 50% for the three months ended November 30, 2005. The increase in both dollars and percent of services revenue is primarily attributable to an increase in employee payroll related expense of $1.7 million as a result of an increase in consulting headcount due in part to the acquisition of THINQ. The increase in cost of services revenue also included an increase in sub-contractors costs of approximately $339,000.

For the six months ended November 30, 2005 cost of services revenue increased $4.4 million, or 71%, compared to the six months ended November 30, 2004. As a percent of services revenues, cost of services revenue increased from 45% for the six months ended November 30, 2004 to 49% for the six months ended November 30, 2005. The increase in both dollars and percent of services revenue is primarily attributable to an increase in employee payroll related expense of $2.3 million as a result of an increase in consulting headcount due in part to the acquisition of THINQ. The increase in cost of services revenue also included an increase in sub-contractors costs of approximately $635,000.

Amortization of Acquired Developed Technology. The cost of revenues for the six months ended November 30, 2004 included amortization of acquired developed technology of $2,000. This amortization resulted from our March 2001 acquisition of Human Performance Technologies, Inc. and June 2001 acquisition of Ultris Inc. These intangible assets were fully amortized as of August 31, 2004.

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Operating Expenses

We classify all operating expenses, except amortization of purchased intangible assets, to the research and development, sales and marketing and general and administrative expense categories based on the nature of the expenses. Each of these three categories includes commonly recurring expenses such as salaries, employee benefits, stock compensation, other stock charges, travel and entertainment costs, and allocated communication, rent and depreciation costs. We allocate these expenses to each of the functional areas that derive a benefit from such expenses based upon their respective headcounts. The sales and marketing category of operating expenses also includes sales commissions and expenses related to public relations and advertising, trade shows and marketing collateral materials. The general and administrative category of operating expenses also includes allowance for doubtful accounts and administrative and professional services fees.

	Three months ended			
	November 30, 2005	Percent of Total Revenue	November 30, 2004	Percent of Total Revenue
	(dollars in thousands)			
Operating expenses:				
Research and development	$ 2,826	17%	$ 2,415	23%
Sales and marketing	6,093	38%	4,129	40%
General and administrative	1,337	8%	1,184	11%
Amortization of purchased intangible assets	170	1%		%
Total operating expenses	$ 10,425	64%	$ 7,728	74%

	Six months ended			
	November 30, 2005	Percent of Total Revenue	November 30, 2004	Percent of Total Revenue
	(dollars in thousands)			
Operating expenses:				
Research and development	$ 5,583	19%	$ 4,780	24%
Sales and marketing	11,563	39%	8,466	43%